

From: Schroeder, Julie
Sent: Thursday, May 31, 2012 4:57 PM
To: FASAB
Cc: Shea, James (Jerry)
Subject: VA Office of Finance Comments

On behalf of Mr. Ed Murray, Department of Veterans Affairs, DCFO, attached are the Office of Finance's comments regarding the Exposure Draft: Accounting for Impairment of General Property, Plant and Equipment Remaining in Use.

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Staff Assistant

***Accounting for Impairment of General Property, Plant, and Equipment
Remaining in Use - Exposure Draft***

Comments Requested by June 5, 2012

Name of Respondent: Edward Murray

Organization Represented: Department of Veterans Affairs, Deputy CFO

Q1. The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the Board's proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.

Answer: We agree that reporting impairments when they occur, rather than through depreciation expense or eventual disposal, would more accurately present an agency's financial condition. We agree with the Board's intention that the standard should be applied in limited and rare circumstances and only to assets material to the agency.

Q2. The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the Board's proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.

Answer: Agree. Managerial judgment must decide when these circumstances exist and that the decline in service utility is material and considered permanent. Because these events are likely to be unforeseen, unpredictable, and infrequent; it is appropriate to lessen the administrative burden of implementing the proposed standard by not requiring periodic reviews specifically to assess capital assets for potential impairment.

Q3. The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or

removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.

Answer: Agree. These indicators of impairment are useful in terms of evaluating circumstances potentially decreasing the service utility of G-PP&E. As an additional suggestion, we note the decision process in the illustrations does not include a reference, where applicable, to consider the relevant accounting standard. For example, for the environmental indicators, we suggest adding a reference to the Statement of Federal Financial Accounting Standard #6, "Accounting for Property, Plant and Equipment," to consider hazardous clean-up as part of the evaluation process in assessing the potential permanence of the decreased service utility.

Q4. The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.

Answer: Agree. The measurement methods outlined are reasonable and appropriate methods of measuring a capital asset's net realizable value at the time of impairment.

Q5. The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.

Answer: Yes. An agency would need to evaluate the cost, whether minor or substantial, of modifying its accounting system for the required accounts to record the impairment and for updating the depreciation schedule of impaired assets. To the extent that Fixed Asset Registers are interfaced with the accounting system, they would require modification as well.

- b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.

Answer: Aside from the already excluded Internal Use Software, no. The proposed standard should apply to the rest of the material assets customarily presented on the Balance Sheet.

- c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.

Answer: Agree. We agree with the Board's intention that the standard should be applied in limited and rare circumstances and only to assets material to the agency. As a practical matter, it will be labor intensive to ensure standard and consistent application across a large agency with multiple locations with similar assets. The proposed Statement is beneficial for improving the accuracy of financial reporting of the current value of G-PP&E by requiring the reporting of significant and permanent losses due to impairment.