



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

FEB 16 2008

COMPTROLLER

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail Stop 6K17V  
Washington, DC 20548

Dear Ms. Payne:

The Department of Defense appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board Technical Release Exposure Draft, Implementation Guidance on the Accounting for the Disposal of General-Property Plant & Equipment (G-PP&E). We have reviewed the implementation guidance and feel it adequately addresses the issues regarding the disposal, retirement, or removal from service of G-PP&E and delineates events that trigger discontinuation of depreciation and removal of G-PP&E from accounting records. We agree with the rationale for the changes proposed in the exposure draft.

Responses to specific questions are at Enclosure 1. My contact is Ms. Carol A. Campbell. She can be reached at [carol.campbell@osd.mil](mailto:carol.campbell@osd.mil) or 703-601-0129.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton", is written over a horizontal line.

Mark E. Easton  
Deputy Chief Financial Officer

Enclosure:  
As stated

**DoD-OCFO Responses to Questions for Respondents**

Federal Financial Accounting Technical Release Exposure Draft:  
*Implementation Guidance on the Accounting for the Disposal of G-PP&E*  
(dated December 10, 2010)

**All responses are requested by February 16, 2011**

- Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.

DoD agrees with the criteria for differentiating between temporary and permanent removal from service. With the definition for "removal from service" clarified and the identification of the business rules used as criteria, the implementation guide meets its intent of providing guidance on specific applications and addressing implementation issues. Among other things, the process provides a basis for reacting to changes in the Department of Defense operations tempo and related management of sustainment costs based on the impact of global issues (e.g. overseas contingency operations, unrest in nations we are allies or not allies with, etc.)

- Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.

DoD agrees with the G-PP&E permanent removal financial transactions outlined in paragraph 11 and Appendix B: Illustrations. If the asset has been permanently removed from service, it should be indicated on the financial statements. Net realizable value should recognize that the asset may be used for other than the original intended purpose.

Enclosure 1

- Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.**

DoD agrees with the G-PP&E temporary removal financial transactions outlined in paragraph 13 and in the Appendix B: Illustrations. If the asset has not been permanently removed from service and/or still being used, and the situation is treated as temporary removal from service, there should be no change in the G-PP&E reported value and depreciation continues. SFFAS 6 provides flexibility in mechanisms for depreciation. Thus, agencies may use activity-based, rather than time-based depreciation.

- Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.**

DoD agrees with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15 and in the Appendix B: Illustrations. If values of components under group or composite depreciation are small, the resulting estimates are likely not material. If costs are large, this will likely be a manual effort to record the transactions. Although DoD agrees with the financial transactions outlined in paragraph 15, the use of technology has taken most of DoD away from using group and composite rates.

- Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.**

DoD agrees with the G-PP&E permanent removal financial transactions outlined in paragraph 14. It would be helpful if the proposed change clearly stated when the cleanup costs are incurred (e.g. at the beginning of the asset's life) and what the accumulated liabilities are when in temporary disposal status.

**Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.**

DoD is comfortable with the amount and level of technical guidance provided.

As a matter of clarification, Question 2 implies that assets may be sold to others for uses not consistent with the original intent. It should also recognize that the asset may be sold to another country for its original intent.

Other than the comment above, no additional technical guidance is needed at this time.

Ms. Payne:

Please find attached our comments on the Exposure Draft of the proposed *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment*. If you have any questions or comments for us, please do not hesitate to contact me.

Thanks!

*Mark C. Jenson, CPA, CGFM*  
Director, Financial Management  
NASA Office of Inspector General

**NASA OFFICE OF INSPECTOR GENERAL****COMMENTS ON EXPOSURE DRAFT****“Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment”**

The purpose of the proposed Federal Financial Accounting Technical Release entitled, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment*, is to provide implementation guidance to federal entities that further clarifies requirements stated in paragraphs 38, 39, 97, and 98 of Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*. Paragraphs 38 and 39 of SFFAS 6 outline the requirements for the disposal, retirement, or removal from service of general property, plant, and equipment while paragraphs 97 and 98 outlines the requirements for recognition and measurement of disposal related cleanup costs. The Accounting and Auditing Policy Committee (AAPC) of the Federal Accounting Standards Advisory Board (FASAB) posed six questions for respondents. We respectfully submit our responses to those questions below for consideration.

**Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.**

**NASA response:**

*We do not consider paragraphs 6 and 7, in and of themselves, to be sufficient to clearly explain the differentiation between temporary and permanent removal from service. However, we believe that there are sufficient and clear criteria for differentiating between the two when the additional information in paragraphs 8 and 9 is taken into consideration.*

**Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.**

**NASA response:**

*Since nowhere in the guide does the Disposal subgroup document its rational for reclassifying G-PP&E costs and associated accumulated depreciation from the G-PP&E account to the other asset account at the assets' net realizable value, we must make some assumptions. Our assumption is that the definitions of most G-PP&E accounts (e.g., 1730 and 1750) in the USSGL include wording similar to 'used in providing goods or services' and an asset being permanently removed is no longer being 'used' nor is it anticipated that it would ever be 'used' again. As such, the assets would be reclassified to the USSGL account for Other Assets (i.e., 1990) since its definition does not include this type of wording. We made a similar assumption for the use of the different gain and loss accounts proposed in the financial transactions. Assuming our assumptions are correct, we can understand the logic behind the proposed financial transactions. However, our preference would not be to strip the asset of its 'property' classification as*

**NASA OFFICE OF INSPECTOR GENERAL****COMMENTS ON EXPOSURE DRAFT****“Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment”**

*part of Step 2 of Scenarios I and II in Table 1 of Appendix B since G-PP&E does not stop being ‘property’ once it is permanently removed from service; prior to its disposal. We believe it is reasonable for a reader of the financial statements to assume that a building is still a building, recorded at the appropriate value, even after the building is vacated, abandoned, etc., and management has decided to permanently retire it.*

**Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.**

**NASA response:**

*We agree with the financial transactions outlined in paragraph 13 when removal of G-PP&E is deemed temporary.*

**Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.**

**NASA response:**

*Although we agree with the proposed financial transactions when dealing with the disposal of assets being accounted for using the group or composite depreciation method, we believe a couple of revisions would improve the understanding of the message being conveyed. Specifically, we suggest that the following sentences within paragraph 15 be revised.*

**Initial Wording of Sentences:**

*However, if an asset within the group is permanently removed, retired, and/or disposed while other assets in the group have not been permanently removed from service, no gain or loss is recognized. The G-PP&E account is credited for the original cost of the asset and accumulated depreciation is debited for the same amount less any salvage value.*

**Suggested Revision of Sentences:**

*However, if an asset within the group is permanently removed, retired, and/or disposed while other assets in the group have not been permanently removed from service, **the G-PP&E account is credited for the original cost of the asset and accumulated depreciation is debited for the same amount less any salvage value, thus no gain or loss is recognized.***

**NASA OFFICE OF INSPECTOR GENERAL****COMMENTS ON EXPOSURE DRAFT****“Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment”**

**Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.**

**NASA response:**

*We agree that unallocated/unamortized clean-up costs should be recognized in full for G-PP&E permanently removed from service. If the G-PP&E is permanently removed from service then it is feasible that the property item may be disposed of at any time and thus the clean-up costs which would be necessary to dispose of the property item could also be incurred at any time.*

**Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.**

**NASA response:**

*We believe it would be helpful to include a statement that that the salvage value and net realizable value for a property item would not necessarily be the same at the time when the G-PP&E is considered to be permanently removed from service.*



**From:** [alexis.stowe@gsa.gov](mailto:alexis.stowe@gsa.gov) [mailto:[alexis.stowe@gsa.gov](mailto:alexis.stowe@gsa.gov)]

**Sent:** Wednesday, February 09, 2011 11:54 AM

**To:** FASAB

**Cc:** [norma.tolson@gsa.gov](mailto:norma.tolson@gsa.gov)

**Subject:** Comments from the U.S. General Services Administration on FASAB ED on Accounting for Disposal of G-PP&E

Good morning,

Attached are the U.S. General Services Administration (GSA) comments on the FASAB Exposure Draft (ED) on Implementation Guidance on Accounting for Disposal of General Property, Plant & Equipment. If you have any questions, please contact me. Thank you for the opportunity to provide comments.

Alexis M. Stowe, CPA, CISA, CGFM, CFE  
Acting Director Office of Financial Policy and Operations (BC)  
Office of the Chief Financial Officer

Question	Para No.	SUBJECT/TITLE (Federal Financial Accounting Technical Release Exposure Draft: Implementation Guidance on the Accounting for the Disposal of G-PP&E)	Yes	No	RECOMMENDATIONS/COMMENTS	Name of Commenter	Office	Email Address/Phone
		General Comments						-
Q1	6-7	Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.	x		Agree. Criteria is adequate.	Helena Lee & Priscilla Sampson	BCA	<a href="mailto:helena.lee@gsa.gov">helena.lee@gsa.gov</a> <a href="mailto:priscilla.sampson@gsa.gov">priscilla.sampson@gsa.gov</a>
				x	Disagree with the criteria that a removal from service is deemed temporary until management decides to permanently retire or disposes of the asset. There has to be a "time limit" imposed on the removal from service, such as two consecutive years of non-functional use. Otherwise, there is a potential for assets to sit out of service for long periods of time, meanwhile overstating the assets on the balance sheet.	Nancy Hexmoor and Rebekah Poirier	BE	<a href="mailto:nancy.hexmoor@gsa.gov">nancy.hexmoor@gsa.gov</a> <a href="mailto:rebekah.poirier@gsa.gov">rebekah.poirier@gsa.gov</a>
			X		The dual criteria outlined in paragraphs 6 & 7 is adequate. The requirements to include evidence of management's decision to dispose, remove, or retire PP&E for permanent removal from service simplifies the instruction.	John P. Geraghty	PFF	<a href="mailto:john.geraghty@gsa.gov">john.geraghty@gsa.gov</a>
Q2	11	Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please	x		Agree. It should also be noted that any salvage value should be considered in the gain or loss calculation. Also, there should be a financial disclosure of the transaction in the financial reporting.	Rebekah Poirier and Nancy Hexmoor	BE	<a href="mailto:rebekah.poirier@gsa.gov">rebekah.poirier@gsa.gov</a> <a href="mailto:nancy.hexmoor@gsa.gov">nancy.hexmoor@gsa.gov</a>

		provide the rationale for your answer.	x	Agree with the logic behind the permanent removal of financial transactions. However, GSA have concerns over the accuracy of estimates of "net realizable value" early in the disposal process before a method of disposal is determined. The net realizable value could change dramatically with proceeds from disposal ranging from zero to fair market value depending on the disposal method (federal transfer, public conveyance, negotiated sale, or public auction).	John P. Geraghty	PFF	<a href="mailto:john.geraghty@gsa.gov">john.geraghty@gsa.gov</a>
Q3	13	Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.	x	Agree that the temporary removal of assets should continue to be depreciated because there is the high probability that the asset will continue to operate.	Nancy Hexmoor and Rebekah Poirier	BE	<a href="mailto:nancy.hexmoor@gsa.gov">nancy.hexmoor@gsa.gov</a> <a href="mailto:rebekah.poirier@gsa.gov">rebekah.poirier@gsa.gov</a>
			x	Agree. If management has not decided to permanently remove or dispose of the asset, there should be no change in the accounting of the asset and depreciation should continue.	John P. Geraghty	PFF	<a href="mailto:john.geraghty@gsa.gov">john.geraghty@gsa.gov</a>
Q4	15	Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.	x		Helena Lee & Priscilla Sampson	BCA	<a href="mailto:helena.lee@gsa.gov">helena.lee@gsa.gov</a> <a href="mailto:priscilla.sampson@gsa.gov">priscilla.sampson@gsa.gov</a>
Q5	14	Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.	x	Agree. For assets permanently removed, the unauthorized/unallocated portion of the total cleanup cost associated with the disposal is recognized in full.	Nancy Hexmore and Rebekah Poirier	BE	<a href="mailto:nancy.hexmoor@gsa.gov">nancy.hexmoor@gsa.gov</a> <a href="mailto:rebekah.poirier@gsa.gov">rebekah.poirier@gsa.gov</a>
			x	Agree that any unamortized cleanup costs should be recognized in full upon disposal.	John P. Geraghty	PFF	<a href="mailto:john.geraghty@gsa.gov">john.geraghty@gsa.gov</a>
Q6		Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.	x	No. This Technical Release provides adequate technical guidance.	Helena Lee & Priscilla Sampson	BCA	<a href="mailto:helena.lee@gsa.gov">helena.lee@gsa.gov</a> <a href="mailto:priscilla.sampson@gsa.gov">priscilla.sampson@gsa.gov</a>
			x	This guidance is clear as to the financial recording of a removed asset from service.	Nancy Hexmoor	BE	<a href="mailto:nancy.hexmoor@gsa.gov">nancy.hexmoor@gsa.gov</a>

			x		Additional clarification on setting the net realizable value could be helpful.	John P. Geraghty	PFF	<a href="mailto:john.geraghty@gsa.gov">john.geraghty@gsa.gov</a>
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**From:** Tucker, Gerald A [\[mailto:Gerald.A.Tucker@hud.gov\]](mailto:Gerald.A.Tucker@hud.gov)

**Sent:** Thursday, February 10, 2011 7:34 AM

**To:** FASAB

**Cc:** Vaiana, Jerome A; SIDARI, David P

**Subject:** HUD comments on General Property, Plant, and Equipment Exposure Drafts

The Department of Housing and Urban Development is pleased to provide comments on the exposure drafts concerning the 1) estimating of historical cost and 2) disposal of General Property Plant and Equipment.

If you should have any questions, please contact me at the number below.

*Jerry Tucker*

*Director*

*Financial Policy and Procedures Division*

*Office of the Assistant Chief Financial Officer for Financial Management*

## Questions for Respondents

Federal Financial Accounting Technical Release Exposure Draft:  
*Implementation Guidance on the Accounting for the Disposal of G-PP&E*  
(dated December 10, 2010)

### All responses are requested by February 11, 2011

Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.

Response: HUD agrees with the outlined criteria for differentiating between temporary and permanent removal from service, specifically that two business events are required to establish permanent removal from service. HUD further agrees that, where there is an intent to dispose of assets, there should be disclosure of that intent.

Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.

Response: HUD generally agrees with the proposed financial transaction required for permanent removal. However, in Scenario I we suggest changing the credit from "Other assets" to "G-PP&E."

Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.

Response: HUD agrees with the financial transactions outlined pertaining to temporary removal of PP&E. Assets in use must be depreciated.

Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.

Response: HUD agrees with the PP&E disposal financial transactions when group or composite depreciation is used. This is consistent with

the accounting standard in which no gain or loss on the sale of a fixed asset is recognized under the composite method. The item cost is the *pro rata* share of the total original group cost. This method allows for consistent treatment and auditable records.

Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.

Response: HUD agrees with the financial transactions related to disposal and the application of cleanup costs for PP&E. Amortization of cleanup costs continues for temporary disposal, while full recognition of cleanup costs occurs for permanent disposal.

Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.

Response: HUD does not foresee the need for additional technical guidance to record disposal transactions for G-PP&E. These guidelines adequately address the differentiation between permanent and temporary removal from service and financial transactions related to permanent or temporary disposals. Management should be able to make an appropriate selection from the available choices.

**From:** Steinberg, Michael [<mailto:Michael.Steinberg@nrc.gov>]  
**Sent:** Friday, February 11, 2011 7:26 AM  
**To:** Payne, Wendolyn M  
**Cc:** Stetson, Kathleen; Cooper, Terri  
**Subject:** Comments on Exposure Drafts

See Attachments.

If you have any questions, please contact me. Also, could you please acknowledge the receipt of this e-mail and the two attachments?

Let me thank you in advance,

Michael

Michael J. Steinberg  
c/o Nuclear Regulatory Commission  
Office of the Inspector General



Wendy M. Payne, Executive Director  
c/o Federal Accounting Standards Advisory Board  
Mailstop 6K17V  
441 G Street, NW, Suite 6814  
Washington, DC 20548

**Reference:** Comments Requested on Exposure Draft titled, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment* (G-PP&E)

Dear Ms. Payne,

The Office of the Inspector General (OIG) within the Nuclear Regulatory Commission has reviewed the subject FASAB Exposure Draft. OIG is providing the following response to your questions on pages 6-7 of the draft. If you have any questions, please contact me at 301-415-5931 or at [michael.steinberg@nrc.gov](mailto:michael.steinberg@nrc.gov).

Question 1:

Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.

Response to Question 1:

Agree. The criteria outlined adequately addresses the concerns regarding the issue of differentiating between permanent and temporary removal from service of G-PP&E assets. The criteria now allows for more flexibility so you are not required to reclassify the asset every time it is used. Moreover, the criteria now provides a definitive answer – “The removal from service should be deemed temporary, unless there is evidence of management’s decision to permanently remove the asset from service. . . “

Question 2:

Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.

Response to Question 2:

Agree. It is reasonable to expect that if an asset has been permanently removed from service, it should be so disclosed on the financial statements. The guidance calls for recording the asset “at its net realizable value with an offsetting entry to gain or loss.” This permits the federal entity to record its asset at its approximate market value until disposal, which is in line with generally accepted accounting principles.

Question 3:

Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.

Response to Question 3:

Agree. It makes perfectly good accounting sense that depreciation continues in the following scenario: the asset has not been permanently removed from service or it is still in use providing a benefit.

Question 4:

Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.

Response to Question 4:

Disagree. Paragraph 15 is somewhat confusing as drafted. The beginning of the paragraph provides that no transaction will recognize permanent removal of assets until the entire group has been permanently removed from service. Then, the reader has to wait until the end of the paragraph to find the appropriate accounting entry. For continuity and clarity, suggest the following wording: At the point in time when the entire group of assets have been permanently removed, retired, and/or disposed, then debit accumulated depreciation and credit the asset account, etc.

Question 5:

Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.

Response to Question 5:

Disagree. Suggest additional information is needed perhaps a clarifying footnote. What is the meaning of the terminology “any unallocated/unamortized portion of the total cleanup cost estimate” and “recognized in full”? Also, It might be helpful to explain when cleanup costs are incurred.

Question 6:

Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.

Response to Question 6:

Agree. Any additional technical guidance would certainly be helpful to the reader. Additional guidance would be helpful in resolving responses to questions 4 and 5 above.

-----Original Message-----

From: [Jones.Anita@epamail.epa.gov](mailto:Jones.Anita@epamail.epa.gov) [mailto:[Jones.Anita@epamail.epa.gov](mailto:Jones.Anita@epamail.epa.gov)]

Sent: Friday, February 11, 2011 11:18 AM

To: Payne, Wendolyn M

Cc: [Conklin.Jeanne@epamail.epa.gov](mailto:Conklin.Jeanne@epamail.epa.gov); [Anthony.Sherri@epamail.epa.gov](mailto:Anthony.Sherri@epamail.epa.gov);

[Whitsell.Stella@epamail.epa.gov](mailto:Whitsell.Stella@epamail.epa.gov); [Miller.Dale@epamail.epa.gov](mailto:Miller.Dale@epamail.epa.gov);

[Proctor.Sheldonna@epamail.epa.gov](mailto:Proctor.Sheldonna@epamail.epa.gov); [Varkalis.Cheryl@epamail.epa.gov](mailto:Varkalis.Cheryl@epamail.epa.gov)

Subject: EDs Historical Cost of G-PP&E & Accounting for the Disposal of G-PP&E- EPA

Wendy,

EPA's has no comments to the FASAB exposure draft Federal Financial Accounting Technical Release Exposure Draft: Implementation Guide for Estimating the Historical Cost of G-PP&E (dated December 10, 2010) and Federal Financial Accounting Technical Release Exposure Draft: Implementation Guidance on the Accounting for the Disposal of G-PP&E (dated December 10, 2010).

Feel free to contact myself at [jones.anita@epa.gov](mailto:jones.anita@epa.gov) with any questions.

Thanks,

Anita Jones

Financial Planning and Policy Staff

-----Original Message-----

From: Wall, John F [\[mailto:John.Wall@hq.doe.gov\]](mailto:John.Wall@hq.doe.gov)

Sent: Friday, February 11, 2011 12:12 PM

To: Payne, Wendolyn M

Subject:

Good Morning,

Attached are our responses to the Property Exposure Drafts. If you have any questions, please give me a call.

Thanks,

John Wall

Office of Financial Policy

Office of the Chief Financial Officer

Department of Energy's Response to FASAB Exposure Draft: *Implementation Guidance on the Accounting for the Disposal of G-PPE (dated December 10, 2010)*

All responses are requested by February 11, 2011.

**Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7). Please provide the rationale for your answer.**

**Agree.** Criteria are adequate for differentiating between temporary and permanent removal from service. The criteria for temporary removal from service would allow an asset's use to be terminated and then not remove the asset from service while management makes a determination on the future use of the asset. Once this determination is made it can be permanently removed.

**Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph Please provide the rationale for your answer.**

**Agree.** Permanent removal should result in removal of the asset from the financial records and the posting of any associated gain or loss.

**Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.**

**Agree.** Pending management's decision whether to permanently remove an asset, it can be placed back into service at any time. Additional clarification should be provided on terminating an asset's use and how long the asset can remain in temporary removal status.

**Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph Please provide the rationale for your answer.**

**Agree.** Making adjustments to assets and accumulated depreciation is common practice as changes are recognized. These changes should be reviewed regularly.

**Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph. Please provide the rationale for your answer.**

**Agree.** The Department agrees that when an asset is disposed of and removed from the financial records, associated costs should be recognized.

However, the Department handles cleanup as part of the unfunded environmental liability estimate.

**Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.**

**No.** The exposure draft adequately addresses the various financial transactions related to disposals.



February 11, 2011

Ms. Wendy M. Payne,  
Executive Director, Federal Accounting Standards Advisory Board  
Mailstop 6K17V  
441 G Street N.W. Suite 6814  
Washington, DC 20548

Email: [PayneW@fasab.gov](mailto:PayneW@fasab.gov).

Subject: FASAB Implementation Guidance on the Accounting for the Disposal of G-PP&E  
Exposure Draft December 10, 2010

Dear Ms. Payne:

The Aerospace Industries Association (AIA), is pleased to respond to the request for comments on the FASAB Implementation Guidance on Disposal of G-PP&E. Our members are responsible for a significant amount of Government Property and also have a sizeable amount of company capital that requires similar accounting and management treatment processes. Our goal is to promote common processes as well as effective and efficient approaches.

We have reviewed the exposure draft and have provided opinions as you requested. Please see the attached work sheet where we provide by line item – as proposed, suggested revisions and comments. We also thank the committee who drafted the proposed guidance as their work exhibits their understanding of the complex issues. AIA supports the intent of the exposure draft and for the most part we believe they are in accordance with other FASAB pronouncements and GAAP. However, we would like to offer several recommendations, which would further improve this implementation guidance.

We appreciate your consideration of our comments. If you have any questions or need additional information, please do not hesitate to contact me. I may be reached by phone at 703-358-1087 or by e-mail at [susan.tonner@aia-aerospace.org](mailto:susan.tonner@aia-aerospace.org).

Sincerely,

A handwritten signature in black ink that reads 'Susan K. Tonner'.

Susan K. Tonner  
Assistant Vice President, Acquisition Policy

**Aerospace Industries Association of America, Inc.**  
1000 Wilson Blvd., Suite 1700, Arlington, Virginia 22209-3901  
Ph. (703) 358-1000 / Fax (703) 358-1011 [www.aia-aerospace.org](http://www.aia-aerospace.org)

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	<b>DRAFT</b>	<b>Federal Accounting Standards Advisory Board Implementation Guidance on the Accounting for the Disposal of G-PP&amp;E Exposure Draft December 10, 2010</b>	<b>Submitted by Aerospace Industries Association February 11, 2011</b>
Line	Proposed	Suggested Revisions	Comments
1	<p>Purpose</p> <p>1. Statement of Federal Financial Accounting Standards (SFFAS) 6 (paragraphs 38 and 39,) outlines the requirements for the disposal, retirement, or removal from service of general property, plant, and equipment (G-PP&amp;E). SFFAS 6 (paragraphs 97 and 98) outlines the requirements for recognition and measurement of disposal related cleanup costs. The AAPC G-PP&amp;E Disposal subgroup requested implementation guidance to clarify existing guidance contained in SFFAS 6 regarding the disposal, retirement, or removal from service of G-PP&amp;E. Many believe that the existing guidance does not clearly differentiate between permanent and temporary removal from service of G PP&amp;E assets, which can contribute to inconsistencies in interpretation and implementation of the standard. Implementation guidance is needed to recognize the many complexities involved in disposal of G-PP&amp;E and should delineate events that trigger discontinuation of depreciation and removal of G-PP&amp;E from accounting records. ....</p>		<p>Should not imply that depreciation is discontinued for particular reasons -- depreciation is discontinued as a result of retirement. The allocation of cost should continue until final disposition as originally established in the financial records.</p> <p>Generally, depreciation occurs as increments of time passes. In some cases depreciation can occur based upon use. The Cost Accounting Standards, for example, prohibit a use allocation method unless all like assets apply the use method.</p> <p>There should not be a practice -- once an item is placed in service, to stop depreciation based upon, efforts to reduce operating (depreciation cost).</p> <p>Retiring assets stops depreciation -- rather than stopping depreciation then retiring assets.</p>
2	<p>2. Readers of this technical release should first refer to the hierarchy of accounting standards in SFFAS 34, The Hierarchy of Generally Accepted Accounting Principles. This technical release supplements the relevant accounting</p>		



	standards, but is not a substitute for and does not take precedence over the standards. This technical release clarifies, but does not change, guidance previously provided in SFFAS 6 Accounting for Property, Plant, and Equipment.		
3	3. This technical release is effective immediately. Federal Accounting Standards Advisory Board Implementation Guidance on the Accounting for the Disposal of G-PP&E Exposure Draft December 10, 2010 Technical Guidance SFFAS 6: Disposal of G-PP&E		
4	4. In accordance with SFFAS 6, Accounting for Property, Plant, and Equipment, paragraph 38, "In the period of disposal, retirement, or removal from service, G-PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization." Further, paragraph 39 states that, "G-PP&E shall be removed from G-PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This either could be because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value. Any difference in the book value of the PP&E and its expected net realizable value shall be recognized as a gain or a loss in the period of adjustment. The expected net realizable value shall be adjusted at the end of		Agree

	each accounting period and any further adjustments in value recognized as a gain or a loss. However, no additional depreciation/amortization shall be taken once such assets are removed from G-PP&E in anticipation of disposal, retirement, or removal from service.” SFFAS 6:		
	Recognition of Cleanup Costs Associated with Disposal of G PP&E		
5	5. Additionally, SFFAS 6 provides requirements for recognition and measurement of disposal related cleanup costs. In accordance with paragraphs 97 and 98, “A portion of estimated total cleanup costs shall be recognized as expense during each period that GPP&E is in operation. This shall be accomplished in a systematic and rational manner based on use of the physical capacity of the associated PP&E (e.g., expected usable landfill area) whenever possible. If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability. Recognition of the expense and accumulation of the liability shall begin on the date that the PP&E is placed into service, continues in each period that operation continues, and be completed when the PP&E ceases operation.”		Agree
	Temporary vs. Permanent Removal from Service		
6	6. The following section provides further clarification and guidance to the requirements stated in SFFAS 6, paragraphs 38, 39, and 98.		

	The paragraph below defines the term “removal from service”, as referenced in SFFAS 6, and further discusses the differences between temporary and permanent removal from service.		
7	7. “Removal from service” is defined as an event that terminates the use of a GPP&E asset (e.g., shut down of a facility). The removal from service should be deemed temporary, unless there is evidence of management’s decision to permanently remove the asset from service (i.e., retirement and/or disposal). <sup>3</sup> Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or excess to entity’s mission needs.	7. “Recognition and removal from service” is defined as an event that terminates the use of a GPP&E asset (e.g., shut down of a facility). Recognition and removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or excess to entity’s mission needs.	Removal from service means the asset is no longer an asset – per the definition on an asset – i.e., no longer provides probable future benefits. Removal from service may include abandonment -- in place situations. Recognition of “removal from services” means financial recognition and not necessarily physical movement of the property.  Items on standby are in use (readiness to serve).
Q1.	<b>Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)</b>		Disagree! There would be a large amount of administrative cost associated with items being deemed temporary – then waiting for a management decision or evidence of a management decision... Recognition occurs as events occur. Management approval process must not interfere with appropriate recognition.  Depreciation occurs based upon the estimated useful life established in the depreciation accounting system.  Depreciable PP&E assets should depreciate as long as those items remain assets. If items are retired or dismantled and placed into stores and are available for sale – they are no longer PP&E.

			Placing items in storage in lieu of disposition in order to avoid proper recognition of retirement is not an acceptable practice.
8	8. Management's decision is evidenced by the actions taken in accordance with the entity's policies and procedures to commence the retirement and/or disposal process. Temporary removal from service is evidenced by activities such as continuing low-level maintenance to sustain the asset in a recoverable status or until reutilization efforts are exhausted. For example, processing an aircraft or facility being taken out of service in such a way as to retain the potential for its future operability would be persuasive evidence of intent to preserve an option to return the asset to service if warranted by evolving mission requirements.	8. Recognition of events may include occurrences and management's decision as evidenced by occurrences and actions taken in accordance with the entity's policies and procedures to commence the retirement or disposal process.	Focus should be on proper recognition not management decisions – generally these are consistent. Finance organizations have the responsibility for proper recognition – management has the responsibility for proper PP&E management. Affordability should not influence proper accounting.

9	<p>9. Two business events are necessary for the permanent removal from service: 1) Asset's use is terminated, and 2) There is evidence of management's decision to permanently remove, retire, and/or dispose of the asset. If only one of the two business events has occurred, the removal from service is deemed temporary and there is no change in the G-PP&amp;E reported value and depreciation continues. Likewise, in the case of G-PP&amp;E cleanup costs, if only one of the two business events has occurred, the removal from service is deemed temporary and, any cleanup costs associated with disposal, closure, and/or shutdown should continue to accumulate as a liability in accordance with SFFAS 6, paragraphs 97 and 98.</p>	<p>In the case of G-PP&amp;E cleanup costs associated with disposal, closure, or shutdown should continue to accumulate as a liability in accordance with SFFAS 6, paragraphs 97 and 98.</p>	<p>Disagree.</p> <p>Again – removal from asset records is a financial recognition process not a management process. The proposed method will likely result in excessive administrative cost, delays and the over statement of PP&amp;E.</p>
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	Financial Transactions		
10	10. The following section describes the financial transactions that result from permanent removal, retirement, and/or disposal of G-PP&E. No disposal related entries are recognized for temporary removal from service.		
11	<p>11. G-PP&amp;E Acquisition Cost &amp; Depreciation at Permanent Removal - When the entity's management decides to permanently remove, retire, and/or dispose of an asset and the asset's use is terminated, the asset's acquisition cost and associated accumulated depreciation are removed from the G-PP&amp;E account and the asset is recorded at its net realizable value with an offsetting entry to gain or loss. Upon completion of the disposal of the asset, the entity should write off the asset from its financial records. Any difference between the expected net realizable value of the G-PP&amp;E previously recorded and the actual disposition amount should be recognized as a gain or loss.</p>	<p>11. G-PP&amp;E Acquisition Cost &amp; Depreciation at Permanent Removal - When the entity's management decides to permanently remove, retire, or dispose of an asset and the asset's use is terminated, the asset's acquisition cost and associated accumulated depreciation are removed from the G-PP&amp;E account and the asset is recorded at its net realizable value with an offsetting entry to gain or loss. Upon completion of the disposal of the asset, the entity should write off the asset from its financial records. Any difference between the expected net realizable value of the G-PP&amp;E previously recorded and the actual disposition amount should be recognized as a gain or loss.</p> <p>For items that are transferred to another Government agency or entity, the transaction shall be properly recognized, e.g., the asset's acquisition cost and associated accumulated depreciation are transferred to the new owner.</p>	<p>The two step process is noted -- write down to fair value, then adjust, based upon the actual disposal transaction. This is technically correct, but may not be practical in operation. For the initial recognition -- there is no natural choke point -- items may just be delivered to a disposition area without regard to book value.</p> <p>The guidance needs to address transfers. Should not write down until it is known a transfer will not occur.</p>
Q2.	<b>Do you agree or disagree with the General Property, Plant, &amp; Equipment (G_PP&amp;E) permanent removal financial transactions</b>		In part -- see above.

	<b>outlined in paragraph 11?</b>		
12	<p>12. Spare Parts and Subcomponents. If during the disposal process, the asset is disassembled and spare parts or sub-components are salvaged to be used for other purposes, the spare parts or sub-components should be recorded as new and separate assets in accordance with SFFAS 6 or SFFAS 3, Accounting for Inventory and Related Property.</p>	<p>12. Spare Parts and Subcomponents. If during the disposal process, the asset is disassembled and spare parts or sub-components are salvaged to be used for other purposes, and if the spare parts or sub-components are of a capital nature, they should be recorded as a separate asset or restored to inventory in accordance with SFFAS 6 or SFFAS 3, Accounting for Inventory and Related Property.</p>	<p>Disagree in part -- the process is more complicated than this and may imply inappropriate accounting treatments -- the spare parts may not be of a capital nature; the items may already be fully depreciated; the internal controls in the accounting system may not allow establishing new assets in this manner (credit to depreciation expense and a debit to PP&amp;E). In some cases a more appropriate treatment may be a partial dismantlement.</p> <p>Capitalization thresholds should be recognized when establishing new assets.</p> <p>Guidance should not require micro-accounting treatments. Cost vs. benefits should always be considered when establishing policy, processes and practices.</p>
13	<p>13. G-PP&amp;E Acquisition Cost &amp; Depreciation at Temporary Removal - If the asset's use is terminated but management has not decided to permanently remove, retire and/or dispose of the asset, the asset's removal is deemed temporary. In this case, there is no change in the G-PP&amp;E reported value and depreciation continues.<sup>5</sup> Likewise, if the asset is still in use even though management has decided to permanently remove, retire and/or dispose of the asset, the permanent removal from service has not occurred. This</p>	<p>13. G-PP&amp;E Acquisition Cost &amp; Depreciation at Temporary Removal - If the asset's normal use is terminated but management has not decided to permanently remove, retire or dispose of the asset, the item may still be an asset until it is decided there is no probable future use. In this case, there is no change in the G-PP&amp;E reported value and depreciation continues. Likewise, if the asset is still in use even though management has decided to</p>	<p>This is "stand-by" -- per Cost Accounting Standard (CAS) 409. Recommend using the same terms.</p>

	situation is treated as a temporary removal from service. There is also no change in the G-PP&E reported value and depreciation continues. 6	permanently remove, retire or dispose of the asset, the permanent removal from service has not occurred.. There is also no change in the G-PP&E reported value and depreciation continues.	
Q3.	<b>Do you agree or disagree with the G-PP&amp;E temporary removal financial transactions outlined in paragraph 13?</b>		See as marked and noted – focus on proper recognition based on the definition of an asset – when the item is no longer an asset – proper recognition is required.
14	<p>14. G-PP&amp;E Cleanup Costs - For assets permanently removed from service, any unallocated/unamortized portion of the total cleanup cost estimate associated with the disposal, closure, and/or shut down of the G-PP&amp;E should be recognized in full. If removal from service is deemed temporary, the liability and associated cleanup cost expense shall continue to accumulate.8</p> <p>4 Refer to Appendix B: Table 1: Scenarios I &amp; II, Step 2 for account transactions.</p> <p>5 Refer to Appendix B: Table 1, Scenario I, Step 1.</p> <p>6 Refer to Appendix B: Table 1, Scenario II, Step 1.</p> <p>7 SFFAS 6, paragraph 85: Cleanup costs are the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&amp;E.</p> <p>8Regardless of when cleanup is executed, at temporary or permanent shut down, as cleanup costs are paid, payments shall be recognized as a reduction in the liability for cleanup costs. (SFFAS 6, paragraph 100)</p>		Agree



Q5.	<b>Do you agree or disagree with the G-PP&amp;E disposal as it relates to cleanup costs, financial transactions illustrated in paragraph 14?</b>		Agree
15	15. G-PP&E Disposal When Group or Composite Depreciation is Used - For assets recognized using a group or composite method of depreciation, transactions to recognize permanent removal of assets will apply only when the entire group has been permanently removed from service. However, if an asset within the group is permanently removed, retired, and/or disposed while other assets in the group have not been permanently removed from service, no gain or loss is recognized. The G-PP&E account is credited for the original cost of the asset and accumulated depreciation is debited for the same amount less any salvage value. The prorata share of the total original group co determine the item share cost.	15. G-PP&E Disposal When Group or Composite Depreciation is Used - For personal property assets recognized using a group or composite method of depreciation, transactions to recognize permanent removal of assets will apply when the Group is fully depreciated.	<p>The purpose of group or composite depreciation method is to minimize administrative cost. The method proposed requires accountability and accounting of units or parts of the group – making these techniques unworkable. It is assumed parts of the group will be disposed before and after the group is fully depreciated. Finite recognition, management and accounting of parts were waived when this approach was chosen. For property management purposes parts of the group could be managed.</p> <p>For reference – see the FASB treatment in their PP&amp;E exposure draft in ~2001.</p>
Q4.	<b>Do you agree or disagree with the G-PP&amp;E disposal transactions when group or composite depreciation is used as outlined in Paragraph 15?</b>		Disagree. See above and as marked.
	Do you agree or disagree with the G-PP&E disposal as it relates to cleanup costs, financial transactions illustrated in paragraph 14?		<p>Yes</p> <p>Removal and disposal cost of P&amp;E is expense – not capital cost of the replaced asset.</p>
16	16 Table 1 in Appendix B illustrates two different scenarios, associated business events, and derived financial transactions to assist in interpretation and application of the guidance		

	described in paragraphs 10 - 14.		
Q6.	<b>Do you believe that additional technical guidance to record disposal transactions related to G-PP&amp;E is needed in this proposal?</b>		Yes – focus on proper recognition rather than a finite process that may inhibit proper recognition. Emphasize minimizing administrative cost.

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Ms. Payne:

Thank you for allowing U.S. Customs and Border Protection (CBP) the opportunity to respond to FASAB's exposure draft of a proposed Federal Financial Accounting Technical Release entitled *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment*. CBP's responses are attached.

Please contact me if you need additional information or have any questions.

Tammi R. Straite  
Customs and Border Protection  
Office of Administration – Financial Policy Branch

## U.S. Customs and Border Protection (CBP) Responses

Questions for Respondents: [Responses of U.S. Customs and Border Protection \(CBP\)](#)

Federal Financial Accounting Technical Release Exposure Draft:

*Implementation Guidance on the Accounting for the Disposal of G-PP&E*

(dated December 10, 2010)

**All responses are requested by February 11, 2011**

- Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph **Error! Reference source not found.** and **Error! Reference source not found.**)? Please provide the rationale for your answer.

**RESPONSE: Agree. We believe that the criteria clearly define the difference.**

- Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph **Error! Reference source not found.**? Please provide the rationale for your answer.

**RESPONSE: Agree. The underlying accounting principles support this procedure. However, the expected materiality, cost, and time to estimate net realizable value prior to disposal needs to be considered. The practicality of implementing this and determining the net realizable value on an asset-by-asset basis is cost prohibitive. Many times the value of an item which will be auctioned off cannot be estimated. Suggest that non-material values be zeroed out when disposal is known.**

- Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph **Error! Reference source not found.**? Please provide the rationale for your answer.

**RESPONSE: Agree. There should be no recognition until the removal is permanent.**

- Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph **Error! Reference source not found.**? Please provide the rationale for your answer.

**RESPONSE: Partially agree. For constructed assets that work and are capitalized as a system, it is particularly difficult to determine the original cost of any portion of the system that might be disposed. This is particularly true when a significant amount of the asset cost**

## U.S. Customs and Border Protection (CBP) Responses

**was for labor. Suggest that estimates be allowed to determine original cost and depreciation.**

- Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph **Error! Reference source not found.**? Please provide the rationale for your answer.

**RESPONSE: Agree. This matches the asset disposal with a removal of the related clean up cost amortization/amount to be allocated.**

- Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.

**RESPONSE: Yes. It should be emphasized that materiality should determine whether this guidance is applied.**

**From:** Cotto, Rafael [\[mailto:RCOTTO@nsf.gov\]](mailto:RCOTTO@nsf.gov)

**Sent:** Friday, February 11, 2011 3:10 PM

**To:** Payne, Wendolyn M

**Cc:** Ruffin, Shirl A.; Lynskey, John H.; Baird, Steven Edwyn; Paolillo, Cynthia Ann

**Subject:** NSF Responses to Exposure Drafts

Good Afternoon:

Thank you for the opportunity to comment on the subject. Attached, please find the National Science Foundation's comments on the draft implementation guidance for:

- Accounting for the Disposal of G-PP&E
- Estimating the Historical Cost of G-PP&E

Please let us know if you have any questions or require additional information.

Rafael Cotto

***Policy and Audit Program Manager***

National Science Foundation  
Division of Financial Management

**National Science Foundation**

Responses to Questions: Federal Financial Accounting Technical Release Exposure Draft: *Implementation Guidance on the Accounting for the Disposal of G-PP&E* (dated December 10, 2010)

February 11, 2011

- Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph **Error! Reference source not found.** and **Error! Reference source not found.**)? Please provide the rationale for your answer.

*NSF agrees with the criteria outlined for differentiating between temporary and permanent removal from service.*

- Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph **Error! Reference source not found.**? Please provide the rationale for your answer.

*NSF agrees with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11.*

*The logic of the financial transactions is compliant with GAAP.*

- Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph **Error! Reference source not found.**? Please provide the rationale for your answer.

*NSF agrees with paragraph 13 G-PP&E Acquisition Cost & Depreciation at Temporary Removal. The cost-benefit of annually assessing net realizable value for items that will ultimately return to service supports the proposed financial transaction.*

- Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph **Error! Reference source not found.**? Please provide the rationale for your answer.

*NSF agrees with the disposal transactions when group or composite depreciation is used. The proration of costs to determine the value of the remaining items, and not recognizing a gain or loss until the entire group is permanently removed from service is reasonable and rational.*

- Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph **Error! Reference source not found.**? Please provide the rationale for your answer.

*NSF agrees with the cleanup cost financial transactions as presented. Recognizing the full unallocated/unamortized portion of the cleanup cost at the time an asset is permanently removed is a reasonable approach.*

- Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.

*NSF believes that the technical guidance provided is sufficient.*



February 11, 2011

Ms. Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB or the board) on its Technical Release exposure draft (ED) of proposed Implementation Guidance on the Accounting for the Disposal of Property, Plant and Equipment. The FMSB, comprising 24 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

***Overall comment:***

The goal is to provide rules for a clear, consistent differentiation between a “temporary” and a “permanent” removal, but the guidance in ¶ 6 – 9, and the tables in Appendix B, do not seem to include the situation where an asset may be maintained and/or protected from deterioration so that it will retain either parts value or, if/when disposed of, it will have retained disposal value. That is, provision for “continuing low-level maintenance” (¶ 8) may not provide the desired “bright line” for distinguishing between a temporary and a permanent removal. For example, planes that are sent to an aircraft ‘bone yard’ would be protected from damage, etc. with a view to several possibilities: possible reutilization, stripped of parts over time, or eventual public sale for non-government use or salvage.

Another example would be a building that is permanently removed from use, but which is maintained and protected from damage for several years because otherwise it would lose considerable value in the public sale marketplace.

In the Maintenance and Decommissioning sections of Table 2 in Appendix B, all of the Maintenance actions and most of the Decommissioning actions listed could support Categories 2 and 3 (Permanent disposal) as well as Category 1 (Temporary disposal). Actions such as winterizing a building’s plumbing, for example, to prevent major damage, would be a prudent management action even if a public sale of the building is imminent. In its present form, the Maintenance and Decommissioning sections do not seem to acknowledge that management may protect and perform maintenance for assets that are to be disposed of.

A better focus would be for the determination to be made based on the particular facts and circumstances as documented by management, with a listing of factors which tend to indicate either temporary removal, a “quasi-disposal” based upon a permanent change of use, or permanent removal, while providing for management to make a determination based upon the situation taken as a whole. The factors listed

in ¶ 9 could still be the criteria for a permanent removal, but continuing maintenance should not be a factor that is limited to temporary disposal. One factor could be the impact of cyclical cost-cutting, during recessionary times.

We recommend that guidance be added for assets that have undergone a permanent change of use that substantially affects their value – for example, an asset that is retained for the value of its parts, when those parts are not going to be removed until needed. (¶12 is limited to disassembled assets; perhaps it should be expanded to include assets held for parts, which may be more typical.) Would a permanent, substantial change like this be a ‘quasi disposal’, or an effective disposal of the asset? We suggest that FASAB consider adding that assets held for parts should be reclassified and re-valued based upon their substantially altered use: it may not be cost effective to disassemble some assets for parts until it is clear which parts will be needed, over time.

We also suggest that a third scenario could be added to Table 1 of Appendix B for an asset that has undergone a permanent change of use that substantially affects its value.

***Responses to the questions posed in the ED:***

*Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (pars. 6 and 7)? Please provide the rationale for your answer.*

We suggest that the Board may want to consider adding guidance for a permanent change of use, such as a plane retained for parts, which would occur after a removal from the asset’s normal service, and before a permanent disposal.

*Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in par. 11? Please provide the rationale for your answer.*

We agree as it removes the asset from the financial records and recognizes any realized gain or loss from the disposal.

*Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.*

We agree, since the asset is still in use and management may decide not to permanently remove it from service. If the asset’s normal use has been permanently changed, we think that provision should be made for these assets to be reclassified as held for parts, etc., rather than continue at its reported value with depreciation continuing. For example, if an airplane or ship is ‘mothballed’ with the intent to use parts from it to repair other planes or ships, its normal use has been terminated, but it is not permanently removed or disposed of because it has value to the service for its parts.

*Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in par. 15? Please provide the rationale for your answer.*

The first sentence seems to contradict the second sentence: could this be clarified? The first sentence says that permanent removal transactions will be made only when the entire group has been permanently removed; the second sentence seems to be saying that an asset within the group can be permanently removed with some, but not all aspects of a permanent removal transaction.

*Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.*

We agree.

*Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.*

See Overall Comment and answers above. We do think that the Illustrations in Appendix B provide helpful guidance to assist government entities in consistently applying federal accounting standards.

***Editorial comments:***

- Correct the font on footnote 2 (the number 2 is larger than the others) to match the numbering of the other footnotes.
- Need to change “dissembled” to “disassembled” in paragraph 12, Spare Parts and Subcomponents, page 11.
- Need to remove the extra space and period following the first sentence of paragraph 14, G-PPE&E Cleanup Costs, page 11.
- Appendix B: Illustrations, Table 1, Scenario II, Step 3 under Business Event – need to delete the period under the first bullet of Step 3.
- Appendix B: Illustrations, Example of Practice, paragraph B4 – appears to be an extra space between the second and third sentences.
- Appendix B: Illustrations, Table 2 – Under Management, 3<sup>rd</sup> item down, recommend changing “watertight asset” to “viable asset”.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of members approved the issuance of this letter. If you have questions concerning the comments in this letter, please contact Anna D. Gowans Miller, CPA, AGA’s director of research and staff liaison for the FMSB, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or at 703.684.6931 ext. 313.

Sincerely,



Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Lisa Casias, CPA  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2010 – June 2011**

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**From:** Simpson, Cynthia - OCFO [\[mailto:Simpson.Cynthia@dol.gov\]](mailto:Simpson.Cynthia@dol.gov)

**Sent:** Friday, February 11, 2011 4:01 PM

**To:** Payne, Wendolyn M

**Cc:** Karczewski, Stanley - OCFO; Reyes, Miguel - OCFO; Simpson, Cynthia - OCFO

**Subject:** Comments on FASAB Technical Release, "Implementation Guidance on the Accounting for the Disposal of G-PP&E (Exposure Draft)," Dated December 10, 2010

Wendy M. Payne, Executive Director

Federal Accounting Standards Advisory Board

Dear Ms. Payne:

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), on the Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR), "Implementation Guidance on the Accounting for the Disposal of G-PP&E (Exposure Draft)," dated December 10, 2010.

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***Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.***

We agree that removal from service should be deemed temporary unless there is evidence of management's decision to permanently remove the asset (paragraph 7). However, we believe that the examples could be improved (paragraph 8).

In paragraph 8, we believe that the example of continuing low-level maintenance to sustain the asset in a recoverable status or until reutilization efforts are exhausted could provide evidence for **both** temporary and permanent removal; we believe that low-level maintenance could keep assets to be disposed of in saleable or usable condition in the case of permanent removal and disposal. Furthermore, we believe that the example of processing an aircraft in such a way as to retain its potential for future operability could provide evidence of **both** temporary and permanent removal; we believe that such actions would keep the asset to be disposed of in saleable and/or usable condition in the case of permanent removal and disposal. Therefore, we suggest that FASAB acknowledge that activities may provide evidence with respect to **both** temporary and permanent removal. We believe that documentation which confirms management's decision to permanently remove, retire, and/or dispose of the asset may provide high quality evidence.

With respect to paragraph 8, we believe that it would be helpful if FASAB could provide additional examples of evidence of management's decision to permanently remove, retire, and/or dispose of the asset; if possible, these examples should be different from examples that could also provide evidence supporting temporary removal of the asset and eventual return to service.

***Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.***

We agree with the G-PP&E permanent removal financial transactions as described in paragraph 11. We believe that this treatment is consistent with SFFAS 6 and current practice.

***Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.***

We agree with the treatment of G-PP&E for temporary removal as outlined in paragraph 13 because we believe that this treatment is managerially expedient. However, we think that FASAB should acknowledge that there may be certain circumstances that may warrant an alternative treatment, e.g., temporary removal of large amounts of tangible G-PP&E due to a major Department or Agency reorganization that may take an extended period of time. During such a time, it may be preferable to suspend depreciation.

***Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.***

We do not agree with the paragraph as it is currently written. We believe that the first sentence in paragraph 15 should include a reference to recognizing gain or loss upon permanent removal of an entire group of assets when the group or composite method of depreciation is used.

We believe that the last sentence in paragraph 15 should allow the prorata share of the total original group cost to be used as the item share cost **only if** the actual cost of the item is unknown. Furthermore, we believe that FASAB should make a reference to the requirement in this paragraph in its Technical Release, "Implementation Guide for Estimating the Historical Cost of G-PP&E."

***Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.***

We agree with the treatment of the G-PP&E disposal, as it relates to cleanup costs. In the case of temporary removal of large amounts of G-PP&E due to a major Department or Agency reorganization that may take an extended period of time, we believe that the accounting treatment described in paragraph 14 continues to be appropriate because it is both managerially expedient and conservative.

***Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.***

Yes, we believe that additional technical guidance to record disposal transactions related to G-PP&E is needed. We have described the additional technical guidance needed in our response to Questions 1, 3, 4, and 5 above.

#### **Comments on Other Aspects**

Below please find comments on aspects of the exposure draft other than those addressed in questions 1 through 6.

In paragraph 3, we noted that the TR would be effective immediately. We believe that the TR should be effective for FY 2012, with earlier implementation either allowed or encouraged.

~~~~~

Thank you for giving DOL/OCFO the opportunity to provide comments. If there are any questions, please contact me at (202) 693-6807 or [simpson.cynthia@dol.gov](mailto:simpson.cynthia@dol.gov).

Sincerely,

Cynthia D. Simpson

U.S. Department of Labor

Office of the Chief Financial Officer





## Greater Washington Society of CPAs and GWSCPA Educational Foundation

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1111 19<sup>th</sup> Street, NW, Suite 1200, Washington, DC 20036  
202-464-6001 (v) 202-238-9604 (f) [www.gwscpa.org](http://www.gwscpa.org) [info@gwscpa.org](mailto:info@gwscpa.org)

February 11, 2011

Wendy Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mail Stop 6K17V  
441 G Street, NW – Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Technical Release (TR), *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*.

The GWSCPA consists of approximately 2,000 members, and the FISC includes 26 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our responses to the ED questions follow.

Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.

A1. The FISC generally agrees with the criteria outlined for differentiating between temporary and permanent removal from service. However, we recommend that the second business event outlined in paragraph 9 (i.e., "there is evidence of management's decision to permanently remove, retire, and/or dispose of the asset") be broadened to include a phrase such as, "or the likelihood of the assets return to service is remote." In some circumstances, management may terminate use of the asset as part of the agency's active operations, such as in favor of a newer generation of equipment, or after the original purpose of the use of the asset was accomplished, but management may stop short of a formal decision to "permanently remove, retire, and/or dispose of the asset" in favor of storing the asset and spare parts for a potential emergency or failure of the newer generation of equipment. Some examples of such situations are:

- Federal law enforcement agencies, which may store older generations of communications equipment;

- Federal air transportation agencies, which may store older generations of radar equipment;
- Military services, which may store older generations of vehicles, ships, and combat equipment; and
- Federal agencies, which may have constructed roads to extract natural resources (e.g., timber cutting, subsurface mining, etc.), but no longer require or readily use the road since the original purpose of the road (to extract the natural resources) has been accomplished.

The likelihood of the asset's return to service may be remote, and may only take place if a catastrophic event or chain of events occurred that would cause the in-service assets to be inoperable. Under the ED and without the proposed modification above, these assets would be considered "temporarily removed from service" since the second business event has not been entirely fulfilled, and depreciation would continue to occur (per paragraph 13) – even though the agency may have no planned intent of returning the asset to service.

Also, we recommend that the first provision of paragraph 9 ("Asset's use is terminated") be modified to include reference to infrequently used assets or assets with specific and limited purpose. As an example, some dams or diversion channels that may only come into service after a severe and unpredictable rainstorm every 5-10 years. One could argue during the time between rainstorms that the asset is no longer in use, and should be moved to "temporarily not in use." A revision to the language in paragraph 9 could eliminate confusion in classifying infrequently used or assets with specific and limited purpose as "in-use" or "temporarily not-in-use."

- Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.
- A2. The paragraph appears to direct an agency to record the disposition entry when the two business events in paragraph 9 are fulfilled (see first sentence of paragraph 11), including the recognition of an *expected* gain or loss prior to actual disposition. The second and third sentences of paragraph 11 appear to then direct the agency to "true up" its recognition of a gain or loss once the actual disposal has occurred. Although this accounting treatment is consistent with standards issued by the Financial Accounting Standards Board and the Governmental Accounting Standards Board, we could not locate similar narrative allowing such recognition of an expected gain or loss within current FASAB standards. We recommend that the final TR either include a reference to the applicable FASAB standard in which this accounting treatment is discussed, or subject this accounting treatment to FASAB's due process of standard setting.
- Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.
- A3. The FISC generally agrees with the proposal to continue to depreciate assets that have been temporarily removed from service. However, the final TR should provide guidance to cease depreciation for assets that will be removed from service for a significant period of time (the time period would also need to be defined in the final TR), or for which the likelihood is remote that the asset will return to service.

- Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.
- A4. The FISC generally agrees with the group or composite depreciation guidance in paragraph 15. However, we recommend that the final TR include a provision that gains or losses on individual assets be recognized if there is a material difference between the disposition proceeds and the pro-rated remaining book value. The current ED does not require a gain or loss to be recorded, even if the gain or loss is material.
- Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.
- A5. The FISC generally agrees with the guidance in paragraph 14.
- Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.
- A6. The FISC supports the AAPC's efforts to provide additional guidance on the disposal of G-PP&E. However, and as detailed above, we have concerns on the narrative provided in the ED, and have proposed several areas where additional guidance should be provided in the final TR.

### **Other Comment**

We recommend that the final TR state that the principles in the TR are meant as guidance for those entities that have not yet resolved the issues of recording and depreciating G-PP&E, and should be adopted on a prospective basis. We recommend that the TR indicate that it is not intended to be used as guidance for revising or reassessing known and audited G-PP&E amounts.

\*\*\*\*\*

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Andrew C. Lewis  
FISC Chair

National Aeronautics and Space Administration

Headquarters

Washington, DC 20546-0001



February 7, 2011

Reply to Attn of: Office of the Chief Financial Officer

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW  
Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The National Aeronautics and Space Administration (NASA) appreciates the opportunity to provide comments to the exposure draft "Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment." Enclosed you will find NASA's response to the questions for the respondents.

If you have any questions regarding NASA's response, please contact Kevin Buford, Director for Policy, at (202) 358-0405 or by e-mail at [kevin.buford@nasa.gov](mailto:kevin.buford@nasa.gov).

Sincerely,

A handwritten signature in blue ink that reads "Terry L. Bowie".

Terry L. Bowie  
Deputy Chief Financial Officer

Enclosure

**NASA RESPONSE TO QUESTIONS FOR RESPONDENTS REGARDING  
IMPLEMENTATION GUIDANCE ON THE ACCOUNTING FOR DISPOSAL OF  
GENERAL PP&E**

- Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)?

Agree. The criteria for differentiating between temporary and permanent removal outlined in this technical release seems appropriate since it is based on management's decision in accordance with their policies and procedures. We believe that the additional clarifications provided in this exposure draft (ED) will help to remove the confusion regarding the temporary and permanent removal from service and Agencies will be able to use a consistent approach when they remove General Property, Plant, and Equipment (G-PP&E ) from service.

- Q2. Do you agree or disagree with the G-PP&E permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.

Agree. The financial transactions described in paragraph 11 and the step-by-step illustration in Appendix B when G-PP&E is permanently removed from service is appropriate and clear and will improve consistency of application.

- Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.

Agree. As outlined in paragraph 13, if the asset's use is terminated but management has not decided to permanently remove, retire or dispose the asset, and then there is no change in the G-PP&E reported value and depreciation should continue. Similarly if the asset is still in use even though management has decided to permanently removing it, there is no change in the G-PP&E reported value and depreciation should continue.

- Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.

Agree. Even though the explanation in paragraph 15 appears logical, it can be made clearer with an illustration of an example or scenario. Also, the cost of more precise allocation will likely outweigh the benefit of minimal improvement in precision that allocation will yield.

- Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.

Enclosure

Agree. It is a reasonable accounting treatment of the unallocated and/or unamortized portion of the total clean-up costs when the associated G-PP&E is permanently or temporarily removed from service. But we believe that an illustration using an example or scenario could have been beneficial to make it clear.

- Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.

We believe that the guidance provided is sufficient for recording the accounting events and fair representation of financial statements.

General Comments:

1. Paragraph 4, (Page 9) states that any difference in the book value of PP&E and its expected net realizable value shall be recognized as a gain or loss in the period of adjustment. In Appendix D, Glossary, "Net realizable value" is defined as "The estimated amount that can be recovered from selling, or any other method of disposing of an item less estimated cost of completion, holding, and disposal." Holding and disposal costs suggest the nature of such costs for assets being held while awaiting disposal. However, "completion" cost of a depreciated asset removed from service and awaiting disposal is not apparent.
2. Paragraph 4, (Page 9): As stated in this paragraph (lines 10-142), book value less estimated net realizable value equals gain or loss to be recognized "in the period of adjustment." Definition of the term "adjustment" and clarification of what is being adjusted will be helpful to the readers for consistent implementation of the guidance.
3. Paragraph 4 (lines 12-14) states that the expected net realizable value shall be adjusted at the end of each accounting period..." We believe that for financial reporting purposes, Agencies should have the discretion to choose the appropriate accounting periods for re-estimating the net realizable value and adjusting any gain or loss at the end of those accounting periods. Also, cost-benefit considerations should be weighed in to determine whether the re-estimation at the end of each accounting period is worth its cost.
4. Paragraph 7. We believe that the "management decision" to terminate the use of G-PP&E based on a preceding event, not the preceding event by itself that should be considered in the definition of the term "Removal from Service." Recommend rewriting the first sentence so that it reads "Removal from Service is defined as a management decision to terminate the use of a G-PP&E based on a preceding event."

Rationale: The preceding "event" does not by itself result in the accounting event ("removal from service"). The accounting event results from management's

decision based on the preceding event. The “shut down” example in the ED is an example of management decision based on a preceding event (fire or storm). It is conceivable that a preceding event (like fire) could render a G-PP&E unfit for its intended use. Even in this extreme scenario, management decision to “shut down” (“remove from service”) is the essential factor that creates the recordable accounting event. The proposed distinction between “temporary” and “permanent” removal from service reinforces the essential factor of management decision which the definition minimizes. Rewrite.

5. In Paragraph 7, lines 3-4, suggest to rewrite “...decision to permanently remove” as “decision to remove permanently...” to make the sentence more readable.

**From:** Krabbe, Carla [<mailto:Carla.Krabbe@ssa.gov>]

**Sent:** Monday, January 24, 2011 3:34 PM

**To:** Payne, Wendolyn M

**Cc:** Gallagher, Michael HQ DCBFM; Hall, Stephanie; Gasparini, Joanne; Dushel, Annette; Kolb, Kristen

**Subject:** AAPC Technical Release Exposure Drafts

Wendy,

Thank you for the opportunity to comment on the two new Federal Financial Accounting Technical Release exposure drafts, *Implementation Guidance on the Accounting for the Disposal of G-PP&E* and *Implementation Guide for Estimating the Historical Cost of G-PP&E*, issued by the Accounting and Auditing Policy Committee. At this time, SSA has no comments on either of the exposure drafts. Please contact Kristen Kolb at [Kristen.Kolb@ssa.gov](mailto:Kristen.Kolb@ssa.gov) or (410) 965-5324 if you have any questions.

Thanks.

Carla Krabbe  
Deputy Chief Financial Officer  
Social Security Administration



**U.S. Department of Labor**Office of Inspector General  
Washington, D.C. 20210

FEB 15 2011

Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814 (Mailstop 6k17V)  
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Office of Audit, Office of Inspector General, U.S. Department of Labor, please find responses to questions about the exposure draft entitled "Implementation Guidance on the Accounting for the Disposal of General Property, Plant and Equipment."

If you have any questions or need additional information, please contact Joseph L. Donovan, Jr., Audit Director, at 202-693-5248.

Sincerely,

A handwritten signature in black ink that reads "Elliot P. Lewis". The signature is written in a cursive, flowing style.

Elliot P. Lewis  
Assistant Inspector General  
for Audit

Enclosure

**Exposure Draft: Responses to Implementation Guidance on the Accounting  
for the Disposal of General Property, Plant, and Equipment**

- Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.

We agree with the criteria outlined for differentiating between temporary and permanent removal from service. However, some of the language in paragraph 7 appears to be conflicting. For instance, it states in paragraph 7 that "Removal of service is defined as an event that terminates the use of a G- PP&E asset...." It further states that "the removal of service may occur because of a change in the manner of duration of use...." If the asset is still in use and only the manner or duration has changed, why would this be considered a removal from service? The Board should consider further clarifying what is meant by a "change in the manner or use" or remove this language from the paragraph.

- Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.

We agree with the transactions as outlined in paragraph 11. However, the language as currently written is confusing. For instance, in the first sentence it states "...the asset's use is terminated, the asset's acquisition cost and associated accumulated depreciation are removed from the G-PP&E account and the asset is recorded at its net realizable value with an offsetting entry to gain or loss." This language is confusing as it says that the acquisition cost and related accumulated depreciation should be removed but then says the asset is recorded at its net realizable value, which appears to be contradictory.

- Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide your rationale for your answer.

We disagree with the financial transactions outlined in paragraph 13 because they do not address assets whose temporary removal may be due to impairment and/or whose useful service life has changed, which under existing accounting standards may require changes to the future transactions.

- Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.

We disagree with the G-PP&E disposal financial transactions outlined in paragraph 15. It states in paragraph 15 that "for assets recognized using a group or

composite method of depreciation, transactions to recognize permanent removal of assets will apply only when the entire group has been permanently removed from service.” However, the paragraph goes on to discuss how to remove an asset within a group when the other assets in the group have not been permanently removed from service. These transaction triggers seemingly contradict one another. The Board should clarify whether the transactions should be recorded for individual assets or if they should only be recorded when the entire group is permanently removed.

In addition, paragraph 15 states that “...if an asset within the group is permanently removed, retired, and/or disposed while other assets in the group have not been permanently removed from service, no gain or loss is recognized.” This seems to contradict SFFAS 6, paragraph 38 which states, “Any difference between the book value of the PP&E and amounts realized shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.”

- Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.

We agree in part with the financial transactions illustrated in paragraph 14. It says in paragraph 14 that the liability and associated cleanup cost expense should continue to accumulate for assets if removal from service is temporary. However, in accordance with SFFAS 6, paragraph 98, “Recognition of the expense and accumulation of the liability shall begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation.” Based on SFFAS 6, it would appear that if the asset is not in service that cleanup cost should not continue.

- Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.

We believe the additional guidance to record disposal transactions related to G-PP&E should not be in this proposal because it introduces two new terms that are not addressed in the Statements of Federal Financial Accounting Standards, permanent and temporary removal. The Board should consider whether it is necessary to amend SFFAS 6 to define these terms and to better clarify when an asset is to be disposed.



**KPMG LLP**  
757 Third Avenue  
New York, NY 10017

Telephone 212-909-5600  
Fax 212-909-5699  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

February 23, 2011

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board (FASAB)  
441 G Street, NW, Suite 6814  
Mailstop 6K17V  
Washington, DC 20548

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Federal Financial Accounting Technical Release, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment* – the exposure draft (ED). We recognize the Accounting and Auditing Policy Committee (AAPC) efforts to develop this Technical Release and appreciate that the AAPC's mission is to assist the federal government in improving financial reporting by timely identifying, discussing, and recommending solutions to accounting issues within the framework of existing authoritative literature. We agree that there is a need for additional guidance on accounting issues related to the disposal of general property, plant, & equipment. However, we believe that the introduction of the new terms and the related new accounting guidance in the ED would be more appropriate if the changes were done through amendment of Statements of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment* (SFFAS No. 6).

The ED introduces two key terms, "temporary removal" and "permanent removal", which bifurcate the concept of removal from service that is a central concept in SFFAS No. 6. We are concerned that the issuance of a Technical Release as the ED is drafted would result in Level C GAAP (the Technical Release) that could contradict Level A GAAP (SFFAS No. 6). This contradiction is best illustrated by an example. Suppose an entity had a facility that no longer provided service due to damage in a natural disaster or obsolescence. The entity would find accounting addressing these specific circumstances in paragraph 7 of the ED and paragraph 39 of SFFAS No. 6. However in accordance with the ED, the entity would have to meet an additional condition to achieve the same accounting specified in paragraph 39 of SFFAS No. 6. We do not understand how a Technical Release could change the accounting set forth in an existing Standard.

We recommend that the Board consider the challenges described in paragraph A6 of the ED, and whether an amendment of SFFAS No. 6 is needed. Due to the issues described above, we have not provided comments on the specific questions posed by the ED.

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or [aenelson@kpmg.com](mailto:aenelson@kpmg.com).

Very truly yours,

**KPMG LLP**

**From:** [Katherine.Winchester@fms.treas.gov](mailto:Katherine.Winchester@fms.treas.gov)  
[\[mailto:Katherine.Winchester@fms.treas.gov\]](mailto:Katherine.Winchester@fms.treas.gov)  
**Sent:** Thursday, April 07, 2011 8:39 PM  
**To:** Payne, Wendolyn M  
**Cc:** [David.Rebich@fms.treas.gov](mailto:David.Rebich@fms.treas.gov); [Jeffrey.Hoge@fms.treas.gov](mailto:Jeffrey.Hoge@fms.treas.gov); Parlow, Eileen W;  
[Christine.Chang@fms.treas.gov](mailto:Christine.Chang@fms.treas.gov); Valentine, Monica R  
**Subject:** Implementation Guidance on the Accounting for the Disposal of  
GeneralProperty, Plant, and Equipment

April 7, 2011

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW  
Washington, D.C. 20548

Dear Ms. Payne:

I am writing on behalf of the United States Standard General Ledger (USSGL) Board's Issues Resolution Committee (IRC). I appreciate the opportunity to respond to the Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment, dated December 11, 2010. I apologize for any inconvenience that these late comments may cause but our first opportunity to discuss the guidance as a Committee was on April 7, 2011.

These comments do not specifically address the questions as outlined in your Questions for Respondents document since we typically review for the purpose of assessing an impact on the USSGL.

#### Recognition of Gain or Loss

We are aware that the Implementation Guidance is silent on whether the gain or loss recognized to value the GPP&E at the estimated net realizable value should be reported as unrealized or realized. We are referencing Paragraph 11 as shown below.

When the entity's management decided to permanently remove, retire and/or dispose of an asset and the asset's use is terminated, the asset's acquisition cost and associated accumulated depreciation are removed from the GPPE account and the asset is recorded at its net realizable value with an offsetting entry to gain or loss. Upon completion of the disposal of the asset, the entity should write off the asset from its financial records. Any difference between the expected net realizable value of the

GPPE previously recorded and the actual realized disposition amount should be recognized as a gain or loss.

It was the general consensus of agency representatives participating in the April 7, 2011 USSGL Board's IRC that when an asset is valued at the net realizable value, the offsetting gains or losses should be recognized as unrealized. The actual realized gains or losses should be recognized when an asset is actually disposed and not when it is classified as permanently removed but not yet disposed.

If you concur, we would recommend modifying paragraph 11 (including the last sentence), Appendix B, and Scenario I and II - steps 2 & 3.

#### Capitalized GPP&E

We recommend adding a statement to the Implementation Guidance that would clearly state that the guidance applies only to GPP&E that has been previously capitalized.

#### Balance Sheet Presentation

The Implementation Guidance does not address Balance Sheet presentation. We request that the Implementation Guidance recommend a specific classification (ie PP&E or Other Assets) of the assets permanently removed but not yet disposed.

For your general information, I have attached the draft USSGL scenario as updated after today's IRC meeting. Again, thank you for your consideration of our comments. If you or your staff requires additional information, please call me on (202) 874-9963.

Sincerely,

Kathy Winchester

Chairman, USSGL Board  
Director, USSGL Division  
Financial Management Service  
Department of Treasury

#### Attachment:

Draft USSGL Scenario for Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment

**USSGL Scenario for Implementation Guidance on the Accounting  
for the Disposal of General Property, Plant and Equipment –  
Federal Financial Accounting Technical Release, Exposure Draft  
Effective Immediately once it becomes a standard**

**Background:**

The technical release clarifies the difference between permanent and temporary removal of General Property, Plant, and & Equipment (GPP&E) from service.

In order for removal to be considered permanent two business events are necessary:

- 1) Asset's use is terminated.
- 2) There is evidence of management's decision to permanently remove, retire and/or dispose of the asset.

If only one of two business events has occurred, the removal from service is considered temporary and there is no change in the GPP&E value and depreciation continues

(FFATR, No##, paragraph 13).

Recognition of the cleanup expense and accumulation of the liability begins on the date that the GPP&E is placed into service, continues in each period that GPP&E is in operation, and is completed when the GPP&E ceases to be in operation (FFATR, No##, paragraph 5). For assets permanently removed from service, any unallocated/unamortized portion of the total cleanup cost estimate associated with the disposal, closure, and/or shutdown of the GPP&E should be recognized in full. If removal is temporarily, the liability and associated cleanup cost expense shall continue to accumulate (FFATR, No##, paragraph 14).

**New USSGL Account**

**Account Title:** General Property, Plant, and Equipment - Permanently Removed but not yet Disposed

**Account Number:** 1790

**Normal Balance:** Debit

**Definitions:** General property, plant, and equipment that is permanently removed from service, but not yet disposed, and reclassified in accordance with Federal Financial Accounting Technical Release No ##, paragraph 9.

**Justification:** The new account is needed to segregate permanently removed GPP&E from the GPP&E used for agency operations. Note that the FFATR guidance should be limited to previously capitalized GPP&E.

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**USSGL Scenario for Implementation Guidance on the Accounting  
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**Changes to Existing USSGL Account**

**Account Title:** Unrealized Gains

**Account Number:** 7180

**Normal Balance:** Credit

**Definitions:** To record unrealized gains that include, but are not limited to: unrealized holding gains on available for sale securities in accordance with Financial Accounting Standard (FAS) 115, deferred gains on qualified hedges under FAS 133, ~~and~~ qualified foreign currency translation adjustments under FAS 52, ~~and unrealized gains recognized on general property, plant, and equipment permanently removed from operation but not yet disposed (see Federal Financial Accounting Technical Release no#, paragraph 11).~~ Although the normal balance for this account is credit, it is acceptable for this account to have a debit balance.

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**Justification:** According to FASAB, FFATR, paragraph 11, when the asset is permanently removed and the asset use is terminated, the asset is recorded at its net realizable value with an offsetting entry to gain or loss. If the disposition of the asset happens in a subsequent year, you may have ~~an~~ abnormal balance in this account due to ~~the~~ reclassification of unrealized gains to realized gains.

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**Account Title:** Unrealized Losses

**Account Number:** 7280

**Normal Balance:** Debit

**Definitions:** To record unrealized losses that include, but are not limited to: unrealized holding losses on available for sale securities in accordance with Financial Accounting Standard (FAS) 115, deferred losses on qualified hedges under FAS 133, ~~and~~ qualified foreign currency translation adjustments under FAS 52, ~~and unrealized losses recognized on general property, plant and equipment permanently removed from operation but not yet disposed (see Federal Financial Accounting Technical Release no#, paragraph 11).~~ Although the normal balance for this account is debit, it is acceptable for this account to have a credit balance.

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**Justification:** According to FASAB, FFATR, paragraph 11, when the asset is permanently removed and the asset use is terminated, the asset is recorded at its net realizable value with an offsetting entry to gain or loss. If the disposition of the asset happens in a subsequent year, you may have ~~an~~ abnormal balance in this account due to ~~the~~ reclassification of unrealized losses to realized losses.

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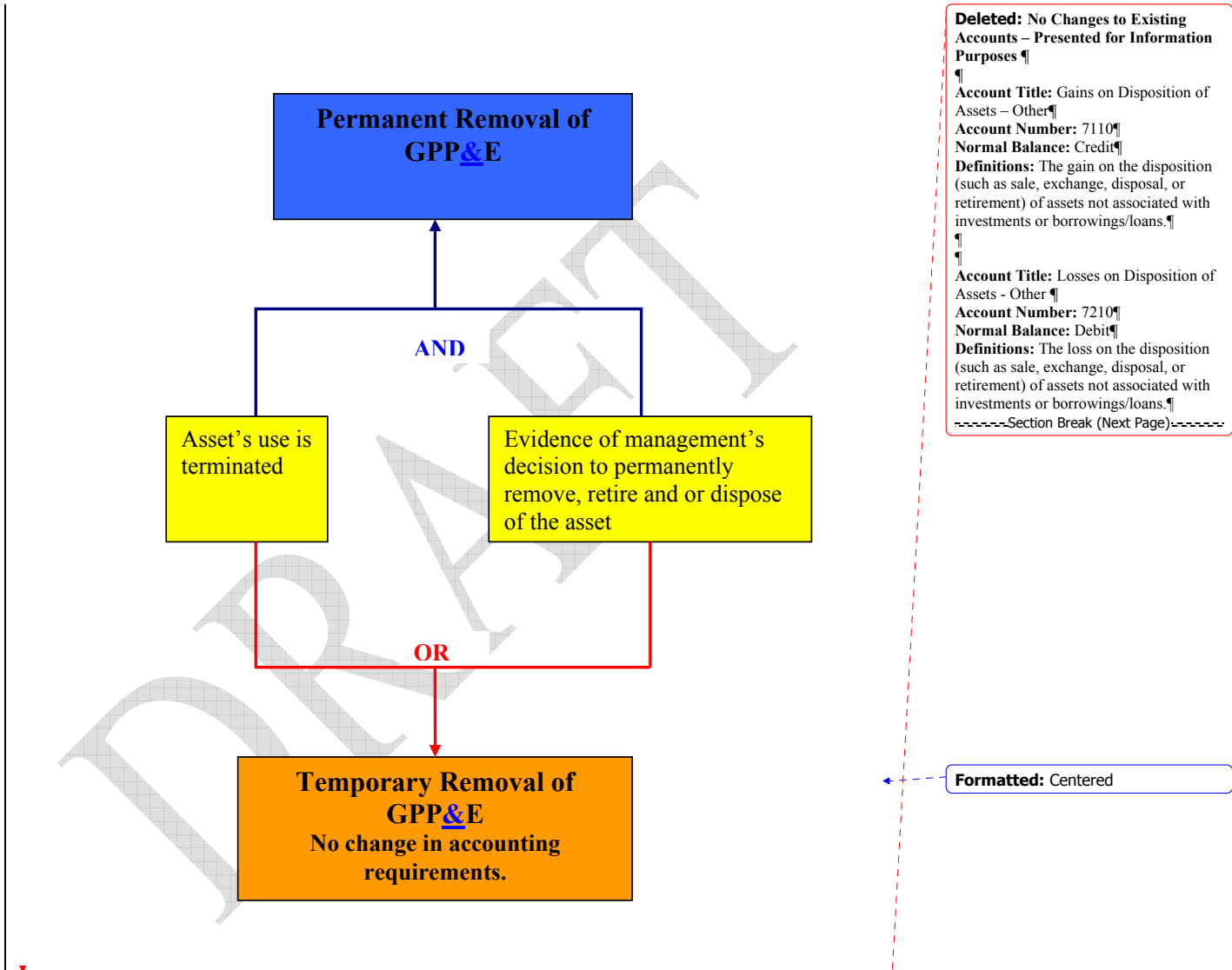
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**Listing of USSGL Accounts Used In This Scenario**

Account Number	Account Name
<u>Budgetary</u>	
4119	Other Appropriations Realized
4201	Total Actual Resources <del>z</del> Collected
4450	Unapportioned Authority
4510	Apportionments <del>s</del>
4610	Allotments – Realized Resources
4902	Delivered Orders – Obligations, Paid
<u>Proprietary</u>	
1010	Fund Balance With Treasury
1511	Operating Materials and Supplies <u>Held for Use</u>
1750	Equipment
1759	Accumulated Depreciation on Equipment
1790	General Property, Plant, and Equipment <del>z</del> Permanently Removed but not yet Disposed
1990	Other Assets
2995	Estimated <u>Cleanup</u> Cost Liability
3100	Unexpended Appropriations – Cumulative
3101	Unexpended Appropriations – Appropriations Received
3107	Unexpended Appropriations – Used
3310	Cumulative Results of Operations
5700	Expended Appropriations
6710	Depreciation, <u>Amortization, and Depletion</u>
6800	Future Funded Expenses
7110	Gains on Disposition of Assets <u>- Other</u>
7180	Unrealized Gains
7210	Losses on Disposition of Assets <u>- Other</u>
7280	Unrealized Losses

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A beginning trial balance is not applicable in this scenario.

**Assumptions**

- The Treasury Account Symbol (TAS) is a no year fund.
- The purchased equipment has a five year useful life with no salvage value.
- The straight line depreciation method is used.
- The total estimated cleanup cost associated with purchased equipment is estimated to be \$5,000.

**Year 1**

- 1) To record the receipt of an appropriation, apportionment, and allotment.

Transaction			Transaction Code
<b>Budgetary</b>			
4119 Other Appropriation Realized	20,000		A104
4450 Unapportioned Authority		20,000	
4450 Unapportioned Authority	20,000		A116
4510 Apportionments		20,000	
4510 Apportionments	20,000		A120
4610 Allotments – Realized Resources		20,000	
<b>Proprietary</b>			
1010 Fund Balance with Treasury	20,000		
3101 Unexpended Appropriation Received		20,000	

- 2) To record the purchase of two pieces of equipment on October 2, Year 1 for a total of \$15,000. Equipment A was purchased for \$10,000 and Equipment B was purchased for \$5,000.

Transaction			Transaction Code
<b>Budgetary</b>			
4610 Allotments – Realized Resources		15,000	B406
4902 Delivered Orders – Obligations, paid	15,000		
<b>Proprietary</b>			
1750N Equipment	15,000		B110
1010 Fund Balance with Treasury	15,000		
3107 Unexpended Appropriation - Used	15,000		B134
5700 Appropriation Used		15,000	

- 3) To record depreciation of the equipment at fiscal year end.

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Annual Depreciation Calculations:

Equipment A: \$10,000/5=\$2,000 per annum

Equipment B: \$ 5,000/5=\$1,000 per annum

<u>Transaction</u>	<u>Transaction Code</u>
<u><b>Budgetary</b></u> <u>None</u>  <u><b>Proprietary</b></u> <u>6710N Depreciation, Amortization, and Depletion 3,000</u> <u>1759N Accumulated Depreciation on Equipment 3,000</u>	<u>E120</u>

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1759N Accumulated Depreciation -

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4) The total estimated cleanup cost associated with the purchased equipment was determined to be \$5,000. Assume useful life of the both equipment (5 years) was used for systematic and rational recognition of expense and accumulation of the cleanup cost liability.

Transaction	Transaction Code
<b><u>Budgetary</u></b> None	
<b><u>Proprietary</u></b> 6800N Future Funded Expenses 1,000 2995N Estimated Cleanup Cost Liability 1,000	B420

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**PRE-CLOSING TRIAL BALANCE  
YEAR 1**

<b>BUDGETARY</b>	<b>DR</b>	<b>CR</b>
4119 Other Appropriation Realized	20,000	
4110 Allotments – Realized Resources		5,000
4902 Delivered Orders – Obligations, paid		15,000
<b>TOTALS</b>	<b>20,000</b>	<b>20,000</b>
<b>PROPRIETARY</b>		
1010 Fund Balance With Treasury	5,000	
1750 (N) Equipment	15,000	
1759 (N) Accumulated Depreciation on Equipment		3,000
2995 (N) Estimated Cleanup Cost Liability		1,000
3101 Unexpended Appropriations - Received		20,000
3107 Unexpended Appropriations - Used	15,000	
5700 Appropriation Used		15,000
6710 (N) Depreciation, Amortization, and Depletion	3,000	
6800 (N) Future Funded Expenses	1,000	
<b>TOTALS</b>	<b>39,000</b>	<b>39,000</b>

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**USSGL Scenario for Implementation Guidance on the Accounting  
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**SF133: REPORTING ON BUDGET EXECUTIONS AND BUDGETARY RESOURCES  
AND BUDGET PROGRAM & FINANCING (P&F) SCHEDULE  
YEAR 1**

<b>BUDGETARY RESOURCES</b>	<b>SF 133</b>	<b>P&amp;F</b>
Budget authority:		
Appropriations:		
Discretionary:		
1100 Appropriation (4119E)	20,000	20,000
1910 Total budgetary resources (calc. line 1910)	20,000	N/A
1930 Total budgetary resources available (calc. line 1101)	N/A	20,000
<b>MEMORANDUM (NON-ADD) ENTRIES</b>		
1941 Unexpired unobligated balance carried forward, end of year (4610E)	N/A	5,000
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligation Incurred Direct:		
2001 Obligation Incurred, Direct (4901, 4902)	15,000	N/A
2004 Direct obligations (total)	15,000	N/A
Unobligated balance:		
Apportioned:		
2201 Unobligated Balance, Available in current period (4610)	5,000	N/A
2500 Total budgetary resources	20,000	N/A
<b>CHANGE IN OBLIGATED BALANCE</b>		
Changes in obligated balance during the year:		
3030 Obligations incurred, unexpired accounts (4902E)	15,000	15,000
3040 Outlays (gross) (-) (4902E)	(15,000)	(15,000)
3100 Obligated balance, end of year (calc. lines 3030 and 3040)	0	0
<b>BUDGET AUTHORITY AND OUTLAYS, NET</b>		
Discretionary:		
Gross budget authority and outlays:		
4000 Budget authority gross (calc. lines 1100 through 1152)	20,000	20,000
4010 Outlays from new discretionary authority	15,000	15,000
4020 Total outlays, gross (calc. line 4010)	15,000	15,000
4070 Budget authority, net (discretionary) (calc. line 4000)	20,000	20,000
4080 Outlays, net (discretionary) (calc. line 4010)	15,000	15,000
Budget authority and outlays, net (total):		
4180 Budget authority, net (discretionary and mandatory) (calc. line 4070)	20,000	20,000
4190 Outlays, net (discretionary and mandatory) (calc. line 4080)	15,000	15,000

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**FMS 2108 Year-End Closing Statement  
YEAR 1**

Column 5 (1010E)	5,000
Column 10 (4901E)	<u>0</u>
Column 11 (calc)=(4610E)	5,000

**BALANCE SHEET  
YEAR 1**

**Assets**

Intragovernmental	
1. Fund Balance with Treasury (1010E)	5,000

**Assets with Public**

13. General Property, Plant and Equipment, net (1750E+1759E)	<u>12,000</u>
15. Total Assets	<u>17,000</u>

**Liabilities**

25 Environmental and disposal Liabilities (2995E)	1,000
Total Liabilities	<u>1,000</u>

**Net Position**

31. Unexpended Appropriation – Other Funds (3100E)	5,000
33. Cumulative Results of Operations-Other Funds (3310E)	<u>11,000</u>
34. Total Net Position	<u>16,000</u>
35. Total Liabilities and Net Position	<u>17,000</u>

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**USSGL Scenario for Implementation Guidance on the Accounting  
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**STATEMENT OF NET COST  
YEAR 1**

Program Costs

Program A:

1. Gross Cost :

(6710E)

3,000

(6800E)

1,000

2. Less: Earned Income (5200E)

0

3. Net Program Costs

4,000

6. Costs Not Assigned to Programs

7. Less: Earned Revenues Not Attributable to Programs

8. Net Cost of Operations

4,000

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**USSGL Scenario for Implementation Guidance on the Accounting  
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**STATEMENT OF CHANGES IN NET POSITION  
YEAR 1**

**Cumulative Results of Operations**

1. Beginning Balance	0
2. Adjustments	
3. Beginning Balances, as Adjusted	0

**Budgetary Financing Sources**

4. Other Adjustments	
5. Appropriations Used (5700)	15,000
6. Nonexchange Revenue	
7. Donations and Forfeitures	
8. Transfers in/out without reimbursements	
9. Other	

**Other Financing Sources:**

10. Donations and Forfeitures	
11. Transfers in/out without reimbursements	
12. Imputed Financing	
13. Other (5994)	
14. Total Financing Sources	
15. Net Cost of Operations	(4,000)
16. Net Change	
17. Cumulative Results of Operations	11,000

**Unexpended Appropriations**

18. Beginning Balance	0
19. Adjustments	
20. Beginning Balance, as adjusted	0

**Budgetary Financing Sources**

21. Appropriations Received (3101)	20,000
22. Appropriations Transferred in/out	
23. Other Adjustments	
24. Appropriations Used (3107)	15,000
25. Total Budgetary Financing Sources	
26. Total Unexpended Appropriations	5,000

27. Net Position	16,000
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**CLOSING ENTRIES FOR END OF YEAR 1**

C1. To record the consolidation of net-funded resources, Section III – Transaction F302.

**Budgetary**

4201 Total Actual Resources – Collected	20,000	
4119 Other Appropriations Realized		20,000

**Proprietary**

No entry

C2. To record the closing of unobligated balances to unapportioned authority, Section III – Transaction F308.

**Budgetary**

4610 Allotments – Realized Resources	5,000	
4450 Unapportioned Authority		5,000

**Proprietary**

No entry

C3. To record the closing of expended authority – paid, Section III – Transaction F314

**Budgetary**

4902 Delivered Orders – Obligations, Paid	15,000	
4201 Total Actual Resources – Collected		15,000

**Proprietary**

No entry

C4. To record the closing of fiscal year activities to unexpended appropriation, Section III – Transaction F342.

**Budgetary**

No entry

**Proprietary**

3101 Unexpended Appropriations – Appropriations Received	20,000	
3107 Unexpended Appropriations – Used		15,000
3100 Unexpended Appropriations – Cumulative		5,000

C5. To record the closing of revenue, expense and other financing sources to cumulative results of operations.  
Section III – Transaction F336.

**Budgetary**

No entry

**Proprietary**

5700 Expended Appropriations	15,000	
3310 Cumulative Results of Operations		11,000
6710 Depreciation, Amortization, and Depletion		3,000
6800 Future Funded Expenses		1,000

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**POST-CLOSING TRIAL BALANCE  
YEAR 1**

<b>Revolving Fund</b>		
<b>BUDGETARY</b>	<b>DR</b>	<b>CR</b>
4201 Total Actual Resources – Collected	5,000	
4450 Unapportioned Authority		5,000
<b>TOTALS</b>	<b>5,000</b>	<b>5,000</b>
<b>PROPRIETARY</b>		
1010 Fund Balance With Treasury	5,000	
1750 (N) Equipment	15,000	
1759 (N) Accumulated Depreciation on Equipment		3,000
2495 (N) Estimated Cleanup Cost Liability		1,000
3100 Unexpended Appropriations		5,000
3310 Cumulative Results of Operations		11,000
<b>TOTALS</b>	<b>20,000</b>	<b>20,000</b>

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**Year 2**

1) To record a depreciation expense for the equipment at the end of a fiscal year. Assume the equipment has a useful life of 5 years, and it is depreciated using straight line method.

Transaction	Transaction Code
<b><u>Budgetary</u></b> None	
<b><u>Proprietary</u></b> 6710N Depreciation, <u>Amortization, and Depletion</u> 3,000 1759N Accumulated Depreciation <u>on</u> Equipment 3,000	E120

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2) To record estimated cleanup costs associated with the purchased equipment.

Transaction	Transaction Code
<b><u>Budgetary</u></b> None	
<b><u>Proprietary</u></b> 6800N Future Funded Expenses 1,000 1995N Estimated Cleanup Cost Liability 1,000	B420

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**PRE-CLOSING TRIAL BALANCE  
YEAR 2**

<b>BUDGETARY</b>	<b>DR</b>	<b>CR</b>
4201 Total Actual Resources – Collected	5,000	
4450 Unapportioned Authority		5,000
<b>TOTALS</b>	<b>5,000</b>	<b>5,000</b>
<b>PROPRIETARY</b>		
1010 Fund Balance With Treasury	5,000	
1750 (N) Equipment	15,000	
1759 (N) Accumulated Depreciation on Equipment		6,000
2995 (N) Estimated Cleanup Cost Liability		2,000
3100 Unexpended Appropriations		5,000
3310 Cumulative Results of Operations		11,000
6710 (N) Depreciation, <u>Amortization, and Depletion</u>	3,000	
6800 (N) Future Funded Expenses	1,000	
<b>TOTALS</b>	<b>24,000</b>	<b>24,000</b>

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**SF133: REPORTING ON BUDGET EXECUTIONS AND BUDGETARY RESOURCES  
AND BUDGET PROGRAM & FINANCING (P&F) SCHEDULE  
YEAR 2**

<b>BUDGETARY RESOURCES</b>	<b>SF 133</b>	<b>P&amp;F</b>
Unobligated Balance		
1000 Unobligated Balances Brought Forward 10/1 (4201E)	5,000	5,000
1910 Total budgetary resources (calc. line 1910)	5,000	N/A
1930 Total budgetary resources available (calc. line 1101)	N/A	5,000
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligation Incurred Direct:		
2001 Obligation Incurred, Direct (4901, 4902)	0	N/A
2004 Direct obligations (total)	0	N/A
Unobligated balance:		
2403 Other (4450)	5,000	N/A
2500 Total budgetary resources	5,000	N/A
<b>CHANGE IN OBLIGATED BALANCE</b>		
Changes in obligated balance during the year:		
3030 Obligations incurred, unexpired accounts (4902E)	0	0
3040 Outlays (gross) (-) (4902E)	0	0
3100 Obligated balance, end of year (calc. lines 3030 and 3040)	0	0
<b>BUDGET AUTHORITY AND OUTLAYS, NET</b>		
Discretionary:		
Gross budget authority and outlays:		
4000 Budget authority gross (calc. lines 1100 through 1152)	0	0
4010 Outlays from new discretionary authority	0	0
4020 Total outlays, gross (calc. line 4010)	0	0
4070 Budget authority, net (discretionary) (calc. line 4000)	0	0
4080 Outlays, net (discretionary) (calc. line 4010)	0	0
Budget authority and outlays, net (total):		
4180 Budget authority, net (discretionary and mandatory) (calc. line 4070)	0	0
4190 Outlays, net (discretionary and mandatory) (calc. line 4080)	0	0

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**FMS 2108 Year-End Closing Statement  
YEAR 2**

Column 5 (1010E)	5,000
Column 10 (4901E)	<u>0</u>
Column 11 (calc)=(4450E)	5,000

**BALANCE SHEET  
YEAR 2**

**Assets**

Intragovernmental	
1. Fund Balance with Treasury (1010E)	5,000

**Assets with Public**

13. General Property, Plant and Equipment, net (1750E+1759E)	<u>9,000</u>
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15. Total Assets	<u>14,000</u>
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**Liabilities**

25 Environmental and disposal Liabilities (2995E)	2,000
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Total Liabilities	<u>2,000</u>
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**Net Position**

31. Unexpended Appropriation – Other Funds (3100E)	5,000
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33. Cumulative Results of Operations-Other Funds (3310E)	<u>7,000</u>
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34. Total Net Position	<u>12,000</u>
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35. Total Liabilities and Net Position	<u>14,000</u>
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**STATEMENT OF NET COST  
YEAR 2**

Program Costs

Program A:

1. Gross Cost :

(6710E)

3,000

(6800E)

1,000

2. Less: Earned Income (5200E)

0

3. Net Program Costs

4,000

6. Costs Not Assigned to Programs

7. Less: Earned Revenues Not Attributable to Programs

8. Net Cost of Operations

4,000

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**STATEMENT OF CHANGES IN NET POSITION  
YEAR 2**

**Cumulative Results of Operations**

1. Beginning Balance	11,000
2. Adjustments	
3. Beginning Balances, as Adjusted	11,000

**Budgetary Financing Sources**

4. Other Adjustments
5. Appropriations Used (5700)
6. Nonexchange Revenue
7. Donations and Forfeitures
8. Transfers in/out without reimbursements
9. Other

**Other Financing Sources:**

10. Donations and Forfeitures	
11. Transfers in/out without reimbursements	
12. Imputed Financing	
13. Other (5994)	
14. Total Financing Sources	
15. Net Cost of Operations	(4,000)
16. Net Change	
17. Cumulative Results of Operations	7,000

**Unexpended Appropriations**

18. Beginning Balance	5,000
19. Adjustments	
20. Beginning Balance, as adjusted	5,000

**Budgetary Financing Sources**

21. Appropriations Received (3101)	0
22. Appropriations Transferred in/out	
23. Other Adjustments	
24. Appropriations Used (3107)	0
25. Total Budgetary Financing Sources	
26. Total Unexpended Appropriations	5,000

27. Net Position	12,000
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**USSGL Scenario for Implementation Guidance on the Accounting  
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**CLOSING ENTRIES FOR END OF YEAR 2**

C1. To record the closing of expense to cumulative results of operations. Section III – Transaction F336.

**Budgetary**

No entry

**Proprietary**

3310 Cumulative Results of Operations	4,000	
6710 Depreciation, Amortization, and Depletion		3,000
6800 Future Funded Expenses		1,000

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**POST-CLOSING TRIAL BALANCE  
YEAR 2**

<b>Revolving Fund</b>		
<b>BUDGETARY</b>	<b>DR</b>	<b>CR</b>
4201 Total Actual Resources – Collected	5,000	
4450 Unapportioned Authority		5,000
<b>TOTALS</b>	<b>5,000</b>	<b>5,000</b>
<b>PROPRIETARY</b>		
1010 Fund Balance With Treasury	5,000	
1750 (N) Equipment	15,000	
1759 (N) Accumulated Depreciation on Equipment		6,000
2495 (N) Estimated Cleanup Cost Liability		2,000
3100 Unexpended Appropriations		5,000
3310 Cumulative Results of Operations		7,000
<b>TOTALS</b>	<b>20,000</b>	<b>20,000</b>

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**Year 3**

1) At the beginning of a year 3, Equipment A and Equipment B (originally purchased in year 1) broke down and the asset use is terminated. Management decided to permanently remove both pieces of equipment (FFATR, No##, paragraph 11). The net realizable value of Equipment A was determined to be \$5,000 and Equipment B to be \$3,500.  
(Exposure Draft uses title Other Assets - possibly because the USSGL does not currently have an account equivalent to the proposed 1790)

Transaction		Transaction C
<b><u>Budgetary</u></b>		
None		
<b><u>Proprietary</u></b>		
1790 General Property, Plant, and Equipment - Permanently Removed but not Yet Disposed	5,000	New
1759 Accumulated Depreciation on Equipment	4,000	
7280 Unrealized Losses	1,000	
1750 Equipment A	10,000	
1790 General Property, Plant, and Equipment - Permanently Removed but not Yet Disposed	3,500	
1759 Accumulated Depreciation on Equipment	2,000	
7180 Unrealized Gains	500	
1750 Equipment B	5,000	

2) The remaining estimate cleanup cost is recognized in full for both equipment (FFATR, No##, paragraph 14). Assume the funding for cleanup will be provided in the next fiscal year and the cleanup will commence at that time.

Transaction		Transaction C
<b><u>Budgetary</u></b>		
None		
<b><u>Proprietary</u></b>		
6800 Future Funded Expenses	3,000	B420
2995 Estimated Cleanup Cost Liability	3,000	

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3) At the end of the 3<sup>rd</sup> year, disposal of Equipment A was completed. The agency sold Equipment A for \$4,000, to a nonfederal entity (FFATR, No##, paragraph 11). The actual realized disposition amount of equipment A was less than the previously recorded estimated net realizable value. In year 3, transaction 1, the previous unrealized loss on Equipment A was \$1,000 when the NRV was determined to be \$5,000. Since the sale was actually for \$4,000, the total realized loss for Equipment A becomes \$2,000.

Transaction	Transaction Code
<b>Budgetary</b>	
4266 Other Actual Business Type Collections from Nonfederal Sources <sup>1</sup>	4,000
4450 Unapportioned Authority	4,000
<b>Proprietary</b>	
1010 FBWT	4,000
7210 Losses on Disposition of Assets - Other	2,000
1790 General Property, Plant, and Equipment - Permanently Removed but not Yet Disposed	5,000
7280 Unrealized Losses	1,000
(If disposal happens in a subsequent year, account 7280 may have abnormal balance)	

4) At the end of the 3<sup>rd</sup> year, disposal of the equipment B was completed. The agency dissembled the equipment for spare parts/sub components which are salvaged to be used for their operations. (FFATR, No##, paragraph 12) and are currently valued at \$4,000. In year 3, transaction 1, the previous unrealized gain on Equipment B was \$500 when the NRV was determined to be \$3,500. Since the current value is \$4,000, the total realized gain for Equipment B becomes \$1,000.

Transaction	Transaction Code
<b>Budgetary</b>	
None	
<b>Proprietary</b>	
1511 Operating Materials and Supplies Held for Use	4,000
7180 Unrealized Gains	500
(If disposal happens in a subsequent year, account 7180 may have abnormal balance)	
1790 General Property, Plant, and Equipment that are Permanently Removed but not Yet Disposed	3,500
7110 Gains on Disposition of Assets - Other	1,000

<sup>1</sup> Typically USSGL account 4060, Anticipated Collections from Nonfederal Sources is recorded when account 4266 is recorded as budgetary resource. To keep the illustration simple, anticipated collections were not previously recorded.

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**PRE-CLOSING TRIAL BALANCE  
YEAR 3**

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clean up cost is recognized in full for  
both equipments. (para14)¶  
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<b>BUDGETARY</b>	<b>DR</b>	<b>CR</b>
4201 Total Actual Resources – Collected	5,000	
4266 Other Actual Business Type Collections from Nonfederal Sources	4,000	
4450 Unapportioned Authority		9,000
<b>TOTALS</b>	<b>9,000</b>	<b>9,000</b>
<b>PROPRIETARY</b>		
1010 Fund Balance With Treasury	9,000	
1111 Operating Materials and Supplies <u>Held for Use</u>	4,000	
1750 (N) Equipment	0	
1759 (N) Accumulated Depreciation on Equipment		0
1790 (N) General Property, Plant, and Equipment - Permanently Removed but not yet Disposed	0	
2995 (N) Estimated Cleanup Cost Liability		5,000
3100 Unexpended Appropriations		5,000
3310 Cumulative Results of Operations		7,000
6800 (N) Future Funded Expenses	3,000	
7110 (N) Gains on Disposition of Assets - Other		1,000
7210 (N) Losses on Disposition of Assets - Other	2,000	
<b>TOTALS</b>	<b>18,000</b>	<b>18,000</b>

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**SF133: REPORTING ON BUDGET EXECUTIONS AND BUDGETARY RESOURCES  
AND BUDGET PROGRAM & FINANCING(P&F) SCHEDULE  
YEAR 3**

<b>BUDGETARY RESOURCES</b>	<b>SF 133</b>	<b>P&amp;F</b>
Unobligated Balance		
1000 Unobligated Balances Brought Forward 10/1 (4201E)	5,000	5,000
1700 Spending Authority from Offsetting Collections (Discretionary) (4266)	4,000	4,000
1910 Total budgetary resources (calc. line 1910)	9,000	N/A
1930 Total budgetary resources available (calc. line 1101)	N/A	5,000
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligation Incurred Direct:		
2001 Obligation Incurred, Direct (4901, 4902)	0	N/A
2004 Direct obligations (total)	0	N/A
Unobligated balance:		
2403 Other (4450)	9,000	N/A
2500 Total budgetary resources	9,000	N/A
<b>CHANGE IN OBLIGATED BALANCE</b>		
Changes in obligated balance during the year:		
3030 Obligations incurred, unexpired accounts (4902E)	0	0
3040 Outlays (gross) (-) (4902E)	0	0
3100 Obligated balance, end of year (calc. lines 3030 and 3040)	0	0
<b>BUDGET AUTHORITY AND OUTLAYS, NET</b>		
Discretionary:		
Gross budget authority and outlays:		
4000 Budget authority gross (calc. lines 1100 through 1152)	4,000	4,000
4010 Outlays from new discretionary authority	0	0
4020 Total outlays, gross (calc. line 4010)	0	0
4070 Budget authority, net (discretionary) (calc. line 4000)	4,000	4,000
4080 Outlays, net (discretionary) (calc. line 4010)	0	0
Budget authority and outlays, net (total):		
4180 Budget authority, net (discretionary and mandatory) (calc. line 4070)	4,000	4,000
4190 Outlays, net (discretionary and mandatory) (calc. line 4080)	0	0

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**FMS 2108 Year-End Closing Statement  
YEAR 3**

Column 5 (1010E)	9,000
Column 10 (4901E)	<u>0</u>
Column 11 (calc)=(4450E)	9,000

**BALANCE SHEET  
YEAR 3**

**Assets**

Intragovernmental	
1. Fund Balance with Treasury (1010E)	9,000

**Assets with Public**

12. Inventory and Related Properties (1511)	4,000
13. General Property, Plant and Equipment, net (1750E+1759E)	0
15. Total Assets	<u>13,000</u>

**Liabilities**

25 Environmental and disposal Liabilities (2995E)	5,000
Total Liabilities	<u>5,000</u>

**Net Position**

31. Unexpended Appropriation – Other Funds (3100E)	5,000
33. Cumulative Results of Operations-Other Funds (3310E)	<u>3,000</u>
34. Total Net Position	<u>8,000</u>
35. Total Liabilities and Net Position	<u>13,000</u>

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**STATEMENT OF NET COST  
YEAR 3**

Program Costs

Program A:

1. Gross Cost :	
(6800E)	3,000
(7210E)	<u>2,000</u>
2. Less: Earned Income(7110E)	1,000
3. Net Program Costs	<u>4,000</u>
6. Costs Not Assigned to Programs	
7. Less: Earned Revenues Not Attributable to Programs	
8. Net Cost of Operations	<u>4,000</u>

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**STATEMENT OF CHANGES IN NET POSITION  
YEAR 3**

**Cumulative Results of Operations**

1. Beginning Balance	7,000
2. Adjustments	
3. Beginning Balances, as Adjusted	7,000

**Budgetary Financing Sources**

4. Other Adjustments	
5. Appropriations Used (5700)	
6. Nonexchange Revenue	
7. Donations and Forfeitures	
8. Transfers in/out without reimbursements	
9. Other	

**Other Financing Sources:**

10. Donations and Forfeitures	
11. Transfers in/out without reimbursements	
12. Imputed Financing	
13. Other (5994)	
14. Total Financing Sources	
15. Net Cost of Operations	(4,000)
16. Net Change	
17. Cumulative Results of Operations	3,000

**Unexpended Appropriations**

18. Beginning Balance	5,000
19. Adjustments	
20. Beginning Balance, as adjusted	5,000

**Budgetary Financing Sources**

21. Appropriations Received (3101)	0
22. Appropriations Transferred in/out	
23. Other Adjustments	
24. Appropriations Used (3107)	0
25. Total Budgetary Financing Sources	
26. Total Unexpended Appropriations	5,000

27. Net Position	8,000
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**CLOSING ENTRIES FOR END OF YEAR 3**

C1. To record the consolidation of net-funded resources, Section III – Transaction F302.			
<b>Budgetary</b>			
4201 Total Actual Resources – Collected	_____	4,000	
4266 Other Actual Business Type Collections from Nonfederal Sources			4,000
<b>Proprietary</b>			
No entry			

C2. To record the closing of expense to cumulative results of operations. Section III – Transaction F336.			
<b>Budgetary</b>			
No entry			
<b>Proprietary</b>			
7110 Gains on Disposition of Assets - Other		1,000	
3310 Cumulative Results of Operations		4,000	
6800 Future Funded Expenses			3,000
7210 Losses on Disposition of Assets - Other		2,000	

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**POST-CLOSING TRIAL BALANCE  
YEAR 2**

<b>Revolving Fund</b>		
<b>BUDGETARY</b>	<b>DR</b>	<b>CR</b>
4201 Total Actual Resources – Collected	9,000	
4450 Unapportioned Authority		9,000
<b>TOTALS</b>	<b>9,000</b>	<b>9,000</b>
<b>PROPRIETARY</b>		
1010 Fund Balance With Treasury	9,000	
1511 Operating Materials and Supplies <a href="#">Held for Use</a>	4,000	
1750 (N) Equipment	0	
1759 (N) Accumulated Depreciation on Equipment		0
2995 (N) Estimated Cleanup Cost Liability		5,000
3100 Unexpended Appropriations		5,000
3310 Cumulative Results of Operations		3,000
<b>TOTALS</b>	<b>13,000</b>	<b>13,000</b>

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) To record purchase of equipment on October 2, Year 1 for \$15,000. Equipment A was purchased for \$10,000 and Equipment B was purchased for \$5,000.

Transaction	Transaction Code
-------------	------------------

**Budgetary**

4610 Allotment	15,000	
4902 Delivered Orders – Obligations, paid	15,000	

B406

**Proprietary**

1750N Equipment	15,000	
1010 Fund Balance with Treasury	15,000	
3107 Unexpended Appropriation - Used	15,000	
5700 Appropriation Used	15,000	

B110

B134

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4) To record depreciation expenses for the equipments at fiscal year end. Assume both of the equipments have a useful life of 5 years, and they are depreciated using straight line method. The annual depreciation expense for equipment A and B were \$2,000 and \$1,000 respectively.

Transaction	Transaction Code
-------------	------------------

**Budgetary**

None

**Proprietary**

6710N Depreciation Expense	3,000	
1759N Accumulated Depreciation - Equipment	3,000	

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equipment A was determined to be \$5,000 and

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the amount collected from the disposal of equipment A was not previously anticipated.

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(Kathy I didn't put \$1,000 less because if you did, the reader may get confused with the transaction having a realized loss of \$2,000) Assume

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from the disposal of equipment A

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The actual realized disposition amount of equipment B was more than the previously recorded estimated net realizable value.

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4) The remaining estimate clean up cost is recognized in full for both equipments.  
(para14)

Transaction

Transaction Code

**Budgetary**

None

**Proprietary**

6800 Future Funded Expenses	3,000	B420
2995 Estimated Clean up Cost Liabilities	3,000	

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