

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.

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.

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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.