

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!

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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

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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.***

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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.