



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 dissembled 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 dissembled 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 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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