

----- Forwarded by Paul D. Taylor/CONTRACTOR/PFF/CO/GSA/GOV on  
07/09/2010 08:47 AM -----

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

Attached are the comments from the Public Buildings Service (PBS), Office of Budget and Finance (PF) , to the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment. These comments are primarily from an accounting perspective, an additional set of comments will be forthcoming shortly from the PBS Office of Portfolio and the PBS Office of Facilities Management.

Paul Taylor  
Financial Operations Div (PFF)

General Services Administration  
Public Buildings Service  
Office of Budget and Financial Management (PF)

Response to Questions from Exposure Draft: Proposed Statement of Federal  
Financial Accounting Standards, *Definitional Changes Related to Deferred  
Maintenance and Repairs: Amending Statement of Federal Financial Accounting  
Standards 6, Accounting for Property, Plant, and Equipment.*

Q1. The Board proposes adding “repairs” to the title and body of the revised definition in order to clarify that deferred “repairs” as well as deferred “maintenance” need to be reported.

**Do you agree or disagree that the maintenance definition (title and body) should be changed to explicitly include “repairs” (refer to paragraphs A8 – A27 for a detailed discussion and related explanations)? Please provide the rationale for your answer.**

Disagree. The inclusion of “repairs” in the maintenance definition will likely cause continued confusion of the issues related to the distinction between maintenance, repairs and new capital expenditures, the clarification of which is one of the primary objectives of this exposure draft. See below discussion of ordinary versus major repairs.

Q2. The second sentence of the existing standard provides (1) an illustrative list of activities which are not meant to be all inclusive and (2) the terms “acceptable services” and “expected life.” First, the Board proposes that the list of activities contained in the second sentence of the existing definition be updated to better reflect current federal and industry practices as well as encompass maintenance and repair (M&R) activities related to equipment and other personal property in addition to buildings, building components, or service systems. Second, the Board believes that the terms “acceptable services” and “expected life” should be eliminated from the definition. The second sentence would read as follows:

*“Activities include preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset.”*<sup>5</sup>

**a. Do you agree or disagree with each change to the list of activities (refer to paragraph A16 through A17 for a list of changes and related explanations)? Please provide the rationale for your answer to each change.**

Disagree with the elimination of the word “normal” (i.e. normal repairs) - see below discussion of ordinary versus major repairs. Disagree with inclusion of the word “systems” as replacement of entire building systems is a major capital investment and therefore outside the scope of “deferred maintenance” as defined by FASAB. The proposed usage of the word “replacements” is also problematic as “replacements” in the accounting literature are generally considered capital expenditures.

**b. Do you agree or disagree with the elimination of the phrase “so that it continues to provide acceptable services and achieves its expected life” (refer to paragraphs A18, A19, and A27 for detailed discussions and related explanations)? Please provide the rationale for your answer to each reference/phrase.**

Disagree with the elimination of the phrase, “...so that it continues to provide acceptable services and achieves its expected life.” The phrase “acceptable services” helps convey the meaning of “acceptable condition” and its not readily apparent that it’s an inherent element without it being explicitly stated in the definition. The phrase “expected life” is also useful as it helps set the boundaries of the FASAB definition - subsequent acquisitions that extend an asset’s “useful life” are capitalized and outside the scope of “deferred maintenance”. The accounting literature usually lists three conditions, only one of which is required to be present for an after acquisition expenditure to be capitalized; the exposure draft seems to recognize (as excluded activities) increased quantity and enhanced quality but purposefully eliminates the third condition: increased useful life. Notwithstanding the Board’s contention that “*linking M&R to attainment of an expected life is not appropriate,*” basic accounting principle requires agencies to capitalize major PP&E expenditures that will benefit future periods.

Q3. The Board proposes changing the last sentence of the definition to exclude the reference to needs “originally intended” to be met by the asset. Instead, “*activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use*” is proposed (underscoring added for emphasis). As such, the proposed revised last sentence would read as follows: “Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.”

**Do you agree or disagree with the aforementioned change (refer to paragraph A20 for a detailed discussion and related explanation)? Please provide the rationale for your answer.**

Disagree; if an asset was the object of material amounts of “deferred maintenance” then the “current use” of the asset would likely be a poor benchmark for definitional purposes. Disagree with the Board’s assertion that intended use cannot be determined; in the case of real property, buildings for example, the intended use should be fairly easy to ascertain, if not from original plans, engineering, and design documents, than by assessing the square footage, type of building, type of construction, the size and capacity ratings of supporting systems, etc.

Q4. The Board is not proposing a change at this time but rather, is seeking input on the impact that agency capitalization thresholds might have in the reporting of deferred maintenance and repairs. Because PP&E is subject to various capitalization thresholds and actual maintenance requirements are not, some believe it is more appropriate to report deferred maintenance and repairs (DM&R) in the broader context of fixed assets rather than only for capitalized PP&E.

**Do you believe Deferred Maintenance and Repair (DM&R) reporting should be limited to DM&R related to capitalized PP&E or directed broadly to fixed assets? Please provide the rationale for your answer. Refer to paragraph A21(c) and A24 for a detailed discussion and related explanation.**

Reporting should be limited to capitalized PP&E as any deferred maintenance on expensed transactions would be immaterial.

Q5. The Board encourages respondents to not only provide input concerning any and all aspects of the proposed changes thus far discussed, but also other changes, points, issues and/or considerations which may not have been specifically addressed in this exposure draft. In addition, the basis for conclusions explains the Board’s goals for this project (see comments beginning at par. A8) and also discusses other issues raised by task force members (as an example, see paragraphs A11 through A13).

**Please provide any comments or suggestions you have regarding the goals for this project, other issues identified in the basis for conclusions, or areas which have not been addressed.**

Ordinary Repairs Vs. Major / Extraordinary Repairs: The Board in paragraph A17 of Appendix A puts forth the argument that, “...there are no “normal repairs”...and that by including such terminology in the definition that it wrongly implies that there is such a thing as “extraordinary repairs”. However, for at least the past 40 years, the accounting literature and accounting curriculum as taught in major U.S. universities recognizes and makes a distinction between “ordinary repairs” and “major” or “extraordinary” repairs. This is an important distinction, because ordinary repairs are expensed and major / extraordinary repairs are

capitalized and thus fall outside the scope of the deferred maintenance standard, as specifically excluded by FASAB. To adopt a position that basically says, “a repair is just a repair and is always expensed” is counterproductive to the stated aims of the FASAB exposure draft. It would only serve to ensure continued confusion and non-comparability of reported figures between agencies, as some agencies include capital improvements in their reported deferred maintenance amounts and other agencies include only items of current period expense. A review of accounting textbooks in the holdings of the University of Maryland library system yielded the following:

1. Ninth Edition Accountants' Handbook; Volume 1, Financial Accounting and General Topics, Published by John Wiley & Sons:

- Repairs Defined: *“The restoration of a capital asset to its full productive capacity, or a contribution thereto, after damage, accident, or prolonged use, without increase in the asset’s previously estimated service life or productive capacity. The term includes maintenance primarily preventive maintenance in character, and capitalizable extraordinary repairs.”*
- Extraordinary Repairs. *“Welsch, Anthony, and Short define **extraordinary repairs** as repairs that...occur infrequently, involve relatively large amounts of money, and tend to increase the economic usefulness of the asset in the future because of either greater efficiency or longer life, or both. They are represented by major overhauls, complete reconditioning, and major replacements and betterments.”*

*“Because expenditures for **extraordinary repairs** increase the future economic usefulness of an asset, they benefit future periods and are therefore capital expenditures. Ordinarily, they are added to the related asset account...”*

2. 18<sup>th</sup> Edition Fundamental Accounting Principles, Published by Irwin McGraw-Hill:

- Ordinary Repairs. *“**Ordinary repairs** are expenditures to keep an asset in normal, good operating condition. They are necessary if an asset is to perform to expectations over its useful life. Ordinary repairs do not extend an asset’s useful life beyond its original estimate or increase its productivity beyond original expectations. Examples are **normal costs** of cleaning, lubricating, adjusting, and replacing small parts of a machine.”*
- Extraordinary Repairs. *“**Extraordinary repairs** are expenditures **extending the asset’s useful life** beyond its original estimate. Extraordinary repairs are capital expenditures because they benefit future periods. Their costs are debited to the asset account. For example, America West Airlines reports: cost of major scheduled airframe, engine*

*and certain component overhauls are capitalized (and expensed)...over the periods benefited.”*

3. 5<sup>th</sup> Edition Accounting, Published by Apprentice Hall.

- Capital Expenditures. *“Expenditures that increase the asset’s capacity or efficiency or **extend its useful life** are called capital expenditures. For example, the cost of a major overhaul that extends a taxi’s useful life is a capital expenditure. Repair work that generates a capital expenditure is called a **major repair** or an **extraordinary repair**.”*
- Other Expenditures. *“Other expenditures that do not extend the asset’s capacity, which merely maintain the asset or restore it to working order are called expenses. These costs are matched against revenue. Examples include the costs of repainting a taxi, repairing a dented fender, and replacing tires. These costs are debited to an expense account. For the **ordinary repairs** on the taxi, we would debit Repair Expense.”*

4. Accounting, A Business Perspective, Published by Irwin McGraw-Hill.

- Extraordinary Repairs. *“Occasionally, expenditures made on plant assets extend the quantity of services beyond the original estimate but do not improve the quality of services. Since these expenditures benefit an increased number of future periods, accountants capitalize rather than expense them...firms often call them **extraordinary repairs**.”*
- Recurring Expenses. *“Accountants treat as expenses those recurring and/or minor expenditures that neither add to the asset’s service-rendering quality nor extend its quantity of services beyond its original estimated useful life. Thus, firms immediately expense regular maintenance (lubricating a machine) and **ordinary repairs** (replacing a broken fan belt on an automobile) as revenue expenditures.”*

5. 11<sup>th</sup> Edition Intermediate Accounting, Published by John Wiley & Sons.

- Costs Subsequent to Acquisition: *“After plant assets are installed and ready for use, additional costs are incurred that range from **ordinary repairs** to significant additions. The major problem is allocating these costs to the proper time periods. In general, costs incurred to achieve greater future benefits should be capitalized, and expenditures that simply maintain a given level of services should be expensed. In order for costs to be capitalized, one of three conditions must be present: (1) The useful life of the asset must be increased; (2) The quantity of units produced from the asset must be increased; (3) The quality of units produced must be enhanced. Expenditures that do not increase an asset’s future benefits should be expensed. **Ordinary repairs** are expenditures that maintain the*

*existing condition of the asset or restore it to normal operating efficiency. Such repairs should be expensed immediately.”*

- Repairs. *“**Ordinary repairs** are expenditures made to maintain plant assets in operating condition. They are charged to an expense account in the period in which they are incurred on the basis that it is the primary period benefited. Replacing minor parts, lubricating and adjusting equipment, repainting, and cleaning are examples of maintenance charges that occur regularly and are treated as ordinary operating expenses. It is often difficult to distinguish a repair from an improvement or replacement. The major consideration is whether the expenditure benefits more than one year or one operating cycle, whichever is longer. If a **major repair** (such as an overhaul) occurs several periods will benefit, and the costs should be handled as an addition, improvement, or replacement.”*

6. International Financial Reporting Standards (IFRS) / US GAAP Comparison, Published by Ernst & Young.

- PP&E Subsequent Expenditure.
  - IFRS. *“Subsequent expenditure on an item of property, plant, and equipment is capitalized using the same criteria as on initial recognition, i.e. when it is probable that future economic benefits associated will flow, and the cost of the expenditure can be measured reliably.”*
  - U.S GAAP. *“Subsequent or **replacement** expenditure may be capitalized in accordance with an entity’s disclosed accounting policy.”*
- PP&E Servicing and Replacement Costs.
  - IFRS. *“Parts of some items of property, plant and equipment may require replacement. Where the recognition criteria are met, the cost of **replacement** is capitalized and the carrying amount of the part that is replaced is derecognized (regardless of whether it has been depreciated separately).”*
  - U.S GAAP. *“The cost of **major maintenance**, inspection or overhaul may be capitalized and amortized over the period to the next planned, inspection, and any carrying amount remaining from a previous inspection should be written off.”*