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May 8, 2013

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board (FASAB)
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548

RE: Proposed Federal Financial Accounting Technical Release, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation* – the exposure draft (ED)

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Federal Financial Accounting Technical Release, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation* – the exposure draft (ED). We recognize the Accounting and Auditing Policy Committee's (AAPC) efforts to develop this technical release based on their mission 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 appreciate the AAPC's belief that there is a need for additional guidance on accounting issues related general property, plant, and equipment (G-PP&E).

We understand that the purpose of the document is to promote an understanding of the flexibility of the standards as it relates to the allocation of indirect production costs to G-PP&E. However, we believe that the standards provide the necessary guidance to accomplish the stated purpose, without the need for a technical release. Paragraph 26 of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment* provides examples of the types of costs that should be included in G-PP&E, assuming the criteria noted in paragraphs 17 and 18 of SFFAS No. 6 for capitalization have been met. Included within these example cost are indirect production costs for assets produced or constructed. Therefore, if the criteria for capitalization have been met, the standards require indirect production costs (for assets produced or constructed) to be recognized as part of the cost of G-PP&E. Paragraph 124 of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, provides flexibility to entity management by describing the three methods for cost assignment/allocation. Further, paragraph 125 of SFFAS No. 4, states that these methods can be applied to the assigning of indirect costs to outputs, which would relate to the assigning of indirect production costs to G-PP&E.

However, if after considering the above information the AAPC believes a technical release is warranted, we provide the following specific revisions to accomplish the stated purpose of promoting the flexibility of the accounting standards in relation to the allocation of indirect production costs to G-PP&E.

1. The technical release should clearly state its purpose, which should include a reference to the applicable paragraph or paragraphs of the existing standards to which the guidance relates. For

example, based on our understanding of the purpose, the technical release could state the following in the first paragraph:

Statement of Federal Financial Accounting Standards 6 (SFFAS 6), *Accounting for Property, Plant and Equipment*, paragraph 26 outlines the recognition requirements for general property, plant, and equipment. Specifically, paragraph 26 states that all general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of producing or constructing G-PP&E should include indirect production costs. The purpose of this technical release is to provide guidance as it relates to the recognition of indirect production costs incurred during the construction/production of an asset and the allocation of those costs to G-PP&E. The guidance assumes that the criteria for capitalization as provided in paragraphs 17 and 18 of SFFAS No. 6 have been met.

2. Once having clearly established the purpose, there should not be the need to discuss in the technical release direct costs or those costs (direct or indirect) that do not meet the criteria for capitalization and therefore are expensed. We believe including information unrelated to the purpose of the technical release may cause confusion. Further, after establishing the purpose, the technical release should introduce the decision framework and state that it has been developed to assist entity management in applying the guidance included within the technical release.
3. The technical release should state that the first step in the decision framework includes the accumulation of indirect production costs related to G-PP&E, which can be referred to as the indirect production cost “pool”. The next step would relate to the assignment/allocation of the indirect costs from the “pool” to outputs (G-PP&E).
4. The second step of the decision framework should relate to the assignment/allocation of indirect production costs from the pool to G-PP&E. This step of the technical release should refer to SFFAS No. 4, paragraph 124 for guidance related to the assignment/allocation of indirect production costs. It should be noted that paragraph 124 of SFFAS No. 4, provides the three methods for assigning (allocating) indirect costs to outputs. These three methods demonstrate the flexibility that the AAPC is seeking to promote as part of this technical release. As part of this step, it should be clear that if the indirect costs have been determined to be capitalizable in accordance with SFFAS No. 6, then the costs should be allocated to G-PP&E and remain capitalized for the life of the asset. The current decision framework flowchart included in Appendix C could be interpreted that if an entity cannot establish a method to allocate the costs that the costs could be expensed, which would not be in accordance with the standards.
5. The technical release should not include the information provided in Appendix B. The inclusion of specific agency policies and procedures that are presented at a summarized level may be incorrectly interpreted by a user of the technical release. In addition, the concept of materiality is not discussed in relation to the policies and procedures, as what may be appropriate for one agency may not be appropriate for another. Further, the inclusion of the specific agency policies, while summarized, could be interpreted as an endorsement by the FASAB of these policies and procedures.

6. Based upon the steps noted through items 3 and 4 above, Appendix C (Decision Framework Flowchart) should be adjusted as follows:
 - a. The first decision point should be – do the costs meet the criteria for capitalization in accordance with SFFAS No. 6. If the answer is “no” then the result would be to expense in accordance with the standards.
 - b. The next decision point (if “yes” to item “a”) should be – are the costs indirect production costs for assets produced or constructed? If the answer is “no” then the result would be to capitalize in accordance with SFFAS No. 6.
 - c. The next and last decision point (if “yes” to item “b”) should be – assign/allocate to G-PP&E using one of the three methods outlined in SFFAS No. 4, paragraph 124.
7. Appendix D is not necessary to be included with the technical release.

We recommend that the AAPC and Board consider the issues described above and consider the need for the technical release or consider the outline provided in items 1-7 above in order to re-draft the technical release. If the AAPC elects not to follow our suggested outline for the technical release, we provide the following additional comments:

1. The technical release should not include references to SFFAS 23 and 25 as the guidance does not relate to the requirements of those standards.
2. Although Paragraph 5 of the technical release excludes Internal Use Software from the scope of the document, based on our understanding of the purpose; we believe that the technical release could be applied to indirect production costs related to Internal Use Software (SFFAS 10). SFFAS 10 paragraph 15 states, “Entities should capitalize the cost of software when such software meets the criteria for G-PP&E.” Paragraph 16 further states, “For internally developed software, capitalized cost should include the full cost (direct and indirect costs) incurred during the software development stage.”
3. The technical release should clearly state that the guidance does not relate to other aspects of SFFAS No. 6 outside of indirect production costs, such as the recognition of direct costs related to G-PP&E and the recognition of environmental liabilities.
4. Based upon our understanding of the purpose, paragraph 10 of the ED is not necessary. If the indirect production costs meet the criteria for capitalization in accordance with SFFAS No. 6, the needs of the internal and external users; level of precision; and cost-benefit of allocating costs should not override the requirement that the costs be capitalized. We also believe the introduction of new principles goes beyond the role of a technical release. Further the first of three principles (relevance) is a specific consideration of FASAB in setting GAAP.
5. Paragraph 2 implies that there is flexibility within the standards as it relates to the recognition requirement of G-PP&E costs. While we agree that the standards include flexibility related to the points made in 2b and 2c; the flexibility related to the recognition requirement of G-PP&E costs (included in item 2a) is not in accordance with SFFAS No. 6 and as a result should be removed from paragraph 2.

6. Appendix B should not be included; however, if the AAPC elects to maintain Appendix B, we suggest that terminology such as “environmental studies” and “software design” be removed from the summarized policies/procedures. The inclusion of these terms could cause a user of the technical release to draw the incorrect conclusion that the guidance relates to the recognition of environmental liabilities or the accounting for internal use software. We also recommend that the FASAB obtain approval of the summarized accounting policies/procedures from appropriate senior accounting leadership within the named agency.

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.

Very truly yours,

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