



April 24, 2013

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

Submitted via email to fasab@fasab.gov

Re: Federal Financial Accounting Technical Release, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation.*

Dear Executive Director:

On behalf of the 11,000 members of the Virginia Society of CPAs (VSCPA), we appreciate the opportunity to respond to the request for comments on the exposure draft of the proposed Federal Financial Accounting Technical Release, entitled *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*. The Virginia Society of CPAs' (VSCPA) Accounting & Auditing Advisory Committee has reviewed and discussed the proposed release and the related questionnaire and provided the following responses:

Question 1

Do you agree or disagree with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design generally accepted accounting principles (GAAP) compliant policies and processes that align with the respective entity's operational environment (Paragraphs 3 – 4, 19 – 20, and 25)? Please provide the rationale for your answer.

We agree that management has the ability and flexibility to design these GAAP-compliant processes and procedures to align with their entity's environment. They are in the best position to understand their operating environment and have the ability to implement these policies and procedures in a manner that ensures GAAP compliance while promoting adoption from the personnel within the organization. Additionally, as illustrated in the Implementation Guide, the variety of missions and operations among federal agencies creates a need for this flexibility in design of policies and procedures to implement GAAP.

Question 2

Do you agree or disagree that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders (Paragraph 9)? Please provide the rationale for your answer.

We agree that the operational environment within the entity will impact its financial management information needs. Entities that are fee for service have a requirement to allocate costs in a manner that allows them to track the true cost of a particular area of service, while entities that derive the bulk of their revenue from appropriations may not have the requirement to allocate costs to that level of detail for operational or accountability purposes.

Question 3

If you agree with "Q2" above, do you agree or disagree with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs? Please provide the rationale for your answer.

4309 Cox Road
Glen Allen, VA 23060
p (804) 270-5344
f (804) 273-1741
vscpa@vscpa.com
www.vscpa.com

We agree with management's use of the principles discussed in paragraph 10:

- **Relevance/usefulness of information:** Management should seek to understand what information will be required by the stakeholders in part based upon its applicability to the stakeholders. No useful purpose is served from presenting information that is not relevant and useful, and management should be granted discretion to make this determination with regards to their own financial management information.
- **Level of precision:** Management should determine if stakeholders need a more macro view of the information or if they need to see precise activity level costs.
- **Cost-benefit:** Management needs to weigh the costs associated with the level of effort required to develop the very detailed level of information and make the determination if there is a reasonable benefit to be derived from the cost required.

However, we believe that the Implementation Guide should emphasize the need for management to document decisions made using these principles and to reevaluate the decisions periodically to ensure that circumstances requiring changes to them have not occurred.

Question 4

*Do you agree or disagree with how **direct** costs are characterized as it relates to G-PP&E in paragraph 15? Please provide the rational for your answer.*

We agree that if a direct cost is required to bring the asset into use this cost should be assigned to the asset and capitalized if the capitalization threshold is met. If the costs are not required to bring the asset into use, they should be expensed. We believe this is consistent with existing GAAP.

Question 5

*Do you agree or disagree with how **indirect** costs are characterized as it relates to G-PP&E in paragraph 16? Please provide the rational for your answer.*

We agree with this as it is a basic cost principle. If a cost cannot be directly associated with a cost object, then the cost should be classified as indirect. However, if the costs do not contribute to bring the asset to a form and location suitable for its intended use, then it is inconsistent with existing GAAP to capitalize the costs as part of the asset.

Question 6

Do you agree or disagree with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22? Please provide the rationale for your answer.

We agree with this basic cost principle for the reasons stated above in Question 5. However, such unassigned costs reported on the Statement of Net Cost should not be material to the entity as a whole.

Question 7

Do you agree or disagree with the financial reporting of non-production costs as described in Paragraph 24? Please provide the rationale for your answer.

We agree with the guidance in Paragraph 24. Non-production costs are generally infrequent in nature and, if assigned, would distort the cost of assets acquired during the period that these costs were incurred.

Question 8

Do you agree or disagree with the approach (e.g., decision points, application of GAAP, etc.) as outlined in the Decision Framework Flowchart (Appendix C)? Please provide the rationale for your answer.

We agree with the decision points in the flowchart. The decisions relate to the principles of relevance/usefulness, level of precision and cost benefit and are appropriate indicators to utilize in making the determination of how to categorize those costs relating to G-PP&E.

As an editorial matter, we would like to know why the first question is presented in a diamond-shaped box normally associated with decisions in flow-charting, but all subsequent decision points are presented in rectangular boxes. It would provide more clarity to either a) have all boxes be rectangular or b) have the five other decision boxes that phrase a question be diamond shaped and the two end-point boxes be rectangular.

In addition to our responses to the questions presented, we also observe that the Implementation Guide emphasizes the need for flexibility (see paragraph 17) but never mentions or emphasizes the need to ensure adequate financial statement disclosure of cost capitalization policies and procedures. As previously stated, we agree with the need for flexibility in designing the policies and procedures for reporting of G-PP&E. However, it is when there is flexibility or differences in application, that disclosures are important.

Again, the VSCPA appreciates the opportunity to respond to this Exposure Draft. Please direct any questions or concerns to VSCPA Government Affairs Director Emily Walker at ewalker@vscpa.com or (804) 612-9428.

Sincerely,



Mike Wagner, CPA, CGFM
Chair

2012–13 VSCPA Accounting & Auditing Advisory Committee

Mike Wagner, CPA (Chair)
Joshua Keene, CPA (Vice Chair)
Audrey Davis, CPA
Heather Flanagan, CPA
Mitchell Hartson, Jr., CPA
Daniel Haynes, CPA
Staci Henshaw, CPA
Stephen Holton, CPA
Charles Valadez, CPA