



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

APR 29 2013

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Federal Financial Accounting Technical Release exposure draft, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*, dated March 1, 2013.

Please find enclosed answers to the questions that were asked of the respondents. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov or Bruce Henshel at (202) 482-0646 or bhenshel@doc.gov.

Sincerely,

A handwritten signature in black ink, appearing to be "G. Alston", written over a horizontal line.

Gordon T. Alston
Director of Financial Reporting
and Internal Controls

Enclosure

cc: Lisa Casias
Diane Marston
Julie Tao
Bruce Henshel

Department of Commerce Response

FASAB Exposure Draft (March 1, 2013), *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*

Prepared by: Department of Commerce, Office of Financial Management

Date Completed: April 29, 2013

Questions and Answers

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.

Department of Commerce Response:

The Department of Commerce agrees with the concept that the current accounting standards provide entity management with both the responsibility and flexibility to design GAAP compliant policies and processes that align with the respective entity's operational environment since these standards are based on sound cost accounting concepts. The standards are broad enough to allow maximum flexibility for agencies to develop methods that are best suited to their operational environment for direct tracing of costs to outputs. This gives the entity the option of directly tracing costs to outputs a) where economically feasible; b) on a cause and effect basis; and c) on a reasonable and consistent basis. In addition to these options, the entity can then choose its appropriate level of detail for cost accounting processes and procedures. These procedures have the option of taking into consideration the entity's operations, the cost benefit of obtaining data, practicality issues, availability of data, the cost of data, and any management requirements or needs.

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.

Department of Commerce Response:

The Department of Commerce agrees that an entity's mission and operational environment impact the financial management information needs of the entity's stakeholders because the sources of an entity's budgetary resources significantly impact the types of and level of cost detail required to be allocated to outputs. This is shown by the examples used in the Exposure Draft. The Federal Aviation Administration, General Services Administration, and National Reconnaissance Office all have different operational environments. This Exposure Draft effectively shows how to apply the framework to each situation since each entity has a unique operating environment.

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.

Department of Commerce Response:

The Department of Commerce agrees with management's use of the three principles set forth in Paragraph 10 because the principles take into account the relevance/usefulness of information to both internal and external stakeholders, the materiality needed to properly manage and report costs, and the cost-benefit of establishing and executing cost assignment processes, methods, and tools. Relevance takes into consideration the needs of the entity. Precision also takes into consideration the entity operations, and goes hand in hand with cost-benefit principles. It may make sense for one agency to trace costs in a detailed manner; while it may not be feasible or practical for another to do so.

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 rationale for your answer.

Department of Commerce Response:

The Department of Commerce agrees with how direct costs are characterized as it relates to G-PP&E in Paragraph 15. Direct costs are traceable and can be easily identified as part of a specific G-PP&E asset.

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 rationale for your answer.

Department of Commerce Response:

The Department of Commerce agrees with the Board's proposal to characterize indirect costs as those costs that cannot be identified specifically with or traced to a given cost object. Those indirect costs, however, that bring the G-PP&E to a form and location suitable for its intended use, should be accumulated, assigned, or allocated to the cost of the G-PP&E item.

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.

Department of Commerce Response:

The Department of Commerce agrees with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22. Certain indirect costs cannot be traced, assigned, or allocated to segments and their outputs, but they are part of the organization costs and should be reported on the entity's financial statements as costs not assigned to programs. If costs cannot be reasonably assigned, or if the cost of assignment outweighs the benefit, then classifying a cost as 'not assigned to programs' is reasonable.

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.

Department of Commerce Response:

The Department of Commerce agrees with the financial reporting of non-production costs as described in Paragraph 24. Costs that are not a part of construction or acquisition of an asset should not be a part of G-PP&E costs. Non-production costs are most often recognized for a period in which a particular event occurs, and assigning those costs to goods and services produced in that period would distort the production costs.

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.

Department of Commerce Response:

The Department of Commerce agrees with the approach as outlined in the Decision Framework Flowchart and believes it is helpful for users when evaluating whether a cost is direct and indirect. We believe that the Decision Framework Flowchart is helpful in clarifying the appropriate cost to be associated with capitalized PP&E and which costs should be expensed.