



National Aeronautics and Space Administration

Headquarters

Washington, DC 20546-0001

April 30, 2013

Reply to Attn of:

Office of the Chief Financial Officer

Ms. Wendy M. Payne

Executive Director

Federal Accounting Standards Advisory Board

441 G Street NW, Suite 6814

Washington, DC 20548

Dear Ms. Payne:

The National Aeronautics and Space Administration (NASA) appreciates the opportunity to provide comments to the exposure draft "Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation." Enclosed you will find NASA's response to the questions for the respondents.

If you have any questions regarding NASA's response, please contact Shelley Meredith, Acting Director for Policy Division, at (202) 358-1028 or by e-mail at shelley.j.meredith@nasa.gov.

Sincerely,

A handwritten signature in cursive script that reads "Pamela D. Hanes".

Pamela D. Hanes

Deputy Chief Financial Officer for Finance

Enclosure

**NASA RESPONSE TO QUESTIONS FOR RESPONDENTS REGARDING
EXPOSURE DRAFT ON “IMPLEMENTATION GUIDANCE FOR GENERAL
PROPERTY, PLANT, AND EQUIPMENT COST ACCUMULATION,
ASSIGNMENT AND ALLOCATION”**

- Q1. 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.

NASA 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. This concept is consistent with the objectives of Federal financial reporting defined in the Statements of Federal Financial Accounting Concepts (SFFAC) 1. SFFAC 1 explains that: *“The objectives are designed to guide the Board in developing accounting standards to enhance the financial information reported by the federal government to (1) demonstrate its accountability, (2) provide useful information, and (3) help internal users of financial information improve the government's management.... They provide a framework for assessing the existing financial reporting systems of the federal government and for considering how new accounting standards might help to enhance accountability and decision-making in a cost-effective manner.”*

The flexibility in the accounting standards is important to achieve the above objectives, because each reporting entity operates in a different business environment (e.g., customers, nature of services, materiality, etc.) for various missions. Capitalization thresholds are a good example of such flexibility in the accounting standards. SFFAS 6 Paragraph 13 explains that: *“The Board believes that capitalization thresholds should be established by Federal entities rather than centrally by the Board. Because Federal entities are diverse in size and in uses of PP&E, entities must consider their own financial and operational conditions in establishing an appropriate capitalization threshold or thresholds.”*

- Q2. 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.

NASA agrees that entity's mission and operational environment impact the financial management information needs of the entity's stakeholders as it is aligned with the objectives of Federal financial reporting. SFFAC 1 explains that: "*The objectives reflect the federal environment. They also consider many of the needs expressed by current and potential users of federal financial information.*" The primary objectives of Federal financial reporting are to provide useful information and help internal users of financial information improve the government's management. The financial information can be considered useful and relevant when it reflects a reporting entity's operational environment and support its mission. The reporting entity's mission and operational environment are the key drivers of the financial management information needs of the entity's stakeholders.

- Q3. 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.

NASA agrees with management's use of the three principles identified in Paragraph 10 to determine their stakeholder's financial management information needs, which include the following: "1) *Relevance/usefulness of information (both to internal and external stakeholders)*; 2) *Level of precision (e.g., materiality) needed to properly manage and report costs*; and 3) *Cost-benefit of establishing and executing intricate cost assignment processes, methods and tools.*" The above principles will lead to the financial management information that can enhance accountability, decision making and program evaluation in a cost-effective manner.

- Q4. 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.

NASA agrees with how direct costs are characterized as it relates to G-PP&E in Paragraph 15 as it is consistent with SFFAS 4 Paragraph 90. SFFAS 4 Paragraph 90 explains that: "*Direct costs are costs that can be specifically identified with an output. All direct costs should be*

included in the full cost of output.” Costs that are identifiable with an item(s) of G-PP&E are considered direct costs.

- Q5. 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.

NASA agrees with how indirect costs are characterized as it relates to G-PP&E in Paragraph 16. SFFAS 4 Paragraph 91 explains that: *“Indirect costs are costs of resources that are jointly or commonly used to produce two or more types of outputs but are not specifically identifiable with any of the outputs.”* Costs that are not identifiable to an item(s) of G-PP&E are considered indirect costs. Both direct and indirect costs should be included in the full cost of G-PP&E acquisition if costs incurred to *“bring to a form and location suitable for its intended use (SFFAS 6 Paragraph 26).”*

- Q6. 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.

NASA agrees with the financial reporting of certain indirect costs as unassigned costs on the Statement of Net Cost as described in Paragraph 22. SFFAS 4 Paragraph 92 explains that: *“A reporting entity and its responsibility segments may incur general management and administrative support costs that cannot be traced, assigned, or allocated to segments and their outputs. These unassigned costs are part of the organization costs, and they should be reported on the entity’s financial statements (such as the Statement of Net Costs) as costs not assigned to programs.”* If there is no reasonable way to allocate certain indirect costs to an item(s) of G-PP&E, such costs cannot be included in the full cost of G-PP&E. The Implementation Guidance can be enhanced by providing an example of unassigned costs as it relates to G-PP&E.

- Q7. 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.

NASA agrees with the financial reporting of non-production costs as described in Paragraph 24. SFFAS 4 Paragraph 104 explains that: *“A responsibility segment may incur and recognize costs that are linked to events other than the production of goods and services.”* Non-

production costs should not be assigned as G-PP&E acquisition costs as they do not impact the value of G-PP&E.

Q8. 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.

NASA agrees with the approach as outlined in the Decision Framework Flowchart as it is consistent with the narratives.