



Greater Washington Society of CPAs and GWSCPA Educational Foundation

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May 1, 2013

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board (FASAB) Accounting and Auditing Policy Committee's (AAPC) Exposure Draft (ED) on the Federal Financial Accounting Technical Release (TR), *Implementation Guide for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*.

The GWSCPA consists of approximately 2,000 members, and the FISC includes over 20 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our response to the ED question follows.

- 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.
- A1. The FISC agrees that entities have the responsibility to design policies and procedures that comply with GAAP, and that align with the respective entity's operational environment. However, the FISC does not agree with the amount of flexibility offered in this TR. By allowing similar Federal agencies to adopt different policies and procedures for accounting for similar activities, such as the production or construction of assets, the ED does not address how this TR will satisfy the provisions of Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, Objectives of Federal Financial Reporting, paragraph 164, which states:

Financial reporting should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations

rather than by the mere selection of different alternatives in accounting procedures or practices.

One could interpret this TR, such as paragraphs 17, 22 and 25, as promoting a lack of comparability between Federal agencies by allowing conflicting practices that permit some agencies to assign overhead costs whereas other agencies may expense overhead costs when constructing or producing similar assets.

In addition, it remains unclear how an organization that lacks an adequate cost accounting process that prevents an organization from assigning material indirect costs within the organization can comply with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*. The decision framework (Appendix C) and the associated paragraphs within the TR (e.g., paragraphs 3, 4, 7 and 9) do not provide a distinction between the allocation of indirect costs that would materially affect the value of the constructed or produced asset, and those indirect costs that do not rise to a material level. We suggest that the TR be revised to include a discussion of the requirements associated with the allocation of material indirect costs.

- 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.
- A2. The FISC supports the statement that cost accounting standards "allow maximum flexibility for agency managers to develop costing methods that are best suited to their operational environment" (SFFAS 4, paragraphs 3 and 24).
- 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.
- A3. The FISC is concerned that the statement in paragraph 10, states that three principles may be used "to determine their stakeholder's financial management information needs," is too broad in nature, and may be interpreted by some to extend these principles beyond the narrow focus of the TR. We suggest that the AAPC revise this paragraph to more narrowly focus the application of the three principles outlined in paragraph 10.
- 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 rationale for your answer.
- A4. The FISC agrees with the statements made in paragraph 15 of the TR.
- 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.
- A5. The FISC agrees with the statements made in paragraph 16 of the TR. However, some additional guidance, or a cross-reference to Appendix B, would be appropriate to describe acceptable methods to identify and allocate indirect costs that are necessary to "bring the G-PP&E to a form and location suitable for its intended use."

- 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.
- A6. The FISC generally agrees with the statements made in paragraph 22.
- 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.
- A7. The FISC agrees with the statements made in paragraph 24.
- 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.
- A8. The FISC has the following suggestions on the Decision Framework Flowchart (Appendix C):
- a. As stated in our response to Q1, the issue of requiring the accumulation, assignment, or allocation of material indirect costs necessary to bring an asset to a form and location suitable for its intended use should be considered as part of the framework.
 - b. The framework should specify that it only applies to the accumulation, assignment, or allocation of indirect costs associated with the production or construction of assets.
 - c. The step in the framework (“Are the costs indirect costs that cannot be identified specifically with or traced to a given cost object (G-PP&E) in an economically feasible way? (SFFAS 6, Glossary)”) could be interpreted by some to state that the accumulation, assignment, or allocation of indirect costs is optional if management concludes that it is not economically feasible to accumulate, assign, or allocate indirect costs. SFFAS 4, paragraph 124, requires that indirect costs be assigned using one of the three methods listed (i.e., accumulation, assignment, or allocation), and that the matter of economic feasibility be considered by management when making the cost-benefit decisions on which method to apply (SFFAS 4, paragraphs 142-143). We suggest that the framework be revised to reflect that at least one of the three methods for distributing indirect costs (i.e., accumulation, assignment or allocation) be employed by management.

Other Comments

1. At the end of paragraph 5, the ED excludes internal use software from the scope of the TR. We suggest that this exclusion be stated more prominently in the final TR.
2. In Appendix B, the AAPC has included a discussion of specific accounting policies of the FAA, GSA, and NRO. Absent a specific discussion in the appendix that these policies are provided for illustrative purposes and are only accurate as of the writing of this TR, one could interpret that a change in the FAA’s, GSA’s, or NRO’s policies mentioned in the TR may require a modification of the TR because the TR is higher in the GAAP hierarchy than the accounting policies set by the agencies’ management.

3. We also offer the following editorial suggestions:

- a. In paragraph B.5, we suggest that the phrase “while allows them to procure” should be modified to “which allows the NRO to procure” (emphasis added).
- b. In paragraph B.7.ii, we suggest the abbreviation “e.g.” be used instead of “i.e.” in the first sentence.
- c. Page 24 of the ED is blank, and should be removed.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

A handwritten signature in black ink, appearing to read "Andrew Lewis", with a stylized flourish at the end.

Andrew C. Lewis
FISC Chair