
Federal Financial Accounting and Auditing Technical Release 7: Clarification of Standards Relating to the National Aeronautics and Space Administration's Space Exploration Equipment

Status

Issued	May 25, 2007
Effective Date	Immediately
Interpretations and Technical Bulletins	None.
Affects	None.
Affected by	None.

Summary

The purpose of this technical release is to provide technical guidance to the National Aeronautics and Space Administration (NASA) regarding the accounting treatment of NASA's space exploration equipment for financial reporting purposes. At issue is whether it is permissible to treat the acquisition or development costs of any of this equipment as research and development costs. The objective of this technical release is to provide guidance to NASA on the application of the current FASAB standards.

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Abbreviations

AAPC	Accounting and Auditing Policy Committee
AICPA	American Institute of Certified Public Accountants
CFO	Chief Financial Officer
DoD	Department of Defense
FAS	Financial Accounting Standard
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
NASA	National Aeronautics and Space Administration
ND	National Defense
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment
R&D	Research & Development
RTD&E	Research, Testing, Development, and Evaluation
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SIG	Staff Implementation Guidance
TR	Technical Release

Introduction

Purpose

1. The purpose of this technical release is to provide technical guidance to the National Aeronautics and Space Administration (NASA) regarding the accounting treatment of NASA's space exploration equipment for financial reporting purposes. At issue is whether it is permissible to treat the acquisition or development costs of any of this equipment as research and development costs. Three specific questions were posed to the AAPC by NASA in reference to the issue. The objective of this technical release is to provide guidance to NASA on the application of the current FASAB standards.

Scope

2. This technical release guidance is limited to transactions involving NASA's space exploration equipment. However, the guidance related to the application of the Generally Accepted Accounting Principles (GAAP) hierarchy applies broadly to all federal entities.
3. Readers of this technical release should first refer to the hierarchy of accounting standards in Statement on Auditing Standards (SAS) 91, Federal GAAP (or see AU411). This technical release supplements the relevant accounting standards, but is not a substitute for and does not take precedence over the standards.

Effective Date

4. This technical release is effective immediately.

Background

Overview

5. On July 12, 2006, NASA wrote to the AAPC requesting guidance for the accounting treatment of the National Aeronautics and Space Administration (NASA) space exploration equipment. With a series of changes to the accounting standards governing space exploration equipment, including the reclassification of Federal Mission Property in SFFAS 23 *Eliminating the Category National Defense Property, Plant, and Equipment*, NASA found existing guidance unclear regarding the accounting classification of space exploration equipment. This resulted in inconsistent and sometimes contradictory opinions from NASA's auditors.
6. In the letter to the AAPC, NASA posed three questions that it deemed central to resolving the ambiguity in the existing Federal Accounting Standards Advisory Board (FASAB) standards. These questions are as follows:
 1. Does the hierarchy of accounting principles for federal entities permit NASA to apply the SFAS 2, in determining whether space exploration equipment should be expensed as a period expense?
 2. Can space exploration equipment that does not meet the criteria for General Property, Plant & Equipment (PP&E) as defined in the FASAB Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant and Equipment*, be treated as a period expense?
 3. Does SFFAS 6 currently limit all items previously categorized as "space exploration equipment" to General PP&E?
7. The AAPC formed a task force to address NASA's questions and agreed to provide a Technical Release to guide NASA in the implementation of the standards.

Related Accounting Literature

8. In its original form, SFFAS 6 defined Federal Mission PP&E to include "space exploration equipment" and required that it be expensed. Subsequently, SFFAS 11 amended SFFAS 6, changing the classification of "space exploration equipment" to General PP&E and required

that it be capitalized. Most recently, in May 2003, SFFAS 23 rescinded SFFAS 11 and modified SFFAS 6. The related accounting literature are as follows:

Federal Accounting Standards Advisory Board Accounting Standards:

- a. SFFAS 6, *Accounting for Property, Plant, and Equipment*
- b. SFFAS 8, *Supplementary Stewardship Reporting*
- c. SFFAS 11, *Amendments to Accounting for Property, Plant, and Equipment*
- d. SFFAS 23, *Eliminating the Category National Defense Property, Plant and Equipment*
- e. Staff Implementation Guidance (SIG) 23.1, *Guidance for Implementation of SFFAS 23, Eliminating the Category National Defense Property, Plant, and Equipment*

Financial Accounting Standards Board Accounting Standards:

- f. SFAC 6, *Elements of Financial Statements*
- g. SFAS 2, *Accounting for Research and Development Costs*

Technical Guidance

9. This guidance is presented as responses to the three questions posed by NASA to the AAPC, with questions two and three combined.
10. **Does the hierarchy of accounting principles for federal entities permit NASA to apply the SFAS 2, *Accounting for Research and Development Costs*, in determining whether space exploration equipment should be expensed as a period expense?**
11. Yes. The American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards Number 91, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*, (integrated into AICPA Professional Standards, AU 411.15) provides that “in the absence of a pronouncement covered by rule 203 or another source of established accounting principles, the auditor of financial statements of a federal government entity may consider other accounting literature, depending on its relevance in the circumstances.” Other accounting literature includes the FASB Statements of Financial Accounting Standards and Interpretations.
12. SFFAS 8 addresses accounting for Research and Development Costs. SFFAS 8 provides that “Expenses included in calculating net cost for research and development programs that are intended to increase or maintain national economic productive capacity or yield other future benefits be reported as investments in research and development in required supplementary stewardship information accompanying the financial statements of the Federal Government and its component units.” SFFAS 8, however, does not define “expenses” in the context of calculating the net cost of research and development programs. Nor do other FASAB standards specifically address recognition of research and development costs or the elements of costs that would be identified with research and development activities. However, SFFAS 23 acknowledges that the Board considered concerns about the treatment of the costs of research, testing, development, and evaluation (RTD&E) for the Department of Defense but decided that issues related to these costs can and should be addressed in the context of existing basic principles and practices. Thus, preparers have in turn looked to other authoritative literature for guidance.
13. SFAS 2 describes activities that typically would be included in and the elements of costs to be identified with research and development. Other federal agencies have turned to SFAS 2 for needed authoritative guidance. Specifically, SFAS 2 provides that the costs of materials, equipment or facilities acquired or constructed for a particular research and development project and that have no alternative future uses are treated as research and development costs in the period.

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14. While SFFAS 8 is the principal authoritative source on accounting for research and development costs by federal agencies, this standard may be supplemented in order to address some of the differing research and development efforts by federal agencies. Accordingly, consistent with the provisions of AU 411.15, federal agencies may consider the provisions of SFFAS 8 together with the provisions of SFAS 2 in making a determination about accounting for research and development costs.
 15. **Can space exploration equipment that does not meet the criteria for General PP&E as defined in the SFFAS 6 be treated as a period expense? Does SFFAS 6 currently limit all items previously categorized as “space exploration property” as General PP&E?**
 16. The criteria for determining whether an item is capitalized as PP&E are outlined in SFFAS 6, paragraph 17. The typical characteristics of general PP&E are outlined in SFFAS 6, paragraph 23.
 17. In its original form, SFFAS 6 defined Federal Mission PP&E to include “space exploration equipment” and required that it be expensed. Subsequently, SFFAS 11 amended SFFAS 6 to redefine “Federal Mission PP&E” as “National Defense Property, Plant and Equipment.” SFFAS 11 also included explanatory language which specified that space exploration equipment was to be accounted for as general PP&E. Most recently, in May 2003, SFFAS 23 rescinded SFFAS 11 in its entirety and modified SFFAS 6 to require that National Defense Property, Plant and Equipment be capitalized as General Property, Plant, and Equipment. We realize that these changes could have caused some preparers and auditors uncertainty regarding how to apply the resulting guidance in accounting for “space exploration equipment;” however, the hierarchy of accounting literature provides a means to access literature to be relied on in determining an appropriate treatment.
 18. SIG 23.1, issued to clarify the intent of the FASAB in its issuance of SFFAS 23, stated that, “assets being recognized due to the implementation of SFFAS 23 should be characterized in accordance with the asset definitions in SFFAS 6 *and other accounting standards.*” The genesis of the guidance was the narrow reading of the provision of SFFAS 23, which stated that ... “The amendments in this Statement... Classify all assets previously considered to be National Defense Property, Plant, and Equipment as general PP&E and the provisions for general PP&E ... contained in SFFAS 6, as amended, are to be applied.” The essence of the guidance was to point out that the FASAB’s intent was to have preparers follow existing standards in the classification of assets. It was not the FASAB’s intent to require that preparers follow SFFAS 6 without regard to the nature of the underlying asset. Accordingly, the concept discussed in SIG 23.1 should be applied, i.e., the definitions included in the accounting standards may be used to determine the classification and treatment of “space exploration equipment” and not limited to the category of General PP&E, but be categorized in accordance with the definitions of SFFAS 6 and other accounting standards.

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19. The FASAB standards in and of themselves do not preclude the expensing of space exploration equipment; as stated, the characteristics of the transactions or events should govern accounting treatment.

The provisions of this Technical Release need not be applied to immaterial items.

Appendix A: Basis for Conclusions

- A1. NASA's request for guidance is based their need for clarification on the specific accounting guidance on the classification of space exploration equipment. The need for clarification is based on the many changes in the standards related to property, plant, and equipment. In 1995, SFFAS 6 originally defined space exploration equipment as Federal Mission PP&E. In 1998, FASAB classified space exploration equipment as PP&E in SFFAS 11 and also replaced the definition of Federal Mission Property with National Defense (ND) PP&E. In 2003, SFFAS 23 rescinded SFFAS 11 in its entirety and reclassified ND PP&E as General PP&E. In addition to eliminating the category ND PP&E, this rescission purged the term "space exploration equipment"¹ from the authoritative literature.
- A2. In 2004, the Department of Defense (DoD) questioned whether the FASAB actually intended to require that all items falling under the ND PP&E definition in SFFAS 23 be classified as General PP&E. DoD submitted a discussion paper in July 2004 to the FASAB staff. As a result, SIG 23.1 was released. Under this guidance, ND PP&E was not limited to the category of General PP&E. SIG 23.1 states that "assets being recognized due to the implementation of SFFAS 23 should be categorized in accordance with asset definitions in SFFAS 6 and other accounting standards... any items not properly classified as General PP&E should be valued in a manner consistent with definitions in existing standards to determine the relevant asset class."
- A3. The Committee believes that NASA, in making determinations about the accounting treatment of transactions and events, should use its judgment in applying the standard that most appropriately reflects the characteristics of the transactions or events. One purpose of the hierarchy established in the AICPA Statement on Auditing Standards 91 is to permit other accounting literature to be considered in the absence of specific guidance in the FASAB standards. If it is determined that "space exploration equipment" meets the criteria for capitalization and has predominant characteristics of property, plant and equipment, then the accounting requirements in SFFAS 6 should be applied; however if the costs incurred for space exploration equipment are more similar to the R&D activities specified in SFFAS 8 and SFAS 2, then NASA should apply these standards to its space exploration equipment. The FASAB standards in and of themselves do not preclude the expensing of space exploration equipment; as stated, the characteristics of the transactions or events should govern accounting treatment. NASA's current accounting policy is to classify all theme assets as General PP&E and capitalize them. If it is determined that NASA should change

¹ "Space exploration equipment" included items intended to operate above the atmosphere for space exploration purposes, and any specially designed equipment to aid, service, or operate other equipment engaged in the exploration of space. (See SFFAS 6, par. 52.)

its current accounting policy, it should document that the accounting policy selected is preferable and the reasons therefore.

A4. One comment letter was received from the following source:

	FEDERAL (Internal)	NON- FEDERAL (External)
Users, academics, others	0	1
Auditors	0	0
Preparers and financial managers	0	0

The one respondent agreed with the guidance as it was written and added the following comments. “The hierarchy of accounting standards provides for the use of FASB standards in this case. SFAS 2 also covers the subject in sufficient detail to enable NASA to apply it to its research and development costs.”