

From: MELANIE CENCI [\[mailto:MELANIE.CENCI@nfc.usda.gov\]](mailto:MELANIE.CENCI@nfc.usda.gov)
Sent: Tuesday, November 30, 2010 12:23 PM
To: FASAB
Cc: Close, Kevin; CONNIE CONSTANCE; MORRISON, ANDREA -OCFO
Subject: ED Comments Measurement of the elements of Accrual -Basis Financial Statements

On behalf of The US Department of Agriculture, Office of the Chief Financial Officer, attached is our response to exposure draft: "Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording."

Melanie R. Cenci
Office of the Chief Financial Officer
US Dept. of Agriculture

Questions for Respondents

Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording

(issued September 13, 2010 with responses requested by November 30, 2010)

Name: USDA

Organization: Office of the Chief Financial Officer

Q1. This Statement discusses whether and under what circumstances it might be more useful to report an asset or liability in periods after its acquisition or incurrence (a) at the amount initially recorded (i.e., "historical cost," subject to appropriate adjustments for amortization, depreciation, or depletion) or (b) at an amount measured at each financial statement date. These two amounts are referred to in this Statement as, respectively, "initial amounts" and "remeasured amounts."

a. Is the distinction between initial and remeasured amounts understandable and useful to you? If not, please suggest improvements.

USDA: Yes

AMS: A concern is if an asset is to be remeasured, i.e. Equipment, would the AMS Program's property specialists/users understand how to accomplish this task during a given year (especially if it is an asset that that has been in place for a number of years)?

CCC/FSA: The use of "remeasuring" for the reporting of the value of assets and liabilities enhances the relevance of the statements; however it may negatively impact the consistency, comparability and reliability of the asset/liabilities shown on the balance sheet. The basis of recording the assets and liabilities at cost has been a long held component of GAAP and is discussed in the concept statement.

b. Are the benefits and drawbacks of using each approach clear and complete? (See paragraphs 17–33.) If not, please suggest improvements or additions.

USDA: Yes

AMS: For the most part, except for how to calculate Reported Gain (see Table A). The section that references the Reported Gain calculation, when looking at the measurement approach, is difficult to understand. The Purchasing power gain and Specific price gain/loss calculation should provide a more detailed explanation and which would be easily understood by the Program users. Also, does this section become more confusing if it is shown on an asset that covers a useful life of 15 or more years?

APHIS: Has some reservations about the idea of remeasuring assets and liabilities. It seems that remeasuring could reduce the integrity of the statements if different agencies are using different methods of measuring the same things. Also, there would have to be a way to ensure the most conservative measurement method is used so there isn't the temptation to make financial position look better than it really is. The other thing that concerns me is the financial burden it could put on agencies to audit statements that have remeasured balances. The ED does address cost-benefit analysis, and states that remeasuring would be on a project-by-project basis and not required across the board, so I'm comfortable with that aspect.

- c. Do you agree with the decision to exclude any discussion of the advantages and disadvantages of inflation-adjusted amounts from this Statement? (See paragraphs 14–15.) Please provide the rationale for your answer.**

USDA: Yes

AMS: Historically the focus is on trying to keep inflation down, so the question is at what point would the inflation level need to be in order for reporting financial statement information in constant dollars? There would need to be a “trigger” mechanism instituted under this proposal only if the expectation is the high inflation level could be measured long-term, i.e. 180 days or more.

Q2. This Statement distinguishes among “measurement approach,” “measurement attribute,” and “measurement method.” (See paragraph 7.)

Are the distinctions clear? If not, please suggest improvements.

USDA: Yes

Q3. The Statement asserts that:

[W]hen the goal is to help ensure that reported information meets several financial reporting objectives in response to the various decision-making needs of a range of users, it is necessary to accept that different measurement approaches, measurement attributes, and measurement methods may be appropriate to convey useful information about different transactions and underlying events. (See paragraph 33.)

Do you believe that it is appropriate to measure items presented in accrual-basis financial statements using different measurement approaches, attributes, and/or methods? Please provide the rationale for your answer.

USDA: Yes

AMS: A mixed measurement approach is best for capturing this information. As an example, an agency may want to remeasure assets that are expected to be converted into cash. Across the government spectrum, however, materiality could

become an issue for purposes of the elimination entries between federal trading partners.

CCC/FSA: The remeasurement of the assets and liabilities may be more fairly shown as a footnote disclosure to show the value of the asset/liability in remeasured or constant dollars. This would leave the balance sheet to reflect the value under the traditional measurement of cost (acquisition amount). Recognition of gain or loss of the asset/liability values would have to be recognized and this may actually distort the Statement of Net Costs. Much of the Government held capital type assets are long-term leases or actual Government owned facilities—the organization which is reporting the asset generally does not have control of the disposal of the asset (real estate generally) therefore the recognition of the actual gains and losses of the economic values of the assets on the Statement of Net Costs is not an actual or imputed costs to the agency until some change in the asset ownership is contemplated. The method of remeasurement and computations of the value changes for the financial statements also would cause increased audit scrutiny and potential comparability issues for consolidated department and government wide statements. The concept paper should provide specific guidance for the source of determining the market values and the use of the gross domestic value or other indices for the purpose of remeasurement.

Q4. Beginning in paragraph 34, this Statement presents the definitions of measurement attributes and discusses each attribute in relation to the qualitative characteristics that information in financial reports should demonstrate. These attributes will be relied on in establishing accounting standards in the future.

- a. Is the definition of each attribute clear and understandable? If not, please identify the attribute(s) for which you found the definition lacking, explain why, and suggest improvements.**

USDA: Yes

- b. Is the list of attributes complete? If not, please identify and define the attribute(s) that you would add to this Concepts Statement and explain why you would add it (them).**

USDA: Yes

- c. Are there any attributes in the list that you believe are inappropriate for accrual-basis federal government entity financial statements? If so, please identify the attribute(s) that you would exclude and explain why.**

USDA: No

AMS: Replacement cost could be confusing, as where is the line drawn between this attribute and installing a new asset altogether? Replacement cost may be best used

as an attribute when an asset breaks down within a specific warranty period or established time frame.

CCC/FSA: The attributes defined starting with Paragraph 34 are clearly defined but the concept paper does not clearly define how they will be used with the various “remeasurement” provisions given in paragraph 12. I do not believe that Fulfillment Costs should be utilized on the financial statements. Fulfillment costs are very useful for managerial costs decision making by management and other decision makers but is not applicable to accrual basis financial statements—except possibly as a cost related footnote.

- d. Do you agree with the discussion of the extent to which the measurement attributes and methods fulfill the individual qualitative characteristics? If not, please identify which aspects you view differently and explain why.**

USDA: Yes