

# Identification and Recognition of Equipment Disposal Cleanup

## Costs

### **Executive Summary**

#### What is the Committee proposing?

The committee is proposing a methodology to provide clarification for recognizing cleanup costs associated with the disposal of equipment assets. The methodology describes a process for determining that if the equipment, through decommissioning or disposal generates a hazardous waste that is managed routinely, the costs of cleanup are not subject to the cleanup costs estimation and accrual as provided for in SFFAS No. 6.

#### Why is the Committee making this proposal?

The methodology proposed in this document provides additional guidance for defining which hazardous wastes should be addressed as part of normal operations and which should have costs accrued as equipment disposal cleanup liabilities. The differentiation and treatment should allow for consistent application of the provisions listed in the current standard.

#### How would this proposal improve Federal financial reporting?

The proposed guidance in this document does not alter existing accounting standards for liability recognition. Instead, the proposed methodology provides steps that can be followed to help Federal entities consistently apply existing standards to help ensure consistent, accurate and meaningful application of the standard provisions. Increased standard application of existing accounting standards will help ensure that reporting entities do not misstate equipment disposal cleanup liabilities by recognizing cleanup costs when they are part of normal operations or by failing to report equipment disposal cleanup liabilities where required.

#### How does this proposal contribute to meeting Federal financial reporting objectives?

In addition to helping Federal entities meet requirements for disclosure of equipment disposal cleanup liabilities, the proposed methodology will help to ensure that Federal entities provide reasonable estimates of cleanup costs associated with the disposal of equipment assets, when required. These costs as reported in the financial statements can be used by internal decision

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**Accounting and Audit Policy Committee**

**GPP&E Task Force**

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makers and external financial statement users alike to assess the level of cleanup required to dispose of the equipment asset in an environmentally responsible manner.

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## Description of Issue

As federal agencies continue to develop their approach to implementing Statement of Federal Financial Accounting Standards (SFFAS) 6 for recognition of equipment disposal cleanup cost it has become apparent that a standard implementation strategy is needed to ensure consistent reporting. Many federal agencies continue to struggle with interpretation of the accounting standard while attempting to determine a cost effective and standard implementation methodology for the identification and recognition of equipment disposal liability.

## Scope

This guidance affects all Federal entities that own equipment that contains materials that would be considered to be hazardous waste at the point of disposal. It provides definitions and additional clarification of SFFAS No. 6 for identification and recognition of cleanup costs associated with equipment disposal.

## Relevant Accounting Standards

1. FASAB SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
2. FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
3. FASAB Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*

## Implementation Approach

In accordance with SFFAS No. 6, the cleanup costs are the costs of removing, containing, and disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste<sup>1</sup> at permanent or temporary shutdown of associated PP&E. If such equipment disposal cleanup is an ongoing part of normal operations, the costs are to be accounted for in accordance with standards for recognition of costs associated with operations and maintenance

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<sup>1</sup> SFFAS No.6 Paragraph 86: Hazardous waste is a solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed.

and are not subject to the equipment disposal cleanup cost liability recognition guidance provided in SFFAS 6, Chapter 4.<sup>2</sup>

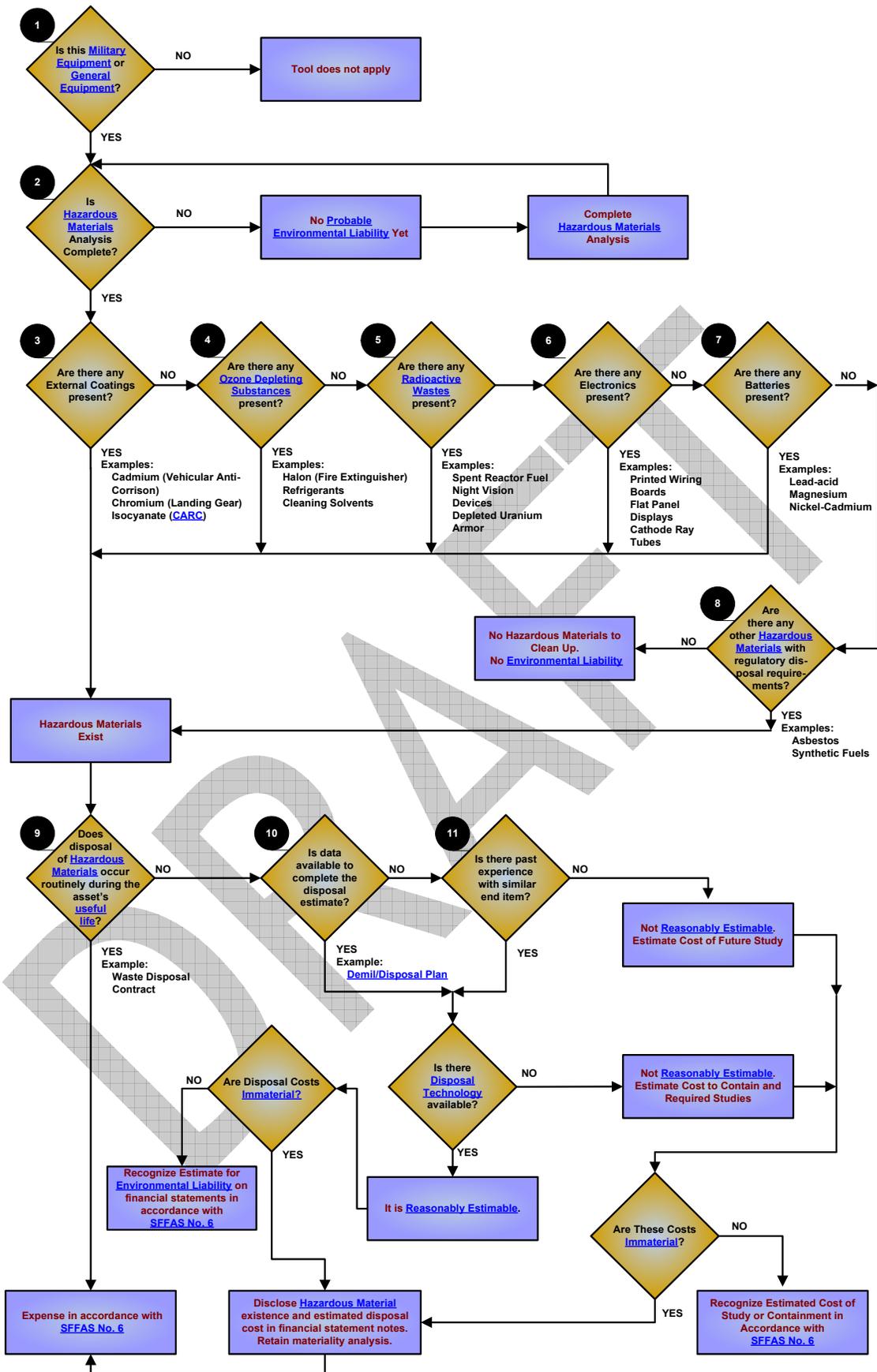
The costs of managing hazardous wastes generated during the useful life of an equipment item, such as disposal or recycling of solvents or batteries used in equipment, or motor oil used in a vehicle, are expensed as incurred and considered part of the operations. Likewise, most hazardous wastes generated at decommissioning, shutdown and/or disposal of equipment are the same as hazardous wastes routinely generated by day-to-day operations and disposed of in the same manner. For example, most waste streams that contain hazardous wastes generated prior to disposal of equipment are the same as waste streams generated during the life of the equipment.

Thus, regardless of the hazardous waste and/or material source, if asset decommissioning and disposal generates a hazardous waste that is routinely managed in the same manner as waste from operational processes, then the costs of disposal are not subject to the equipment disposal cleanup costs estimation and accrual over the equipment useful life or capacity as provided in SFFAS No. 6, Chapter 4.

The following diagram facilitates identification of disposal liability associated with equipment decommissioning/shutdown/disposal:

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<sup>2</sup> SFFAS No. 6, Paragraph 93: Other cleanup costs, such as those resulting from accidents or where cleanup is an ongoing part of operations, are to be accounted for in accordance with liability standards and are not subject to the recognition guidance provided in this standard. This guidance does not apply to these other types of cleanup since the cleanup effort is not deferred until operation of associated PP&E ceases either permanently or temporarily.



## Benefits and Costs

The expected benefit of this guidance is improved financial reporting of equipment disposal cleanup liabilities through standard implementation of existing standards across the federal government. This consistency and standardization will help reduce misinterpretation and confusion, which will ultimately reduce the cost of implementation imposed by the standard. The expected costs are the opportunity costs associated with determining how and when equipment disposal cleanup liabilities exist, and of developing and maintaining equipment disposal cleanup estimates.

## Examples of Practices

Evaluate equipment disposal cleanup costs for an equipment item being placed in service.

### 1. Unique hazardous waste stream

A Federal entity acquires and places an equipment item in service. At that point the following considerations apply:

- The acquisition information identifies materials that would cause the equipment item to be considered a hazardous waste if disposed with those materials intact.
- There is cost information available for removing, containing, and disposing of these materials.
- The hazardous waste in question is not generated in normal operations at the Federal facility and will be disposed of as a separate waste stream.

Since the assessment of the newly acquired equipment has determined the presence of hazardous material, the probability requirement of equipment disposal cleanup liability recognition has been satisfied. In addition, based on the flow diagram and the information above, and in accordance with SFFAS 6, the costs of removal, containment and disposal of the hazardous waste associated with disposal of the equipment item is reasonably estimable. The Federal entity must recognize a liability for these estimated costs.

## 2. Routine hazardous waste stream

A Federal entity acquires and places an equipment item in service at a facility. At that point the following considerations apply:

- The acquisition information identifies materials that would cause the equipment item to be considered a hazardous waste if disposed with the identified material intact.
- There is cost information available for removing, containing, and disposing of these materials.
- The hazardous waste in question is routinely generated in normal operations at a Federal facility, and will be disposed of along with those other wastes.

Based on the flow diagram and the information above, and in accordance with SFFAS No. 6, the costs of removal, containment and disposal of the routine wastes associated with disposal of this equipment item are not subject to the requirements for cost estimation and accrual over the useful life of the asset as provided in SFFAS No. 6, Chapter 4.

### **Basis for Conclusion**

Hazardous materials are used in many processes and when properly managed as stated in environmental regulations, result in little potential risk to human health and the environment. At the end of the useful life of a hazardous material, it usually becomes a hazardous waste. Most hazardous waste generated at decommissioning, shutdown and disposal of equipment is the same, from an environmental regulatory perspective, as hazardous wastes generated routinely from normal operations. The costs associated with disposal of these routine items should be classified as an operating expense and not subject to equipment disposal cleanup cost accrual and reporting. This is in compliance with existing standard language that states: “Other cleanup costs, such as those resulting from accidents or where cleanup is an ongoing part of operations, are to be accounted for in accordance with liability standards and are not subject to the recognition guidance provided in this standard.”<sup>3</sup>

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<sup>3</sup> SFFAS No. 6, Chapter 4, Paragraph 93

## **Suggestion to the Board**

The committee suggests that the Board adopt this implementation guidance and methodology to provide additional clarification to SFFAS No. 6, Chapter 4.

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## Appendix A: Glossary

- **Demilitarization/Disposal Plans:** Demilitarization is the act of destroying the military offensive or defensive advantages inherent in certain types of equipment or material. Disposal is the end of life tasks and/or actions for residual materials resulting from the demilitarization and disposition processes.
- **Disposal Technology:** A method that applies technical knowledge or tools that render harmful or hazardous substances harmless at disposal.
- **Environmental Liability:** An environmental liability is a probable, measurable and reasonably estimable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events.
- **General Equipment:** Any item that is functionally complete for its intended purpose and that:
  - Has an expected useful life of two or more years;
  - Is not intended for sale in the ordinary course of business;
  - Is intended to be used or is available for use by the entity;
  - Does not ordinarily lose its identity or become a component part of another article; and
  - Is not available for the use of the reporting entity in the performance of battlefield missions or to support related training.
- **Internal Paint/Coating:** The application of protective materials with significantly enhanced corrosion and erosion resistance, combined with improved flow dynamics that have potential to create substantial value through the reduction of costs related to the replacement of failed and worn parts.
- **Military Equipment:** Any item that is functionally complete for its intended purpose and that:
  - Has an expected useful life of two or more years;
  - Is not intended for sale in the ordinary course of business;
  - Does not ordinarily lose its identity or become a component part of another article; and
  - Is available for the use of the reporting entity in the performance of battlefield missions or to support related training.
- **Ozone Depleting Substances:** Ozone Depleting Substances: Substances that contribute to the chemical destruction of the stratospheric ozone layer (15-40km in altitude). For definition, link

to Environmental Protection Agency (EPA) Ozone Depletion Glossary

<http://www.epa.gov/Ozone/defns.html>.

- **Probable:** That which can reasonably be expected to occur or is believed to be more likely than not on the basis of available evidence or logic. Definition from Statement of Federal Financial Accounting Standards (SFFAS) 5, p9ar. 33:  
[http://www.fasab.gov/pdffiles/codification\\_report2007.pdf](http://www.fasab.gov/pdffiles/codification_report2007.pdf).
- **Radioactive Wastes:** Material containing the unusable radioactive byproducts of the scientific, military and industrial applications of nuclear energy (source: Columbia encyclopedia).
- **Reasonably Estimable:** The ability to reliably quantify in monetary terms the outflow of resources that will be required.<sup>4</sup>
- **Useful Life:** The normal operating life of an end item in terms of utility to the owner.

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<sup>4</sup> AAPC, 'Determining Probable And Reasonably Estimable For Environmental Liabilities In The Federal Government Federal Financial Accounting And Auditing,' Technical Release Number 2

## **Appendix B: List of Abbreviations**

<b>AAPC</b>	<b>Accounting and Auditing Policy Committee</b>
<b>CARC</b>	<b>Chemical Agent Resistant Coating</b>
<b>FASAB</b>	<b>Federal Accounting Standards Advisory Board</b>
<b>FASB</b>	<b>Financial Accounting Standards Board</b>
<b>GPP&amp;E</b>	<b>General Property, Plant, and Equipment</b>
<b>PP&amp;E</b>	<b>Property, Plant, and Equipment</b>
<b>SFFAS</b>	<b>Statement of Federal Financial Accounting Standards</b>
<b>TB</b>	<b>Technical Bulletin</b>

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