

STAFF IMPLEMENTATION GUIDANCE 23.1

Guidance for Implementation of SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment* Classification of Items Formerly Considered National Defense PP&E

Background

1. Statement of Federal Financial Accounting Standards (SFFAS) 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, rescinded SFFAS 11, *Amendments to Accounting for Property, Plant, and Equipment - Definitional Changes* in its entirety. SFFAS 11 established the definition of National Defense Property, Plant, and Equipment (ND PP&E). Its rescission eliminated the category ND PP&E along with the definition for that term. Implementing guidance contained in SFFAS 23 provides that:

10. The initial capitalization amount for assets previously considered ND PP&E should be based on historical cost in accordance with the asset recognition provisions of SFFAS No. 6 [Accounting for Property, Plant, and Equipment], as amended, and should be the initial historical cost for the items, including any major improvements or modifications. (Emphasis added.)

2. The above text suggests that all items formerly considered ND PP&E should be classified as PP&E. In addition, par. II of SFFAS 23 provides that “all items previously considered ND PP&E are classified as general PP&E.” Par. 6b of SFFAS 23 also refers to classification as general PP&E.

Staff Implementation Guidance

3. **Q: Should par. 10 of SFFAS 23 limit the classification of items previously considered ND PP&E to general PP&E?**
4. A: No. A reasonable approach would be to subordinate SFFAS 23’s general implementation guidance to the definitions in accounting standards. That is, 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.
5. **Q: SFFAS 23 implementation guidance describes acceptable approaches to valuing those items of ND PP&E to be classified as general PP&E. How should items of ND PP&E not classified as general PP&E be valued?**
6. A: Any items not properly classified as general PP&E should be valued in a manner consistent with the general principles established in SFFAS 23 implementation guidance and the specific measurement guidance provided in accounting standards for the relevant asset class.

Basis for Conclusions

7. A literal application of SFFAS 23, par. 10 would result in de facto amendments to the PP&E definition contained in SFFAS 6 and any asset definitions promulgated by other standards. That is, all asset definitions other than general PP&E would have to exclude ND PP&E and the general PP&E definition would have to include ND PP&E.
8. Consequences of reading the implementation guidance as amending the definitions remaining in current standards include:
 - a. Inconsistency in classification of assets between the components of the Department of Defense and all other federal entities,
 - b. Possible inconsistent accounting for the items subject to implementation guidance in SFFAS 23 and items acquired in the future by the Department of Defense, and
 - c. Reliance on a definition that has been purged from authoritative publications such as the Original Pronouncements volume.
9. Staff implementation guidance resolves the inconsistency between the definitions and the implementation guidance by subordinating par. 10 of SFFAS 23 to asset definitions in accounting standards.

Effective Date

10. This guidance is effective upon issuance.