



August 1, 2008

To: Members of the Board
From: Monica R. Valentine, Assistant Director
Thru: Wendy M. Payne, Executive Director
Subject: General PP&E Valuation,¹ Tab C

MEETING OBJECTIVE

The objective for this meeting is to review and approve the pre-ballot draft of the General PP&E Valuation exposure draft (ED). As a result of the discussion, staff will prepare a ballot draft ED for the Board's review and approval after the August meeting.

BRIEFING MATERIAL

This Tab includes the pre-ballot draft of the exposure draft, Estimating the Historical Cost of General Property, Plant, & Equipment -- Amending SFFAS 6 and 23.

BACKGROUND

At the September meeting, the Board discussed technical agenda options. During the discussion, members expressed some support for an effort to reduce the cost expected to be incurred at the Department of Defense as they establish cost for general PP&E during the coming years. As a result of that discussion, staff presented to the Board, at the December meeting, a draft exposure draft (ED) to address the issue of initial capitalization of general PP&E. It was noted that there is a perception that after the implementation of SFFAS 23 in FY 2003 the "bar" had been raised as far as estimating the cost of general PP&E. So in order to reduce the cost of initial capitalization of general PP&E new guidance is being proposed.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

The December draft guidance proposed guidance for agencies who are not yet required to report PP&E and those who still need to develop their systems to accomplish the requirements of SFFAS 6 & 23. The proposal would give new implementers of the standards 5 years from the date an entity begins to report PP&E. The entities would be allowed to estimate PP&E under the guidelines of this standard for the 5 years while putting their systems in place to eventually report PP&E in accordance with SFFAS 6 & 23. In the absence of viable systems in place, estimating PP&E cost is the only option for implementation. This proposal would amend the current standards to make it clear that estimating cost in accordance with SFFAS 6 & 23 is permissible.

It was noted that since the effective date of SFFAS 23 in FY 2003 through the proposed date of 2012 several billion dollars worth of military equipment would have been acquired by DoD through its many acquisition programs. In order to meet the requirements of SFFAS 6 & 23 DoD would need to change its contractor acquisition processes, business processes, as well as its systems to meet these requirements. When DoD spoke to the Board in 2000 about the implementation of SFFAS 23 in FY 2003 they did not take due consideration of the major implications involved in such an undertaking. DoD will need a systematic method/process to capturing the cost of their assets and that it will take several years to put in place. However, they are moving towards improving their accounting for military equipment.

In December, the Board agreed that staff should develop the exposure draft further and request that the AAPC consider implementation guidance related to the issues outlined in the staff memo.

At the June Board meeting members asked staff to make the following revisions to the draft ED:

- The phrase “cost effective” should be removed as the parenthetical explanation of “not practical” as it relates to entities using reasonable estimates to valuing the historical cost of G-PP&E. Both “cost effective” and “inadequate documentation” should be better explained in the standard so that the phrases are not subjective.
- The ED basis for conclusions should include a discussion on the Board’s reasons for including Q3 in the ED. [Q3. Do you believe that allowing the use of reasonable estimates to value existing G-PP&E assets should be open-ended or subject to a definitive end date (date-certain)? Please explain your preference.]

STAFF PROPOSAL

This exposure draft proposes amendments to SFFAS 6 and 23 to provide guidance for estimating the original historical cost and accumulated depreciation of G-PP&E upon initial capitalization and for estimating the historical cost of G-PP&E acquired before the reporting period if obtaining historical cost based on the original transaction data is not practical.

Statement of Federal Financial Accounting Standard (SFFAS) 6 as amended, *Accounting for Property, Plant and Equipment*, provides guidance regarding the estimation of historical cost and accumulated depreciation of General Property, Plant & Equipment (G-PP&E) acquired prior to the effective date of the standards. SFFAS 6 was issued in November 1995 and was effective in fiscal year 1998. In addition, SFFAS 23, *Eliminating the Category National Defense*

PP&E, was issued in May 2003 and was effective in fiscal year 2003. The SFFAS 23 amendment provides that national defense PP&E is subject to the same standards as other assets. Therefore, national defense PP&E qualifying as G-PP&E is to be capitalized and depreciated.

This proposal would clarify that agencies that had not previously reported G-PP&E assets on their entity financial statements should report their G-PP&E assets based on historical cost in accordance with the asset recognition provisions of SFFAS No. 6, as amended. However, if obtaining original transaction data historical cost is not practical, reasonable estimates of historical cost may be used. This proposal also expands the use of estimates for existing G-PP&E if obtaining original transaction data historical cost information necessary to comply with the recognition and measurement provisions of SFFAS 6, as amended is not practical.



Federal Accounting Standards Advisory Board

**Estimating the Historical Cost of General Property, Plant, and
Equipment**

Amending Statements of Federal Financial Accounting Standards 6 and 23

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [date 90 days after issuance]

[Month day, year]

Pre-Ballot Draft – Do Not Circulate

REDLINE VERSION

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board", Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Estimating the Historical Cost of General Property, Plant, and Equipment*. Specific questions for your consideration appear on page 8 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by **DUE DATE**.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Tom L. Allen
Chairman

Executive Summary

What is the Board proposing?

This statement proposes amendments to SFFAS 6 and 23 to provide guidance for the following two situations:

- Reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization; and
- Reasonably estimating the historical cost of existing G-PP&E if obtaining historical cost based on the original transaction data is not practical.

Statement of Federal Financial Accounting Standard (SFFAS) 6 as amended, *Accounting for Property, Plant and Equipment*, provides guidance regarding the estimation of historical cost and accumulated depreciation of General Property, Plant & Equipment (G-PP&E) acquired prior to the effective date of the standards. SFFAS 6 was issued in November 1995 and was effective in fiscal year 1998. In addition, SFFAS 23, *Eliminating the Category National Defense PP&E*, was issued in May 2003 and was effective in fiscal year 2003. The SFFAS 23 amendment provides that national defense PP&E is subject to the same standards as other assets. Therefore, national defense PP&E qualifying as G-PP&E is to be capitalized and depreciated.

In 2002, the Accountability of Tax Dollars Act established a requirement for many agencies that did not previously produce audited financial statements to do so. As a result, in fiscal year 2003 many agencies were required to comply with SFFAS 6 for the first time. In the future, additional agencies may elect or be required to comply with SFFAS 6 for the first time.

There is evidence that estimation techniques used to establish historical cost for G-PP&E acquired prior to the effective date of SFFAS 6 or SFFAS 23 are not always considered acceptable when applied to G-PP&E acquired later. As a result, entities that have not established adequate systems are concurrently expending resources on development of systems and manual generation of historical cost data for G-PP&E acquired after the effective dates of SFFAS 6 or SFFAS 23. Use of estimates is a more cost effective means of implementing new requirements than reconstructing actual historical amounts based on inadequate or non-existent accounting records. Clarifying that estimation based

on adequate techniques is acceptable should promote cost effective implementation of the standards.

This proposal would clarify that agencies that had not previously reported G-PP&E assets on their entity financial statements should report their G-PP&E assets based on historical cost in accordance with the asset recognition provisions of SFFAS No. 6, as amended. However, if obtaining original transaction data historical cost is not practical reasonable estimates of historical cost may be used. This proposal also expands the use of estimates for existing G-PP&E if obtaining original transaction data historical cost information necessary to comply with the recognition and measurement provisions of SFFAS 6, as amended, is not practical.

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

This proposal does not alter the financial reporting requirements. The proposal is justified on practical grounds. First, it establishes an implementation period for those federal entities that have not previously reported G-PP&E assets on their entity financial reports and those who have not previously prepared financial reports but who may be required or elect to do so in the future. Because it does not waive the requirement to produce estimates it preserves the comparability between reporting entities and ensures that readers receive complete financial reports. This proposal also expands the use of estimates when valuing existing G-PP&E if obtaining original transaction data historical cost information necessary to comply with the recognition and measurement provisions of SFFAS 6, as amended, is not practical.

Second, it is a practical response to the challenges that some agencies, such as the Department of Defense (DoD), continue to address in establishing sound financial systems and controls. In 2003, DoD requested that SFFAS 23 be made effective immediately upon issuance as an incentive to rapid implementation. Immediate implementation was clearly unattainable. Absent a systematic means to capture historical cost, DoD is undertaking the dual task of developing such a system (along with adequate processes and internal controls) and capturing accounting information without the aid of an adequate system. The Board believes that acknowledging the continuing appropriateness of estimates based on non-traditional documentation¹ as provided by SFFAS 23 is prudent under the current circumstances. Absent such an acknowledgement, significant resources

¹ Estimates that do not lead to material misstatements are acceptable without guidance from the Board.

- 1 likely will be committed to developing precise estimates that remain a poor
- 2 substitute for adequate systems and controls.

Pre-Ballot Draft

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1 Questions for Respondents

2 The FASAB encourages you to become familiar with all proposals in the Statement
3 before responding to the questions in this section. In addition to the questions below,
4 the Board also would welcome your comments on other aspects of the proposed
5 Statement.

6 The Board believes that this proposal would improve Federal financial reporting and
7 contribute to meeting the Federal financial reporting objectives. The Board has
8 considered the perceived costs associated with this proposal. In responding, please
9 consider the expected benefits and perceived costs and communicate any concerns
10 that you may have in regard to implementing this proposal.

11 Because the proposals may be modified before a final Statement is issued, it is
12 important that you comment on proposals that you favor as well as any that you do not
13 favor. Comments that include the reasons for your views will be especially appreciated.

14 The questions in this section are available in a Word file for your use at
15 www.fasab.gov/exposure.html. Your responses should be sent by e-mail to
16 fasab@fasab.gov. If you are unable to respond electronically, please fax your
17 responses to (202) 512-7366 and follow up by mailing your responses to:

18 Wendy M. Payne, Executive Director
19 Federal Accounting Standards Advisory Board
20 Mailstop 6K17V
21 441 G Street, NW, Suite 6814
22 Washington, DC 20548

23 All responses are requested by [insert date].

24 Q1. Do you believe the implementation guidelines for reasonably estimating the original
25 transaction data historical cost and accumulated depreciation of G-PP&E upon initial
26 capitalization are appropriate for entities that have not previously reported G-PP&E
27 assets on their entity financial reports and those who have not previously prepared
28 financial reports but who may be required or elect to do so in the future? See
29 paragraphs 7a and A9. Why or why not?

30 Q2. Do you believe that initial capitalization of G-PP&E based on the SFFAS 23, as
31 amended, reasonable estimation methods is acceptable? See SFFAS 23 amended
32 paragraphs [10.] – [13.]. Why or why not?

33 Q3. Do you believe that allowing the use of reasonable estimates to value existing G-
34 PP&E assets should be open-ended or subject to a definitive end date (date-certain)?

- 1 See paragraphs 7b., [SFFAS 6 amended paragraph 40], A5., A11., and A12. Please
2 explain your preference.
- 3 Q4. Do you agree with the proposed amendment to SFFAS 6 that allows the use of
4 reasonable estimates for existing G-PP&E if obtaining original transaction data historical
5 cost information is not practical? See paragraphs 7b. and A10. Why or why not?
- 6 Q5. Do you believe additional clarification is needed on the use of reasonable
7 estimates when valuing the historical cost of G-PP&E assets? Why or why not?
- 8
- 9

1 Introduction

2 Purpose

- 3 1. SFFAS 6, *Accounting for Property, Plant, and Equipment*, was effective for
4 periods beginning after September 30, 1997. SFFAS 6 provides
5 implementation guidance and permitted estimation of the amount to be
6 capitalized but was not specific regarding allowable methods of estimation.
7 SFFAS 23, *Eliminating the Category National Defense Property, Plant, and*
8 *Equipment*, provides guidance for estimating historical cost and
9 accumulated depreciation consistent with SFFAS 6 but offers more detail
10 regarding permissible documentation and methods. SFFAS 23 was issued
11 May 8, 2003 and became effective for fiscal year 2003 reports.
- 12 2. The objective of this amendment is the development of a cost effective
13 mechanism for attaining initial compliance with SFFAS 6 as amended. This
14 mechanism is available to reporting entities that have not previously
15 prepared financial reports but who may be required or elect to do so in the
16 future to ensure such entities are afforded an implementation period. These
17 amendments also apply in those cases where entities have determined it is
18 not practical to continue to determine the historical cost values of existing G-
19 PP&E assets based on the original transaction data.
- 20 3. Note that this amendment will not extend the effective date² of SFFAS 6 as
21 amended, but will clarify that methods deemed acceptable by SFFAS 23
22 continue to be acceptable. This guidance also amends SFFAS 6 to clarify
23 the use of estimates to approximate the historical cost values of G-PP&E
24 assets.
- 25 4. The Board encourages those Federal entities that apply the guidance
26 outlined in this standard to put into place processes and practices (i.e.,
27 adequate systems and internal control practices) that will sustain the
28 adequate capture of the original transaction data historical cost values of
29 their G-PP&E assets.

² Thus, entities must comply with the provisions of SFFAS 6 as amended in order to obtain an unqualified opinion. This ensures comparability among federal reporting entities receiving unqualified opinions.

Materiality

5. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

6. The Statement will be effective upon issuance to ensure that any cost savings available are realized as soon as possible.

Pre-Ballot Draft

Proposed Standard**Scope**

7. This statement provides guidance for both:

a. Reasonably estimating the historical cost and accumulated depreciation of G-PP&E upon initial capitalization. Initial capitalization occurs when G-PP&E acquired before the reporting period is capitalized for the first time; and

b. Reasonably estimating the historical cost of existing G-PP&E if obtaining historical cost based on the original transaction data is not practical.

8. The text of SFFAS 6, par. 40 and SFFAS 23, par. 10 through 18, is amended as shown below (original paragraph numbers are retained):

**Estimation of Amounts upon Initial Capitalization – Amendments to Existing Standards
(SFFAS 6)**

[40.] For existing general PP&E, if obtaining historical cost information necessary to comply with the above recognition and measurement provisions is not practical ~~has not been maintained~~, ~~estimates of historical cost may be estimated~~ are required. Estimates may ~~shall~~ be based on:

- cost of similar assets at the time of acquisition, ~~or~~
- current cost of similar assets discounted for inflation since the time of acquisition (i.e., deflating current costs to costs at the time of acquisition by general price index), or
- other reasonable estimates of historical cost.

(SFFAS 23)

[10.] The initial capitalization amount for general property, plant and equipment assets not previously reported on an entity's financial statements ~~amounts previously considered ND PP&E~~ should be based on historical cost in accordance with the ~~asset recognition~~ provisions of SFFAS 6, as

1 amended, and should be the initial historical cost for the base unit^{4A} initial
2 historical cost for the items, including any major improvements or
3 modifications.

4 [11.] This standard recognizes that determining initial historical cost for items
5 acquired before adequate systems and controls are established and where
6 many years prior to the effective date of this standard in an environment in
7 which the historical records were not required to be retained supporting the
8 identification of capitalizable costs have not been retained may and may
9 therefore be inadequate not be reasonable or practical.

10 [12.] If obtaining initial historical cost is not practical, reasonable estimates of
11 estimated historical cost may be used. Other information such as, but not
12 limited to, budget, appropriation, or engineering documents and other reports
13 reflecting amounts to be expended may be used as the basis for reasonably
14 estimating historical cost.

15 [13.] Alternatively, estimates of historical cost may be derived by estimating
16 the current replacement costs of similar items and deflating those costs,
17 through the use of price-level indexes, to the in-service acquisition year or
18 estimated in-service acquisition year if the actual year is unknown. Other
19 reasonable approaches for estimating historical cost may also be utilized.
20 For example, latest acquisition cost may be substituted for current
21 replacement cost in some situations.

22 [13A.] In estimating the year that the base unit was placed in service, if only
23 a range of years can be identified then the mid-point of the range is an
24 acceptable estimate of the in-service date.

25 [14.] A contra asset account--accumulated depreciation--for the assets
26 should be calculated under the provisions provided in paragraphs 41, 42,
27 and 43 of SFFAS 6, as amended.

28 [15.] For military equipment that is eligible for initial capitalization in-service
29 upon implementation of under this standard, cleanup cost liabilities should be
30 adjusted, as needed.⁵ [This change reiterates that the liability for cleanup
31 costs related to the operation of general PP&E would be recognized in a
32 systematic and rational manner over the periods that the associated general
33 PP&E is in use. This approach is consistent with the requirement to

^{4A} 1 "Base unit" refers to the level of detail considered in categorizing PP&E. Generally, the base unit is the smallest or least expensive item of property to be categorized. The term "base unit" may be used by others to have a different meaning--the meaning intended in this standard is limited to that specified above [from SFFAS 6 fn 25].

depreciate general PP&E. In addition, the Board requires disclosure of the estimate of total cleanup costs.]

Adjustment to Cumulative Results of Operations

[16.] Initial Application of this guidance should be treated as a correction of error in accordance with SFFAS 21. The cumulative effect of adopting this accounting standard should be reported as a “change in accounting principle.” The adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position, for the period the change is made.

[17.] Prior year financial statements presented for comparative purposes should be presented as previously reported.

[18.] The nature of the estimates at initial capitalization changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosures.⁶

[Footnotes:]

^[5] Under the provisions of SFFAS 6, paragraph 97, a portion of the estimated total cleanup costs shall be recognized as expense during each period that general PP&E is in operation and a liability accumulated over time as expense is recognized. This adjustment may be needed because the DoD may have already recognized the total estimated cleanup costs as a liability and expense for some military equipment per paragraph 101 of SFFAS 6, as amended.

^[6] SFFAS 21, Reporting Corrections of Errors and Changes in Accounting Principles, paragraphs 12 and 13. Recognition and Measurement

Effective Date

9. This Statement is effective upon issuance.

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

Appendix A: Basis for Conclusions

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the standards – not the material in this appendix – should govern the accounting for specific transactions, events or conditions.

Project History

A1. At the FASAB September 2007 meeting, the Board discussed technical agenda options. During the discussion, members expressed support for an effort to reduce the cost expected to be incurred at the Department of Defense as they establish values for G-PP&E during the coming years.

A2. The discussion documented a number of concerns relating to DoD accounting. In addition, concerns regarding group and composite depreciation have been raised since the meeting. Collectively, concerns regarding G-PP&E were summarized as follows:

- a. Continued use of estimates in the absence of a system
- b. Options for group/composite depreciation
- c. Accounting for assets deployed to a war zone
- d. Cost accounting (assignment of R&D, support and overhead to G-PP&E)
- e. Evaluation of existing standards and the potential for adopting fair value as the measurement basis

A3. In considering these issues, the Board agreed that issues a. through d., can and should be addressed quickly due to the potential that more costly solutions will be found in the absence of guidance. The Board agreed that these issues could be addressed without significantly affecting the Board's ongoing projects.

A4. With respect to issue e., evaluation of existing standards, the Board agreed that this issue should be considered later in 2008 when the Board makes decisions on its technical agenda. As noted by one of the members, considerable time has been devoted to the question of G-PP&E accounting. A project on this topic is likely to be controversial and demand staff and Board time. Therefore, undertaking the project should be considered in the broad context of agenda setting.

Appendix A: Basis for Conclusions

Initial Proposal for Implementation Guidance

- A5. Regarding the permissibility of estimates (issue a), the Board agreed that it should consider amending the standards. It is not unreasonable to read SFFAS 6, as amended, to provide for the use of the SFFAS 23 initial capitalization methods only when assigning cost to G-PP&E acquired before the effective dates of SFFAS 6 or 23. The Board agreed to clarify this through a relatively narrow amendment of SFFAS 23. A draft exposure draft (omitting the Board's basis for conclusions) was presented at the December 2007 FASAB meeting. The draft (1) provided an additional five year window for the Department of Defense and a rolling five year window for agencies not previously producing financial reports to rely on SFFAS 23 methods and (2) provided new guidance regarding estimation of the in-service date. Subsequent Board discussions discouraged a proposal that would establish a date-certain timeframe for the use of reasonable estimates when determining the historical cost values of G-PP&E upon initial capitalization and when obtaining historical cost based on the original transaction data is not practical.
- A6. Staff did not request immediate action by the Board on the draft ED. The Board generally supported the proposal so staff's next steps were to inquire with selected agencies and members of the audit community to confirm that the guidance is needed and clear. In addition, staff reviewed fiscal year 2007 agency reports to determine if agencies other than the Department of Defense face similar challenges with respect to developing G- PP&E systems, use of SFFAS 23 methods, and could be expected to incur significant costs to arrive at acceptable estimates absent explicit guidance.
- A7. With respect to the three remaining group 1 issues (group/composite depreciation, deployed assets, and cost accounting), staff recommended and the Board agreed to request that the Accounting and Auditing Policy Committee (AAPC) consider these issues. Staff suggested that a task force may be able to develop implementation guidance within the boundaries of the current standards. The AAPC has accepted the project and a task force is actively engaged in developing guidance.

Member Views

- A8. SFFAS 6 was issued in November 1995 and was effective in fiscal year 1998. In addition, SFFAS 23, *Eliminating the Category National Defense*

Appendix A: Basis for Conclusions

PP&E, was issued in May 2003 and was effective in fiscal year 2003. In 2002, the Accountability of Tax Dollars Act established a requirement for many agencies that did not previously produce audited financial statements to do so. As a result, in fiscal year 2003 many agencies were required to comply with SFFAS 6 for the first time. Therefore, certain entities were not afforded an implementation period because they began preparing financial statements after the effective date of SFFAS 6.

A9. This allowance for the application of the SFFAS 23 initial capitalization guidance is provided in light of (1) the short implementation period (less than one year) provided to DoD by SFFAS 23 and (2) the fact that new reporting entities may be subject to varying interpretations of the standards regarding acceptable estimates for pre-1998 G-PP&E and post-1997 G-PP&E.

A10. The Board's primary objective for this amendment is the development of a cost effective mechanism for attaining initial compliance with SFFAS 6, as amended. The amendments are available to reporting entities that have not previously prepared financial reports but who may be required or elect to do so in the future. In addition, the Board decided that these amendments should also apply in those cases where entities have determined it is not practical to continue to determine the historical cost values of existing G-PP&E assets based on the original transaction data. An entity may find that it is not practical to determine the historical cost of existing G-PP&E assets based on the original transaction data because it is either not cost effective to do so or documentation is inadequate. Cost effectiveness may be based on an analysis of various cost factors associated with determining those historical cost values. An entity may also determine it impractical when the original transaction data historical cost documentation has not been maintained or when the historical cost data has been maintained but not in a manner that facilitates the timely valuation of the G-PP&E asset. An entity's inadequate systems and/or processes that do not facilitate the ready and timely collection of data for the valuation of the G-PP&E asset may lead to an assessment that valuation based on original transaction data is not cost effective.

A11. The Board debated at length whether to establish a date-certain timeframe or have an open-ended approach for the use of reasonable estimates when determining the historical cost values of G-PP&E upon initial capitalization and when obtaining historical cost based on the original transaction data is not practical. The debate included both pros and cons to a date-certain approach. One of the pros to the date-certain approach is that entities will have a specific goal (i.e., timeframe) to work towards. The

Appendix A: Basis for Conclusions

con to the date-certain approach is that there is a risk that the benefits of the standard could be voided if the entity does not or can not meet the date-certain timeframe. The debate also included pros and cons to an open-ended approach. The pros include flexibility and the room for trial & error when determining the best estimation method. The cons include the prolonged use of estimates when not appropriate.

A12. The Board decided against a proposal that would establish a date-certain timeframe for the use of reasonable estimates when determining the historical cost values of G-PP&E upon initial capitalization and when obtaining historical cost based on the original transaction data is not practical. The Board does not want to penalize an entity simply because it may take the entity longer to implement the necessary systems and processes to ensure the adequate capture of historical cost values. In addition, the Board believes that the use of reasonable estimates is proper given the appropriate disciplines surrounding the use of estimates.

A13. The Board encourages those Federal entities that apply the guidance outlined in this standard to put into place processes and practices (i.e., adequate systems and internal control practices) that will sustain the adequate and proper capture of the original transaction data historical cost of their G-PP&E assets.

A14. The Board believes that acknowledging the continuing appropriateness of estimates based on non-traditional documentation as provided by SFFAS 23 is prudent under the current circumstances. Estimates that do not lead to material misstatements are acceptable without guidance from the Board. Absent such an acknowledgement, significant resources likely will be committed to developing precise estimates that remain a poor substitute for an adequate system and controls.

1 Appendix B: Abbreviations

2

3	AICPA	American Institute of Certified Public Accountants
4	CFO Act	Chief Financial Officers Act
5	CFR	Consolidated Financial Report of the U.S. Government
6	FASAB	Federal Accounting Standards Advisory Board
7	FASB	Financial Accounting Standards Board
8	FFMIA	Federal Financial Management Improvement Act of 1996
9	FMFIA	Federal Managers' Financial Integrity Act of 1982
10	GAAP	Generally Accepted Accounting Principles
11	GAO	Government Accountability Office (formerly General Accounting Office)
12	OCBOA	Other Comprehensive Basis of Accounting
13	OMB	Office of Management and Budget
14	P.L.	Public Law
15	SFAC	Statements of Financial Accounting Concepts
16	SFAS	Statements of Financial Accounting Standards
17	SFFAC	Statements of Federal Financial Accounting Concepts
18	SFFAS	Statements of Federal Financial Accounting Standards
19	U.S.	United States

1 Appendix C: Glossary

Pre-Ballot Draft

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Federal Accounting Standards Advisory Board

**Estimating the Historical Cost of General Property, Plant, and
Equipment**

Amending Statements of Federal Financial Accounting Standards 6 and 23

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [date 90 days after issuance]

[Month day, year]

Pre-Ballot Draft – Do Not Circulate

CLEAN VERSION

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board", Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Estimating the Historical Cost of General Property, Plant, and Equipment*. Specific questions for your consideration appear on page 8 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by **DUE DATE**.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Tom L. Allen
Chairman

Executive Summary

What is the Board proposing?

This statement proposes amendments to SFFAS 6 and 23 to provide guidance for the following two situations:

- Reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization; and
- Reasonably estimating the historical cost of existing G-PP&E if obtaining historical cost based on the original transaction data is not practical.

Statement of Federal Financial Accounting Standard (SFFAS) 6 as amended, *Accounting for Property, Plant and Equipment*, provides guidance regarding the estimation of historical cost and accumulated depreciation of General Property, Plant & Equipment (G-PP&E) acquired prior to the effective date of the standards. SFFAS 6 was issued in November 1995 and was effective in fiscal year 1998. In addition, SFFAS 23, *Eliminating the Category National Defense PP&E*, was issued in May 2003 and was effective in fiscal year 2003. The SFFAS 23 amendment provides that national defense PP&E is subject to the same standards as other assets. Therefore, national defense PP&E qualifying as G-PP&E is to be capitalized and depreciated.

In 2002, the Accountability of Tax Dollars Act established a requirement for many agencies that did not previously produce audited financial statements to do so. As a result, in fiscal year 2003 many agencies were required to comply with SFFAS 6 for the first time. In the future, additional agencies may elect or be required to comply with SFFAS 6 for the first time.

There is evidence that estimation techniques used to establish historical cost for G-PP&E acquired prior to the effective date of SFFAS 6 or SFFAS 23 are not always considered acceptable when applied to G-PP&E acquired later. As a result, entities that have not established adequate systems are concurrently expending resources on development of systems and manual generation of historical cost data for G-PP&E acquired after the effective dates of SFFAS 6 or SFFAS 23. Use of estimates is a more cost effective means of implementing new requirements than reconstructing actual historical amounts based on inadequate or non-existent accounting records. Clarifying that estimation based

on adequate techniques is acceptable should promote cost effective implementation of the standards.

This proposal would clarify that agencies that had not previously reported G-PP&E assets on their entity financial statements should report their G-PP&E assets based on historical cost in accordance with the asset recognition provisions of SFFAS No. 6, as amended. However, if obtaining original transaction data historical cost is not practical reasonable estimates of historical cost may be used. This proposal also expands the use of estimates for existing G-PP&E if obtaining original transaction data historical cost information necessary to comply with the recognition and measurement provisions of SFFAS 6, as amended, is not practical.

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

This proposal does not alter the financial reporting requirements. The proposal is justified on practical grounds. First, it establishes an implementation period for those federal entities that have not previously reported G-PP&E assets on their entity financial reports and those who have not previously prepared financial reports but who may be required or elect to do so in the future. Because it does not waive the requirement to produce estimates it preserves the comparability between reporting entities and ensures that readers receive complete financial reports. This proposal also expands the use of estimates when valuing existing G-PP&E if obtaining original transaction data historical cost information necessary to comply with the recognition and measurement provisions of SFFAS 6, as amended, is not practical.

Second, it is a practical response to the challenges that some agencies, such as the Department of Defense (DoD), continue to address in establishing sound financial systems and controls. In 2003, DoD requested that SFFAS 23 be made effective immediately upon issuance as an incentive to rapid implementation. Immediate implementation was clearly unattainable. Absent a systematic means to capture historical cost, DoD is undertaking the dual task of developing such a system (along with adequate processes and internal controls) and capturing accounting information without the aid of an adequate system. The Board believes that acknowledging the continuing appropriateness of estimates based on non-traditional documentation¹ as provided by SFFAS 23 is prudent under the current circumstances. Absent such an acknowledgement, significant resources

¹ Estimates that do not lead to material misstatements are acceptable without guidance from the Board.

- 1 likely will be committed to developing precise estimates that remain a poor
- 2 substitute for adequate systems and controls.

Pre-Ballot Draft

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1 Questions for Respondents

2 The FASAB encourages you to become familiar with all proposals in the Statement
3 before responding to the questions in this section. In addition to the questions below,
4 the Board also would welcome your comments on other aspects of the proposed
5 Statement.

6 The Board believes that this proposal would improve Federal financial reporting and
7 contribute to meeting the Federal financial reporting objectives. The Board has
8 considered the perceived costs associated with this proposal. In responding, please
9 consider the expected benefits and perceived costs and communicate any concerns
10 that you may have in regard to implementing this proposal.

11 Because the proposals may be modified before a final Statement is issued, it is
12 important that you comment on proposals that you favor as well as any that you do not
13 favor. Comments that include the reasons for your views will be especially appreciated.

14 The questions in this section are available in a Word file for your use at
15 www.fasab.gov/exposure.html. Your responses should be sent by e-mail to
16 fasab@fasab.gov. If you are unable to respond electronically, please fax your
17 responses to (202) 512-7366 and follow up by mailing your responses to:

18 Wendy M. Payne, Executive Director
19 Federal Accounting Standards Advisory Board
20 Mailstop 6K17V
21 441 G Street, NW, Suite 6814
22 Washington, DC 20548

23 All responses are requested by [insert date].

24 Q1. Do you believe the implementation guidelines for reasonably estimating the original
25 transaction data historical cost and accumulated depreciation of G-PP&E upon initial
26 capitalization are appropriate for entities that have not previously reported G-PP&E
27 assets on their entity financial reports and those who have not previously prepared
28 financial reports but who may be required or elect to do so in the future? See
29 paragraphs 7a. and A9. Why or why not?

30 Q2. Do you believe that initial capitalization of G-PP&E based on the SFFAS 23, as
31 amended, reasonable estimation methods is acceptable? See SFFAS 23 amended
32 paragraphs [10.] – [13.]. Why or why not?

33 Q3. Do you believe that allowing the use of reasonable estimates to value existing G-
34 PP&E assets should be open-ended or subject to a definitive end date (date-certain)?

- 1 See paragraphs 7b., [SFFAS 6 amended paragraph 40], A5., A11., and A12. Please
2 explain your preference.
- 3 Q4. Do you agree with the proposed amendment to SFFAS 6 that allows the use of
4 reasonable estimates for existing G-PP&E if obtaining original transaction data historical
5 cost information is not practical? See paragraphs 7b. and A10. Why or why not?
- 6 Q5. Do you believe additional clarification is needed on the use of reasonable
7 estimates when valuing the historical cost of G-PP&E assets? Why or why not?
- 8
- 9

1 Introduction

2 Purpose

- 3 1. SFFAS 6, *Accounting for Property, Plant, and Equipment*, was effective for
4 periods beginning after September 30, 1997. SFFAS 6 provides
5 implementation guidance and permitted estimation of the amount to be
6 capitalized but was not specific regarding allowable methods of estimation.
7 SFFAS 23, *Eliminating the Category National Defense Property, Plant, and*
8 *Equipment*, provides guidance for estimating historical cost and
9 accumulated depreciation consistent with SFFAS 6 but offers more detail
10 regarding permissible documentation and methods. SFFAS 23 was issued
11 May 8, 2003 and became effective for fiscal year 2003 reports.
- 12 2. The objective of this amendment is the development of a cost effective
13 mechanism for attaining initial compliance with SFFAS 6 as amended. This
14 mechanism is available to reporting entities that have not previously
15 prepared financial reports but who may be required or elect to do so in the
16 future to ensure such entities are afforded an implementation period. These
17 amendments also apply in those cases where entities have determined it is
18 not practical to continue to determine the historical cost values of existing G-
19 PP&E assets based on the original transaction data.
- 20 3. Note that this amendment will not extend the effective date² of SFFAS 6 as
21 amended, but will clarify that methods deemed acceptable by SFFAS 23
22 continue to be acceptable. This guidance also amends SFFAS 6 to clarify
23 the use of estimates to approximate the historical cost values of G-PP&E
24 assets.
- 25 4. The Board encourages those Federal entities that apply the guidance
26 outlined in this standard to put into place processes and practices (i.e.,
27 adequate systems and internal control practices) that will sustain the
28 adequate capture of the original transaction data historical cost values of
29 their G-PP&E assets.

² Thus, entities must comply with the provisions of SFFAS 6 as amended in order to obtain an unqualified opinion. This ensures comparability among federal reporting entities receiving unqualified opinions.

Materiality

5. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

6. The Statement will be effective upon issuance to ensure that any cost savings available are realized as soon as possible.

Pre-Ballot Draft

Proposed Standard**Scope**

7. This statement provides guidance for both:

- a. Reasonably estimating the historical cost and accumulated depreciation of G-PP&E upon initial capitalization. Initial capitalization occurs when G-PP&E acquired before the reporting period is capitalized for the first time; and
 - b. Reasonably estimating the historical cost of existing G-PP&E if obtaining historical cost based on the original transaction data is not practical.
8. The text of SFFAS 6, par. 40 and SFFAS 23, par. 10 through 18, is amended as shown below (original paragraph numbers are retained):

**Estimation of Amounts upon Initial Capitalization – Amendments to Existing Standards
(SFFAS 6)**

[40.] For existing general PP&E, if obtaining historical cost information necessary to comply with the above recognition and measurement provisions is not practical ~~has not been maintained~~, ~~estimates of historical cost may be estimated~~ are required. Estimates may ~~shall~~ be based on:

- cost of similar assets at the time of acquisition, ~~or~~
- current cost of similar assets discounted for inflation since the time of acquisition (i.e., deflating current costs to costs at the time of acquisition by general price index), or
- other reasonable estimates of historical cost.

(SFFAS 23)

[10.] The initial capitalization amount for general property, plant and equipment assets not previously reported on an entity's financial statements ~~amounts previously considered ND PP&E~~ should be based on historical cost in accordance with the ~~asset recognition~~ provisions of SFFAS 6, as

1 amended, and should be the initial historical cost for the base unit^{4A} initial
2 historical cost for the items, including any major improvements or
3 modifications.

4 [11.] This standard recognizes that determining initial historical cost for items
5 acquired before adequate systems and controls are established and where
6 many years prior to the effective date of this standard in an environment in
7 which the historical records were not required to be retained supporting the
8 identification of capitalizable costs have not been retained may and may
9 therefore be inadequate not be reasonable or practical.

10 [12.] If obtaining initial historical cost is not practical, reasonable estimates of
11 estimated historical cost may be used. Other information such as, but not
12 limited to, budget, appropriation, or engineering documents and other reports
13 reflecting amounts to be expended may be used as the basis for reasonably
14 estimating historical cost.

15 [13.] Alternatively, estimates of historical cost may be derived by estimating
16 the current replacement costs of similar items and deflating those costs,
17 through the use of price-level indexes, to the in-service acquisition year or
18 estimated in-service acquisition year if the actual year is unknown. Other
19 reasonable approaches for estimating historical cost may also be utilized.
20 For example, latest acquisition cost may be substituted for current
21 replacement cost in some situations.

22 [13A.] In estimating the year that the base unit was placed in service, if only
23 a range of years can be identified then the mid-point of the range is an
24 acceptable estimate of the in-service date.

25 [14.] A contra asset account--accumulated depreciation--for the assets
26 should be calculated under the provisions provided in paragraphs 41, 42,
27 and 43 of SFFAS 6, as amended.

28 [15.] For military equipment that is eligible for initial capitalization in-service
29 upon implementation of under this standard, cleanup cost liabilities should be
30 adjusted, as needed.⁵ [This change reiterates that the liability for cleanup
31 costs related to the operation of general PP&E would be recognized in a
32 systematic and rational manner over the periods that the associated general
33 PP&E is in use. This approach is consistent with the requirement to

^{4A} 1 "Base unit" refers to the level of detail considered in categorizing PP&E. Generally, the base unit is the smallest or least expensive item of property to be categorized. The term "base unit" may be used by others to have a different meaning--the meaning intended in this standard is limited to that specified above [from SFFAS 6 fn 25].

depreciate general PP&E. In addition, the Board requires disclosure of the estimate of total cleanup costs.]

Adjustment to Cumulative Results of Operations

[16.] Initial Application of this guidance should be treated as a correction of error in accordance with SFFAS 21. The cumulative effect of adopting this accounting standard should be reported as a “change in accounting principle.” The adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position, for the period the change is made.

[17.] Prior year financial statements presented for comparative purposes should be presented as previously reported.

[18.] The nature of the estimates at initial capitalization changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosures.⁶

[Footnotes:]

^[5] Under the provisions of SFFAS 6, paragraph 97, a portion of the estimated total cleanup costs shall be recognized as expense during each period that general PP&E is in operation and a liability accumulated over time as expense is recognized. This adjustment may be needed because the DoD may have already recognized the total estimated cleanup costs as a liability and expense for some military equipment per paragraph 101 of SFFAS 6, as amended.

^[6] SFFAS 21, Reporting Corrections of Errors and Changes in Accounting Principles, paragraphs 12 and 13. Recognition and Measurement

Effective Date

9. This Statement is effective upon issuance.

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

Appendix A: Basis for Conclusions

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the standards – not the material in this appendix – should govern the accounting for specific transactions, events or conditions.

Project History

- A1. At the FASAB September 2007 meeting, the Board discussed technical agenda options. During the discussion, members expressed support for an effort to reduce the cost expected to be incurred at the Department of Defense as they establish values for G-PP&E during the coming years.
- A2. The discussion documented a number of concerns relating to DoD accounting. In addition, concerns regarding group and composite depreciation have been raised since the meeting. Collectively, concerns regarding G-PP&E were summarized as follows:
- a. Continued use of estimates in the absence of a system
 - b. Options for group/composite depreciation
 - c. Accounting for assets deployed to a war zone
 - d. Cost accounting (assignment of R&D, support and overhead to G-PP&E)
 - e. Evaluation of existing standards and the potential for adopting fair value as the measurement basis
- A3. In considering these issues, the Board agreed that issues a. through d., can and should be addressed quickly due to the potential that more costly solutions will be found in the absence of guidance. The Board agreed that these issues could be addressed without significantly affecting the Board's ongoing projects.
- A4. With respect to issue e., evaluation of existing standards, the Board agreed that this issue should be considered later in 2008 when the Board makes decisions on its technical agenda. As noted by one of the members, considerable time has been devoted to the question of G-PP&E accounting. A project on this topic is likely to be controversial and demand staff and Board time. Therefore, undertaking the project should be considered in the broad context of agenda setting.

Appendix A: Basis for Conclusions

Initial Proposal for Implementation Guidance

- A5. Regarding the permissibility of estimates (issue a), the Board agreed that it should consider amending the standards. It is not unreasonable to read SFFAS 6, as amended, to provide for the use of the SFFAS 23 initial capitalization methods only when assigning cost to G-PP&E acquired before the effective dates of SFFAS 6 or 23. The Board agreed to clarify this through a relatively narrow amendment of SFFAS 23. A draft exposure draft (omitting the Board's basis for conclusions) was presented at the December 2007 FASAB meeting. The draft (1) provided an additional five year window for the Department of Defense and a rolling five year window for agencies not previously producing financial reports to rely on SFFAS 23 methods and (2) provided new guidance regarding estimation of the in-service date. Subsequent Board discussions discouraged a proposal that would establish a date-certain timeframe for the use of reasonable estimates when determining the historical cost values of G-PP&E upon initial capitalization and when obtaining historical cost based on the original transaction data is not practical.
- A6. Staff did not request immediate action by the Board on the draft ED. The Board generally supported the proposal so staff's next steps were to inquire with selected agencies and members of the audit community to confirm that the guidance is needed and clear. In addition, staff reviewed fiscal year 2007 agency reports to determine if agencies other than the Department of Defense face similar challenges with respect to developing G- PP&E systems, use of SFFAS 23 methods, and could be expected to incur significant costs to arrive at acceptable estimates absent explicit guidance.
- A7. With respect to the three remaining group 1 issues (group/composite depreciation, deployed assets, and cost accounting), staff recommended and the Board agreed to request that the Accounting and Auditing Policy Committee (AAPC) consider these issues. Staff suggested that a task force may be able to develop implementation guidance within the boundaries of the current standards. The AAPC has accepted the project and a task force is actively engaged in developing guidance.

Member Views

- A8. SFFAS 6 was issued in November 1995 and was effective in fiscal year 1998. In addition, SFFAS 23, *Eliminating the Category National Defense*

Appendix A: Basis for Conclusions

PP&E, was issued in May 2003 and was effective in fiscal year 2003. In 2002, the Accountability of Tax Dollars Act established a requirement for many agencies that did not previously produce audited financial statements to do so. As a result, in fiscal year 2003 many agencies were required to comply with SFFAS 6 for the first time. Therefore, certain entities were not afforded an implementation period because they began preparing financial statements after the effective date of SFFAS 6.

A9. This allowance for the application of the SFFAS 23 initial capitalization guidance is provided in light of (1) the short implementation period (less than one year) provided to DoD by SFFAS 23 and (2) the fact that new reporting entities may be subject to varying interpretations of the standards regarding acceptable estimates for pre-1998 G-PP&E and post-1997 G-PP&E.

A10. The Board's primary objective for this amendment is the development of a cost effective mechanism for attaining initial compliance with SFFAS 6, as amended. The amendments are available to reporting entities that have not previously prepared financial reports but who may be required or elect to do so in the future. In addition, the Board decided that these amendments should also apply in those cases where entities have determined it is not practical to continue to determine the historical cost values of existing G-PP&E assets based on the original transaction data. An entity may find that it is not practical to determine the historical cost of existing G-PP&E assets based on the original transaction data because it is either not cost effective to do so or documentation is inadequate. Cost effectiveness may be based on an analysis of various cost factors associated with determining those historical cost values. An entity may also determine it impractical when the original transaction data historical cost documentation has not been maintained or when the historical cost data has been maintained but not in a manner that facilitates the timely valuation of the G-PP&E asset. An entity's inadequate systems and/or processes that do not facilitate the ready and timely collection of data for the valuation of the G-PP&E asset may lead to an assessment that valuation based on original transaction data is not cost effective.

A11. The Board debated at length whether to establish a date-certain timeframe or have an open-ended approach for the use of reasonable estimates when determining the historical cost values of G-PP&E upon initial capitalization and when obtaining historical cost based on the original transaction data is not practical. The debate included both pros and cons to a date-certain approach. One of the pros to the date-certain approach is that entities will have a specific goal (i.e., timeframe) to work towards. The

Appendix A: Basis for Conclusions

con to the date-certain approach is that there is a risk that the benefits of the standard could be voided if the entity does not or can not meet the date-certain timeframe. The debate also included pros and cons to an open-ended approach. The pros include flexibility and the room for trial & error when determining the best estimation method. The cons include the prolonged use of estimates when not appropriate.

A12. The Board decided against a proposal that would establish a date-certain timeframe for the use of reasonable estimates when determining the historical cost values of G-PP&E upon initial capitalization and when obtaining historical cost based on the original transaction data is not practical. The Board does not want to penalize an entity simply because it may take the entity longer to implement the necessary systems and processes to ensure the adequate capture of historical cost values. In addition, the Board believes that the use of reasonable estimates is proper given the appropriate disciplines surrounding the use of estimates.

A13. The Board encourages those Federal entities that apply the guidance outlined in this standard to put into place processes and practices (i.e., adequate systems and internal control practices) that will sustain the adequate and proper capture of the original transaction data historical cost of their G-PP&E assets.

A14. The Board believes that acknowledging the continuing appropriateness of estimates based on non-traditional documentation as provided by SFFAS 23 is prudent under the current circumstances. Estimates that do not lead to material misstatements are acceptable without guidance from the Board. Absent such an acknowledgement, significant resources likely will be committed to developing precise estimates that remain a poor substitute for an adequate system and controls.

Appendix B: Abbreviations

1		
2		
3	AICPA	American Institute of Certified Public Accountants
4	CFO Act	Chief Financial Officers Act
5	CFR	Consolidated Financial Report of the U.S. Government
6	FASAB	Federal Accounting Standards Advisory Board
7	FASB	Financial Accounting Standards Board
8	FFMIA	Federal Financial Management Improvement Act of 1996
9	FMFIA	Federal Managers' Financial Integrity Act of 1982
10	GAAP	Generally Accepted Accounting Principles
11	GAO	Government Accountability Office (formerly General Accounting Office)
12	OCBOA	Other Comprehensive Basis of Accounting
13	OMB	Office of Management and Budget
14	P.L.	Public Law
15	SFAC	Statements of Financial Accounting Concepts
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