



October 3, 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 ballot draft of the General PP&E Valuation exposure draft (ED). As a result of the discussion, staff will prepare the ED for the release for public comment by November 15, 2008.

BRIEFING MATERIAL

This Tab includes the 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The December draft guidance proposed guidance for agencies who are not yet required to report PP&E and those who still need to develop their systems to accomplish the requirements of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.]

At the August Board meeting staff presented a pre-ballot ED draft to the Board for approval. The draft ED included an alternative view submitted by Mr. Patton. After much discussion about the wording of the proposal the Board agreed to remove the terms “not practical”, “not cost effective”, or any other qualifiers to define when estimates can be used in place of historical cost transaction data and that a date-certain not be imposed.

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 existing G-PP&E.

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 reasonable estimates of original transaction data historical cost may be used to value any existing general property, plant and equipment (G-PP&E). Reasonable estimates may be used upon initial capitalization as entities implement G-PP&E accounting for the first time as well as by those entities who previously implemented G-PP&E accounting.



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 February 15, 2009

November 15, 2008

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.

Federal Accounting Standards Advisory Board

441 G Street, NW, Suite 6814

Mail stop 6K17V

Washington, DC 20548

Telephone 202-512-7350

FAX – 202-512-7366

www.fasab.gov

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1 November 15, 2008

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

3 The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting
4 comments on the exposure draft of a proposed Statement of Federal Financial
5 Accounting Standards entitled, *Estimating the Historical Cost of General Property,*
6 *Plant, and Equipment.* Specific questions for your consideration appear on page 7 but
7 you are welcome to comment on any aspect of this proposal. If you do not agree with
8 the proposed approach, your response would be more helpful to the Board if you
9 explain the reasons for your position and any alternative you propose. Responses are
10 requested by February 15, 2009.

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

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

19 Wendy M. Payne, Executive Director
20 Federal Accounting Standards Advisory Board
21 Mailstop 6K17V
22 441 G Street, NW, Suite 6814
23 Washington, DC 20548
24

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

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

29

30 Tom L. Allen
31 Chairman

1 Executive Summary

2 What is the Board proposing?

3 This Statement proposes amendments to SFFAS 6 and 23 to clarify that
4 reasonable estimates of original transaction data historical cost may be used to
5 value any existing general property, plant and equipment (G-PP&E). Reasonable
6 estimates may be used upon initial capitalization as entities implement G-PP&E
7 accounting for the first time as well as by those entities who previously
8 implemented G-PP&E accounting.

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

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

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

35 This proposal would clarify that federal entities, including those that had not
36 previously reported G-PP&E on their entity financial statements, should report

1 their G-PP&E based on historical cost in accordance with the asset recognition
2 and measurement provisions of SFFAS No. 6, as amended. However,
3 reasonable estimates of historical cost may be used to value existing G-PP&E
4 assets.

5
6 **How would this proposal improve federal financial reporting and contribute
7 to meeting the federal financial reporting objectives?**
8

9 This proposal does not alter the financial reporting requirements. The proposal is
10 justified on practical grounds. First, it allows the use of estimates for those
11 federal entities that have not previously reported G-PP&E on their entity financial
12 reports and those who have not previously prepared financial reports but who
13 may be required or elect to do so in the future. Because it does not waive the
14 option to produce estimates it preserves the comparability between reporting
15 entities and ensures that readers receive complete financial reports. This
16 proposal also clarifies that the use of estimates when valuing existing G-PP&E in
17 accordance with the asset recognition and measurement provisions of SFFAS 6,
18 as amended, is permissible.

19
20 Second, it is a practical response to the challenges that some agencies, such as
21 the Department of Defense (DoD), continue to address in establishing sound
22 financial systems and controls. In 2003, DoD requested that SFFAS 23 be made
23 effective immediately upon issuance as an incentive to rapid implementation.
24 Immediate implementation was clearly unattainable. Absent a systematic means
25 to capture historical cost, DoD is undertaking the dual task of developing such a
26 system (along with adequate processes and internal controls) and capturing
27 accounting information without the aid of adequate systems. The Board believes
28 that acknowledging the continuing appropriateness of estimates based on non-
29 traditional documentation¹ as provided by SFFAS 23 is prudent under the current
30 circumstances. Absent such an acknowledgement, significant resources likely
31 will be committed to developing precise estimates that remain a poor substitute
32 for adequate systems and controls.

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

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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 has considered the perceived costs associated with this proposal. In
7 responding, please consider the expected benefits and perceived costs and
8 communicate any concerns that you may have in regard to implementing this proposal.

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

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

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

21 All responses are requested by February 15, 2009

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

27 Q2. Do you believe that initial capitalization of G-PP&E based on reasonable
28 estimation methods as provided in the SFFAS 23, as amended, is acceptable on a
29 continuing basis? See SFFAS 23 amended paragraphs [10.] – [13.]. Why or why not?

30 Q3. Do you agree with the proposed amendment to SFFAS 6 that allows the use of
31 reasonable estimates of the original transaction data historical cost and accumulated
32 depreciation for existing G-PP&E? See paragraphs 7b. and A10 – A13. Why or why
33 not?

1 Q4. Do you believe that the use of reasonable estimates to value existing G-PP&E
2 should be permitted at any time (i.e., an open-ended option) or only permitted through a
3 definitive end date (i.e., a date-certain option)? See paragraphs 7b. [SFFAS 6 amended
4 paragraph 40], A5., A14., and A15. Please explain your preference.

5 Q5. Do you agree with the views expressed in the Alternate View in the Basis for
6 Conclusions paragraphs A19. and A20.? Why or why not?

7 Q6. Do you believe additional clarification is needed on the use of reasonable
8 estimates when valuing the historical cost of G-PP&E? Why or why not?

9

10

Ballot Draft

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 permits estimation of the amount to be
6 capitalized but is 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 in fiscal year 2003.
- 12 2. The objective of this amendment is a cost effective method to comply with
13 SFFAS 6, as amended. This method is available to reporting entities that
14 have not previously prepared financial reports but who may be required or
15 elect to do so in the future and to ensure such entities are afforded an
16 implementation period. In addition, these amendments also apply in those
17 cases where entities have decided to use estimates to determine the
18 historical cost values of existing G-PP&E.
- 19 3. Note that this amendment will not extend the effective date² of SFFAS 6 as
20 amended, but will clarify that methods deemed acceptable by SFFAS 23
21 continue to be acceptable. This guidance also amends SFFAS 6 to clarify
22 the use of estimates to approximate the historical cost values of G-PP&E.
- 23 4. The Board encourages those Federal entities that apply the guidance
24 outlined in this standard to put into place processes and practices (i.e.,
25 adequate systems and internal control practices) that will sustain the
26 adequate capture of the original transaction data historical cost values of
27 their G-PP&E.

28 Materiality

- 29 5. The provisions of this Statement need not be applied to immaterial items.
30 The determination of whether an item is material depends on the degree to
31 which omitting or misstating information about the item makes it probable

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.

1 that the judgment of a reasonable person relying on the information would
2 have been changed or influenced by the omission or the misstatement.

3 **Effective Date**

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

Ballot Draft

1 **Proposed Standard**2 **Scope**

3 7. This statement provides guidance for both:

4 a. Reasonably estimating the historical cost and accumulated depreciation of
5 G-PP&E upon initial capitalization. Initial capitalization occurs when G-
6 PP&E acquired before the reporting period is capitalized for the first time;
7 and8 b. Reasonably estimating the historical cost and accumulated depreciation of
9 existing G-PP&E.

10

11 8. The text of SFFAS 6, par. 40 and SFFAS 23, par. 10 through 18, is
12 amended as shown below (original paragraph numbers are retained):13 **Estimation of Amounts upon Initial Capitalization – Amendments to**
14 **Existing Standards**
15 **(SFFAS 6)**16 [40.] Reasonable estimates may be used to establish the historical cost of
17 existing general PP&E, in accordance with the asset recognition and
18 measurement provisions of SFFAS 6, as amended. For existing general
19 PP&E, if historical cost information necessary to comply with the above
20 recognition and measurement provisions has not been maintained, estimates
21 of historical cost are required. Estimates may shall be based on:22 • cost of similar assets at the time of acquisition, ~~or~~23 • current cost of similar assets discounted for inflation since the time of
24 acquisition (i.e., deflating current costs to costs at the time of acquisition by
25 general price index), or26 • other reasonable estimates of historical cost.27 **(SFFAS 23)**28 [10.] The initial capitalization amount for general property, plant and
29 equipment assets not previously reported on an entity's financial statements
30 assets previously considered ND PP&E should be based on historical cost in
31 accordance with the asset recognition provisions of SFFAS 6, as amended,

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

3 ~~[11.] This standard recognizes that determining initial historical cost for items~~
4 ~~acquired many years prior to the effective date of this standard in an~~
5 ~~environment in which the historical records were not required to be retained~~
6 ~~and may therefore be inadequate not be reasonable or practical.~~

7 [12.] When establishing the historical cost of existing general PP&E, in
8 accordance with the asset recognition and measurement provisions of
9 SFFAS 6, as amended, reasonable estimates may be used. If obtaining
10 initial historical cost is not practical, estimated historical cost may be used.
11 Estimates may be based on Other information such as, but not limited to,
12 budget, appropriation, or engineering documents and other reports reflecting
13 amounts to be expended may be used as the basis for reasonably estimating
14 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

^{4A} "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].

Adjustment to Cumulative Results of Operations

[16.] Initial application of this guidance should be treated as a correction of an 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.

1 Appendix A: Basis for Conclusions

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

7 Project History

- 8 A1. At the FASAB September 2007 meeting, the Board discussed technical
9 agenda options. During the discussion, members expressed support for an
10 effort to reduce the cost expected to be incurred at the Department of
11 Defense (DoD) as they establish the historical cost for existing G-PP&E
12 during the coming years.
- 13 A2. The discussion documented a number of concerns relating to DoD
14 accounting. In addition, concerns regarding group and composite
15 depreciation have been raised since the meeting. Collectively, concerns
16 regarding G-PP&E were summarized as follows:
- 17 a. Continued use of estimates in the absence of a system
 - 18 b. Options for group/composite depreciation
 - 19 c. Accounting for assets deployed to a war zone
 - 20 d. Cost accounting (assignment of R&D, support and overhead to G-
21 PP&E)
 - 22 e. Evaluation of existing standards and the potential for adopting fair
23 value as the measurement basis
- 24
- 25 A3. In considering these issues, the Board agreed that issues a. through d.,
26 can and should be addressed quickly due to the potential that more costly
27 solutions will be found in the absence of guidance. The Board agreed that
28 these issues could be addressed without significantly affecting the Board's
29 ongoing projects.
- 30 A4. With respect to issue e., evaluation of existing standards, the Board agreed
31 that this issue should be considered when the Board makes decisions on
32 its technical agenda. As noted by one of the members, considerable time
33 has been devoted to the question of G-PP&E accounting. A project on this
34 topic is likely to be controversial and demand staff and Board time.
35 Therefore, undertaking the project should be considered in the broad
36 context of agenda setting. In August 2008, the Board agreed to add a

1 project regarding evaluation of existing standards and plans to address the
2 PP&E standards as one component of that project.
3

4 **Initial Proposal for Implementation Guidance**

5 A5. Regarding the permissibility of estimates (issue a), the Board agreed that it
6 should consider amending the standards. It is not unreasonable to read
7 SFFAS 6, as amended, to provide for the use of the SFFAS 23 initial
8 capitalization methods only when assigning cost to G-PP&E acquired
9 before the effective dates of SFFAS 6 or 23. The Board agreed to clarify
10 this through a relatively narrow amendment of SFFAS 23. A draft exposure
11 draft (omitting the Board's basis for conclusions) was presented at the
12 December 2007 FASAB meeting. The draft (1) provided an additional five
13 year window for the Department of Defense and a rolling five year window
14 for agencies not previously producing financial reports to rely on SFFAS 23
15 methods and (2) provided new guidance regarding estimation of the in-
16 service date. Subsequent Board discussions discouraged a proposal that
17 would establish a date-certain timeframe for the use of reasonable
18 estimates when determining the historical cost values of G-PP&E.

19 A6. Staff did not request immediate action by the Board on the draft ED. The
20 Board generally supported the proposal so staff's next steps were to
21 inquire with selected agencies and members of the audit community to
22 confirm that the guidance is needed and clear. In addition, staff reviewed
23 fiscal year 2007 agency reports to determine if agencies other than the
24 Department of Defense face similar challenges with respect to developing
25 G- PP&E systems, use of SFFAS 23 methods, and could be expected to
26 incur significant costs to arrive at acceptable estimates absent explicit
27 guidance.

28 A7. With respect to the three remaining group 1 issues (group/composite
29 depreciation, deployed assets, and cost accounting), staff recommended
30 and the Board agreed to request that the Accounting and Auditing Policy
31 Committee (AAPC) consider these issues. Staff suggested that a task force
32 may be able to develop implementation guidance within the boundaries of
33 the current standards. The AAPC has accepted the project and a task force
34 is actively engaged in developing guidance.

35 **Member Views**

36 A8. SFFAS 6 was issued in November 1995 and was effective in fiscal year
37 1998. In addition, SFFAS 23, *Eliminating the Category National Defense*
38 *PP&E*, was issued in May 2003 and was effective in fiscal year 2003. In
39 2002, the Accountability of Tax Dollars Act established a requirement for

- 1 many agencies that did not previously produce audited financial statements
2 to do so. As a result, in fiscal year 2003 many agencies were required to
3 comply with SFFAS 6 for the first time. Therefore, certain entities were not
4 afforded an implementation period because they began preparing financial
5 statements after the effective date of SFFAS 6.
- 6 A9. This Statement permits continued application of the SFFAS 23 initial
7 capitalization guidance. The Statement's primary objective is a cost
8 effective method for attaining compliance with SFFAS 6 as amended. This
9 method is available to reporting entities that have not previously prepared
10 financial reports but who may be required or elect to do so in the future to
11 ensure such entities are afforded an implementation period. In addition,
12 these amendments also apply in those cases where entities decide to use
13 estimates to determine the historical cost values of existing G-PP&E.
- 14 A10. An entity may find that it is not practical to determine the historical cost of
15 existing G-PP&E based on the original transaction data because it is either
16 not cost effective to do so or documentation is inadequate. Cost
17 effectiveness may be based on an analysis of various cost factors
18 associated with determining those historical cost values. An entity may
19 also determine it impractical when the original transaction data historical
20 cost documentation has not been maintained or when the historical cost
21 data has been maintained but not in a manner that facilitates the timely
22 valuation of G-PP&E. An entity's inadequate systems and/or processes
23 that do not facilitate the ready and timely collection of data for the valuation
24 of G-PP&E may lead to an assessment that valuation based on original
25 transaction data is not cost effective.
- 26 A11. The Board initially included "cost effectiveness" and "practical" as the basic
27 criteria to be met before the use of reasonable estimates when valuing G-
28 PP&E in accordance with the asset recognition and measurement
29 provisions of SFFAS 6, as amended, would be permitted. The Board later
30 decided against including the above basic criteria. Such criteria are open
31 to interpretation and likely to lead to subjective and inconsistent
32 application.
- 33 A12. The Board stresses to federal entities that the measurement basis for G-
34 PP&E remains historical cost; however, reasonable estimates are allowed.
35 The Board believes entities should use judgment regarding the decision to
36 use estimated historical cost in lieu of actual transaction data. The Board
37 also notes that estimates are widely used throughout the financial
38 statements. In this case, estimates should provide a reasonable

- 1 approximation of historical cost; the measurement basis required for G-
2 PP&E.
- 3 A13. The Board is aware that these amendments will not solve all the concerns
4 surrounding accounting for G-PP&E. However, allowing estimates as
5 entities are working towards implementing systems and processes that can
6 capture historical data would be beneficial. The Board is also relying on
7 other means, such as laws and regulations relating to systems and
8 controls, to encourage entities to continue to develop adequate systems
9 and processes.
- 10 A14. The Board also debated at length whether to establish a date-certain
11 timeframe or have an open-ended approach for the use of reasonable
12 estimates when determining the historical cost values of G-PP&E. The
13 debate included both pros and cons to a date-certain approach. One of
14 the pros to the date-certain approach is that entities will have a specific
15 goal (i.e., timeframe) to work towards. The con to the date-certain
16 approach is that there is a risk that the benefits of the standard could be
17 voided if the entity does not or can not meet the date-certain timeframe.
18 The debate also included pros and cons to an open-ended approach. The
19 pros include flexibility and the room for trial & error when determining the
20 best estimation method. The cons include the prolonged use of estimates
21 when not appropriate.
- 22 A15. The Board decided against a proposal that would establish a date-certain
23 timeframe for the use of reasonable estimates when determining the
24 historical cost values of G-PP&E. The Board does not want to penalize an
25 entity simply because it may take the entity longer to implement the
26 necessary systems and processes to ensure the adequate capture of
27 historical cost values. In addition, the Board believes that the use of
28 reasonable estimates is proper given the appropriate disciplines
29 surrounding the use of estimates.
- 30 A16. The Board encourages those Federal entities that apply the guidance
31 outlined in this standard to put into place processes and practices (i.e.,
32 adequate systems and internal control practices) that will sustain the
33 adequate and proper capture of the original transaction data historical cost
34 of their G-PP&E.
- 35 A17. The Board believes that acknowledging the continuing appropriateness of
36 estimates based on non-traditional documentation as provided by SFFAS
37 23 is prudent under the current circumstances. Estimates that do not lead
38 to material misstatements are acceptable without guidance from the Board.

1 Absent such an acknowledgement, significant resources likely will be
2 committed to developing precise estimates that remain a poor substitute for
3 an adequate system and controls.

4 Alternate View

5 A18. Individual members sometimes choose to express an alternative view
6 when they disagree with the Board's majority position on one or more
7 points in the Statement. The alternative view discusses the precise point
8 or points of disagreement with the majority position and the reasons
9 therefore. The ideas, opinions, and statements presented in the alternative
10 view are those of the individual member alone. However, the individual
11 member's view may contain general or other statements that may not
12 conflict with the majority position, and in fact may be shared by other
13 members. The following material was prepared by Board member James
14 Patton and is presented as an alternative view.

15 A19. This Exposure Draft allows federal agencies to report reasonable estimates
16 of the historical costs of existing General Property, Plant, and Equipment.
17 Although the Exposure Draft encourages federal entities to develop
18 systems to capture historical costs based on transaction data, (See
19 Paragraph A16), the time period allowed for the use of reasonable
20 estimates is open-ended.

21 A20. Because the allowance of the use of estimates is quite subjective and the
22 quality of the systems designed to capture historical costs based on
23 transaction data is within the control of federal agencies, I believe that a
24 likely outcome if this Exposure Draft is adopted as a FASAB Standard is
25 that some federal agencies will defer and delay the creation of systems for
26 a considerable period of time, perhaps until another measurement
27 approach is adopted for federal financial reporting. Although Paragraph
28 A15 asserts that there are "appropriate disciplines surrounding the use of
29 estimates", the fact that no system exists to capture the actual historical
30 acquisition cost of assets means that there would appear to be no objective
31 basis upon which to compare the estimates made by an agency. Thus,
32 any standard based on the criteria in this Exposure Draft is likely to be
33 ineffective in improving federal financial reporting for the foreseeable
34 future. I encourage respondents to pay particular attention to Q3, Q4, and
35 Q6 in the Questions for Respondents Section of this Exposure Draft.

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

1 **FASAB Board Members**

2

3

4 Tom L. Allen, Chair

5 Robert F. Dacey

6 John A. Farrell

7 Norwood J. Jackson, Jr.

8 James M. Patton

9 Robert N. Reid

10 Alan H. Schumacher

11 Harold I. Steinberg

12 Danny Werfel

13

14

15 FASAB Staff

16

17 Wendy M. Payne, Executive Director

18

19

20 Project Staff

21

22 Monica R. Valentine

23

24

25 Federal Accounting Standards Advisory Board

26 441 G Street NW, Suite 6814

27 Mail Stop 6K17V

28 Washington, DC 20548

29 Telephone 202-512-7350

30 FAX 202-512-7366

31 www.fasab.gov