



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,<sup>1</sup> 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.

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<sup>1</sup> 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The December draft guidance proposed guidance for agencies who are not yet required to report PP&E and those who still need to develop their systems to accomplish the requirements of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

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**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**

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## 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](http://www.fasab.gov).

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November 15, 2008

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 7 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 February 15, 2009.

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](mailto: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

## 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 documentation<sup>1</sup> 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.

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<sup>1</sup> 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](http://www.fasab.gov/exposure.html). Your responses should be sent by e-mail to  
14 [fasab@fasab.gov](mailto: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 date<sup>2</sup> 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

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<sup>2</sup> 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

**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 and accumulated depreciation of existing G-PP&E.
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.] Reasonable estimates may be used to establish the historical cost of existing general PP&E, in accordance with the asset recognition and measurement provisions of SFFAS 6, as amended. ~~For existing general PP&E, if historical cost information necessary to comply with the above recognition and measurement provisions has not been maintained, estimates of historical cost 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 ~~assets previously considered ND PP&E~~ should be based on historical cost in accordance with the ~~asset recognition~~ provisions of SFFAS 6, as amended,

and should be the initial historical cost for the base unit<sup>4A</sup> items, including any major improvements or modifications.

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

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

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

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

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

[15.] For military equipment that is eligible for initial capitalization in-service upon implementation of under this standard, cleanup cost liabilities should be adjusted, as needed.<sup>5</sup>

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<sup>4A</sup> "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.<sup>6</sup>

[Footnotes:]

<sup>[5]</sup> 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.

~~<sup>[6]</sup> 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.

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**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 (DoD) as they establish the historical cost for existing 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 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. In August 2008, the Board agreed to add a

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

#### 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.

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 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 Statement permits continued application of the SFFAS 23 initial capitalization guidance. The Statement's primary objective is a cost effective method for attaining compliance with SFFAS 6 as amended. This method is available to reporting entities that have not previously prepared financial reports but who may be required or elect to do so in the future to ensure such entities are afforded an implementation period. In addition, these amendments also apply in those cases where entities decide to use estimates to determine the historical cost values of existing G-PP&E.

A10. An entity may find that it is not practical to determine the historical cost of existing G-PP&E 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 G-PP&E. An entity's inadequate systems and/or processes that do not facilitate the ready and timely collection of data for the valuation of G-PP&E may lead to an assessment that valuation based on original transaction data is not cost effective.

A11. The Board initially included "cost effectiveness" and "practical" as the basic criteria to be met before the use of reasonable estimates when valuing G-PP&E in accordance with the asset recognition and measurement provisions of SFFAS 6, as amended, would be permitted. The Board later decided against including the above basic criteria. Such criteria are open to interpretation and likely to lead to subjective and inconsistent application.

A12. The Board stresses to federal entities that the measurement basis for G-PP&E remains historical cost; however, reasonable estimates are allowed. The Board believes entities should use judgment regarding the decision to use estimated historical cost in lieu of actual transaction data. The Board also notes that estimates are widely used throughout the financial statements. In this case, estimates should provide a reasonable

approximation of historical cost; the measurement basis required for G-PP&E.

A13. The Board is aware that these amendments will not solve all the concerns surrounding accounting for G-PP&E. However, allowing estimates as entities are working towards implementing systems and processes that can capture historical data would be beneficial. The Board is also relying on other means, such as laws and regulations relating to systems and controls, to encourage entities to continue to develop adequate systems and processes.

A14. The Board also 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. 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 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.

A15. 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. 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.

A16. 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.

A17. 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.

#### Alternate View

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

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

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

**1 Appendix B: Abbreviations**

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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**

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