

Date: May 10, 1995
To: Wendy Comes
From: Judy Yuran
Subject: Issues Resolution Committee Comments on PP&E ED

Thank you for attending the Issues Resolution Committee (IRC) meeting on February 9th and the Property Plant & Equipment (PP&E) Subcommittee meeting on March 23rd. The following are comments from IRC members related to the FASAB PP&E Exposure Draft (ED). Holden Hogue plans to officially submit these comments with a letter to Mr. Young.

GENERAL COMMENTS

Capitalization versus Expensing

- Title II states that when assets that don't meet capitalization thresholds, individually, are purchased in lots or as combined components meeting the threshold collectively, they are capitalized. Since Title II will be superseded by the Standards, the PP&E Standard should provide guidance in this area.

Example I: Individual components (hard drives, output ports, communications etc.,) used to construct a computer may not meet the capitalization threshold individually or even when combined. When an additional component is added (memory board) or an improvement is made it may then meet the criteria. If the purchase of the individual components was originally expensed, should the expense be reversed and the total asset then be capitalized?

Example II: A purchase of a single desk may not meet the capitalization threshold, whereas, the purchase of many desks may. Should these desks be considered for capitalization individually or in aggregate?

- Mission PP&E is to be expensed. If the asset is brought into general use and reclassified, should the original expense be reversed and the asset capitalized? If so, at what value should the asset be recorded, original cost, fair market, or original cost retroactively depreciated?

Government-owned versus Non-Government-owned Assets

- When Government-owned, contractor operated equipment is purchased by a contractor under a government service contract the equipment is expensed under OMB Object Class 25, Other Contractual Services, and not recorded as a capital asset. Should this be classified as a capital asset? If so, how can this be accomplished?
- How should Government-owned equipment donated or loaned to non-Federal entities and foreign governments be classified?

GENERAL PP & E

Page 3, Para 12

IRC Comment: The Board should establish capitalization thresholds and a method to review these thresholds at specified intervals. If left to the Federal entities there will be wide differences on what is expensed at acquisition and what is expensed through depreciation. This will affect the accumulation of cost data, the recovery of costs through reimbursable agreements and the ability to make comparisons of costs across the agencies. This will become more critical as performance measures are used to determine which programs retain their funding and which programs are cut. Finally, there is a concern about the auditability of the U. S. Consolidated Financial Statement if capitalization criteria is inconsistent among the agencies.

FEDERAL MISSION PP&E

Pages 29 and 30, para 98 - 101

IRC Comment: The definition of Federal Mission PP&E is too ambiguous and difficult to apply. Does it mean "end-product," or would it include the related support costs and/or work in progress? Also, instances of equipment being converted from mission specific to general use occurs more than the standard addresses. There is a possibility of reclassification of property to alternate future use. The standard doesn't address how to reclassify from one type of property, plant and equipment to another or whether prior period adjustments might be necessary to properly account for the reclassification.

Page 31, para 106

IRC Comment: There appears to be a conflict between Property, Plant and Equipment and the Inventory Standard (page 33, para 136) concerning treatment of military equipment (specific-use) versus stockpile materials. PP&E indicates Federal Mission equipment be expensed, whereas the Inventory Standard treats stockpile materials of any kind as inventory. Shouldn't all mission related assets whether related to PP&E or Inventory should be treated the same?

DEFERRED MAINTENANCE

Page 21, Question VI

IRC Comment: Deferred maintenance should not be recognized as a line item liability (without amount) or as a note. The deferred maintenance cost concept and approach is not reasonable and would be too costly. The methodology for determining cost, such as current replacement value is not clear or specific enough. There are no transactions or events which lead to the creation of a liability. Data is not sufficiently measurable or recognizable for establishing a liability. A similar argument can also be made for not including information as a note. Notes which are an integral part of the financial statements should not be incorporated if they contain data that is not measurable or recognizable.

CLEANUP COSTS

Page 21, Question VII - A

IRC Comment: The liability accounting treatment for cleanup costs should be the same for General PP&E as for Federal Mission PP&E. The full cleanup cost should be recognized as a liability at the time the General PP&E asset is put into service. A contra account should be established to recognize a deferred charge which would be amortized over the appropriate accounting periods. There is no need for a General PP&E disclosure note.

We appreciate the opportunity to comment on this exposure draft. You may call me on (202)874-6308, If you have any questions.