

Federal Accounting Standards Advisory Board

Eliminating the Category National Defense Property, Plant, and Equipment

Rescinding SFFAS No. 11, *Amendments to Property, Plant, and Equipment -- Definitional Changes*
Amending SFFAS No. 8, *Supplementary Stewardship Reporting*
Amending SFFAS No. 6, *Accounting for Property, Plant, and Equipment*

Statement of Federal Financial Accounting Standards No. 23

May 2003

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THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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Additional background information is available from the FASAB:

- *"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," Amended January 11, 2002.*
- *"Mission Statement: Federal Accounting Standards Advisory Board"*

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EXECUTIVE SUMMARY

I. Prior to this amendment, the acquisition costs for items classified as national defense (ND) property, plant, and equipment (PP&E) were expensed in the period incurred. In addition, valuation (using either an historical or latest acquisition cost valuation method), condition, and deferred maintenance information for these items was to be presented off-balance sheet.

II. The amendments in this Statement make the following changes. The term “ND PP&E” is rescinded. All items previously considered ND PP&E are classified as general PP&E. Accordingly, the cost of these items should be capitalized and, with the exception of the cost of land and land improvements that produce permanent benefits, depreciated. This Statement also notes that all entities are permitted to use the composite or group depreciation methodology to calculate depreciation.

III. The amendments in this Statement take effect for accounting periods beginning after September 30, 2002.

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INTRODUCTION

1. The purpose of this Statement is to amend certain standards with regard to national defense (ND) property, plant, and equipment (PP&E). The standards being amended are contained in Statement of Federal Financial Accounting Standards (SFFAS) No. 11, *Amendments to Accounting for Property, Plant, and Equipment -- Definitional Changes* (December 1998); SFFAS No. 8, *Supplementary Stewardship Reporting* (June 1996); and, SFFAS No. 6, *Accounting for Property, Plant, and Equipment* (November 1995).

Background

2. Pursuant to SFFAS No. 6, costs to acquire, replace or improve ND PP&E[1] were recognized[2] as an expense in the period incurred. Consistent with the treatment of the acquisition cost of ND PP&E, SFFAS No. 6 also required that the total estimated cleanup cost be recognized as an expense and a liability established in the period the ND PP&E item is placed in service. A further requirement of SFFAS No. 6, as amended by SFFAS No. 14, is that deferred maintenance amounts be presented as Required Supplementary Information (RSI).[3]

3. The Supplementary Stewardship Reporting standards in SFFAS No. 8 required presenting a valuation of ND PP&E. The following values were to be presented:

   a. a beginning value balance for ND PP&E;

[1] Originally, ND PP&E was defined in SFFAS No. 6 as Federal mission PP&E. Subsequent to the issuance of SFFAS No. 6, many agencies suggested that the Federal mission PP&E category would be appropriate for agency PP&E not considered by the Board in developing the category. To prevent confusion, inconsistency, and unintended application, the Board replaced the definition of Federal mission PP&E with the definition of ND PP&E currently contained in SFFAS No. 11 to clarify that only DoD and the Maritime Administration's National Defense Reserve Fleet PP&E would be categorized as ND PP&E.

[2] "Recognize" means to record an amount in entity accounts and to report a dollar amount on the face of the Statement of Net Costs or the Balance Sheet either individually or so that the amounts are aggregated with related amounts.

[3] This amendment does not change any requirements for deferred maintenance.

b. the dollar values for ND PP&E acquired during the reporting period;

c. the dollar values for ND PP&E withdrawn during the reporting period;

d. the increase or decrease in values resulting from revaluation of assets using the latest acquisition cost (LAC); and,

e. the end-of-year values by major type or category of ND PP&E.

The values were to have been determined using either an historical or LAC valuation method.

4. In addition to the values, condition information was required. The valuation and condition information was presented as Required Supplementary Stewardship Information (RSSI) – that is, outside of the principal financial statements.

5. Current Board members acknowledge that the stewardship approach was adopted, not as a convenience or temporizing expedient, but as a technically desirable approach. However, an increasing government-wide focus on the cost of operations and operating performance in relation to the implications of the Government Performance and Results (GPRA) Act, combined with the Board's and Department of Defense's (DoD) extensive study and greater understanding about National Defense PP&E, provide a clear indication that the operating performance objective is relevant for ND PP&E. Accordingly, the Board rescinds SFFAS No. 11 and amends SFFAS Nos. 6 and 8.

Summary of Amendments

6. The amendments in this Statement:

a. Rescind the term "ND PP&E" and its definition ;

b. Classify all assets previously considered to be ND PP&E as general PP&E and, the provisions for general PP&E and associated cleanup costs for general PP&E contained in SFFAS No. 6, as amended, are to be applied; and,

c. Continue to permit the composite or group depreciation methodology to depreciate general PP&E.

Effective Date

7. This Statement is effective for accounting periods beginning after September 30, 2002, with earlier implementation encouraged.

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ACCOUNTING STANDARDS

Amendments to Existing Standards

8. The amendments to accounting standards for assets previously identified as national defense (ND) property, plant, and equipment (PP&E) and implementation guidance are presented in paragraphs 9 through 18 that follow.

9. The amendments affect existing standards, for periods beginning after September 30, 2002 or upon early implementation of this Statement, in the following manner:

   a. SFFAS No. 11 is rescinded in its entirety;

   b. The prefatory box preceding paragraph 52 of SFFAS No. 8 is rescinded;

   c. Paragraphs 52 through 70 of SFFAS No. 8 are rescinded;

   d. Paragraph 21 of SFFAS No. 6 is amended by rescinding the category name "Federal mission property, plant, and equipment;"

   e. Paragraphs 46 through 56 of SFFAS No. 6 and the accompanying heading "Federal mission property, plant, and equipment;" which precedes these paragraphs, are rescinded;

   f. SFFAS No. 6 is amended by adding the following sentence to paragraph 35 as a separate bulleted line item:

      - A composite or group depreciation methodology[4], whereby the costs of PP&E are allocated using the same allocation rate, is permissible.

[4] The composite methodology is a method of calculating depreciation that applies a single average rate to a number of heterogeneous assets that have dissimilar characteristics and service lives. The group methodology is a method of calculating depreciation that applies a single, average rate to a number of homogeneous assets having similar characteristics and service lives.

Implementation Guidance

Initial Capitalization

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

11. This standard recognizes that determining initial historical cost may not be practical 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.

12. If obtaining initial historical cost is not practical, estimated historical cost may be used. Other information such as but not limited to budget, appropriation, or engineering documents and other reports reflecting amounts expended may be used as the basis for 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 acquisition year or estimated 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.

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 No. 6, as amended.

15. For military equipment that is in service upon implementation of this standard, cleanup cost liabilities should be adjusted, as needed.[5]

[5] Under the provisions of SFFAS No. 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 No. 6, as amended.

Adjustment to Cumulative Results of Operations

16. 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 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]

The provisions of this statement need not be applied to immaterial items

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

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APPENDIX A: BASIS FOR CONCLUSIONS

19. This appendix summarizes some of the considerations deemed significant by the Board in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others.

Introduction

20. The Board issued an exposure draft (ED), *Eliminating the Category National Defense Property, Plant, and Equipment*, to rescind SFFAS No. 11, *Amendments to Property, Plant, and Equipment -- Definitional Changes* and to amend SFFAS No. 8, *Supplementary Stewardship Reporting* and SFFAS No. 6, *Accounting for Property, Plant, and Equipment* in March of 2002. Twenty comment letters were received during a comment period that ended May 20, 2002. The majority of respondents supported the proposals presented in the ED. Concerns raised by the respondents dealt mostly with providing additional guidance for the valuation and consumption of items. Two other concerns dealt with the impact of the Statement on contractor costs and the effective date of the Statement. Background information pertaining to the development of this Statement and discussions on the concerns raised by respondents are addressed in the following paragraphs.

Background

21. The Federal Accounting Standards Advisory Board (FASAB) has studied accounting and reporting approaches for Property, Plant, and Equipment (PP&E) for a number of years. FASAB's initial standards for PP&E began with the development of SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and followed with SFFAS No. 8, *Supplementary Stewardship Reporting.*

22. SFFAS No. 6 requires that general PP&E be recognized as assets in the basic financial statements and, except for land and land improvements that produce

permanent benefits, be charged to expense through depreciation over their useful life. SFFAS No. 6, paragraph 122, states that "allocation of the cost of general PP&E, excluding land, among accounting periods was essential to assessing operating performance." The Board's federal financial reporting objectives concept statement, Statement of Federal Financial Accounting Concepts (SFFAC) No.1, focuses on relating costs to accomplishments in reporting an entity's operating performance. To meet the operating performance objective for general PP&E, the Board sought to provide accounting standards that would result in:

a. relevant and reliable cost information for decision-making by internal users;
b. comprehensive, comparable cost information for decision-making and program evaluation by the public; and,
c. information to help assess the efficiency and effectiveness of asset management.

23. The Board, however, found that for some PP&E, the depreciation effect of the asset on operating performance was not the predominant reporting objective. Instead, stewardship was important. Therefore, three categories of assets (i.e., national defense PP&E (ND PP&E),[7] heritage assets, and stewardship land) are referred to collectively as stewardship PP&E.

24. The purpose of SFFAS No. 8 was to establish standards for reporting on the Federal Government's stewardship over certain resources entrusted to it, and certain responsibilities assumed by it. Among these standards are standards for reporting on stewardship PP&E. "Stewardship PP&E" consists of items whose physical properties resemble those of general PP&E traditionally capitalized in financial statements. However, the nature of these Federal physical assets that are classified as stewardship PP&E differs from general PP&E in that their values may be indeterminable or may have little meaning

[7] Prior to the issuance of SFFAS No. 11, *Amendments to Accounting for Property, Plant, and Equipment – Definitional Changes*, (amending SFFAS Nos. 6 and 8) the Board referred to ND PP&E as Federal Mission PP&E. The reasons leading to that change are not relevant to this ED but may be understood by reading SFFAS No. 11. This document uses the amended title and definition in referring to the existing provisions.

(e.g., museum collections, monuments, assets acquired in the formation of the nation) or that allocating the cost of such assets (e.g., ND PP&E) to accounting periods that benefit from the ownership of such assets is not meaningful. Specifically, for ND PP&E the majority of the Board did not believe applying depreciation accounting for these assets would contribute to measuring the cost of outputs produced, or to assessing operating performance, in any given accounting period. The Board believed that these assets were developed, used, and retired in a manner that did not lend itself to a "systematic and rational" assignment of costs to accounting periods (i.e., depreciation accounting) and, ultimately, to outputs.

25. Accordingly, one result of SFFAS Nos. 6 and 8 was to remove the PP&E components of ND PP&E from the balance sheet. To accomplish this, SFFAS No. 6 (as amended) required that the cost to acquire ND PP&E components be expensed when incurred. SFFAS No. 8 (as amended), required presenting ND PP&E as stewardship information and included the following information by major type or category of ND PP&E:
    a. a beginning value balance, using either a historical or latest acquisition cost (LAC) valuation method;
    b. the dollar value acquired during the reporting period;
    c. the dollar value withdrawn during the reporting period;
    d. the increase or decrease in value resulting from revaluation of assets using the LAC; and,
    e. the end-of-year value.

26. In addition to presenting values, SFFAS No. 8 required that condition information be presented. The presentation of value and condition information was done off-balance sheet as Required Supplementary Stewardship Information (RSSI). In addition to value and condition, SFFAS No. 6, as amended, required deferred maintenance information to be presented as Required Supplemental Information (RSI) for ND PP&E.

February 1998 ED

27. In early 1998, the FASAB issued an exposure draft (ED) to amend SFFAS Nos. 6 and 8. The exposure draft was initiated (1) to refine the definition of ND PP&E, and (2) in recognition of the need to provide a transition plan due to the DoD's inability to comply with the provisions of SFFAS No. 8. During the process, the Board reconsidered whether SFFAS No. 8 was an appropriate end goal. Ultimately, the 1998 exposure draft included, among other suggestions, proposals to replace the requirement to present cumulative cost information in the supplementary stewardship report with a requirement to present ND PP&E annual acquisition costs for each of the previous five years (i.e., annual trend information rather than cumulative costs), quantities, and condition information.

28. Besides considering the written comments in response to this 1998 ED, the Board held a public hearing on these proposals to explore further the concerns expressed by some respondents. Because of the divergent views of both respondents and Board members, the Board did not reach a final conclusion on revisions to the reporting requirements for ND PP&E in SFFAS No. 8. The Board's continued deliberations on the proposed standards highlighted the differences of opinion on this subject among the Board members. Since neither the standards in SFFAS No.8 nor the proposed amendments were acceptable to a majority of the Board members, the Board decided that the accounting for and reporting on ND PP&E requirements should be revisited. DoD voluntarily undertook a study to address (1) users information needs relative to ND PP&E, (2) the current systems capabilities within DoD, and (3) an assessment of alternative means to meet the reporting objectives set by the Board.

29. The Board acknowledges that the SFFAS No. 8 stewardship approach was adopted, not as a convenience or temporizing expedient, but as a technically desirable approach. However, an increasing government-wide focus on the cost of operations and operating performance in relation to the implications of

the Government Performance and Results (GPRA) Act, combined with the Board's and DoD's extensive study and greater understanding about National Defense PP&E, provides a clear indication that the operating performance objective is relevant for ND PP&E.

September 2001 ED

30. In September 2001, the FASAB issued an ED that proposed incremental movement from the stewardship reporting of SFFAS No.8 towards information focused on operating performance. The amendments proposed in that ED would have made the following changes. The definition of ND PP&E would have been amended. ND PP&E would have consisted of 2 separate categories of items within the amended definition: (a) Major End Items and (b) Mission Support Items. Major End Items would have been subject to a presentation of the number of units and condition assessment information by asset type or category. In addition, Major End Items would have been capitalized but not depreciated, while Mission Support Items would have been capitalized and depreciated. Also, data for the ten largest current acquisition programs would have been disclosed.

31. The Board issued the 2001 ED because it believed that the proposals in that ED were the best that could be achieved given the acknowledged shortcomings of DoD accounting and other management information systems, as well as DoD's firm belief that certain information would not be useful for management purposes. The 2001 ED would have achieved one of the current Board's objectives, which was to establish monetary accountability over military assets. However, because the 2001 ED did not require depreciation of some major assets, the September 2001 FASAB ED on NDPP&E fell short of comprehensive PP&E accounting. In addition, it would not have fully achieved the objective of SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, to account for the full cost of programs

with a focus on relating costs to accomplishments in reporting an entity's operating performance.

March 2002 ED

32. While there were divergent views on the proposals in the September 2001 ED, many respondents believed ND PP&E should be capitalized and depreciated as is general PP&E. Many Board members had wanted to make this change for some time. This caused the Board to reconsider the proposals presented in the September 2001 ED. The outcome from the deliberations was a consensus of the Board to make the proposal in the March 2002 ED to classify, capitalize, and depreciate ND PP&E as general PP&E. The Board believed its proposal would put discipline into the asset management process. Many members of the Board believe depreciation, impairment, deferred maintenance, and condition are interrelated judgments that should result jointly from periodic estimation of the remaining useful service potential of assets. The Board believes periodic analysis of the sources of asset diminution is as important, perhaps more so, for national defense assets than for other assets.

33. The Board also notes that a second purpose of depreciation accounting is to provide information for measuring the full cost of producing outputs (e.g., deterrence, readiness, training). Full cost, including the depreciation of ND PP&E, would be available for use in assessing the operating performance of responsibility segments for producing outputs and to meet the goals of SFFAC No. 1 and SFFAS No. 4. In addition, the Board believes that classifying all DoD PP&E as general PP&E would improve the public's understanding of federal accounting, add consistency to the application of standards throughout the Federal government, reduce the DoD's cost of development and operation of accounting systems, and preclude the standard setting costs that would be necessary to resolve on-off balance sheet questions. Accordingly, the Board proposed to rescind SFFAS No.11 and amend SFFAS Nos. 6 and 8.

34. Although the September 2001 ED on ND PP&E proposed three special disclosures for ND PP&E, the Board decided not to include them in the March 2002 ED. The three special disclosures proposed in the September 2001 ED were:

    a. unit information by type or category of Major End Item[8];

    b. condition assessment information for Major End Items; and,

    c. actual and planned acquisition program costs and unit information for the ten largest current national defense PP&E[9] acquisition programs.

35. These proposed information requirements were developed and proposed after years of deliberation and with varying recognition and measurement requirements for the principal financial statements. The Board decided not to propose these three special information requirements as part of the March 2002 ED after reviewing responses to the September 2001 ED. The Board concluded that these areas may deserve further study or development for the following reasons:

    a. Unit information as originally proposed was tied to the Major End Item definition. Respondents questioned the definition's effectiveness.

    b. Unit and condition information has been determined to be "sensitive" information[10].

[8] The *Accounting for National Defense PP&E and Associated Cleanup Costs* ED, dated September 2001, defined Major End Items to be: 1) items that launch, release, carry, or fire a particular piece of ordnance, and 2) items that carry weapons systems-related property, equipment, materials, or personnel. Major End Items (a) have an indeterminate or unpredictable useful life due to the manner in which they are used, improved, modified, or maintained and (b) are subject to premature destruction or obsolescence (e.g., aircraft, ships, combat vehicles, etc.) Also, included in this category are vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet.

[9] SFFAS No. 11 defined ND PP&E as being "PP&E [that] are (1) the PP&E components of weapons systems and support PP&E owned by the Department of Defense or its component entities for use in the performance of military missions and (2) vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet."

c. Many respondents suggested that further research in the area of condition and deferred maintenance presentation is needed to develop consistent and comparable measurement and reporting criteria. However, respondents found condition information to be a useful supplement to deferred maintenance.

d. One respondent suggested that the proposed reporting on the ten largest acquisition programs would confuse users since the cost of assets recognized on the balance sheet would be different from budget cost measurements.

36. Given the resources that have been devoted to resolving the fundamental recognition and measurement guidance for ND PP&E and the substantial efforts underway at DoD to modernize its systems, the Board does not believe it would be useful to withhold this Statement while it deliberates on the merits of any further PP&E information.

37. In the meantime, the Board does not believe the absence of the previously proposed special information requirements would outweigh the benefits to be gained through this Statement. With regard to the stewardship objective and the need for unit information, the Board notes that the stewardship objective is being met for general PP&E without this special disclosure. Through the course of the audit, existence of PP&E and the completeness of PP&E records are verified. This satisfies the basic stewardship function that the double entry system offers.

38. With regard to condition information, the Board notes that deferred maintenance information is currently required. Further, the assessment of useful life needed to assure depreciation is reasonable would result in greater discipline in information associated with the condition of PP&E.

[10] Any information, the loss, misuse, or unauthorized access to which would or could adversely affect the organizational and/or national interest but which does not meet classification criteria specified in DoD 5200.1-R (reference (c)). Source: DoD 5200.1-M; Acquisition Systems Protection Program; 16 March 1994.

39. The Board expects to revisit these areas as it considers a project on integrating depreciation, impairment, and deferred maintenance reporting and other fixed asset accounting issues at a future date. The effort would be a government-wide undertaking.

Concerns with March 2002 ED

Valuation and Consumption

40. Various respondents suggested that additional guidance be included in this Statement for the valuation and consumption or use of items previously classified as national defense (ND) property, plant, and equipment. Examples of the types of additional guidance suggested include the following:

    a. The cost elements of research, testing, development, and evaluation (RTD&E) should be described and specific guidance provided on capitalization.

    b. Definitions for terms such as modifications, modernizations, and improvements are needed.

    c. More discussion of the desired accounting for the losses of items considered part of a group asset account of ND PP&E during testing, development, or evaluation phases is needed.

    d. More guidance for determining the capitalized costs to be removed from a group asset account when a unit is destroyed, becomes obsolete, or is otherwise disposed of is needed.

    e. The role of subordinate systems needs to be addressed, along with a description of how the costs of the subordinate systems would be relieved of costs assigned to the higher level system.

    f. A discussion of appropriate treatment for the costs of a discontinued subordinate system is needed.

g. The use of depreciation to reflect the full cost of operating ND PP&E items has to be tailored to the unique attributes and uses of ND PP&E.

h. The useful lives of certain classes of ND PP&E should be defined and measured in units such as operating hours.

i. Additional guidance and criteria is needed regarding the use of composite and group depreciation methodologies.

j. Specific reference to abnormal disposition issues should be added to the standard.

41. In response to these issues, the Board members reiterated that the Board is responsible for promulgating accounting standards and that it is the responsibility of individual entities to set policy and provide operating guidance on how to implement the standards. The Board believes these issues can and should be addressed by individual entities in the context of existing basic principles and practices. Composite and group depreciation methodologies are already considered acceptable methods under generally accepted accounting principles. The existing principles and practices are used by many different industries, including the airline, electrical cooperative, railroad, real estate, and cruise line industries.

42. The Board also expects that many of these concerns raised by respondents will be addressed by DoD as the standards are implemented. One example may be on the cost elements of research, testing, development, and evaluation (RTD&E) to be capitalized. Determining whether to include a particular cost in the capitalized cost of PP&E should be guided by general guidance in SFFAS Nos. 4 and 6 regarding the types of costs to capitalized. In the event, however, that DoD is unable to resolve issues , the Board and its staff will be available to consider implementation guidance.

Contractor Costs

43. Two respondents raised concerns regarding application of existing general PP&E accounting standards to PP&E formerly classified as National Defense PP&E but held by contractors. Since the current PP&E definition explicitly includes PP&E in the hands of others (paragraph 18), SFFAS Nos. 6 and 8 (as amended) created reporting requirements for general PP&E and National Defense PP&E. Both existing standards require cost information.

44. One respondent, apparently unaware of the aforementioned provisions of SFFAS Nos. 6 and 8, encouraged the Board to develop standards that address this property. The respondent asserted, "accounting control over this property is deplorable." Information provided by the respondent shows that as early as 1981 issues were raised regarding the need to improve accountability for assets including PP&E provided by the Government at no cost to the contractor for use in contract performance.

45. Another respondent, an industry group including major defense contractors, suggests that the elimination of the National Defense PP&E category "will impose costly accounting change requirements on government contractors that will increase the costs of goods and services acquired by the government." The respondent raised concerns about (1) application of standards to immaterial items, (2) provisions for accounting for software modifications, (3) requirements for work-in-process reporting, and (4) designation of specific cost elements for capitalization (SFFAS No. 6, para 26). Some aspects of these and other issues raised by the respondent appear to the Board to be based on misinterpretations of the existing standards. Therefore, the Board does not believe there are insurmountable issues raised.

46. Rather, the Board believes that significant efforts are needed to clarify the standards for contractors and to determine specific reasonable policies for providing information. It is clear that, despite the existence of standards for

contractor held assets since late 1995, little progress has been made in resolving the issue. The Board does not believe that deferral of standards related to vast amounts of PP&E will facilitate resolution of the contractual and administrative details needed to reasonably comply with generally accepted accounting principles.

Effective Date

47. One respondent commented that the effective date, for periods beginning after September 30, 2002, is unrealistic. The Board acknowledges that full implementation of the standards will require time and commitment. The Board understands that DoD is currently developing systems needed to fully implement any PP&E standards, comprehensive training needs to be provided, policies and procedures need to be revised and contractors may need to modify how they do things. However, the Board believes DoD financial statements will be incomplete without consistent and comparable accounting for PP&E. In addition, a practical issue arises. DoD has not yet identified property as National Defense PP&E. Therefore, it would be problematic to determine which components of general PP&E were not yet subject to the provisions of SFFAS No. 6, which became effective for fiscal year 1998.

Board Approval

48. The Board approved this recommendation by a vote of 6 members approving its issuance and 1 member opposing its issuance. Although the Board is comprised of 9 members, only 7 members cast a vote. This is because the term of two Board members had expired and the appointment of successors had not been finalized. The dissent of the Board member who opposed the issuance of this Statement is presented in paragraphs 49 through 51.

49. Mr. Calder dissents from this standard because (1) more guidance on asset capitalization and use of composite or group depreciation methods is needed and (2) additional disclosures are important to meeting reporting objectives for National Defense PP&E.

50. Mr. Calder believes that deliberations uncovered serious issues regarding identification of costs to be capitalized and application of composite or group depreciation methods to complex weapons systems. Comments showed there is diversity of understanding among financial statement users, preparers and auditors on these issues. He believes additional guidance should have been provided regarding the components of asset cost that should be capitalized; especially the accounting treatment for research, development, testing and evaluation. He does not believe the guidance in this regard in Statement Nos. 4 and 6 is adequate to resolve complex and diverse situations unique to defense assets. He also believes the new statement lacks guidance regarding the appropriate use of composite or group depreciation and could result in unacceptable diversity in its application.

51. In addition, Mr. Calder believes that the statement should have required disclosure of unit information for significant categories of assets and budget/actual data on major acquisitions programs in progress. Unit information has been deliberated at length by the Board over a number of years because some members and commentators believed the unit information is critical to an understanding of whether DoD has assets sufficient to carry out its mission. Information on budget/actual data on major acquisitions programs is considered by many to be vital to assessing performance in acquiring assets through complex and lengthy acquisition programs. In addition, tracking progress against plans would aid in determining the financial status of the programs. These two additional disclosures would enhance users' understanding of the nation's financial condition and future security.

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