



Greater Washington Society of CPAs and GWSCPA Educational Foundation

1111 19th Street, NW, Suite 1200, Washington, DC 20036
202-464-6001 (v) 202-238-9604 (f) www.gwscpa.org info@gwscpa.org

February 11, 2011

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Technical Release (TR), *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*.

The GWSCPA consists of approximately 2,000 members, and the FISC includes 26 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our responses to the ED questions follow.

Q1. Do you agree or disagree with the criteria outlined for differentiating between temporary and permanent removal from service (paragraph 6 and 7)? Please provide the rationale for your answer.

A1. The FISC generally agrees with the criteria outlined for differentiating between temporary and permanent removal from service. However, we recommend that the second business event outlined in paragraph 9 (i.e., "there is evidence of management's decision to permanently remove, retire, and/or dispose of the asset") be broadened to include a phrase such as, "or the likelihood of the assets return to service is remote." In some circumstances, management may terminate use of the asset as part of the agency's active operations, such as in favor of a newer generation of equipment, or after the original purpose of the use of the asset was accomplished, but management may stop short of a formal decision to "permanently remove, retire, and/or dispose of the asset" in favor of storing the asset and spare parts for a potential emergency or failure of the newer generation of equipment. Some examples of such situations are:

- Federal law enforcement agencies, which may store older generations of communications equipment;

- Federal air transportation agencies, which may store older generations of radar equipment;
- Military services, which may store older generations of vehicles, ships, and combat equipment; and
- Federal agencies, which may have constructed roads to extract natural resources (e.g., timber cutting, subsurface mining, etc.), but no longer require or readily use the road since the original purpose of the road (to extract the natural resources) has been accomplished.

The likelihood of the asset's return to service may be remote, and may only take place if a catastrophic event or chain of events occurred that would cause the in-service assets to be inoperable. Under the ED and without the proposed modification above, these assets would be considered "temporarily removed from service" since the second business event has not been entirely fulfilled, and depreciation would continue to occur (per paragraph 13) – even though the agency may have no planned intent of returning the asset to service.

Also, we recommend that the first provision of paragraph 9 ("Asset's use is terminated") be modified to include reference to infrequently used assets or assets with specific and limited purpose. As an example, some dams or diversion channels that may only come into service after a severe and unpredictable rainstorm every 5-10 years. One could argue during the time between rainstorms that the asset is no longer in use, and should be moved to "temporarily not in use." A revision to the language in paragraph 9 could eliminate confusion in classifying infrequently used or assets with specific and limited purpose as "in-use" or "temporarily not-in-use."

- Q2. Do you agree or disagree with the General Property, Plant, & Equipment (G-PP&E) permanent removal financial transactions outlined in paragraph 11? Please provide the rationale for your answer.
- A2. The paragraph appears to direct an agency to record the disposition entry when the two business events in paragraph 9 are fulfilled (see first sentence of paragraph 11), including the recognition of an *expected* gain or loss prior to actual disposition. The second and third sentences of paragraph 11 appear to then direct the agency to "true up" its recognition of a gain or loss once the actual disposal has occurred. Although this accounting treatment is consistent with standards issued by the Financial Accounting Standards Board and the Governmental Accounting Standards Board, we could not locate similar narrative allowing such recognition of an expected gain or loss within current FASAB standards. We recommend that the final TR either include a reference to the applicable FASAB standard in which this accounting treatment is discussed, or subject this accounting treatment to FASAB's due process of standard setting.
- Q3. Do you agree or disagree with the G-PP&E temporary removal financial transactions outlined in paragraph 13? Please provide the rationale for your answer.
- A3. The FISC generally agrees with the proposal to continue to depreciate assets that have been temporarily removed from service. However, the final TR should provide guidance to cease depreciation for assets that will be removed from service for a significant period of time (the time period would also need to be defined in the final TR), or for which the likelihood is remote that the asset will return to service.

- Q4. Do you agree or disagree with the G-PP&E disposal financial transactions when group or composite depreciation is used as outlined in paragraph 15? Please provide the rationale for your answer.
- A4. The FISC generally agrees with the group or composite depreciation guidance in paragraph 15. However, we recommend that the final TR include a provision that gains or losses on individual assets be recognized if there is a material difference between the disposition proceeds and the pro-rated remaining book value. The current ED does not require a gain or loss to be recorded, even if the gain or loss is material.
- Q5. Do you agree or disagree with the G-PP&E disposal, as it relates to cleanup costs, financial transactions illustrated in paragraph 14? Please provide the rationale for your answer.
- A5. The FISC generally agrees with the guidance in paragraph 14.
- Q6. Do you believe that additional technical guidance to record disposal transactions related to G-PP&E is needed in this proposal? Please provide the rationale for your answer.
- A6. The FISC supports the AAPC's efforts to provide additional guidance on the disposal of G-PP&E. However, and as detailed above, we have concerns on the narrative provided in the ED, and have proposed several areas where additional guidance should be provided in the final TR.

Other Comment

We recommend that the final TR state that the principles in the TR are meant as guidance for those entities that have not yet resolved the issues of recording and depreciating G-PP&E, and should be adopted on a prospective basis. We recommend that the TR indicate that it is not intended to be used as guidance for revising or reassessing known and audited G-PP&E amounts.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Andrew C. Lewis
FISC Chair