

PROPOSED STAFF IMPLEMENTATION GUIDANCE 23.1

Guidance for Implementation of SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment*

Classification of Items Formerly Considered National Defense PP&E

Issued October 14, 2004

Comments Requested by November 1, 2004

Request for Comments

1. The Department of Defense requested clarification regarding implementation of Statement of Federal Financial Accounting Standards (SFFAS) 23, *Eliminating the Category National Defense Property, Plant, and Equipment*. Staff has prepared its proposed implementation guidance and requests comments on its proposal. Comments are requested by November 1, 2004. Responses in electronic form should be sent by e-mail to comesw@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. Comes, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

2. Specific questions are posed below:
 - a. Do you agree with staff's proposed guidance? If not, please give the reasons for your view.

Background

3. Statement of Federal Financial Accounting Standards (SFFAS) 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, rescinded SFFAS 11, *Amendments to Accounting for Property, Plant, and Equipment - Definitional Changes in its entirety*. SFFAS 11 established the definition of National Defense Property, Plant, and Equipment (ND PP&E). Its rescission eliminated the category ND PP&E along with the definition for that term. Guidance for implementing SFFAS 23 provides that:
 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 [Accounting for Property, Plant, and Equipment], as amended, and should be the initial historical cost for the items, including any major improvements or modifications. (Emphasis added.)

4. This implementation guidance suggests that all items formerly considered ND PP&E should be classified as PP&E. Further support for this interpretation is contained in the Executive summary and Introduction of SFFAS 23. Specifically, par. II provides that “all items previously considered ND PP&E are classified as general PP&E.” Par. 6b of SFFAS 23 also refers to classification as general PP&E.

Implementation Guidance

5. **Q: Should the SFFAS 23 implementation guidance limit the classification of items previously considered ND PP&E to general PP&E? Meaning, should SFFAS 23 influence the application of definitions not explicitly amended by SFFAS 23? This would require that in classifying assets all items meeting the now eliminated national defense PP&E definition would be considered general PP&E without regard to any other definitions (e.g., the general PP&E or operating materials and supplies definitions).**

6. A: A literal application of the implementation guidance – such as the one described above - would result in a de facto amendment to the PP&E definition contained in SFFAS 6 and any asset definitions promulgated by other standards. Par. 17 of SFFAS 6 defines PP&E as follows:

17. Property, plant, and equipment consists of tangible assets, including land, that meet the following criteria:

- they have estimated useful lives¹⁷ of 2 years or more;
- they are not intended for sale in the ordinary course of operations; and
- they have been acquired or constructed with the intention of being used, or being available for use by the entity.

[¹⁷Useful life is the normal operating life in terms of utility to the owner.]

7. To apply the implementation guidance as suggested, the above definition must be read to include an alternative – that the asset need only meet the definition of “national defense PP&E.” However, since SFFAS 23 eliminated the definition of “national defense PP&E”, the continued application of that definition would be inconsistent with SFFAS 23’s primary objective. In addition, all other asset definitions would have to be read to exclude national defense PP&E to accommodate classifying national defense PP&E as general PP&E even if it meets the definition established for a different asset.
8. Consequences of reading the implementation guidance as amending the definitions remaining in current standards include:
 - a. Inconsistent classification of assets by the components of the Department of Defense and other federal entities,

- b. Possible inconsistent accounting for the items subject to implementation guidance in SFFAS 23 and items acquired in the future by the Department of Defense, and
 - c. Reliance on a definition that has been purged from authoritative publications such as the Original Pronouncements volume.
9. This is an undesirable outcome. Instead, a reasonable approach would be to subordinate SFFAS 23's general implementation guidance – appropriate for many but not all assets meeting the former definition of National Defense PP&E – to the definitions existing in accounting standards. That is, assets being recognized for the first time due to implementation of SFFAS 23 should be categorized based on currently effective asset definitions in SFFAS 6 and other standards.

10.Q: SFFAS 23 implementation guidance describes acceptable approaches to valuing those items of ND PP&E to be classified as general PP&E. How should items of ND PP&E not classified as general PP&E be valued?

- 11.A: Any items not properly classified as general PP&E should be valued in a manner consistent with the general principles established in SFFAS 23 implementation guidance and the specific measurement guidance provided for the asset class.