

January 10, 2001

The Technical Director  
International Federation of Accountants  
535 Fifth Avenue, 26th Floor  
New York, New York 10017

**Subject: Exposure Draft 14, *Property, Plant and Equipment***

Dear Sir or Madam:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (Board) appreciates the opportunity to provide comments on the International Federation of Accountants Public Sector Committee (IFAC/PSC) exposure draft (ED) of a proposed International Public Sector Accounting Standard on Property, Plant and Equipment (PP&E).

The Board, comprised of 21 members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The Board does not support issuance of this proposed standard as presently written for the reasons set forth below. Our responses to the Specific Matters for Comment and our other concerns and recommendations about the proposed standard follow.

**RESPONSES TO THE SPECIFIC MATTERS FOR COMMENT**

*(a) Should certain classes of assets (infrastructure assets, military assets, or heritage assets) be outside the scope of this standard and be addressed in a separate standard; and if so, which classes and why?*

We believe the IFAC/PSC should issue separate standards on military, heritage, and infrastructure assets. The characteristics and uses of these assets are substantially different from those of assets of the type defined in this standard. We do not believe, for example, that military assets should be subject to depreciation. Such assets should be recorded at historical cost (thereby ensuring that the government maintains adequate cost accounting and control). The subsequent accounting and disclosure focus, however, should be on accounting for and reporting deferred maintenance and decommissioning costs.

With respect to heritage assets, we do not believe that the benefits of valuing and recording these assets necessarily exceed the costs of those accounting efforts or that historical values are meaningful to financial statement users. Instead, accounting and reporting should focus on the number, identification, and condition of such assets.

We believe that infrastructure assets should be accounted for and reported in a manner similar to that prescribed by the Governmental Accounting Standards Board (GASB). GASB requires that infrastructure assets be capitalized and depreciated unless a significant option is chosen. Under that option, infrastructure assets need not be depreciated, provided (a) the government has an asset management system designed to maintain the assets at an established level of condition, and (b) the government can document that it is actually maintaining the assets at the established condition level. The asset management system requires up-to-date inventories, condition assessments of the assets, and an estimate of the amount needed to preserve the assets at the condition level disclosed by the government. We believe that disclosures related to such a system may be more useful to the reader than historical cost depreciation.

IFAC/PSC should take advantage of the extensive research already accomplished by the GASB and the Federal Accounting Standards Advisory Board (FASAB) on these issues and adopt or adapt standards for accounting for these assets that are similar to and consistent with the standards developed by GASB and FASAB.

Accordingly, we recommend that the proposed standard be limited to PP&E other than military weapons systems, heritage assets, and infrastructure assets, pending further IFAC/PSC analysis of the special characteristics of these other types of assets.

***(b) (i) Is it appropriate to include a transitional phase-in period; and (ii) should there be separate and extended transitional periods for specific classes of assets?***

We believe that the proposed transitional phase-in period is inappropriate and separate or extended transitional periods for specific classes of assets are not necessary, and might prove to be confusing.

Again, we recommend that this proposed standard be limited to PP&E other than military weapons systems, heritage assets, and infrastructure assets, thereby obviating the need for extended transitional periods for specific classes of assets.

***(c) Should the use of fair value on initial recognition be allowed in the circumstances described?***

No; we believe that assets for which historical costs are not reliably determinable or not relevant should be stated at estimated cost, not fair value at the date of recognition. The use of price deflators to arrive at estimated historical costs (as discussed in GASB

Statement Number 34, paragraphs 157-159) should be considered in instances in which actual costs are not available.

***(d) Is the proposed accounting treatment for the estimated costs of dismantling and site restoration appropriate?***

Yes; however, IFAC/PSC should consider allowing the two alternate treatments described in the request for comments to be used when such treatment is more appropriate under particular circumstances.

***(e) Is it appropriate to allow an alternative method for valuing/revaluing assets?***

No; we recommend that assets be valued at historical cost less depreciation, with no provisions for an alternative revaluation methodology. The revaluation alternative would (1) be costly and not likely to yield benefits commensurate with these costs for public sector entities; and (2) susceptible to distortion and manipulation due to the need to use estimation processes and subjective determinations. IFAC/PSC should allow a one-time estimated cost determination (as discussed above) to be used during the phase-in period in cases where reliable historical cost information is unavailable.

The main values of depreciation charges are to include that expense in the determination of the cost of services, and to determine whether the entity is better or worse off than in a previous period. Inclusion of unrealized gains and losses of fixed assets in those calculations might make sense for private sector entities where the calculation of holding gains and losses would have meaning for stockholders interested solely in economic gain. In the public sector, however, it is questionable whether public entities should be in the business of holding assets for gain.

We also believe that allowing an alternative method for valuing assets creates a dilemma for external users and auditors. Users and auditors will inevitably need to contend with the question of what IFAC's *real* standard is—the “benchmark” or the “allowed options.” Because the dollar differences between these options could be tens of billions of dollars, we question how either or both can be said to “present fairly.”

We believe that allowing an alternative of valuing assets on bases other than cost and then permitting successive re-evaluations of earlier valuations will only compound confusion about the entity's financial position and results of operation.

We believe that the practice of allowing “options” to established standards detracts from the acceptance of IFAC's standards and is contrary to IFAC's expressly stated purpose for issuing standards: “... achieving consistent and comparable financial information across jurisdictions.”

***(f) Is it appropriate for revaluation increases and decreases to be offset by class of asset?***

As noted above, we recommend that the revaluation alternative be removed, because the revaluation alternative would (1) be costly and not likely to yield benefits commensurate with these costs for public sector entities; and (2) susceptible to distortion and manipulation due to the need to use estimation processes and subjective determinations. (If the Committee decides to allow the revaluation method, then increases and decreases should be offset by classes of assets rather than on individual item bases.)

***(g) Should disclosures about the restrictions on items of property, plant, and equipment be required?***

We agree with the Committee that such disclosures could be voluminous and not necessarily warranted on a cost/benefit basis. We recommend that a general disclosure indicating that restrictions on some assets may exist is appropriate; but the standard should also emphasize that any restrictions on asset use should become an integral part of asset accounting records.

## **OTHER CONCERNS AND RECOMMENDATIONS**

### **Revaluation Losses**

Paragraph 53 suggests that asset impairment should be reported as an expense. We recommend (in the event that the Committee decides to allow the revaluation method) that such adjustments should be reported separately as losses, to distinguish losses from depreciation expenses and maintenance expenses.

### **Change in Depreciation Method**

Paragraph 68 indicates that a change in depreciation method should be reported as a change in an accounting *estimate*. The impression is that this would be an “easy” change for an entity to make—the entity would simply decide that the “expected pattern of economic benefits or service potential” has changed. We believe that a change in depreciation method should be treated as a change in accounting *method* and disclosed and reported separately (and thereby tested by auditors).

### **Separating Component Parts of Assets**

Paragraphs 19 and 40 suggest a preference for recording component parts of assets separately. Paragraph 19 suggests that parts of infrastructure assets should be separated as well as (for example) an aircraft body from its engine. We believe that this treatment is not likely to be cost-beneficial in many circumstances. We suggest that the standard

allow assets to be aggregated whenever possible unless disaggregation is clearly cost-beneficial and warranted under the circumstances.

### **Definitions**

We recommend that IFAC/PSC consider adding two definitions to paragraph 7. We believe that adding the definitions of “capital expenditure” and “capitalize” will be helpful in the standard. We recommend the following definitions from *Kohler’s Dictionary for Accountants*, 6<sup>th</sup> edition:

**Capital Expenditure:** 1. An expenditure intended to benefit future periods, in contrast to a revenue expenditure, which benefits a current period; an addition to a capital asset.

**Capitalize:** 1. To record and carry forward into one or more future periods any expenditure the benefits or proceeds from which will then be realized.

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The Board appreciates the opportunity to provide comments on the ED. Should you have any questions, or desire further details on the Board’s position, please contact me at (517) 334-8060, Extension 500, or [WiseJ1@state.mi.us](mailto:WiseJ1@state.mi.us); or contact Dave Cotton, the Board’s facilitator for this project, at 703/ 836-6701, Extension 215, or [dcotton@cottoncpa.com](mailto:dcotton@cottoncpa.com).

Sincerely,

Jon Wise, CPA, CGFM, Chair  
AGA Financial Management Standards Board

cc: Mr. W.A. Broadus, Jr., CPA, CGFM  
AGA National President