



October 12, 2006

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Dear Ms. Comes:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the exposure draft (ED) of a proposed Interpretation entitled *Items Held for Remanufacture*. The FMSB, comprising 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 FMSB has some general comments and has also completed the requested responses to the questions for respondents.

General Comments (GC)

GC1. Value of the Proposed Guidance – We do not see the advantage to the federal government of the Board proposing this guidance for classification, valuation and reporting of items held for remanufacture. Nor do we think that this guidance helps the Department of Defense (DoD) better address items held for remanufacture. And finally, we do not think that this guidance will improve federal financial reporting. It does not appear to offer any clarification to the existing standards (SFFASs).

GC2. Clarity of Proposed Guidance – This Interpretation goes beyond the scope requested by the DoD (items held in inventory for resale) and deals as well with PP&E and supplies and materials held for remanufacture. We are concerned that if this Interpretation is issued, there will be, in effect, two standards dealing with very similar events and transactions – “items held for remanufacture” (as per the interpretation) and items held for repair (as per existing standards). Since it is very difficult to distinguish between items held for repair and items held for remanufacture (if indeed there is a difference), this Interpretation will confuse rather than assist preparers of financial statements. If this Interpretation is adopted, we suggest that current standards be rescinded or that this Interpretation be limited to items held for resale.

The FMSB wonders if the Board has access to information on the extent of “remanufacturing” in other federal agencies. Members of the FMSB are familiar with other agencies in which certain operating supplies and certain equipment components are repaired (or remanufactured) in the routine course of events for return to PP&E or operating supplies. This Interpretation, which conflicts with current guidance on “repair,” could be confusing for other agencies.



GC3. Par. 6, Definitions

a) It is not clear what is meant by “process of inspection.” For those new or unfamiliar with rebuilding, refurbishing or restoring an item to serviceable condition, it might be helpful to briefly explain that “process of inspection” is where an item is in holding until an inspection can be done to determine if an item can be remanufactured and what that entails.

b) Should the definition be “and/or” instead of “and” with regard to the descriptive elements? As proposed, it implies that an item has to be inspected, disassembled, evaluated, cleaned, rebuilt, refurbished, and restored before it would be “an item held for remanufacture.” What if the item could be restored or refurbished without being disassembled? Based on the proposed definition (in the strict sense of the definition, that is) it would not be an item held for remanufacture. We suggest that the Interpretation clarify the definition so that it is unambiguous.

GC4. Par 10, Abnormal Costs – There are references in the Interpretation to “abnormal” costs in excess of the cost to purchase, etc. We suggest the Board further explain “abnormal costs” and give an example.

GC5, Par 9, Reference to SFFASs – We believe there is a typo in the original document. On page 6, paragraph 9, second line "either paragraphs 32-33 of SFFAS 3" should read "either paragraphs 32-33 of SFFAS 6" (as footnote 3 at the bottom of page 6 correctly states). Paragraphs 32-33 of SFFAS 6 do refer to valuation of PPE.

GC6, Par 15, Addition of Par 22 of SFFAS 6 to Appendix C –Paragraph 22 of SFFAS 6 is not included in Appendix C although it is referred to on page 8 in paragraph 15 of the Interpretation. We suggest that paragraph 22 of SFFAS 6 and its related footnotes should be included in Appendix C along with the others. Footnote 5 on page 15 could also be expanded to say, “The paragraph in SFFAS 6 cited above is displayed in Appendix C of this document.”

Questions Asked of Respondents

Q1. *This proposed Interpretation would apply to items in the process of inspection, disassembly, evaluation, cleaning, rebuilding, refurbishing and restoration to serviceable or technologically updated/upgraded condition. Does this description adequately describe the scope of this proposed Interpretation?* **FMSB Answer.** No, see our comments in **GC2** above.

Q2. *The proposed Interpretation explains that the intent of paragraphs 17-25 and 32-34 of Statement of Federal Financial Accounting Standards (SFFAS) 3 is that inventory held for repair should be valued at less than the value of a new or serviceable item, and that as the work on the item progresses, the value of the item should be increased accordingly. The proposed Interpretation states that inventory items held for remanufacture that are intended for sale may be valued in accordance with either the allowance method or the direct method described in paragraphs 32-33 of SFFAS 3 or the historical production cost described in paragraphs 20-22 of SFFAS 3. (Paragraph 6 of this exposure draft provides examples.) Do you agree that any of the three methods of valuation would achieve the above objective?*

FMSB Answer. Yes, somewhat. We think the Interpretation should say “...that inventory held for repair should be INITIALLY (added word) valued at less than the value of a new or serviceable item, and that as the work on the item progresses, the value of the item should be increased accordingly.” It is most likely that the initial value of the remanufactured item would be less than a new or serviceable item.

However, when the remanufacturing is complete, the value may approach or even exceed a new item, particularly if the remanufactured item had been technologically upgraded. The word “initially” should be added throughout the Interpretation whenever the reference is made to the “value less than that of a new item.”

Q3.*The proposed Interpretation states that items held for remanufacture that meet the definition of property, plant and equipment should be recognized as a category of Property, Plant and Equipment and should be valued in accordance with SFFAS 6 as amended and provides examples. (See paragraphs 12-17 of this exposure draft) Do you agree that this valuation is appropriate?*

FMSB Answer. Yes. It would be helpful if the Interpretation provided examples of how to apply SFFAS 6.

Q4.*The proposed Interpretation addresses equipment components that are rotated in and out of service and states that the composite or group methodology¹ can reasonably be applied to an entire class of such items. Do you agree that this methodology is appropriate?*

FMSB Answer. Yes

Q5.*The proposed interpretation states that items held for remanufacture that meet the definition of Operating Materials and Supplies should be recognized as a category of Operating Materials and Supplies and valued in accordance with paragraphs 42-44 of SFFAS 3 and provides examples. (See paragraphs 18-19 of this exposure draft.) Do you agree with the proposed accounting treatment for this category of items?*

FMSB Answer. Yes. Reference A2 in Appendix A, it should probably be noted that only FIFO or the weighted average method should be used as (per DoD) “moving average cost of a serviceable item changes continually” and it can be difficult to apply.

No members of the FMSB objected to the issuance of this comment letter. We would be pleased to discuss this letter with you at your convenience. You can contact me at hintonrw@audits.state.ga.us or (404) 656-2174 or Anna D. Gowans Miller, CPA, AGA’s Technical Manager and facilitator for this project, at amiller@agacgfm.org or (703) 684-6931, ext. 313.

Sincerely,



Russell W. Hinton, CGFM, Chair,
AGA Financial Management Standards Board

cc. Jeffrey S. Hart, CGFM, CFE
AGA National President

¹ 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 depreciations that applies a single, average rate to a number of homogeneous assets having similar characteristics and service lives. (SFFAS 23, footnote to paragraph 9)

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Financial Management Standards Board**

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