

**From:** Mallison, William  
**Sent:** Friday, January 08, 2016 2:11 PM  
**To:** Batchelor, Melissa L  
**Cc:** Brinck, Mike  
**Subject:** RE: Request for input from House Committees on a proposed Statement of Federal Financial Accounting Standards

Good afternoon,

Here is the Committee's response.

Bill

William Mallison  
Contract Investigator  
Oversight and Investigations Subcommittee  
House Committee on Veterans' Affairs

**Exposure Draft- Questions for Respondents due February 4, 2016**

*Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*

Name:

Organization: [House Committee on Veterans' Affairs](#)

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Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for general property, plant, and equipment (PP&E) when presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method and related disclosures.

**a) Do you agree or disagree with the proposal to permit opening balances of general PP&E to be valued based on deemed cost? Please provide your rationale.**

[We agree that valuing opening balances based on deemed cost is reasonable—deemed cost meaning estimated replacement cost, historical cost, or fair value. The choice of one of the three methods of deemed cost must be as consistent as possible among types of PP&E. We agree with the underlying rationale that compliance with the existing standards has fallen short of expectations, and at this point the cost-benefit analysis supports moving to a standard that is more likely to be followed.](#)

**b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.**

[We agree that the related disclosures are appropriate.](#)

Q2. The Board proposes to amend Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, so that land categorized as general PP&E may be excluded from the opening balances of general PP&E. Instead, disclosures would reveal the acres of land and changes in those acres over time. A reporting entity electing to exclude land from its general PP&E opening balance should continue to exclude future land acquisition amounts and provide the disclosures.

Some members suggested valuing existing land holdings based on a set amount per acre of land or deemed cost. For example, one study estimated the land value in the United States at roughly \$4.5 trillion in the third quarter of 2009. Since the number of acres in the United States is almost 2.3 billion, this equates to approximately \$2,000 per acre. (Land values vary greatly based on location, potential use, and availability and cost of financing.) These members are interested in receiving comments on the usefulness of a general valuation approach that could be applied government-wide.

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The Board intends to begin a project on land in the near future that would review existing standards and consider a consistent approach. Based on the results of that project, the decisions made for opening balances and future acquisitions of land in this Statement may be revised. Also, some members suggested deferring any changes in the historical basis for land acquired for use in operations until the Board completes a re-examination of the appropriate basis of accounting for land.

(See par. 12.d. and 12.g. for relevant standards and par. A27- A34 for a discussion of certain members' concerns and A55 in the Basis for Conclusions.)

- a) Do you agree or disagree with the proposal to allow exclusion of land from the opening balances of general PP&E even though other component reporting entities will report the cost of certain land in general PP&E?**

**If you disagree, do you prefer (1) to value land holdings based on existing standards requiring historical cost of land acquired in connection with other general PP&E to be capitalized, a set amount per acre of land, deemed cost, or another valuation method, (2) to defer any changes in the current requirements until the Board completes a reexamination of the appropriate basis of accounting for land, or (3) to adopt another option? Please provide your rationale.**

We disagree that land should be excluded as described. We believe no action should be taken until the project on land is completed. Amending SFFAS 6 as described, followed by another change in the near future, may create inconsistencies in the treatment of not only land that has previously been acquired, but also land that is acquired between the proposed amendment of SFFAS 6 and the future change. Regardless of the outcome of the project on land, we do not believe it is wise to value land based on a uniform amount per acre. This ignores geographic and market variations, and recording misleading or inaccurate values is the worst alternative. We believe deemed cost is probably an effective method. The project on land should make this determination.

- b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.**

We decline to answer at this time. If the eventual decision is to exclude land values, recording the acreage in notes to the financial statements would be acceptable.

- c) Do you agree or disagree that a reporting entity electing to exclude land from its general PP&E opening balances should continue to exclude future land acquisition amounts? Please provide your rationale.**

We disagree. Excluding land that is already owned should only be out of necessity, because the historical records do not exist. Future land acquisition amounts, for which complete information is available, should not be excluded purely out of convenience. We believe deemed cost for existing land would be compatible with actual cost for future land acquisitions.

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- d) The Board anticipates a project on land to review existing standards and to consider a consistent approach for all component reporting entities. Please provide any suggestions you have for improving current reporting on land.**

We support the project and think it should be concluded before action is taken. Consistency is more important than expediency or temporary convenience. Please see above for comments on reporting methods.

- Q3. The Board proposes to amend SFFAS 10, *Accounting for Internal Use Software*, to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software when presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method. The Statement provides for selecting between (1) an alternative valuation method of deemed cost that is consistent with that provided for all general PP&E and (2) prospective capitalization of internal use software.

The proposed Statement describes the alternatives and related disclosures. (See par. 13-14 for relevant standards and par. A35- A39 and A56 in the Basis for Conclusions.)

- a) Do you agree or disagree with the proposal to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software? Please provide your rationale.**

We agree with the proposal to allow choice of alternatives in establishing opening balances for internal use software. We believe it is important for the choice of method to be consistent among types and categories of internal use software. Our rationale is the same as in Q1.

- b) Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale.**

We agree that the related disclosures are appropriate.

- Q4. The Board proposes to rescind SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Accounting Standards 6 and 23*, because this Statement would provide comprehensive guidance for establishing opening balances. The Board has incorporated the relevant components of SFFAS 35 in the proposed guidance in this Statement. The Board did not incorporate language from SFFAS 35 that explicitly allows for reasonable estimates on a go-forward basis to identify the cost of newly-acquired or constructed general PP&E.

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Instead, the Board acknowledges that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35, and are acceptable without guidance from the Board. (See par. 18-19 for relevant standards and par. A43- A51 in the Basis for Conclusions.)

- a) Do you agree or disagree with the proposal to rescind SFFAS 35?  
Please provide your rationale.**

We agree with the proposal to rescind SFFAS 35 and consolidate its surviving elements into existing statements. This is efficient and makes the FASAB system easier to use.

- b) Do you agree or disagree that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35? Please provide your rationale.**

We agree that reasonable estimates should continue to be permitted, as long as sufficient disclosures are made and they are audited. We are not in a position to say how the rescinding of SFFAS 35 affects the existence of reasonable estimates, but rely on the Board's opinion that SFFAS 6 and others still provide for them.