

## Military Equipment Valuation Project

### *Position Paper: Pods*

#### **Description of Issue**

The purpose of this position paper is to recommend the appropriate reporting treatment for Pods in accordance with the provisions of Federal Financial Accounting Standards.

Pods are aircraft components that are used for navigation, targeting, electronic countermeasures, and other purposes. Pods are aircraft components that provide the functionality necessary for the aircraft to fulfill its intended purpose or mission and are attached or removed from the aircraft based on mission requirements. In addition, some pods are designed to be utilized across multiple aircraft weapon system platforms.

However, while mission essential, Pods are not an integral part of an aircraft as are engines, radar sets, canopies, and landing gear assemblies and similar parts. There are not a sufficient number of Pods to establish a one-to-one relationship with a particular aircraft type as is the case for other aircraft component parts, such as those listed above.

Pods have a useful life substantially in excess of two years and generally are modified every three to five years to improve or change their functionality. Pods are centrally managed on a functional requirements basis rather than held in stock on a replacement demand driven basis, as are component parts generally.

The issue is whether Pods should be accounted for and reported as General Property, Plant, and Equipment or Inventory and Related Property, specifically Operating Materials and Supplies.

Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant and Equipment*, paragraph 17, provides that PP&E consists of tangible assets, including land, that meet the following criteria: 1) have estimated useful lives of 2 years or more; 2) are not intended for sale in the ordinary course of operations; and 3) have been acquired or constructed with the intention of being used or being available for use by the entity.

Statement of Federal Financial Accounting Standards No. 3, *Accounting for Inventory and Related Property*, paragraph 36, states that Operating Materials and Supplies consist of tangible personal property to be consumed in normal operations. Excluded are (1) goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity, (2) stockpile materials, (3) good held under price stabilization programs, (4) foreclosed property, (5) seized and forfeited property, and (6) inventory.

#### **Recommendation**

Pods are General Property, Plant, and Equipment and should be reported accordingly. They have an estimated useful life of two years or more and have been acquired for use by the Department of Defense for aircraft to fulfill mission requirements.

Pods do not meet the definition of Operating Materials and Supplies as they are not acquired for consumption in normal operations. In addition, pods are not an integral part of an aircraft and are managed based on functional requirements rather than a replacement demand driven basis.

This proposed policy is not intended to modify the manner in which individual Military Departments account for Pods. Military Departments may continue to manage and account for Pods in a manner that they deem appropriate as long as they can meet DoD quarterly and annual financial reporting requirements.

#### **Authoritative Guidance**

Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment* and Statement of Federal Financial Accounting Standards No. 3, *Accounting for Inventory and Related Property*.