

# Summary of Business Rules for Accounting for and Reporting of Military Equipment

## Acquisition Date and Useful Life

### Objective

- Provide guidance on determining the acquisition dates and useful lives of end items to ensure consistency in application and compliance with Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*.

### Baseline Valuation Methodology

- Use the date in DD Form 250 (Block 22, Receiver's Use) to establish the end item acquisition date.
- Obtain estimated useful life from Program Manager.
- Include life extension resulting from Service Life Extension Program (SLEP) as part of estimated useful life.

### Mid-Term Valuation Methodology

- Use the date in DD Form 250 (Block 22, Receiver's Use) as the PP&E acquisition date, unless DoD determines that an alternative date is acceptable.
- DoD in consultation with Components will establish appropriate useful lives for major classes of military equipment based on an analysis of actual asset usage. 1/

1/ DoD will conduct a study and establish a useful life policy by September 30, 2005.

## Military Equipment Valuation Project

### *Position Paper: Acquisition Date and Useful Life*

#### **Description of Issue**

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, requires that depreciation expense be calculated on property, plant and equipment (PP&E) over the PP&E's estimated useful life. It further provides that estimates of useful life must consider factors such as physical wear and tear and technological change (e.g. obsolescence).

SFFAS No. 6, paragraph 34, describes depreciation as the method of allocating the cost of tangible capital assets, less salvage value, over the estimated useful life of the asset in a systematic and rational manner.

Depreciation of PP&E is a function of rules governing acquisition date and useful life. This proposed business rule addresses acquisition date and useful life only.

**Acquisition date.** SFFAS No. 6 provides that PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.

**Useful life.** SFFAS No. 6, Footnote 17, defines useful life as the normal operating life in terms of utility to the owner. Footnote 23 defines estimated economic life of leased property as the estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

**Department of Defense practice.** *Department of Defense Financial Management Regulation Volume 4, Chapter 6*, provides that the event that triggers the calculation of depreciation (i.e., the acquisition date) is the date of receipt shown on the asset receiving document or the date the asset is installed and ready for use (regardless of whether it is actually used). With respect to constructed PP&E, the FMR provides that the costs of

constructing the PP&E shall be recorded as construction-in-progress until it is available for use, at which time the balance (total construction costs) shall be transferred to general PP&E.

DD Form 250, *Material Inspection and Receiving Report*, is the official report for use as acceptance of equipment or data by the Government (i.e., title transferred to the Government); the contractor's invoice for payment; a packing list for shipping and receiving; and evidence of the Government quality inspection. It is evidence of the Government's acceptance of the items covered by the form.

Block 22 of DD Form 250 is for the receiver's use and is where the authorized representative of the receiving activity (Government or contractor) acknowledges receipt, quantity received, and condition of items received. The authorized representative is required to enter the date the item(s) arrived.

### **Proposed Policy**

**Acquisition date.** DoD Components should use the date shown on Block 22, Receiver's Use, of the DD Form 250 as the acquisition date unless DoD determines that an alternative date is acceptable. If an alternative date is deemed acceptable, the reason for the use of an alternative date should be justified and documented.

**Useful life.** DoD, in consultation with Components, will establish useful lives for major military equipment classes based on an analysis of actual asset usage. DoD will conduct a study and establish a useful life policy by September 30, 2005.

Initial useful life estimates should not include the extended life expectancy resulting from a Service Life Extension Program (SLEP). The SLEP acquisition date should be the date completed and accepted, and the cost of the SLEP should be amortized over the remaining useful life of the affected end item after completion of the SLEP.

DoD Components will be permitted to use different useful lives if the estimated useful lives vary significantly from the useful life prescribed for an asset class. For example, if the acquiring DoD Component determines that the estimated useful life of a satellite is 24 months (due to orbit patterns

and mission/actual asset usage) and all other DoD satellites have a useful life of 7 years (or 84 months), the Component will be permitted to use the 2 year useful life.

DoD Components should consider the following factors when determining the appropriate useful lives of military equipment:

- Estimated useful life of the military equipment that was used for acquisition planning;
- Engineering estimates;
- Historical knowledge of an asset's utility/usage;
- Related source information on equipment recovery periods warehoused by DoD and other Agencies (Examples include historical information from the Bureau of Economic Analysis and Office of the Director, Program Analysis and Evaluation).

In addition to estimating useful lives for initial procurements of military equipment assets, DoD will establish useful lives for modifications and upgrades that extend the useful life or enhance the operating performance of end items or end item components.

The useful life estimates for the major PP&E classes will be reviewed periodically and modified, as appropriate. The effects of changes in useful lives should be accounted for prospectively.

### **Authoritative Guidance**

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