

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

## Clean-Up Costs

### Objective

- Prescribe the accounting and reporting of clean-up costs in accordance with the provisions of Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*.

### Baseline Valuation Methodology

- For military equipment in service at time of implementation of the clean-up cost standard, estimate and record the total estimated clean-up cost and the associated liability for items in service. DoD should have previously recorded these costs.
- For military equipment placed in service after the implementation of the clean-up cost standard, recognize a portion of the estimated total clean-up costs as an expense during each period the associated military equipment is in operation.

### Mid-Term Valuation Methodology

- Same as Baseline

## Military Equipment Valuation Project

### *Position Paper: Clean-up Costs*

#### **Description of Issue**

The purpose of this paper is to describe the proper accounting for clean-up costs.

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, Paragraph 85, defines clean-up costs as the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated property, plant, and equipment (PP&E). This position paper describes the accounting and reporting of clean-up costs relating to property, plant, and equipment (PP&E), exclusive of land and buildings.

Paragraph 104 provides two approaches for accounting and reporting of liabilities relating to estimated total clean-up costs associated with general property, plant, and equipment (PP&E) in service on the standard's effective date.

The first approach provides that a liability shall be recognized for the portion of the estimated total clean-up cost attributable to that portion of the physical capacity used or the estimated useful life that has passed since the PP&E was placed in service. The remaining cost shall be allocated over the remaining life of the asset.

The second approach, which is only available upon initial implementation of the standard, provides that if costs are not intended to be recovered primarily through user charges, management may elect to recognize the estimated total clean-up cost as a liability upon implementation. In addition, in periods following the implementation period, any changes in the estimated total clean-up costs shall be expensed when reestimates occur and the liability balance adjusted.

Paragraph 105 provides that the offsetting charge for the liability recognized upon implementation shall be made to the Net Position of the entity. The amount of the adjustment shall be shown as a "prior period adjustment" in any statement of changes in net position that may be required. No amounts shall be recognized as an expense in the period of implementation. The amounts involved shall be disclosed, and to the extent possible, the amount associated with current and prior periods should be disclosed.

## Proposed Policy

### *Expense and Liability Recognition*

PP&E in service at time of implementation of the standard. Total estimated clean-up cost and the associated liability should already be recorded for items in service as of September 30, 2003.

PP&E placed in service after implementation of the standard. For PP&E placed in service after September 30, 2003, a portion of estimated total clean-up costs should be recognized as an expense during each period that the PP&E is in operation. This should be accomplished in a systematic and rational manner based on the estimated useful life of the associated PP&E. The recognition of the expense and liability should begin on the date that the PP&E is placed in service, continue in each period that operation continues, and be completed when the PP&E ceases operation.

The total estimated clean-up costs should be recorded as a deferred charge along with the associated liability when the PP&E is placed in service. At the end of each financial reporting period, the unrecognized total estimated clean-up costs (balance in the deferred charge account) should be charged to the liability account and disclosed in accordance with paragraph 109 of SFFAS No. 6. This entry should be reversed at the beginning of the subsequent fiscal year.

Reestimates after implementation of the standard. As total estimated clean-up cost reestimates are made, the cumulative effect of changes in total estimated clean-up costs related to current and past operations should be recognized as an expense, and the liability adjusted in the period of the change in estimate.

Payments relating to actual clean-up activities. As clean-up costs are paid, payments should be recognized as a reduction in the liability for total estimated clean-up costs. Payments include those related to the acquisition of PP&E for use in clean-up activities.

### *Disclosure Requirements*

Disclose the following:

- The sources (applicable laws and regulations) of clean-up requirements.
- The method for assigning total estimated total clean-up costs to current operating periods.
- The unrecognized portion of estimated total clean-up costs (e.g., the estimated total clean-up costs less the cumulative amounts charged to expense at the balance sheet date).
- Material changes in total estimated clean-up costs due to changes in laws, technology, or plans. In addition, the portion of the change in estimate that relates to prior period operations should be disclosed.
- The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations.

### **Authoritative Guidance**

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