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JUNE 29, 2001

# Financial Accounting Series

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EXPOSURE DRAFT

## Proposed Statement of Financial Accounting Standards

**Accounting in Interim and Annual Financial  
Statements for Certain Costs and Activities  
Related to Property, Plant, and Equipment**

**an amendment of APB Opinions No. 20 and 28  
and FASB Statements No. 51 and 67  
and a rescission of FASB Statement No. 73**

This Exposure Draft of a proposed Statement of  
Financial Accounting Standards is issued by the Board for public  
comment. Written comments should be addressed to:

Director of Research and Technical Activities  
File Reference No. 1063-001

Comment Deadline: October 15, 2001



Financial Accounting Standards Board  
of the Financial Accounting Foundation

This Exposure Draft is available on the FASB website at [www.fasb.org](http://www.fasb.org) until October 15, 2001.

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Order Department  
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To be timely, comments should be postmarked by October 15, 2001. Comments also can be submitted by electronic mail to [director@fasb.org](mailto:director@fasb.org). Respondents submitting comments by electronic mail should clearly identify themselves and the organization they represent.

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**Financial Accounting Standards Board**

of the Financial Accounting Foundation

401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116

**Notice for Recipients  
of This Exposure Draft**

This proposed Statement and the proposed AICPA Statement of Position, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment* (the proposed SOP), are being issued simultaneously for public comment. This proposed Statement would amend other authoritative pronouncements should the proposed SOP be issued as a final SOP. The Board invites comments on all matters in this proposed Statement. Respondents should not send the Board their comments on the proposed SOP. As part of its clearance process for a final SOP, the Board will receive those comments from the AICPA's Accounting Standards Executive Committee.

## Summary

This proposed Statement would amend FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, to exclude from its scope the accounting for acquisition, development, and construction costs of real estate developed and used by an entity for subsequent rental activities. The accounting for those costs as well as certain other costs and activities would be subject to the guidance in a proposed AICPA Statement of Position (SOP), *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*.

This proposed Statement also would amend the following pronouncements:

- Paragraph 27(d) of APB Opinion No. 20, *Accounting Changes*, to delete the amendment by FASB Statement No. 73, *Reporting a Change in Accounting for Railroad Track Structures*, which referred to retirement-replacement-betterment accounting as a method of accounting for railroad track structures
- Paragraphs 15(a) and 16(a) of APB Opinion No. 28, *Interim Financial Reporting*, to require that those costs that the proposed SOP would require be expensed as incurred on an annual basis also be expensed as incurred in interim periods
- Paragraph 6(a) of FASB Statement No. 51, *Financial Reporting by Cable Television Companies*, to require that the accounting for certain plant and overhead costs be consistent with the proposed SOP.

This proposed Statement also would rescind FASB Statement No. 73, *Reporting a Change in Accounting for Railroad Track Structures*, as a result of the deletion of its amendment to paragraph 27(d) of Opinion 20.

This proposed Statement would be effective for financial statements for annual and interim periods for fiscal years beginning after June 15, 2002. Earlier application would be permitted only upon early adoption of the SOP.

**Proposed Statement of Financial Accounting Standards**

**Accounting in Interim and Annual Financial Statements for Certain Costs and Activities  
Related to Property, Plant, and Equipment**

**an amendment of APB Opinions No. 20 and 28 and FASB Statements No. 51 and 67  
and a rescission of FASB Statement No. 73**

**June 29, 2001**

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## **Proposed Statement of Financial Accounting Standards**

### **Accounting in Interim and Annual Financial Statements for Certain Costs and Activities Related to Property, Plant, and Equipment**

**an amendment of APB Opinions No. 20 and 28 and FASB Statements No. 51 and 67 and a rescission of FASB Statement No. 73**

**June 29, 2001**

#### **INTRODUCTION**

1. FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, was issued in 1982. Statement 67 extracted the specialized accounting principles and practices from AICPA Statements of Position (SOP) 80-3, *Accounting for Real Estate Acquisition, Development, and Construction Costs*, and SOP 78-3, *Accounting for Costs to Sell and Rent, and Initial Rental Operations of, Real Estate Projects*, and those in the AICPA Industry Accounting Guide, *Accounting for Retail Land Sales*, that address costs of real estate projects. It established the accounting and reporting standards for acquisition, development, construction, selling, and rental costs associated with real estate projects held for sale or rental.

2. However, Statement 67 does not apply to real estate developed by an entity for use in its own operations, other than for sale or rental. The AICPA's Accounting Standards Executive Committee (AcSEC) and the chief accountant of the Securities and Exchange Commission (SEC) informed the Board that practice was diverse in accounting for improvement or "repair and maintenance" type expenditures for real estate assets because of a lack of authoritative guidance covering such items. In January 1999, the Board did not object to an AcSEC Prospectus for a project that would address those issues for the real estate industry.

3. In May 1999, the SEC chief accountant requested that AcSEC expand the scope of the project to include certain other assets in addition to real estate. The Board did not object to a revised AcSEC Prospectus expanding the scope of the project. Accordingly, AcSEC

developed AICPA Statement of Position 02-XX, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*. The provisions of SOP 02-XX apply to all nongovernmental entities (including not-for-profit organizations). SOP 02-XX applies to property, plant, and equipment owners, including lessors of assets that are subject to operating leases and lessees with capital leases. Certain costs and activities related to rental properties that previously were subject to Statement 67 are now subject to SOP 02-XX. This Statement and SOP 02-XX are effective for financial statements for annual and interim periods for fiscal years beginning after June 15, 2002.

## **STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING**

### **Changes to Existing Pronouncements**

4. This Statement amends the following pronouncements as a result of the issuance of SOP 02-XX:

a. APB Opinion No. 20, *Accounting Changes*. The amendment by FASB Statement No. 73, *Reporting a Change in Accounting for Railroad Track Structures*, to the last sentence of paragraph 27 is deleted.

b. APB Opinion No. 28, *Interim Financial Reporting*.

(1) The following is added before the parenthetical cross-reference at the end of paragraph 15(a):

Items that AICPA Statement of Position 02-XX, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*, indicates shall be expensed as incurred in annual financial statements also shall be expensed as incurred in interim periods.

(2) In subparagraph 16(a), (*e.g., annual major repairs*) is deleted and *except for items that SOP 02-XX indicates should be expensed as incurred* is added at the end of the sentence.

- c. FASB Statement No. 51, *Financial Reporting by Cable Television Companies*. Paragraph 6(a) is replaced by the following:

Costs of cable television plant shall be accounted for in accordance with AICPA Statement of Position 02-XX, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*.

- d. FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*. The following changes are made to Statement 67 to exclude from its scope the accounting for acquisition, development, and construction costs of real estate developed and used by an entity for subsequent rental activities. The accounting for such costs shall follow the guidance in SOP 02-XX.

- (1) The first sentence of paragraph 1 is replaced by the following:

This Statement establishes accounting and reporting standards for acquisition, development, construction, and selling costs associated with real estate projects held for sale.

- (2) Paragraph 2(a) is replaced by the following (the footnote remains unchanged):

Certain costs and activities related to real estate developed by an enterprise for use in its own operations,<sup>1</sup> including rental of real estate property pursuant to an operating lease. AICPA Statement of Position 02-XX, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*, provides guidance on accounting for those costs and activities.

- (3) Paragraph 3(j) is replaced by the following:

(j) certain rental costs.

- (4) Paragraph 20 and the subheading before paragraph 20 are replaced by the following (the footnote remains unchanged):

**Certain Costs Incurred to Rent Real Estate Projects**

If costs incurred to rent real estate projects, other than initial direct costs<sup>10</sup> and costs subject to SOP 02-XX, under operating leases are related to and their recovery is reasonably expected from future rental operations, they shall be capitalized. Examples of such costs are costs of semipermanent signs, advertising, "grand openings," and unused rental brochures. Costs incurred for model units, furnishings, and rental facilities shall be accounted for in accordance with SOP 02-XX. Costs that do not meet the criteria for capitalization, for example, rental overhead, shall be expensed as incurred.

- (5) The following footnote is added to the end of the subheading *Initial Rental Operations* before paragraph 22:

\*SOP 02-XX addresses the accounting for certain costs related to initial rental operations. It also defines the terminal date for substantially completed as *no later than the date initial operations commence in any portion of the building or structure* (paragraph 32 of SOP 02-XX).

- (6) The definition of *costs incurred to rent real estate projects* in paragraph 28, the glossary, is deleted.

5. This Statement rescinds FASB Statement No. 73, *Reporting a Change in Accounting for Railroad Track Structures*.

#### **EFFECTIVE DATE AND TRANSITION**

6. This Statement shall be effective for financial statements for annual and interim periods for fiscal years beginning after June 15, 2002. Earlier application is permitted only upon early adoption of SOP 02-XX. This Statement shall be applied prospectively for all costs incurred after an entity's adoption of SOP 02-XX. Restatement of previously issued financial statements is not permitted.

<p><b>The provisions of this Statement need not be applied to immaterial items.</b></p>
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## Appendix

### BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

7. An objective of AcSEC's project to develop AICPA Statement of Position 02-XX, *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*, was to enhance consistency of the determinations as to which property, plant, and equipment-related expenditures should be capitalized versus expensed as incurred. To achieve that goal, the revised Prospectus for that project indicated that the Board might need to amend certain aspects of FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*.

8. As a result of its deliberations, AcSEC recommended that the Board amend Statement 67 to exclude from its scope the accounting for acquisition, development, and construction costs of real estate developed and used by an entity for subsequent rental activities. AcSEC also recommended that the Board make the amendments set forth in paragraphs 4(a) and 4(c) of this Statement. As a result of the deletion of its amendment to paragraph 27 of APB Opinion No. 20, *Accounting Changes*, FASB Statement No. 73, *Reporting a Change in Accounting for Railroad Track Structures*, is no longer relevant and is rescinded.

9. The Board concluded that it should make those amendments based on the results of AcSEC's project. The Board believes that (a) there is a need for the guidance, (b) the guidance will improve practice, and (c) the benefits will exceed the cost of implementation.

10. The Board also concluded that it should amend APB Opinion No. 28, *Interim Financial Reporting*, so that an entity would apply the same accounting model in both interim and annual financial statements. The Board believes that the basis for the guidance in SOP 02-XX applies equally to interim and annual financial statements. As a result, the Board decided to amend paragraphs 15(a) and 16(a) of Opinion 28 for those costs that SOP 02-XX requires be "expensed as incurred."

11. The Board considered the following alternatives in determining how to amend Opinion 28:

- a. Undertake a project either by itself or in conjunction with the International Accounting Standards Board that would reconsider interim financial reporting
- b. Amend Opinion 28 to indicate that if authoritative literature, regardless of its level within the hierarchy of generally accepted accounting principles, requires that an entity expense an item as incurred, that literature would apply to interim financial statements
- c. Amend Opinion 28 only as it applies to certain costs related to property, plant, and equipment.

12. Although Board members believe that a comprehensive reconsideration of interim financial reporting may be warranted, the Board ultimately concluded that a very narrow amendment of Opinion 28 could be accomplished on a timely basis and without the expenditure of the more significant Board resources that the other alternatives would require. Thus, the maximum benefits from applying the guidance in SOP 02-XX could be obtained with the least cost. The Board agreed that a determination would be made at a later date whether to add a more comprehensive project to address interim financial reporting. The Board rejected the alternative of not amending Opinion 28 at all. That alternative would significantly diminish the benefit of SOP 02-XX and also result in a less neutral application of that SOP to planned major maintenance activities that occur on an annual basis and to those that occur less frequently.

13. The Board has concluded that the effective date and transition specified in paragraph 6 are advisable in the circumstances.