

# Defining Issues<sup>®</sup>

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## Alert

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## FASB Staff Position on Planned Major Maintenance

Companies will be prohibited from accruing as a liability in annual and interim periods the future costs of periodic major overhauls and maintenance of plant and equipment, according to a newly issued FASB Staff Position.<sup>1</sup> Other previously acceptable methods of accounting for planned major overhauls and maintenance will continue to be permitted. The prohibition against accruing future major maintenance costs will affect companies that currently accrue such costs over several fiscal years and companies that accrue such costs over interim-reporting periods within the annual period in which the costs are expected to be incurred. The prohibition applies to entities in all industries for fiscal years beginning after December 15, 2006, and must be retrospectively applied.

### The Prohibition

The Staff Position prohibits companies from recognizing planned major maintenance costs by accruing a liability over several reporting periods before the maintenance is performed—the accrue-in-advance method. The Staff Position specifically prohibits accruing future maintenance costs over interim-reporting periods within the annual period in which the costs are expected to be incurred. The FASB's rationale for prohibiting the accruals is that future planned major maintenance costs do not meet the definition of a liability, because there has been no obligating event.

### Acceptable Methods

The Staff Position's prohibition of the accrue-in-advance method changes the guidance on accounting for planned major maintenance activities in the AICPA guide on audits of airlines, which companies in other industries have applied by analogy to their own circumstances.<sup>2</sup> The prohibition removes only the accrue-in-advance method from the guide's set of four acceptable methods. The other three methods—direct expense, built-in overhaul, and deferral—continue to be acceptable.

<sup>1</sup> FASB Staff Position, No. AUG AIR-1, Accounting for Planned Major Maintenance Activities, September 8, 2006, available at [www.fasb.org](http://www.fasb.org).

<sup>2</sup> AICPA Industry Audit Guide, Audits of Airlines, With Conforming Changes as of May 1, 2003.



### **Interim Reporting**

Companies will no longer be permitted to accrue future maintenance costs in interim financial-reporting periods. The prohibition is effected by amending the guidance on interim reporting in Opinion 28 to remove its specific reference to annual major repairs.<sup>3</sup> Companies should apply the same method of accounting for planned major maintenance in both annual and interim periods.

### **Effective Date and Transition**

The Staff Position is effective for fiscal years beginning after December 15, 2006 (January 1, 2007 for calendar-year companies), and early adoption is permitted. The Staff Position's guidance must be applied retrospectively unless it is impracticable to do so.

The descriptive and summary statements in this presentation are not intended to be a substitute for the texts of FASB pronouncements, AICPA literature, SEC regulations, or any other applicable or potential requirements. Companies applying GAAP or filing with the SEC should apply the texts of the relevant laws, regulations, and accounting requirements, consider their particular circumstances, and consult their accounting and legal advisors.

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<sup>3</sup> APB Opinion No. 28, Interim Financial Reporting, May 1973, available at [www.fasb.org](http://www.fasb.org)