Statement of Financial Accounting Standards No. 73

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Reporting a Change in Accounting for Railroad Track Structures

(an amendment of APB Opinion No. 20)

August 1983

Financial Accounting Standards Board
of the Financial Accounting Foundation
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FAS 73 Summary

This Statement amends APB Opinion No. 20, *Accounting Changes,* to specify that a change to depreciation accounting for railroad track structures shall be reported by restating financial statements of all prior periods presented. The Statement is effective for changes made after June 30, 1983; however, earlier application is encouraged but not required. Prior to 1983, railroads generally followed betterment accounting for track structures in their general purpose financial statements. In 1983, the Interstate Commerce Commission (ICC) adopted changes requiring depreciation accounting in ICC filings. As a result, railroads and their accountants requested a determination of how best to report a voluntary change from betterment to depreciation accounting for general purpose financial reporting. This Statement is a response to that request.

INTRODUCTION

1. This Statement amends APB Opinion No. 20, *Accounting Changes*, to specify that a change to depreciation accounting for railroad track structures should be reported by restating financial statements of all prior periods presented.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Amendment to APB Opinion No. 20

2. A change from retirement-replacement-betterment accounting (RRB) to depreciation

accounting is added to the last sentence of paragraph 27 of Opinion 20 which will read as follows:

> The changes that should be accorded this treatment are: (a) a change from the LIFO method of inventory pricing to another method, (b) a change in the method of accounting for long-term construction-type contracts, (c) a change to or from the "full cost" method of accounting which is used in the extractive industries, and (d) a change from retirement-replacement-betterment accounting to depreciation accounting.

Effective Date and Transition

3. This Statement shall be effective for changes in accounting from RRB to depreciation accounting made after June 30, 1983. Earlier application is encouraged but is not required.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
Victor H. Brown
John W. March
David Mosso
Robert T. Sprouse
Ralph E. Walters

Appendix: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

4. Railroads and their accountants requested a determination by the Board of how best to report a voluntary change from betterment to depreciation accounting for general purpose reporting.

5. On February 17, 1983, the Interstate Commerce Commission (ICC) ruled that railroads must use depreciation accounting for railroad track structures in reports to the ICC. The ruling is effective for 1983 annual filings, 1984 quarterly filings, and all filings thereafter with the ICC. The ICC previously had required RRB for railroad track structures in reports to the ICC.

6. Under RRB, the initial costs of installing track are capitalized, not depreciated, and remain capitalized until the track is retired. The costs of replacing track are expensed unless a betterment (for example, replacing a 110-lb. rail with a 132-lb. rail) occurs. In that case, the amount by which the cost of the new part exceeds the current cost of the part replaced is considered a betterment and is capitalized but not depreciated, and the current cost of the part replaced is expensed. Railroads generally have used RRB for financial reporting.

7. The ICC ruling does not apply to financial reporting by railroads, but the Board has been informed that many railroads plan to adopt depreciation accounting for financial reporting. A change from RRB to depreciation accounting would be a change in accounting principle under Opinion 20.

8. Opinion 20 specifies that most changes in accounting principle should be reported by including the cumulative effect of the change in net income of the period of change. The Opinion provides for certain exceptions that should be reported by restating financial statements of all prior periods presented. Those exceptions are: (a) a change from the LIFO method of inventory pricing to another method, (b) a change in the method of accounting for long-term construction-type contracts, and (c) a change to or from the "full cost" method of accounting which is used in the extractive industries.

9. The Board believes that a change from RRB to depreciation accounting should be included among the exceptions noted in paragraph 8 because that change is another specific instance in which the advantages of comparability of financial statements resulting from restating financial statements outweigh the disadvantages. Therefore, the Board decided to amend Opinion 20 to specify that a change from RRB to depreciation accounting should be reported by restating financial statements of all prior periods presented.

10. An Exposure Draft of a proposed Statement, *Reporting a Change in Accounting for Railroad Track Structures,* was issued on April 12, 1983. The Board received 28 comment letters in response to the Exposure Draft, most of which expressed agreement. Certain of the comments received and the Board's consideration of them are discussed in the remaining paragraphs.

11. Some respondents stated that the Board should reconsider all of the provisions of Opinion 20. Those respondents suggested that a reconsideration of Opinion 20 would eliminate the need to amend that Opinion for exceptions as they arise. The Board concluded that a separate Statement on reporting a change in accounting for railroad track structures is appropriate because a need for timely guidance was demonstrated and there is no evidence that Opinion 20 needs to be reconsidered in its entirety. Also, voluntary accounting changes are infrequent, and the Board sees little benefit in attempting to devise a new implementation method applicable to all such changes.

12. Some respondents indicated that a Statement should not be issued on reporting a change in

accounting for railroad track structures because it is a narrow issue. The Board considered other means of addressing this issue, such as through a Technical Bulletin, but concluded that at this time a response to the issue should be effected through a Statement.

13. The Board concluded that it could reach an informed decision on the basis of existing information without a public hearing and that the effective date and transition specified in paragraph 3 are advisable in the circumstances.