

CHAPTER 13

COST ACCOUNTING REQUIREMENTS FOR DEPOT MAINTENANCE1301 GENERAL130101. Purpose

A. The purpose of this chapter is to prescribe cost accounting requirements for Defense Working Capital Fund (DWCF) activities that use a job order costing methodology.

B. The objective of these cost accounting requirements is to uniformly record, accumulate, and report the job order cost of performing DWCF functions.

C. Depot maintenance reporting requirements and procedures are contained in [Volume 6A, Chapter 14](#), “Depot Maintenance Reporting,” of this Regulation.

130102. Overview

A. The formal cost accounting requirements in this Chapter are required for all DWCF activities that utilize a job order costing methodology.

B. The requirements of this chapter apply to DWCF performed on all material, whether owned by the Department of Defense (DoD), other federal agencies, state or local governments, foreign governments or private parties.

C. The uniform recordation, accumulation, and reporting of job order costs is required to assist management in the measurement of productivity and efficiency; the development and use of performance measurement and cost standards; and highlight areas in need of increased management emphasis. Also, the data will assist in the identification of total capability, duplication of capacity, and areas of interservice support of DWCF workload.

D. Depot maintenance is material maintenance or repair requiring the overhaul, upgrading, or a rebuilding of parts, assemblies, or subassemblies, and the testing and reclamation of equipment as necessary, regardless of the source of funds for the maintenance or repair. The term includes: (1) all aspects of software maintenance classified by the DoD as depot-level maintenance and repair, and (2) interim contractor support or contractor logistics support (or any similar contractor support), to the extent that such support is for the performance of services described in the preceding sentence. DWCF depot maintenance or repair does not fund the procurement of major modifications or upgrades of weapon systems that are designed to improve program performance or the nuclear refueling of nuclear powered ships. DWCF depot maintenance or repair also does not fund the procurement of parts and safety modifications. However, depot maintenance or repair does include the installation of parts for that purpose. Depot maintenance serves to support lower categories of maintenance by providing technical assistance and performing that maintenance beyond their responsibility.

E. Depot maintenance may be performed in Government-Owned, Government-Operated activities, Government-Owned, Contractor-Operated activities, or contracted out. The primary funding source for depot maintenance operations is DoD operations and maintenance appropriations made available to customers of depot maintenance. Certain specific programs such as weapon system upgrades and similar modernization and/or modification programs may be funded with centrally managed procurement appropriations. An order for maintenance work may be placed with a depot maintenance activity by any appropriation or fund legally authorized to do so, as well as by customers outside of the DoD such as the Coast Guard and Foreign Military Sales. Requirements of orders for work to be performed by DWCF activities is contained in [Chapter 11](#), of this volume.

F. Public Law 100-679 (41 U.S.C. 422) requires certain contractors and subcontractors to comply with Cost Accounting Standards. Appendix B, “Cost Accounting Preambles and Regulations,” to the Federal Acquisition Regulation contains a statement of the Cost Accounting Standards. Additionally, the Cost Accounting Standards are codified in 48 Code of Federal Regulation, Chapter 99. The DWCF shall comply with the Cost Accounting Standards where not contradicted by other standards issued by the Under Secretary of Defense (Comptroller) (USD(C)) or Statement of Federal Financial Accounting Standards issued by the Office of Management & Budget (OMB). [Volume 4, Chapter 19](#), of this Regulation contains a brief explanation of the published Cost Accounting Standards but is not intended to be used as a reference source.

G. Typical accounting transactions utilized in a job order costing system can be found in [Chapter 7](#) of this volume.

1302 ESTABLISHING THE COST ACCOUNTING MODULE

130201. A job order cost accounting module should be subsidiary to, and integrated within, the general accounting system defined in the other volumes of this Regulation. The cost module should be integrated with the depot payroll, fund control, and material control modules.

Specifically, management should have information available from the cost accounting and reporting module to assist in the:

- A. Comparison of historical unit cost trends with replacement cost trends.
- B. Oversight in the utilization of resources.
- C. Evaluation of program budgets.
- E. Comparison of cost trends among DWCF entities or between DWCF and contract sources.
- F. Managerial direction and guidance for DWCF programs.
- G. Evaluation of DWCF activities for efficient use of resources.

H. Estimation of DWCF requirements.

I. Monitoring of DoD Component compliance with various Congressionally mandated reporting requirements, including Contract/DWCF shares.

J. Examination of the behavior of cost drivers over time.

130202. The cost accounting module described in this chapter shall be established for all, but not limited to, DWCF depot maintenance activities.

130203. The following guidance further explains the use of the United States Government Standard General Ledger chart of accounts by a DWCF activity:

A. Account 1525, "Inventory-Raw Materials," shall be used to record all materials held for the purpose of providing a good or service to a customer regardless of the method acquired; for example, acquisition, donation, or transfer without reimbursement. Raw materials shall not be charged to the work in process account until the materials are issued for use. Raw material issues shall then be charged to appropriate job orders or cost centers. Unneeded material and supplies shall be returned to the Inventory-Raw Materials account when a determination is made that the material is available for other uses.

B. Records of raw materials shall be verified by, and adjusted to, physical counts. Any adjustments needed to reconcile the physical count with the recorded (book) value of raw materials shall be charged to the appropriate cost center or to a gain or loss account as described in paragraph 130808, below.

C. Account 1526, "Inventory-Work in Process," is the control account for all unbilled job orders. (see [Chapter 7](#) of this volume for work in process accounting policy.) The amount of work in process consists of all costs applied to unbilled job orders including direct labor, direct materials, applied indirect overhead, and G&A expenses. The balance in this account shall be reconciled to the total charges on unbilled job orders as of the end of each quarter. In addition, the validity and reasonableness of the charges recorded on the unbilled job orders shall be verified on a random sample basis at least annually. This validation shall be performed by personnel not assigned to the accounting or maintenance function. For example, personnel from a DoD Component audit service or a local internal review staff may be assigned to perform this function. Any adjustments required as a result of the verification shall be recorded as a gain or loss of the applicable cost center to, for gains, Account 7190, "Other Gains," or, for losses, Account 7290, "Other Losses."

D. Account 1450, "Prepayments," shall be used to record the payment for expenses that properly apply to future accounting periods. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. This account shall not be used solely to level out significant expenses but must, in fact, represent an equitable distribution to the appropriate time period commensurate with the benefits that will accrue to that future period from the current payment.

E. Revenue Billings. The customer funding an order shall be billed for the revenue recognized, or when advance payments have been received, those advance shall be relieved to the appropriate revenue account. Revenue billings to customers shall reflect due credit for the advances received. In no case shall the total amount of revenue recognized and billed exceed the amount of the order. [Chapter 11](#) of this volume provides additional guidance on revenue billings.

F. Accrued expenses that are significant (material) in relation to the recording of costs for a DWCF activity shall be recorded in the appropriate expense accounts, budgetary accounts, and applicable liability account during the accounting period that the benefit was received rather than at the time of the payment for the expense. For example, accruals shall be recorded for accrued salaries, annual and sick leave, employee benefits, estimates for utilities, major real property maintenance and repair, and other significant services received and not yet paid.

G. Occasions may arise when, due to missing or erroneous data, costs incurred cannot be identified for charge to the appropriate job order. Such costs shall be temporarily recorded in the applicable expense account under suspense control until the correct data is available to make the proper distribution to the correct job order. Any unadjusted amount at the end of a fiscal year shall be charged to the applicable cost center to Account 7290, "Other Losses."

1303 ESTABLISHING JOB ORDERS

130301. Job orders shall be established by the performing activity in accordance with the following criteria:

130302. Units subject to "preshop analysis" or "examination and evaluation."

A. As a minimum, a job order is required for each unit when the estimated unit cost is in excess of \$150,000.

B. As a minimum, for depot maintenance activities, a job order is required for each month's induction of units having the same identification number (Type Model Series (TMS) or National Stock Number (NSN)) and the estimated unit maintenance cost is from \$25,000 to \$150,000 per unit.

C. As a minimum, for depot maintenance activities, a job order is required for each quarter's induction of units having the same identification number (TMS or NSN) and the estimated unit maintenance cost is less than \$25,000 per unit.

130303. Units not subject to “preshop analysis” or “examination and evaluation.”

A. As a minimum, for depot maintenance activities, a job order is required for each month’s induction of units having the same identification number (TMS or NSN) and the estimated unit maintenance cost is a \$25,000 or more.

B. As a minimum, for depot maintenance activities, a job order is required for each quarter’s induction of units having the same identification number (TMS or NSN) and the estimated unit maintenance cost is less than \$25,000 and the planned work on all the items scheduled for induction during the quarter is \$500,000 or more.

C. As a minimum, for depot maintenance activities, a job order is required for each quarter’s induction of homogeneous grouping of items by stock classification, subclassification, repair category, or other appropriate criteria and the estimated unit maintenance cost is less than \$25,000 and the planned work on any one identification number (TMS or NSN) is less than \$500,000. The dollar limit for the quarterly group job order is \$1,000,000.

1304 JOB ORDER REQUIREMENTS

130401. Job Order Cost Assignment Requirements. Under no circumstances shall direct material, labor, or other direct costs be charged to job orders based upon planned, programmed, or reserved amounts. Costs may be charged to job orders based upon standard costs when those costs are properly adjusted for variances to arrive at actual cost. Costs, including standard costs, shall be recorded based upon accrual concepts. Costs shall be assigned to individual job orders at the time the job order receives a benefit from the incurrence of an expenditure. The benefit may occur at any time but usually occurs subsequent to the time the obligation is incurred and before the disbursement occurs.

130402. Job Order Opening and Closing Requirements

A. A job order shall be opened when a new job order is required under paragraph 1303, above.

B. A job order shall be closed as soon as all direct, indirect, general and administrative costs are determined and assigned to the job order. Normally, all such costs should be determined and posted to the job order within 30 days of the completion of all direct labor chargeable to the job order. The job order shall be closed with the use of predetermined overhead rates, when authorized. Such overhead rates shall be consistently applied to all job orders. At the end of the fiscal year, any under and/or over absorbed overhead (variance) shall be closed to Account 6500, “Cost of Goods Sold.”

130403. Segregation of Cost for Cancelled and Completed Job Orders. Costs associated with cancellation or reduction of partially completed maintenance work shall be identified and reported separately from the costs of normally completed work. Specific instructions to account for and report these costs are described in paragraph 131112, below.

130404. Customer Order Support of Job Orders. Customer orders, either project orders or Economy Act orders, from the activity responsible for the financing appropriation, are required to support each job order. A customer order, however, may be issued to cover multiple job orders when agreed to in writing by the customer and the depot maintenance activity.

1305 PROCESS COST CENTERS PROCEDURES

130501. A DWCF activity may perform certain unique operations that lend themselves to process cost center procedures. For example, direct labor and material costs incurred in plating and painting operations may be more readily accumulated in a process cost pool and allocated on at least a monthly basis to the total number of units produced during the allocation period and the related costs assigned to each applicable job order.

130502. The allocation shall be to the job orders for the units processed through the cost center during the allocation period. The basis for the allocation of costs by the process cost center to the job orders shall be the number of equivalent units processed on the job orders completed by the center during the allocation period plus the number of job orders in process at the end of the allocation period.

130503. If such an approach is adopted, it should be done so deliberately after consideration of alternative methods. The method used to accumulate and allocate the costs for such operations should be consistently applied from accounting period to accounting period to ensure consistency in the assignment of costs.

1306 USE OF WORK MEASUREMENT STANDARDS

130601. Work measurement standards may be established for labor, material, and indirect costs. Using these standards, cost estimates shall be developed for each job order. Incurred costs shall be compared against estimated costs to determine if corrective actions are required to control significant variances.

130602. Work measurement standards shall be based on generally accepted industrial engineering techniques where high-value, high-volume work is involved. The work measurement standards may be established by in-house or other DoD personnel or they may be established by original equipment manufacturer's specifications of maintenance tasks and frequencies (product reliability engineered standards). A work measurement standard, once established, should be continuously reviewed to verify the accuracy of the standard in light of advanced processing equipment, higher level of skills, etc. For low-value, low-volume work, the work measurement standards may involve less sophisticated engineering techniques but work measurement standards or estimated resources required shall be developed for all work accepted.

130603. Work measurement standards shall be established and reevaluated to comply with the applicable Cost Accounting Standards Board standards, and as required by DoD Instruction 5010.34, "Productivity Enhancement, Measurement, and Evaluation - Operating Guidelines and Reporting Instructions," and DoD Instruction 5010.37, "Efficiency Review, Position Management, and Resources Requirements Determination."

1307 LABOR COSTS

130701. All civilian labor hours worked in a cost center shall be recorded on a job order as either a direct cost or as an indirect cost. Civilian labor hours shall be charged at the current payroll rate to include DoD paid personnel benefits.

130702. Actual civilian payroll hourly rates shall be used as a basis to record labor costs. Average labor rates may only be used to record labor costs for cost centers when the range of actual hourly pay rates within that center is limited and significant distortions of recorded costs would not result from their use. Stabilized rates approved for billing purposes shall not be used as a basis to record labor or other costs incurred.

130703. A labor distribution system shall be used to charge all direct labor hours and costs to applicable job orders. Differences between labor hours recorded for payroll purposes, payroll costs incurred and the labor hours and costs distributed to job orders and indirect cost centers through the labor distribution system shall be reconciled and corrected each pay period. For discrepancies that cannot be reconciled between job order records and payroll records without a major expenditure of resources, the job order records shall be corrected to equal the payroll records. Differences due to the use of average cost center labor rates shall be charged to general and administrative expenses.

130704. All military hours worked shall be recorded as either a direct cost on a job order or as an indirect cost of a cost center. Military labor hours shall be charged to the job order at the current civilian equivalent rate applicable to the rank and military service of each military member. (see [Chapter 12](#), of this volume for military personnel costing process.)

130705. All military labor performed by a "ship's force" (Navy crew members) loaned to and working under the supervision or direction of the depot maintenance activity when a ship is undergoing depot maintenance in a shipyard shall be considered an unfunded depot maintenance cost and shall not be billed to, or reimbursed by, the customer. When a ship's force is not working under the supervision or direction of the depot maintenance activity, any maintenance work it performs shall not be considered depot maintenance.

130706. A time keeping system shall be maintained to provide data necessary to distribute both military and civilian labor to applicable job orders or cost centers. A timekeeping system should provide the following information:

- A. Source of Hours Available:
 - 1. Normal duty hours available by cost center.
 - 2. Premium time, overtime, and holiday time by cost center.
 - 3. Loaned labor hours by gaining and losing cost center.

- B. Application of Hours Available:
 - 1. Direct hours worked by cost center on each job order.
 - 2. Indirect hours worked by cost center.
 - 3. Nonproductive (annual, sick, etc.) hours by cost center.

130707. The allocation of hours worked to benefiting job orders may be based on industrially engineered earned hour (actual hour efficiency of a cost center if the employees in the cost center are of a homogeneous type and the allocation of labor hours are properly adjusted for variances to arrive at actual hours worked). Such a method of allocation is not appropriate for a cost center with a diverse workforce or different types of workload.

130708. Supervisors are responsible for the validity of timekeeping records. Employees are responsible for certifying that the time charged to job orders is correct. The source documents used to record the hours worked by each employee on each job order shall be reconciled to the total payroll hours.

130709. Direct labor is work that can be identified, without undue cost or difficulty, to a single, specific job order. Direct labor generally includes the hands-on maintenance, repair, overhaul, test, and related direct production effort that follow the established sequence and content of work necessary to accomplish the billable job. Direct labor does not include the support work identified as either indirect or general and administrative in nature.

130710. First line supervision is that level immediately over nonsupervisory workers. First line supervisors and above are an official supervisory position and, when acting in a supervisory capacity, their labor costs shall always be charged as an indirect cost of the cost center supervised. "Crew chiefs," "snappers," "team leaders," and other subordinate job leaders are not first line supervisors. First line supervisors may be borrowed and used as direct labor. When this occurs, the time of the first line supervisor shall be classified as direct labor and charged as such to the applicable job order rather than as an indirect cost.

130711. Special emphasis shall be placed on accurately recording the use of loaned labor. Loaned labor occurs when an employee is temporarily transferred (loaned) from one cost center to another within a DWCF activity. When an employee is loaned, the labor hours of the employee shall be recorded by the gaining cost center. Care must be exercised to assure that the

costs of loaned employees are not charged by both, or by neither, the loaning and gaining cost centers. First line supervisors at both the loaning and gaining cost centers may be tasked to validate that such costs are accurately recorded.

130712. If employees are temporarily assigned to a DWCF activity from an organizational entity other than DWCF activity and the DWCF activity does not pay the individual directly nor make payment or reimbursement to the activity loaning the employee, the labor costs shall be recorded as unfunded labor.

130713. The following requirements apply to accounting for civilian leave and benefits.

A. Account 2210, “Accrued Funded Payroll and Leave,” shall be established to account for accrued annual leave of DWCF civilian employees. A factor for annual leave accrual should be included within the stabilized rate or price charged by a DWCF activity. The stabilized rates or prices, therefore, provide funding for annual leave. The following accounting entry is appropriate for accrued funded annual leave.

Dr 6100 Operating Expenses/Program Costs (Annual Leave)
Cr 2210 Accrued Funded Payroll and Leave (Annual Leave)

B. Account 2213, “Employer Contributions and Payroll Taxes Payable,” shall be established to account for accrued sick leave, accrued holiday, and other miscellaneous leave in addition to other employee fringe benefits such as life and health insurance, retirement contributions, etc. The following accounting entry is appropriate for accrued civilian fringe benefits.

Dr 6400 Benefit Expense (Personnel Benefits - sick leave,
holiday leave, health insurance, life insurance, retirement
contributions, etc.)
Cr 2213 Employer Contributions and Payroll Taxes Payable (sick leave,
holiday leave, health insurance, life insurance, retirement
contributions, etc.)

C. Leave shall be costed to job orders on the basis of an allocation factor for all time worked except when a holiday is involved. When an employee works on a holiday, the regular pay for the holiday shall be charged against the holiday leave accrual liability, the same as all employees who do not work on the holiday. Only the additional pay for working on the holiday along with the leave accrual at the prescribed allocation factor shall be costed to the job order as stated in paragraph 130716, below.

D. Leave actually taken shall be relieved from the appropriate accrued leave account on the basis of payroll labor distributions and shall not be charged to current job orders. The following accounting entry is appropriate for leave actually taken.

Dr 2210 Accrued Funded Payroll and Leave (Annual Leave)

Cr 1010 Funds Balance with Treasury (Funds Disbursed-Operating Program)

E. Account 2210, “Accrued Funded Payroll and Leave (Annual Leave),” shall be reconciled at the end of the leave year with individual employee leave records. Adjustments to reconcile the balance in the account to the individual leave records shall be costed to Account 6100, “Operating Expenses/Program Costs (Annual Leave),” as a G&A expense adjustment. After reconciliation, the balance of the accrued annual leave account shall be carried forward into the following fiscal year. However, accrued sick, holiday, and other leave balances are not to be carried forward into the following fiscal year.

F. Accruals for sick leave, holiday leave, and other leave accounts subsidiary to Account 2213, “Employer Contributions and Payroll Taxes Payable,” are based on estimates of leave to be taken--not the amount of leave earned. At fiscal year end, the estimates of leave to be taken will likely not agree with the actual leave taken. Adjustments necessary to result in a \$-0- balance in the sick leave, holiday leave, and other leave shall be costed to Account 6400, “Benefit Expense (Personnel Benefits – Civilian)” as a G&A expense adjustment.

130714. The use of allocation factors for calculating leave accruals and applying them to the proper cost centers on labor cost distributions is normally the simplest, most economical, and most accurate method of accruing and costing leave. The allocation factors should be updated periodically to limit the adjustments to the accrued leave accounts at the end of the fiscal year to a minor amount.

A. A DWCF activity may determine its own allocation leave accrual factors because of variances caused by average length of service, climate, turnover, and local leave usage experience.

B. When establishing the allocation factors, it is necessary to estimate the average annual work days for the activity to which the factor shall be applied. The following is an illustration:

C.	Total days in year	365.0
	Less time off	
	Average annual leave taken	20.0
	Average sick leave taken	9.0
	Holidays and other events	11.0
	Saturdays and Sundays	<u>104.0</u>
	Normal time off	<u>144.0</u>
	Normal work days	221.0

Estimated overtime work	3.5
Estimated holiday time work	<u>.5</u>

Average work days 225.0

D. The annual leave accrual factor may be calculated as follows:

1. Average days net accrual of annual leave		21
2. Average work days (computed above)	+	225
3. Preliminary accrual factor (excluding pay adjustments) [(1) ÷ (2)]	=	.093
4. Estimated regular pay for regular time and overtime worked and premium pay for holiday time worked	x	\$10,000,000
5. Total amount accrued for annual leave using preliminary factor	=	\$930,000
6. Estimated increase in accrual of annual leave due to pay increase	+	\$30,000
7. Total leave accrual requirements	=	\$960,000
8. Amount to which leave accrual factor is to be applied (para. 130714.D.4, above) ÷		\$10,000,000
9. Annual leave accrual factor	=	.096

E. The composite leave accrual factor may be calculated as follows:

<u>Type of Leave</u>	<u>Average Days</u> <u>Annually</u>	<u>Average</u> <u>Work Days</u>	<u>Accrual</u> <u>Factor</u>
Annual	(see paragraph 130714.D.9, above) =		.096
Sick	8	÷ 225	= .036
Holiday and Other	11	÷ 225	= <u>.049</u>
Composite Accrual Factor			181

130715. In addition to the factor to be added for leave, a factor shall be added to cover the employer's share of other employee fringe benefits such as retirement, life insurance, health, and other benefits. The factor to be applied may be developed by each activity. Standard accrual factors for leave, retirement, insurance, health, and other benefits shall be applied against all payroll costs.

130716. The costs of overtime premium pay (that is, the amount paid for working overtime that is above the normal labor hour rate) shall not be charged directly to the applicable job order except when the overtime is clearly caused by the unique conditions of the job order. A clear relationship for the incurrence of overtime costs may be established when a DWCF activity agrees with a customer to meet an expedited completion date or to accept additional work within the same time frame on the same order. Otherwise, the overtime premium shall be recorded as an indirect cost.

130717. Other premium pay includes those for extra shift, hazardous duty, and night duty. Consistent with the policy for overtime premium, other premium pay shall only be classified as a direct labor charge when the incurrence of the premium pay is clearly the result of unique conditions of the job order. Unless the peculiar conditions of the job order require the incurrence of the premium pay, premium pay shall be charged as indirect labor costs.

1308 MATERIAL COSTS

130801. All material purchased by a DWCF activity for the purpose of providing a good or service to a customer shall be accounted for in general ledger account 1525, "Inventory-Raw Materials." This account shall be debited based upon receipt of materials and supplies. The account for raw materials shall be credited with an offsetting debit (charge) to Account 1526, "Inventory-Work In Process," upon issue of the material for use in the performance of DWCF work.

130802. Direct material and supplies shall be charged directly to the applicable job order. Indirect material shall be charged to the using cost center upon issue.

130803. Materials and supplies shall be valued at its acquisition cost.

130804. Acceptance and Utilization of Customer-Furnished Material. Customer-furnished material shall be accepted and utilized only in those instances in which its use could be expected to result in a more economical, efficient, or timely output. The accounting entry to record receipt of customer furnished material is as follows:

Dr 1525 Inventory-Raw Materials (Customer Furnished Material)
Cr 5720 Financing Sources Transferred In Without Reimbursement

130805. Return of Customer-Furnished Material

A. Customer furnished material remaining after job order completion shall be returned to the customer within 60 days unless there is, or soon will be (generally, within 90 days), a direct production requirement from the customer who furnished the material for which the material may be used. The accounting entry to record a return of material to a customer is as follows:

Dr 5730 Financing Sources Transferred Out Without Reimbursement
Cr 1525 Inventory-Raw Materials (Customer Furnished Material)

B. If the customer abandons the material, it may be retained if needed for other work requirements. If retained, no accounting entry is needed other than the original accepting entry shown in paragraph 130804, above.

130806. Direct material is that material and supplies that can be identified, without undue cost or difficulty, in the performance of work specified by a work authorization document or job order. A small amount of material may be treated as indirect material even though the material is incorporated as a part of the final product, if this practice is consistently applied to all job orders. Direct material may either be incorporated as a part of the final product or consumed in the process.

130807. Indirect material is that material that cannot be identified, without undue cost or difficulty, in the performance of work as specified by a work authorization document or job order. The determination of what constitutes “without undue cost or difficulty,” is, although not defined, subject to reasonable interpretation. If questioned, it is the responsibility of the DWCF activity to demonstrate that identification of material (or labor) as direct would be unduly costly or difficult in relation to the benefit received.

130808. The material and supplies on hand in a cost center should be reviewed at least annually to determine if excesses exist. Those items that are excess and are not needed shall be returned to the materials and supply stock account. Unused material returned to the materials and supplies stock account shall be recorded as follows:

A. Credit shall be granted to the job order originally charged for unused direct material and that material shall be recorded as an increase to Account 1525, “Inventory-Raw Materials,” unless there is no foreseen use for the material. If the job order to which the material was originally charged has been closed, and a decision is made not to reopen the order to post the credit, the credit shall be applied to Account 7190, “Other Gains.” If there is no foreseen use, the material shall be recorded as an increase to 1525, “Inventory-Raw Materials.” The loss, if any, shall be recorded to Account 7290, “Other Losses,” and charged as an indirect cost to the returning cost center.

B. Credit shall be granted for the return of usable indirect material to the materials and supplies stock account. The credit shall be applied to the indirect material expense account of the applicable cost center.

C. Items excess to the needs of a DWCF activity shall be returned to the supply system. Items returned to the supply system for which credit is not granted, or credit in a lesser amount than the cost of the material returned, shall be recorded to Account 7290, “Other Losses.” The value of the credits received for returns shall be recorded to Account 7190, “Other Gains.”

130809. When an item such as an assembly, subassembly, or an end item is designated as an “exchange” item, the depot can issue a repaired item to the customer upon receipt of a repairable carcass from the customer. The customer shall be charged an average cost to repair the carcass. To facilitate this process, an average cost to repair shall be established for a fiscal year. The average cost to repair shall be determined by dividing historical cost to repair a type of carcass incurred each year by the number of units repaired and adjusting the result to the

current year. The average cost to repair should be recomputed each fiscal year. For non-DoD carcasses including those owned by foreign governments refer to the requirements in [Volume 15](#), “Security Assistance Policy and Procedures,” of this Regulation.

130810. If an exchange carcass is not repairable or an exchange item is missing and the depot maintenance activity is required to pay for a new item, the cost of the new item shall be charged to the job order as direct material cost.

1309 OTHER DIRECT COSTS

130901. Purchased services shall be charged as direct costs to the job order that benefits from the services. If only one job order benefits from a contract or purchase, the cost of the contract shall be charged to that job order. If more than one job order benefits from a contract, the costs of the contract shall be prorated to the benefiting job orders based upon estimates or calculations of the benefits received by each job order.

130902. Purchased services that benefit indirect cost centers or the activity as a whole G&A shall be recorded as indirect costs.

130903. The costs of contracts that supplement the capacity or capability of a DWCF activity shall be charged to the job orders that use the additional services.

130904. The costs of material procured from contractors shall be recorded in the Inventory-Raw Materials account and charged to job orders under normal procedures. If, however, material is procured for a specific job order, the acquisition cost of the material shall be a direct charge to the applicable job order.

130905. Travel and per diem expenses (including regular labor hours spent in travel) shall be charged as direct costs only if the labor hours worked while traveling are charged as direct labor. If more than a single job order is worked on, the travel and per diem expenses shall be prorated on the basis of the related direct labor. Otherwise, all travel and per diem expenses shall be charged as an indirect expense of the employees’ cost center.

130906. The costs of Permanent Change of Station movements for transferred civilian employees that are the responsibility of a DWCF activity shall not be charged as a direct cost but as a G&A expense and recorded in accounts 6100, “Operating Expenses/Program Costs (Travel and Transportation of Persons),” and 6100, “Operating Expenses (Transportation of Things).”

1310 INDIRECT COSTS

131001. The overhead rates and standard costs discussed in this chapter should not be confused with stabilized billing rates. Stabilized billing rates or stabilized prices are used solely to price work to DoD-funded customers and may only be changed upon approval of the Office of the USD(C).

131002. All DWCF costs incurred that are not chargeable as direct costs, shall be recorded as indirect costs unless specifically designated otherwise in this regulation. Indirect costs shall be recorded by object class as specified in OMB Circular A-11. Indirect costs shall be recorded by activity, department, cost center, or other organizational element responsible for incurring the cost. The number and type of indirect cost centers to be established is a function of the diversity of the indirect activities at the depot and the level of management information required. The minimum number of cost centers required to separately identify and record homogeneous groupings of cost is a function of the number of different types of facilities, equipment, and/or skills required in the indirect area. The number of additional cost centers is a management prerogative in terms of the number and type of cost centers needed to ensure efficient and effective operations.

131003. Costs of departments, service, and processing centers that provide support directly to direct cost centers shall be classified as operating support indirect cost pools. The costs assigned to these cost pools shall be allocated in full to the benefiting direct cost centers (see paragraph 131005, below) and not included in the G&A expense rate described in paragraph 131006, below. Costs assigned to operating support indirect cost pools shall be allocated to the benefiting direct cost centers by the use of a base that results in the distribution of costs incurred in proportion to the benefits received.

131004. Indirect costs shall be allocated to job orders by the use of an operations overhead rate and a G&A rate as described in paragraphs 131005 and 131006, respectively, below. Neither of these rates should be confused with the stabilized billing rates to be used to price billings to DoD customers.

131005. An operations overhead rate shall be developed for each direct cost center in which direct labor is utilized in the performance of DWCF activities. The operations overhead cost pool shall consist of all indirect costs incurred by the cost center plus the allocated share of operating support costs of departments or service cost centers, if any (see paragraph 131003, above). The base to be used to allocate the operations overhead cost pool to the direct cost centers is direct labor hours. Direct labor hours shall include both military and civilian direct labor. This base is appropriate because operations overhead in a DWCF activity is normally a function of direct labor hours. When the use of direct labor hours as an allocation base will not result in an equitable allocation of indirect costs (that is, charges are not commensurate with benefits received), a more appropriate allocation base may be selected providing:

A. An organizational authority, including the OUSD(C), that is above the level of the local performing DWCF activity has not directed that particular DWCF activity to use a specific allocation base.

B. The alternate allocation base preferred for use is approved by the comptroller of the local performing DWCF activity. (If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing DWCF activity.)

C. Justification for the decision is documented and retained in the office of the local comptroller for review.

131006. The G&A expenses shall be allocated to job orders through the use of an overhead rate separate from the operations overhead rate. The G&A expense pool shall include all G&A expenses incurred by a DWCF activity. The base used to allocate G&A expenses to a job order is total incurred costs (both direct and indirect). When the use of total incurred costs as an allocation base will not result in an equitable allocation of G&A expenses (that is, charges are not commensurate with benefits received), a more appropriate allocation base may be selected providing:

A. An organizational authority that is above the level of the local performing depot maintenance activity, including the OUSD(C), has not directed that particular depot maintenance activity to use a specific allocation base.

B. The alternate allocation base preferred for use is approved by the comptroller of the local performing DWCF activity. (If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing DWCF activity.)

C. Justification for the decision is documented and retained in the office of the local comptroller for review.

131007. Overhead costs and G&A expenses shall be allocated to job orders through the use of, respectively, the operations overhead rate and G&A rates. These rates are not to be confused with the stabilized billing rates used to price the sale of services to DoD-funded customers. The rates shall be developed based upon estimated costs with an anticipated level of activity (base). The applied overhead account shall be used to record over and/or under absorbed overhead. This difference is a variance. A variance between actual overhead costs and applied overhead may require a change in the overhead rate. The development of a new overhead rate shall include plans to absorb the amount of the realized variance during the period of time the new overhead rate is in effect. A change in the overhead rate may be approved by the comptroller of the performing DWCF activity when it is apparent that:

A. The variance is not due to seasonal fluctuations such as summer vacations;

B. The variance will continue to exist at fiscal year end; and

C. The expected variance is significant. (The determination of what is “significant” shall be made by, or in consultation with, the local DWCF comptroller.)

131008. When a job order is complete, it shall be closed (moved from work in process to Account 6500, “Cost of Goods Sold”) including overhead costs allocated based upon overhead rates in effect during the life of the order. Adjustments in overhead rates made after a job order is closed shall not be posted to a completed job order unless the effect of the adjustment would have a significant impact on the total cost assigned to the job order.

Adjustments applicable to the current fiscal year that are significant shall be posted to Account 6500, "Cost of Goods Sold," and an adjustment made to completed job orders. Adjustments that are not significant shall be posted to Account 6500, "Cost of Goods Sold," without an adjustment to completed job orders. (see [Chapter 7](#) of this volume for typical accounting transactions for completion of customer order.)

1311 COSTS REQUIRING SPECIAL ATTENTION

131101. Quality Assurance. A DWCF quality assurance function; such as, test design and analysis, performance of tests necessary to independently assure the quality of the work accomplished, and related supervision and support, shall be charged as a direct cost to the applicable job order. Quality assurance costs that are not identifiable to specific job orders shall be charged to an operating support indirect cost center as described in paragraph 131003, above, and allocated to the benefiting direct cost centers. Quality Assurance cost incurred in direct support of a customer order shall be directly charged to those orders.

131102. Inspections and Tests. Inspections and tests made to determine work requirements; that is, preshop analysis, initial evaluation and inspection, and preinspection or shakedown inspection, shall be recorded as "direct labor" on the applicable job order. Also, final inspection and tests performed after a process is complete to assure operational or functional adequacy are recorded as "direct labor - production." Operational inspections and tests performed to determine the condition of the item and make adjustments (calibrate) are inherent and shall be recorded as "direct labor - production."

131103. Reparables. Reclamation of unserviceable depot level reparables is performed at the direction of the National Inventory Control Point item manager. Items produced as a by-product of the reclamation process shall be returned to the DoD supply system. A separate job order shall be established for each reclamation project.

131104. Borrowed Assemblies, Subassemblies, Components, or Parts

A. "Backrobbing" (also called "robback") is defined as the taking of an assembly, subassembly, component, or part from an item that has been inducted for maintenance for use on another item inducted for maintenance with the intention of replacement at a latter time. It is the temporary borrowing of the required part. Generally, this practice is authorized only to prevent a work stoppage. The current acquisition cost of the assembly, subassembly, component, or part that was "borrowed" and the cost of installing the borrowed item shall be charged to the benefiting job order. All costs incurred in removing the "borrowed" item and reinstalling the replacement item shall be charged to the operations overhead of the cost center requiring the part. These costs shall not be separately identified for reporting purposes.

B. "Cannibalization" is defined as the taking of an assembly, subassembly, component, or part from an item (serviceable or unserviceable) that has not been inducted for maintenance (without regard to its location or ownership) by a maintenance activity for use on an item which has been inducted for maintenance. Generally, cannibalization is authorized only to prevent a work stoppage. The current acquisition cost of the assembly, subassembly,

component, or part that was cannibalized and the cost of installing it shall be charged to the benefiting job order. All costs incurred in removing the cannibalized item and reinstalling the replacement item shall be charged to the operations overhead of the cost center requiring the part. These costs shall not be separately identified for reporting purposes.

131105. Calibration. Calibration of an assembly, subassembly, component, part, or other equipment from an item that has been inducted for maintenance shall be charged to the benefiting job order. Calibration of equipment used by a depot maintenance cost center in the performance of its work shall be charged as an indirect expense of the cost center that uses the item being calibrated.

131106. Modifications and Upgrades

A. Establishment of Job Orders. A separate job order shall be established for each modification or upgrade of a major end item such as an aircraft. Separate job orders shall only be established for other than major end item modifications or upgrades when the work is easily identifiable; such as when the modification or upgrade is the primary purpose of inducting the item. The cost of material used in the modification or upgrade process, such as a modification kit, and the cost of direct labor incurred to install the modification shall be charged to the modification job order.

B. Modification/Upgrade Versus Overhaul Costs. When a modification or upgrade is performed concurrently with depot maintenance work on the same major end item, direct modification or upgrade material (modification kits) used shall be charged to the modification or upgrade job order. However, direct labor shall be charged as modification or upgrade work only when it is peculiar to the modification or upgrade process. For example, when modification or upgrade is performed concurrently with overhaul, labor costs incurred in disassembly, test, inspection, repair, rebuild, replacement and servicing, etc., that are performed as a normal part of the overhaul shall be charged to depot maintenance overhaul and not prorated between overhaul and modification or upgrade. Labor costs incurred installing a modification or upgrade concurrently with depot maintenance overhaul work may be charged to the job order for the depot maintenance overhaul if the amount of the modification or upgrade labor is so small that no significant or material distortion in either the modification or upgrade or the depot maintenance cost shall occur. When this practice is followed, there shall be no adjustments to the depot maintenance overhaul job order on the basis of labor or material standards or other estimates of modification or upgrade labor in order to support reimbursement from fund citations for modification or upgrade work.

131107. Automated Data Processing Costs

A. Software Development Costs. The costs of computer programming efforts for DWCF equipment (that is, the costs of software development efforts for use on DWCF activity assets) shall be capitalized when they meet the DoD capitalization criteria. Additional guidance on Programming efforts that do not meet prescribed capitalization criteria shall be treated as operations overhead expense of the performing cost center. If the programming effort consumes significant amounts of resources, a separate indirect department or service center shall

be established and the capitalized and other costs of the service center allocated to the benefiting direct cost centers on the basis of the program use. Costs of programming effort for non-DWCF activities shall be charged to those activities before the remaining costs are allocated to the benefiting direct cost centers. When the programming costs are not appropriately chargeable as an operations overhead cost, the costs shall be charged to a G&A expense account.

B. Software Support. Software support is performed by DWCF activities to ensure that fielded software systems continue to support original missions as updated by modification and improvement efforts. All DWCF costs for software support shall be charged to specific job orders established for this purpose. Costs charged to the orders shall include all applicable direct labor, direct material, all other direct costs, operations overhead and G&A costs.

131108. Machine Set-Up Costs

A. The cost of programming effort for automatic test and numerically controlled machines shall be charged to the benefiting job order(s). However, if a significant effort is expended for programming that shall benefit more than one job order, then the programming cost should be allocated to all benefiting job orders. The nonproductive labor hours of employees waiting for programming to be completed is an indirect expense of the worker's cost center.

B. Machine tool set-up time shall be charged to the benefiting job order(s). Set-up time is normally recorded as direct labor on a job order and should not be separately recorded from the job order. However, if a significant effort is expended for a set-up that shall benefit more than one job order, then the set-up should be allocated to all benefiting job orders. The nonproductive labor hours of employees waiting for a set-up to be completed is an indirect expense of the worker's cost center.

131109. Defective Work and Spoilage Costs

A. Charging as Direct Costs. Efforts undertaken to correct work defects and spoilage when quality control standards are not met shall be charged to the applicable job order. Examples of corrective work that should be directly charged to a job order include:

1. Acceptable reject rates for castings, welds, and brazing.
2. Minor realignment or refitting of units that are improperly finished or aligned.
3. Resoldering of connections broken in transit.

B. Charging as Indirect Costs. When unusual defects or excessive spoilage occurs, the responsible cost center's indirect material and labor costs shall be charged with the costs of the corrective work. When the responsible cost center cannot be determined, the

applicable material and labor cost shall be charged as an indirect cost. Defective work and spoilage that is chargeable to indirect costs includes the following:

1. Cost of additional material and labor necessary to remedy or rework end products when defects beyond acceptable levels are detected during the normal production and inspection processes. Such costs do not add value to the work performed but are necessary to bring the work up to stated specifications.

2. Costs related to work on items with defects so severe that the item must be removed from the production process and sold as scrap or returned in part to raw materials. When this happens, the applicable job order should be relieved of the costs and the indirect costs of the responsible cost center charged. If a responsible cost center cannot be determined, a G&A account for "Defective Work and Spoilage," shall be charged for the costs of the rejected item.

131110. Proceeds From Sale of Surplus Property. Disposition of proceeds from DoD sales of surplus property will be in accordance with [Volume 11A, Chapter 5](#), "Disposition of Proceeds From DoD Sales of Surplus Personal Property" of this Regulation. Proceeds from the sale of surplus property generated, collected, or otherwise obtained by DWCF activities as a part of normal operations shall be credited to the DWCF and accounted for as follows:

A. Estimated proceeds from the sale of material removed during work on vessels, aircraft, vehicles, and weapons that can be feasibly and economically related to a specific job order may be credited to that job order. When actual proceeds are known, the job order amount shall be adjusted if the job order is still open. Otherwise, the net difference between the estimated amount and the actual amount of proceeds shall be adjusted to Account 7110, "Gains on Disposition of Assets."

B. Carcasses received from customers that are later condemned or deemed unserviceable are considered a normal part of DWCF operations. Therefore, the proceeds from the sale of carcasses received from customers shall be credited to Account 7110, "Gains on Disposition of Assets."

C. All other proceeds from the sale of DWCF items shall be credited to Account 7110, "Gains on Disposition of Assets."

131111. Mobilization Capability Costs. Mobilization capability costs include the costs to maintain a surge capacity and/or maintain other assets, functions, or capabilities required to meet an operational contingency as documented in Defense Planning Guidance or operational plans. Surge capacity most often manifests itself in facilities and equipment that are unutilized or underutilized during normal peacetime operations.

A. Underutilized Capacity. Underutilized plant and equipment results when the volume of workload is less than full capacity of an operating facility. The cost of maintaining underutilized capacity (except for the DWCF Transportation Activity Group) is not considered a mobilization requirement eligible for separate billing to, and reimbursement from

the Operation and Maintenance (O&M) appropriation of the DoD Component having management responsibility for the activity at which the unutilized capacity resides appropriation funding.

B. Unutilized Capacity. Unutilized (reserve) plant and equipment capacity is that part of a DWCF activity's assets including plant and equipment that is held in a standby, idle, or lay-away status or for war reserve storage.

1. Unutilized capacity associated with the ability to satisfy a projected surge capability is considered a mobilization requirement eligible for separate appropriation funding if it is, or is expected to be, utilized in a given month or if utilized only 20 percent or less of available workdays in a month. The DWCF rates shall not include the cost of unutilized capacity. Instead, the host activity will budget direct appropriated fund support (labor, materials, contractual support, and overhead) for the unutilized capacity and will reimburse the DWCF activity for costs it incurred.

2. Unutilized capacity associated with the ability to provide capability in excess of any known or projected requirement is not a mobilization requirement.

C. Accounting for Unutilized and Underutilized Capacity. If feasible, a separate cost center shall be established to account for unutilized capacity costs applicable to the continuance of a mobilization requirement. Where necessary, such costs shall be identified to the function or task level to segregate costs between normal operating costs and mobilization costs.

D. Funding of Unutilized and Underutilized Capacity

1. Unutilized Capacity. All elements of cost required to maintain unutilized plant and equipment shall be maintained in separate job orders to accumulate the direct, indirect, and G&A costs. To the extent that unutilized capacity is the result of mobilization requirements, these costs shall be separately funded from the O&M appropriation of the DoD Component having management responsibility for the activity at which the unutilized capacity resides. The G&A costs shall be allocated to mobilization assets when they are not in use based on the level of support required to maintain the assets. However, during periods when mobilization assets are in use, these job orders shall bear the same percentage of G&A costs as any other activity job order.

2. Underutilized Capacity. The costs required to maintain underutilized plant and equipment shall be DWCF costs and shall be a cost of the cost center in which the underutilized plant and equipment resides. The costs of underutilized plant and equipment shall be included in the stabilized rates and prices charged to customers of a DWCF activity.

131112. Job Order Cancellations or Reductions in Scope. When a job order is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs on the order, the costs incurred, plus the applied overhead (that is, indirect and other normally

allocated overhead G&A costs) plus costs associated with the cancellation or reduction shall be charged to the customer. Examples of directly associated cancellation or reduction costs to be charged to customers are advance planning costs, noncreditable direct material, special test equipment, necessary preservation and/or shipment effort, and any additional effort necessitated by the cancellation and/or reduction; for example, salvaging of material. In addition, costs charged to customers should include the costs of salaries payable to employees hired specifically to work on the canceled order until the employees are, or could have been, separated through a reduction in force or other appropriate action (taking into account appropriate administrative lead time), or reassigned to other direct jobs. Costs which are indirectly associated with cancellation or reduction actions shall not be charged to the customer. Although normally allocated G&A costs shall be charged to canceled or reduced customer orders, underapplied overhead costs that may result in a reduced workload base of the DWCF activity as a whole shall not be charged to the customer canceling or reducing their order but shall be recorded against the net operating results of the performing DWCF activity.

131113. Employee Training Costs. The cost of training performed for the DWCF activity's benefit shall be recorded as an indirect expense of the employees' cost center.

A. Training costs shall include all applicable elements of cost; that is, labor hours of trainees, travel, transportation, per diem costs, labor hours of instructors, tuition, books, and materials. Training costs shall include the cost of planning the course of instruction, conducting the course, and any related support effort.

B. The development and qualification of employees requested by activities outside of the performing DWCF activity shall be charged to a specific job order.

C. The hours of on-the-job training in the form of actual productive effort (as opposed to observation or other noncontributory effort) is chargeable as direct labor to the related job order. Noncontributory effort, including time spent observing others, should be charged to the indirect costs of the cost center of the employee.

131114. Technical Assistance. Depot maintenance technical assistance is a specialized service provided by qualified depot maintenance technicians that is performed in many different ways depending upon the requirement. Technical assistance may include instruction on maintenance repair or support processes for military equipment, special programs for military reserve units, training foreign nationals using uniquely qualified personnel to provide technical assistance, performing specific work requiring special skills for operational activities, other maintenance organizations, or foreign governments. All depot maintenance activity costs for technical assistance shall be charged to specific job orders established for that purpose. The costs charged to these job orders shall include direct labor, direct material, all other direct costs, and operations overhead and G&A costs including variances for applied overhead.

131115. Assets Manufactured by a DWCF Activity for Itself. Normally, the material requirements of a DWCF activity are met by the supply system or commercial procurement. However, in some cases, material requirements may be fulfilled by a

manufacturing process at the DWCF activity. The manufacturing process includes several phases:

A. A work authorization document (in-house job order) to replace the normal funded customer order.

B. The costing of direct labor, material, and applied overhead to the manufacturing job order as work in process.

C. The posting of the completed job order to operating materials and supplies, an asset account, or, if the transaction is reimbursable, to cost of goods sold.

131116. Special Non-DWCF Functions. Occasionally, some uniquely qualified DWCF personnel are asked to perform various types of special functions that are not DWCF activities or functions. Such work is chargeable to other separately budgeted functions such as supply operations, property disposal, or family housing.

131117. Concurrent Maintenance. Concurrent maintenance occurs when the component parts of an end-item are inducted into the maintenance process at the same time as the end-item is inducted for maintenance. This approach is used instead of an exchange. The approach selected is usually a function of the desired outcome and the availability of exchanges. Concurrent maintenance and exchange do not normally result in the same costs being incurred, and no attempts should be made to balance the costs incurred for work performed in the two separate modes. All concurrent maintenance costs shall be charged to the weapon system order and not allocated to component repair job orders.

131118. Host/Tenant Support Services. The DWCF activities give and receive different types and levels of support services to and from the host installation depending upon location and mission assignments.

A. Uniform costing requires that support services that benefit the performance of the depot maintenance function be recognized as part of the indirect expenses of the benefiting cost center or the entire DWCF activity as appropriate regardless of the funding source for the support services.

B. The DWCF activities shall not provide or receive goods or services on a nonreimbursable basis. In addition, offset or barter arrangements shall not be made with other activities for goods or services. Special arrangements to avoid normal funding requirements may result in apparent violations of the Antideficiency Act.

131119. Employee Bonuses and Awards. Employee monetary awards paid to employees for suggestions, and one time bonuses, such as special act awards performance bonuses, and productivity gain sharing program payouts, shall be charged to indirect operations overhead of the cost center of the employee receiving the award. Performance appraisals that result in annual pay increases such as sustained superior performance, outstanding, exceptional, and fully successful pay ratings are simply increases in base pay that affect regular payroll cost.