

**VOLUME 4, CHAPTER 8: “LIABILITIES”****SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [February 2020](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
1.1	Added the definition of “liability” and directed the reader to the recognition criteria section.	Addition
1.3.4	Directed readers to the Standard Financial Information Structure (SFIS) webpage for U.S. Standard General Ledger (USSGL) accounts and transaction illustrations.	Addition
2.1.3	Restructured subparagraph to provide other considerations for recognition criteria.	Revision
3.6	Updated the example for “Government-Acknowledged Events” to better align with Statement of Federal Financial Accounting Standard (SFFAS) 5.	Revision
3.10	Clarified the definition of “Liabilities Not Covered By Budgetary Resources.”	Revision
Figure 8-1	Updated the Figure 8-1 title to better align with SFFAS 5.	Revision

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## CHAPTER 8

FINANCIAL CONTROL OF LIABILITIES

## 1.0 GENERAL

## \*1.1 Overview

A liability is defined as a probable future outflow or other sacrifice of resources as a result of past transactions or events. For instance, a liability is an amount the Department of Defense (DoD) owes to another federal or nonfederal entity for items or services that DoD received and expenses incurred (including personnel related costs). Liabilities can also result from assets to which title has been acquired (whether delivered or in transit), ongoing shipbuilding based on incurred costs, and cash received but not yet earned. Liabilities can also result from amounts owed under grants, military and civilian pensions, certain retirement and post-employment benefits, awards, and other indebtedness. Criteria for recognizing these liabilities (e.g., transaction based events or other than transaction based events) are outlined in paragraph 2.1 and depicted in Figure 8-1.

## 1.2 Purpose

This chapter promulgates the general accounting policy and definitions to be followed in accounting for DoD liabilities covered in Volume 4. This guidance does not apply to liabilities accounted for by Nonappropriated Fund activities, which is located in Volume 13, Chapter 3.

## 1.3 Authoritative Guidance

The financial management policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.3.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 1, “Accounting for Selected Assets and Liabilities”;

1.3.2. FASAB SFFAS 5, “Accounting for Liabilities of the Federal Government”;

1.3.3. Office of Management and Budget (OMB) Circular A-136, “Financial Reporting Requirements.”; and

\*1.3.4. The required DoD U.S. Standard General Ledger (USSGL) proprietary and budgetary accounting entries and transaction illustrations are provided in the Transaction Library and Standard Reporting Chart of Accounts which is available on the Office of the Deputy Chief Financial Officer Standard Financial Information Structure (SFIS) web page.

## 2.0 ACCOUNTING POLICY FOR LIABILITIES

### 2.1 Recognition Criteria

Pursuant to SFFAS 5, criteria for recognizing a liability, depicted in Figure 8-1, starts by identifying **if** the event creating the liability **is** transaction based or other than transaction based.

2.1.1. Transaction Based Events. **Transaction based events comprise both** exchange and nonexchange **transactions.** Transaction based events are recognized in accordance with the following criteria:

2.1.1.1. A liability for an exchange transaction is recognized (recorded and reported) when the DoD receives goods and services in exchange for a promise to provide money or other resources in the future. Probable and measurable amounts that remain unpaid as of the financial statement report date should be recognized as liabilities.

2.1.1.2. A liability for a nonexchange transaction is recognized for any probable and measurable unpaid amounts as of the financial statement report date.

2.1.1.3. The entity must estimate the liability for the financial statement reporting date if the actual amount is unknown.

2.1.2. Other Than Transaction Based Events. **Other than transaction based events comprise both** government-related events and government-acknowledged events. These events are recognized in accordance with the following criteria:

2.1.2.1. A liability for a government-related event is recognized at the time of occurrence, if the expected resource outflow is both probable and measurable, or soon thereafter as it becomes probable and measurable.

2.1.2.2. **A liability for** government-acknowledged events is recognized **only when** Congress appropriates or authorizes the funds **for the event and** an exchange or nonexchange transaction related to the event **is entering into.** The liability is then recognized by following the criteria in subparagraph 2.1.1 for exchange and nonexchange transactions.

\*2.1.3. Other Considerations

2.1.3.1. With the exception of government-acknowledged events, the recognition of a liability is not dependent on the availability of funds. **Liabilities must be recognized when they are incurred regardless of whether they are covered by available budgetary resources, including liabilities related to canceled appropriations.** However, the status of funding does dictate the category of the recognized liabilities used for disclosure and reconciliation purposes as outlined in paragraph 2.2.

2.1.3.2. Accounting and reporting provisions need not be applied to immaterial liabilities. However, all assertions of immateriality must be supportable, and the materiality

determination must be fully documented. Both qualitative and quantitative factors need to be considered in determining materiality.

2.1.3.3. Contingent liabilities are recorded and reported as a liability or disclosed as a contingency in a footnote to the financial statements, depending on the probability of occurrence and the ability to estimate the expected outflow of resources. Contingent liabilities should be recorded in DoD financial systems and reported in financial statements in accordance with Chapter 12.

## 2.2 Reporting and Disclosures

2.2.1. Pursuant to SFFAS 1, Intragovernmental liabilities must be reported separately from nonfederal entities, which include Government sponsored enterprises and the Federal Reserve. See Volume 6B, Chapter 4 for further discussion on reporting.

2.2.2. In accordance with OMB Circular A-136, liabilities are classified as liabilities covered by budgetary resources, liabilities not covered by budgetary resources, and liabilities not requiring budgetary resources. Disclosures must be made for liabilities that are not covered by budgetary resources. See Volume 6B, Chapter 10 for further discussion on disclosures.

## 3.0 DEFINITIONS

### 3.1 Contingency

Pursuant to SFFAS 5, a contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

### 3.2 Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet date. Liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB with further action by Congress, and without a contingency having to be met first.

### 3.3 Current Liability

A current liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources within one year of the reporting date.

### 3.4 Exchange Transactions

An exchange transaction arises when each party involved in the transaction sacrifices value and receives value in return. In an exchange transaction, a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future.

### 3.5 Funded Liabilities

Funded liabilities are comprised of all liabilities for which budget authority has been received and obligated.

### \*3.6 Government-Acknowledged Events

A government-acknowledged event is a type of an other than transaction based event that is of financial consequence to the Federal Government because the Federal Government has chosen formally to accept the associated financial responsibility. An example would be the assumption of responsibility for damage caused by a natural disaster (such as tornado damage for which Congress appropriates funds).

### 3.7 Governmental Liability

A governmental liability is an amount owed by a federal entity to a nonfederal entity. These liabilities are also called nonfederal or public liabilities.

### 3.8 Government-Related Events

A government-related event is a type of an other than transaction based event that involves interaction between the Federal Government and its environment. An example is an expense to be paid as the result of current government operations, such as the estimated cost of repairing accidental damages to private property. Government-related events resulting in a liability should be recognized in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable.

### 3.9 Intragovernmental Liability

An intragovernmental liability is an amount owed by a federal entity to another federal entity. Intragovernmental liabilities include accounts and interest payable to federal entities and other current liabilities due to federal entities, such as receipt of federal advances and prepayments.

### \*3.10 Liabilities Not Covered By Budgetary Resources

Liabilities not covered by budgetary resources are those liabilities for which budget authority has not been received, i.e., funds necessary to satisfy the liabilities have not been made available through congressional action.

### 3.11 Liability

A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities must be recognized when they are incurred regardless of whether they are covered by available budgetary resources, including liabilities related to canceled appropriations.

### 3.12 Materiality

Materiality is the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

### 3.13 Measurable

A liability is measurable if it has a relevant attribute that can be quantified in monetary units with sufficient reliability to be reasonably estimable.

### 3.14 Noncurrent Liability

A noncurrent liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources beyond one year of the reporting date.

### 3.15 Nonexchange Transactions

A nonexchange transaction is one in which the DoD promises to provide money or other resources in the future without a promise of receiving direct value in return. An example would be grant payments to state and local governments to carry out a public purpose, when authorized by a law of the United States.

### 3.16 Probable

Probable refers to that which can reasonably be expected or is believed to be more likely than not to occur on the basis of available evidence or logic. In the context of assessing the outcome of matters of pending or threatened litigation and unasserted claims, and recognizing an associated liability, "probable" refers to that which is likely.

### 3.17 Transaction and Event

A transaction is an event involving the transfer of something of value. An event is a happening that has financial consequences to an entity. An event may be an internal event that occurs within an entity, such as placing an item in service, or an external event that involves interaction between an entity and its environment, such as an act of nature, a theft, vandalism, an injury caused by negligence, or an accident.

3.18 Transaction Recording

The accounting events discussed must be recorded in accordance with the DoD USSGL Transaction Library and reported in accordance with the regulations promulgated by the Department of the Treasury and the Office of Management and Budget.

\*Figure 8-1. LIABILITY RECOGNITION SUMMARY

