

VOLUME 4, CHAPTER 9: “ACCOUNTS PAYABLE”**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 [June 2020](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Completed administrative updates in accordance with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.1	Removed reference to Volume 11B, Chapter 9. Added reference to Volume 4, Chapter 10.	Deletion/ Addition
2.0	Updated accounting policy to include the Standard Financial Information Structure reference and DoD Component responsibilities. Replaced Treasury Financial Manual, Chapter 4700, Section 9.1.3 with Section 4750 reference. Added clarifying language on accounts payable Recognition.	Revision/ Addition

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CHAPTER 9

ACCOUNTS PAYABLE

1.0 GENERAL

*1.1 Purpose

1.1.1. This chapter provides the [Department of Defense \(DoD\)](#) financial management policy for recording [accounts payable](#) for both intragovernmental and non-federal accounts payable.

1.1.2. The accounts payable policy in this chapter does not address liabilities related to ongoing continuous expenses such as employees' salaries and benefits and contract holdbacks to be paid after one year of the balance sheet date, both of which are reported as other current liabilities and covered in [Chapters 10 and 12, respectively](#).

1.2 Authoritative Guidance

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

1.2.1. Title 31, United States Code, Chapter 39 ([31 U.S.C. Chapter 39](#)), "Prompt Payment;"

1.2.2. [41 U.S.C. § 7103](#), "Decision by contracting officer;"

1.2.3. Title 5, Code of Federal Regulations, Section 1315.9 ([5 CFR § 1315.9](#)), "Required documentation;"

1.2.4. [48 CFR § 46.501](#), "General;"

1.2.5. [48 CFR § 52.247.29](#), "F.o.b. Origin;"

1.2.6. [48 CFR § 52.247.34](#), "F.o.b. Destination;"

1.2.7. [Office of Management and Budget \(OMB\) Circular A-123, Appendix C](#), "Requirements for Payment Integrity Improvements;"

1.2.8. OMB Circular A-136, "Financial Reporting Requirements;"

1.2.9. FASAB [SFFAS 1](#), "Accounting for Selected Assets and Liabilities;"

1.2.9. Treasury Financial Manual ([TFM Chapter 4700](#)), "Federal Entity Reporting Requirements for the Financial Report of the United States Government"; and

1.2.10. TFM United States Standard General Ledger ([USSGL](#)).

*2.0 ACCOUNTING POLICY

2.1 Accounts Payable

Accounts payable are liabilities the DoD **owes** for goods and services received from, progress in contract performance made by, and rents due to other entities. **Refer to the DoD Standard General Ledger (USSGL) Chart of Accounts and Transaction Library for the most current general ledger account numbers, definitions, and required journal entries. DoD USSGL Transaction Library and Standard Reporting Chart of Accounts are available on the Standard Financial Information Structure ([SFIS](#)) web page. SFIS provides the current USSGL accounts to be used, defines these accounts, and illustrates the required proprietary and/or related budgetary accounting entries.**

2.2 Accounts Payable Recognition – General

2.2.1. DoD Components **must recognize a liability for the unpaid amount of the goods when accepting** title to goods, whether the goods are delivered or in transit. If invoices for those goods are not available when financial statements are prepared, **estimate** the amounts owed.

2.2.2. When a contractor provides a DoD Component with goods that are also suitable for sale to others, the accounts payable generally arises when the contractor physically delivers the goods, and the Component receives them and takes formal title.

2.2.3. When a contractor builds or manufactures facilities or equipment to a DoD Component's specifications, **the Component does not recognize the goods upon** formal acceptance. **DoD Components must record payable** amounts based on an estimate of work completed under the contract or the agreement. The Component's engineering and management **evaluates** actual performance progress and incurred costs.

2.2.4. **Recorded accounts payable** amounts **must be supported** with appropriate documentation. Documentation includes:

2.2.4.1. **Obligation** documentation,

2.2.4.2. Agreement or transaction with another entity (e.g., a contract, DD Form 448, Military Interdepartmental Purchase Request ([MIPR](#)), project order, Reimbursable Work Order ([RWO](#)), or Intra-agency Agreement, General Terms and Condition Section [Form 7600A](#) and the Order Requirements and Funding Information Section [Form 7600B](#)).

2.2.4.3. Documentation **establishing** the amount recognized as payable (e.g., acceptance certificate on an inspection or receiving report form or commercial shipping document/packing list).

2.2.5. **Accurately record** all accounts payable liabilities.

2.2.6. Obtain and maintain documentation evidencing amounts payable for the DoD Component buyer of goods or services.

2.2.7. Document audit evidence of “receipt” including the item(s) or service(s) and related applicable quantities received, the date the item(s) or the service(s) were received, and contain the authorizing official’s name and signature or electronic equivalent. DoD Components must ensure the audit evidence includes the calculations determining the amount accrued, or the basis used to estimate the amount. The documentation may include monetary amounts shown on or calculated from a purchase order or contract, historical data, or documented using a contracting officer or technical representative-provided value. If audit evidence includes Personally Identifiable Information or sensitive commercial or proprietary information (such as internal labor rates provided to support certain incurred cost vouchers), such information may be redacted or described in aggregate.

2.2.8. Develop, implement, and validate internal controls are in place and effectively operating for all intragovernmental and interfund transactions and for transactions with the public. Receipt and acceptance must be accomplished and documented by authorized personnel. Make documentation available within the timeframe prescribed by the auditor when requested during audits.

2.2.9. 48 CFR §§ 52.247.29 – 52.247.49 determines the recording timing of an accounts payable liability for goods. The DoD Component must estimate the accounts payable as identified in paragraph 2.3, when amounts are not available at the end of an accounting quarter.

2.2.10. Apply the discount if economically justified when recognizing the accounts payable, whether stipulated in the contract or offered on an invoice. Refer to Volume 10, Chapter 2 for further discussion on discount offers and calculations.

2.3 Accounts Payable Recognition – Estimating the Accrual

2.3.1. Estimate and record an accrual under a condition identified in subparagraphs 2.3.1.1 – 2.3.1.3, when definitive amounts or invoices are not available, but the requirements for recording an accounts payable liability as stated in paragraph 2.2 exist. The DoD Component must reverse the estimate, and record a more definitive amount, when more complete data becomes available (e.g., upon receipt of an invoice or billing).

2.3.1.1. Services are performed but the corresponding invoices are not received at period end (e.g., professional service contract).

2.3.1.2. Equipment and facilities are being manufactured or built based on the Government’s specifications, but the corresponding invoices are not received at period end (e.g., aircraft, or building).

2.3.1.3. The Government receives and accepts goods, but the corresponding invoices are not received at period end (e.g., computers delivered and accepted by the Government, but invoices are not yet received).

2.3.2. DoD Components must have effective controls in place to ensure that a payable is not duplicated when an invoice is subsequently received for the same procured goods or services.

2.3.3. Show the calculations and data used to compute the amounts in the supporting documents (or mechanized program(s) used for the accrual estimates). This documentation must also identify who prepared the estimate, the date prepared, and who received and reviewed/approved the estimate. Ensure that the documentation is of sufficient quality to allow an external auditor, to understand and verify the basis, value, and rationale for the recorded amount.

2.3.4. Validate methods for calculating the accrual estimate periodically for reasonableness by comparing the estimate to actual data once available. At a minimum, review the estimating methodology at fiscal year-end. Review the estimating methodology if there is a material change to the business process causing material differences between the method's estimate and actual amounts or if the initial assumptions materially change and the initial accrual estimate is materially affected. Document performance and approval of these reviews. Maintain this documentation for auditors to validate that the review was performed and approved by management.

2.4 Accounts Payable Recognition – Quarterly Accruals

2.4.1. To assist in developing more accurate financial statements, at least quarterly, DoD Components must accrue all procurements in which DoD has received a measurable benefit from, or ownership title to, but have not been documented due to the lack of a receiving report or invoice. Components may need to ask the cognizant contracting officers or the contracting officer's technical representatives to identify the material dollar value of undelivered orders not yet invoiced or captured in receiving reports to establish these quarterly accruals. If the Component cannot obtain all necessary information from the contracting representatives within the 21 days allowed for the preparation of quarterly financial statements, the DoD Component must use the best available information to estimate the accrual. Make adjusting entries in subsequent periods, as information becomes available from contracting representatives.

2.4.2. DoD Components must also accrue temporary duty (TDY) travel taken, not yet disbursed, or otherwise accounted for as an accounts payable liability at least quarterly. Additionally, Components must record an accounts payable liability for TDY travel that crosses two or more accounting quarters on an estimated/proportional basis, if significant. Record the accrued liability in the applicable accounting period, supported with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the liability amount. This supporting documentation must also provide evidence of who prepared and who received the estimate and the dates these activities were completed. If mechanized programs post accruals, the documentation of who prepared, received, and reviewed the estimate and the date the estimate was prepared may not be available. In this case, all available information captured by the mechanized program must be captured in the accrual.

2.4.3. DoD Components must accrue Permanent Change of Station (PCS) travel taken, not yet disbursed, or otherwise accounted for as a liability, as an accounts payable liability at least quarterly. Additionally, Components must record an accounts payable liability for PCS travel that

crosses two or more accounting quarters on an estimated/proportional basis, if significant. **Accrue the liability** in the applicable accounting period. **Support the liability** with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount. This supporting documentation must also provide evidence of who prepared and who received the estimate and the dates these activities were completed. If **mechanized programs record** accruals, **the** documentation of who prepared, received, and reviewed the estimate and **the date the estimate was prepared** may not be available. In this case, all available information captured by the mechanized program **must** be captured in the accrual.

2.4.4. When estimating these accruals, DoD Components must follow the policy stated in paragraph 2.3.

2.4.5. Fixed-priced construction contracts containing **progress** payment provisions based upon the percentage or stage of completion require special consideration when recording the accounts payable liability. When accounts payable liability is expected to be paid within the year:

2.4.5.1. Components must record the payable in an amount that reflects the unpaid portion of the contractor's progress payment request for which **the contracting officer concurred or approved** the estimate of actual progress. The accounts payable **accrual** must include any amounts being withheld from the contractor pending acceptance and completion, or for other contract administration reasons, as per the terms of the contract. The supporting documentation **must** include engineering estimates and management evaluation of actual performance progress to validate the percentage of completion used. The contracting officer or their designee must maintain the supporting documentation and be prepared to provide it to the Defense Finance and Accounting Service or auditors to support the accounts payable amount.

2.4.5.2. The accounts payable for this type of contract is recognized because formal acceptance of the final product by the DoD Component is not the determining factor for accounting recognition. The DoD Component acquires an asset during each accounting period based on constructive or de facto receipt and thus must recognize/record an accounts payable during each accounting period to reflect the accumulation of that asset.

2.5 Accounts Payable Recognition – Availability of Funds

DoD Components must not delay recognizing an accounts payable liability pending the availability of funds. The accounts payable not covered by budgetary resources must be disclosed in **the financial statement notes** (refer to Volume 6B, Chapters 4 and 10). A potential violation of the Antideficiency Act (ADA) may exist if the payable amount exceeds the total availability of funds. Refer to Volume 14 for the financial management policy regarding an ADA violation.

2.6 Intragovernmental Purchases

2.6.1. Procuring a good or service from another DoD Component or Federal entity is an intragovernmental purchase under the TFM Chapter 4700. Payables due to DoD Components or other Federal entities are intragovernmental payables and must be reported separately from payables due to public entities. Note that OMB Circular A-11 uses the term “intergovernmental” for transactions between or among accounts of Federal entities and that transactions with non-appropriated fund instrumentalities are reported as transactions with the public. The United States Department of the Treasury (Treasury) considers both interdepartmental and intradepartmental transactions to be subsets of intragovernmental transactions. Identify the separation of intragovernmental and public transactions at the transaction level in accordance with Treasury regulations to allow for the proper summarization at the various reporting levels within the DoD, and ultimately the Federal Government as a whole. Identification at the transaction level supports auditability down to the transaction level where the supporting documentation normally exists. It also provides the capability to perform intragovernmental elimination entries at various organizational reporting levels, assuming the correct trading partner codes were utilized.

2.6.2. DoD Components must record accounts payable liability for intragovernmental purchases in the appropriate accounting period to recognize the receipt of goods or services ordered regardless of the document used in placing the order (e.g., Forms 7600A and 7600B, MIPR, project order, or RWO). Components must ensure the liability is recorded during the accounting period that the benefit was received and not delayed pending receipt of a corresponding interagency billing or subsequent payment thereof. Documentation supporting the amount recorded must clearly show the basis (description of the good, quantity, and amount; for services, description of the service, labor hours, and amount) for the payable amount recorded (e.g., MIPR, project order, RWO, reciprocal agreement) and proof of receipt. The documentation must also be of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for recorded amounts.

* 2.6.2.1. In accordance with the TFM Chapter 4700, Section 4750, trading partner records must resolve balance differences by year-end. The Intra-governmental Transaction (IGT) Guide (Appendix 5) contains the business rules and processes to properly record, report, and reconcile intra-governmental transactions, including the processes for dispute resolution.

2.6.2.2. The DoD Component (buyer) must identify and record all accounts payable accruals. The buyer is ultimately responsible for their financial statements and thus must engage with the seller to identify the appropriate amount to accrue.

2.6.3. DoD Components must ensure an accounts payable liability is also recorded when the goods are received, or the buying DoD Component has gained title to an asset. Component buyers must work with the intragovernmental seller to ensure this business event is identified and the corresponding accounts payable liability is recorded.

2.7 Late Payment Interest

DoD Components must record in accounts payable an amount for prompt payment interest and other penalties incurred on late payments as required under terms of the non-federal contract. Refer to Volume 10, Chapter 7 for the policy on late payment interest and penalties. Components must also consider and record a quarterly accrual estimate for late payment interest and/or penalties to reflect any expected large dollar value late payments that result in a significant interest and/or penalty liability in the reporting period. Defining what amounts are “significant” for these purposes is left to the discretion of the Component.

2.8 Refunds Due

DoD Components must record an accounts payable liability to reflect the refunds due but not paid at the end of the reporting period, when applicable. **Record** either the exact amount of the refund when known, positively established, and clearly documented, or estimated under the provisions in paragraph 2.3. See Chapter 5 for additional guidance on refunds due.

2.9 Monetary Credits

2.9.1. **Specific statutes authorize** DoD entities to issue monetary credits as compensation for property or services received from non-federal entities. If the DoD entity exercises this authority, it must also record an accounts payable liability during the period the benefit from the property or services is received. These monetary credits give the seller the agreed-upon value of the acquired property or received service. The **credit** holder may apply them later to reduce an amount owed (by the holder) in other, sometimes unrelated, transactions with the government. When monetary credits are used for exchange transactions, the DoD entity must record an accounts payable liability equal to the value of the monetary credit.

2.9.2. DoD Components must ensure the documentation supporting the accounts payable entry specifically identifies the property or services received, the date received, the name and signature of the DoD receiving official, and include the bilateral agreement between the non-federal entity and designated DoD representative establishing the agreed-upon value. Components must also ensure the documentation is of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for the recorded amount.

2.10 Closed Appropriations

When an appropriation account is closed, any remaining balance in the account must be canceled and unavailable for obligation or expenditure for any purpose. However, legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be reinstated to canceled payables and paid out of a current unexpired appropriation that is available for obligation for the same purpose as the closed account. Refer to Volume 3, Chapter 10 for more specific requirements for expired and closed accounts and Volume 3, Chapter 11 for more specific **policies** addressing payables involving closed appropriations.

2.11 Liquidating Accounts Payable

Accounts payable recorded **when a particular good or service is received** must be liquidated when the liability created by the payable is settled. Generally, this occurs after a three-way match of a contract, receiving report, and proper invoice is performed, and **the Component** disburses to satisfy the billed amount. In other than the three-way match scenario, the accounts payable liability **is** liquidated when all required prepayment approvals have occurred, and other payment controls satisfied result in generating a payment or recognizing an exchange-in-kind transaction business event.

2.12 Reviewing Accounts Payable Balances

2.12.1. The accounting office must review and reconcile all accounts payable balances to the transaction detail level in supporting accounting systems each quarter. As part of the accounts payable quarterly reviews, **reconcile** the budgetary accounts associated with the accounts payable balances (e.g., delivered order unpaid, obligations unpaid) to proprietary accounts payable balances. **Research** any differences, fully document the rationale for necessary adjustments, and obtain approval from the DoD Component's Comptroller or their designated representative before making the adjustments. **Retain** all adjustments made and associated documentation to support future financial statement-related audits.

2.12.2. The accounts payable recorded for acceptable final performance on a contract or order must remain on the account until liquidated through proper payment, or until receipt of contractual or legal documents that remove the remaining liability. DoD Components must assign financial management personnel to work through the cognizant contracting officer to request an invoice from the contractor for any accounts payable amount remaining unliquidated due to non-receipt of an invoice or billing within 180 days from the date of acceptable final contract performance. Component personnel must continue to pursue receipt of overdue invoices through the contract administration and fund holders to avoid canceled appropriations and to improve accounts payable reporting. Refer to Volume 3, Chapter 8 for **a** policy associated with dormant commitments and unliquidated obligations eligible for closeout on physically complete contracts.

2.12.2.1. Continued non-receipt of an invoice on firm-fixed-price contracts may extinguish the contractor's right to payment and relieve DoD's obligation to pay for the un-invoiced goods or services.

2.12.2.2. When a contractor has failed to invoice for the received and accepted goods or services after more than six years since the date of DoD acceptance, **coordinate** with the contracting activity and/or legal counsel, and if applicable, the Defense Contract Audit Agency and the Defense Contract Management Agency to consider **accounts payable** for write-off. **Write-off** documentation must clearly represent that the over-aged accounts payable **is** no longer a **DoD** legal liability. **Consider** whether the Government has acted to toll or suspend the Contract Disputes Act's six-year limitation period on assertion of claims codified at 41 U.S.C. § 7103. **Include** the contracting officer's determination that the legal liability to pay on the contract no longer exists. DoD Components must ensure the accounts payable amounts written off contain sufficient

documentation to allow an independent third party, such as an external auditor, to verify the basis, value, and rationale for the write-off.

2.12.3. The accounting office must investigate accounts payable debit balances over \$100. These debit (abnormal) balances may result from any number of circumstances (e.g., duplicate payments and unrecorded accounts payable). Correct after thorough research of the underlying documentation associated with the business events and transactions impacting the payable accounts.

2.12.3.1. DoD Components must fully document subsequent adjustments to correct the abnormal balance. Include a description of the circumstances that caused the initial abnormal balance and support the valuation of the revised amount in the documentation. Include the names and signatures (or electronic equivalent) of the management official(s) approving the adjustment and identify the correcting steps being taken to prevent reoccurrence. This documentation must be available for review by the independent auditors if necessary. Identify and report to management any recommendations for changes to internal controls or business processes to preclude incurring abnormal accounts payable balances in the future.

2.12.3.2. If the investigation of a debit balance discloses an overpayment or under-recovered funds related to a contract or vendor payment, the accounting office must coordinate with the responsible entitlement and disbursing offices to pursue collection or recoupment in accordance with the policies in Chapter 14 and Volume 10, Chapter 22.

2.12.4. If the accounting office cannot match a performance report or invoice with a corresponding obligation, a breakdown of fund control processes and a material weakness in internal controls may exist. If posting a transaction to accounts payable does not disclose a corresponding obligation, this may be evidence that either a contract has not been awarded or a posting error has occurred. The accounting office must request the necessary documentation to support the required accounting entry and notify appropriate officials that reports or invoices are being received without a corresponding recorded obligation. Refer to Volume 3, Chapter 11 for the policy on recording an obligation for an unresolved negative unliquidated obligation.

2.12.5. Disbursements in transit are disbursements that have been reported by a disbursing office, through a paying center, to the Treasury and charged against the Department's fund balances but have not yet been received or processed by the applicable accounting office for recordation against the applicable corresponding obligation. These transactions are defined as, and based on the USSGL Crosswalk, map to the accounts payable line of the balance sheet. Refer to Volume 3, Chapter 11 for disbursements in-transit policy.

2.13 Accounts Payable Document Retention

All documentation in support of accounts payable entries and adjustments must be readily available for review by auditors, management, and other DoD Component financial management personnel. The documentation retention policy is contained in Volume 1, Chapter 9.