

VOLUME 4, CHAPTER 12: “OTHER 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 [May 2021](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates in accordance with Department of Defense (DoD) Financial Management Regulation (FMR) Revision Standard Operating Procedures.	Revision
1.1	Revised paragraph to better align with the other liabilities that are described in the chapter. Added reference to Volume 6B, Chapter 4 for financial reporting requirements.	Revision
1.2.6	Added guidance for standard general ledger accounts used to report DoD other liabilities and illustrative entries on the Standard Financial Information Structure web page.	Addition
2.2.1	Added the definitions for deposit funds and nonfiduciary deposit funds.	Addition
2.2.3	Added Treasury Financial Manual guidance for deposit fund accounts.	Addition

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CHAPTER 12

OTHER LIABILITIES

1.0 GENERAL

*1.1 Purpose

This chapter promulgates the accounting policy and related requirements that the Department of Defense (DoD) Components General Fund and Defense Working Capital Fund (DWCF) entities must follow to account for [unearned revenues, contingent liabilities, and contract progress payments](#). These liabilities are reported on the Balance Sheet as “other liabilities” as they are often immaterial and therefore do not warrant separate reporting. See Volume 6B, Chapter 4 for financial reporting requirements for other liabilities. Each DoD Component must develop and implement internal operating procedures to implement this overarching policy in a manner that ensures accurate, complete, and relevant financial data.

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

1.2.2. FASAB [SFFAS 5](#), “Accounting for Liabilities of the Federal Government”;

1.2.3. FASAB [SFFAS 7](#), “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting”;

1.2.4. FASAB [SFFAS 12](#), “Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government”;

1.2.5. Office of Management and Budget ([OMB](#)) [Circular A-11](#), “Preparation, Submission and Execution of the Budget”;

* 1.2.6. The standard general ledger accounts used to report DoD other liabilities and illustrative entries are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the Office of the Deputy Chief Financial Officer [Standard Financial Information Structure](#) web page.

1.2.7. The U.S. Department of the Treasury (Treasury) [Fast Book](#);

1.2.8. The Treasury [USSGL](#), a supplement of the Treasury Financial Manual ([TFM](#)).

2.0 UNEARNED REVENUES

2.1 Advances and Prepayments

2.1.1. Advances and prepayments are amounts received in advance for goods and services that will be delivered at a future date.

2.1.2. When advance fees or payments are received by DoD Components, such as for large-scale, long-term projects, revenue should not be recognized until the goods and services are provided (regardless of whether the fee or payment is refundable). When the cash is received, an increase in cash and an increase in advances and prepayments liability should be recorded in accordance with SFFAS 7.

2.1.3. Liability for advances and prepayments includes advances received that are transfers of assets from the public and other federal entities to cover future expenses or the acquisition of other assets. The DoD Components receiving an advance or prepayment must record the amount received as a liability until payment is earned (goods or services have been delivered or contract terms met). After the payment is earned (performance has occurred), the DoD Components must record the appropriate amount as revenue and reduce advances and prepayments liability accordingly.

2.1.4. The two major activities for which DoD receives advances are as follows:

2.1.4.1. Reimbursable Activities. DoD provides services to other federal agencies and to the public on a reimbursable basis. When a non-federal customer enters into a reimbursable agreement with DoD, the customer is required to pay for services in advance unless exempted by law. Generally, non-DoD entities are required to pay in advance.

2.1.4.2. Defense Working Capital Funds (DWCF) Activities. The appropriation language for DoD's DWCF permits the fund to receive advances for supplies and services. Therefore, the DWCF business entities may be advanced funds identified in the DWCF customer orders during the fiscal year, as required, to enable the DWCF activity to pay for its costs of operation.

2.2 Nonfiduciary Deposit Funds

* 2.2.1. Deposit funds are in general monies that do not belong to the Federal Government. Nonfiduciary deposit funds are deposit funds that do not meet the definition and characteristics of fiduciary activities in SFFAS 31. While awaiting disposition, nonfiduciary deposit funds are reported separately on the entity's financial statements.

2.2.2. Deposit funds must be recorded as a liability because those assets do not belong to the Federal Government. The liability includes, but is not limited to, currency and coin on hand, cash on deposit at designated depositories (excluding Disbursing Officer held cash), negotiable instruments on hand, military payment certificates, and unsupported undistributed collections. Such funds are not available for paying salaries, grants, or other expenses of the Federal Government.

* 2.2.3. See [TFM Volume I Part 2 Chapter 150 Section 1550](#) for more details on deposit fund accounts.

2.2.4. See Treasury's [FAST Book](#) for a full list of DoD deposit accounts.

2.3 Clearing Accounts

2.3.1. [Clearing](#) accounts represent amounts known to belong to the Federal Government but held temporarily in this account until additional information is collected for the disposition or reclassification [of these amounts](#). Examples of how to use clearing accounts are:

2.3.1.1. To [record](#) unmatched transactions from the public when there is a reasonable presumption that the amounts belong to a Federal Government account other than miscellaneous receipts in the Treasury.

2.3.1.2. To [record](#) unmatched transactions between Federal agencies, including intra-governmental payment and collection transactions.

2.3.2. Refer to Chapters 2 and 3 for a discussion of the requirements for reconciling, aging, and clearing Budget Clearing Accounts.

3.0 CONTINGENT LIABILITIES

3.1 [Definition and recognition of contingent liabilities](#)

3.1.1. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur.

3.1.2. [To account for a contingency](#), a contingent liability should be recognized in the financial reports and statements when all of [the following](#) conditions are met:

3.1.2.1. A past event or exchange transaction has occurred (e.g., a DoD Component has breached a contract with a non-federal entity).

3.1.2.2. A future outflow or other sacrifice of resources is probable (e.g., the non-federal entity has filed a legal claim against a DoD Component for breach of contract and the Component entity's management believes the claim is likely to be settled in favor of the claimant).

3.1.2.3. The future outflow or sacrifice of resources is measurable (e.g., the DoD Component entity's management determines an estimated settlement amount).

3.1.3. The estimated [contingent](#) liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount,

the minimum amount in the range is recognized, and the range and description of the nature of the contingency should be disclosed.

3.1.4. If any of the conditions identified in 3.1.1 are not met, the contingent liability need not be recognized in the DoD Components Balance Sheet but should be disclosed in the financial statement notes when it is at least reasonably possible that a loss or additional loss may have been incurred. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

3.2 Probability classifications for contingent liabilities

3.2.1. Probable. The future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are presumed likely to occur.

3.2.2. Reasonably Possible. The chance of the future confirming event or events occurring is more than remote but less than probable.

3.2.3. Remote. The chance of the future event or events occurring is slight.

3.3 Legal contingencies

3.3.1. Legal contingencies arise from litigation, claims, and assessments. It is the Component management's responsibility, with legal counsel's advice, to assess the likelihood of adverse outcomes for legal cases and decide whether to recognize them as liabilities and to disclose them in the notes to the financial statements. The Component should obtain evidence relevant to the following factors with respect to litigation, claims, and assessments:

3.3.1.1. The existence of a condition, situation, or set of circumstances indicating uncertainty as to the possible loss to the Component arising from litigation, claims, and assessments;

3.3.1.2. The period in which the underlying causes for a legal action occurred;

3.3.1.3. The likelihood (probable, reasonably possible, or remote) of an unfavorable outcome; and

3.3.1.4. The amount or range of potential loss, if able to estimate.

3.3.2. In accordance with SFFAS 5 and SFFAS 12, the only available categories to assess contingent losses based on the likelihood of the loss are Probable, Reasonably Possible, and Remote. When legal counsel cannot indicate whether the unfavorable outcome is probable or remote, (e.g., unable to express an opinion) the Component should categorize the outcome as Reasonably Possible, and make a disclosure in the notes to the financial statements.

3.3.3. The disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. When disclosing that an estimate cannot be made, the claimed amount should be disclosed. Disclosures and amounts prescribed may be aggregated for presentation in the notes to the financial statements.

4.0 CONTRACT PROGRESS PAYMENTS

When a DoD contractor submits a request for a contract progress payment for the costs incurred in pursuit of the contract, it results in a measurable liability to the DoD. Any progress payment requests from a contractor to the DoD that are expected to be paid within one year must be recorded as an “Accounts Payable,” and the estimated amount of costs incurred by the contractor that are expected to remain unpaid for more than one year until the completed asset is delivered must be recorded as “Other Liabilities.” For every progress payment request, a Contracting Officer Representative, or other authorized representative, must certify that the work reflected has been performed, and is consistent with the requirements of the contract.