

VOLUME 13, CHAPTER 5: “INCOME AND EXPENSES”**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 [April 2023](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated hyperlinks and formatting to comply with current administrative instructions.	Revision

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CHAPTER 5

INCOME AND EXPENSES

1.0 GENERAL

1.1 Purpose

This chapter prescribes the standard policies surrounding DoD Nonappropriated Fund (NAF) income and expenses. NAF instrumentality (NAFI) programs and facilities must be operated, maintained, and funded as an integral part of the DoD personnel and readiness program. Policies in this chapter apply to all NAIs and their supporting accounting offices (AOs). This includes the Military Exchanges (Army and Air Force Exchange Service, Navy Exchange Service Command, and Marine Corps Exchange), with the exception of policies related to the Nonappropriated Fund Standard General Ledger (NAFSGL), as Exchanges are not required to use the NAFSGL.

1.2 Authoritative Guidance

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

1.2.1. [Financial Accounting Standards Board](#) Accounting Standards Codification ([ASC](#)). Users can now access the ASC without charge. This access now includes browsing by topic, searches, and print options;

1.2.2. DoD Instruction ([DoDI 1015.15](#)), “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;” and

1.2.3. Title 10, United States Code ([U.S.C.](#)), sections 2241, 2491, 2492, 7459, 8478, and 9459 ([10 U.S.C. § 2241](#), [10 U.S.C. § 2491](#), [10 U.S.C. § 2492](#), [10 U.S.C. § 7459](#), [10 U.S.C. § 8478](#), and [10 U.S.C. § 9459](#)).

2.0 CHART OF ACCOUNTS

The NAFSGL Chart of Accounts, to include definitions and general ledger account codes for income and expense accounts, is maintained on the [DoD NAF Accounting](#) website. A separate Defense Resale Activities chart of accounts, for use by the Military Exchanges, is also available on the DoD NAF Accounting website.

3.0 INCOME STANDARDS

3.1 Recognition

In accordance with ASC, Topic 605, Subtopic 10, Section 25, NAFIs must recognize revenue (classified as “income” in the NAFSGL) when it is realized or realizable. Earned income is recognized at the time of delivery of the goods or performance of the service. If cash or credit payments are received prior to time of delivery or performance, then income is unearned and a liability is posted. If cash or credit payment has not been received at time of delivery or performance, then an accounts receivable is posted for the amount due.

3.2 Recording

The AO must record income in the appropriate NAFI’s financial records on a consistent basis in the appropriate cost center and in the operating cycle that the income is earned. Income is recorded in accordance with DoDI 1015.15.

4.0 EXPENSE STANDARDS

Expenses are decreases in economic benefits during an accounting period, in the form of outflows (or other asset depletion) or the incurrence of liabilities that result in a decrease in equity. In NAF accounting, expenses are the costs related to the sale of goods and services consequent to the operation of the NAFI.

4.1 Recognition

NAFIs must recognize costs as an expense in the period that the income with which they are associated is recognized (the matching principle). Under the perpetual inventory method, cost elements are included in inventory and expensed when the items are sold and income from the sale is recognized. Under the periodic inventory method, goods purchased for resale are recorded as purchases at the time of purchase and at the end of the period; cost of goods sold is calculated as beginning inventory plus purchases during the period, less ending inventory. If no connection with income can be established, then the asset’s cost is allocated to the accounting period benefited in a systematic and rational manner. This form of expense recognition involves the expected length of benefit and the relationship and cost of each period (e.g., depreciation of fixed assets, amortization of intangibles, and allocation of rent and insurance). All other costs are recognized in the accounting period in which they are incurred.

4.2 Recording

Using the accrual method of accounting, AOs must record expenses on a consistent basis in the appropriate cost center and in the operating cycle in which the expense was incurred. Expenses deemed to be infrequent and/or unusual enough to merit distinction from transactions in the normal course of business should be identified in the footnotes of the financial statements (if not designated as such, and presented separately as part of income from continuing operations on the income statement). Refer to Volume 4 for further guidance on accrual accounting.

5.0 ACCOUNTING FOR APPROPRIATED FUND (APF) SUPPORT TO NAFIs

5.1 Legal Authority

[Title 10 U.S.C. § 2241](#) is the basic statutory authority to provide APFs to support Morale, Welfare, and Recreation (MWR) functions. MWR (Utilization Support and Accountability (USA)) and Uniform Funding and Management (UFM) are two mechanisms for provision of APF support to NAFIs. The MWR (USA) and UFM practices involve use of NAFs for MWR expenses that, per funding policies in DoDI 1015.15, should be borne by APFs. MWR (USA) enables NAFIs to use NAFs to execute such expenses, subject to subsequent APF reimbursement under Memoranda of Agreement (MOAs). Unlike MWR (USA) practices (which involve reimbursement from APFs), under UFM practices, APFs may be transferred into NAF accounts prior to expenditure. Funds appropriated to DoD and available for MWR programs are treated as NAFs for all purposes under UFM MOAs and remain available until expended. [Title 10 U.S.C. § 2491](#) provides statutory authority for UFM practices. Other statutory authorities available to NAFIs are 10 U.S.C. §§ 2492, 7459, 8478 and 9459.

5.2 MWR (USA) Recording

5.2.1. Income. The AO must record funds received from appropriated sources for expenses covered by the MWR (USA) income.

5.2.2. Expense. The AO must record authorized expenses (which is the amount subject to APF reimbursement), as they occur, in the applicable expense accounts to allow identification of MWR (USA) support in accordance with DoDI 1015.15.

5.3 UFM Recording

5.3.1. Income. When cash is received, the AO must record UFM funds received in the cash account with a contra entry to the Unearned Income (liability) account identified as UFM. As UFM expenses are recorded, the cash account must be reduced by the same amount in the same reporting cycle. On a monthly basis, to recognize UFM income for all eligible reimbursements incurred during that month, the AO must record UFM income and reduce the Unearned Income (liability) account identified as UFM.

5.3.2. Expense. The AO must record authorized expenses, as they occur, in the applicable expense accounts to allow identification of UFM support in accordance with DoDI 1015.15 and reduce the cash account as applicable in the same reporting cycle.

5.4 Other APF Support

Direct support is an APF category that occurs when APFs are obligated and expended (e.g., furnishing of utilities, fire/safety support, refuse removal, and snow removal) and the NAFI does not incur the expense subject to reimbursement. In this case, the NAFI does not administer APFs as if they were NAFs.