

CHAPTER 7

WORK IN PROCESS★0701 GENERAL

070101. General Information. Additional information relating to revenue recognition, progress billings to customers, and disputed bills may be found in [Chapter 11](#) of this volume. Also, cost accounting requirements for depot maintenance may be found in [Chapter 13](#) of this volume.

070102. Work In Process. Work in process consists of products that are in the process of being manufactured or fabricated but are not yet complete. Work in process consists of the costs of direct materials, direct labor, direct purchased services, and indirect costs, including general and administrative costs, used in producing an end item (customized equipment or personal property), whether fabricated by the Department of Defense (DoD) or by a non-DoD organization under contract. Work in process accounts brings the costs under financial control and segregates them from current accounting period expenses.

A. The Defense Working Capital Funds (DWCF) activities, primarily those involved in depot maintenance or other industrial-type operations, who routinely perform tasks that take more than a month shall record operating costs within a work in process account. When the costs are incurred by a DWCF activity, the related costs, regardless of the source of funding, should be accumulated by the use of a job order. Examples of work in process are:

1. Costs of additions, alterations, improvements, rehabilitations, and replacements of DoD fixed assets exclusive of construction in progress. (Accounting guidance on construction in progress may be found in [Volume 4, Chapter 6](#), “Property, Plant and Equipment,” of this Regulation.)
2. Costs of maintaining DoD equipment and inventory.
3. Costs of manufacturing or fabricating an end item or product.
4. Cost of producing an output.

B. Actual cost of direct labor, direct materials, indirect labor, indirect materials and general and administrative (G&A) expenses used in the production and completion of a job order/customer order shall be recorded in inventory-work in process. If a DWCF activity incurs costs in performance of a customer order in excess of funding provided by the customer order, the DWCF activity shall record those excess costs in inventory-work in process. These excess costs will be transferred to operating expenses/program costs or cost of goods sold upon completion of the job order or customer order (see paragraph 070103, below.)

070103. Relief of Work In Process

A. Direct costs, indirect costs and G&A expenses recorded in inventory-work in process accounts shall be transferred upon completion or termination of the customer order to:

1. Operating expenses/program costs or cost of goods sold (costs incurred in excess of funding provided by the customer order must also be transferred to the operating expenses/program costs or cost of good sold account upon completion or termination of the customer order); or

2. An applicable asset account, if the completed work is to be retained for use by the producing activity; or

3. An expense account, if the completed work retained for use by the producing activity does not meet the DoD capitalization criteria.

B. Upon completion of a customer order, no costs associated with that customer order shall remain in the work in process account longer than 120 days. In other words, costs will not be retained in a work in process account to avoid recording operational losses. All losses should be recognized no later than 120 days after the customer order was completed or the end of the fiscal year in which the order was completed, whichever is sooner, unless an existing funded customer order supports these costs.

C. Completion of a customer order is when all work requested on a customer order has been completed or the funded amount authorized on the existing customer order has been recognized under the percentage of completion method of revenue recognition. The costs incurred on a customer order may be more or less than the revenue earned depending upon whether costs incurred exceed the funded amount on the customer order or whether costs incurred are less than the funded amount on the customer order. Therefore, a gain or loss may occur on the work performed on a customer order. Any gain or loss will be recognized in the accounting period the customer order is completed.

070104. Review of Work In Process. The DWCF activities shall establish appropriate procedures for the routine review of work in process account balances so that appropriate actions may be taken, if necessary, to reduce significant balances in the work in process account. The review should focus on completed customer orders where costs incurred exceed the funding provided on the existing customer order and these costs have not been transferred to operating expenses/program costs or cost of goods sold. In these cases, the amount of costs incurred that exceeds the funding provided on the customer order should be transferred from the work in process account to operating expenses/program costs or cost of goods sold account. In addition, the review should evaluate the compliance with the percentage of completion method for revenue recognition policy in [Chapter 11](#), of this volume and accounts receivable policy in [Chapter 4](#), of this volume.

070105. Accounting for Performance on Customer Order. The following illustrate typical budgetary and proprietary accounting entries applicable to in-house work on customer orders and the entries shall be recorded only at the activity (performing) level.

A. Accrued Civilian Personnel Compensation. Entry to record obligation and accrual of civilian personnel compensation earned during the period.

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| Dr 4610 Allotments-Realized Resources (Reimbursable) | \$150,000 |
| Cr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable) | \$150,000 |
| Dr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable) | \$150,000 |
| Cr 4901 Delivered Orders-Obligations, Unpaid (Reimbursable) | \$150,000 |
| Dr 6100 Operating Expense (Personnel Compensation-Direct) | \$ 80,000 |
| Dr 6100 Operating Expense (Personnel Compensation-Indirect) | \$ 20,000 |
| Dr 6400 Benefit Expense (Personnel Benefits-Direct) | \$ 40,000 |
| Dr 6400 Benefit Expense (Personnel Benefits-Indirect) | \$ 10,000 |
| Cr 2210 Accrued Funded Payroll and Leave | \$100,000 |
| Cr 2213 Employer Contributions and Payroll Taxes Payable | \$ 50,000 |

B. Purchase of Supplies and Materials. Entry to record the obligation and receipt of supplies and materials. All supplies and 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."

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| Dr 4610 Allotments-Realized Resources (Reimbursable) | \$275,000 |
| Cr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable) | \$275,000 |
| Dr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable) | \$275,000 |
| Cr 4901 Delivered Orders-Obligation, Unpaid (Reimbursable) | \$275,000 |

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| Dr 1525 Inventory-Raw Materials | \$275,000 |
| Cr 2110 Accounts Payable | \$275,000 |

C. Issue Supplies and Materials to Job Order. Proprietary entry to record issue of supplies and materials to a job order. Supplies and materials issued to a specific job shall be recorded as a direct cost. Supplies and materials issued for the general use of a cost center (production indirect) or for G&A of an activity shall be recorded as an indirect cost. (There is no budgetary entry for movement of amounts between proprietary accounts.)

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| Dr 6100 Operating Expenses (Supplies and Materials-Direct) | \$200,000 |
| Dr 6100 Operating Expenses (Supplies and Materials-Indirect) | \$ 75,000 |
| Cr 1525 Inventory-Raw Materials | \$275,000 |

D. Assignment of Direct Costs to Inventory-Work In Process. Periodic, but not less than monthly, entry to record assignment of direct costs to work in process.

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| Dr 1526 Inventory-Work In Process (In-House) | \$320,000 |
| Cr 6610 Cost Capitalization Offset (Personnel Compensation-Direct) | \$ 80,000 |
| Cr 6610 Cost Capitalization Offset (Personnel Benefits-Direct) | \$ 40,000 |
| Cr 6610 Cost Capitalization Offset (Supplies and Materials-Direct) | \$200,000 |

E. Assignment of Indirect Costs to Inventory-Work In Process. Periodic, but not less than monthly, proprietary entry to record the assignment (allocation) of indirect expenses to work in process. Note that the \$100,000 allocation amount below is not equal to the actual \$105,000 indirect expense recorded in paragraph A and paragraph C, above. That is because the application of indirect expenses to inventory - work in process may be based on a formula that, over time, provides a reasonably close approximation of actual indirect expenses. Paragraph G, below, illustrates the entry to periodically adjust the allocated indirect expense amount to the actual indirect expense amount.

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| Dr 1526 Inventory-Work In Process (In-House) | \$100,000 |
| Cr 6600 Applied Overhead | \$100,000 |

F. Payment of Expenses Incurred. Entry to record payment of civilian personnel compensation in paragraph A, above and purchase of supplies and materials in paragraph B, above.

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| Dr 4901 Delivered Orders-Obligation, Unpaid (Reimbursable) | \$425,000 |
| Cr 4902 Delivered Orders-Obligation, Paid | \$425,000 |
| Dr 2210 Accrued Funded Payroll and Leave | \$100,000 |
| Dr 2213 Employer Contributions and Payroll Taxes Payable | \$ 50,000 |
| Dr 2110 Accounts Payable | \$275,000 |
| Cr 1010 Funds Balance with Treasury (Funds Disbursed-Operating Program) | \$425,000 |

G. Adjustment of Over and Under Applied Overhead. Periodic, but not less than annual, entry to adjust the allocated indirect expense amount to the actual indirect expense amount (paragraph A and paragraph C, above) to the applied overhead account. Adjustments of over and under applied overhead shall be accomplished prior to the final billing on a completed customer order. Variances between actual indirect expenses and applied indirect expenses are accounted for as cost of goods sold.

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| Dr 6600 Applied Overhead | \$100,000 |
| Dr 6500 Cost of Goods Sold | \$ 5,000 |
| Cr 6100 Operating Expenses (Personnel Compensation-Indirect) | \$20,000 |
| Cr 6400 Benefit Expense (Personnel Benefits-Indirect) | \$10,000 |
| Cr 6100 Operating Expenses (Supplies and Materials-Indirect) | \$75,000 |

H. Release of Completed Work to Customer. To record the liquidation of Inventory-Work in Process (In-House) when related work is completed and accepted for delivery to a customer in response to its order.

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| Dr 6500 Cost of Goods Sold | \$420,000 |
| Cr 1526 Inventory-Work in Process (Contractor) | \$420,000 |

★0702 INVENTORY-WORK IN PROCESS ACCOUNTS

070201. The inventory-work in process should identify the performing activity and the portion of government property furnished to contractors and subcontractors for the performance of DoD contracts for other than real property. The inventory-work in process (Account 1526) accounts for use by the DWCF are listed below:

Inventory-Work in Process (In-House)

Inventory-Work in Process (Contractor)
Inventory-Work in Process (Other Government Activities)
Inventory-Work in Process (Government Furnished Material)

A. Inventory-Work in Process (In-House). Inventory-Work in Process (In-House) is used to record the cost of work in process performed by DoD personnel. A subsidiary account shall be maintained to accumulate the costs of each job/customer order and facilitate the transfer of costs to the cost of goods sold account. Sources of entries to this account include billings under contracts for material, supplies, and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed work in process; and documented losses. The most common entries to Inventory-Work in Process (In-House) account are shown in paragraph 070105, above.

B. Inventory-Work in Process (Contractor). The Inventory-Work in Process (Contractor) account is used to record the cost of work in process performed by DoD contractors. Subsidiary accounts shall be maintained for each contract to track the value of work performed as represented by progress payments. Sources for entries to this account include contractor requests for progress payments, invoices, payment vouchers, property acceptance documents, accounting records, and documented losses. The following illustrate the most common entries to this account:

1. Contract Work on Customer Order. Issuance of order to contractor to perform work on customer order.

Dr 4610 Allotments-Realized Resources (Reimbursable Program)
Cr 4801 Undelivered Orders-Obligation,
Unpaid (Reimbursable Program)

2. Progress Billing Received From Contractor. Progress billing received from contractor for percentage of completion of ordered work (A portion is withheld from payment pending successful completion of contract).

Dr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable Program)
Cr 4901 Delivered Orders-Obligation, Unpaid

Dr 1526 Inventory-Work In Process (Contractor)
Cr 2110 Accounts Payable
Cr 2130 Contract Holdbacks

3. Progress Payment Made To Contractor. Progress payment made to contractor for percentage of completion of ordered work. Progress payments made to a contractor based on percentage of completion are recognized and accounted for as invoice payments.

Dr 4901 Delivered Orders-Obligation, Unpaid
Cr 4902 Delivered Orders-Obligation, Paid

Dr 2110 Accounts Payable
Cr 1010 Funds Balance with Treasury (Funds
Disbursed-Operating Program)

4. Contractor Delivery of Ordered Work. Final billing received from contractor for delivery of ordered work.

Dr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable)
Dr/Cr 4610 Allotments-Realized Resources (Reimbursable)
(If the Delivered Orders-Obligations, Unpaid differs
from the amount of the undelivered order.)
Cr 4901 Delivered Orders-Obligations, Unpaid (Reimbursable)

Dr 1526 Inventory-Work In Process (Contractor)
Dr 2130 Contract Holdbacks
Cr 2110 Accounts Payable

5. Release of Completed Work to In-House Work. To record the liquidation of Inventory-Work in Process (Contractor) when related work is to be incorporated into other work being performed in-house.

Dr 1526 Inventory-Work in Process (In-House)
Cr 1526 Inventory-Work in Process (Contractor)

6. Release of Completed Work to Customer. To record the liquidation of Inventory-Work in Process (Contractor) when related work is completed and accepted for delivery to a customer in response to its order.

Dr 6500 Cost of Goods Sold
Cr 1526 Inventory-Work in Process (Contractor)

C. Inventory-Work in Process (Other Government Activities). Inventory-Work in Process (Other Government Activities) is used to record the cost of work in process performed by other federal government agencies. A subsidiary account shall be maintained for each contract to track the value of work performed as represented by progress payments. Sources for entries to this account include interagency agreements, invoices, payment vouchers, property acceptance documents, and documented losses. The following illustrate the most common entries to this account:

1. Other Government Activity Work on Customer Order. Issuance of order to other government activity to perform work on customer order.

Dr 4610 Allotments-Realized Resources (Reimbursable Program)

Cr 4801 Undelivered Orders-Obligation,
Unpaid (Reimbursable Program)

2. Billing Received From Other Government Activity. Billing received from other government activity for partial completion of ordered work.

Dr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable Program)

Cr 4901 Delivered Orders-Obligation, Unpaid

Dr 1526 Inventory-Work In Process (Other Government Activity)

Cr 2110 Accounts Payable

3. Payment Made To Other Government Activity. Payment made to other government activity for partial completion of ordered work.

Dr 4901 Delivered Orders-Obligation, Unpaid

Cr 4902 Delivered Orders-Obligation, Paid

Dr 2110 Accounts Payable

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

4. Other Government Activity Delivery of Ordered Work. Final billing received from other government activity for delivery of ordered work.

Dr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable)

Dr/Cr 4610 Allotments-Realized Resources (Reimbursable)

(If the Delivered Orders-Obligations, Unpaid differs
from the amount of the undelivered order.)

Cr 4901 Delivered Orders-Obligations, Unpaid (Reimbursable)

Dr 1526 Inventory-Work In Process (Other Government Activity)

Cr 2110 Accounts Payable

5. Release of Completed Work to In-House Work. To record the liquidation of Inventory-Work in Process (Other Government Activity) when related work is to be incorporated into other work being performed in-house.

Dr 1526 Inventory-Work in Process (In-House)

Cr 1526 Inventory-Work in Process (Other Government Activity)

6. Release of Completed Work to Customer. To record the liquidation of Inventory-Work in Process (Other Government Activity) when related work is completed and accepted for delivery to a customer in response to its order.

Dr 6500 Cost of Goods Sold

Cr 1526 Inventory-Work in Process (Other Government Activity)

D. Inventory-Work in Process (Government-Furnished Material (GFM)).

1. Inventory-Work in Process (GFM) is used to record the value of that portion of government personal property furnished to contractors and subcontractors (including other federal agencies) for the performance of DoD contracts. Government property, in this case, includes all personal property acquired directly by the DoD and made available for incorporation into personal property end products to be delivered under DoD contracts or to be consumed or expended in the performance of those contracts. If items that had been issued for incorporation are not used and subsequently returned, those items shall be accounted for in the same manner as a return of material.

2. A subsidiary account shall be maintained for each contractor that is furnished government property for use in performance of a contract(s) and that is to be returned upon completion of the contract. The subsidiary accounts shall be subdivided by contract. Increases to this account shall be supported by documentation evidencing issues of government material to contractors, whether from inventory or from another contractor in accordance with DoD instructions. Decreases to this account shall occur only when the end item is accepted by the DoD and received into inventory, or the material is returned to inventory or otherwise disposed of at DoD's direction.

3. Periodically, but at least annually, this account shall be reconciled with the property accountability records maintained by the contractor. This reconciliation involves coordination with the assigned property administrator for the contract. Property administrators shall be provided financial data on the value of GFM for use in completing contract close out or termination. On contract completion or termination the account shall be adjusted to reflect the disposition of unused GFM provided to the contractor for use in meeting contractual requirements.

4. Sources for entries to this account include shipping and issue documents, property acceptance documents and property administrator reports, material-return documents, collection and deposit documents, settlement agreements, and documented losses. The following illustrate the most common entries to this account:

a. To record the value of government property furnished to contractors for the performance of DoD contracts for other than real property.

Dr 1526 Inventory-Work in Process (GFM)
Cr 1525 Inventory-Raw Materials
Cr 1750 Equipment (Not in Use)

b. To record the value of government property that is incorporated into end products accepted by the DoD for final payment.

Dr 1525 Inventory-Work In Process (In-House)
Cr 2110 Accounts Payable (Public)
Cr 1526 Inventory-Work in Process (GFM)

c. To record the value of government-provided property returned by the contractor.

Dr 1525 Inventory-Raw Materials
Dr 1750 Equipment (Not in Use)
Cr 1526 Inventory-Work in Process (GFM)

d. To record claim for the loss, damage, or destruction of government property furnished in connection with DoD contracts.

Dr 1310 Accounts Receivable (Public)
Cr 1526 Inventory-Work in Process (GFM)