

**SUMMARY OF MAJOR CHANGES TO  
DoD 7000.14-R, VOLUME 13, CHAPTER 7  
“FINANCIAL REPORTING”**

All changes are denoted by blue font

Substantive revisions are denoted by a ★ preceding the section,  
paragraph, table, or figure that includes the revision

Hyperlinks are denoted by *underlined, bold, italic, blue font*

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted chapter for clarity and ease of reading. Added references and electronic hyperlinks.	Update
0701	Added an Overview section to provide purpose and scope paragraphs.	Add
070105	Paragraph deleted. Cash basis of accounting does not adhere to the revenue recognition and matching principles.	Delete
070302	Added Reconciliation of Net Worth to the principal financial statements.	Add
070401	Added requirement for accountants to provide monthly analytical data.	Add
070403.D	Clarified ratios to be maintained for food and beverage and for other sales operations.	Update
0706	Added a section which provides guidance on International Balance of Payments (IBOP) Program.	Add

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## CHAPTER 7

FINANCIAL REPORTING★0701 OVERVIEW

070101. Purpose. This chapter prescribes the standard policies for financial reporting, which are the principal means of communicating accounting information to those outside an activity.

070102. Scope. The policies in this chapter apply to Department of Defense (DoD) Nonappropriated Fund Instrumentalities (NAFIs) and their supporting Accounting Offices (AOs), except the Armed Service Exchanges.

0702 RESPONSIBILITIES

070201. DoD Components. The DoD Components are responsible for the fair presentation in the financial reports of financial position, results of operation, and the program and personnel information included. In addition, the DoD Components are responsible for compliance with Nonappropriated Fund (NAF) program laws and regulations. For further information on reporting responsibilities, refer to *Department of Defense Instruction (DoDI) 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources."*

070202. Accounting Office. The supporting AO is responsible for compiling all the necessary information from accounting and payroll systems, as well as preparation of financial statements and reports. The integrity of those systems and the accuracy of the data produced are also AO responsibilities. Refer to *Chapter 1* of this volume for further information.

0703 FINANCIAL REPORTING

070301. Financial Reporting. Financial reporting provides understandable information that is useful in making business decisions relative to NAFI operations. It describes NAFI financial performance during a specific period and how cash is obtained and spent. In addition to providing explanations and interpretations to assist users in making reasoned choices, financial reports also contain program and personnel information. Refer to DoDI 1015.15 for further information.

★ 070302. Financial Statements. The principal financial statements used to convey information to users are the balance sheet, income statement, reconciliation of net worth, and statement of cash flows. These reports provide information on the financial performance and condition of NAFI. Refer to DoDI 1015.15 for reporting requirements.

A. Balance Sheet. The balance sheet (also known as statement of financial position) presents NAFIs financial position at the end of a specified date. It is sometimes described as a "snapshot" that allows the user to see what NAFI owns as well as what it owes to others. The

major components of the balance sheet are assets, liabilities, and equity (net worth). For further information on assets, liabilities, and equity (net worth), refer to [Chapters 3, 4](#), and 1 of this volume, respectively.

B. [Income Statement](#). An income statement (also referred to as profit or loss statement or income and expense statement) provides information about NAFIs financial performance during a specified period of time. It is a summary of NAFIs profit or loss during the accounting period. The income statement is used to track revenues and expenses to determine the operating performance of NAFI. Refer to [Chapter 5](#) of this volume for further information on revenue and [Chapter 6](#) of this volume for further information on expenses.

C. [Reconciliation of Net Worth](#). The reconciliation of net worth (also known as statement of retained earnings) provides information of changes to net worth during a specified period of time. It shows the establishment, disestablishment, or consolidation of NAFIs, receipt or distribution of capital, net income or net loss, and prior year material adjustments. Refer to Chapter 1 of this volume for further information on net worth (equity).

D. [Statement of Cash Flows](#). A cash flow statement provides information about cash receipts and cash payments of NAFI during the accounting period. The statement shows how changes in balance sheet and income accounts affected cash and cash equivalents and breaks the analysis down according to operating, investing, and financing activities.

070303. [Footnotes to Financial Statements](#). Footnotes are an integral part of the financial statements and are used when more information is needed. Accountants are required to disclose in the financial statements all relevant economic information pertaining to the business entity. When the actual dollar amounts on the financial statements do not provide sufficient information for decisionmakers, accountants supplement the financial statements with more detailed data in the form of footnotes. A footnote is needed when a special event [occurs](#) that dramatically affects the financial statements. [Footnotes](#) help [management](#) compare the operating results of the current business period with the operating results of previous periods. Fund equity adjustments and significant business closures are examples of occurrences which require footnotes. Refer to DoDI 1015.15 for specific footnotes required.

0704 [COMPARATIVE ANALYSIS OF FINANCIAL STATEMENTS](#). Comparative analysis [is the](#) study of relationships and trends to determine whether the financial position, results of operations, and the financial progress of the business are satisfactory or unsatisfactory. The objective of any method used to analyze a financial statement is to simplify or reduce the data under review to more understandable terms.

★ 070401. [Accountant Responsibilities](#). Accountants will [compute](#), [organize](#), and [analyze](#) data [on a monthly basis](#). Analytical data [is then](#) assimilated to aid in management decision making. It is not enough to know at the end of a year, or even a quarter, that costs are increasing more rapidly than revenues. The accountant must use interim cost standards, ratios, or other devices in presenting income statement data.

070402. [Analytical Methods and Techniques](#). Analytical methods and techniques used in analyzing financial statements include the following:

A. Comparative balance sheets, income statements, and statements of retained earnings or net worth. These statements detail the following information:

1. Absolute data (dollar amounts).
2. Comparisons expressed in ratios.
3. Increases and decreases in absolute data in terms of dollar amounts.
4. Increases and decreases in absolute data in terms of percentages.
5. Percentages of total.

B. Statement of sources and uses of working capital.

C. Trend ratios of selected and/or related financial and operating data. A trend analysis is performed for each NAFI financial statement. The analysis of the balance sheet compares actual to actual, and the percentage of increase or decrease is calculated. The analysis of the income statement for each activity compares actual to actual as well as actual to the budgeted amounts. The balance sheet analysis shows the differences as a percentage. The analysis is made by each activity for items such as sales, cost of goods sold, labor expenses, net income, and all other revenue and expense items with a material financial effect on the activity.

D. Common size percentages from balance sheets, income statements, and individual sections of these statements.

E. Ratios expressing the relationships of items selected from the balance sheet, the income statement, or both statements.

F. Statement of variation in net income or gross margin.

070403. Ratios. The behavior of ratios over a series of accounting periods is indicative of trends and may signal the need for adjustments in the future. The following ratios are a means of monitoring the efficiency of NAFI:

A. Accounts Receivable Turnover. Accounts receivable turnover is the relationship between credit sales and accounts receivable. It indicates the liquidity of an activity's receivables. Calculate accounts receivable turnover by dividing net credit sales by the average accounts receivable ( $\text{Accounts Receivable Turnover} = \text{Net Credit Sales} / \text{Average Accounts Receivable}$ ). The average accounts receivable is the beginning accounts receivable plus the ending accounts receivable, divided by two. The average of the accounts receivable monthly balances are used in the computation, as it gives recognition to seasonal fluctuations. When such data is not available, it is necessary to use the average of the balances at the beginning and end of the year. Prompt collection of receivables reduces the amount of loss from bad debts. Another method of

expressing the result is to divide 365 days by the receivable turnover figure to get the average number of days that the receivables were on the books.

B. Acid-Test Ratio. The acid-test ratio, or quick ratio, measures the ability of NAFI to use its quick assets to immediately liquidate its current liabilities. Quick assets include cash, receivables, and marketable securities. The formula to compute the acid-test ratio is to divide quick assets (current assets minus inventory) by current liabilities (acid-test ratio = quick assets/current liabilities). The acid-test ratio should not be less than 1:1; any less and NAFI could suffer financial difficulties. A ratio of 1:1 shows that for every dollar of current debt there is \$1 of quick assets available to meet current liabilities. The higher the ratio, the greater the immediate debt-paying ability.

C. Current Ratio. The current ratio, or working capital ratio, measures the relationship between current assets and current liabilities. It measures the ability of current assets to pay short-term debts. The formula to compute the current ratio is to divide the total current assets by the total current liabilities (Current Ratio = Total Current Assets/Total Current Liabilities). Current ratio of 1.5:1 is considered standard. A ratio that is smaller indicates high debt. If the current ratio is too high, then current assets are not being efficiently utilized. Current assets should then be converted to other useful purposes.

★ D. Inventory Turnover Ratio. The inventory turnover ratio expresses the relationship between cost of goods sold and the average inventory balance. Excess inventory reduces available funds and may increase the cost of insurance, storage, and other related expenses. The formula to compute the inventory turnover is cost of goods sold divided by the average inventory (Inventory Turnover = Cost of Goods Sold/Average Inventory). Average inventory equals beginning inventory plus ending inventory, divided by two. The inventory ratio for food and beverage operations generally should not exceed 1:1 on a monthly basis or 12:1 on an annual basis. This shows that the inventory is about equal to a 30-day supply. A ratio of 1:3 for other sales operations on a monthly basis or a ratio of 4:1 on an annual basis is generally considered acceptable and shows about a 3-month inventory supply. A low turnover rate may indicate overstocking, obsolescence, or deterioration. A high turnover rate may indicate inadequate inventory levels, which may lead to a loss in business. Appropriate inventory levels depend on quantity pricing of purchases, shelf life, and restocking lead time that should be as low as possible, consistent with these conditions.

E. Net Income Ratio. Net income ratio measures the net income as a percentage of total revenue. It is the rate of return on revenue. The formula to compute the net income ratio is net income divided by total revenue (Net Income Ratio = Net Income/Total Revenue). Net income is calculated as total revenue minus total expenses. Refer to DoDI 1015.15 for further information on net income requirements.

F. Ratio of Net Sales to Assets. The ratio of net sales to assets measures the efficiency with which NAFI is using their assets to generate sales. In computing the ratio, any long-term investments are excluded from total assets, as they make no contribution to sales. If sales can be stated in a common unit, then units of products sold also can be used in place of the dollar amount of sales. Assets used in determining the ratio may be the total at the end of the year,

the average at the beginning and end of the year, or the average of monthly totals. The formula to compute the ratio of net sales to assets is to divide net sales by total assets, minus long-term investments (Ratio of Net Sales to Assets = Net Sales/ (Total Assets - Long-Term Investments)).

G. Return on Assets Ratio. This measures NAFI's ability to generate revenue with its existing assets. The formula to compute the return on assets ratio is to divide net income by the average total assets. Average total assets are beginning total assets plus ending total assets divided by two (Return on Assets Ratio = Net Income/Average Total Assets).

H. Return on Fund Equity. The return on fund equity measures NAFI's ability to use leverage by earning a higher rate of return than is paid for the funds used to operate. The formula to compute the return on fund equity is to divide net income by the average fund equity (Return on Fund Equity = Net Income/Average Fund Equity). Average fund equity is the opening equity plus the closing equity divided by two.

I. Turnover of Working Capital. Working capital is a valuation metric that is calculated as current assets minus current liabilities. Current assets include accounts receivable and inventory. Current liabilities include accounts payable. These various component elements are analyzed individually to account for changes from period to period. The turnover of working capital reflects the extent to which NAFI is operating on a small or large amount of working capital in relation to sales. The formula to compute the working capital turnover is to divide the net sales by the average working capital (Turnover of Working Capital = Net Sales/Average Working Capital). Average working capital is ending current assets minus ending current liabilities plus beginning current assets minus beginning current liabilities, divided by two.

J. Other Ratios. The ratios referenced in the previous paragraphs are by no means the only ones that can be computed. Following are additional ratios that can be used:

1. Fixed Asset Turnover.
2. Working Capital to Total Assets.
3. Return on Tangible Assets.

070404. Comparative Statements

A. General. Any fact by itself has limited significance. Other related facts are necessary to give the first fact increased meaning. The validity of this observation is demonstrated as follows: Learning that last year's net income of a certain activity was \$68,514 offers little insight. Does that amount of net income indicate a successful or unsuccessful year? Does the amount present an improvement or decline from the year before? Is the amount large or small in relation to sales, assets, or equity? How does it compare with similar activities? If the information about last year's income is to have any real meaning, then other facts must be known.

B. Comparison. If the financial statements are analyzed on a comparative basis, **then** they can be much more informative and meaningful. Four comparison types are possible:

1. Comparison of the latest financial statements and relationships between various elements with the statements and relationships of 1 or more previous periods
2. Comparison of the statements and financial relationships of the fund with data for other similar activities
3. Comparison of statements and financial relationships of two or more divisions or branches of the same activity
4. Comparison of information in the statements with preset plans or goals (normally in the form of budgets).

C. Horizontal Analysis. A comparison of the amounts for the same item in the financial statements of 2 or more periods is called horizontal analysis. The term is applied because the analysis, which suggests probabilities, weaknesses, or strengths, includes data from year to year rather than as of 1 date or period of time as a whole. If the amount of any change and its relative size are shown, **then a** comparison is facilitated. In computing the percent of change, the amount for the earlier year serves as the base. In general, the percentage of change is of greater interest than the actual amounts.

D. Vertical Analysis. The amount of each item in a statement can be expressed as a percentage of the total; this is termed vertical analysis. If statements relating to 2 or more periods are vertically analyzed and the results compared or contrasted, **then** maximum information is provided.

#### 0705 REPORTING TO THE INTERNAL REVENUE SERVICE (IRS)

070501. General. All records relating to payments to individuals and firms are retained for at least 4 years and available for IRS review. **Continental United States** (CONUS) offices consult their local IRS office when forms, publications, or assistance are needed. Overseas offices contact the **IRS**, Assistant Commissioner (International), **by going to [www.irs.gov](http://www.irs.gov)**, to get the address and telephone number of the nearest IRS representative. IRS representatives, in CONUS and overseas, are available to provide instructions concerning IRS procedures for return preparation and filing, and depositing employment tax payments.

070502. Contract Payments (Nonpersonal Services). Cumulative payments made **by NAFIs** under service contracts of \$600 or more to anyone, during a calendar year, are reported. The total amounts paid **along with** the name, address, and Social Security number of the individual are reported. For businesses, report the amount paid, the business name, business address, and business tax identification number. NAFI contracts with entertainers are considered service contracts. If a single payment to an individual is less than \$600 but total payments made during the calendar year to the same individual reach \$600, **then** the report must be filed. The report is

provided to the individual or firm and to the IRS using IRS [Form 1099-MISC](#), “Miscellaneous Income.” The individual or firm [receives](#) a copy of the IRS Form 1099-MISC by January 31 of the following calendar year of payment. This requirement also applies to individuals who, in addition to being NAFI employees, have contracts with NAFI for nonpersonal services. A separate IRS Form 1099-MISC is prepared for each individual or firm to whom total payments of \$600 or more are made. IRS [Form 1096, “Annual Summary and Transmittal of U.S. Information Returns,”](#) is used to transmit the IRS copy of 1099s to the IRS. These forms are forwarded to the IRS by February 28 each year. Refer to [www.irs.gov](http://www.irs.gov) for preparation instructions and filing requirements.

**070503.** Gambling and Bingo Winnings. IRS reporting requirements for gambling and bingo winnings are tied to individual games. Unlike contract payments, winnings are not accumulated from game to game; each game stands alone for IRS reporting requirements. Whenever cash, merchandise, or a combination thereof with a total value of \$1,200 or more is awarded to a person for winning a single bingo game or other gambling activity, an IRS [Form W-2G, “Certain Gambling Winnings,”](#) is prepared. Individuals receive their copies of the IRS Form W-2G either at the time payment is made or not later than January 31 of the following year. IRS Form 1096 is used to transmit the IRS copy of the IRS Form W-2Gs to the IRS. These forms must be forwarded to the IRS by February 28 of the following year. Refer to [www.irs.gov](http://www.irs.gov) for preparation instructions and filing requirements.

★0706 INTERNATIONAL BALANCE OF PAYMENTS (IBOP) PROGRAM. IBOP is an accounting of a country’s international transactions for a particular time period. NAFIs are subject to the IBOP reporting requirements prescribed in [DODI 7060.03, “International Balance of Payments Program – Nonappropriated Fund Activities,”](#) and [Volume 6A, Chapter 13.](#)