

**SUMMARY OF MAJOR CHANGES TO
DoD 7000.14-R, VOLUME 11B, CHAPTER 11,
“REIMBURSEMENTS AND REVENUE RECOGNITION”**

Substantive revisions are denoted by an ★ preceding the section or paragraph with the substantive change or revision.

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
	CHAPTER 11 (previously, Chapter 61) REIMBURSEMENTS AND REVENUE RECOGNITION	
1101	Updated policy on: (1) reimbursable orders; (2) reimbursement for contingency operations and humanitarian efforts; (3) work performed in advance of reimbursable orders, and (4) disputed bills between Department of Defense (DoD) Components.	Update
1102	Requires Components to use the percentage of completion method for recognizing revenue and costs on all customer orders. The completed order method for revenue recognition is not an acceptable method for recognizing revenue within the DoD.	Update
1103	Updated use of general ledger accounts, prescribed by the United States Government Standard General Ledger (USSGL), to illustrate the accounting for the acceptance of customer orders through revenue recognition to completion of the customer order.	Update
1104	Clarifies what constitutes a prior period adjustment and updated use of general ledger accounts, prescribed by the USSGL.	Update
Annex 1	Provides a summarization of pricing elements for determining the amounts to be billed by DWCF activities.	Update

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CHAPTER 11

REIMBURSEMENTS AND REVENUE RECOGNITION★1101 REIMBURSEMENTS

110101. General Information. Additional information relating to reimbursements may be found in Volume 3, Chapter 15, “Receipt and Use of Budgetary Resources” of this Regulation.

110102. Reimbursement Principles. As a general principle, each activity operating under the DWCF shall be reimbursed for the costs of all goods and services ordered and produced as a result of those orders. The DWCF billings and reimbursements from ordering activities for services or goods provided shall be accomplished in the most efficient and expeditious manner available to reduce or eliminate the need for additional DoD working capital. The nature of the DWCF requires ordering agencies to budget, control, and account for the cost of all goods and services ordered. As a result, a DWCF activity:

A. Shall bill ordering activities for all costs incurred as a result of an accepted customer order.

B. Shall bill customer order cancellation or reduction costs. When a job order is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs on the order, the costs incurred, plus the applied overhead (that is, indirect and other normally allocated overhead, such as general and administrative (G&A) costs plus costs associated with the cancellation or reduction shall be charged to the customer. Examples of directly associated cancellation or reduction costs to be charged to customers are advance planning costs, noncreditable direct material, special test equipment, necessary preservation and/or shipment effort, and any additional effort necessitated by the cancellation and/or reduction; for example, salvaging of material. In addition, costs charged to customers should include the costs of salaries payable to employees hired specifically to work on the canceled order until the employees are, or could have been, separated through a reduction in force or other appropriate action (taking into account appropriate administrative lead time), or reassigned to other direct jobs. Costs which are indirectly associated with cancellation or reduction actions shall not be charged to the customer. Although normally allocated G&A costs shall be charged to canceled or reduced customer orders, underapplied overhead costs that may result in the DWCF activity as a whole from a reduced workload base shall not be charged to the customer canceling or reducing their order but shall be recorded against the net operating results of the performing DWCF activity.

C. Shall not enter into any arrangement to “offset” services received and services furnished.

110103. Reimbursable Orders

A. No work or service should be performed by a DWCF activity except on the basis of reimbursable orders (not direct fund cite orders) received and accepted that constitute obligations of federal government ordering activities or advances from nonfederal government entities.

B. Each DWCF activity shall record promptly all orders accepted and shall account continuously for the status of all orders in terms of deliveries, billings, and unfilled balances, so as to provide a basis for scheduling production or operations, determining backlogs of work and the need for additional orders or reduced activity, preparing operating budgets and forecasts, and informing customers promptly concerning changes in delivery schedules.

110104. Basis for Reimbursement

A. All orders accepted by a DWCF activity shall be in writing; for a purpose authorized by law; executed before cancellation of the issuing appropriation; and must call for specific goods, real property, work, or services. Orders placed with a DWCF activity shall not be subject to accounting and reporting requirements similar to those applicable to allotments.

B. Each project order or other order accepted by a DWCF activity shall state specifically the basis of reimbursement to the DWCF for the cost of work or services ordered, as between fixed price or cost reimbursement.

C. Orders from the public, including state and local governments, must be accompanied by an advance. In addition, on an exception basis, advances may be requested, if directed by the USD(C) or other authorizing official, on orders from DoD and other federal government accounts.

D. Annex 1 to this chapter provides a summarization of costing elements for determining the amounts to be reimbursed to DWCF activities. Additional information on the costing elements can be found in Volume 11A, Chapter 1 of this Regulation.

110105. Use of Project Order/Economy Act Order

A. The DoD Components (or any activity thereof) ordering work or services from a DWCF financed activity may use a project order whenever such an order may be issued under the requirements of Volume 11A, Chapter 2, "Project Orders," of this Regulation. Project orders must be issued only for non-severable requirements.

B. When orders for work or services cannot qualify as project orders, they may not be so designated but shall be issued as Economy Act orders if they otherwise meet the criteria of such orders as described in Volume 11A, Chapter 3, "Economy Act Orders" of this Regulation.

C. Examples of orders that do not qualify as project orders are printing requests, orders for transportation of personnel and material, utility services, and other service orders--including orders covering the cost of maintaining unutilized and underutilized plant and equipment.

D. A project order or Economy Act order, when accepted by the performing activity, shall be obligated by the issuer of that order at that time. Any order for recurring services or for any object that may not be obligated by the ordering agency beyond the end of the current fiscal year shall be limited to the cost of performance within that fiscal year.

110106. Reimbursement for Contingency Operations and Humanitarian Efforts

A. All DWCF activity groups, including transportation services provided by the United States (U.S.) Transportation Command (USTRANSCOM), operate on a reimbursement basis with users paying for goods and services provided. Payment for contingency operations, including deployment or other emergency response for military or humanitarian assistance, is no exception: The users ordering the DWCF service must pay the bill, and no orders are to be accepted without funding.

B. The Military Department Headquarters is responsible for determining which level within the Military Department will pay (that is, the unit, major command, or Military Department-level). This process also applies when a Unified Combatant Command tasks a Service-funded unit to perform a mission (such as transportation of military personnel or equipment by the USTRANSCOM). The Military Department that controls the equipment or personnel is responsible for payment of costs incurred to accomplish the mission.

C. Consistent with this policy, third party collections for transportation provided in response to a Request for Assistance (RFA) from another government agency is prohibited. The Military Department that controls the equipment or personnel being transported is responsible for reimbursing USTRANSCOM. It is then the responsibility of the Military Department that accepted the RFA to collect any required reimbursements due that Military Department by the requesting government agency.

D. The sole exception to this policy occurs when the USTRANSCOM receives an order from the Joint Chiefs of Staff requiring transportation of non-U.S. owned equipment and/or non-U.S. personnel such as unreimbursed efforts in support of the United Nations. In those instances, the Army will pay Military Traffic Management Command costs, the Navy will pay Military Sealift Command costs, and the Air Force will pay Air Mobility Command costs. Bills may be centralized for more convenient processing if appropriate; however, billings shall be forwarded to the appropriate Military Department within 30 days from commencement of the contingency operation or humanitarian effort. Payment of these bills, including transportation bills, by the Military Departments must be made in a timely manner.

E. This guidance does not address any contingency operations designated by the Secretary of Defense as a “National Contingency Operation” under the provision of Title 10 U.S.Code, Section 127. Special rules apply for such an operation and those rules should be promulgated separately in conjunction with any designation by the Secretary of Defense under the provisions of that section.

110107. Work Performed in Advance of Reimbursable Order. In “emergency” situations, work for customers may begin in advance of receipt and acceptance of a formal order under three circumstances. They are as follows:

A. Orders Under Continuing Resolution. In periods under which the Department is operating under a Continuing Resolution, customers may issue “Subject to Availability” orders. Orders issued under Continuing Resolution authority shall identify the portion of the order that is covered by current obligational authority. The unfunded portion, if any, may be funded by available resources within the performing working capital fund activity for subsequent reimbursement. If obligational authority is not available, work should be stopped until obligational authority becomes available.

B. Letter of Intent. When it is necessary, in an “urgent” situation, to incur limited costs in advance of the receipt of a regular order for an authorized program for which customer funds are available, such work or services may be undertaken on the basis of a letter of intent which constitutes an obligation of the ordering activity in a stated amount sufficient to cover the advance costs that may be incurred. Therefore, letters of intent are obligating instruments, contractual in nature, and must be funded upon issuance. A letter of intent shall expire within 30 days from the date of issuance.

C. Commanding Officer’s Orders. When it is necessary to begin work of an “emergency” nature prior to the receipt of an order, a commanding officer’s order or similar order may be issued by the commander of the DWCF activity subject to the following conditions:

1. The DWCF activity must have written assurance that an order shall be issued promptly or shall have equivalent documented communication. The use of such orders should be limited to situations in which there are bona fide emergencies arising from unforeseen urgent requirements, e.g., loss or damage caused by a disaster, an act of God, or events caused by unforeseen security situations. A commanding officer’s order must not be used as a normal procedure to circumvent administrative lead-times that should be considered in advance planning.

2. A commanding officer’s order shall expire within 30 days from the date of issuance.

3. A commanding officer’s order shall be issued on a local form and shall be approved and signed by the commanding officer or an authorized representative.

110108. Followup on Unfunded Reimbursable Orders. While there may be some services furnished by a DWCF activity prior to receiving a funded order, this should be a rare occurrence. Whenever this occurs, these services are performed on the basis of anticipated orders or for programs included in approved budget requests. This type of work is for existing customers that have annual recurring requirements. However, when items are furnished or services performed in response to an unfunded reimbursable order (express or implied), and a funded order has not been submitted after 15 days of providing the service, the DWCF organization should notify the comptroller of the customer organization and request a funded order. If funding is not received within 30 days of providing the service, the DWCF organization should notify the Office of the Deputy Comptroller (ODC(P/B)), Revolving Funds Directorate and request authorization to directly bill the customer's appropriation account. The ODC(P/B), Revolving Funds Directorate should respond to the request within 15 days. Upon authorization by the ODC(P/B) Revolving Funds Directorate the DWCF organization may self-reimburse the DWCF, citing the customer's appropriation.

110109. Billing Standard. The DWCF Components performing work or services on a customer order shall bill the requesting DoD Component, other federal agency, or the public for earned reimbursements (performance of work or services, payments to contractors, or delivery from inventory) within 30 calendar days after the month in which performance occurred. The payment due date shall not be more than 30 calendar days from the date of the invoice. Bills rendered shall not be subject to audit by the customer prior to payment.

A. Stabilized rates shall be established to recover operating expenses estimated to be incurred for the applicable fiscal year and to provide sufficient working capital for the acquisition of fixed assets as approved by the USD(C). That is, stabilized rates and unit prices shall be established at levels intended to provide for estimated revenues to equal estimated costs plus approved surcharges for the applicable fiscal year for which the rates and unit prices are established. When gains or losses occur in prior fiscal years resulting from under or over applied stabilized rates and/or prices and those gains or losses are included in current year stabilized rates estimated revenues may not equal estimated costs.

B. Private parties and concerns when authorized by law including foreign governments, and state and local governments shall reimburse the DWCF for the full costs incurred by the federal government. Full costs for foreign military, state and local government, and private party sales shall include unfunded costs that are not charged to the DoD or other federal government customers (such as unfunded civilian retirement and postretirement health benefits cost). Amounts collected for unfunded civilian retirement and postretirement health benefits costs shall not be retained by DWCF activities; rather, such amounts shall be deposited into the Miscellaneous Receipts Account 3210, "General Fund Proprietary Receipts, Defense Military." Additional information on the determination of full costs for Foreign Military Sales can be found in Volume 15, Chapter 7, of this Regulation.

C. Annex 1 to this chapter provides a summarization of costing elements for determining the amounts to be billed by DWCF activities. Additional information on the costing elements can be found in Volume 11A, Chapter 1, "Reimbursements" of this Regulation.

110110. Disputed Bills Between DoD Components

A. Disputed Billing Amounts or Other Billing Details. Payment for ordered goods and services shall be made promptly on the written request of the activity filling the order. Payment may be in advance or on providing the goods or services ordered and shall be for any part of estimated or actual cost as determined by the activity filling the order. Proper adjustment of amounts paid in advance shall be made as agreed to by the ordering and performing activities on the basis of the goods or services provided. A bill submitted or a request for payment shall be paid promptly and not postponed subject to audit or other similar validation in advance of payment. This provision is not intended to preclude questions on the accuracy and correctness of the billed amounts but is intended to preclude the nonpayment of bills subject to the resolution of disputed billing details. Every effort should be expended to resolve disputed billing details within 60 days. If, after 60 days, agreement as to the resolution of billing details cannot be reached, the billing activity may request adjudication from the ODC(P/B), Revolving Funds Directorate. The ODC(P/B), Revolving Funds Directorate should provide a decision on disputed bills within 30 days.

B. Disputed Bill Ownership. In cases where there is a question as to ownership of the bill (vice dispute over the amount of the bill or other billing details) and the bill remains unpaid for more than 90 days, the providing activity may request approval from the ODC(P/B), Revolving Funds Directorate to collect from the customer such amounts as are unpaid. The ODC(P/B), Revolving Funds Directorate should provide a decision on ownership questions within 30 days.

★1102 REVENUE RECOGNITION110201. General

A. The DoD Components shall use the percentage of completion method for recognizing revenue and costs on all customer orders. Under this method, the revenue earned and associated costs incurred on an order shall be recognized monthly based on the ratio of costs incurred to date, on that order, bear to the total costs estimated to be incurred on the order when it is completed. The completed order method for revenue recognition is not an acceptable method for recognizing revenue within the DoD.

B. Revenue and costs must be recognized in the same accounting period. Revenue must be recognized in the same manner (that is, a standard policy for recognizing and reporting revenue must apply) for all activities within a DWCF activity group. The amount of revenue recognized cannot exceed the amount specified in the order.

110202. Policy

A. Depot Maintenance Activity Group Activities. Activities in the Depot Maintenance activity groups (includes: Army Ordnance and Other Maintenance Facilities; Navy Shipyards, Aviation Depots, and Ordnance Facilities; Marine Corps Other Maintenance

Facilities; and Air Force Aviation Depots) shall recognize revenue by use of the percentage of completion method. Under this method, the revenue earned on an order will be recognized monthly based on the ratio that the costs incurred to date on that order bear to the total costs estimated to be incurred on the order when it is completed (see paragraph 110305, below). A work in process account shall be used to capture and hold costs prior to their recognition as a cost of goods sold.

B. Transportation Activity Group Activities. Activities in the Transportation activity group shall recognize revenue based upon receipt of a cargo manifest or the commencement of travel.

C. Supply Management Activity Group Activities. Activities in the Supply Management activity group shall recognize revenue, and related costs, when an item is dropped from inventory for sale or other revenue generating disposition.

D. Commissary Resale Activity Group Activities. Activities in the Commissary Resale activity group shall recognize revenue, and related costs, at the point/time of sale, or when an item is otherwise disposed.

E. Distribution Depots Activity Group Activities. Activities in the Distribution Depots activity group shall recognize revenue, and related costs, based on one of the following events:

<u>Event</u>	<u>Revenue Recognized Upon</u>
Receipt of Items	Receipt of an Item
Issuance of Items	Issuance of an Item
Other Services	Rendering of Service

In the event that a service is rendered, revenue shall be considered earned, and recognized, and associated costs shall be reported, at the time that the service is rendered/performed, but not less frequently than monthly.

F. Navy Research and Development Activity Level Activities. Activities in the Navy Research and Development activity group shall use the following revenue recognition policy:

1. For production type (end item) orders the percentage of completion method shall be used. Under this method, the revenue earned on an order will be recognized monthly based on the ratio of the costs incurred to date on that order to the total costs estimated to be incurred on the order when it is completed (see paragraph 110305, below). A work in process account shall be used to capture and hold costs prior to their recognition as a cost of goods sold.

2. For service orders (all orders other than those for end-item production orders), the service-type revenue recognition method shall be used for all service orders. Under this method, revenue shall be considered earned, and recognized, and the associated costs reported, at the time that the service is rendered/performed, but no less frequently than monthly. Thus, service type orders shall be considered as rendered/completed, and revenue and costs recognized, at least monthly.

G. Other Activity Group Activities. Activities in all other activity groups (for example, Financial Operations, Base Support, Information Services, Reutilization & Marketing, and Printing & Publications) not discussed in paragraphs 110202.A through 110202.F, above, shall use the service-type revenue recognition policy. Under this method, revenue shall be considered earned, and recognized, and the associated costs reported, at the time that the service is rendered/performed, but not less frequently than monthly. Thus, service type orders shall be considered as rendered/completed, and revenue and costs recognized, at least monthly.

110203. Types of Orders. There are two general classifications of orders--Service type and End-Item type.

A. Service Type Orders. The following are description of applicable projects and work that should be classified as service type orders. A work in process account shall not be used to capture and hold costs on service type orders. Thus, service type orders shall be considered as rendered/completed, and revenue and costs recognized, at least monthly.

1. Research and Development. Includes the conduct and support of research and development, including basic research, theoretical studies, scientific experiments, applied research, feasibility studies, systems engineering, design studies, weapon systems analysis and operations research, developmental engineering (including developmental engineering in connection with procurement, production and modification) and fabrication of experimental models and prototypes. Does not include production of items for service testing or engineer-user testing. These latter examples are end-product type orders.

2. Transportation Services. Includes traffic management and transportation (air, land, and sea) services. Also include operation of ports, port facilities and related subinstallations, including holding and reconsignment points engaged in cargo and passenger transshipment activities. Also includes the operation of docks, piers, terminals or similar facilities, and wharfage, ferrying, lighterage and stevedoring.

3. Communication and Information Services. Includes communication services and data processing services (other than financial services and technical information) rendered.

4. Financial Operations. Includes provision of finance and accounting procedures, systems and operations by the DFAS.

5. Technical Information. Includes central collection and dissemination for DoD technology base information. Includes provision of access to, and transfer of, scientific and technical information. Also includes provision of computer modeling, data services, and response to requests for solutions to technological problems of the Military Departments.

6. Printing Services. Includes revenues of activities whose primary mission is printing and reproduction services as well as printing performed by other activities for tenants, satellites or other off-post activities.

7. Distribution Depots. Includes management and procurement of designated national stock numbers for all DoD customers.

8. Supply Management. Includes receipt, reclamation, storage, and issue of consumables and repairable items.

9. Contract Management. Includes expediting the products and services delivered by industry, assuring that the specifications of the contract are met and paying contractor invoices for these items. Also includes surveillance of contractor operations to assure compliance with contractual requirements and determining the effectiveness of contractor quality control systems and inspection procedures, and officially accepting materiel on behalf of the government after certifying its conformance to contract provisions. Also includes provision of on-site assistance to program managers, such as representation and participation in meetings and informal program/contract reviews.

10. Base Support. Includes facilities maintenance, family housing services, other housekeeping services, and administrative functions, provided to tenants and others. Also includes provision of utility services (steam, electricity, water, sewage disposal, and gas).

11. Engineering Services. Includes provision of technical and engineering assistance in matters relating to various weapon systems and industrial plant equipment and associate system when they do not relate to research and development projects. Also includes repair service and quality evaluation; that is, inspecting, calibrating, testing, evaluating, trimming and reengineering of items.

12. Support of Reserve (Under and Unutilized) Capacity. Includes maintenance of unutilized capacity and support of underutilized capacity.

13. Commissary Services. Includes operation of Defense commissaries. Also includes provision of troop issue subsistence and programming of the replacement of War Reserve Material rotation rations.

14. Reutilization and Marketing Service. Includes the reuse of excess and surplus property within the federal government and other authorized agencies, donation to local governments, and the sale of the remaining property to the public on a competitive basis.

15. Other Services. Includes services not otherwise classified.

B. End-Product Type Orders. The following are description of applicable projects and work that should be classified as end-product type orders: A work in process account shall be used to capture and hold costs prior to their recognition as a cost of goods sold.

1. Overhaul and Repair. Overhaul or a complete rebuilding of parts, assemblies, subassemblies, and end-items.

2. Manufacture and Assembly. Includes furnishing customers with new end-items and components, manufacture of prototypes or items furnished to the customer for test.

3. Ordnance. Includes the receipt, segregation, demilitarization, storage, assembly/disassembly, test, maintenance, and issue or shipment of ammunition, ordnance, and weapons.

4. Construction and Conversion. Includes construction and conversion of property and equipment.

5. Alteration and Modification. Includes alteration and modification of property and equipment.

6. Other Products. Includes products not otherwise classified such as the production of research and development items for service testing or engineer-user testing.

110204. Revenue Billings

A. The customer funding an order shall be billed for the revenue recognized, or when advance payments have been received, those advances shall be transferred to the appropriate revenue account. Revenue billings to customers shall reflect due credit for the advances received. In no case shall the total amount of revenue recognized and billed exceed the amount of the order.

B. Revenue billings shall be accomplished at least monthly including applicable labor, material, overhead, and surcharges as well as the value of material in inventory that is identified and held in reserve for specific orders, and amounts of work in progress in contractors' plants and other government plants that are identified to specific orders. The billings should be made as late as possible in the month so that they shall include the above items to the

during the period. The obligation to pay civilian employees must be recorded in budgetary accounts and serves to reduce the obligation authority available. The liability to pay must be recorded in proprietary accounts. Personnel compensation and personnel benefits operating expenses shall be segregated as direct and indirect costs, as necessary.

Dr 4610 Allotments-Realized Resources (Reimbursable)	\$54,000
Cr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable)	\$54,000
Dr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable)	\$54,000
Cr 4901 Delivered Orders-Obligations, Unpaid (Reimbursable)	\$54,000
Dr 6100 Operating Expense (Personnel Compensation-Direct)	\$ 35,000
Dr 6100 Operating Expense (Personnel Compensation-Indirect)	\$ 10,000
Dr 6400 Benefit Expense (Personnel Benefits-Direct)	\$ 7,000
Dr 6400 Benefit Expense (Personnel Benefits-Indirect)	\$ 2,000
Cr 2210 Accrued Funded Payroll and Leave	\$45,000
Cr 2213 Employer Contributions and Payroll Taxes Payable	\$ 9,000

B. Purchase of Supplies and Materials. Entry to record the obligation and receipt of supplies and materials. The budgetary and proprietary entries record obligation for the purchase and receipt of supplies and materials. The liability to pay and the receipt of the asset must be recorded in proprietary accounts.

Dr 4610 Allotments-Realized Resources (Reimbursable)	\$11,000
Cr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable)	\$11,000
Dr 4801 Undelivered Orders-Obligation, Unpaid (Reimbursable)	\$11,000
Cr 4901 Delivered Orders-Obligation, Unpaid (Reimbursable)	\$11,000
Dr 1525 Inventory-Raw Materials	\$11,000
Cr 2110 Accounts Payable	\$11,000

C. Issue Supplies and Materials to Job Order. Entry to record issue of supplies and materials to a job order. Parts and materials issued to a specific job shall be recorded as a direct cost. Parts 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. A budgetary entry is not necessary for this transaction since supplies and materials were released from stock that was previously purchased and held for later use.

Dr 6100 Operating Expenses (Supplies and Materials-Direct)	\$8,000
Dr 6100 Operating Expenses (Supplies and Materials-Indirect)	\$3,000
Cr 1525 Inventory-Raw Materials	\$11,000

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

Dr 1526 Inventory-Work In Process (In-House)	\$50,000
Cr 6610 Cost Capitalization Offset (Personnel Compensation-Direct)	\$ 35,000
Cr 6610 Cost Capitalization Offset (Personnel Benefits-Direct)	\$ 7,000
Cr 6610 Cost Capitalization Offset (Supplies and Materials-Direct)	\$ 8,000

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. (The allocation basis should be one that is a reasonable representation of the expense distribution that would have occurred had all actual indirect costs been known at that time. In this example, and purely for illustration purposes, indirect labor cost is allocated on the basis of 30 percent of direct labor costs {30% x \$35,000 = \$10,500}. Indirect supplies and materials cost are allocated on the basis of 22 percent of direct supplies and materials {22% x \$8,000 = \$1760}.)

Dr 1526 Inventory-Work In Process (In-House)	\$12,260
Cr 6600 Applied Overhead	\$12,260

110304. Revenue Recognition - Percentage of Completion

A. In the illustration in paragraph B below, the total estimated cost to complete the customer order is \$100,000 and the total work in process cost incurred to date is \$62,260 (\$50,000 direct cost plus \$12,260 applied overhead). The amount of revenue to be recognized is the ratio of total work in process cost incurred to date (\$62,260) to total estimated cost (\$100,000). That ratio, in this case, is 62.26 percent. The amount of revenue recognized must never be more than the amount authorized on the customer order. For example, in this illustration, the total of revenue recognized shall not exceed \$100,000 regardless of the costs

incurred. Similarly, if the customer order is a fixed price (vice a fixed rate) order, the final revenue billing shall be for the increment between the revenue recognized to date and the fixed price amount regardless of the costs incurred in performance of that fixed price order.

Payment B. Revenue Recognition for Customer Orders Accepted Without Advance

Dr 4251 Reimbursements Earned-Receivable	\$62,260	
Cr 4221 Unfilled Customer Order-Without Advance		\$62,260
Dr 6500 Cost of Goods Sold	\$62,260	
Cr 1526 Inventory-Work In Process		\$62,260
Dr 1310 Accounts Receivable	\$62,260	
Cr 5200 Revenue From Services Provided		\$62,260

This entry recognizes revenue upon partial completion of work on customer orders accepted without advance payment.

Payment C. Revenue Recognition for Customer Orders Accepted With Advance

Dr 4252 Reimbursements Earned-Collected	\$62,260	
Cr 4222 Unfilled Customer Order-With Advance		\$62,260
Dr 6500 Cost of Goods Sold	\$62,260	
Cr 1526 Inventory-Work In Process		\$62,260
Dr 2310, Advances (Unearned Revenue)	\$62,260	
Cr 5200 Revenue From Services Provided		\$62,260

This entry recognizes revenue upon partial completion of work on customer orders accepted with advance payment.

110305. Collection for Work on Customer Orders

Dr 4252 Reimbursements Earned-Collected	\$62,260	
Cr 4251 Reimbursements Earned-Receivable		\$62,260
Dr 1010 Funds Balance with Treasury (Funds Collected-Operating Program)	\$62,260	
Cr 1310 Accounts Receivable		\$62,260

This entry records collection of reimbursement for work on customer order without an advance.

110306. Payment of Expenses Incurred. Entry to record payment of civilian payroll (paragraph 110303.A., above) and payables (paragraph 110303.B., above).

Dr 4901 Expended Authority-Unpaid (Reimbursable)	\$65,000
Cr 4902 Expended Authority-Paid (Reimbursable)	\$65,000
Dr 2210 Accrued Funded Payroll and Leave	\$45,000
Dr 2213 Employer Contributions and Payroll Taxes Payable	\$ 9,000
Dr 2110 Accounts Payable	\$11,000
Cr 1010 Funds Balance with Treasury (Funds Disbursed-Operating Program)	\$65,000

110307. Loss on the Completion of Customer Order

A. A loss occurs when the recorded costs exceed the funded amount of the customer order. 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.

B. The following entry transfers, upon completion of a customer order, the recorded costs in work in process that exceeds the funded amount of the customer order. The loss (gain) on the completion of the customer order will be recognized when the cost of goods sold is closed to the cumulative results of operations.

Dr 6500 Cost of Goods Sold
Cr 1526 Inventory-Work In Process

★1104 PRIOR PERIOD ADJUSTMENTS

110401. General

A. Prior period adjustments are adjustments in the current fiscal year for events that occurred in a prior fiscal year. Prior period adjustments should be limited to corrections of errors and accounting changes with retroactive effect, including those occasioned by the adoption of new federal financial accounting standards. Prior period adjustments should be recognized as a change in cumulative results of operations (rather than as an element of net results of operations for the period). If an expense, revenue, gain or loss was omitted or erroneously posted, then Account 7400, "Prior Period Adjustment" will be used. If the transaction had no effect on net income, then the correction should be posted directly to assets or liabilities. When material errors are discovered in prior period financial statements, all statements presented must be restated to correct the error. Additional information relating to reporting prior period adjustments in audited financial statements may be found in Volume 6B, "Form and Content of DoD Audited Financial Statements" of this Regulation.

B. Additional information relating to prior period adjustments may be found in Volume 4, Chapter 17, “Expenses and Miscellaneous Items” of this Regulation.

110402. Events for which Prior Period Adjustments are Applicable. Prior period adjustments are applicable only to:

A. Events that, in a prior fiscal year, were recorded in error to a revenue, gain, expense, or loss account.

B. Events that, in a prior fiscal year, should have been recorded to a revenue, gain, expense, or loss account but were not.

110403. Accounting for Prior Period Adjustments. Research is often necessary to determine the prior period accounting that was done so that its effect can be corrected by the prior period adjusting entry. Usually, the effect cannot be corrected by a reversal of the erroneous prior period entry because affected revenue, gain, expense, or loss account for the prior period has been closed.

110404. Example of a Prior Period Adjusting Entry. Assume that in fiscal year 2000, an advance payment of \$50,000 is received for reimbursable work that is to be done at a later date. The accounting entry that should be recorded is:

Dr 1010 Funds Balance weith Treasury (Funds Collected-Operating Program)	\$50,000
Cr 2310 Advances from Others (Unearned Revenue)	\$50,000

However, in error, the following accounting entry was made:

Dr 1010 Funds Balance with Treasury (Funds Collected-Operating Program)	\$50,000
Cr 5100 Revenue From Goods Sold	\$50,000

At the end of fiscal year 2000, revenue was closed to cumulative results of operations as follows:

Dr 5100 Revenue From Goods Sold	\$50,000
Cr 3310 Cumulative Results of Operations (Normal)	\$50,000

In fiscal year (FY) 2001, the error made in FY 2000 is discovered. Upon investigation, it is found that \$30,000 of the advance payment has been earned in the current FY 2001. Thus, a prior period adjusting entry is needed to recognize the \$20,000 portion of the advance payment that remains unearned and the \$30,000 portion of the advance that is earned. The entry to accomplish that adjustment is as follows:

Dr 7400 Prior Period Adjustments	\$50,000
Cr 2310 Advances From Others (Unearned Revenue)	\$20,000
Cr 5100 Revenue From Goods Sold	\$30,000

Account 7400, "Prior Period Adjustments," and Account 5100, "Revenue from Goods Sold," are closed to Account 3310, "Cumulative Results of Operations (Normal)" As a result, upon closing, Account 3310 will show a correct \$30,000 net value as a result of the above events as illustrated below:

FY 2000 Closing Balance	\$50,000
FY 2001 Adjustments	
Close Prior Period Adjustments	(\$50,000)
Close Revenue from Goods Sold	<u>\$30,000</u>
FY 2001 Closing Balance	\$30,000

Additionally, as a result of the prior period adjusting entry, the remaining \$20,000 unearned revenue amount is correctly recorded and remains available for the recognition of revenue from subsequent work completion.