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DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

VOLUME 4: "ACCOUNTING POLICY"

UNDER SECRETARY OF DEFENSE (COMPTROLLER)

VOLUME 4, CHAPTER 1: "FINANCIAL CONTROL OF ASSETS"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 September 2008 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
	Added Table of Contents.	Add
Multiple	Revised for clarity and readability. Added hyperlinks.	Update
010202	Updated definition of an asset.	Update
010301	Updated definition of Fund Balance with Treasury.	Update
010501.B	Updated to reflect current policy on method for valuing inventory.	Update
010602	Updated definition of prepayments.	Update
010701	Added statement on property accountability for consistency with DoDI 5000.64.	Add

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CHAPTER 1

FINANCIAL CONTROL OF ASSETS

0101 GENERAL

010101. Purpose

This chapter sets forth overall standards to be followed in accounting for assets. One of the objectives of Department of Defense (DoD) accounting is establishing financial control, from time of acquisition to time of disposal, over all assets provided to, or acquired by, the DoD. Such control ensures proper and authorized use as well as adequate care and preservation, since no asset can be acquired, put into use, transferred, written down, written off, or disposed of, without the proper authorization necessary to document and record the transaction. All tangible assets provided to the DoD shall be accounted for, including assets in transit and assets in the hands of contractors, private parties, and other government agencies.

010102. Overview

A DoD asset is any item of economic value owned by a DoD Component or held in a fiduciary capacity under the control of a DoD Component. The item may be physical in nature (tangible) or a DoD Component may have a right to control the item (intangible).

*010103. Entity vs. Nonentity Assets

Entity cash and assets should be reported separately from nonentity cash and assets.

A. Entity assets are assets that the reporting DoD Component has authority to use in its operations, that is to say the DoD Component has the authority to decide how the asset is used, or is legally obligated to use the asset to meet statutory obligations.

B. Nonentity assets are assets held by a DoD Component but not available for the Component to use in its operations. In some circumstances, a DoD Component may maintain cash or other nonentity assets in a fiduciary capacity for the U.S. Treasury, other government agencies or nonfederal entities.

*010104. Intragovernmental vs. Public Transactions

A. Intragovernmental assets arise from transactions among federal agencies and represent claims of a Military Department or Defense Agency against other DoD Components and other Federal Agencies.

B. Public assets arise from transactions between DoD Components and nonfederal entities, which include domestic and foreign persons and organizations outside the U.S. Government.

010105. Accounting Events

The accounting events discussed in chapters 2 through 7 of this volume frequently will require compound accounting entries; that is, accounting entries must be made simultaneously in both the proprietary accounts and the budgetary accounts. Additional information on budgetary accounts, not covered in this chapter, is included in Volume 3.

0102 ACCOUNTING STANDARDS

010201. Accounting Standards Overview

The specific accounting standards for each category of assets are discussed in the sections that concern those assets. The following general standards apply to all assets.

*010202. Definition of Asset

An asset is a resource that embodies economic benefits or services that DoD controls. An asset has two essential characteristics:

A. it embodies economic benefits or services that can be used in the future; and

B. the DoD controls access to the economic benefits or services and, therefore, can obtain them or deny or regulate the access of other entities.

010203. Noncash Assets

Noncash assets shall be valued promptly, once acquired by or taken into possession by the DoD, and subjected to financial accounting control.

0103 FUND BALANCE WITH TREASURY AND CASH

*010301. Fund Balance with Treasury (FBWT) Policy

Fund Balance with Treasury (FBWT) is an asset account that reflects the available funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Collections and disbursements by the Department increase or decrease the balance of the account. Treasury requires all federal agencies to reconcile their FBWT accounts on a regular and recurring basis to assure the integrity and accuracy of their internal and Governmentwide financial data. Unresolved differences compromise the reliability of FBWT balances and Treasury's published financial reports. This, in turn, compromises the overall integrity and status of the Department's and Governmentwide financial position. More detailed information on accounting for cash and FBWT can be found in Chapter 2.

*010302. Cash Held Outside of Treasury

In limited circumstances, in addition to "Fund Balance With Treasury," DoD reporting entities may be authorized to hold cash outside of Treasury to provide check cashing services in accordance with Volume 5. Cash includes all monetary resources on hand or on deposit with banks and other financial institutions, including coins, currency, and readily negotiable instruments (such as checks and money orders).

010303. Restricted Cash

Restrictions are usually imposed on cash deposits by law, regulation, or agreement. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons and nature of restrictions.

010304. Accounting Standards for Cash

The following standards apply to accounting for cash.

A. Cash accounting shall:

1. Be complete, accurate and timely.

2. Cover cash receipts, cash disbursements, and cash balances.

3. Comply with applicable laws and regulations.

4. Disclose errors, losses, and gains.

B. Cash receipts shall be recorded immediately upon collection, kept under control, and deposited intact as soon as practicable. Cash collections shall not be held by the disbursing officer to cover cash disbursements.

*C. Disbursements shall be made only after receiving an approved voucher package containing evidence of performance, a valid purchase order, and a valid invoice or an authorized advance payment. Disbursements and collections shall be recorded promptly in the applicable DoD accounting system and reported in the Statement of Transactions.

D. Cash receipts and disbursements are to be reconciled with appropriate documents and accounting records, as applicable within each accounting period.

E. Foreign currencies shall be accounted for in subsidiary accounts separate from U.S. currency. Foreign currencies shall be reported at the U.S. dollar equivalent using the exchange rates prescribed by the Secretary of the Treasury. The fact that a foreign currency is not freely exchangeable shall be footnoted on reports. Accounting entities may prepare financial

statements for their own use, which may or may not be in U.S. dollars. These lower level statements shall be translated into U.S. dollars when used to prepare departmental financial statements.

F. Guidance relating to cash management procedures prescribed by the Treasury Department is in Chapter 2.

0104 RECEIVABLES

010401. Receivables Overview

Amounts due the DoD shall be recorded accurately in the appropriate receivable account in the accounting period during which the transaction or event giving rise to the receivable occurs. Receivables arise from claims to cash or other assets and include accounts receivable, interest receivable, and loans receivable.

010402. Recognition of Receivable

Statement of Federal Financial Accounting Standards No. 1 requires that a receivable be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., taxes not received by the due date), or goods or services provided. If the exact amount is unknown, then a reasonable estimate should be made.

010403. Guidance relating to receivables is contained in Chapter 3.

0105 INVENTORY AND RELATED PROPERTY

010501. Definition of Inventory and Related Property

Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. Inventory includes items for sale or transfer to (1) entities outside the federal government, or (2) other federal entities.

A. Inventory shall be recognized as an asset when title passes to the purchasing entity or when the goods are delivered to the purchasing entity. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

*B. Inventory shall be valued at historical cost, using the moving average cost assumption unless an exception is specifically authorized.

010502. Guidance relating to inventories is contained in Chapter 4.

010503. Operating Materials and Supplies and Stockpile Materials

Related property for purposes of this volume includes operating materials and supplies and stockpile materials. Guidance on such related properties is also contained in Chapter 4.

0106 ADVANCES AND PREPAYMENTS

010601. Advances

Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Common examples are travel advances which are made in contemplation of future travel expenses or advances to contractors which are made in contemplation of future receipt of inventory or fixed assets. Advances are reduced when related goods or services are received, contract terms are met, or progress is made under a contract, or prepaid expenses expire.

*010602. Prepayments

Prepayments are payments made by a federal entity to cover certain periodic expenses before those expenses are incurred. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period and contract financing payments made to contractors prior to acceptance of supplies or services by the Government. Prepayments are reduced when goods or services are received or contract terms are met.

010603. Advances and prepayments are assets of the paying entity.

010604. Reporting Intragovernmental Transactions

Advances and prepayments made from one federal entity to another federal entity are intragovernmental transactions and should be accounted for and reported separately from those made to nonfederal entities.

010605. Guidance relating to advances and prepayments is contained in Chapter 5.

0107 PROPERTY, PLANT AND EQUIPMENT

*010701. Definition of Property, Plant and Equipment (PP&E)

Property, plant and equipment (PP&E) is composed of General PP&E and Stewardship PP&E. Accounting for property, plant and equipment in which the government has an ownership interest is important because public funds are invested. Property is accounted for in accounting systems and controlled in the accountable property systems of record. The DoD has an obligation to safeguard its property from theft, abuse, waste, and unauthorized use and otherwise manage the property efficiently and effectively. Consistent with the ***DoD Instruction 5000.64***, DoD is accountable for all property acquired, leased, or otherwise obtained throughout an asset's

lifecycle: from initial acquisition and receipt; through accountability and custody; until formally relieved of accountability by authorized means, including disposition; or through a completed evaluation and investigation for lost, damaged, destroyed, or stolen property.

010702. Recording General PP&E Assets

All General PP&E assets are to be recorded in accounting records at cost. Such costs shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use in operations. The cost of Stewardship PP&E (except for Multi-Use Heritage Assets) shall be expensed in the accounting period in which incurred. The acquisition cost and related expenses for property shall be recorded as specified in Chapter 6.

010703. Guidance relating to PP&E is contained in Chapter 6.

0108 OTHER ASSETS

010801. Other Assets Classified

Other assets include investments, and other miscellaneous assets not otherwise classified, that cannot be classified in a specific category identified in sections 0101 through 0107.

010802. Financial Control

Guidance related to these assets is included in Chapter 7. The basic purpose is to ensure financial control over these assets and the recording of expenses or dispositions in the appropriate accounting periods.

VOLUME 4, CHAPTER 2: "ACCOUNTING FOR CASH AND FUND BALANCES WITH TREASURY"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

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The previous version dated December 2009 is archived.

PARAGRAPH	EXPLANATION OF HANGE/REVISION	PURPOSE
020102.B.4	Incorporated a definition from the Memorandum, "Clarification of Fund Balance with Treasury (FBWT) Reconciliation Requirements," June 9, 2009.	Update
020102.B.5	Incorporated a definition from the Memorandum, "Clarification of Fund Balance with Treasury (FBWT) Reconciliation Requirements," June 9, 2009.	Update
020102.B.7	Incorporated a definition from the Memorandum, "Clarification of Fund Balance with Treasury (FBWT) Reconciliation Requirements," June 9, 2009.	Update
020102.B.10	Incorporated a definition from the Memorandum, "Clarification of Fund Balance with Treasury (FBWT) Reconciliation Requirements," June 9, 2009.	Update
0207	Incorporated the procedures from the Memorandum, "Clarification of Fund Balance with Treasury (FBWT) Reconciliation Requirements," June 9, 2009.	Update
020701	Added additional information about the benefits of reconciling accounts.	Add
Multiple	Minor editorial corrections/clarifications.	Update

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CHAPTER 2

ACCOUNTING FOR CASH AND FUND BALANCES WITH TREASURY

0201 OVERVIEW

020101. Scope

This chapter prescribes Department of Defense (DoD) accounting policy and related management requirements necessary to establish financial control over fund balances with the U.S. Treasury and cash resources not part of the fund balance with the U.S. Treasury. The applicable general ledger accounts are listed in the United States Standard General Ledger (USSGL) contained in Volume 1, Chapter 7, and the accounting entries for these accounts are specified in the ***United States Standard General Ledger Standard Financial Information Structure (SFIS) Transaction Library***. Unless otherwise stated, this chapter is applicable to all DoD Components including the Defense Working Capital Fund (DWCF) activities.

020102. General

A. Fund Balance with Treasury (FBWT) is an intra-governmental item, except for fiduciary or other non-federal nonentity FBWT. From the reporting entity's perspective, FBWT is an asset because it represents the entity's claim to the federal government's resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries. (See the Statement of Federal Financial Accounting Standard Number 1, "Accounting for Selected Assets and Liabilities.") ***SFFAS No. 1, par. 31***

B. Definitions

1. Fund Balance with Treasury. FBWT is an asset account that reflects the available budget spending authority of federal agencies. FBWT is defined at I TFM 5120 as an asset account that represents the future economic benefits of monies that agencies can spend for future authorized transactions. Transactions such as appropriation warrants, nonexpenditure transfers, collections, disbursements, and related adjustments reported to Treasury and classified to a Treasury account symbol increase or decrease the FBWT account balance. Collections and disbursements by agencies will, correspondingly, increase or decrease the balance in the account. Agencies report changes to this account to the Financial Management Service (FMS), Department of Treasury through monthly reporting on Statements of Transactions (SF 224, SF 1220, or SF 1221), Statements of Accountability (SF 1218) and Statement of Accountability (SF 1219). ***Treasury FMS Definition***

2. Cash. Cash, including imprest cash, consists of: (a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (b) amounts on demand deposit with banks or other financial

institutions; and (c) foreign currencies, which, for accounting purposes, should be translated into U.S. dollars at the exchange rate on the financial statement date. ***SFFAS No. 1, par. 27***

3. Entity Cash. Entity cash is the amount of cash that the reporting entity holds and is authorized by law to spend. ***SFFAS No. 1, par. 28***

* 4. FBWT Reconciliation. A FBWT reconciliation is a specific reconciliation of the actual accounting events, such as disbursements, back to the detailed amounts posted to both entity general ledgers and entity Treasury accounts. Reconciliation involves identifying accounting events or transactions that have not yet been recorded, or were improperly recorded, either in the general ledger or at Treasury. The unrecorded or improperly recorded transactions, usually referred to as "reconciling items," are expected when reconciliation is performed due to timing differences and occasional errors.

* 5. Forced Balance Entry. A "forced balance entry" represents any amount posted, usually at a summary level, to eliminate differences between the Component's general ledger balance (USSGL 1010 and 1090) and the Treasury's control total. Typically, these adjustments appear as "undistributed" amounts; when, in fact, they are differences. While Components may be required by the Treasury to match the Treasury's balance, a forced balance entry is not an adequate reconciliation of the USSGL 1010 and 1090. When reconciling FBWT USSGL 1010 or 1090, Components must research the causes of the differences, identify undistributed amounts, and ultimately, clear the aged undistributed amounts.

6. Non-entity Cash. Non-entity cash is cash that a federal entity collects and holds on behalf of the U.S. Government or other entities. In some circumstances, the entity deposits cash in its accounts in a custodial capacity for the U.S. Treasury or other federal entities, or in a fiduciary capacity for non-federal parties. Non-entity cash recognized on the balance sheet should be reported separately from entity cash. Non-entity cash meeting the definition of a fiduciary asset should not be recognized on the balance sheet, but should be disclosed in accordance with the provisions of SFFAS 31, *Accounting for Fiduciary Activities.* ***SFFAS No. 1, par. 29***

* 7. Reconciliation. Reconciliation is a process that compares two sets of records (usually the balances of two accounts) and identifies, and explains the differences between the records or account balances. Differences, or reconciling items, may be caused by the timing of transactions, an invalid line of accounting or insufficient detail. Reconciliation is not complete until all differences are identified, accountability is assigned, differences are explained, and appropriate adjustments are made to records.

8. Restricted Cash. Cash may be restricted. Restrictions are usually imposed on cash deposits by law, regulation, or agreement. Non-entity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons and nature of restrictions. ***SFFAS No. 1, par. 30***

9. Transactions. Transactions are business **e**vents or happenings that change an entity's financial position or account balances. Generally, transactions are recorded in a journal and then posted to a ledger. Examples of transactions are obligating funds, buying supplies, recording accounts payable, paying accounts payable, buying equipment, purchasing contract services, and paying employees.

* 10. Undistributed Amounts. Undistributed amounts are amounts that are not yet reconciled and not yet researched to supporting documentation.

0202 STANDARD GENERAL LEDGER ACCOUNTS

020201. Record Transactions for FBWT or Foreign Currency Transactions

The following accounts must be used to record transactions for FBWT or foreign currency transactions.

A. Fund Balance with Treasury (Account 1010). FBWT is the aggregate amount of funds on deposit with Treasury, excluding seized cash deposited. (See USSGL account 1532, "Seized Cash Deposited.") ***USSGL Treasury Financial Manual*, section II**

1. Federal agencies derive fund balances from different sources. FBWT is increased by a debit general ledger entry. Transactions increasing FBWT typically involve: (1) apportionments from OMB of appropriations, re-appropriations, continuing resolutions, appropriation restorations, allocations and allotments, and (2) receipt of transfers and reimbursements from other agencies. An entity's fund balance with Treasury is also increased by amounts borrowed from Bureau of Public Debt (BPD), Federal Financing Bank, or other entities, and amounts collected and credited to appropriation or fund accounts that the entity is authorized to spend or use to offset its expenditures. ***SFFAS No. 1, 33***

2. FBWT is reduced by (1) disbursements made to pay liabilities or to purchase assets, goods, and services; (2) investments in U.S. securities (securities issued by BPD or other Federal Government agencies); (3) cancellation of expired appropriations; (4) transfers and reimbursements to other entities or to the General Fund of the Treasury; and (5) sequestration or rescission of appropriations. ***SFFAS No. 1, par. 36*** (See USSGL account 1532, "Seized Cash Deposited.") ***USSGL Treasury Financial Manual*, section II**

B. Fund Balance with Treasury Under a Continuing Resolution (Account 1090). The amount equal to the funding provided under a continuing resolution and apportioned in accordance with the Office of Management and Budget's automatic apportionment bulletin. The balance in this account will adjust to zero when Financial Management Service processes a warrant and must adjust to zero by year-end.

C. Undeposited Collections (1110). Collections on hand, not yet deposited within the same accounting period.

D. Imprest Funds (Account 1120). The authorized amount of cash held by a disbursing officer at personal risk.

E. Other Cash (Account 1190). Record cash holdings not otherwise classified.

F. Foreign Currency (Account 1200). The Foreign Currency account is used to record in U.S. dollar equivalents the purchase or exchange of foreign government currency and other transactions occurring through use of the foreign currency. Transactions must be recorded at the current exchange rate specified by the U.S. Treasury. ***Treasury Rates*** Foreign currency fluctuation gains or losses resulting from the settlement of foreign currency receivables or payables must be recorded when the settlement occurs. This account is to be used by all DoD Components when foreign currencies are involved. Sources of entries to the "Foreign Currency" account include reimbursement and disbursement vouchers, sales records, and documented foreign exchange gains and losses that have been reported to Treasury. ***Accounting for and Reporting Foreign Currency Transactions and Foreign Exchange***

G. Financing Sources Transferred in Without Reimbursement (5720). The amount determined to increase the financing source of a reporting entity that occurs because of an asset being transferred in. Record the amount of the asset at the book value of the transferring entity.

H. Financing Sources Transferred Out Without Reimbursement (5730). The amount determined to decrease the financing source of a reporting entity that occurs because of an asset being transferred out. Record the amount of the asset at the book value of the transferring entity.

0203 FUND BALANCE WITH TREASURY BALANCES

020301. FBWT Balances

A federal entity's FBWT includes clearing account balances and the dollar equivalent of foreign currency account balances, e.g., foreign burden sharing payments. Foreign currency account balances should be translated into U.S. dollars at exchange rates determined by the Treasury and effective at the financial reporting date. ***Treasury Rates*** A federal entity's FBWT also includes balances for direct loan and loan guarantee activities held in the credit reform program, financing, and liquidating accounts. ***SFFAS No. 1, par. 32***

020302. Authority to Borrow

Authority to borrow is a statutory authority that permits a federal agency to incur obligations and make payments for specific purposes out of borrowed funds. Authority to borrow adds funds to an agency's accounts with Treasury only after the agency actually uses the authority to borrow a specific amount of funds. Thus, authority to borrow is included in an entity's FBWT only to the extent that funds are actually borrowed under the authority. ***SFFAS No. 1, par. 35***

020303. Contract Authority

An entity's fund balance does not include contract authority or unused authority to borrow. Contract authority is a statutory authority under which contracts or other obligations may be entered into before receiving an appropriation for the payment of obligations. The later enacted appropriation provides resources to liquidate obligations. Thus, Contract authority merely permits a federal entity to incur certain obligations but does not, in itself, add funds to the agency's accounts with Treasury. ***SFFAS 1, par. 34*** The funds to liquidate any resulting liabilities will come from an appropriation or offsetting collections. ***SFFAS 7, par. 211***

0204 DEFENSE WORKING CAPITAL ACCOUNTS (DWCF)

020401. DWCF Accounts

The DWCF FBWT, account symbol 97X4930, is subdivided at the Treasury into five sub-numbered Treasury accounts. Each reporting entity of the five sub-numbered Treasury accounts report an FBWT amount on their balance sheet. An individual DWCF activity-group below the sub-numbered Treasury account level does not have an actual FBWT amount. For these activities, the FBWT amount reported on the agency's AR 1307, Statement of Operation is not an actual FBWT but rather a clearing account for recording collection and disbursement activity that reflects a net of collections and disbursements incurred during the year. The entities below the sub-numbered Treasury accounts level must transfer collections and disbursements to the appropriate sub-numbered Treasury accounts at year-end.

020402. DWCF Sub-Numbered Account

The Military Departments and the Defense Agencies DWCF sub-numbered account identifiers assigned by the Treasury are shown in Table 2-1. ***TFM Supplement to Volume I, Part II, p. A-24*** See Table 2-1.

A. One of the five sub-numbered accounts is the Defense-wide Treasury account (97X4930.005). The Defense-wide account includes a number of Defense Agencies operating under the DWCF. The Defense Agencies within the Defense-wide account provide and use funds from the centralized FBWT account that is managed under the Defense-wide Treasury account. The Defense Logistics Agency (DLA) has been designated as the manager for the Defense-wide Treasury sub-numbered account. An entity provides or uses funds depending on whether it needs to provide a collection or make a disbursement. If an entity's collections exceed its disbursements it is providing funds to the centralized pool for other entities' use. If an entity's disbursements exceed collections, the entity is using funds from the centralized pool to make disbursements.

B. Maintaining one Treasury sub-numbered account for the Defense Agencies allows the Department to meet its objective of maintaining a much smaller balance to support ongoing operations compared to the balance required if each Defense Agency operated under a unique Treasury sub-numbered account. The Department, in consultation with the Congress, agreed to minimize the amount of Treasury balances needed to operate the DWCF.

The DLA has not delegated management of the balance below the 97X4930.005 account level. Therefore, the "FBWT balance" below the Defense-wide Treasury account level should only consist of current year collections and disbursements. Also see Volume 2B, Chapter 9, paragraph 090103 of this regulation for additional information about cash management, which is referred to as FBWT management in this chapter.

C. For audited financial statements and the Report on Budget Execution and Budgetary Resources (SF 133), the transfer of current year disbursements and collections from the activity-group level to the appropriate DoD Component Treasury sub-numbered account must be completed as of September 30. FBWT amounts for the Defense-wide Treasury sub-numbered account must be included in the component column on the consolidating balance sheet. The individual activity-group must not report a balance on the balance sheet for FBWT. For the Accounting Report 1307, the transfer of current year disbursements and collections from the activity-group level to the appropriate DoD Component Treasury sub-numbered account must be completed as of October 1.

D. The transfers are reflected at the activity-group and sub-numbered account level in account 5720, Financing Sources Transferred In Without Reimbursement (sub-numbered account) and account 5730 Financing Sources Transferred Out Without Reimbursement (activity group).

020403. DWCF Transfers

Transfers among or within DWCF sub-numbered accounts other than the Defense-wide account. Managers for each Treasury sub-numbered account have been authorized to realign (delegate) balances to the activity-group or installation-level at their discretion. If the managers realign balances within their sub-numbered account, all such approved transfers from one DWCF subhead or limit to another--whether intra- or inter-subhead or limit--must be documented on a Nonexpenditure Transfer Authorization (SF 1151). An ***SF 1151*** prepared to transfer amounts from one DWCF subhead or limit to another subhead or limit must be prominently marked "Internal DoD Sub-numbered Account Transfer." Since all intra- or inter-subhead or limit transfers represent a zero balance transaction for Treasury reporting purposes, all SF 1151s used to document the intra- or inter-sub-numbered transfers must not be included in the monthly reports to the Treasury but must be retained as an audit trail to support these transfer actions. A transfer must not be made that is in excess of the balance available at the transferring DWCF activity or installation.

020404. Recordation/Reconciliation of FBWT Transactions

A. All FBWT transactions must be recorded in the individual activity accounts and must be reconciled to total monthly FBWT transactions reported by the departmental finance network. Reconciliations must be completed within 10 workdays following the end of the month being reconciled. Policy or procedural problems identified during reconciliation that require adjudication between components or between the DoD and the Department of Treasury must be brought to the attention of the Defense Finance and Accounting Service and then, if necessary, the Office of the Deputy Chief Financial Officer.

B. The reporting entity must reconcile the Department's FBWT general ledger account at the DWCF sub-numbered account level to Treasury.

020405. DWCF Treasury Cash Balance

The cash on hand at the Treasury account level must always be sufficient to pay liabilities when due. The responsibility for DWCF cash management is prescribed in Volume 2 B, Chapter 9, "Defense Working Capital Funds Activity Group Analysis" paragraph 090103 of this Regulation. A transaction that causes a negative balance in the funds with the Treasury account must be investigated immediately and reported as a possible violation of the Antideficiency Act as prescribed in Volume 14, "Administrative Control of Funds and Antideficiency Act Violations," Chapter 2, Table 2.1 of this Regulation.

020406. Outlays

Checks issued or other payments made by the government for goods and services received. Gross outlays should be equal to the cumulative amount of disbursements made for the fiscal year to date. Net outlays should be equal to gross outlays less the cumulative amount of collections received for the fiscal-year-to-date. See Volume 2B, Chapter 9.

020407. Current Balance of Funds With Treasury

The current balance of funds with Treasury is equal to the amount as of the beginning of the fiscal year plus the cumulative fiscal-year-to-date amounts of collections, appropriations, and transfers-in of fund balances with Treasury received minus the cumulative fiscal-year-to-date amounts of withdrawals, transfers-out, and disbursements.

020408. Fund Balance with Treasury Transactions

Record a collection or disbursement only when documentary evidence supports an increase or decrease to the Treasury account. For the DWCF activities cash collections and cash disbursements must be segregated between those for the DWCF operating program (i.e., noncapital outlays) and the DWCF capital program (i.e., acquisition of capital assets) to comply with Title 10, United States Code (USC) Section 2208 (m). ***10 USC 2208(m)*** Additionally, undistributed cash collections and undistributed cash disbursements should be recorded and reported at the lowest organizational level.

A. Advances Received. An advance received must be recorded as a collection and a liability.

B. Refunds. Refunds are the repayments of excess payments (outlays). The amounts are directly related to previous obligations incurred and outlays made. Refunds receivable are not a budgetary resource and are not available for obligations until collected. A refund collected in the same fiscal year as the obligation incurred, will be credited to the appropriation or fund account charged with the original obligation. Refunds of prior year obligations are not available for obligation until collected and reapportioned by the Office of

Management and Budget (OMB). A refund received is a reduction of a previous disbursement and must, therefore, be recorded as a decrease to disbursements (negative disbursement) with an offsetting credit to the previously recorded accounts receivable (refunds). If a refund is received for an accounts receivable that had not been previously established, the offsetting credit should be to the asset or expense account that was originally debited. See Volume 3, Chapter 15, paragraph 150204 for more information about refunds.

020409. Undistributed Collections and Undistributed Disbursements

Additional information relating to financial control over disbursements, collections and adjustment transactions affecting the fund balances with the Treasury can be found in Volume 3, Chapter 11. Undistributed collections and undistributed disbursements should be recorded and reported at the lowest organizational level.

A. Undistributed FBWT transactions should be identified to the sub-numbered Treasury account level, activity-group level, and installation-level.

1. Sub-numbered Treasury Account Level Adjustments. The DWCF Component-level undistributed collections and undistributed disbursements that are identifiable in the finance network databases to a DWCF sub-numbered account but do not contain sufficient information to identify them to a lower organizational (activity group/installation) level.

2. Activity Group Level Adjustments. These are DWCF activity group-level undistributed collections and undistributed disbursements that are identifiable to the activity-group level but do not contain sufficient information to identify them to an installation. Undistributed collections and undistributed disbursements are defined as the difference between the two or three position activity-group rollup in the finance network databases and the activity-group collections and disbursements reported through the accounting network.

3. Installation-Level Adjustments. These adjustments are DWCF installation-level undistributed (unmatched) collections and undistributed (unmatched) disbursements that are identifiable through the finance networks to the installation-level but have not yet been matched at the installation-level to specific obligation or receivable subsidiary ledgers.

B. Collections and Disbursements. Collections or disbursements should be identified by the finance network to the lowest level to which they can be identified. That level must record the undistributed collection or undistributed disbursement and provide documentation necessary to research the account for proper disposition.

C. Undistributed collections and undistributed disbursements are necessary to reflect properly the fund balances with the Treasury as contained in finance network reports. Such collections and disbursements recorded in Account 1010 must be researched for proper disposition by the lowest organizational level to which they can be identified. Erroneous collections should be corrected by making a payment to a vender. Erroneous disbursements should be corrected by establishing a refund or receivable pending a receipt of the return.

0205 CASH HELD OUTSIDE OF U.S. TREASURY

020501. Accounting for Cash Held by a Disbursing Officer (Account 1190), Other Cash

A. ***Treasury Financial Manual, 2-3400, "Accounting for and Reporting on Cash and Investments Held Outside of the Treasury"*** provides guidance on cash and investments held outside of the U.S. Treasury and the requirements for accountable officers who have responsibilities for funds, received, certified, disbursed, and held in their custody.

B. Account 1190 must be used to record the amount of U.S. Treasury cash held by disbursing officers at personal risk. The SF 1219, Statement of Accountability, is used to determine the accountability of disbursing officers for funds held outside of the Treasury (cash on hand). The balance in this account is not considered an asset of a DoD Component for external statement purposes because it represents U.S. Treasury cash advanced to disbursing officers under various authorities, to include: 10 U.S.C. 2206 (disbursements out of available advances for obligations chargeable to appropriations of other departments/agencies), ***31 U.S.C. 3324*** (advances), and ***31 C.F.R. 240.12(a)*** (drawing disbursing cash). Disbursing officer's cash is non-entity, restricted cash. A liability account for the total amount advanced by the U.S. Treasury must be maintained. ***Treasury Financial Manual, Volume 1, Part 2, Chapter 3100, "Instructions for Disbursing Officers' Reports"***

C. Sources of entries to the "Disbursing Officer's Cash" account include requests for cash, invoices for transferred funds, reimbursement vouchers, and disbursement records. D. The information reported on the SF 1219, Statement of Accountability must be posted consistent with Volume 6B, Chapter 4, "Balance Sheet" of this Regulation and in the quarterly guidance found on the DoD Internet website ***https://guidanceweb.ousdc.osd.mil/FRA.aspx*** Components must reconcile all transactions involving cash on a periodic basis, but no less frequently than quarterly, to ensure cash reported on the Statement of Accountability reconciles with the agency's accounting records and related financial statements.

020502. Accounting Entries for Imprest Funds (Account 1120)

This account is used to record the amount of cash advanced by disbursing officers and held by agency cashiers at personal risk. The balance in this account is not considered an asset of a DoD Component for external statement purposes, since it represents U.S. Treasury cash advanced by disbursing officers. Sources of entries to the "Imprest Funds" account include requests for cash, reimbursement and disbursement vouchers, and invoices for transferred funds.

020503. Undeposited Collections (Account 1110)

This account is used to record amounts for which a deposit confirmation has not been issued by the U.S. Treasury. Subaccounts must be maintained for each appropriation or fund. This account is to be used by all DoD Components. Sources of entries to the "Undeposited

Collections" account are collection records and certificates of deposit that have been reported to Treasury.

0206 CASH AUDITS AND REVIEWS

020601. Responsibility for Accounting and Internal Controls

Managers who supervise personnel holding cash are responsible for maintaining appropriate accounting and internal controls. This responsibility includes ensuring the legality, propriety, and correctness of disbursements and collections of public funds.

020602. Announced and Unannounced Audits

Audits, both announced and unannounced of each fund, must determine whether:

A. All funds are properly accounted for and reported.

B. The amount of funds not in excess of requirements.

C. Procedures are established and followed to protect the funds from loss or misuse. The frequency of such audits must be decided by management based on vulnerability assessments in ***DoD Instruction 5010.40, Managers' Internal Control (MIC) Program Procedures***.

020603. Requirements for Investigation

Any unauthorized use, irregularity, or improper accounting for a cash fund must be investigated and reported to the approving authority and to the disbursing officer involved. A report should state whether prescribed procedures were followed and recommend any actions considered necessary or desirable to prevent recurrence.

0207 FUND BALANCE WITH TREASURY RECONCILIATIONS

*020701. FBWT Reconciliation Overview

Reconciliation is a key control in maintaining the accuracy and reliability of the entity fund balance with treasury records. Effective reconciliations serve as a detection control for identifying unauthorized and unrecorded transactions at the entities and at Treasury. Effective reconciliations are also important in preventing entity disbursements from exceeding appropriated amounts and providing an accurate measurement of the status of available resources. Reconciliation also allows a Component to resolve differences in a timely manner. When resolving differences, Components should maintain detailed reconciliation worksheets that, if needed, can be reviewed by management or auditors. Any discrepancies between FBWT in the Component general ledger accounts and the balance in the Treasury's accounts must be explained. Differences caused by time lag should be reconciled and differences caused by error should be corrected.

*020702. FBWT Reconciliation of Available Appropriations

Reconciling FBWT is a reconciliation of available appropriations (spending authority). It is separate and distinct from a Disbursing Officer's cash reconciliation (cash and monetary assets and the Statement of Accountability), the focus of which is reconciling the account activity to the cash activity (checks issued, deposits, EFT, etc.).

*020703. Department of Treasury Reconciliation Requirements

The Department of Treasury (Treasury) requires reconciling FBWT accounts to the Treasury reported amounts by Department Regular, Period of Availability, and Main Account (that is, Treasury index, fiscal year, and basic symbol) at least monthly.[1] Reconciliation requires that a Component:

A. Research and resolve the underlying causes of differences reported by the Treasury on the Statement of Differences (FMS 6652) each month and make corrections to monthly Treasury reports and agency accounting records. ***Statement of Differences***

B. Reconcile its general ledger balances by Department Regular, Period of Availability, and Main Account with the balances reported by Treasury.

*020704. FBWT Reconciliation Requirements

Every Defense Component with FBWT accounts must perform detailed reconciliations of their FBWT accounts (United States Standard General Ledger (USSGL) 1010 and 1090). The reconciliations must be performed at least monthly to ensure the accuracy and reliability of entity fund balance records and the integrity of the financial statements. Reconciliations must be completed within 10 working days following the end of the month being reconciled.

A. In addition to the Treasury Main Account requirement, the DoD requires reconciliations below the Main Account by Organization Unique Identifier Code (OUID, that is, limit) of the Defense funds identified by the Treasury as Department 97. The OUIDs are unique account identifier codes that exist below the Treasury level of reporting; they are exclusive to DoD.

B. These exclusive codes are typically four digits, and are used to identify, manage, and report the financial activity of Defense Agencies, Field Activities, and other operational units reported by the Treasury as the combined activities of Department Regular 97.

[1] The Treasury Financial Manual (TFM) sets forth the Treasury requirements (Section 5155) for reconciling FBWT ***Treasury Part 2-Chapter 5100*** and ***Treasury Supplement***), and the Financial Audit Manual (FAM) jointly published by the Government Accountability Office and the President's Council on Integrity and Efficiency provides guidance as to the FBWT audit issues ***(FAM Substantive Procedures Section 921—Auditing Fund Balance with Treasury)***.

C. The OUIDs of the Department Regular 97 must be reconciled individually with the balances representing available spending authority as managed within DoD. For Treasury reporting purposes, the balances of the OUIDs of the Department Regular 97 must be added together and reconciled to the Treasury's control total at the Treasury Account Symbol level.

*020705. Reconciliation of FBWT for Comparison of Transactions

Reconciling FBWT includes a comparison of transactions at a level of detail sufficient for specific identification of differences to establish that the entity's FBWT general ledger accounts and the Treasury control totals are accurately stated. Detail sufficient for specific identification of differences includes voucher numbers for cash disbursements and collections, summary bill numbers for interfund transactions, and authorizing document numbers for non-expenditure transfers and funding events.

020706. Documentation Requirements - Auditors

Documentation must be available to provide an audit trail and support accomplished reconciliations and resulting adjustments. Such documentation should be available for auditors and management for proper oversight. Components must maintain detailed reconciliation worksheets that, if needed, can be reviewed by management or auditors.

020707. FBWT – GWA Account Statement Reconciliation

With the phased implementation of Government-wide Accounting (GWA), the Account Statement is the vehicle for all Federal agencies to reconcile their FBWT. Each DoD reporting entity must reconcile its accounts to the GWA account statements beginning balance, net activity, and ending balance. The Account Statement consists of three sections: (1) Account Summary, (2) Expenditure Activity, and (3) the Transactions reports. The Account Statement is designed for agency users that perform FBWT reconciliations based on the Treasury Account Symbol (TAS.) The Agency Location Code (ALC) Code Statement is designed for users who reconcile based on ALC. It also is comprised of three sections: (1) ALC Summary, (2) ALC Activity, and (3) ALC Transactions. The Support Listings provides links to other FMS Accounting Systems that support the monthly Statement of Difference reconciliation.

The Account Statement, the Statement of Differences, and various support listings are finalized after the agency month-end report processing is complete.[2] More information about the Account Statement can be found at the ***Financial Management Service, Government-wide Accounting System Account Statement User Manual.***

*020708. Requirement for Written Procedures

[2] Currently, this requirement does not apply to Defense Agencies and Field Activities that do not have their own Treasury Account Symbols. These organizations, comprising Department 97, must reconcile their FBWT balances individually to Organization Unique Identifier Codes (limits.)

Components must ensure that they have written standard operating procedures to direct and document the reconciliations. In the written procedures, Components must require the practice of segregating the journal entry for unsupported undistributed amounts from the journal entry for the undistributed amounts that can be supported. This practice is essential for efficient cash reconciliation management and for audit support and measurement. For example, if the total undistributed amount is 95 percent supported and 5 percent not supported, then use two journal voucher entries to segregate the amounts.

020709. Documentation Requirements

Documentation must be available to provide an audit trail and support accomplished reconciliations and resulting adjustments. Such documentation should be available for auditors and management for proper oversight.

020710. Expenditure and Receipt Accounts Annual Review

All expenditure and receipt accounts reported by the Treasury must be reviewed at least annually to determine if the accounts are valid. The Defense Finance and Accounting Service (DFAS) must work with Treasury to remove invalid and unused accounts from Treasury reports/systems on an annual, or as needed basis.

020711. FBWT Reconciliation Quarterly Scorecard

The Department of Treasury, Financial Management Service (FMS) provides a Quarterly Scorecard to all Chief Financial Officers of Federal Agencies.

A. This scorecard focuses on FBWT reconciliation from the disbursing operations perspective. This Quarterly Scorecard reflects agencies' performance in compliance with the following FMS financial reporting standards. Accuracy, Timeliness, and Checks Issued Comparison are the three reporting standards. The Treasury uses a traffic light grading system. For example, agencies score "green" if all standards are successfully met, "yellow" if some, but not all standards have been met, and "red" if none of the standards has been met based on the criteria outlined in the scorecard.

B. The Office of the Under Secretary of Defense (Comptroller), Accounting and Finance Policy Directorate requires each Disbursing Symbol Station Number to explain what caused the discrepancy, what is being done to correct the discrepancy, when the discrepancy will be corrected and what processes are in place to prevent future.

TABLE 2-1: DoD Component Treasury Assigned Account Number

DoD Component	Treasury Assigned Account No.
Army	97X4930.001
Navy	97X4930.002
Air Force	97X4930.003
Defense Commissary Agency	97X4930.004
Defense Agencies	97X4930.005

VOLUME 4, CHAPTER 3: "RECEIVABLES"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 September 2009 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
030302	Deleted requirement for prior approval by OUSD(C) Comptroller of exceptions to public receivable advance payment requirement.	Delete
	Modified wording from 'is' to 'should.'	Update
030205	Updated referral sub-paragraph numbers.	Update
030217	Delete wording regarding Foreign Military Sales from section.	Delete
030302.A	Updated wording for both legal and financial management clarity.	Update
030302.D., D.	Added words for clarity.	Add
030307	Deleted NAFI from entities exempt from interest accrual	Delete
030311, 030313	Added wording to enhance reader understanding of requirement.	Add
030314	Deleted wording that states FMS Trust Fund receivables are public.	Delete
030404.A.6.	Added word for clarity	Add
030405.C., D.	Update dollar thresholds for debt referral.	Update
030407.D.	Delete outdated legislative language on consolidating individual debts to equal $600 for 1099-C purposes.	Delete
030501	Section re-titled for clarity	Update
030505.A.	Updated wording to allow for intragovernmental charge disputes under $2500.	Update
Throughout	Updated hyperlinks.	Update

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CHAPTER 3

RECEIVABLES

0301 GENERAL

030101. Purpose

The purpose of this chapter is to issue policy for the recognition, recording, and reporting of public and federal (hereafter referred to as intragovernmental) accounts receivable. Additionally, this chapter addresses the recognition, recording, and, if not collected, eventual write-off and close-out of public receivables or the recording and adjusting/correcting of intragovernmental receivables. Annexes to this chapter address procedures for the interest, penalties, and administrative charges (Annex 1); and breakeven analysis (Annex 2).

030102. Standards

Receivables must be recognized when corresponding revenue is earned and collected when due. The ***Statement of Federal Financial Accounting Standards (SFFAS) 1, Accounting for Selected Assets and Liabilities,*** requires that receivables be recognized when a federal entity establishes a claim to cash or other assets against other entities either based on legal provisions, such as a legislative requirement, a payment due date, or goods or services provided. Further, ***SFFAS 1*** requires that receivables from intragovernmental receivables be reported separately from receivables from public entities. Intragovernmental and public receivables are treated differently because of the different legal and administrative requirements and concepts that apply to them.

0302 DEFINITIONS

030201. Accounts Receivable

Receivables arise from claims to cash or other assets against another entity. At the time revenue is recognized and payment has not been received in advance, a receivable must be established. Receivables include, but are not limited to, monies due for the sale of goods and services and monies due for indebtedness. Examples of indebtedness to the Department of Defense (DoD) include overdue travel advances, Federal Employee Health Benefits paid while employee is in a leave without pay status, dishonored checks, fines, penalties, interest, overpayments, fees, rent, claims, damages, and any other event resulting in a determination that a debt is owed to the DoD. An accounts receivable is categorized as either an entity or non-entity accounts receivable in accordance with following guidance:

A. Entity Accounts Receivable. As defined by the ***SFFAS 1***, entity accounts receivable are amounts that a federal entity claims for payment from other federal or non-federal entities and that the federal entity is authorized by law to include in its obligation authority or to offset its expenditures and liabilities upon collection.

B. Non-Entity Accounts Receivables. As defined by the ***SFFAS 1***, non-entity accounts receivable are amounts due to be collected by DoD on behalf of the U.S. Government or other entities, and the DoD is not authorized to use. Non-entity accounts receivable are reported separately from receivables available to the DoD (entity accounts receivables). Non-entity accounts receivable include governmental receipts and collections arising from the sovereign and regulatory powers unique to the federal government, (e.g., interest, penalties, income tax receipts, customs duties, court fines, and certain license fees). The DoD accounts receivable in canceled accounts are also non-entity receivables, because collections received after an appropriation cancels are deposited in the Department of the Treasury Account 3200, "Collections of Receivables from Canceled Accounts." Non-entity receivables are recorded as a receivable and a custodial liability.

030202. Accounts Receivable Office (ARO)

The ARO (as used in this chapter) is the office responsible for the recording and reporting of receivables and can also be the office responsible for debt collection. In most, but not all cases, the ARO is located at a Defense Finance and Accounting Service (DFAS) site.

030203. Current (Non-Delinquent) Receivables

Non-delinquent debts are categorized as current and non-current assets. The portion of a non-delinquent debt that is scheduled to be collected in the next 12 months is recorded as current; the portion of a non-delinquent debt scheduled for collection after 12 months is recorded as non-current. The importance is to inform the DoD and the Department of the Treasury of the expected cash flow/liquidity of the asset (i.e., current versus non-current assets).

030204. Allowance for Loss on Accounts Receivable

This amount is the estimated amount of public accounts receivables that will not be collected.

*030205. Close-Out (applies to public debt only)

Close-out is one of two accounting classifications for writing-off debt that indicate whether or not an agency will continue debt collection efforts after write-off. The ARO, in conjunction with the DoD Component fund holder, closes out a debt when it is determined that further debt collection actions are prohibited (e.g., a debtor is released from liability in bankruptcy) or there are no plans to take any future active or passive actions to try to collect the debt. Close out may occur concurrently with the write-off of an account receivable or at a later date, depending on the collection strategy and the ultimate determination that the debt has been discharged. At close out, DoD may be required to report to the Internal Revenue Service (IRS) the amount of the debt as potential income to the debtor on IRS Form 1099C. Within DoD, the Debt and Claims Management Office (DCMO), the Debt Management Office (DMO), and the Tax Office (TO) are responsible for issuing the IRS Forms 1099C. Definitions for these offices are in paragraphs 030208, 030209, and 030220.

030206. Currently Not Collectible (CNC)

CNC is one of two accounting classifications for writing-off debt that indicate whether or not an agency will continue debt collection efforts after write-off. CNC is a category of debt that has been written off on the DoD Component's financial statements, but cost effective debt collection efforts will continue to be taken by the cognizant DCMO, DCO, or DMO.

030207. Debt and Claims Management Office (DCMO)

The DCMO is the DFAS Office that services referred individual out-of-service debt.

030208. Debt Collection Office (DCO)

The DCO is the office responsible for initial debt collection actions and serving due process. The DCO refers to a general category of offices and includes, but is not limited to, the ARO, military and civilian payroll offices, and other organizational elements within the DoD Components that perform debt management/collection actions (e.g., personnel offices).

030209. Debt Management Office (DMO)

The DMO is the DFAS office that refers vendor/contractor debt to Treasury for debts that are in litigation, bankruptcy, deferment, and/or have installment plans established.

030210. Delinquent Receivables

Delinquent accounts receivable are receivables that have not been paid by the date specified in the initial written demand for payment (i.e., invoice, demand letter, or other applicable agreement or instrument (including a post-delinquency repayment agreement)) unless other satisfactory payment arrangements have been made. Delinquency starts one day after the payment due date or other agreed upon date, depending on the agreement or instrument. If an installment agreement is provided and the payment is not made by the due date, then the entire balance of the receivable becomes delinquent from the original payment due date or other agreed upon date. If the payment is not made according to the agreed upon installment, then the full amount of the account and related interest and penalties, if any, are reported as delinquent. Delinquent debts are aged from the date of delinquency. A debt becomes delinquent when:

A. Payment has not been made by the payment due date, or by the end of the "grace period" as established in a loan or repayment agreement, as in the case of a debt being paid in installments. Date of delinquency is the payment due date.

B. Payment is not made by the due date specified in the initial billing notice, in the case of administrative debts such as fines, fees, penalties, and overpayments. The due date is usually 30 days after the notice is mailed. The date of delinquency is the date the billing notice of invoice is mailed or delivered.

030211. DoD Component

Refers to the Offices of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Office of Inspector General of the Department of Defense, the Defense Agencies, the DoD Field Activities, and all other organizational entities in DoD.

030212. Due Process

Due process is the notice of indebtedness or opportunity provided the debtor to dispute the indebtedness. The Fifth Amendment of the United States Constitution provides that no person shall "be deprived of life, liberty or property without due process of law..." The minimum "due process" required is generally established by the statutes that authorize the use of a specified debt collection tool or by implementing regulations. In the context of Federal debt collection, the constitutional right of "due 'process" requires the debtor be provided with notice of, and the opportunity to dispute, a debt or intended debt collection action.

A. Notice of indebtedness must include the amount and type of debt owed, and the actions to be taken by the DoD Component to collect the debt, such as adding interest and late charges, offset or garnishment, foreclosure of collateral property, and credit bureau reporting.

B. Opportunity to dispute the debt or the adverse collection action to be taken includes, at a minimum, an opportunity for the debtor to challenge (1) the existence of all or part of the debt, and/or (2) whether the statutory or regulatory prerequisites have been met for using the collection action mentioned in the notice.

030213. Foreign Government Debt Management Office (FGDMO)

The FDGMO is the DFAS office that services referred non-Foreign Military Sales foreign government debt.

030214. Intragovernmental Receivables

Intragovernmental receivables are claims of a federal entity against other federal entities. Intragovernmental receivables are either within DoD (e.g., a Service (Army)) or outside DoD (e.g., General Services Administration).

030215. Non-Current Non-Delinquent Receivables

Non-current non-delinquent receivables are non-delinquent accounts receivables that will not become due within 12 months after the receivable is established.

030216. Non-Delinquent Receivables

Non-delinquent receivables are accounts receivable that have not been billed or are not due under the contract or billing document pertaining to the receivable. This also includes rescheduled receivables and receivables under an installment agreement.

*030217. Public/Non-Federal Receivables

Public/non-Federal receivables are claims of a Federal entity (e.g., DoD) against non-Federal entities. The term "public/non-Federal entities" encompasses domestic and foreign persons and organizations outside the U.S. Government, including Non-appropriated Fund Instrumentalities (NAFIs) for purposes of processing receivables under this chapter. Examples are: salary/travel overpayments; overpayments to contractors/vendors due to duplicate and erroneous billings; incorrectly computed invoices; non-FMS foreign government fuel purchases; contract default; amounts due for items rejected or returned; and amounts due on payments for contractual services such as rent, insurance, and transportation purchased, where such contracts are canceled and adjustments are made for the unused portion.

030218. Reimbursements

Reimbursements are amounts earned and collected for materials sold or services furnished as a result of a reimbursable agreement.

030219. Rescheduled Receivables

Rescheduled receivables are receivables that have been subject to rescheduling, forbearance, re-amortization, or any other form of extending the future of the original payment(s) or payment due dates.

030220. Tax Office

The Tax Office is the office that prepares the IRS Form 1099C for reporting to IRS closed-out, uncollected, public vendor, contractor, and individual debt.

030221. Trading Partners

Trading Partners collectively refers to the requesting agency (buyer) and the providing agency (seller) involved in intragovernmental transactions.

030222. Treasury Report on Receivables (TROR)

The TROR is a quarterly report of public receivables prepared in compliance with the Department of the Treasury guidance. It provides a means for collecting data on the status and condition of the total receivable portfolio from public sources. See section 0306 for additional information.

030223. Write-off of Receivables

Write-off is an accounting action that results in removing a non-Federal (public) receivable from the DoD Component's financial accounting records/financial statements. In accordance with ***OMB Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables."***, when a receivable is written-off, it must be classified as CNC or closed out. Receivables that are classified as CNC must be maintained in an inactive administrative file and reported on the TROR until the receivable is closed out. See paragraph 030407 for additional guidance on write-off of receivables.

0303 RECEIVABLES POLICY AND PROCEDURES

030301. General

A. A receivable must be established when payment is not received in advance or at the time revenue is recognized. Receivables must be recorded when earned from the sale of goods and services or when an event results in the determination that a debt is owed to DoD. Accounting records for receivables must be maintained so that all transactions affecting the receivables are included in the reporting period of occurrence. There must be immediate recording of events not previously recorded due to error or oversight; due dates for such items must be established in the first notification to the debtor. If the exact amount of a receivable is unknown, a reasonable estimate must be made.

B. DoD Components may recognize accounts receivable and unfilled orders without an advance as a valid budgetary resources when such receivables or unfilled orders are from Federal entities. Absent statutory authority, components may not recognize accounts receivable and unfilled orders without an advance as valid budgetary resources when such receivables or unfilled orders are from Public/non-Federal entities.

*030302. Advance Payments

A. In general, an advance payment is required for orders from the public, including state and local governments, except for fuel, as the sale of petroleum products to the public is covered by fuel purchasing agreements. The order must be accompanied by an advance equivalent to the actual or estimated cost of goods and services, except for: cross-servicing agreements with foreign governments (see also Volume 11A, Chapter 8, "International Acquisition and Cross-Servicing Agreements,") as described in 030302.C, emergency medical care at military treatment facilities, natural disasters (***DoDD 3025.16, "Military Support to Civil Authorities"***), immediate wartime requirements (***10 U.S.C. Section 2201,)*** and in certain instances, NAFIs**.** If amounts are sufficient, Military Departments may use their own appropriated fund budgetary resources to perform a reimbursable order for a NAFI without an advance. However, they may not recognize budgetary resources for the order until the account receivable is paid. An advance payment from foreign governments for Foreign Military Sales (FMS) is held and recorded in the FMS Trust Fund or investment accounts that can be drawn on to meet the foreign government's FMS obligations.

B. Defense Components may not recognize orders from Non-federal/Public entities as a budgetary resource unless statutory authority permits recognition.

C. The Department has statutory authority to record a budgetary resource for non-Federal orders without an advance for work performed under the provisions of Title 22, United States Code, Section 2767 (***22 U.S.C. 2767)***, "Authority of President to enter into cooperative projects with friendly foreign countries." Components must request approval from the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) in advance of accepting the order(s) and recording the budgetary resource. The OUSD(C) will coordinate with OMB to ensure the resulting budgetary entries will be accepted within Federal-wide accounting and reporting systems.

D. Additional information regarding budgetary resources may be found in Volume 3, entitled "Budget Execution – Availability and Use of Budgetary Resources," and in the Glossary. See Volume 11B, Chapter 11 and Volume 4, Chapter 5 for Defense Working Capital Funds' policy on receipt of advances on orders from non-Federal entities.

030303. Sales of Goods and Services

Intragovernmental materials sold or services furnished must be authorized and documented in a support agreement between the provider and the ordering entity. The cost of the materials or services is first initiated by the activity providing the materials or performing the services (performer.) The activity receiving the materials or services (ordering entity or customer) pays the performing activity. Uncollected amounts earned from reimbursable sales are recorded as accounts receivable.

*030304. Recording of Receivables

In accordance with paragraph 030301, receivables shall be recorded in the applicable accounting system during the month the receivable occurs. DCOs must ensure that the appropriate ARO is advised that a receivable is to be established in the applicable accounting system. DCOs will provide the ARO with signed copies of indebtedness notices and other appropriate documentation to support entries in the accounting system and will provide the status of the debt which includes: beginning debt balance, collections, adjustments, current ending balance and notice of discontinuance of collection efforts. Supporting documentation will be maintained in the applicable accounting system.

030305. Collection of Receivables

A. The collection of receivables must be aggressively pursued for amounts due from DoD Components, federal agencies, and the public. The due date for a receivable normally is 30 days from the date of invoice, demand letter, or notice of payment due, unless a specific due date is established by statute, contract provision, or notice of indebtedness. Collection actions must be initiated when payment becomes due.

B. Funds must be collected in the appropriation that earned the funds, or in the case of a refund, into the appropriation from which the excess payment was made, unless otherwise specified by law. Examples of applicable legal provisions include, but are not limited to:

1. In accordance with ***Title 42, United States Code, Section 2651***, amounts recovered from a liable third-party or insurer due to a service member's injury or disease will be credited to current operating funds as follows:

a. Amounts recovered for hospital, medical, surgical, or dental care and treatment will be credited to the current operating funds of the facility or activity that provided the care and treatment.

b. Amounts recovered for loss of the service member's duty will be credited to current operating funds of the command, activity, or unit to which the service member was assigned at the time of the injury or illness.

2. In accordance with ***10 U.S.C. 1095***, collection from third parties for medical services provided shall be recorded against the year in which the collection is received regardless of year service was provided. See ***DoD 6010.15-M*** "Military Treatment Facility Uniform Business Office (UBO) Manual," for additional guidance.

C. Collections received after an appropriation cancels must be deposited in the Department of the Treasury Account 3200, "Collections of Receivables from Canceled Accounts." See paragraph 030312 for additional guidance on accounts receivable and canceled appropriations.

030306. Allowance Account and Aging

A. An allowance for uncollectible accounts receivable due from the public must be estimated and recorded per paragraph 030406.

B. No allowance for uncollectible accounts will be recorded for intragovernmental receivables, non-loan interest, penalties, and administrative charges.

C. The AROs (on behalf of the DoD Components) must age delinquent accounts receivable within the accounting system.

D. Aging of receivables (delinquency) starts one day after the due date for both public and intragovernmental (within and outside DoD) receivables.

030307. Interest Receivable

Interest accrues from the first day of delinquency and is added to the outstanding principal receivable balance within the accounting system when an amount due is not received by the due date or other agreed upon date. An interest receivable must be recorded for the amount of interest income earned but not received for an accounting period. An interest

receivable must be recorded as it is earned on investments in interest-bearing securities. Interest also must be recognized on outstanding accounts receivable against persons and entities in accordance with provisions in ***31 U.S.C. 3717***. Until the interest payment requirement is officially waived by the government entity or the related debt is closed out, interest will accrue. Note, however, that debts owed by any federal agency are exempt from interest, penalty, and administrative charges. Interest receivable is considered a nonentity receivable. See Annex 1 for procedures regarding interest, penalties, and administrative charges.

030308. Payment Application

When a debt is paid in partial or installment payments, amounts received will be applied first to outstanding penalties, second to administrative charges, third to interest, and last to principal, per Federal Claims Collection Standards, Title 31, Code of Federal Regulations (CFR) ***§901.9 (f)***.

030309. General Ledger Accounting

Information on receivables must be developed, maintained, and reported using the United States Standard General Ledger (USSGL) accounts depicted in Volume 1, Chapter 7. The first four digits of the accounts receivable general ledger account must conform to the USSGL chart of accounts. USSGL accounting transactions for collections and receivables are at: ***http:///www.bta.mil/SFIS/USSGL_Library_main.htm***

030310. Internal Controls

The basic standards for internal controls prescribed in ***DoD Instruction 5010.40***, "Managers' Internal Control (MIC) Program Procedures", must be adhered to in establishing and collecting receivables.

A. Major categories of receivables must be maintained to facilitate clear and full disclosure of accounts receivable, e.g., disclose the debtor, the amount, the age, and the type of debt. Subsidiary records must be reconciled to the control accounts on at least a monthly basis.

B. Proper internal controls require the separation of duties; e.g., a technician responsible for creating cash or check due transactions cannot also be responsible for collecting cash or checks.

*030311. Erroneous, Invalid, and Unsubstantiated Accounts Receivables

During the triannual review as required in Volume 3, Chapter 8, receivables must be reviewed for completeness, accuracy, and supportability. Abnormal or erroneous accounts receivable must be promptly researched and resolved. If at any time it is determined that a debt was never owed and should not have been classified as an accounts receivable, the entries that established the accounts receivable will be reversed. If at any time a billing DoD Component does not have or cannot produce the evidence necessary to establish an accounts receivable and has not been able to obtain the voluntary repayment of the debt, the entries that established the

accounts receivable will be reversed. Evidence necessary to establish an account receivable includes, but is not limited to, a duplicate payment voucher, contract reconciliation document, Department of Justice litigation report, an unpaid U.S. payment voucher, or demand letter. All erroneous, invalid, and unsubstantiated accounts receivable must be removed from the general ledger by reversing the existing entry. The reversing journal entry must be supported with all known evidence. The evidence obtained from research may identify internal control failures and/or process weakness with the recognition of accounts receivable. Any internal control failures and/or process weaknesses must be addressed and corrected.

030312. Canceled Appropriations

AROs must retain all outstanding receivables in the residual records even though an appropriation cancels. When the appropriation cancels, the receivable becomes a non-entity receivable. Appropriation cancellation does not relieve the DoD of the responsibility to pursue collection or recovery.

030313. Nonappropriated Fund Instrumentalities (NAFI) Receivables

Receivables from NAFIs must be recorded as transactions from the public. They must be included in the quarterly TROR. With the exception of individual debt, NAFI delinquent debt will not be referred to the DMO or to the Department of the Treasury for collection assistance.

*030314. Foreign Military Sales (FMS) Receivables

Receivables from the FMS Trust Fund (appropriation 11X8242) must be recorded as Federal transactions. Other Security Assistance receivables, e.g., the Foreign Military Financing Program, Grants, and Funds Appropriated to the President (11*1082), must be recorded and reported as intragovernmental receivables. The FMS delinquent accounts receivable will not be referred to the DMO or to the Department of the Treasury for collection assistance. See Volume 15, Chapter 5 for guidance on FMS receivables.

030315. Non-FMS Foreign Government Receivables

The ARO or FDMO will initiate initial billings for non-FMS foreign government accounts receivable. The ARO will refer delinquent non-FMS foreign government accounts receivable to the FDMO for additional billing and collection action when local efforts do not result in payment. Proper documentation must be included in the referral. The accounts receivable is established and maintained at the field site. Once collection is received from the foreign entity, the field sites are reimbursed to satisfy their accounts receivable. Refer to Volume 6A, Chapter 12 for further information on non-FMS foreign government receivables.

030316. Retention of Documentation

AROs and DCOs will maintain documentation to support actions taken on each accounts receivable. This includes, but is not limited to, documents supporting:

A. establishing the receivable

B. due process requirements

C. research and resolution of abnormal or erroneous balances

D. reversal of entries establishing the receivable

E. termination, write-off and close-out of receivable

F. bankruptcy

G. installment payment plan

030317. Obligations

Obligations for receivables must be established as required in Volume 3, Chapter 8, paragraph 080301.A. For any receivables deemed delinquent and not obligated, the obligation must be established in the appropriation that created the receivable.

030318. Undistributed Collection Balances

Undistributed collection balances must be analyzed and reconciled monthly to ensure all collected amounts are properly credited to the proper appropriation and applicable accounts receivable accounts. Transfer undistributed collections where the correct appropriation and applicable accounts receivable cannot be identified after 60 days to the Department of the Treasury Account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified."

0304 PUBLIC RECEIVABLES

030401. General

Receivables due from the public are claims of the DoD, or an entity within the federal government, against non-federal entities, to include public entities, domestic and foreign persons and organizations outside the U.S. Government. Public receivables are also created from the sales of goods or services when an advance is not first received (advance payment exceptions are in paragraph 030302 or from refunds due to the DoD).

030402. Debt Collection Policies

The DoD policies for credit management and debt collection are delineated in other volumes as listed below.

A. Policies and procedures for collection of debt from individuals is in Volume 5, Chapter 28.

B. Policies and procedures for loss of funds cases are in Volume 5, Chapter 6. Accounts receivable that are the result of improper payments may require loss of funds investigations in accordance with Volume 5, Chapter 6 and have additional reporting requirements under the ***Improper Payments Elimination and Recovery Act of 2010 (IPERA)***. See Volume 4, Chapter 14 for additional guidance regarding IPERA reporting requirements.

C. Policies and procedures for salary offset to collect debts owed to the federal government by military members or civilian employees are in Volume 7A, Chapter 50, Volume 7B, Chapter 28, and Volume 8, Chapter 8. Volumes 7A, 7B, and 8 also address collection of child support, alimony, or commercial debts from the pay of military members or civilian employees through garnishment or involuntary offset.

D. Policies and procedures for collection of commercial or contractor debt are in Volume 10, Chapter 18. Additionally, the Federal Acquisition Regulation ***(FAR) Part 32.6, "Contract Debt, "***, prescribes policies and procedures for ascertaining and collecting contract debts, charging interest on the debts, deferring collections, and compromising and terminating certain debts.

E. Policies for collection of debts from foreign countries are in Volume 6A, Chapter 12.

030403. Receivables from the Sale of Goods and Services to the Public

A. Upon receipt of a collection voucher, the ARO must record the collection in the accounting system and report the collection to the Department of the Treasury. If an abnormal balance results from recording the collection, the ARO must research and resolve the abnormal balance.

B. The ARO must refer delinquent accounts receivable for further collection action as required by debt collection policy referenced in paragraphs 030405.B and C.

030404. Refunds Receivable

Refunds are repayments of overpayments and are to be credited to the appropriation or fund accounts from which the overpayment was made. They must be directly related to previously recorded expenditures and are reductions to those expenditures. Refunds to appropriations represent amounts collected from outside sources for payments made in error, overpayments, or adjustments for previous amounts disbursed. There is not a separate account for refunds receivable in the USSGL. Refunds receivable are treated as accounts receivable.

A. Examples of refunds receivable include, but are not limited to the following:

1. salary overpayments.

2. overpayments to commercial concerns due to erroneous billings, incorrectly computed invoices, or contract default.

3. amounts due for items rejected or returned.

4. amounts of recovery due on payments for contractual services, such as rent, insurance, and transportation purchased, where such contracts are canceled and adjustments made for the unused portion.

5. amounts for advance payment of travel when the travel was canceled.

6. amounts payable for "due U.S." travel vouchers.

7. amounts due from advance payments for contractual purposes.

8. amounts due from employees on leave without pay for employee share of benefits (i.e., health insurance).

B. Non-DCO activities (e.g., contracting offices, fund holders) will notify the DCO that a debt exists. For contracting offices, guidance is contained in the ***FAR, Part 32, Contract Financing***. DCOs must ensure the appropriate ARO is advised that a receivable is to be established in the applicable accounting system. Such notification must be made in the same accounting cycle that the debt is recognized.

C. Upon receipt of a collection voucher, the ARO must ensure that the collection is recorded in the accounting system and reported to the Department of the Treasury. See sections 0306 and 0307 for additional guidance on reporting requirements. If an abnormal balance results from recording the collection, then the ARO will research and resolve the abnormal balance.

D. The ARO or DCO must refer delinquent accounts receivable for further collection action as required in paragraphs 030405.B and C.

*030405. Collection Actions

Accounts receivable must be aged to allow for the management of collection actions.

A. The due date for a receivable is normally 30 days from the date of invoice, demand letter, or notice of payment due unless a specific due date is established by statute, contract provision, or notice of indebtedness. The initial demand for payment, invoice, or demand letter must include a complete explanation of the debtor's rights, responsibilities, and additional charges (i.e., interest, penalties and administrative charges) that may be levied.

B. AROs or DCOs will refer valid and legally enforceable delinquent individual out-of-service debt of $25 or more that have a taxpayer identification number (TIN), or a debt of $100 or more that resulted from an improper payment and does not have a TIN, to the DCMO for further collection action no later than 60 days after the payment due date.

C. AROs or DCOs will refer valid and legally enforceable delinquent vendor debt of $25 ($100 if the vendor does not have a TIN) or more to the DMO for further collection action no later than 60 days after the payment due date. Multiple debts to the same vendor totaling $25 or $100 respectively, or more must be consolidated and referred to the DMO as one debt package.

D. Uncollected public vendor debt of less than $100/$25 and individual out-of-service debt of less than $25 must be collected or written off and closed out within one year of delinquency in accordance with paragraph 030407. These debts shall not be referred to DMO or DCMO for further collection action unless mandated by public law.

E. The DCMO or DMO will refer valid and legally enforceable delinquent public receivables over 180 days old to the Department of the Treasury for further collection action in accordance with ***The Debt Collection Improvement Act of 1996***. Debts owed by individuals to NAFIs may be referred to the Department of Treasury. Only those activities with specific authority will refer these aged debts to the Department of the Treasury.

1. Exceptions to the requirement to refer debt to the Department of the Treasury include debts or claims that: (a) are in litigation or foreclosure; (b) will be disposed of under an asset sales program within 1 year after becoming eligible for sale, or later than 1 year if consistent with an asset sales program (See ***OMB Circular No. A-129***, section IV, paragraph 3 for additional information on the asset sales program); (c) have been referred to a private collection contractor for collection for a period of time approved by the Secretary of the Treasury; (d) will be collected under internal offset, if such offset is sufficient to collect the claim with 3 years after the date the debt or claim is first delinquent; (e) are foreign government debts; (f) are state and local government debts; or (g) are NAFI debts.

2. The Department of the Treasury, after due process, returns uncollected public receivables to the sender (length of time varies based upon collection actions taken by the Department of the Treasury).

3. Debts less than $100,000 that are referred to the Department of the Treasury and later returned due to failure to collect may be terminated for further collection action by DCMO or DMO upon coordination with the appropriate fund holder. Debts of $100,000 to $500,000 that are referred to the Department of the Treasury and later returned due to failure to collect may be terminated with the Department of the Treasury's approval. Debts of $500,000 or more must be referred to the DOJ for approval to terminate collection action. See Volume 5, Chapter 28 and Volume 10, Chapter 18, for additional guidance regarding termination of collection action.

4. DCMO or the DMO will advise the ARO when the Department of the Treasury has returned a debt as uncollectible. The ARO will take appropriate actions to terminate collection action, write-off the receivable, and close out the receivable, as applicable.

*****030406. Establishment of Allowance for Loss on Accounts Receivable

The ARO must record an allowance for loss on accounts receivable, which will provide for reducing gross receivables by the amount of the estimated loss to their net realizable value.

A. The ***SFFAS 1*** states that losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected; the phrase "more likely than not" means more than a 50 percent chance of loss. The allowance for loss on accounts receivable must be reestimated annually and when information indicates that the latest estimate is no longer correct. Losses due to uncollectible receivables should be measured through a systematic methodology. The systematic methodology should be based on analysis of both individual receivables and groups of receivables as a whole. The allowance amount calculated for individual receivables and groups of receivables will be added together and will be the total amount for allowance for loss on accounts receivable

1. Group of Receivables. To determine the loss allowance for receivables equal to or less than $100,000, separate the receivables into groups having similar risk characteristics. Receivables may be grouped by each delinquent age category greater than 90 days old, by category of debtor, by reason that gave rise to the receivable, or by geographic regions. The methodology used to determine the percentages will be based on the history of bad debt expense from the last three years. The determined percentages will be applied to the total amount in each category. The Office of the Under Secretary of Defense (Comptroller) may approve exceptions when abnormal circumstance skews the 3 year average.

2. Individual Receivables. Each receivable greater than $100,000 must be analyzed to determine the loss allowance. Loss estimation for each receivable will be based on: (a) the debtor's ability to pay, (b) the debtor's payment record and willingness to pay, and (c) the probable recovery of amounts from secondary sources, including liens, garnishments, cross collections and other applicable collection tools. DoD Components with a low number of receivables or a large number of small dollar receivables may lower the threshold. However, consistent methodology must be used from year to year.

B. In those instances when one DoD Component sub-allocates funds to another DoD Component, the office executing the funds will be responsible for establishing the allowance for loss on accounts receivable.

C. The write-off of receivables must be processed through the allowance for loss on accounts receivable account. If the allowance account has been depleted as a result of write-off activity, then it must be immediately re-estimated and re-established.

*030407. Write-off and Close Out of Public Accounts Receivable

General provisions for write-off and close out of public accounts receivable are established in ***OMB Circular A-129***. Write-off is mandatory for public delinquent debt that has not been collected within two years of delinquency unless documented and justified to OMB in consultation with the Department of the Treasury. See paragraph 030405.D for guidance on

write-off and close-out of vendor debts under $600 and individual out-of-service debts under $225.

A. Write-off

The DCO must provide the ARO with documentation to support write-off of the receivable (regardless of amount) and also must provide the history of all research and debt collection efforts. When received, the ARO must immediately provide the documentation to the fund holder for concurrence for write-off and notify the DCO that the request for concurrence was sent. If the fund holder concurs, the ARO will write-off the debt, record an obligation if one has not already been recorded and notify the DCO. If the fund holder non-concurs or does not respond, then the following applies:

1. The fund holder must respond within 30 days of request for a write-off. If a response is not received within 30 days, the ARO will write off the debt and record an obligation if one has not already been recorded.

2. If non-concurring, the fund holder must provide the ARO with additional written evidence to enable the collection of the debt. The ARO will only make one additional attempt to collect (i.e., issue one additional demand letter).

3. If payment is not received after following procedures outlined above, the ARO will write off the debt and record an obligation if one has not already been recorded. The ARO will notify the fund holder and the DCO that the debt was written off.

B. Currently Not Collectible (CNC)

1. Once the debt is written off, it must either be classified as CNC or closed out. Debts in CNC status are reported on the TROR and are still eligible for the Department of the Treasury's cross-servicing and offset programs.

2. Public debt will be classified as CNC only if the criteria listed below are met:

a. The vendor debt is $600 or more or the individual out-of-service debt is $225 or more.

b. All debt collection actions referenced in this chapter have been pursued.

c. It is cost effective to continue collection efforts.

3. CNC debt must be continuously reviewed and, as required, reclassified and closed out.

4. When the Department of the Treasury is able to collect on a receivable categorized as CNC and remits funds to DoD, the ARO will reverse the write-off, reestablish the receivable, and record the collection against the receivable.

C. Close-out of Indebtedness. Debt write-off and close out may occur at the same time, or close-out may follow write-off by a substantial period of time. When it has been determined that the debt is not collectible (e.g., returned from the Department of the Treasury uncollected or further collection action would not be economically feasible), the DCO must notify the ARO. The ARO must notify the fund holder and request concurrence to close-out the debt. If the fund holder non-concurs or does not reply, the following applies.

1. The fund holder must respond within 30 days of request for close-out. If a response is not received within 30 days, then the debt must be closed out.

2. If non-concurring, the fund holder must provide the ARO with additional written evidence to enable the collection of the debt. The ARO will only make one additional attempt to collect (i.e., issue one additional demand letter).

3. If payment is not received after following procedures in paragraphs 030407.C.1 and 2, then the debt must be closed out and the fund holder notified.

4. Once a debt has been closed out, it cannot be reactivated, and the federal government cannot take any further administrative or legal action to collect the debt. The federal government, however, can accept voluntary repayment of the debt at any time. Once the fund holder has decided to close-out the debt, the ARO has primary responsibility for close-out actions and 1099C IRS reporting. Close-out for foreign government debts will be accomplished in accordance with Volume 6A, Chapter 12.

D. Tax Reporting. All closed-out uncollected public vendor and contractor debt will be forwarded to the DFAS-Columbus, DFAS Tax Office, Enterprise Solutions and Standards, Finance Mission Area, Attn: DFAS-JJFD/CO, PO Box 182317, Columbus, Ohio 43218-2317 for tracking, consolidation, and reporting. Data elements required by the Tax Office for consolidating and reporting the closed debts include:

1. Tax Identification Number

2. Contractor Name

3. Contractor Address

4. Country Code

5. Date Account Closed

6. Principal

7. Interest

8. Administrative Charges and Penalties

9. Debt Reason Description

10 Bankruptcy

*0305 INTRAGOVERNMENTAL RECEIVABLES

030501. Receivables Due From Public Entities

Receivables due from DoD Components or other federal entities are intragovernmental receivables and must be reported separately from receivables due from public entities.

030502. Sales of Goods and Services.

A. Intragovernmental materials sold or services furnished must be authorized and documented in a support agreement between the provider and ordering entity. The cost of the materials or services is first initiated by the activity providing the materials or performing the services (seller). The activity receiving the materials or services (ordering entity or customer) pays the performing activity. Uncollected amounts earned from reimbursable sales are recorded as accounts receivable.

B. In contrast with orders from the public/non-Federal entities without an advance, DoD organizations with reimbursable authority may recognize a budgetary resource upon acceptance of funded reimbursable orders from DoD and other Federal agencies, because customer agencies obligate their own budgetary resources (e.g., appropriations) at the time of order placement and acceptance. DoD organizations may incur obligations to fill such orders without requiring the customer to provide an advance payment and without burdening their own budgetary resources.

030503. DoD Performing Entity Responsibilities

The performing entity must ensure the obligations and accrued expenditures incurred for completed performance are promptly recorded as earned orders (filled customer orders), and must ensure the earned orders are promptly charged and collected from the ordering entity. The performing entity will:

A. Receive a customer's order, which will be verified against the agreement serving as the basis for the order, such as a Department of Defense (DD) Form 448, "Military Interdepartmental Purchase Request (***MIPR***)." The amount of the order must be recorded as an unfilled customer order.

B. Reverse the unfilled customer order and record a filled customer order (i.e., earnings) uncollected upon receiving documentation showing that goods or services were

provided. Record the receivable and charge the customer. If an abnormal balance results from reversing the unfilled customer order, research the abnormal balance and promptly resolve the issue.

C. Reverse the filled customer order uncollected (i.e., earnings) and record a filled customer order collected upon receipt of a collection voucher. If an abnormal balance results from reversing the filled customer order uncollected, research the abnormal balance and promptly resolve the issue.

D. Ensure that collection vouchers are recorded in the accounting system and reported to the Department of the Treasury in the accounting month the collection was received.

E. Review unearned and earned orders and determine that recorded orders are supported with an order or contract.

F. Research any abnormal unfilled customer order balances; such balances indicate that an order may not be recorded. Research any abnormal filled customer order uncollected balances; such balances indicate that collections may have been incorrectly recorded. Promptly resolve these abnormal balances.

G. For orders not filled from inventory (e.g., supply issues from materiel systems), obtain the accounts payable transaction history. Review obligations and accrued expenditures recorded and determine whether the accruals are supported with a reimbursable agreement or a document evidencing that a payment is due. Unsupported obligations and accrued expenditures must be thoroughly researched, and the necessary corrective actions taken. Copies of all reimbursable orders must be available to ensure that all obligations and accrued expenditures are recorded correctly. Reconcile the receivables and collections (earnings) relating to the reimbursable program of the performing activity with the accrued expenditures paid and unpaid of the same performing activity.

H. Obtain the billing transaction history from the ARO. (Billing transaction histories must be provided within 30 days.) Ensure that billings are against the correct order and, consequently, billed against the correct obligation. Request copies of documents supporting that a payment is due; reconcile these documents with the related accounts receivable. Any discrepancies must be resolved by adjusting the accounts receivable to the appropriate amounts.

I. Upon receiving a request for supporting documentation, provide a copy of an agreement, contract, and/or proof of performance or delivery within 30 days of request.

J. If a charge is disputed or rejected, review supporting files promptly. The intragovernmental dispute process is outlined in paragraphs 030505.A and 30305.B.

K. Research unmatched disbursements and negative unliquidated obligations as required by Volume 3, Chapter 11, section 1107.

L. Unless authorized by law to perform non-reimbursable work, DoD performing activities will not perform reimbursable work for another Federal Agency that is 90 days or more in arrears in payment of previous reimbursable billings. This restriction can be waived by the Office of the Under Secretary of Defense if in the national interest to do so.

030504. DoD Ordering Activity Responsibilities

A. The ordering activity must review all charges from the performing activity to ensure that amounts due are in agreement with the reimbursable orders and are supported with a copy of the order or contract and evidence of performance.

B. Transportation charges that cannot be matched to an accounts payable transaction, or that cannot be charged back, must be researched and charged to the proper line of accounting upon completion of research.

C. If the bill is supported, but the order or obligation is not recorded in accounting, then record the order or obligation immediately.

030505. Management of Collection Actions

Accounts receivable must be aged. Aging allows for the management of collection actions. Delinquency date starts one day after the due date.

A. Charges arising from transactions within the DoD and with other federal departments and agencies must be recorded as accounts receivable in the accounting month earned.

B. Bills arising from transactions which contain a National Stock Number within the DoD will be collected through the Military Standard Billing System (MILBILLS) interfund billing procedures when supported by the supply and accounting systems. The provider will not accept a MIPR if interfund can be used. Manual billing (i.e., the XP fund code) will not be used unless approved by the Deputy Chief Financial Officer. For intragovernmental interfund disputes, follow the dispute process outlined in ***DoD Manual 4000.25-5.***

C. For non-interfund intragovernmental (within DoD) receivables, reimbursement will be via Defense Cash Accountability System (DCAS), IPAC, or for-self reimbursement (e.g., within Disbursing Station Symbol Number (DSSN) transfer of funds). The buyer cannot chargeback or reject the charge (other than if IPAC) unless authorized by the dispute process as outlined in paragraph 030505.A. The buyer must perform an IPAC reject within 30 days. The only valid reasons for reject/adjustment are:

1. Billing for more than the agreed amount.

2. Duplicate/erroneous billing.

3. Lack of supporting documentation.

4. MIPR has expired and/or appropriation has expired.

D. For intragovernmental (outside DoD) receivables, IPAC is the preferred method of billing/collection.

1. Include the use of IPAC as the preferred method of billing/collection on the MIPR acceptance.

2. Follow the intragovernmental (outside DoD) dispute process as outlined in paragraph 030505.B if the IPAC transaction is rejected.

E. Rejected charges must require the reestablishment of a receivable and adjustments to an appropriation's fund balance with the Department of the Treasury.

* F. USSGL accounting transactions for reimbursable billings and collections, and accounts receivable corrections and adjustments can be found at: ***http://dcmo.defense.gov/products-and-services/standard-financial-information-structure/***.

*030506. Non-interfund Dispute Process

A. Intragovernmental Debt Within the DoD

1. The performer's ARO is responsible for managing intragovernmental debt. Intragovernmental debt cannot be reduced, i.e., an allowance for doubtful accounts is not allowed. Additionally, intragovernmental debt cannot be referred to a debt collection activity.

2. The full settlement of intragovernmental accounts receivable disputed charges must take no longer than 180 days from the date of the charge.

3. For receivables of $2,500 or less, the buyer may accept the charge without dispute. However, these charges may be disputed as long as the process can be justified as cost-effective.

4. For disputed receivables greater than $2,500:

a. The buyer will work with the seller during the first 60 days from the date of the charge to resolve the dispute. The buyer or seller may request assistance from the accounting service provider. If the dispute cannot be resolved, the buyer, along with assistance from DFAS, will assemble a dispute package and send it to the seller. At a minimum, the dispute package must include copies of: MIPR or equivalent, MIPR acceptance or equivalent, voucher payment, bill, correspondence, shipment or delivery evidence, and a narrative explaining the basis of the dispute.

b. During 61-90 days from the date of the charge, the seller will review the buyer's dispute package and will provide a written response of concurrence or non-concurrence.

(1) If the seller concurs, the seller will reverse the charge.

(2) If no response is received from the seller, the buyer may chargeback without recourse.

(3) If the seller non-concurs, the buyer will elevate the dispute package to their Resource Manager/Comptroller.

c. During 91-120 days from the date of the charge, the buyer's Resource Manager/Comptroller will contact the seller's Resource Manager/Comptroller to resolve the dispute. If the dispute cannot be resolved, the buyer's Resource Manager/Comptroller will elevate the dispute package to their Service Secretary, Combatant Command Commander, or Defense Agency Director.

d. During 121-150 days from the date of the charge, the buyer's Service Secretary, Combatant Command Commander, or Defense Agency Director, will contact the seller's Service Secretary, Combatant Command Commander, or Defense Agency Director, to resolve the dispute. The dispute must be resolved within 180 days.

5. If the resolution to the dispute is that the buyer does not have to pay the bill, then the seller must make an adjustment to revenue (earnings) to liquidate the debt. The seller will decrease revenue and increase direct obligations and expenses. An abnormal balance will result in reversal of prior year funds when earnings are reversed.

B. Intragovernmental Debt Outside the DoD. Disputes between government agencies (e.g., between the DoD and the General Services Administration) will be resolved in accordance with ***Treasury Financial Manual (TFM) Volume 1, Part 2, Chapter 4700, Appendix 10, section 2.4.2***.

1. Dispute resolution will involve the program offices, the accounting offices, the contracting officer, and the agency's Chief Financial Officer (CFO), as appropriate. Disputes will be documented in writing with clear reasons for the dispute. A memorandum of agreement will be signed by the CFOs of each department and agency to acknowledge that department's or agency's active participation in the dispute resolution process.

2. Trading Partners will not chargeback or reject transactions that comply with Treasury Financial Manual (TFM) Volume 1, Part 2, Chapter 4700, Appendix 10, subsection 2.4.2. Further, new transactions will not be created to circumvent the guidance contained therein. Transactions that comply with Treasury Financial Manual (TFM) Volume 1, Part 2, Chapter 4700, Appendix 10, section 2.4.2. but are disputed, must be resolved using the guidance in paragraph 030505.B.4 and 030505.B.5.

3. Disputes are of two types:

a. accounting treatment (e.g., advances and non-expenditure transfers).

b. contractual (e.g., payment, collection, and interagency agreement)

4. If intragovernmental differences result from differing accounting treatment, then the Trading Partners have 60 calendar days from the date that the difference is identified in the Department of the Treasury Intragovernmental Reporting and Analysis System (IRAS), Material Differences Report or the date that a charge is disputed, whichever comes first, to agree on the treatment of an accounting entry. If agreement cannot be reached, then both Trading Partners' CFOs must request that a final decision be rendered by the CFOs Council's Intragovernmental Dispute Resolution Committee established for this purpose. The Committee may at its discretion refer disputes or differences to the Accounting and Auditing Policy Committee (AAPC) established by the Federal Accounting Standards Advisory Board. The Committee or the AAPC must render a decision within 90 calendar days of receiving the request. The decision will be final and both Trading Partners will then adjust their accounting records to reflect that decision.

5. If intragovernmental differences result from contractual disputes, then the Trading Partners have 60 calendar days from the date that the difference is identified in the IRAS Material Difference Report or the date that a charge is disputed, whichever comes first, to agree on the contractual terms. If agreement cannot be reached, then both Trading Partners' CFOs must request that a binding decision be rendered by the CFOs Council's Committee established for this purpose. The Committee must render a decision within 90 calendar days of request. The Trading partners will then coordinate to ensure any necessary IPAC transaction needed to effect the decision is processed as applicable.

a. Missing indicative data on an intragovernmental transaction is cause for a contractual dispute. Examples of indicative data include:

(1) Order number.

(2) Treasury Account Symbol (TAS) for both Trading Partners. If multiple TAS are included on one order, specify amounts for each TAS, as appropriate.

(3) Business Event Type Code (BETC) for both Trading Partners.

(4) Amount to accrue, advance, or disburse.

(5) Business Partner Network (BPN) number for both Trading Partners.

b. The Buyer may establish a monetary threshold before asking for contractual decisions; the threshold must not exceed $100,000 per order. If an amount is under the Buyer's threshold, and the Buyer elects not to pursue a dispute, then the Buyer must pay the amount.

C. NAFI Billing, Collection and Dispute Processes. ***DoD Instruction 1015.15***, "Establishment, Management, and Control of Non-appropriated Fund Instrumentalities and Financial Management of Supporting Resources," requires certain categories of NAFIs to reimburse appropriated funds (APF) for sales of goods and services to the NAFI.

1. Contractual Agreements. The applicable APF office will prepare a contractual agreement with the NAFI. This could be in the form of a Memorandum of Understanding (MOU), Inter-Service Support Agreement, etc. The agreement will be signed by the APF and NAFI authorized representative. At a minimum, this agreement must have:

a. Fixed price for goods and services or methodology for determining price, e.g., utilities, or both. The agreement can be for a specific sale or for a specified period of time.

b. Bill due date will be 30 days from date of the bill.

2. Due Process. If bill is not paid by due date, a demand letter will be sent to the NAFI. The NAFI has 30 days from the date of the demand letter to provide payment or provide reasons for non-payment. The validity of the dispute will be determined by the APF representative. If dispute is valid, the APF representative will immediately resolve. If dispute is determined not to be valid, or there is no response, the APF representative will elevate demand for payment as follows:

a. Within 31-60 days after the due date, the Installation Comptroller will send the demand for payment with supporting documentation to the NAFI Headquarters Comptroller (NHC).

b. Within 61-90 days after the due date, the NHC will make payment or dispute the bill. The validity of the dispute will be determined by the Installation APF Comptroller. If dispute is determined not to be valid, or there is no response, the Installation APF Comptroller will elevate the demand for payment with supporting documentation to the Installation Major Command.

c. Within 91-120 days after the due date, the Installation Major Command will instruct that payment be made or dispute the bill. If the Installation Major Command cannot resolve the dispute, or there is no response, the Installation APF Comptroller will elevate the demand for payment with supporting documentation to the Service Comptroller.

d. Within 121-150 days after the due date, the Service Comptroller will instruct payment or resolve the dispute.

0306 REPORTING RECEIVABLES DUE FROM THE PUBLIC

The DoD Components are required to submit a quarterly TROR. The ARO, in conjunction with the DoD Component, must report public receivables in accordance with TROR instructions located at the Department of the Treasury website ***http://www.fms.treas.gov/debt/dmrpts_tror.html***.

0307 REPORTING RECEIVABLES IN THE DEPARTMENT OF DEFENSE FINANCIAL STATEMENTS

030701. Reported Accounts Receivable Quarterly

Accounts receivable are reported on the quarterly financial statements. Instructions for the reporting of receivables in the quarterly financial statements are contained in Volume 6B, Chapters 4 and 10. Receivable amounts are depicted in the Balance Sheet and are disclosed in the Notes to the Financial Statements. Public accounts receivable balances reported on the annual financial statements must be reconciled with the Federal Agencies' Centralized Trial-balance System accounts receivable from the public balances (attribute non-Federal).

030702. Gross Accounts Receivable Balances

Gross accounts receivable balances due from the public reported on the quarterly financial statements also will be reconciled with receivables reported on TROR.

030703. Eliminating Intragovernmental Consolidated Quarterly Financial Statements

The consolidated quarterly financial statements eliminate intragovernmental accounts receivable balances in accordance with Volume 6B.

0308 CREDITING AND ACCOUNTING FOR DISPUTED COLLECTIONS UNDER THE CONTRACT DISPUTES ACT OF 1978

030801. Crediting Collections

A. When an amount, including interest and administrative fees, is collected from a contractor and the contractor disputes the debt or indicates that they will dispute the debt, the collected amount will not be accounted for as settlement of the debt. Interest, penalties, and fees will cease to accrue and the disputed amounts will be credited to a Department of the Treasury deposit account pending disposition of the contractor's dispute.

B. Collections normally are received by the disbursing or payment certifying office making or authorizing payments for the contract in dispute, but may be received by others, including ARO, supporting accounting offices, DMO, contracting officers, contract administration officers, and legal offices. Upon making a collection in a disputed situation, the collection will be documented as a disputed contract collection.

1. If the contract was paid by DFAS-Columbus (DFAS-CO) or if the contract was submitted to the DMO for debt collection assistance, then deposit the collection to disbursing station symbol number (DSSN) 6551. Offices, other than the DMO, making the collection and deposit of a disputed collection to DSSN 6551 must forward to the DMO all documentation related to the collection. If the office receiving the collection does not make deposits, then the office receiving the collection will promptly forward the contractor's check and related documentation to DSSN 6551. The collection voucher prepared for a disputed collection will serve as the basis for crediting the amount to the Department of the Treasury deposit account X6501, Small Escrow Amounts, in a special subhead or limit with departmental prefix 97. If the disputed collection is related to a contractual obligation in an appropriation that has closed in accordance with ***31 U.S.C. 1552(a)*** or ***31 U.S.C. 1555***, then annotate the collection as a "closed appropriation collection" and credit the collection to deposit fund account X6501 in a different subhead or limit. DSSN 6551 must maintain control of collections credited to this account and will prepare all vouchers for disbursement or transfer from the deposit account.

2. If a disputed collection is received on a contract that was not paid by DSSN 6551 and the debt was not submitted to the DMO for debt collection assistance, then deposit the collected amount to the DSSN which made the payment on the contract. The collection must be credited to deposit account X6501 with departmental prefix 17, 21, 57, 96, or 97, as appropriate.

3. The DMO and the responsible disbursing officer will notify the contracting officer, the contract administration officer, if applicable, and the Service or agency contract finance officer, and/or other authority for contract debt matters of any actions affecting the disputed collections. Conversely, these officers or offices must inform the responsible disbursing officer and the DMO of any actions taken that affect the disputed collection.

030802. Accounting for Collections in Dispute

A. In accordance with ***10 U.S.C. 2410m***, disputed collections received and credited in accordance with subparagraph 030801 shall be separately accounted for and remain available, regardless of the closing of an appropriation or fund account, for payment of:

1. any settlement of the claim by the parties;

2. any judgment rendered in the contractor's favor on an appeal of the decision on the claim to the Armed Services Board of Contract Appeals (ASBCA);

3. any judgment rendered in the contractor's favor in an action on that claim in a court of the United States.

B. Availability of the disputed collection expires 180 days after the expiration of the period for bringing an action on that claim in the United States Court of Federal Claims under section 10(a) of the Contract Disputes Act of 1978 ***41 U.S.C. 609(a)***, if within that 180 day period, no appeal on the claim is commenced at the ASBCA and no action on the claim is commenced in a court of the United States.

C. If not expiring under paragraph 030802.B, then availability of the disputed collected amounts expires:

1. In the case of a settlement of a claim, 180 days after the date of the settlement.

2. In the case of a judgment rendered on the claim in an appeal to the ASBCA or an action in a court of the United States, 180 days after the date on which the judgment becomes final and rendered not appealable.

D. While an amount is being separately accounted for and available in accordance with paragraph 030801, the amount may be obligated or expended in whole or in part only for the purpose described in paragraph 030802.A.

E. When all or part of a disputed collection is determined to be repayable to the contractor, whether by settlement agreement or judgment, including payment or adjustment of interest or fees, that amount must be promptly disbursed to the contractor. Timely reimbursement must also be made to the Department of the Treasury Judgment Fund, if applicable. The foregoing disbursed amounts must be charged to the deposit account X6501. Any interest accruing since the collection and ordered to be paid in accordance with the settlement or judgment must be charged to the applicable, currently available, appropriation account.

F. Upon expiration of the period of availability of all or part of an amount credited to the deposit account in accordance with paragraph 030801, amounts not obligated and expended, must be withdrawn and credited as follows.

1. If an amount was credited to the deposit account for an appropriation or fund account that closed for reasons other than those described under 31 U.S.C. 1552(a) or 31 U.S.C. 1555, then the principal amount collected must be properly credited to that appropriation or fund account and an adjustment made of the amounts of the contract(s) for which the disputed collection arose. Any amounts for interest and fees must be credited to the appropriate Department of the Treasury Miscellaneous Receipts accounts.

2. Amounts credited to the deposit account for an appropriation or fund account that was canceled, or subsequently canceled after the collection in accordance with 31 U.S.C. 1552(a) or 31 U.S.C. 1555, must be withdrawn and credited to the appropriate Department of the Treasury Miscellaneous Receipts accounts. The principal amount must be credited to the "Collection of Canceled Accounts Receivables" account (and the memorandum account adjusted, as appropriate). Interest and fees must be credited to the "Miscellaneous Receipts-Defense" account. In the records maintained for the closed appropriation account and unclosed contracts associated with the collection, the unobligated and obligated balances must be adjusted to reflect the results of settlement or judgment, including any amount retained and adjusted for the amounts of the contract or contracts for which the disputed collection arose.

Figure 3-1. Aged Delinquent Accounts Receivable Groups

AGED DELINQUENT ACCOUNTS RECEIVABLE GROUPS		
CATEGORY	**INTRAGOVERNMENTAL**	**NON-FEDERAL**
Non-delinquent		
Current		
Noncurrent		
Delinquent		
1 to 30 days		
31 to 60 days		
61 to 90 days		
91 to 180 days		
181 days to 1 year		
Greater than 1 year and less than or equal to 2 years		
Greater than 2 years and less than or equal to 6 years		
Greater than 6 years and less than or equal to 10 years		
Greater than 10 years		
Subtotal		
Less Supported Undistributed Collections		
Less Eliminations		
Less Other		
Total		

Note: The total of the columns must **equal the gross amounts reported in the Accounts Receivable schedule in Note 5. This will require that the receivables due internally within each Component and supported undistributed collections be eliminated from this schedule. Infrequently, other items may need to be deducted from the subtotal. These items require disclosure in the note narrative.**

VOLUME 4, CHAPTER 3: "ANNEX 1 INTEREST, PENALTIES, AND ADMINISTRATIVE (IPA) CHARGES"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by a * 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 October 2008 is archived.

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
Various	Updated hyperlinks and references. Substituted word "receivable" for "debt, as applicable, to enhance understanding. Realigns chapter to add summary of changes, table of contents, and adjust general formatting/structure to enhance readability.	Update
A.	Added purpose section.	Add
B.	Added applicability section and provides clarification to denote that accounting for receivables includes IPA charges resulting from DoD Working Capital/Revolving Funds transactions.	Add
C.	Added section to address Audit Readiness AUDIT READINESS/INTERNAL PROCEDURES: In promoting audit readiness, this section requires DoD Components to establish internal operating procedures and/or guidance in line with the overarching policy cited in this volume. Also adds requirement for all organizations involved in the collection and management of IPA to establish and maintain internal controls to ensure IPA charges owed to DoD are aggressively managed and collected.	Add
D.	Adds]ed reference to Volume 10, Chapter 18, relative to policy covering the collection of IPA charges arising from debts owed to the DoD by contractors, vendors, assignees, and business entities.	Add
E.1.b	Clarified guidance on use of Current Value of Funds Rate (CVFR) to calculate interest on overdue receivables.	Update
E.5.	Updated provides clarification on recording IPA in appropriate general ledger accounts.	Update

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
E.6.	Added clarification for accounting for IPA as non entity assets and requirement to establish a liability upon identification of these amounts within the appropriate Department of Treasury, General Fund Receipt Account.	Add
F.	Added section on disposition of charges. Adds reference the ***Federal Account Symbols and Titles (FAST) Book I and FAST Book II***. Adds clarification of policy on disposition of interest, penalties, and administrative **c**ollected into Department of Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified."	Add/ Clarify
G.	Changed title from Waiver of Accrual of Interest, Penalty, and Administrative Charges to WAIVERS/WRITE-OFFS. Added link for locating write-off guidance as cited in OMB Circular 129 (Policies for Federal Credit Programs and Non-Tax Receivables Programs).	Change
H.	Added section to address write-offs accrued IPA and link to ***Office of Management and Budget (OMB), Circular #129 (Revised)***.	Add

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CHAPTER 3

ANNEX 1

INTEREST, PENALTIES, AND ADMINISTRATIVE (IPA) CHARGES

*A. PURPOSE

This chapter provides policy guidance for accounting and reporting of Interest, Penalties, and Administrative (IPA) charges owed by the Public to the Department of Defense (DoD).

*B. APPLICABILITY

Accounting for receivables shall include provisions for accruing interest, penalty, and administrative charges on all delinquent debts owed by the public in accordance with ***31 United States Code 3717***, "Interest and Penalties on Claims," to include IPA charges resulting from DoD Working Capital/Revolving Funds transactions. These charges shall continue to accrue until the debt/delinquent receivable is paid in full or otherwise resolved through compromise, termination, or waiver of the charges. Debts owed by any Federal agency, including nonappropriated fund instrumentalities for purposes of this Annex, are exempt from interest, penalty, and administrative charges.

*C. AUDIT READINESS/INTERNAL CONTROLS

1. Each DoD component and activity is required to develop and implement internal operational procedures and/or guidance to implement the overarching policy contain in this Annex to ensure accurate, timely, and relevant reporting of financial data.

2. All organizations involved in the collection and management of IPA will establish and maintain internal controls to ensure IPA charges owed to DoD are aggressively managed and collected in accordance with this chapter and other applicable regulatory and statutory requirements.

*D. GENERAL

1. Payment of amounts owed to the Federal Government by organizations, businesses, and individuals are expected to be made in accordance with terms specified in contracts, agreements, or notifications of indebtedness. The ***Federal Acquisition Regulation (FAR) subpart 32.6, Contract Debts***, prescribes policies and procedures for identifying, collecting, and deferring collection of contract debts including IPA changes, if applicable. Volume 10, Chapter 18 provides additional policy for the collection of IPA charges arising from debts owed to the DoD by contractors, vendors, assignees, and business entities. For those debts owed to the Federal Government that are not covered by contracts or agreements, the initial notification of indebtedness shall inform the debtor of the basis for the indebtedness, the date payment is to be made (due date), and the requirement for interest, penalty, and administrative charges, unless otherwise prohibited by law.

2. The intent of interest, penalty, and administrative charges is to stimulate prompt payment, to recover to the Department of the Treasury the cost of borrowing necessitated by a delinquent receivable, and to recover the cost of processing and handling delinquent receivables, including referral to credit bureaus or collection agencies.

*E. APPLICATION OF CHARGES

Guidance on assessing interest, penalty, and administrative charges is contained in ***Title 31, Code of Federal Regulations (CFR), Sections 900-904*** (Federal Claims Collection Standards). Interest, penalty, and administrative charges, unless prohibited by law, shall be applied as follows:

1. Interest Charges

a. Interest charges shall be assessed on all delinquent debt regardless if the debt is to be paid in a lump sum or in installments. Debt that is paid through installment plans is not considered delinquent as long as the payments are made on time; however, interest will continue to be assessed until the debt is paid in full.

* b. The Current Value of Funds Rate (CVFR) is used to calculate interest on overdue Federal Government receivables. The Department of the Treasury annually publishes the CVFR in ***The Federal Register*** by October 31. The interest rate is subject to revision only if the published rate changes by 2 percentage points (e.g., from 6.0 percent to 4.0 percent) at the close of the prior calendar quarter. Changes in the CVFR are published in Treasury Financial Management (TFM) Bulletins. Refer to the Treasury Financial Management Service's Treasury Current Value of Funds Rate webpage, ***http://www.fms.treas.gov/cvfr/index.html*** for more information.

c. Interest rates shall be established for each type of loan receivable and for overdue accounts receivable from the public. The factors that affect the variability of interest rates (e.g., legislation, type of contract, occurrence of an event, passage of time, debtor's income level, or Federal funds rate shall be identified. In the absence of specific authority embodied in statute, regulation required by statute, contract, or other public notice, the interest rate shall be the CVFR on funds to the Department of Treasury.

d. The interest rate used to determine charges on a delinquent receivable shall remain fixed for the life of the debt, unless it is rescheduled or other events occur that justify an interest rate adjustment.

e. Unless other provisions have been included in a contract or prior agreement, interest charges shall not be assessed until the debtor has been notified in writing that interest and penalty charges will accrue. Payment terms specified in the invoice, demand letter, or notice of indebtedness shall be consistent with payment terms in the related contract or formal agreement.

f. Interest shall not be charged if payment is made within 30 days after the date from which interest begins to accrue (30 days after date notification was mailed).

g. Interest Charges shall be computed using the following formula:

I = DNF

Where: I = Interest charge
D = Amount of delinquent account receivable
N = Number of days delinquent
F = Interest rate per day

*2. Penalty Charges. The Department of Defense (DoD) Components shall assess a penalty charge not to exceed 6 percent per annum on any portion of a receivable that is delinquent more than 90 days. A receivable becomes delinquent if not paid by the established due date; therefore, penalty charges shall be applied to those accounts reported in the aging category 91-180 days delinquent and beyond. The Components may determine what percentage, up to the maximum 6 percent, will be applied to delinquent accounts.

* 3. Administrative Charges. In addition to interest and penalty charges, administrative charges shall be assessed to cover the added costs incurred in handling a delinquent receivable beyond the date on which payment was due. Unlike the interest charge, which begins to accrue on the date the delinquent notice actually is mailed, the administrative charge is applied only if payment is not made by the due date specified in the notice. The Components shall calculate administrative charges based upon actual costs incurred. If actual cost is not available, Components may base administrative charges upon other historical costs or cost analyses as long as the method used supports determination of the charge. The administrative charge shall be applied to all delinquent debts with due regard given to the length of time the debts are delinquent, such as the age categories identified in Figure 3-1, Chapter 3.

4. Interest and penalty charges shall continue to accrue after "date of death" when a claim is to be filed against an estate.

* 5. Accrued interest, administrative, and penalty charges shall be recorded in appropriate general ledger accounts as defined in the ***United States General Leader Chart of Accounts*** (USSGL). General ledger subaccounts may be established under existing accounts prescribed for interest, penalty, and administrative charges or fees.

* 6. All IPA charges in the DoD are non-entity assets and a liability must be established upon identification of these amounts within the appropriate Department of Treasury, General Fund Receipt Account (refer to the ***Federal Account Symbols and Titles (FAST) Book I and II*** for descriptions). These IPA charges non-entity assets may be either the receivable associated with the revenue or the subsequent collection of the IPA and should be recorded as follows:

a. Non-entity revenue resulting from interest charges is considered exchange (see SFFAS 7, paragraph 272) and should be recorded in USSGL account number 5310 (Interest Revenue-Other).

b. Non-entity revenues resulting from penalty/fine charges are considered non-exchange (see SFFAS 7, paragraph 260) and should be recorded in USSGL account number 5320 (Penalties and Fines).

c. Non-entity revenues resulting from administrative fee charges or collections are treated as exchange revenue and should be recorded in USSGL account number 5325 (Administrative Fees Revenue).

7. When a debt is paid in partial or installment payments, amounts received shall be applied first to outstanding penalties, second to administrative charges, third to interest, and last to principal. Documentation supporting the payment allocation shall be retained.

*F. DISPOSITION OF CHARGES

1. Interest charges collected shall be deposited directly into Department of Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified."

2. Penalty charges shall be deposited directly into Department of Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified," or account 1099, "Miscellaneous Fines, Penalties, and Forfeitures," (covers all other fines, penalties, and forfeitures, other than those arising out of contracting or similar business transactions). Refer to the ***Federal Account Symbols and Titles (FAST) Book I and FAST Book II*** for further guidance and expanded description.

* 3. Administrative charges required to pay for contractor collection fees or claims collection litigation reports shall be paid directly to the General Services Administration-designated contractor. Any excess amounts shall be deposited monthly to Department of Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified." All administrative charges collected (to include charges collected through the DoD Working Capital Fund) to recover DoD costs of processing and handling the delinquent debt shall be deposited directly into Department of Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified."

G. WAIVER OF ACCURAL OF INTEREST, PENALTY, AND ADMINISTRATIVE CHARGES

The head of a DoD Component, or designee, may promulgate regulations identifying circumstances appropriate to waive collection of interest, penalty, and administrative charges in conformity with the Federal Claims Collection Standards. If a DoD Component publishes regulatory guidance, then the following general guidelines must be adhered to:

1. The accrual of interest, penalty, and administrative charges may be waived when a delinquent receivable is terminated, compromised, or when the additional charges would cause extreme hardship or would not be in the best interest of the government.

2. Decisions to waive the accrual of interest, penalty, and administrative charges shall be considered on a case-by-case basis (no blanket waivers will be granted). Decisions on such waivers shall be documented, including an explanation as to the reasons for the waiver, and retained as a part of the official debt file.

3. Waiver of the accrual of interest, penalty, and administrative charges shall be approved at the same organizational level or by the same designee authorized to approve requests for waiver or remission of indebtedness.

4. Accrued interest, penalty, and administrative charges shall be collected, reported, compromised, or written off in the same manner as the basic receivable.

*H. WRITE-OFF OF ACCRUED IPA.

Accrued interest, penalty, and administrative charges shall be collected, reported, compromised, or written off in accordance with guidance and flow process contained in ***Office of Management and Budget (OMB), Circular #129 (Revised)***.

VOLUME 4, CHAPTER 3, ANNEX 2: "BREAK-EVEN ANALYSIS"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 2007 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Note	Annex 2, "Report on Receivables Due From the Public" (April 2003) was incorporated into Chapter 3, Section 0306. Annex 2 changed to "Break-even Analysis" (April 2007).	Info

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CHAPTER 3

ANNEX 2

BREAK-EVEN ANALYSIS

EXTENT OF COLLECTION EFFORTS FOR DOMESTIC DEBTS

A. General Policy

Except for debts from foreign countries, accounting and collection procedures shall be designed to provide information to assist in determining realistic points of diminishing returns beyond which collection efforts are not justified, and the minimum amount of a debt when no collection action at all should be undertaken. Procedures shall be designed to capture the total cost of the debt collection process (both direct and indirect costs) by dollar range of debt and the total number of cases processed. Until actual cost data are accumulated, cost analysis techniques shall be developed and used to determine the unit cost of processing first debt notices, follow-up actions, requests for waiver or remission, etc. When estimated costs are used, the estimates shall be updated periodically or when circumstances and conditions change significantly. The methodology utilized to estimate costs should be standardized, documented, and retained.

B. Comparison Requirements

As needed, the Debt and Claims Management Office and Debt Management Office shall make at least an annual comparison of costs incurred against amounts collected in its debt collection process to assist in the establishment of reasonable points at which the cost of further collection efforts are likely to exceed recovery. This cost comparison, however, represents but one appraisal element to be considered in the analysis of when and where to terminate collection efforts. Other reviews concerning the type of debt, size, age statistical analysis, etc., also shall be performed before a final point of termination of collection action is determined. The following definitions should be considered when making cost comparisons, reviews, and analysis:

1. The Debt Collection Process. Includes: (1) the preparation of the first debt notice; (2) all follow-up actions, such as answering rebuttals, processing requests for waiver or remission, holding hearings, negotiating compromises, handling installment contract and suspense, processing collections, and making referrals to credit reporting and collection agencies; and (3) the completion of the case, including maintaining the case file information until the appropriate statute of limitations expires.

2. Direct Cost. Includes any cost that can be identified specifically with handling cases or accounts during the debt collection process. These costs normally consist of personnel costs, computer equipment costs, supplies, postage, and contract services.

3. Indirect Cost. Includes any cost that is identified with the debt collection process, but which benefits that process and at least one other activity. These costs shall be accumulated only when they are expected to exceed 20 percent of the direct costs.

4. Cases Processed. The number of cases completed or closed during the year, either by collection or write-off. Collection includes compromises and offsets from other federal government payments.

C. Break-even Analysis

A break-even analysis is one method of determining realistic points at which further collection efforts are not justified. A break-even analysis format and instructions are provided in Table 3-2.

Table 3-2. Break-Even Analysis

BREAK-EVEN ANALYSIS

(1) Dollar Range	(2) Number of Cases Processed	(3) Original Dollar Amount	(4) Historical Cost to Collect	(5) Total Dollars Collected	(6) Dollar Difference
0-25					
26-50					
51-75					
76-100					
101-125					
126-575					
576-600					
SUBTOTAL					
OVER 600					
GRAND TOTAL					

Column (1) - Dollar range should be meaningful to the debt collection process. Subtotal can be placed anywhere within dollar range to relate to a particular debt collection need.
Column (2) - Total number of cases processed within this particular dollar range.
Column (3) - Original dollar amount of debts for this particular range.
Column (4) - Historical cost for this particular range or subtotal times number of cases in column (2).
Column (5) - Accumulate collections per range or subtotal.
Column (6) - Column (5) minus column (4). Break-even point is where the collections (5) are equal to the cost to collect (4).

Grand total of collections (column (5)) divided by grand total of original dollar amount (column (3)) = percent collection range for period.

VOLUME 4, CHAPTER 4: "INVENTORY AND RELATED PROPERTY"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 July 2008 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
040101 040203.A 040304.A 040702.A	Updated reference from United States General Ledger (USSGL) Treasury Financial Manual to USSGL Standard Financial Information Structure (SFIS) Transaction Library.	Update
040102.C	Adds a definition of approved acquisition objective.	Update
040102.E	Adds a definition of excess inventory.	Update
040102.N	Adds a definition of net realizable value (NRV).	Update
040102.O	Describes the NRV factor for determining the NRV of excess, obsolete, and unserviceable inventory.	Update
040102.M	Deletes the policy that net realizable value for material in condition codes H, P, or S must be zero. Establishes the policy that all excess, obsolete, and unserviceable inventory and operating materials & supplies must be reported at its net realizable value.	Compliance
Table 4-2	Deletes the policy that excess OM&S must be reported at full value.	Compliance
040303.D	Changes the policy that the value of inventory with condition codes H, P, or S is deemed to be $0 to require that all excess, obsolete, or unserviceable inventories be reported at net realizable value.	Compliance
040304.E	Modifies the definition of Excess, Obsolete, and Unserviceable Inventory (Account 1524).	Update
Table 4-3	Deletes the policy that excess inventory must be reported at full value.	Compliance

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Table 4-4	Displays the linkage between inventory stratification categories and USSGL Accounts.	Update
040402.D	Restores the requirement for billing for the cost of residual stocks of uniforms when there is a change to the uniform.	Restoration
040406.A.4	Restores the policy for the cost of forgings and castings becoming part of the acquisition cost.	Restoration
0408	Adds a section with instructions about how to calculate a net realizable value factor and assigns responsibility for the calculation.	Compliance Tool

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CHAPTER 4

INVENTORY AND RELATED PROPERTY

0401 GENERAL

*040101. Purpose

A. This chapter prescribes the accounting policy and related requirements necessary to establish financial control over DoD inventory, materials and supplies including stockpile materials. The chapter describes the applicable United States Government Standard General Ledger (USSGL) accounts as prescribed in Volume 1, Chapter 7, for use in accounting for inventory, operating materials and supplies, and stockpile materials. Posting transactions are in accordance with the SFIS transaction library at ***United States Standard General Ledger Standard Financial Information Structure (SFIS) Transaction Library***.

B. Accounting requirements and procedures relating to Operating Materials and Supplies, Inventory, and Stockpile Materials addressed in this chapter are in accordance with the Statement of Federal Financial Accounting Standards ***SFFAS Number 3***, "Accounting for Inventory and Related Property," and ***Interpretation 7***, "Items Held for Remanufacture," as published by the Federal Accounting Standards Advisory Board. This chapter addresses the unique accounting and reporting requirements for these different types of inventories. The provisions of this chapter apply to all DoD activities, including the Defense Working Capital Fund (DWCF) activities, unless otherwise noted.

*040102. Definitions

A. Abnormal Costs. Abnormal costs include any costs that are in excess of the cost to purchase and place in service a new item with similar features and useful life, such as excessive handling and rework costs.

B. Acquisition Cost. Acquisition cost is the amount, net of both trade and cash discounts, paid for the property, plus transportation costs and other ancillary costs to bring the items to their current condition and location.

C. Approved Acquisition Objective. See ***DoD 4140.01***, "DoD Supply Chain Material Management Regulation," for authoritative definitions of the terms approved acquisition objective, economic retention stock, and contingency retention stock.

D. Consumption Method of Accounting. The consumption method of accounting requires that when operating materials or supplies are produced or purchased they must be recognized and reported as assets. The cost of goods must be removed from the applicable operating materials and supplies asset account and reported as an operating expense in the period the items are issued to an end user for consumption in normal operations.

E. Excess Inventory. For the purposes of this chapter, excess inventory (serviceable and unserviceable) is the amount of inventory above the sum of the Approved Acquisition Objective and inventory retained for economic and/or contingency purposes. See ***DoD 4140.01***, "DoD Supply Chain Materiel Management Regulation," which calls this potential reutilization stock.

F. First In, First Out (FIFO). First in, first out is a flow assumption for arriving at the historic cost of inventory whereby the first units purchased are assumed as the first units sold.

G. Federal Accounting Standards Advisory Board (FASAB). The Board that promulgates the accounting standards for use in the Federal Government.

H. Government Furnished Material (GFM). A sub-category of Government Furnished Property, consists of inventory or operating materials and supplies furnished to a contractor as Government property. GFM is typically consumed or expended during the performance of a contract. In the case of GFM, the contractor is considered the end-user. When furnished to a contractor, inventory and operating materials and supplies are considered GFM. See Federal Acquisitions Regulations Part 45. ***Federal Acquisition Regulation***

I. Historical Cost. Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring items to their current condition and location. Historical cost excludes abnormal costs.

J. Inventory. Inventory is defined as tangible personal property that is held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provisions of services for a fee.

K. Inventory In Transit. Inventory In Transit is material in transit from commercial and government suppliers; material whose title has passed but the material has not been received and accepted at the final designated destination; material between storage locations; or material temporarily in use or on loan with contractors or schools.

L. Latest Acquisition Cost. The latest acquisition cost (LAC) provides that the last invoice price must be applied to all like units held including those units acquired through donation or non-monetary exchange.

M. Moving Average Cost. Moving average cost (MAC) is determined each time costs are incurred for a purchase or a reparable item is repaired/remanufactured by dividing the cost of total units available at the time (inventory plus current purchase or remanufacturing costs) by the number of total units available at that time as illustrated in Table 4-1.

Table 4-1 Event Transaction Inventory

EvenT	Transaction		Inventory	
MAC	Qty	Value	Qty	Value
Beginning Balance $1,000			10	$10,000
Sale of 2 units $1,000	(2)	($2,000)	8	$8,000
Purchase of 4 units @ $1600 $1,200	4	$6,400	12	$14,400
Sale of 1 unit $1,200	(1)	($1,200)	11	$13,200
Remanufacture of 4 units @ $1575 $1,300	4	$6,300	15	$19,500
Sale of 1 unit $1,300 $1,300	(1)	($1,300)	14	$18,200

N. Net Realizable Value (NRV). The FASAB defines net realizable value as the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding and disposal.

O. Net Realizable Value Factor. The net realizable value of excess (serviceable and unserviceable), obsolete, or unserviceable (EOU) inventory or operating materials and supplies (I&OM&S) must be determined by multiplying the value of the I&OM&S by a factor developed annually by the Defense Reutilization and Marketing Service (DRMS). All Components must use this DRMS developed factor for estimating net realizable value for the annual Department of Defense, "Supply Systems Inventory Report." See Section 0408.

P. Obsolete Inventory and Operating Materials and Supplies. Material that is no longer needed due to changes in technology, laws, customs, or operations.

Q. Operating Materials and Supplies. Operating materials and supplies consist of tangible personal property to be consumed in normal operations. Excluded are (a) goods that have been acquired for use in constructing real property, (b) stockpile materials, and (c) inventory held for sale.

R. Operating Materials and Supplies In Transit. Operating materials and supplies in transit is material in transit from commercial and government suppliers; material whose title has passed but the material has not been received and accepted at the final designated destination; material between storage locations; or material temporarily in use or on loan with contractors or schools.

S. Purchases Method of Accounting. The purchases method of accounting provides that operating materials and supplies are expensed when purchased. The purchase

method may be applied to operating materials and supplies if: (1) operating materials and supplies are not significant amounts, (2) they are in the hands of the end user for normal operations, or (3) it is not cost beneficial to apply the consumption method of accounting.

T. Reparables. Reparables are inventory items that can be repaired economically and for which repair (at either field or depot level) is considered in meeting computed inventory requirements. The Department authorizes Supply Management Activity Groups (SMAG) to finance reparable items, including their transportation, acquisition, overhaul, progressive maintenance, renovation, rework, repair, manufacture, reclamation, alteration, and/or software support. Reparables can also be in an unserviceable condition, when furnished to the contractor for repair, modification, or overhaul. Unserviceable Reparables are often referred to as carcasses.

U. Standard Price. The price customers are charged, which for a DoD Inventory Control Point managed item (excluding subsistence), remains constant throughout a fiscal year except for the correction of significant errors. The standard price is calculated based on various factors which include the replenishment cost of the item plus surcharges to recover costs for transportation; inventory loss, obsolescence and maintenance; depreciation; and supply operations. The formula for determining standard price is latest acquisition cost plus overhead cost recovery.

V. Stockpile Materials. Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business. The following items are specifically excluded from stockpile materials: (a) items that are held by an agency for sale for use in normal operations and (b) items that are held for use in the event of an agency's operating emergency or contingency.

W. War Reserve Material. War reserve/mobilization items are those materials that, in addition to peacetime assets normally available on any given date, are necessary to equip and support the increase in military requirements forecasts contingent on an outbreak of war. War reserves sustain operations until resupply can be affected.

X. Work-in-process. Work-in-process consists of products that are 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 or repairing 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 bring costs under financial control and segregate them from current accounting period expenses.

040103. Financial Statement Disclosure

For detailed requirements on financial statement disclosure, refer to Volume 6B, Chapter 10.

0402 OPERATING MATERIALS AND SUPPLIES

040201. Recognition of Operating Material and Supplies

A. The consumption method of accounting for the recognition of expenses must be applied for operating materials and supplies unless the conditions set forth in the following paragraph apply. Operating materials and supplies must be recognized and reported as assets when produced or purchased. Purchased is defined as when title passes to the purchasing entity. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. Delivery or constructive delivery must be based on the terms of the contract regarding shipping and/or delivery. The cost of goods must be reported as an operating expense in the period they are issued to an end user for consumption in normal operations.

B. The purchases method provides that operating materials and supplies be expensed when purchased. If (1) operating materials and supplies are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost-beneficial to apply the consumption method of accounting, then the purchases method may be applied to operating materials and supplies.

040202. Valuation of Operating Materials and Supplies

A. Operating materials and supplies must be valued at historical cost using the moving average cost (MAC) flow assumption for arriving at historical cost. Historical cost must include all appropriate purchase and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs must be charged to operations of the period. Donated operating materials and supplies must be valued at their fair value at the time of donation.

B. Operating materials and supplies that are maintained because they are not readily available in the market or because it is likely they will be needed in the future must be classified as Operating Materials and Supplies Held in Reserve for Future Use. Operating materials and supplies held in reserve for future use must be valued using the same basis as operating materials and supplies held for use in normal operations.

C. Excess, obsolete, or unserviceable operating materials and supplies must be valued at their estimated net realizable value (NRV). The difference between the value before identification as excess, obsolete or unserviceable and the estimated net realizable value must be recognized as a loss (or gain) when the determination that it is excess, obsolete, or unserviceable is made even though the disposition of the operating materials and supplies may not occur until a later period. At the time of actual disposal, recognize any subsequent changes to the net realizable value.

D. SFFAS Number 3 does not address operating materials and supplies held for repair. ***SFFAS No. 3*** Disclosures in ***Interpretation 7*** "Items Held for Remanufacture" state that valuation methods prescribed for inventory held for repair may be reasonably applied to operating materials and supplies.

1. Serviceable operating materials and supplies will be valued at historical cost using the MAC flow assumption.

2. Under the allowance method, operating materials and supplies held for repair must be valued at the same value as a serviceable item. However, an allowance for repairs contra-asset account (i.e. repair allowance) must be established. The annual (or other period) credit(s) required to bring the repair allowance to the current estimated cost of repairs must be recognized as current period operating expenses. As the repairs are made, the cost of repairs must be charged (debited) to the allowance for repairs account. The Department of Defense has decided to use the allowance method when accounting for Operating Materials and Supplies Held for Repair.

3. Under the direct method, operating materials and supplies held for repair must be valued at the same value as a serviceable item less the estimated repair costs. When the repair is actually made, the cost of the repair must be capitalized in the inventory account up to the value of a serviceable item. Any difference between the initial estimated repair cost and the actual repair cost must be either debited or credited to the repair expense account.

040203. Accounting for Operating Materials And Supplies

*A. The general ledger accounts discussed in this chapter must be reported in the financial statements required by the Treasury and for other reporting requirements mandated by Congress and OMB. Each account must be updated based on applicable source documents. Source documents includes contracts, invoices, receiving reports, payment vouchers, material-return documents, transfer documents, inventory documents, issue and shipping documents, sales records, and documented gains and losses. A discussion of the operating materials and supplies accounts is provided in the following paragraphs. Detailed posting transactions are outlined in the SFIS transaction library at ***United States Standard General Ledger Standard Financial Information Structure (SFIS) Transaction Library*.** Descriptions of the USSGL accounts for operating materials and supplies are provided in the following paragraphs.

B. Operating Materials and Supplies Held for Use (Account 1511). This account is used to record the value of materials and supplies held for use in normal operations. Materials and supplies should not exceed the amount expected to be used within normal business operations unless documentation justifying an excess supply is developed and maintained for review. This account is used to record the initial acceptance of materials and supplies in transit when title has passed but the items have not been received and accepted. Items in transit between DoD accounting entities must be kept under financial accounting control at all times. Activities may want to create a sub-account to track these items in transit (e.g. 1511.1); however, on the financial statements the balance in this account will be reflected at the summary level. As such this account is intended to be used by any DoD Component that maintains supplies and materials.

C. Operating Materials and Supplies Held in Reserve for Future Use (Account 1512). This account is used to record the value of stocks of materials and supplies maintained

because they are not readily available in the market and there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations.

D. Operating Materials and Supplies – Excess, Obsolete and Unserviceable (Account 1513). This account is used to record the value of operating materials and supplies (serviceable or unserviceable) that exceed the amount expected to be used in normal operations and do not meet management's criteria to be held in reserve for future use. Obsolete operating materials and supplies include stocks that are no longer needed due to changes in technology, laws, customs or operations. Unserviceable operating materials and supplies are items that are physically damaged and cannot be consumed in operations.

E. Operating Materials and Supplies Held for Repair or Remanufacturing (Account 1514). This account is used to record the value of materials and supplies that are not in usable condition, but can be economically repaired. The objective is to rebuild items as an alternative and rotating source of supply. Once rebuilt, the items will be returned to Operating Materials and Supplies Held for Use

F. Relationship of General Ledger OM&S Accounts to Logistic Supply Condition Codes. OM&S recorded in financial records should be identifiable to OM&S recorded in logistic records and vice versa. Table 4-2 displays the relationship of logistic supply categories to general ledger financial inventory accounts.

1. Supply Condition Codes. Supply condition codes classify material in terms of readiness for issue and use or identify action underway to change the status of material. Supply condition codes currently in use within the DoD are defined in DoD 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures."

2. Relationship of Logistic Categories to Accounting Classifications for OM&S. Table 4-2 shows the relationship of logistics supply categories to general ledger OM&S accounts.

*Table 4-2. Relationship of Logistic Supply Categories

U.S. Standard General Ledger Account	Supply Condition Codes
1511 Operating Materials and Supplies Held for Use	A Serviceable Issuable Without Qualification B Serviceable Issuable With Qualification C Serviceable Priority Issue D Serviceable Test/Modification Use this account to record amounts for OM&S with condition codes A-D up to the approved acquisition objective (AAO). **[Excludes Excess, Economic Retention and Contingency Retention OM&S]**
1512 Operating Materials and Supplies Held in Reserve for Future Use	E Unserviceable Reparable (Limited Cost to Restore) J Suspended (In Stock) K Suspended (Returns) L Suspended (In Litigation) Q Suspended (Quality Deficient Exhibits) Use this account to record amounts for OM&S with condition codes A-D, E, J, K, L, and Q. that is above the AAO and is retained for economic or contingency purposes. **[Excludes Excess OM&S]**
1514 Operating Materials and Supplies Held for Repair (Remanufacturing)	F Unserviceable Reparable G Unserviceable Incomplete M Suspended (In Work) R Suspended (Reclaimed Items, Awaiting Condition Determination) Use this account to record amounts for all OM&S with condition codes F, G, M, and R. **[Excludes Excess OM&S]**
1513 Operating Materials and Supplies – Excess, Obsolete, or Unserviceable	Use this account to record amounts for OM&S that is NOT reportable in USSGL accounts 1511, 1512, or 1514. The OM&S reported using this account must be valued at its NRV. **[Includes Serviceable and Unserviceable Excess OM&S]**
Note 1: Condition Code N is for Ammunition Stocks only, which are classified as OM&S. Condition Code V is for Condemned Ammunition. Note 2: Condition Codes do not distinguish War Reserve/Mobilization items from inventory items.	

G. Operating Materials and Supplies – Allowance (Account 1519). This account is used to record the amount of estimated repairs needed for damaged operating materials and supplies and the estimated gain or loss on the value of OM&S due to unrealized holding gains and losses.

0403 INVENTORY

040301. General

This section sets forth the policies for recognition, valuation, and procedures for accounting for inventory.

040302. Recognition

Inventory must be recognized when title passes to the purchasing entity or when the goods are delivered to the purchasing entity.

040303. Valuation of Inventory

The Department's policy is that inventory must be valued at historical cost using the MAC flow assumption. However, the Department has also approved, for specific use, the first in, first out (FIFO) and latest acquisition cost (LAC) flow assumptions for calculating historical cost. Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property," ***SFFAS 3*** defines each of the three assumptions as means for arriving at historical cost. In addition, FASAB Interpretation 7, "Items Held for Remanufacture," ***Interpretation 7*** addresses the valuation of items held for repair that, once repaired/remanufactured/upgraded, are returned to Inventory Held for Sale and must be valued at historical cost using the MAC assumption.

A. The Defense Logistics Agency will value its fuels inventory held for sale at historical cost using the first in, first out cost flow assumption.

B. The Defense Commissary Agency will value its inventory consisting of grocery and household products using latest acquisition cost adjusted for holding gains and losses.

C. Entities must use MAC flow assumption to value inventory held for repair/remanufacture at historical cost. The historical cost of reparable carcass (carcass) is the amount paid for the carcass, generally the credit given to the customer for returning it. The amount to credit for the carcass is the latest acquisition cost less the latest repair cost. Once the carcass is repaired the cost to return the item to a usable condition (repair cost) is added to the cost of the carcass and the item is capitalized. The capitalized item is treated as if it was a purchase for calculating the historical cost of inventory using the MAC flow assumption as illustrated in table 4-1. Abnormal costs, such as excessive handling or rework costs, over the cost of available new items must be charged as an operations expense of the period and cannot be capitalized.

*D. Excess, obsolete, and unserviceable inventory must be valued as its expected net realizable value. The difference between the value before identification as excess, obsolete, or unserviceable and the estimated net realizable value must be recognized as a loss (or gain) when a determination that it is excess, obsolete, or unserviceable is made even though the disposition of the inventory may not occur until a later period. At the time of actual disposal, recognize any subsequent changes to the net realizable value.

E. Supply Management activities must calculate and report the costs of all inventory sold, i.e., cost of goods sold at historical cost using the MAC flow assumption. Cost of goods sold is the balance of USSGL 6500. USSGL 6500 may be verified by using the following formula:

Beginning Inventory at historical cost
Plus: Increases in Goods for Sale (Purchases, Remanufacturing Costs, Capitalized Inventory, Other Gains)
Less: Disposals or Other Decreases in Goods for Sale (Including Other Losses) at historical cost
Equals: Cost of Goods Available for Sale at historical cost Less: Ending Inventory at historical cost
Equals: Cost of Goods Sold at historical cost

*040304. Accounting for Inventory

*A. Detailed posting transactions are outlined in the SFIS transaction library at ***United States Standard General Ledger Standard Financial Information Structure (SFIS) Transaction Library***. Inventory accounts are authorized for use by activities that hold items for resale, use items in the process of production for sale, and consume items in the production of goods for sale or in the provision of services for a fee. Entities that hold supplies and materials for issue without reimbursement or for use without earning a fee own operating materials and supplies rather than inventory and should refer to section 0402. Refer to section 0407 for inventory accounts for work-in-process. A description of the applicable inventory accounts follow:

B. Inventory Purchased for Resale (Account 1521). This account is used to record the value of inventory purchased for resale which are in a usable condition and are available for immediate resale. The USSGL account includes entries to record receipt of material purchases, sale of inventory items at cost, issue without reimbursement, reclassification of inventory, and to record a gain when inventory is revalued. Activities may need to create a sub-account to record inventory in transit (e. g., 1521.1). However, on the financial statements the balance in this account will be reflected at the summary level. See paragraph 19 of SFFAS No. 3.

C. Inventory Held in Reserve for Future Sale (Account 1522). This account is used to record the value of inventory held in reserve for future sale and includes items which have been suspended in the logistical system and are currently not available for use, or items that are not available for use because they require limited restoration such as cleaning, painting, or

repackaging. Typical entries for use of this account include entries to reclassify inventory items, record the delivery of goods and services, and record transfers in or out without reimbursement.

D. Inventory Held for Repair (Remanufacturing) (Account 1523). This account is used to record the inventory items currently not in a usable condition but can be economically remanufactured. Remanufacturing is a process by which carcasses are overhauled, rebuilt, refurbished, repaired or restored to a usable condition for sale to a customer. Under remanufacturing, repair expenses are capitalized to the cost of inventory and expensed as Cost of Goods Sold. The Department's policy for accounting and reporting for Inventory Held for Repair/Remanufacture will be in accordance with paragraph 10 of FASAB Interpretation, "Items Held for Remanufacture," ***Interpretation 7*** and paragraphs 21 and 22 of SFFAS No. 3, "Accounting for Inventory and Related Property." ***SFFAS Number 3*** Although paragraph 10 of Interpretation 7 offers options for valuing items held for remanufacture, the Department's policy is that such items must be valued in accordance with paragraphs 21-22 rather than paragraphs 32-33 of SFFAS No. 3.

*E. Excess, Obsolete, and Unserviceable Inventory (Account 1524). This account is used to record the value of inventory (serviceable an unserviceable) that exceeds the amount expected to be used in normal operations and does not meet management's criteria to be held in reserve for future use, i.e., characterized as potential reutilization stock in ***DoD 4140.01***. Obsolete inventory includes stocks that are no longer needed due to changes in technology, laws, customs or operations or items for which the shelf life cannot be extended. Unserviceable inventory are items that are physically damaged and cannot be consumed in operation.

F. Inventory – Allowance (Account 1529). This account is used to record: (1) the estimated cost to repair damaged inventory, (2) the estimated gain or loss on the value of inventory because of unrealized holding gains or losses, and (3) the difference when restating the inventory from historical to standard cost. The account is either an asset contra account or an asset adjunct account depending on whether reparable costs are increasing or decreasing for the subsequent fiscal year. This account is used to reflect the purchase cost variance for inventory transactions.

G. Relationship of General Ledger Inventory Accounts to Logistic Supply Condition Codes. Inventory recorded in financial records should be identifiable to inventory recorded in logistic records and vice versa. Table 4-3 displays the relationship of logistic supply categories to general ledger financial inventory accounts.

1. Supply Condition Codes. Supply condition codes classify material in terms of readiness for issue and use or identify action underway to change the status of material. Supply condition codes currently in use within the DoD are defined in DoD 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures." ***DoD Publications***

2. Relationship of Logistic Categories to Accounting Classifications for Inventory. Table 4-3 shows the relationship of supply condition codes to general ledger inventory accounts.

*Table 4-3. General Ledger Inventory Accounts vs Supply Condition Codes

U.S. Standard General Ledger Account	Supply Condition Codes
1521 Inventory Purchased For Resale	A Serviceable Issuable Without Qualification B Serviceable Issuable With Qualification C Serviceable Priority Issue D Serviceable Test/Modification Use this account to record amounts for inventory with condition codes A-D up to the approved acquisition objective (AAO). **[Excludes Excess, Economic Retention and Contingency Retention Inventory]**
1522 Inventory Held in Reserve for Future Sale	E Unserviceable Reparable (Limited Cost to Restore) J Suspended (In Stock) K Suspended (Returns) L Suspended (In Litigation) Q Suspended (Quality Deficient Exhibits) Use this account to record amounts for inventory with condition codes A-D, E, J, K, L, and Q. **[Excludes Excess Inventory]**
1523 Inventory Held for Repair (Remanufacturing)	F Unserviceable Reparable G Unserviceable Incomplete M Suspended (In Work) R Suspended (Reclaimed Items, Awaiting Condition Determination) Use this account to record amounts for all inventory with condition codes F, G, M, and R. that is above the AAO and is retained for economic or contingency purposes. **[Excludes Excess Inventory]**
1524 Inventory - Excess, Obsolete, or Unserviceable	Use this account to record amounts for inventory that is NOT reportable in USSGL accounts 1521, 1522, or 1523. The inventory reported using this account must be valued at its NRV. **[Includes Serviceable and Unserviceable Excess Inventory]**
Note 1: Condition Code N is for Ammunition Stocks only, which are classified as OM&S. Condition Code V is for Condemned Ammunition. Note 2: Condition Codes do not distinguish War Reserve/Mobilization items from inventory items.	

*3. Logistics Inventory Categories. Table 4-4 illustrates the relationship between the logistics inventory stratification categories and the general ledger accounts.

Table 4-4. Logistics Inventory Stratification vs General Ledger Accounts

	Inventory			
Category	Serviceable	Unservicable	Repair	Retain
Excess	USSGL 1524	USSGL 1524	No	No
Contingency Retention	USSGL 1522	USSGL 1523	No	Yes
Economic Retention	USSGL 1522	USSGL 1523	No	Yes
Approved Acquisition Objective (AAO)	USSGL 1521	USSGL 1523	No	Yes
Requirement	USSGL 1521	USSGL 1523	Yes	Yes

Table 4-4

040305. Reconciliations

Activities must reconcile line item accountability records to balances recorded in the general ledger inventory accounts at least quarterly. Activities may require reconciliations more frequently. Activities must investigate the differences between line item accountability records and general ledger balances to determine the cause(s) of the difference(s). Activities must then correct errors found during the investigation.

040306. Adjustments for Physical Counts of Inventory

Activities must take physical counts of inventories in accordance with the procedures prescribed in ***DoD 4140.01***, "DoD Materiel Management Regulation." Activities must adjust the general ledger for differences between the general ledger balances and the physical count.

040307. Inventory Gains and Losses

A. Disposal. Disposal of an inventory item must result in (a) a reduction in the associated inventory account equal to the historical cost of the item; and (b) a loss amount equal to the historical cost of the item.

B. Inventory Issued For Consumption in Repair or Fabrication of Other Items. The item manager may issue material to a contractor or to another federal or DoD activity. If the item is issued for fabrication, assembly, or disassembly of another SMAG item, it must be recorded as Work-in-Process. If the item is issued for consumption or incorporation in the repair, alteration, or modification, of a Supply Management group item, the Supply Management activity must expense the material when it is issued. If an item issued for consumption subsequently is returned in a usable condition, the Supply Management activity must account for the item in the same manner as a customer return of material. The issue of an inventory item must result in (a) a reduction in the associated inventory equal to the historical cost of the item(s) issued and (b) a loss amount equal to the historical cost of the item(s) issued.

C. Incoming Shipment Gains and Losses. Invoices occasionally list less than (inventory gain) or more than (inventory loss) the inventory received. If it is not economical to resolve the difference, record the difference as an expense. In such instances, debit the incoming shipment losses to USSGL 7290; credit incoming shipment gains to USSGL 7190.

0404 SUPPLY MANAGEMENT OPERATIONS

040401. Description

This section prescribes the policy and accounting requirements relating to inventory applicable to the SMAGs (i.e. Department of the Army, Department of the Navy, Department of the Air Force and the Defense Logistics Agency) and to the Defense Commissary Agency for commissary resale. The policy for inventory valuation and classification is also applicable to the Defense Reutilization and Marketing Service (DRMS), which holds items for redistribution or disposal including sales of excess materiel to the public and other federal customers, and to the Depot Maintenance or Industrial Operations activity groups who hold and consume items in the production of goods for sale or in the provision of services for a fee, i.e. direct material expense.

040402. Items to be Included in the Supply Management Activity Group

A. General. The SMAGs manage inventory held for sale to other DoD Components or activities within a Component and, when authorized by legislation, items procured for sale to members of the Armed Forces and other individuals or organizations. The Under Secretary of Defense (Comptroller) (USD(C)) and the Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L)) may designate an item to be procured by the SMAG and may reassign the management responsibility of any item from one DoD Component to another DoD Component.

B. Subsistence Items. The SMAGs and the Defense Commissary Agency must plan for, procure, manage, distribute, and insure wholesomeness of subsistence products throughout the supply chain. Subsistence items must be procured to provide healthy, wholesome, nutritious food items to members of Armed Forces and other persons being fed by the DoD Components. Sub-classes of subsistence items include in-flight rations, combat rations, refrigerated subsistence and non-refrigerated subsistence.

C. Military Exchange Items. ***DoD Instruction 1338.18***, "Armed Forces Clothing Monetary Allowance Procedures," assigns management's responsibility to the SMAGs for items procured primarily for sale to members of the Armed Forces and other individuals or organizations authorized by legislation. These items include clothing sold by a military clothing resale activity and items sold in a ship's store. They also include personal items for health, comfort, and recreation.

*D. Military Clothing Items and Individual Equipment. The Department authorizes military exchange systems to act as agents of the SMAG to sell military clothing items to members of the Armed Forces. The Defense Logistics Agency (DLA) must procure military clothing requirements for the DoD, and bill users at standard prices. Besides uniforms, this supply class also includes combat equipment, tentage, tool sets and kits, hand tools, and cleaning equipment and supplies. When these items are replaced, the wholesale item manager must prepare a billing to make an expenditure transfer from the applicable military personnel appropriation account or operation and maintenance appropriation to the wholesale inventory account. The billing amount must cover the cost of the residual stocks only for those items above the initial buy and safety levels of the item being replaced.

E. Fuel. DoD Components must buy their fuel through DLA. The DLA must bill DoD customers at standard prices and other federal and non-federal government customers at cost plus the approved DLA surcharge. In isolated locations, where DLA has authorized a DoD customer to procure fuel on the local market, payment may be made by DLA or the customer depending on local circumstances. If payment is made by the DoD customer, then DLA will reimburse the customer for the actual cost of the fuel and bill for the fuel based on standard prices. Other items in this supply class are preservatives, liquid and compressed gases, chemical products, coolants, deicing, and antifreeze components.

F. Construction Materials. The SMAGs must manage construction materials including installed equipment, fortification materials, and barrier materials. This includes such items as wood, wire, and sandbags.

G. Medical. The SMAGs must manage medical materials supported in the "medical supply chain." This materiel includes pharmaceutical, medical-surgical, dental, medical laboratory, radiology and optometry supplies. It also includes preventive medicine items and medical equipment.

H. Initial Spares. Initial spares are spare and repair parts that support newly fielded weapons systems during the initial period of operation until the supply system can support the demand generated by the systems. Replenishment spares are spare and repair parts

resupplying initial stocks. The SMAGs will acquire initial and replenishment spares based on the materiel support date.

I. Nonmilitary Programs. The SMAGs must manage material used to support nonmilitary or civic action programs. These programs are intended for agricultural and economic development. Sales of these materials will be made at standard prices.

040403. Authorized Customers.

A SMAG is authorized to sell items to:

A. A Federal Government-funded activity or an activity empowered to perform a Federal Government-legislated function.

B. A DoD-sponsored non-appropriated fund instrumentality.

C. A State Department-sponsored employee commissary located outside the United States.

D. A foreign government when an authorized contractual relationship has been established.

E. A Federal Government contractor, when the contract specifically provides for the purchase of items by the contractor from the Government.

F. Members of the Armed Forces and other individuals authorized by law to purchase commissary and clothing items.

G. The private sector, state or local governments when purchasing non-excess personal Exchange/Sale property as authorized by the Federal Property and Administrative Services Act of 1949 as amended in 40 U.S.C. Chapter 5, Section 503. ***United States Code***

H. Other entities, when authorized by duly appointed officials.

040404. Issues Without Reimbursement

A SMAG item may not be issued or transferred without a funded customer order except as specifically authorized in the following subparagraphs. Events for which an issue is authorized without receipt of a funded customer order must be accounted for in the same manner as a normal sale with the exception that an allowance for loss on accounts receivable may be established when necessary.

A. Domestic Civil Emergency. A SMAG item may be issued without immediate reimbursement when action is being taken to provide civil emergency relief assistance in accordance with the policies and procedures provided in ***DoD Directive 3025.18***, "Defense Support of Civil Authorities (DSCA)." However, an accounts receivable must be established for

such amounts. Subsequently, funding should be made available to cover the costs of the relief effort, and the SMAG must be reimbursed for any outstanding accounts receivable.

B. Civil Disturbances. A SMAG item may be issued without immediate reimbursement when action is being taken to control a civil disturbance in accordance with the policies and procedures provided in ***DoD Directive 3025.18***, "Defense Support of Civil Authorities (DSCA)." A receivable account must be established for such amounts. Subsequently, the SMAG should be reimbursed for any outstanding accounts receivable based upon the procedures provided in Chapter 11. Volume 4, Chapter 3 also provides guidance on the write-off of uncollectible receivables from the public.

C. Foreign Disaster. The State Department is responsible for initiating and financing foreign disaster relief efforts pursuant to the Foreign Assistance Act of 1961. Procedures for issues of SMAG material to assist in the event of a foreign disaster and reimbursements must be in accordance with ***DoD Directive 5100.46***, "Foreign Disaster Relief."

D. North Atlantic Treaty Organization Country. A SMAG item may be issued to a North Atlantic Treaty Organization (NATO) country without reimbursement under a replacement-in-kind arrangement. Non-reimbursable issues under this authority must be changed to a reimbursable issue within 12 months if not replaced by the NATO country.

E. Military Emergency. A SMAG item may be issued without immediate reimbursement when a Federal official or military officer has certified that an emergency exists under emergency provisions in the current DoD Appropriations Act or 10 United States Code ***(10 U.S.C. 127a)***. A receivable account must be established for such amounts. When funding is made available to cover the costs of the emergency, the SMAG must be reimbursed for any outstanding accounts receivable.

F. Presidential Directed Drawdown. A SMAG item may be issued to a foreign country without reimbursement when the President has directed a drawdown of defense articles from stocks under authority of ***22 U.S.C. 2318***. The standard price of such issues must be reported to the Director, Defense Security Cooperation Agency for inclusion in subsequent foreign assistance budget requests and to the OUSD(C), Revolving Funds Directorate, in order to determine the cash impact of such issues. The cash impact must be added to the economic adjustment cost recovery element.

G. War Reserve Assets. A SMAG item may be issued without reimbursement when an item is designated as a war reserve asset and the issue has been approved to satisfy requirements of a mobilization of U.S. Armed Forces.

H. Deficiencies in War Reserve Requirements. A SMAG item may be issued without reimbursement when an item is issued under the policies of ***DoD 4140.01***, "DoD Supply Chain Materiel Management Regulation," to satisfy deficiencies in war reserve requirements or between activities within the SMAG. Items issued at any level, wholesale or retail, to satisfy customer requisitions must be reimbursable from war reserve reinvestment appropriations.

I. Disposal of Excess Inventory or Operating Materials and Supplies. Disposals will be made in accordance with ***DoD 4160.21-M***, "Defense Materials Disposition Manual."

J. Items Nearing End of Shelf Life. A SMAG item may be issued at any price or without reimbursement when the item is not a war reserve asset, it has six months or less of remaining shelf-life and the item manager grants approval for the item to be issued on a less than cost basis.

K. Logistical Management Transfers. Logistical management transfers result from changes in the funding appropriation for an item. If the USD(C) and the USD(AT&L) designate a logistical management transfer of an item from a general fund appropriation entity to the supply management activity group, an increase to inventory for a non–reimbursable transfer must be recorded at the value of the item being transferred. Normally, an item transferred as a result of a logistical management transfer are transferred without reimbursement. However, with prior approval from the OUSD(C), transfers-in of inventory may be with reimbursement to the transferring account under the following conditions:

1. The inventory was on order but undelivered to the transferring account at the time of the transfer; and

2. The transferring account is not an activity group within a working capital fund; and

3. The inventory was ordered by the transferring account as a result of a reimbursable order from a customer of that account.

L. Logistical Management Transfers between Supply Management Activities. Procedures for transferring item management responsibility between working capital fund activities are outlined in Volume 11B, Chapter 2, section 0204 (Transfer of DWCF Functions). The transfer of supply inventory is handled as follows:

1. On-hand inventory. Stock on-hand is transferred between SMAGs without reimbursement. Reimbursement is authorized, based on DoD credit policies, between wholesale and retail supply activities when on-hand retail inventory is transferred back to the wholesale item manager's inventory control points.

2. On-order inventory. The gaining and losing wholesale item managers must validate on-order inventory requirements to ensure the supply pipeline is adequately filled. As the gaining Supply Management activity receives pipeline deliveries, the gaining item manager is responsible for payment either directly to the vendors (delivery order modification), or to the losing Supply Management activity that funded the delivery order, thus ensuring cash neutrality across the DWCF.

040405. Loans and Leases

A. Authorized Activities. Supply Management activities may only lend or lease items to activities specified in the following paragraphs for the stated purpose. The recipient must sign a receipt for the item. This receipt must include a statement of the intended purpose of the loan or lease. The accountable office, or the comptroller (or equivalent) of the accountable activity for the item, must approve each loan or lease of an item. Accountability for inventory on loan remains with the activity lending the material. Inventory on loan must be valued in the same manner as is inventory on hand. Property may be lent to:

1. DoD Funded Customers. An item may be lent to a DoD funded customer for a maximum of 120 days to support an approved training exercise, a military emergency, or a natural disaster.

2. U.S. Secret Service. An item may be lent to the U.S. Secret Service for a maximum of 120 days for purposes prescribed under the policies and procedures in ***DoD Directive 3025.13***, "Employment of Department of Defense Resources in Support of the United States Secret Service."

3. Civilian Law Enforcement Officials. An item may be lent to a civilian law enforcement activity for a maximum of 120 days for purposes prescribed under the policies and procedures in ***DoD Instruction 3025.21***, "Defense Support of Civilian Law Enforcement Agencies."

4. State and Local Governments. An item may be lent to a state or local government for a maximum of 120 days for a specific purpose, under the policies and procedures prescribed in ***DoD Instruction 3025.1***, "Defense Support of Civilian Law Enforcement Agencies."

5. National Veterans' Organizations. Under the authority of ***10 U.S.C. 2551***, an item (e.g., cots, blankets, pillows, mattresses, bed sacks, and other supplies) may be lent to a recognized national veterans' organization for a maximum of 120 days to support a national or state convention or a regional youth athletic or recreational tournament sponsored by the veterans' organization. A bond equal to the current standard price of the item must be obtained before the item is loaned.

6. American National Red Cross. Under the authority of ***10 U.S.C. 2552***, an item may be lent to an organization formed by the American National Red Cross for a maximum of 120 days for the purpose of instruction and practice needed to aid the Army, Navy, or Air Force in time of war. A bond equal to twice the value of the property is required for the care and safekeeping of the loaned property before the item is lent.

7. Inaugural Committee. Under the authority of ***10 U.S.C. 2553***, an item may be lent to an Inaugural Committee to support an inauguration of the President of the United States for a period not to exceed 9 days beyond the inauguration ceremony. A bond equal to the current standard price of the item must be obtained before the item is lent.

8. Boy Scout Jamborees. Under the authority of ***10 U.S.C. 2554***, cots, blankets, commissary equipment, flags, refrigerators, and other equipment may be lent to the Boy Scouts of America for the use of Scouts, and officials who attend any national or world Boy Scout Jamboree. In addition, services and expendable medical supplies, as may be necessary or useful to the extent that items are in stock and items or services are available may be furnished without reimbursement. Items may be lent for a maximum of 120 days. A bond equal to the value of the loaned items must be obtained before the items are loaned.

9. Shelter for the Homeless, Incidental Services. Under the authority of ***10 U.S.C. 2556***, the Secretary of a military department may provide, without reimbursement, bedding for support of shelters for the homeless that are operated by entities other than the DoD, but only to the extent that the Secretary determines that the provisions of such bedding will not interfere with military requirements. In addition, incidental services and other items (such as medical supplies) may be provided without reimbursement to the extent that the provision of incidental services or other items do not interfere with military preparedness or ongoing military functions. To satisfy these requirements, a SMAG may issue to a shelter for the homeless only items that have been declared excess to the needs of the DoD.

10. Humanitarian Relief. Under the authority of ***10 U.S.C. 2557***, nonlethal excess supplies may be made available for transfer to the Department of State for its distribution for humanitarian relief. The term "nonlethal excess supplies" means property, other than real property, of the DoD that is excess property as defined in regulations of the DoD; and that is not a weapon, ammunition, or other equipment or material that is designed to inflict serious bodily harm or death.

11. Foreign Countries or International Organizations. An item may be leased to an eligible foreign country or international organization under the authority of the Arms Export Control Act. Policy and procedures for the lease of material to foreign countries and international organizations is contained in Chapter 11 of ***DoD 5105.65***, "Defense Security Cooperation Agency (DSCA)l," and in Volume 15, "Security Assistance Policy and Procedures," Chapter 7, Section 0713. Refer to these references for approval channels and expense requirements.

12. Other Leases. Under the authority of ***10 U.S.C. 2667***, a non-excess SMAG item may be leased to an organization when the Secretary of Defense or the Secretary of a Military Department has determined that the item is not needed for DoD use during the proposed lease period and the lease will promote the national defense or otherwise be in the public interest.

B. Approvals. Each loan or lease of an item must be approved by the comptroller, or equivalent, of the activity responsible for accountability over the item. The approval must include a description of the item including the price, condition, anticipated return date; and a certification that the loan of the item will not jeopardize the capability to support national defense requirements.

C. Expenses. The recipient must pay for any transportation, packing, crating, and handling costs associated with the loan or lease of the item. At the time of return of the item, the recipient must be required to pay any costs necessary to restore the item to its original condition or to pay for any item the recipient does not return within the approved period of the loan or lease.

040406. Government-Furnished Material (GFM)

Government furnished material may be provided to a contractor or other government agency for consumption or repair.

A. Business Rules. When government furnished material is provided for consumption the following business rules must be followed.

1. An expense item issued by the item manager to a contractor or to another DoD or other federal government activity for consumption or incorporation in the repair, alteration, or modification of another SMAG item for the benefit of the SMAG.

2. Record as work-in-process items issued by the item manager to a contractor or to another DoD or other federal government activity for fabrication, assembly, or disassembly of another SMAG item for the benefit of the SMAG. The use of the work-in-process account is described at section 0407.

3. The return of GFM items by a contractor must be accounted for in the same manner as a customer return of material without credit.

* 4. Forgings and Castings. The cost of forgings and castings used as GFM shall be included as a part of the acquisition cost of the item that includes the forging and casting in its production.

B. Items Issued for Repair and Return. Issuing supply activities must account for reparables or other items of inventory issued by the direction of an item manager to either a DoD activity or a contractor for repair, alteration, or modification as USSGL 1523, "Inventory Held for Repair." Such items will continue to be valued as inventory held for repair in accordance with the valuation criteria applicable to inventory held for repair that is held by the stockage point. Upon receipt of the repaired item, it must be accounted for in USSGL 1521, "Inventory Held for Sale."

040407. Capitalized Inventory

A. Transfers-In Without Reimbursement. The Supply Management activity may capitalize, when it undertakes management responsibility for items, supply inventories on hand and on order that were financed by other appropriations and funds, as permitted by ***10 U.S.C. 2208***. The appropriation that ordered the item must pay bills for inventories on order at the time of the transfer. The Supply Management activity must issue items, upon receipt of an approved stock withdrawal authorization, to the specified customer without reimbursement up to

the authorized limit for a fiscal year. Note, for transfers from other working capital funds, the gaining Supply Management activity will reimburse the losing activity for any inventories on order as the deliveries are made. As provided in 10 U.S.C. 2208, a SMAG may not make credits to an appropriation for capitalized inventories. However, stock withdrawal authorizations may be approved as provided in 040407.C.

B. Transfers of Reimbursable Procurements. The SMAG may record a liability for an item transferred from a non-DWCF account only if (1) item is undelivered at the time of the transfer, and (2) the transferring organization's obligation for the item resulted from a reimbursable order from a customer. The liability must be liquidated by a payment to the transferring appropriation or fund based upon a payment to the SMAG by the customer.

C. Stock Withdrawal Authorizations. After transferring an item from an appropriated account to a Supply Management activity, the transferring activity may not have sufficient funds to purchase the item when needed. The transferring activity may request, as part of the formal budget submission to the Congress, that the USD(C) approve an authorization for issues without reimbursement. When the fiscal year has passed, the Supply Management Activity Group must issue items on a reimbursable basis. The Supply Management Activity Group must not record a stock withdrawal authorization as a liability.

D. Logistical Management Transfers. Logistical management transfers result from changes in the funding appropriation for an item. When an approved logistical management transfer of item(s) is implemented, an increase or a decrease to inventory for a non-reimbursable transfer must be recorded at the value of the item being transferred.

040408. Depot Level Reparables

A. General. For material management purposes, "reparables" are items of supply subject to economical repair and for which the repair is considered in satisfying computed requirements at any inventory level. For financial management and accounting purposes, the Department's depot level repair program for inventory replenishment and resale is considered to be a remanufacturing process.

B. Financial Reporting of Depot Level Reparables. Serviceable depot level reparables (DLR) will be reported on DoD financial statements at historical cost using the MAC flow assumption. Unserviceable reparables (carcasses) will be reported at historical cost using the MAC flow assumption less the average repair cost without the cost recovery elements. In practice, the amount paid to the customer or the amount allowed to the customer for the carcass is the reportable cost of the unserviceable repairable.

C. Exchange Transaction. Most items held for remanufacturing are obtained as the result of an exchange transaction. An exchange transaction is the sale of a serviceable item at a standard price in exchange for (1) cash and (2) an item that needs rebuilding or repair (carcass). The customer must will be billed the exchange price i.e., the established repair cost plus the appropriate cost recovery elements at the time of issue if the requisitioning activity states a reparable will be returned. If the impaired item (carcass) has not been received at the

time of the exchange, it must be recorded USSGL 1523 "Inventory Held for Repair (Remanufacture-Due In)."

1. Standard Price. The price customers are charged which, for DoD inventory control point (ICP) managed item (excluding subsistence), remains constant throughout a fiscal year except for the correction of significant errors. The standard price is computed based on various factors which include the replenishment cost of the item plus surcharges to recover costs for transportation; inventory loss, obsolescence and maintenance; depreciation; and supply operations.

2. Exchange Price. The price charged to customers exchanging a depot repairable item (DLR) for a serviceable one (new or repaired). It equates to the latest repair price plus wash out costs per item plus the surcharges necessary to recover other operating costs in the supply management activity group, i.e., latest average repair cost plus overhead cost recovery plus condemnation material expense cost recovery.

D. Business Rules. Remanufacturing costs must be capitalized according to the following business rules:

1. Remanufacture of items currently available from new procurement. Capitalize all costs except: (a) Costs that exceed the current replacement cost; (b) Abnormal costs such as excessive rework or costs of an unusual nature that occur infrequently. (Abnormal costs should be expensed as period costs without regard to current replacement cost.)

2. Remanufacture of items not available from new procurement. Capitalize all costs except abnormal costs such as excessive rework or costs of an unusual nature that occur infrequently. (Abnormal costs should be expensed as period costs without regard to current replacement cost.)

E. Time Limit for Receipt of Exchange Item. If a reparable is not received within 90 days of the exchange sale from a continental United States (CONUS) customer or 120 days for an outside the continental United States (OCONUS) customer, the credit previously allowed must be reversed and the customer billed for that amount. Additionally, at the discretion of the seller, the customer may be billed for costs that would not have been otherwise incurred except for non-receipt of the item.

1. Carcass Received Before an Exchange Sale. Occasionally, a carcass may be received before an exchange sale when a like issue item is not available at the time the requisition is received. When this occurs, the carcass must be recorded into inventory and a liability established. When a serviceable item becomes available for issue, the liability must be reversed and the exchange sale will proceed normally.

2. Carcass Sent to Contractor or to Repair Facility for Repair/Remanufacture. Supply Management activities will place orders and obligate funds for repair/remanufacture work placed with contractor or at a government repair facility. While being repaired/remanufactured, the carcass will remain in the inventory of Supply Management

activity. Activities may continue to account for carcasses as "Inventory Held for Repair (Remanufacturing)".

040409. Return Of Items to the Supply Management Activity Group

An item manager may grant credit for a returned item after receipt, inspection, and classification of the item. A return that stratifies to a war reserve requirement does not qualify for credit.

A. Customers Who May Return Items. A customer within the federal government, including DoD contractors, may return an item to a SMAG. Additionally, on July 21, 1996, section 21 of the Arms Export Control Act was amended to allow the return and exchange of defense articles from a foreign country or international organization under specified conditions. For these conditions see DoD ***5105.65***

B. Customers Who May Not Return Items. A customer outside of the federal government, who does not meet the conditions specified in paragraph 040409.A, may not return an item to a DoD SMAG.

C. Credit Options. An item manager may grant credit for a returned item after receipt, inspection, and classification of the item. A return that stratifies to a war reserve requirement does not qualify for credit.

1. Return of a Fully Serviceable Consumable or Reparable Item When not Part of an Exchange Transaction. If approved by an item manager, a credit must be granted to federal government customers and to nonfederal government customers who meet the requirements specified in paragraph 040409.A. The amount of the credit for the return of an item that is within the AAO must not exceed the current standard price of the returned item less the current fiscal year's approved cost recovery elements.

2. Return of a Carcass When Not Part of an Exchange Transaction. An item manager may approve credit for the return of a carcass from a federal government funded customer or a nonfederal government customer who meets the requirements specified in paragraph 040409.A without an exchange, when the returned item is within the AAO. The credit must be in the amount of the value of the reparable to the Supply Management activity but not more than the current standard price less the exchange price.

3. Billing. The Supply Management activity must bill the customer for the credit previously allowed if it granted credit before taking ownership or receipt of the returned item and the item is not received within 90 days from a CONUS customer or 120 days for an OCONUS customer. The customer also may be billed, at the discretion of the stockage point, for costs incurred due to non-receipt of the item.

4. Return of Defective Items. The Supply Management activity must grant a credit to a customer at standard price for defective items issued by a Supply Management

activity, including specification defects, when a customer's quality deficiency report has been validated.

5. Credits Applied Toward Future Requirements. Credits granted may be applied against future customer demands in the current fiscal year for items or directly credited to the current year available funds of the customer.

6. Shipping Costs. Shipping costs include packing, crating, handling, transportation, port loading, and unloading. The Supply Management activity must fund transportation and other shipping costs only for items approved by an item manager for return from customers. Shipping and transportation cost for items that have not been approved by an item manager for return from customers must not be paid by the Supply Management activity.

040410. Excess Items Disposition

A. Issues of Excess Items to Reutilization and Marketing. An Integrated Materiel Manager (IMM) may authorize transfer without reimbursement of excess SMAG items to DRMS. DRMS must issue an item without reimbursement to a SMAG when the item is required to satisfy a SMAG requirement.

B. Transfer of Inventory Item. Losses for inventory items are taken at the time an item is determined to be excess, obsolete, or unserviceable beyond repair. When an item is transferred to DRMS both the inventory item and its related allowance are removed from the accounting records of the Supply Management activity.

C. Issues of Excess Items to Other DoD Activities. A lateral redistribution of an item excess to the immediate needs of a retail activity, when directed and controlled by an Integrated Material Manager (IMM), must be without direct reimbursement to the issuing (sending) activity from the receiving activity. Rather, the IMM must bill the receiving activity for the standard price of the material and reimburse the issuing activity for the standard price of the item and its standard packing, crating, handling, and transportation costs.

D. Transfers of Excess Property from DRMS. When an IMM or Primary Inventory Control Activity (PICA) determines that needed material is available within the disposal system, DRMS must provide the material to the requiring IMM/PICA without reimbursement. The Supply Management activity must reimburse DRMS, however, for costs incurred for packing, crating, handling (PCH), and transportation. Reimbursement for PCH will be at the rate of 3.5 percent of the acquisition price of consumable material and 1 percent of the acquisition price of reparable material. Reimbursement to DRMS for transportation of consumable or reparable items will be at the cost recovery rate in effect for transportation by the shipping DRMS location. Activities must account for transfers of material from DRMS.

E. Accounting for Customer Returns. Customer returns may have a significant impact on current period revenue and inventory for the SMAG. Customers may or may not receive credit for returned items. Return of an item, whether issuable or not issuable, reverses the sales' effect on the Cost of Goods Sold because the sale with return brings the

Supply Management activity back to the original level of inventory. Regardless of whether the customer does or does not receive credit, activities will record receipt of a returned item.

F. Billing. The Supply Management activity must bill the customer for the credit previously allowed if the Supply Management activity grants credit prior to taking ownership or receipt of the returned item and the item is not received within 90 days from a CONUS or 120 days for an OCONUS customer. The customer also may be billed, at the discretion of the stockage point, for costs incurred due to non-receipt of the item.

0405 WAR RESERVE MATERIEL

040501. Definition

War Reserve Material (WRM) is mission-essential secondary items, principal end items, and munitions sufficient to attain and sustain operational objectives in scenarios authorized in the Secretary of Defense GDF and Joint Strategic Capabilities Plan scenarios for committed forces. WRM inventories must include peacetime operating stocks, training stocks, stocks available through industrial base partnerships, and WRM. [See also ***DODI 3110.06,*** "War Reserve Materiel (WRM) Policy"] Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. National Defense Stockpile materials, discussed in section 0406, are accounted for within the National Defense Stockpile Transaction Fund.

040502. Funding for War Reserve Materiel

War reserve materiel must be funded from appropriations made direct to the DWCF. Such appropriated amounts must be reflected as a separate goal within the applicable Supply Management or Commissary Resale activity group annual operating budget (AOB) letter. Items such as ammunition and/or principal and major end items procured for war reserve must not be funded through a DWCF, but must be funded through amounts available to Component/Defense Agency procurement appropriations.

040503. Accounting for War Reserve Materiel

Purchases of DWCF war reserve items must be accounted for at the same level of detail as items procured for peacetime requirements. The value of war reserve items must be recorded in the standard inventory accounts.

040504. Acquisition of War Reserve Materiel

War Reserve Materiel is indistinguishable from corresponding inventory items. War Reserve Materiel and inventory are, or can be, purchased at the same time, purchased from the same vendor, received at the same time and in the same shipping container, and stored together in the same warehouse/bin. As a result, the accounting for the acquisition of war reserve materiel and inventory, at the time of acquisition, is the same.

040505. Disposition of War Reserve Materiel

War Reserve materiel is held in reserve to be available for transfer without reimbursement when the issue of a war reserve asset has been approved to satisfy requirements of a mobilization of U.S. Armed Forces. However, if authorized, war reserve and other stockpile materials may be sold.

0406 STOCKPILE MATERIALS

040601. Description

National Defense Stockpile operates under the authority of the Strategic and Critical Stock Piling Act (50 U.S.C. Chapter 98). ***United States Code*** The Stockpiling Act provides that strategic and critical materials are stockpiled in the interest of national defense to preclude a dangerous and costly dependence upon foreign sources of supply in times of a national emergency. The National Defense Authorization Acts provide authority to buy and sell specific materials, set quantity and revenue levels for selling material, and mandate programs to receive the revenue from the sales and collections. There is currently no authorization to buy (acquire) any material if over 99 percent of the inventory is authorized for sale. Only accounting requirements and procedures for stockpile material transactions particular to the National Defense Stockpile Transaction Fund (NDSTF) are included in this section.

A. Operations. The Defense National Stockpile Center (DNSC) administers the acquisition, storage, management, and disposal of inventory currently maintained in the National Defense Stockpile. The NDSTF is a continuing fund dedicated to financing the operations of the National Defense Stockpile and DNSC. While the NDSTF has some aspects of a revolving fund, it is not strictly such a fund, as resources are received from diverse sources including direct appropriations, transfers from other appropriations, transfers of physical assets, and disposal proceeds. The Treasury Federal Account and Symbol Title ***FAST*** Book, reflects the NDSTF account symbol is 97X4555.

B. Responsibilities. The Defense Finance and Accounting Service (DFAS) will establish accounting requirements and procedures for the NDSTF. All transactions obligating funds of the NDSTF will be initiated by the DNSC. Inventory accounting for the NDSTF is performed by the DNSC. Financial and general ledger accounting for the NDSTF will be performed by DFAS. External accounting reports of the NDSTF are prepared by the DFAS. Accounting reports and additional supporting supplemental financial information is provided by DFAS to the DNSC for preparation of the Department of Defense, "Strategic and Critical Materials Report to the President and Congress."

040602. Recognition of Stockpile Materials

The consumption method of accounting must be applied for stockpile materials. The materials must be recognized as assets and reported when produced or purchased. The cost of stockpile materials must be removed from stockpile materials and reported as an operating expense when issued for use or sale.

040603. Valuation of Stockpile Materials

Stockpile materials must be valued on the basis of historical cost. Historical cost must include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location. Abnormal costs must be charged to operations of the period. The DoD standard of using the MAC flow assumption must be applied in arriving at the historical cost of stockpile materials. The financial inventory balance of the National Defense Stockpile is maintained on a historical cost basis as supported by "laid-in cost." In accounting terms, laid-in cost is used by wholesalers or suppliers, and includes additional costs incurred to place the goods in inventory (e.g., a manufacturer's invoice price, freight, state and local taxes).

040604. Accounting for Stockpile Materials

Because of some unique transactions used in accounting for National Defense Stockpile material (e.g., acquisitions and sales), additional breakout of information is required below the USSGL account level. When information is required because of necessity for separate identification and inclusion in financial statements, it is needed for combining with other accounts in the several financial statements, or visibility is necessary for preparation of notes to the financial statements, financial systems should allow for the information to be segregated in a form which would permit user analysis. The unique use of select general ledger accounts of the NDSTF is included in the discussion of each particular accounting area. Detailed posting transactions are outlined in the SFIS transaction library at ***United States Standard General Ledger Standard Financial Information Structure (SFIS) Transaction Library.*** Also see Volume 4, Chapter 16.

A. Stockpile Materials Held in Reserve (Account 1571). Stockpile Materials Held in Reserve are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business.

B. Stockpile Materials Held For Sale (Account 1572). This account is the account used to maintain the stockpile materials that have been authorized for sale. The materials authorized for sale must be valued using the same basis used before they were authorized for sale. Any gain (or loss) upon sale must be recognized as a gain (or loss) at that time.

C. The two preceding USSGL inventory accounts are classified in several lower level Subdivisions of this account used for the National Defense Stockpile inventory are shown at table 4-5.

Table 4-5. National Defense Stockpile Inventory

A.	1571	Stockpile Materials Held in Reserve- Goal Material (Strategic and Critical Materials)
B.	1571	Stockpile Materials Held in Reserve – Inventory Custodial Transfer or Pending Survey
C.	1571	Stockpile Materials Held in Reserve – Inventory In Process Government Facility
D.	1571	Stockpile Materials Held in Reserve - Inventory In Process Contractor Facility
E.	1572	Stockpile Materials Held for Sale

040605. Reconciling Inventory Records

The Defense Working Capital Fund Accounting System-Web module maintained by the DNSC supports the value of inventory as shown in these accounts. The DNSC and DFAS are jointly responsible for reconciling the inventory records.

A. Material Acquisition. All acquisitions of material for the National Defense Stockpile are proposed in the Annual Materials Plan that is subject to approval by Congress and the subsequent authorization of funding. Funding authorization may be in the form of new appropriations, an authorization to spend from the available balance of the Transaction Fund, or from sales proceeds from authorized disposals. Material purchase contracts are recorded as obligations against the current year acquisition program on the date of the contract. When material is received, it is recorded in the Defense Working Capital Accounting System (DWAS)-Web module and the general ledger inventory account, accounts payable and a decrease in undelivered orders. Any other cost, such as initial testing, increases the cost of the material for inventory valuation. Each month the DWAS-Web module must be reconciled to the general ledger inventory account.

B. Material Upgrade. Also included in the Annual Material Plan is the program for upgrading existing material of the National Defense Stockpile. This work is accomplished by contracts for the value of the upgrading services. These amounts are obligated against the current year program. When material is delivered to the contractor for upgrading it is transferred on the records from the stockpile inventory to material in the hands of a contractor. When upgraded material is returned, a new unit cost is determined by adding the upgrading costs to the original inventory value. The amount of the upgrading cost and original cost of the material are transferred to the on hand stockpile inventory account from the material in the hands of a contractor account.

C. Exchange Transactions. Materials can be disposed of by offering like material as payment in kind or other material in exchange as settlement of amounts due for material upgraded or acquired. These are accounted for as exchange disposals and the original cost of the material is removed from inventory and recorded as cost of exchange disposals. Exchange settlements liquidate an obligation for material upgrade and acquisition, as would

payment in cash, and is accounted for through the budgetary accounts to effect the liquidation of the original contractual obligation in the accounting records.

D. Material Disposals. Various materials in the National Defense Stockpile may become obsolete or excess to current Defense stockpiling needs. The National Defense Stockpile Act authorizes the disposal of such material. These materials can be disposed of when included in the Annual Material Plan and authorized in the budget program for the NDSTF. Disposal sales of marketable commodities are offered on a bid auction or negotiated sales basis. Material disposals are accounted for as sales and the original cost of the material removed from inventory and recorded as cost of sales.

E. Billing and Collection. All sales and disposals are billed shortly after the sales agreement is made or as of the scheduled time for delivery or pickup of the material. Bid deposits received are held as advances until returned or recorded to sales proceeds upon delivery of material to successful buyers. The purchaser of the material is allowed a specified number of days in which the material is to be picked up after which time storage charges are assessed. Any such storage charges are additional billings to the purchaser. When material is disposed of by exchange settlements, credits earned for material received and accepted by DNSC are used as payment for material shipped. Additional billings for delayed pickup of material are also applicable to the exchange settlement disposals. Collections are received by the DNSC via electronic fund transfer or paper check (deposited to a local banking facility). Upon receipt of the funds, a DD 1131, "Collection Voucher," and confirmed deposit, is sent to the DFAS Accounting and Finance Office for recording in the accounting records and financial reporting.

F. Inventory Adjustments. Inventory adjustments are made whenever there is evidence that an adjustment is required. Such instances include periodic count or measurement of material, movement of material, and complete disposal of material from a storage location. All adjustments are documented and approved before recording in the DWAS-Web module and general ledger inventory account. Depending on the nature and size of the adjustment, approval is granted by the Administrator of the DNSC, delegated inventory officials, or board of survey.

040606. Research Grants

A. General. Appropriations made into the NDSTF are for the award of grants to universities, colleges, and research institutions. The designated recipient of the grant is included in the appropriation act or requisite legislation. The Administrator, DNSC, is the grant administering official.

B. Grant Accounting. Grant funds appropriated to the NDSTF are apportioned to DoD/DLA and allotted by DLA Financial Operations to the DNSC. Grant awards are processed by DNSC and funds are obligated by the Notice of Financial Assistance Award and SF 424, "Application for Federal Assistance." Grant funds periodically disbursed are based on requests by the grant recipient and approval by the grant administrator. Disbursed funds are recorded in the accounting records as accrued expenditures, and obligation liquidations, in the budgetary accounts, and as costs and expenditures against the grant appropriated funds in the proprietary accounts.

0407 WORK-IN-PROCESS

040701. General

The DWCF activities, primarily those involved in depot maintenance or other industrial-type operations, who routinely perform tasks that take more than a month, must record operating costs within a work-in-process account. Additional information relating to revenue recognition, progress billings to customers, and disputed bills may be found in Volume 4, Chapter 16.

040702. Accounting for Work-in-Process

*A. This section describes the applicable USSGL accounts for recording transactions that map to the Inventory – Work-in-process account. Detailed posting transactions are outlined in the SFIS transaction library at ***United States Standard General Ledger Standard Financial Information Structure (SFIS) Transaction Library.*** The USSGL accounts for work-in-process are described in the following paragraphs.

1. Inventory–Raw Materials (Account 1525). All supplies and material purchased by a DWCF activity for the purpose of providing goods or services to a customer must be accounted for in this account. Supplies and materials issued to a specific job must 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 must be recorded as an indirect cost.

2. Inventory–Work-in-process (Account 1526). This account is used to capture all costs relating to products that are in the process of being manufactured or fabricated but are not yet complete. Periodically, but not less than monthly, adjust the allocated indirect expense amount to the actual indirect expense amount to record the assignment (allocation) of indirect expenses to work-in-process. 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. Periodically, but not less than annually, adjust the allocated indirect expense amount to the actual indirect expense amount to the applied overhead account. Adjustments of over and under applied overhead must 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.

3. Inventory–Finished Goods (Account 1527). This general ledger account is used to record the liquidation of Inventory-Work-in-process when related work is completed and will be accepted for delivery to a customer in response to its order.

B. Work-in-process general ledger accounts may be used by any DoD Component or activity within those Components. However, activities within the Defense Working Capital Fund (predominantly those within the Depot Maintenance business area) more commonly use the work-in-process general ledger accounts.

1. 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.

a. 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, Chapter 6, "Property, Plant and Equipment,".

b. Costs of maintaining DoD equipment and inventory.

c. Costs of manufacturing or fabricating an end item or product.

d. Cost of producing an output.

2. 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 must 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 must 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.

C. Relief of Working-in-Process

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

a. 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

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

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

2. Recognizing Losses. Upon completion of a customer order, no costs associated with that customer order must 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.

3. Order Completion. Completion of a customer order occurs 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.

4. Disposition of Completed Products. Completed products in response to a customer order may not be retained as assets (i.e., finished goods) of DWCF activities. Upon completion, goods and services resulting from customer orders must be billed promptly to customers. Delay or deferment of billing pending customer acceptance of finished work is not authorized. Parts and supplies manufactured for internal DWCF use must be transferred, upon completion, to the operating materials and supplies account.

D. Review of Work-in-process. The DWCF activities must establish appropriate procedures for the not less than yearly 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 accounts receivable policy and percentage of completion method for revenue recognition policy in Volume 4, Chapter 3 and Chapter 16.

040703. Inventory Work-in-process Accounts

A. Due to reporting requirements, many DWCF activities are required to use sub-accounts to capture costs at detail level. 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. Activities may want to create sub-accounts to track work-in-process at the detail level (i.e., 1526.1). However, on the financial statements the balance in these accounts will be reflected at the summary level. The inventory work-in-process sub-accounts for use by the DWCF are described in the following paragraphs:

1. 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 must 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.

2. Inventory Work-in-process (Contractor). Record the cost of work performed by a contractor to this account only after the work is accepted and when the work performed by the contractor is to be incorporated into in-house work. All other payments to contractors before acceptance of the work must be recorded as advances and prepayments until accepted in accordance with Chapter 5. If the work is accepted and will be incorporated into in-house work it should be recorded to work in progress. If it will not be incorporated into in-house work it should be recorded to inventory available for sale.

3. 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 must 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.

4. Inventory Work-in-process (Government-Furnished Material (GFM)

a. Inventory Work-in-process (GFM) is used to record the value of that portion of government material furnished to contractors and subcontractors (including other federal agencies) for the performance of DoD contracts. For the purposes of this chapter, this requirement also extends to property furnished to other Federal agencies and third-parties.

b. A subsidiary account must 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 must be subdivided by contract. Increases to this account must 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 only occur 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.

c. Periodically, but at least annually, this account must 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 must 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 must be adjusted to reflect the disposition of unused GFM provided to the contractor for use in meeting contractual requirements.

d. 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.

*0408 DETERMINING NET REALIZABLE VALUE

040801. Net Realizable Value Factor

The Defense Reutilization and Marketing Service (DRMS) must annually calculate the factor for estimating the net realizable value of excess, obsolete, and unserviceable (EOU) inventory or OM&S using the instructions at 040803 and the format at 040804. The calculation must be as of September 30 of the fiscal year just completed. DRMS will base the factor on experience for the fiscal year just ending plus the 2 years preceding the fiscal year ending September 30, 20XX. DRMS must submit the factor, along with supporting documentation, to the OUSD (Comptroller), Accounting and Finance Policy and to the Office of the Under Secretary of Defense (Logistics and Material Readiness) by the 6th working day of October—followed by a hard copy that is certified correct by the DLA Comptroller.

040802. Factor Availability

For financial statement reporting, the factor will be posted with the financial reporting instructions on the OUSD(Comptroller) web site. ***(Financial Reporting Guidance)*** The same factor must be used for reporting the value of excess, obsolete, and unserviceable inventory for the first three quarters of the subsequent fiscal year. Steps 1-11 apply only to DRMS while Steps 12 and 13 apply to all Military Departments and Components.

040803. Instructions for Calculation of Net Realizable Value Factor

Instructions (Steps) for performing the calculations using the template at 040804 are set forth in steps.

A. Step 1: For the current and two previous years, obtain DRMS' Sales Revenue and DRMS' combined expense amount for DoD Reutilizations, Transfers & Donations and Foreign Military Sales. Each of the amounts called for in the subsequent steps will be the sum of the current and previous two years data.

B. **Step 2**: Obtain the cumulative acquisition values of the major disposition activities as described in B1-B5, excluding from these activities the categories of Abandoned or Destroyed, Ultimate Disposals and Other Dispositions. (See ***Acquisition Values*** "Net Realizable Value (NRV) Queries for J8" to obtain these values.)

1. DoD Reutilization
2. Transfers and Donations
3. Foreign Military Sales
4. Sold and Removed – Usable Property
5. Expended to Scrap

C. Step 3: Sum the acquisition values of the major disposition activities listed in B1 through B5 of Step 2 to arrive at Total Dispositions Excluding Liabilities and enter the result.

D. Step 4: Obtain the cumulative acquisition values by condition code for the three unilateral or non-exchange disposition activities in D1-D3.

1. DoD Reutilization
2. Transfers and Donations
3. Foreign Military Sales

E. Step 5: Next, pool the acquisition values for each condition code (E1-E5) in accordance with the classifications contained in the FMS Pricing Regulation (Volume 15, Chapter 7, paragraph 070304).

1. A-1 (serviceable, unused)
2. A-4 (serviceable, used)
3. B-1, B-4, C-1, C-4, D-4 (serviceable with qualification)
4. D-7, E-7, F-7, G-7 (serviceable with qualification)
5. H-7 (serviceable or unserviceable, in poor condition)
6. F-X, G-X, H-X (unserviceable, requiring major repairs)

F. Step 6: Subtract the sum of the condition code data for DoD Reutilization, Transfers and Donations, and Foreign Military Sales from the corresponding year-end totals of these dispositions. That is, subtract the step 4 amounts from the step 2 amounts and enter the results.

G. Step 7: DoD Reutilizations, Transfers and Donations, and Foreign Military Sales should be valued at fair value. The fair value of excess, obsolete, and unserviceable (EOU) inventory to DLA should be no less than the revenue that DoD could have received for the EOU item by directing it to Foreign Military Sales. (See Volume 15, Chapter 7 , paragraph 070304)

Use the latest acquisition cost as fair value of serviceable used and unused materiel (A-1, A-4) under Reutilization, Transfers and Donations, and Foreign Military Sales.

1. Use the FMS percentage factor for condition codes (B-1, C-1, D-1, B-4, C-4, D-4) (Volume 15, Chapter 7 , paragraph 070304) apply the factor to the acquisition cost under the Reutilization, Transfers and Donations, and Foreign Military Sales headings.

2. Use the FMS percentage factor for condition codes (D-7, E-7, F-7, G-7) (Volume 15, Chapter 7 , paragraph 070304) apply the factor to the acquisition cost under Reutilization, Transfers and Donations, and Foreign Military Sales.

3. Use the FMS percentage factor for condition code (H-7) (Volume 15, Chapter 7 , paragraph 070304) apply the factor to the acquisition cost under the Reutilization, Transfers and Donations, and Foreign Military Sales headings.

4. Using the FMS percentage factor for condition codes (F-X, G-X, H-X) (Volume 15, Chapter 7 , paragraph 070304) apply the factor to the acquisition cost under the Reutilization, Transfers and Donations, and Foreign Military Sales headings.

H. Step 8: Allocate DRMS' Sales Revenue from Step 1 by the ratio of acquisition cost of Sold and Removed to Expended to Scrap.

I. Step 9: Sum all recoveries from Steps 7 and 8 within each major disposition activity, e.g., "DoD Reutilization," and across all major disposition activities.

J. Step 10: Subtract DRMS' Expenses (RTDS) from the sum of all recoveries computed in Step 8 to arrive at DRMS' Net Recovery.

K. Step 11: Divide Net Recovery from Step 10 by Total Dispositions Excluding Liabilities from Step 3 to generate the NRV Factor.

L. Step 12: Obtain the EOU inventory balance on September 30, 20XX. (Each reporting entity will have to use the factor derived in step 11 to calculate the value of its EOU.)

M. Step 13: Compute the NRV of the EOU inventory held at year-end by multiplying the NRV Factor in Step 11 the EOU inventory held at year-end in Step 12. (Each reporting entity will have to use the factor derived in step 11 to calculate the value of its EOU.)

040804. The Template for Calculating Net Realizable Value Factor

The template for calculating net realizable value factor is shown on the next page.

NRV Template

Methodology for Calculating Net Realizable					
NRV TEMPLATE					
Data	**Part 1: Expenses and**				
EBS - GLAC	DRMS Sales	**Step 1**			
EBS - 80001R, T &	DRMS Expenses -- Receiving, RTD, and				
	Cumulative Acquisition Values of		**Recoveries from**		
	Major	**Acquisition**	**Foreign Sales**	**Sales Revenue Cost**	**Recoveries by Type**
DRMS 1143 Ln.	DoD Reutilization	**Step 2**			
	DAISY	**Step 6**			
Decision Support System (DSS) Reutilizations Condition	Serviceable, unused (A- Serviceable, used (A- Serviceable with qualification (B-1, C-1, D-B-4, C-4, D- Serviceable with qualification (D-7, E-7, F-G- Serviceable, in poor condition (H- Unserviceable, requiring major repairs (F-X, X, H-	**Steps 4 &**	**Step 7**	**Step 7**	
					Step
DRMS 1143 Ln.	Transfers and	**Step 2**			
	DAISY	**Step 6**			
Decision Support System (DSS) Transfers and by Condition	Serviceable, unused (A- Serviceable, used (A- Serviceable with qualification (B-1, C-1, D-B-4, C-4, D- Serviceable with qualification (D-7, E-7, F-G- Serviceable, in poor condition (H- Unserviceable, requiring major repairs (F-X, X, H-	**Steps 4 &**	**Step 7**	**Step 7**	
					Step
DRMS 1143 Ln.	Foreign Military	**Step 2**			
	DAISY	**Step 6**			
Decision Support System (DSS) Foreign Military Sales Condition	Serviceable, unused (A- Serviceable, used (A- Serviceable with qualification (B-1, C-1, D-B-4, C-4, D- Serviceable with qualification (D-7, E-7, F-G- Serviceable, in poor condition (H- Unserviceable, requiring major repairs (F-X, X, H-	**Steps 4 &**	**Step 7**	**Step 7**	
					Step
DRMS 1143 Ln.	Sold and Removed -- Usable	**Step 2**		**Step 8**	
DRMS 1143 Ln.	Expended to				**Step**
	Total Dispositions Excluding	**Step 3**	**Total**		**Step**
	Part 2: NRV				
	Total	**Step 9**	*** See link at Step**		
	Total	**Step 1**	**** See link at Step 7 (Cost Avoidance = Acquisition Value FMS**		
	Net Recovery (=Total Recoveries - Total	**Step**			
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	NRV Factor (=Net Recovery / Total	**Step**			
	EOU Inventory, Component Balance Sheet,	**Step**			
	NRV (=NRV Factor x Ending EOU	**Step**			

VOLUME 4, CHAPTER 5: "ADVANCES AND PREPAYMENTS"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 October 2008 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
050401	Updated reference from United States Standard General Ledger (USSGL) Treasury Financial Manual to USSGL Standard Financial Information Structure (SFIS) Transaction Library.	Add

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CHAPTER 5

ADVANCES AND PREPAYMENTS

0501 GENERAL

050101. Purpose

This chapter describes the principles and policy to be followed by Department of Defense (DoD) Components to account for advances and prepayments made to employees, other Federal Government agencies and non-Federal Government organizations. Advances do not include payments for which performance has occurred. Progress payments made to a contractor based on a percentage of completion of a fixed-price construction contract, under Federal Acquisition Regulation (FAR) 52.232-5, are not advances or prepayments.

050102. Overview

Advances and prepayments will be reported and accounted for in accordance with Statement of Federal Financial Accounting Standards ***(SFFAS) No. 1***, "Accounting for Selected Assets and Liabilities."

A. The general prohibition against advances is contained in 31 U.S.C. 3324:

1. Except as provided in this section, a payment under a contract to provide a service or deliver goods for the United States Government may not be more than the value of the service already provided or the goods delivered.

2. An advance of public money may be made only if it is authorized by:

a. a specific appropriation or other law; or

b. the President to be made to:

(1) a disbursing official if the President decides the advance is necessary to carry out:

(a) the duties of the official promptly and faithfully; and

(b) an obligation of the Government; or

(2) an individual serving in the armed forces at a distant station if the President decides the advance is necessary to disburse regularly pay and allowances.

B. Amounts recorded as advances and prepayments shall be supported by documentation that clearly shows the basis for the amount recorded and the terms upon which an advance or prepayment is to be made. Documentation shall be readily available for review by auditors.

0502 ADVANCES

050201. Advances (Cash Outlays Made)

Advances are cash outlays made by DoD Components to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses for the cost of goods and services the DoD Component will acquire. Advances are made in contemplation of the later receipt of goods, services, other assets or the incurrence of expenditures. Advances are made only to payees to whom a Component has an obligation and not in excess of the amount of the obligation. Examples include travel advances disbursed to employees, and cash or other assets disbursed under a contract, grant, or cooperative agreement before goods or services are provided by the contractor or grantee.

A. Advances to contractors, and to grantees shall be supported by the contracting officer's determination that all statutory requirements are met and that the provisions of the Federal Acquisition Regulation (FAR), Part 32-Contract Financing, subpart 32-402 and the DoD FAR Supplement, Part 232-Contract Financing, subpart 232-4 are met. These provisions require, among other things, that the contractor give adequate security, advance payments may not exceed the unpaid contract price, the advance payment shall not exceed the contractor's interim cash needs, the advance is necessary to supplement funds available to the contractor, and, the Department of Defense shall benefit from performance prospects, or there are other practical advantages.

B. Advances to foreign countries are authorized by 10 U.S.C. 2396 which provides that:

1. An advance under an appropriation to the Department of Defense may be made to pay for:

a. compliance with laws and ministerial regulations of a foreign country;

b. rent in a foreign country for periods of time determined by local custom;

c. tuition; and

d. public service utilities.

2. Under regulations to be prescribed by the Secretary of Defense or by the Secretary of Homeland Security with respect to the Coast Guard when it is not operating as a service of the Navy, an officer of an armed force of the United States accountable for public money may advance amounts to a disbursing official of a friendly foreign country or members of an armed force of a friendly foreign country for:

a. pay and allowances to members of the armed force of that country; and

b. necessary supplies and services.

c. An advance may be made under this subsection only if the President has made an agreement with the foreign country:

(1) requiring reimbursement to the United States for amounts advanced;

(2) requiring the appropriate authority of the country to advance amounts reciprocally to members of the armed forces of the United States; and

(3) containing any other provision the President considers necessary to carry out this subsection and to safeguard the interests of the United States.

C. Advances to foreign governments shall be made as closely as possible to the time they actually disburse funds for costs incurred.

1. Normally, advances shall not be outstanding for more than 90 days. Statements of actual costs incurred in sufficient detail to allow certification of performance by an authorized DoD official shall be provided on a monthly basis. Advances to foreign countries may require consultation with the Treasury Department.

2. Advances made pursuant to 10 U.S.C. 2396 shall be recorded in account 1410, “Advances and Prepayments”. Subsidiary accounts shall be established for each country and each organization or person to whom the advance is made.

D. Advances shall be made only to meet requirements authorized by law. When the conditions under which an advance was made are satisfied, the unused portions of the advance shall be collected immediately and returned to the fund from which originally made.

E. Except for DoD personnel receiving advances for travel purposes, all requesting organizations shall prove destitution; i.e., that they are financially unable to perform without DoD financial assistance. Failure to seek financial market assistance is not a valid basis for requesting an advance. Organizations or individuals (other than DoD employees requesting travel advances) requesting advances shall demonstrate that all external financing sources have been exhausted before an advance is authorized.

F. Details concerning advances to military and civilian personnel for pay are included in FMR Volumes 7A and 8.

0503 PREPAYMENTS

050301. General

Prepayments are payments made by DoD Components to cover certain periodic expenditures before those expenses are incurred. Prepayments are amounts paid for goods and services to provide for future benefits over a specified time period. They apply when it is a generally accepted industry practice to pay for items such as rents, subscriptions, and maintenance agreements in advance of the service being provided and the prepayment is authorized by law. When expenses are prepaid, DoD Components shall record the prepayment when it is made. At the end of the fiscal year, prepayments shall be reviewed and the expired portion expensed. As a general rule, DoD operation and maintenance appropriations are annual in nature and thus limited to obligations for goods and services required to meet current operating requirements. Prepayments differ from advances in that prepayments relate to transactions that are recurrent in nature and do not provide financing as a precondition of performance.

050302. Contract Financing Payments

Contracting Financing Payments in the form of contract financing payments made to a contractor prior to delivery or constructive delivery of the goods or services are cash disbursements made to a contractor to finance performance under the contract prior to acceptance of goods or services and do not represent a tangible asset to the DoD Component. These payments are recorded in USSGL 1410, "Advances and Prepayments", until the goods and services are received.

050303. Authority

Contract financing payments are payments to a contractor prior to acceptance of supplies or services by the Government, and are authorized by specific contract clauses. As defined in FAR ***32.001***, contract financing payments include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost under the clause at ***52.232-16***, and interim payments under a cost reimbursement contract, except for a cost reimbursement contract for services.

0504 ACCOUNTING FOR ADVANCES AND PREPAYMENTS (USSGL ACCOUNT 1410)

*050401. Accounting Entries for Advances and Prepayments

The ***USSGL Standard Financial Information Structure Transaction Library*** illustrates the accounting entries and USSGL accounts to be used.

A. Advances and prepayments are reduced and an expense is recorded or capitalized as an asset when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire. Advances and prepayments paid out are recorded as assets. Advances and prepayments received are recorded as liabilities. In the financial statements, advances and prepayments paid out should not be netted against advances and prepayments received.

B. DoD Components shall account and report separately the amount of advances and prepayments associated with Non-federal entities and Federal entities.

C. DoD Components should ensure that management controls exist to monitor the use of advances made. Unneeded and unused balances shall be recovered as soon as information indicates they are excess to the purposes for which originally made.

D. Recoveries of unused advances shall be recorded as a recoupment; i.e., as a debit to account 1010, Fund Balance with Treasury. This permits the Funds Disbursed account to support the disbursements balances reported on the SF 133, "Report on Budget Execution and Budgetary Resources."

E. Advances represent a current outlay of funds to meet a near or long-term need. As such, they are a negative factor minimizing the Treasury's borrowing requirements. Accordingly, amounts advanced shall be kept to the minimum amounts necessary for the shortest possible time period.

F. Advances shall be reviewed periodically to determine whether the amounts advanced are in excess of the recipient's current needs. Amounts determined in excess shall be collected from the recipient. The required review shall be made at least semiannually.

050402. Travel Advances

Travel advances represent the outstanding balance of advances made to DoD military personnel and qualifying dependents, civilian employees, and appointees for per diem, transportation, and related expenses incident to travel on authorized official business or change of official duty station. The sources for accounting entries include travel orders, travel vouchers, cash collection vouchers, disbursement vouchers, and journal vouchers.

A. Travel advances shall be minimal and allowed only when necessary. Generally, advances shall not exceed 80 percent of the estimated per diem. Unless otherwise exempted by regulations, use of the Federally mandated Government Travel Charge Card by DoD employees is required in lieu of travel advances.

B. Travel advances shall be charged to the appropriations or funds from which reimbursements of travel expenses are to be made. An authorized travel order shall serve as the basis for issuing a travel advance.

C. When authorized travel carries over from one fiscal year to the next, the total balance of all travel advances shall be transferred from the expiring appropriation accounts to the next year's appropriation accounts. Such transfers are to be made at the beginning of the new fiscal year. The transfer documents shall be supported by detailed data on each outstanding advance included in the transfer.

D. Periodically, but at least semiannually, all outstanding advances shall be reviewed to determine if the original justification for the advances are still valid. Advances determined to be in excess of the travelers' immediate needs shall be collected from the traveler.

E. Recovery of excess travel advances may occur in the following ways: submission of a travel voucher upon completion of official travel; repayment by the employee to whom the advance was made; or, when necessary, deductions from the employee's pay or other methods provided by law. If the traveler is in a continuous travel status and periodic travel vouchers are submitted, the full amount of allowable travel expenses may be reimbursed to the traveler without deductions of advances until such time as the final vouchers are submitted.

F. If travel advances are not fully recoverable by deductions from travel vouchers or refunded by the travelers, prompt action shall be taken to recover the outstanding advances by deductions from any amounts due the traveler or by using any other legal means available. In such instances, the travel advance shall be reclassified and recorded as non-federal in USSGL account 1310, “Accounts Receivable.”

G. Subsidiary travel advance accounts shall be established for each appropriation and for each employee. Information in the employee subsidiary account shall include sufficient information to establish an audit trail showing when the advance was made, the authority for the advance, and the date the advance was liquidated.

H. Employees shall be provided a reasonable period of time to repay their travel advances upon completion of travel. As a general rule, 15 calendar days shall be considered sufficient unless evidence is available to indicate a longer or shorter period is justifiable.

050403. Grant Awards

Advance payments to grant award recipients (including amounts drawn against letters of credit) shall be accounted for as advances of the assisting DoD Component until the recipient has performed under the grant agreement. Once the recipient has performed under the grant or agreement, the assisting agency shall record an expense in an amount equal to the cost of the services performed or costs incurred and reduce the advance account by a like amount. Periodically, the advances shall be reconciled with the detailed documentation. Such reconciliations shall be made no less frequently than semiannually. Each advance shall be reviewed periodically to determine whether amounts are in excess of the grantee's current needs. Amounts determined to be excess shall be collected from the recipient. The timing of the review should be coordinated with DoD grantors so that the review occurs as each grant milestone or reporting requirement is reached. Sources for entries include grant agreements, disbursement vouchers, collection vouchers and reports on grant performance.

050404. Contract Financing Payments

Record all contract financing payments to USSGL 1410 Nonfederal, asset type 1410.02, with the attribute of "Outstanding Contract Financing Payments," which will correctly report the amounts in Line 2D, "Nonfederal Other Assets, Outstanding Contract Financing Payments," on Note 6, "Other Assets," in the financial statements. If an entity records these advances as USSGL 1410 Nonfederal with no attribute, the amounts will incorrectly crosswalk to Line 2B, "Nonfederal Other Assets, Other Assets (With the Public)," on Note 6.

050405. Advances to Contractors and Suppliers

Entries to record advances to contractors and suppliers will be posted to USSGL 1410 recorded when amounts are advanced to non-federal organizations or individuals under contract for goods and services. Periodically, these advances shall be reconciled with the detailed documentation supporting the advances. Such reconciliations shall be made no less frequently than semiannually. Advances to non-federal organizations shall be made only when authorized by law. Documentation sources to support accounting entries include contracts, receiving and inspection reports accepting goods and services received, and collection vouchers.

050406. Advances to Government Agencies and Funds

Advances to other Government agencies shall be made only pursuant to law or when such interests are in U.S. national defense. Generally, work performed for the DoD by other Federal Agencies is on a reimbursable or a direct cite arrangement, and funds are transferred to the performing agency using non-check transfer mechanisms. Sources of entries include interagency agreements, disbursement vouchers, collection vouchers, and receiving and inspection reports.

050407. Advances Made to the General Public

Advances to the general public include pay advances to military personnel, and to foreign nations. Advances in this category shall be made only when authorized by law or regulations as discussed in paragraph 050102.A above. Sources for entries for this type of advance include contract documents, inspection and receiving reports, disbursing vouchers, and collection vouchers.

050408. Defense Working Capital Fund (DWCF)

DWCF entities are required to record advances and prepayments in accordance with the guidance in this chapter.

VOLUME 4, CHAPTER 6: "PROPERTY, PLANT, AND EQUIPMENT"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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*.**

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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
060101 060202.A.2 060202.B.4 060202.C 060202.D 060203.B 060204.E 060205.A 060205.M.4 060206.J 060207.C 060208.A 060208.B 060209.B 060209.L	Updated reference from United States Standard General Ledger (USSGL) Treasury Financial Manual to USSGL Standard Financial Information Structure (SFIS) Transaction Library.	Update
Annex 1	This Annex has been incorporated into Volume 4, Chapter 6	Add
Annex 2	This Annex has been incorporated into Volume 4, Chapter 6	Add
Annex 3	This Annex has been incorporated into Volume 4, Chapter 6	Add
Annex 4	This Annex has been incorporated into Volume 4, Chapter 6	Add

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CHAPTER 6

PROPERTY, PLANT, AND EQUIPMENT

0601 GENERAL

060101. Purpose

This chapter prescribes Department of Defense (DoD) accounting policy for Property, Plant, and Equipment (PP&E). The applicable general ledger accounts are listed in the government-wide United States Standard General Ledger (USSGL) contained in Volume 1, Chapter 7, and the accounting entries for these accounts are specified in the ***USSGL Standard Financial Information Structure (SFIS) Transaction Library***. Unless otherwise stated, this chapter is applicable to all DoD Components, including Working Capital Fund (WCF) activities.

060102. Overview

Within PP&E, two categories have been defined for accounting and reporting purposes. Specific accounting guidance is contained in this chapter for each category of PP&E. These categories are:

A. General PP&E

B. Stewardship PP&E

1. Heritage Assets

2. Stewardship Land

060103. Definitions

There are two categories of PP&E.

A. General PP&E

1. General PP&E consists of tangible assets that meet all of the following criteria:

a. has an estimated useful life of two years or more;

b. are not intended for sale in the ordinary course of operations;

c. are acquired or constructed with the intention of being used or being available for use by the entity; and

d. has an initial acquisition cost, book value, or when applicable, an estimated fair market value (see paragraph 060202 for definitions of these terms) that equals, or exceeds, DoD capitalization threshold. The DoD capitalization threshold is $100,000, except for real property assets. The threshold for real property assets is $20,000. These thresholds are applicable to assets procured by both General and Working Capital Funds. (See Volume 2B, Chapter 9, paragraph 090103.C.8 for an explanation of the difference between DWCF capitalization thresholds for budget versus accounting.)

2. Assets that had previously been classified as National Defense PP&E, i.e. weapons systems and related support equipment are now classified as General PP&E. (These assets were reclassified as General PP&E in the Statement of Federal Financial Accounting Standards No. 23). These weapons systems are referred to as military equipment. In addition to the requirements of 060103.A.1 (a through d), military equipment items are intended to be used by the Armed Forces to carry out battlefield missions, are referred to as military equipment. Examples include: combat aircraft, pods, combat ships, support ships, satellites, and combat vehicles. Additional guidance follows:

a. Military equipment does not ordinarily lose its identity or become a component part of another article; and is available for the use of the reporting entity for its intended purpose.

b. Intangible assets, such as software, are not considered military equipment; however, the cost of the intangible asset shall be included in the cost of the related military equipment.

c. Military equipment assets are generally functionally complete and should be valued based on the cost of the final assembly, including the cost of embedded items.

3. Bulk purchases of General PP&E items that do not individually meet the capitalization threshold will be expensed. Bulk purchases of General PP&E items that individually meet the capitalization threshold, shall be capitalized and recorded in a property accountability system that is capable of computing depreciation or interfaces with a system that is capable of computing depreciation. A bulk purchase for capitalization purposes is defined as:

a. a single acquisition of many separate items that if purchased individually would not be material, but is material when purchased as a single acquisition, or

b. a single acquisition of many separate items; some of which may be individually material.

4. Materiality, as defined by the Statement of Federal Financial Accounting Standards No. 1, is the degree to which an item's omission or misstatement in a financial statement makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

5. General PP&E is used in providing goods or services, or supports the mission of the entity, and has one or more of the following characteristics:

a. It could be used for alternative purposes (e.g., by other DoD or federal programs, state or local governments, or nongovernmental entities), but it is used to produce goods or services, or to support the mission of the entity;

b. It is used in business-type activities;

c. It is used by entities in activities whose costs can be compared to those of other entities performing similar activities (e.g., federal hospital services in comparison to commercial hospitals).

6. General PP&E also includes:

a. assets acquired through capital leases, including leasehold improvements (see paragraph 060206);

b. property under the accountability of the reporting entity even though it may be in the possession of others (e.g., state and local governments, colleges and universities, or contractors);

c. land, other than Stewardship Land with an identifiable cost that was specifically acquired for, or in connection with, the construction of General PP&E; and

d. land rights, which are interests and privileges held by an entity in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights and other like interests in land.

7. General PP&E examples include but are not limited to:

a. Real Property including Land, Land Rights, and Facilities (includes Buildings; Structures, and Linear Structures)

b. Construction in Progress

c. General Equipment

d. Assets Under Capital Lease

e. Leasehold Improvements

f. Internal Use Software

g. Military Equipment

8. General PP&E excludes items:

a. held in anticipation of physical consumption such as operating materials and supplies;

b. in which the Department has a reversionary interest. For example, the Department sometimes retains an interest in PP&E acquired with grant money in the event that the recipient no longer uses the PP&E in the activity for which the grant was originally provided and the PP&E reverts to the Department.

c. classified as Stewardship PP&E (as described in Section 0603);

d. classified as stewardship investments (nonfederal physical property);

e. that should be expensed as research, development, test, and evaluation (RDT&E) costs, unless they are associated with the development of an end item that is produced for operational use. Equipment such as special tooling and special test equipment, acquired for research and development, which may have alternative future uses and otherwise meets the criteria for capitalization, should be capitalized accordingly.

9. For all WCF activities, all PP&E used in the performance of their mission shall be categorized as General PP&E, whether or not the PP&E meets the definition of any other PP&E category. For stewardship assets coincidentally located on a WCF installation, those assets shall be reported on the General Fund stewardship report for the Military Department that owns that installation.

10. For further discussion of General PP&E accounting policy, see section 0602.

B. Stewardship PP&E. Stewardship PP&E consists of tangible assets classified as either Heritage Assets or Stewardship Land. For further discussion of Heritage Assets and Stewardship Land, see section 0603.

1. Heritage Assets are PP&E of historical, natural, cultural, educational significance; artistic importance (e.g., aesthetic); or with significant architectural characteristics. Heritage Assets are expected to be preserved.

2. Stewardship Land is land and land rights owned by the Federal Government but not acquired for or in connection with General PP&E. "Acquired for or in connection with" is defined as including land acquired with the intent to construct General PP&E and land acquired in combination with general PP&E. Without exception, all land provided to the Department from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of its use. Therefore, public domain or no-cost land used in a General PP&E context shall be reported as Stewardship Land and not reported as General PP&E.

060104. Acquisition of General PP&E

A. General. When acquiring a General PP&E asset, the purchase cost and other costs necessary to bring the asset to an operable condition (see paragraph 060201.B) are capitalized, in accordance with paragraph 060103.A.1.d. With few exceptions, (e.g. bulk purchases of General PP&E items that do not individually meet the capitalization threshold), all items are subject to capitalization and depreciation if the initial book value is equal to or exceeds the thresholds. If the General PP&E acquisition costs, including other costs necessary to bring the asset to an operable condition, do not equal or exceed DoD capitalization threshold, the costs are expensed in the period incurred.

B. Documentation

1. When recording the acquisition cost of a General PP&E asset in the accountable property system of record and/or accounting system, the asset shall be assigned a dollar value as detailed in this chapter. The dollar value will be supported by appropriate documentation. A complete discussion of supporting documentation can be found at paragraph 060106.

2. If documentation is not available (written or electronic), estimates of the cost of the PP&E asset shall be made, and documented for reference as well as estimates for any accumulated depreciation/amortization which would have been taken had the asset been recorded at the time it was acquired. The efforts undertaken and the precision achieved, in making PP&E asset cost estimates shall be proportionate to the materiality and relative significance of the value of the asset involved. Estimates shall be based on:

a. the cost of similar assets at the time of acquisition, or

b. the current cost of similar assets discounted for inflation since the time of acquisition (e.g., deflating current costs to costs at the time of acquisition by a general price index).

060105. Recognition of General PP&E

A. General

1. All General PP&E assets acquired by DoD must be recognized for accountability and financial reporting purposes. Recognition requires the proper accounting treatment (expense or capitalization with depreciation or amortization) and the reporting of capitalized amounts and accumulated depreciation or amortization on the appropriate DoD Component's financial statements. The DoD Component that procures a General PP&E asset or the DoD Component in possession of a General PP&E asset, most often will be the DoD Component that must account for and report the asset. The exception to this requirement is based on the concept of the preponderant use and is explained in paragraph 060105.B.

2. Recognition of the asset for financial reporting purposes shall occur upon delivery and acceptance to the acquiring DoD Component even though title passage can occur either at the time of delivery (to the DoD Component or an agent of the DoD Component), or at an earlier contractually specified time.

a. Military Equipment. The recognition date will normally be the date shown on Block 22, Receiver's Use, of the "Material Inspection and Receiving Report" (DD Form 250) or the equivalent date source under Wide Area Work Flow.

b. Real Property. The real property assets or capital improvements to an asset shall be capitalized at the date they are placed in service. The placed in service date varies depending on the acquisition method as depicted in the charts below. On the placed in service date, the government assumes liability and the warranties begin for the asset. For example, in the case of a land purchase, the date of delivery or deed execution represents the acceptance date. However, in the case of a constructed asset, the placed-in service date is the date the asset is substantially complete and available for use. This should be the date on the "Transfer and Acceptance of Military Real Property" (DD Form 1354). The date needs to be supported by a source document such as substantial acceptance of the completed asset. At that point, costs are transferred from the construction in progress (CIP) account to the appropriate PP&E account, triggering capitalization and depreciation of the real property asset.

(1) Placed in Service Date for Acquisition Methods

Acquisition Method	**Source Document**	**Acceptance Evidence**	**Effective Date**	**Acquisition Date**	**Real Property Acceptance Placed in Service Date** (Depreciation Triggering Event[1])	**Amortization Triggering Event**
Condemnation	Judgment document	Signed judgment	Date judgment is signed	Date judgment is signed	Acquisition date	Not applicable
Gifts and donations	Executed acquisition document	Executed acquisition document	Date of acquisition document	Date of acquisition document	Acquisition date	Not applicable
Lease	Lease	Signed lease	Lease start date	Date lease signed	Not applicable	Lease start date
New construction (see section (3) below)	DD Form 1354[2]	Executed interim DD Form 1354 transaction. If no interim is prepared, then final DD Form 1354 transaction	Date specified in DD Form 1354 transaction (e.g., block 9D)	Date final DD Form 1354 transaction is executed	Date interim DD Form 1354 transaction is executed. If there is no interim prepared, then final DD Form 1354 transaction.	Not applicable
Occupancy agreement	Occupancy agreement	Executed occupancy agreement	Occupancy agreement start date	Occupancy agreement start date	Not applicable	Not applicable

Acquisition Method	Source Document	Acceptance Evidence	Effective Date	Acquisition Date	Real Property Acceptance Placed in Service Date (Depreciation Triggering Event[1])	Amortization Triggering Event
Purchase[3] (can include Exchange)	Deed	Deed delivery/ execution	Date of delivery/ execution	Date of delivery/ execution	Acquisition date	Not applicable
Reversion	Reversion legal document	Executed reversionary document	Date specified in document	Date reversionary document executed	Re-acquisition date (i.e., date reversionary document executed)	Not applicable
Transfer between Services	DD Form 1354 [2,4]	Executed DD Form 1354 transaction	Date specified in transaction	Date of DD Form 1354 transaction	Original DoD placed in service date	Not applicable
Transfer from one federal entity to another	Transfer letter, SF 1334 or DD Form 1354 [2]	Signed document	Date specified in document	Date document signed	Acquisition date	Not applicable
Withdrawal of public domain land	Letter of withdrawal	Signed letter	Date specified in document	Date specified in document	N/A	Not applicable

[1]Depreciation does not apply to land
[2]DD Form 1354 or other document specified in policy
[3]Purchase acquisition method is associated to both the land purchase and land purchase with facilities acquisition scenarios
[4]Secretarial Memo is the transfer document

(2) Placed in Service Date for Improvement Methods

Improvement Method	Source Document	Acceptance Evidence	Effective Date	Acquisition Date	Capital Improvement Placed in Service Date (Depreciation Triggering Event)	Amortization Triggering Event
Capital improvement	DD Form 1354[1]	Executed interim DD Form 1354 transaction. If no interim is prepared, then final DD Form 1354 transaction	Date specified in DD Form 1354 transaction (e.g., block 9D)	Date final DD Form 1354 transaction was executed	Date interim DD Form 1354 transaction is executed. If there is no interim prepared, then final DD Form 1354 transaction.	Not applicable

Improvement Method	Source Document	Acceptance Evidence	Effective Date	Acquisition Date	Capital Improvement Placed in Service Date (Depreciation Triggering Event)	Amortization Triggering Event
Leasehold improvement	DD Form 1354[1]	Executed interim DD Form 1354 transaction. If no interim is prepared, then final DD Form 1354 transaction	Date specified in DD Form 1354 transaction (e.g., block 9D)	Date final DD Form 1354 transaction is executed	Not applicable	Date interim DD Form 1354 transaction is executed. If there is no interim prepared, then final DD Form 1354 transaction.

[1]DD Form 1354 or other document specified in policy

3. Construction Projects. Construction in Progress (CIP) is a temporary classification of assets under construction. The costs of new construction and capital improvements are accumulated in a CIP account while the asset is under construction. CIP accounts are only utilized for construction of real property assets and shipbuilding (including ship conversion, alteration, or repair). CIP accounts include all costs incurred to bring the asset to a form and condition suitable for its intended use. The sum of the individual costs in the CIP account will determine the total cost of the asset that is then recorded in the appropriate Property, Plant and Equipment (PP&E) general ledger account.

a. Amounts in the CIP account are transferred to the appropriate PP&E account when the assets are placed in service. Additional costs accumulated in the CIP account after the assets are placed in service will be transferred at the final acceptance of the assets. The original acquisition cost of the asset will be adjusted for this amount and the revised amount will continue to be depreciated over the remaining useful life of the asset.

b. For real property construction projects, such as large-scale capital improvement projects, that are completed in multiple phases, the cost of each phase is transferred from the CIP account to the real property asset account at the time the phase is placed in service. Each facility, therefore, may have one or more placed in service dates, which will be used to initiate the capitalization of each corresponding phase. Each phase shall then be depreciated separately over its estimated useful life.

4. For General PP&E assets acquired by a contractor on behalf of a DoD Component (e.g., the DoD Component that will ultimately hold title to the assets), the assets shall be recognized upon delivery or constructive delivery, whether to the contractor performing the service, or to the DoD Component. Delivery or constructive delivery shall be based on the terms of the contract regarding delivery, receipt and acceptance.

a. Payments, in the form of contract financing payments, made to a contractor prior to delivery or constructive delivery of the General PP&E assets are cash disbursements made to a contractor to finance performance under the contract prior to

acceptance of goods or services and do not represent a tangible PP&E asset to the DoD Component. As such, these payments are recorded to USSGL 1410, Advances and Prepayments, until such time as the goods or services are received (see Chapter 5 for additional information).

b. With respect to contractor acquired property, upon completion of the manufacture of the end items for which the contractor acquired property was used and delivery of the contractor acquired property to the Government, contractor acquired property should either be capitalized in the appropriate PP&E account or if the contractor acquired property does not meet the capitalization threshold, such items should be recorded in the appropriate expense account. The amount recognized will be the Contractor's estimated fully burdened unit cost of contractor acquired property at the time of delivery to the Government.

5. WCF activities are required to recognize and depreciate General PP&E assets in accordance with the guidance in this chapter without regard to whether such assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether depreciation for such assets is included in rates charged to customers. The recognition of General PP&E assets and the depreciation of such assets by WCF activities therefore may be different for financial statement reporting purposes than the depreciation amounts used for WCF rate development and budget presentation. All General PP&E depreciation of WCF activities shall be recognized as an expense on the Statement of Net Cost, reflected in the Statement of Changes in Net Position, included in accumulated depreciation amounts on the Balance Sheet, and reported in the "Monthly Report of Operations" (AR (M) 1307) reports. Depreciation recorded on General PP&E that was not acquired nor will be replaced through use of Defense WCF resources shall be classified as non-recoverable for rate setting purposes and reported appropriately on the AR (M) 1307. Defense WCF rates charged to customers are based on guidance in Volume 2B and Volume 11B.

6. To establish proper PP&E financial control when acquiring General PP&E from another DoD Component or federal agency, the acquiring DoD Component shall request from the losing DoD Component or other federal agency, the necessary source information and financial transfer documents, to include unique identifier(s) for the asset(s); location; original acquisition cost(s); cost of improvements; the date the asset was purchased, constructed, or acquired; the estimated useful life; the amount of accumulated depreciation; the condition, if desired; and other relevant information linked to that asset. If this information is not available, the gaining and losing entities must develop and document an estimate to support the financial transfer of the asset. See Volume 12, Chapter 14 for further policy on transfers of DoD real property between Military Departments.

B. Treatment When the Preponderant User of an Asset Is Not the Owner or DoD Component that Purchased the Asset. Legal ownership (i.e., having title to a General PP&E asset), usually, but not always, is the determinant factor when determining which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes in financial statements. For examples, see the Preponderance of Use Policy in Annex 1. Likewise, the manner in which an asset was purchased does not determine what entity accounts for and reports a real property asset. For example, buildings used by a WCF activity may not have been constructed or acquired with WCF funds. Such buildings, however, generally should be

capitalized and depreciated by the WCF activity and reported on the WCF activity's financial statements. Such accounting and reporting is required by WCF activities regardless of whether title to such buildings is passed to the local installation when construction is completed. When determining which DoD Component must recognize a General PP&E asset for accounting and financial statement reporting purposes, all four of the following criteria must be met by the recognizing DoD Component:

1. The General PP&E asset must embody a probable future benefit that will contribute to the DoD Component's operations. In applying this criterion, the concept of benefit has traditionally been referred to as "service capacity" (e.g., the ability of an asset to directly assist the DoD Component in achieving its mission). Service capacity has value because it is consumable or exchangeable for other benefits. For example, a building on a military installation or a piece of equipment provided to a Defense Agency may allow it to achieve the Defense Agency's mission. The Defense Agency also pays for utilities, maintenance and upkeep of the asset. The exchangeability part of the benefit criterion (the ability to sell, trade or donate the property) need not be present for an item to qualify as an asset in the federal sector, if use of the item provides benefit to the DoD Component. The inability of the DoD Component to exchange the benefit for other benefits does not preclude the asset from meeting this criterion.

2. The DoD Component that reports the General PP&E asset must be able to obtain the benefit and control access to the benefit inherent in the asset. This criterion, control over the benefit, refers to an entity's ability to direct who derives the benefit, the timing of when the benefit is derived and under what conditions it is derived. Directing the use of the benefit has traditionally been based on possession or the ability to exert significant influence over the benefits; either of which is obtained through legal ownership or an agreement with the owner. In instances when an entity maintains possession of property through agreements that provide for possession for as long as needed, without a termination date, and without reimbursement, such arrangements are generally considered as providing sufficient influence over the use of the property to satisfy the control criterion. Once termination occurs, however, as in the case of a base closing where an entity conducts operations or the decommissioning of an aircraft, control no longer exists; hence, the property will no longer meet the control criterion for the asset. For further policy regarding treating assets on military bases slated for closing, see paragraph 060205.

3. The transaction or event giving a DoD Component the right to, and control over, the benefit of a General PP&E asset must have already occurred. This criterion is an agreement (express or implied) that allows a DoD Component to occupy and use the asset without reimbursement for as long as needed. If the transaction of the event occurs before the end of the reporting period, that DoD Component/predominant user receiving goods or services without reimbursement must impute and record on the financial statements that portion of the asset acquisition costs and associated depreciation expense, as well as the corresponding financing source for the benefits received as outlined in Volume 4, Chapter 17 . This also applies to other DoD agencies that are not the predominant user, however, receiving benefits without reimbursement.

4. DoD Components shall only report predominately used General PP&E assets under the accountability of other DoD Components when the cost of those assets, taken as a whole, are material to the predominant user Component's financial statements. This is in keeping with the concept that each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The recognition of full cost is limited to material items or amounts that are significant to the receiving entity and form an integral or necessary part of the receiving entity's output. Specific examples below illustrate how this policy should be implemented.

a. Military Departments--General Fund. A Military Department shall not recognize or report facilities occupied or assets being predominately used by another Military Department's installation. For example, if the Air Force is a tenant on an Army installation, and the Air Force is the predominant user of a building on that installation, the Army should report the building on the Army's financial statements, not the Air Force. This policy recognizes that the Military Departments routinely use each other's facilities in the normal course of carrying out their missions, and the net effect of this "cross use" of facilities is not material to the Military Departments' financial statements.

b. Defense Agencies--General Fund. The Defense Agencies that produce financial statements and/or are included in the DoD Consolidated Financial Statements (see Volume 6B, Chapter 1) generally must recognize and report the assets used in their operations. When assets, therefore, are material to the performance of their mission, they shall be recorded on the financial statements. Determinations on reporting other assets must be made on a case-by-case basis using the criteria identified above. All facilities used by the Defense Agencies are under the accountability of the Military Departments. Generally, these facilities are significant to the operation of the agencies and form an integral or necessary part of their output. As such, these facilities are material to the Defense Agencies' financial statements and shall be reported on the financial statements of the Defense Agencies and excluded from the financial statements of the Military Departments. The Defense Agencies shall coordinate with the Military Departments to ensure completeness and avoid duplicate reporting of General PP&E.

c. Working Capital Funds

(1) General. When a WCF activity is the preponderant user of a General PP&E asset, that WCF activity shall report and depreciate that asset on its financial statements. This requirement exists without regard to whether the WCF activity belongs to a Military Department or a Defense Agency.

(2) Preponderant Use and Improvements. WCF activities funding capital improvements shall report and depreciate such improvements on their financial statements, whether or not the WCF activity is the preponderant user of the facility improved. For example, if the Defense Logistics Agency (DLA) occupies a facility with an Army activity and occupies less square footage in the facility than the Army, but makes a capital improvement to its portion of the facility, the improvement should be recorded in the applicable property records, and the DLA should report and depreciate the improvement on the DLA

financial statements. The same accounting treatment and reporting requirement shall apply if in the above example DLA is the preponderant user of the facility improved.

d. Medical Facilities and Equipment. The preponderant use policy outlined above shall not apply to DoD medical activities. While most of the funding for medical activities is centralized through the Office of the Under Secretary of Defense (Health Affairs) (OUSD(HA)), the OUSD(HA) does not exercise command and control authority over medical activities. Hospitals, clinics and other medical facilities are typically located on a military installation or are otherwise under the command and control of one of the Military Departments. The essence of the medical mission of such facilities is to serve the personnel and families working at, or living near, military installations. The military installation, therefore, is the preponderant user of the medical facility, and all medical General PP&E equipment and facilities shall be reported on the general fund financial statements of the Military Department that is accountable for the installation upon which a medical facility resides. This policy is applicable to General PP&E purchased with General Funds regardless of Department Fund Code (e.g., TI 17, 21, 57, or 97).

5. Multiple Occupants. When there is more than one user of an asset, the user that has the greater percentage of usage (e.g., square footage for real property) normally will be the preponderant user (providing they meet the criteria identified in 060105.B.1-4).

C. Real Property Financial Reporting

1. Effective Date. This policy will be effective with financial reporting for fiscal year 2011.

2. Reporting of the Real Property Assets on the Balance Sheet

a. As a consequence of provisions within ***Title 10 U.S.C. Chapter 159*** that govern the acquisition of interests in real property by Military Departments, all DoD real property must be under the jurisdiction of a designated accountable entity. Chapter 159 provides that the Military Departments have jurisdiction over all DoD real property assets with the exception of the Pentagon Reservation and certain defense facilities in the national capital region. ***DoD Directive 5110.4*** directs the Washington Headquarters Service to serve as the accountable entity for the Pentagon Reservation and such defense facilities.

b. The DoD entity that funds the acquisition of a real property asset (acquisition entity) will record the acquisition value (recorded cost) (see section 0602) and associated depreciation (see paragraph 060205) of the asset on its financial statements. The acquisition entity may be different than the accountable entity. When two or more Defense entities jointly fund an asset, each acquisition entity will record the acquisition value and associated depreciation of the asset on the financial statements proportionate to their share of the assets funding.

c. If the entity that funded the original acquisition is a Defense Agency or reporting entity other than an accountable entity, and the acquisition entity no longer manages or utilizes the asset, the asset should be financially transferred to the entity currently responsible for funding all or most of the operation and sustainment costs. Journal vouchers should transfer the acquisition value (recorded cost) and accumulated depreciation to report the asset on the new entity's financial statement. Such financial accounting transfers have no impact on asset reporting and accountability in the property system of the accountable entity. If such property becomes vacant but is not taken out of service, then the acquisition entity will financially transfer the asset to the accountable entity using the same procedures described above. Thus the accountable entity reports the acquisition value (recorded cost) of the asset and associated depreciation on its financial statements.

d. The acquisition cost of capital improvements (see paragraph 060204) and associated depreciation are reported on the financial statements of the Defense entity that funded the improvements; such entity may be different than the accountable entity and may be different than the entity that funded the original acquisition of the asset. When two or more Defense entities jointly fund the capital improvements, the acquisition cost of the capital improvements will be reported on the financial statements of each entity proportionate to their share of the funding.

3. Reporting Imputed Cost of Unreimbursed Occupancy Expenses. Statement of Federal Financial Accounting Standards No. 4 (SFFAS No. 4) requires reporting entities to measure and report the full cost of producing outputs (products and services) in general purpose financial reports. SFFAS No. 4 defines the full cost of an output as the sum of (1) the costs of resources consumed by the entity that directly or indirectly contribute to the output, regardless of funding sources and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities. To account for the full cost of a program and its output(s), reporting entities should recognize inter-entity contributions through imputed costs when benefits received are not fully reimbursed. For real property, full costs include goods and services received by the reporting entity from a providing entity that is part of the same Department or part of a larger reporting entity. Goods and services in this case include facility acquisition, operation, sustainment, and capital improvement.

a. Definitions

(1) Reporting Entity. An entity that issues general purpose federal financial reports. The DoD reporting entities are identified in Volume 6B, Chapter 1 .

(2) Providing Entity. A reporting entity that provides goods and services to another reporting entity.

(3) Receiving Entity. A reporting entity that receives goods and services from another reporting entity. For real property, this would be the tenant, or in a joint-basing environment, the supported component.

(4) Supporting Component. At a joint base, the Military Department who has the authority and responsibility to provide all installation support services to the supported component or tenants.

(5) Supported Component. At a joint base, Military Department who receives installation support from the Supporting Component.

(6) Tenant. A Military Service, Defense Agency, field activity or other entity that occupies or uses a real property asset where the accountable entity is a different Military Department. At a Joint Base, Military Departments are not tenants, they are either supporting or supported components.

(7) Operation Cost. Includes manpower authorizations, peculiar and support equipment, necessary facilities, contracts, and associated costs to plan, manage, and execute these functions: Fire prevention and protection including crash rescue, emergency response, and disaster preparedness; engineering readiness including explosive ordnance disposal, and Prime Base Engineer Emergency Forces; utilities to include plant operation and purchase of commodity; refuse collection and disposal to include recycling operations; pavement clearance including snow and ice removal from roads, piers, and airfields; lease costs for installation real property including off-base facilities; grounds maintenance and landscaping; real property management and engineering services including special inspections of facilities and master planning; pest control; and custodial services.

(8) Sustainment Cost. Costs incurred for maintenance and repair activities necessary to keep an inventory of facilities in good working order. It includes regularly scheduled adjustments and inspections, preventive maintenance tasks, and emergency response and service calls for minor repairs. It also includes major repairs or replacement of facility components that are expected to occur periodically throughout the life cycle of facilities. (See paragraph 080105 of Volume 2B, Chapter 8)

(9). Imputed Cost. Imputed cost is a reporting entity's share of an expense not incurred directly, but borne by another reporting entity and not reimbursed. Reporting entities which occupy facilities and/or receive associated installation services without reimbursement to the providing entity, will record the imputed costs of the unreimbursed goods and services on their financial statements. The imputed costs include costs associated with the facility acquisition, operation, sustainment, and capital improvement. The amount of imputed cost to be reported will be proportionate to the entity's utilization of the asset. In instances where the receiving entity fully reimburses the providing entity, the receiving entity reports the actual cost reimbursed and there is no imputed cost. Imputed costs are unreimbursed costs, therefore if there is full reimbursement there is no imputed cost.

4. Common Business Scenarios. Annex 4 depicts common business scenarios and illustrates the implementation of this policy for reporting real property and associated costs, including the imputed costs to be reported on the receiving entities financial statements.

D. Facilities and Equipment Outside the Zone of the Interior (United States, Territories and Possessions)

1. Facilities that are occupied, and equipment that is used, outside the Zone of the Interior, by DoD Components shall be recognized as General PP&E of the occupying/using DoD Component for accountability and financial statement reporting purposes, if such occupation/use meets all of the following criteria. If any of the following criteria are not met, the asset shall not be recognized by the DoD Component:

a. The General PP&E are occupied or equipment is used without reimbursement to the host nation.

b. The DoD Component controls access to or use of the facility or equipment.

c. Use of the facility or equipment is for an unspecified length of time.

d. The DoD Component maintains and repairs the facility or equipment.

2. Such facilities and equipment include facilities and equipment that were confiscated during military operations, facilities built or equipment procured with the funds of international organizations (e.g., the North Atlantic Treaty Organization) and facilities that were built or equipment procured with the funds of host countries. The fact that such facilities or equipment may be returned to the host country or international organization when the DoD Component permanently leaves such facilities or returns equipment is not a relevant factor for purposes of accounting and financial statement reporting. Due to the unique nature of this type of property, and the fact that it will eventually be returned, the reporting Component has some latitude in the reporting of such property. Specifically, if the property is recorded in the accountable property system of record or accounting records without a historical purchase cost or estimate, and the property would be substantially or fully depreciated, no effort shall be made to determine an estimated purchase cost. DoD Components, however, must comply with all property accountability policies and requirements, as well as comply with appropriate accounting and reporting requirements when capital improvements are made to such property.

3. Such facilities and equipment are not to be considered assets under a capital lease, unless a specific agreement with the host country exists, and the agreement is the equivalent of an installment purchase and meets one of the criteria for a capital lease as specified in paragraph 060206.

4. The quantity and/or value of such facilities and equipment and the unique convertible nature of them shall be disclosed in the General PP&E narrative section (footnotes) of DoD Component's financial statements.

E. Recognition Uncertainty

1. It is important that the overall accounting records of the Department of Defense and the federal government are not duplicative. Defense Agencies that possess and control (have preponderant use of) PP&E assets that materially contribute to the Defense Agencies' mission should maintain accounting and financial reporting for such PP&E, regardless of the organization that originally acquired the items or provided the funding for the PP&E. If a Defense Agency prepares financial statements, such PP&E assets should be reported in its financial statements. In situations where doubt exists as to which DoD Component should recognize an asset, DoD Components involved shall reach agreement with the other applicable DoD Components or Federal agencies as to which entity will recognize the PP&E.

2. If an agreement cannot be reached, the matter shall be referred to the Office of the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller), for resolution. Requests for resolution shall be accompanied by adequate supporting documentation to assist in resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting Military Department or Defense Agency.

060106. Supporting Documentation

Entries to record financial transactions in accounting system general ledger accounts and/or the supporting subsidiary accountable property records and/or systems must:

A. Be supported by source documents that reflect all transactions affecting the Component's investment in the PP&E, including:

1. All acquisitions, whether by purchase, transfer from other agencies, donation, or other means, as of the date the DoD Component takes custody of the PP&E. The following documents, where applicable, shall be readily available to support the changes in asset value or physical attributes as a result of new acquisition or capital improvement:

Evidence	Examples
Unique Identification	Assignment of unique identifier
Project Approval	Such as, but not limited to a Work Order
Obligation on Behalf of the Government	Such as, but not limited to: 1) For contracts, contract modifications, or change orders, the following information is utilized: • Statement of Work, • Dollar Amount of Contract, • Location, • Source of Funds, • Parties to the Contract, and • Signature Page [Signature of All Parties]. 2) Documentation of troop labor hours 3) Approved Work Order
Payment Submitted	Such as, but not limited to: 1) Approved last invoice reflecting the total amount submitted for payment and received to date. 2) Evidence of in-house construction costs, including labor 3) Indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital improvement
Acceptance	Such as, but not limited to: 1) "Material Inspection and Receiving Report" (DD Form 250); 2) "Request for Transfer of Excess Real and Related Personal Property" (GSA Form 1334); 3) Interim or final "Transfer and Acceptance of Military Real Property" (DD Form 1354) with associated source documentation retained by the responsible party. Note: All cost information transferred from the CIP account to the real property asset account at the time the asset is placed in service, will be supported by the DD Form 1354.; 4) Executed acquisition document and appraisal results for the donated assets; 5) Signed judgment documents for condemnations; 6) Deed; 7) Signed lease for leased property; 8) Letter of withdrawal for property withdrawn from public domain; 9) Executed Occupancy agreement; 10) Executed reversionary document; 11) Transfer letter and documents for transferred assets; and 12) Collection voucher
Project Closeout	Such as, but not limited to a Final DD Form 1354 with associated source documentation retained by the responsible party.

2. All disposals or retirements when the PP&E leaves the custody of the DoD Component. The following supporting documentation is required to provide an adequate audit trail for the disposal of a real property asset. The execution of certain disposal events will generate financial or administrative accountability transactions.

a. 'Declaration of excess' document.

b. Approval documentation (to include disposal of land).

c. Original acquisition documents.

d. Legal instruments (such as a deed or contract) to indicate legal obligation to dispose of an asset.

e. Document showing the disposal start date.

f. Receipt documentation.

g. Transfer documents for transferred assets or as otherwise stated.

3. Document Retention That Supports Cost and Accountability. Documents that support the recorded cost of General PP&E assets shall be retained by the DoD Component in accordance with the requirements contained in Volume 1, Chapter 9 or as otherwise stated. Documentation (original documents and/or hard and electronic copies of original documentation) shall be maintained in a readily available location, during the applicable retention period, to permit the validation of information pertaining to the asset such as the purchase cost, purchase date, and cost of improvements. The documentation must also be linked to the appropriate unique identifier(s). Supporting documentation may include, but is not limited to, the documentation as outlined above. Component real property asset managers will maintain all applicable documentation for a period, currently 10 years, after disposal as required by the U.S. National Archives and Records Administration.

B. Include sufficient information indicating the physical quantity, location, and unit cost of the PP&E. The accountable property records shall be designed to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying potential excess PP&E that may be available for reuse, transfer to other DoD Components, or made available for disposal in accordance with current DoD regulations and other regulatory requirements.

C. Enable periodic, independent verification of the accuracy of the accounting and accountable property records through periodic physical counts/inventories of PP&E (existence and completeness--"book to floor and floor to book"). Such periodic inventories also shall include reconciling the subsidiary property accountability records and/or

systems with the general ledger accounts and physical accounts. Personal hand receipt self-validations are not acceptable for meeting the independent verification of physical inventory requirements. See ***DoDI 5000.64***, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property," Paragraph 6.11.

D. Identify and classify PP&E that was capitalized, recorded in the accountable property system of record or accounting system, and reported in the financial statements. DoD PP&E that does not meet the capitalization threshold (see paragraph 060103.A.1.d) shall be expensed for accounting and financial reporting purposes.

E. Be based on the same documents to ensure that entries to the accounting and accountable property records are the same. This will ensure that the property accountability records are integrated and subsidiary to the accounting system, and that such records can be reconciled with the accounting system.

F. Include documents used to accumulate the cost of construction or developmental projects in either the construction in progress general ledger account for posting to the applicable PP&E accounts when construction (or construction phase) is accepted and placed in service or to the appropriate expense accounts if the construction project is terminated prior to completion. Each document must link to the appropriate asset unique identifier. For a listing of those costs that may be incurred during the construction, see Annex 2.

G. Include all PP&E possessed by the Department (to include property held by others) and PP&E of others held by DoD through seizure, forfeiture, loss, or abandonment.

H. Provide information to identify and account for leased PP&E, regardless of whether the PP&E was acquired by a capital lease or operating lease or whether the value of the PP&E exceeds DoD capitalization threshold.

I. Provide information to identify and account for capitalized improvements to PP&E. For examples of capitalized improvements, see Annex 3.

060107. Physical Inventories of PP&E

DoD Components must perform periodic physical inventories of PP&E in accordance with ***DoDI 5000.64***, "Accountability and Management of DoD-Owned Equipment and Other Accountable Property," for tangible equipment, and ***DoDI 4165.14***, "Real Property Inventory and Forecasting," for real property.

060108. Deferred Maintenance

DoD Components must report deferred maintenance on PP&E as Required Supplemental Information (RSI) to the financial statements. The specific RSI reporting requirements are contained in Volume 6B, Chapter 12 .

A. Definitions

1. Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be and, therefore, is put off or delayed to a future period.

2. For purposes of this policy, maintenance is described as the act of keeping PP&E assets in an acceptable condition. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieves its expected life.

3. Maintenance excludes activities aimed at expanding the capacity or capability of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

B. Policy

1. Deferred maintenance amounts that have a cost that equals or exceeds DoD capitalization threshold (see paragraph 060103.A.1.d) must be reported in the financial statements as Required Supplemental Information for General PP&E.

2. If a DoD Component incurs a material amount of deferred maintenance on General PP&E personal property, then such amounts should be reported in the DoD Component's financial statements.

3. Maintenance of General PP&E military equipment is accomplished by two different, yet complementary components—depot-level maintenance activities and field-level maintenance activities. For the purposes of this policy, the term "field-level maintenance" includes all nondepot-level maintenance activities (e.g., organizational, intermediate and regional).

a. Depot-Level Maintenance. Depot-level maintenance includes: major repair, overhaul or complete rebuilding of weapons systems, end items, parts, assemblies, and subassemblies, manufacture of parts, technical assistance, and testing. Material amounts of depot-level deferred maintenance due to the unavailability of funding and/or capacity constraints have been historically reported through the Department's budget process by the Military Departments. Such amounts are provided annually to the Congress in the President's Budget submission and also satisfy the intent of the federal accounting standard definition. The same budget submission amounts shall be reported in the financial statements of the Military Departments.

b. Field-Level Maintenance

(1) Field-level maintenance comprises maintenance activities at lower organizational levels than depot-level. The Military Departments may or may not separate this level of maintenance into intermediate and organizational maintenance activities when describing the field-level maintenance structure and capability.

(a) Intermediate field-level maintenance includes limited repair of commodity-oriented components and end items; job-shop, bay and production line operations for special mission requirements; repair of printed circuit boards; software maintenance; and fabrication or manufacture of repair parts, assemblies, and components. The intermediate maintenance mission is to sustain the combat readiness and mission capability of supported activities by providing quality and timely materiel support at the nearest location with the lowest practical resource expenditure.

(b) Organizational field-level maintenance is normally performed by an operating unit on a day-to-day basis in support of its own operations. The organizational maintenance mission is to maintain assigned equipment by performing functions such as inspections, servicing, preventive maintenance, and corrective maintenance.

(2) Generally, any year-end amounts of field-level deferred maintenance on General PP&E military equipment whether at the intermediate field-level or organizational field-level, have been determined to be immaterial in amount when compared to depot-level amounts of deferred maintenance. Therefore, the Military Departments shall not report field-level deferred maintenance amounts.

C. Method for Measuring Deferred Maintenance. The method used to determine the estimated amounts of deferred maintenance must be reported in the narrative statement to the Required Supplementary Information Deferred Maintenance Report in DoD Component financial statements. The federal-wide accounting standard permits the use of condition assessment surveys or life cycle cost forecasts to measure deferred maintenance.

1. Condition Assessment Surveys. Condition assessment surveys are periodic inspections of PP&E to determine their current condition and estimated cost to correct any deficiencies. It is desirable that condition assessment surveys be based on generally accepted methods and standards consistently applied.

2. Life-Cycle Cost Forecasts. Life-cycle costing is an acquisition or procurement technique, which considers operating, maintenance, and other costs in addition to the acquisition cost of assets. Since it results in a forecast of maintenance expense, these forecasts may serve as a basis against which to compare actual maintenance expense and estimate deferred maintenance.

D. Required Supplementary Information. The specific RSI reporting requirements related to deferred maintenance on PP&E are contained in Volume 6B, Chapter 12.

060109. Environmental Liabilities/Cleanup Costs

The accounting policy for environmental liabilities/cleanup costs pertaining to PP&E is contained in Chapter 13.

0602 ACCOUNTING FOR GENERAL PP&E

060201. Asset Recognition

A. General. The recorded cost of General PP&E assets is the basis for computing depreciation or amortization and may be greater than the purchase cost, book value, or fair market value, since the recorded cost may include additional ancillary costs. See paragraph 060201.B for examples of ancillary costs. The following defines and prescribes the use of recorded cost, book value and fair market value when recording the cost of newly acquired General PP&E assets.

1. Acquisition Cost. Acquisition cost is the original purchase, construction or development cost, net of (less) any purchase discounts. Purchase discounts lost and late payment interest expenses shall not be included as a cost of the asset; rather, such costs shall be recognized as operating expenses.

2. Book Value. Book value is the recorded cost of a General PP&E asset, less its accumulated depreciation.

3. Fair Market Value/Fair Value. Fair market value (also known as fair value) is an unbiased, equitable or just value based on the cost of a similar asset or the price that an impartial buyer would be willing to pay for the asset or a similar asset.

B. Recorded Cost. The recorded cost (also referred to as acquisition value) shall include all amounts paid to bring the property to its form and location suitable for its intended use. In addition to the amount paid to the vendor, additional ancillary costs that are identifiable shall be included in the recorded cost. Examples include the following:

1. government-furnished property installed in end items, e.g., engines installed in aircraft;

2. an appropriate share of the cost of government-furnished materials used in the production of end items;

3. transportation charges to the point of initial use;

4. handling and storage costs;

5. labor and other direct or indirect production costs (for assets produced or constructed);

6. engineering, architectural, and other outside services for designs, plans, specifications, and surveys;

7. acquisition and preparation costs of buildings and other facilities;

8. an appropriate share of the cost of the equipment and facilities used in construction work;

9. fixed equipment and related installation costs required for activities in a building or facility;

10. direct costs of inspection, supervision, and administration of construction contracts and construction work;

11. direct cost of maintaining the Program Management Office, if material;

12. legal and recording fees and damage claims;

13. fair value of facilities and equipment donated to the Department;

14. interest paid (not including late payment interest penalties); and

15. prorated share of nonrecurring cost associated with the development and production of the equipment. When documentation to support the original acquisition value is unavailable, estimates based on the latest cost of similar assets (at the time of acquisition) should be used, or the latest cost of similar assets or replacement value discounted for inflation since the time of acquisition. Such methods and/or sources when used shall be applied consistently.

C. Method of Acquisition Determines Recorded Cost

1. Purchased PP&E. The cost to be recorded for General PP&E acquired by purchase from a third party (private, commercial, or government) shall be its purchase contract cost plus applicable ancillary costs. For purposes of this guidance, purchase includes procurements of General PP&E by cash, check, or installment or progress payments on contracts.

2. Constructed PP&E. The costs of General PP&E real property assets while under construction, as described in Annex 2, are recorded to the USSGL construction in progress account. These costs include the costs of project design and actual construction such as labor, materials, and overhead costs. Upon the asset's placement in service, these costs shall be transferred to the proper General PP&E asset account as the recorded cost of the asset. During the construction of General PP&E, if it is determined that the cost will not exceed DoD capitalization threshold (see paragraph 060103.A.1.d), the costs of the construction project shall be expensed in the period the determination is made. Generally, the cost of demolition of a building is expensed; however, if an existing building is razed as part of site preparation for a new building, the cost of the demolition is included in the cost of the new building.

3. Donated PP&E. The cost to be recorded for General PP&E acquired through donation, execution of a will or judicial process excluding forfeiture, shall be its estimated fair value at the time acquired by the Department. The fair market value (also known as fair value) is an unbiased, equitable value based on the cost of a similar asset or the price that an impartial buyer would be willing to pay for the asset or a similar asset.

4. Exchanged PP&E. The cost to be recorded for General PP&E acquired through exchange between the Department and a nonfederal entity shall be the fair value of the PP&E surrendered at the time of exchange. If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost shall be the fair market value of the PP&E acquired. If the fair value cannot be determined, the cost of the PP&E acquired shall be the cost recorded for the PP&E surrendered, net of any accumulated depreciation. Any difference between the net recorded amount of the PP&E surrendered and the cost of the PP&E acquired shall be recognized as a gain or loss. In the event that cash consideration is included in the exchange, the cost of General PP&E acquired shall be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received. If the DoD Component enters into an exchange in which the fair value of the PP&E acquired is less than that of the PP&E surrendered, the PP&E acquired shall be recognized at its cost, as described previously and subsequently reduced to its fair value. A loss shall be recognized in an amount equal to the difference between the cost of the PP&E acquired and its fair value. This guidance on exchanges applies only to exchanges between a DoD Component and a nonfederal entity. Exchanges between a DoD Component and another DoD Component or federal agency shall be accounted for as a transfer.

5. Capital Leases. A lease meeting any of the criteria at 060206.E and meeting the capitalization thresholds at 060103.A.d. shall be classified as a capital lease. The cost recorded for General PP&E acquired under a capital lease shall be equal to the amount recognized as a liability for the capital lease at its inception, plus any cash paid or other consideration given. Specific guidance on capital leases is provided at paragraph 060206.

6. Seized and Forfeited PP&E. The cost recorded for General PP&E acquired through seizure or forfeiture shall be its fair market value, less an allowance for any liens or claims from a third party.

7. Vested and Seized Property During Times of War. See Volume 12 for discussion of vested and seized property during times of war.

8. Transferred PP&E. The cost recorded for General PP&E transferred from another DoD Component or federal agency shall be the cost recorded on the transferring entity's books for the PP&E, net of any accumulated depreciation. If the receiving DoD Component cannot reasonably ascertain those amounts, the cost of the asset shall be its fair value at the time of transfer.

9. PP&E Acquired by Trade-In. The cost to be recorded for a General PP&E asset acquired when trading in another General PP&E asset shall be equal to the sum of the book value of the asset traded plus any cash paid or liabilities assumed for the new

asset. The book value is the recorded cost of a General PP&E asset, less its accumulated depreciation.

060202. Real Property

See section 060105.A.2 for detail on acquisition or improvement methods for real property assets.

A. Land and Land Rights (Account 1711)

1. The Land and Land Rights account is used to record the purchase cost of DoD-controlled land. When the purchase cost cannot be determined, the estimated fair market value shall be used. Land and Land Rights accounts include not only the land but also the rights to it, such as easements. Land is regarded for accounting purposes as a non-wasting asset. As such, land is not subject to depreciation. The purchase cost of land includes the purchase price, broker's commission, fees for examining and recording the title and surveying, and any razing and removal costs (less salvage proceeds) of structures on the land. Periodic DoD payments for land rights are accounted for as a period operating expense.

* 2. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library***. Sources of entries to this account include invoices, payment vouchers, documented estimates indicating source of estimates, sales records, and documented transfers and losses. See paragraph 060106.A for a more complete list.

B. Construction in Progress (Account 1720)

1. See paragraph 060105.A.3 for definition and additional information for construction projects.

2. Real Property CIP Process. A CIP account will be created when either of the following triggering events occurs: (1) work order and funding authorizations are received for an in-house minor construction project; or (2) design and fund authorizations are received for construction projects performed by an agent. Either of these triggering events could affect work to be completed on an existing facility or a new construction project. Note that preliminary planning cost accumulated prior to design authorization must be expensed and not be captured in the CIP account.

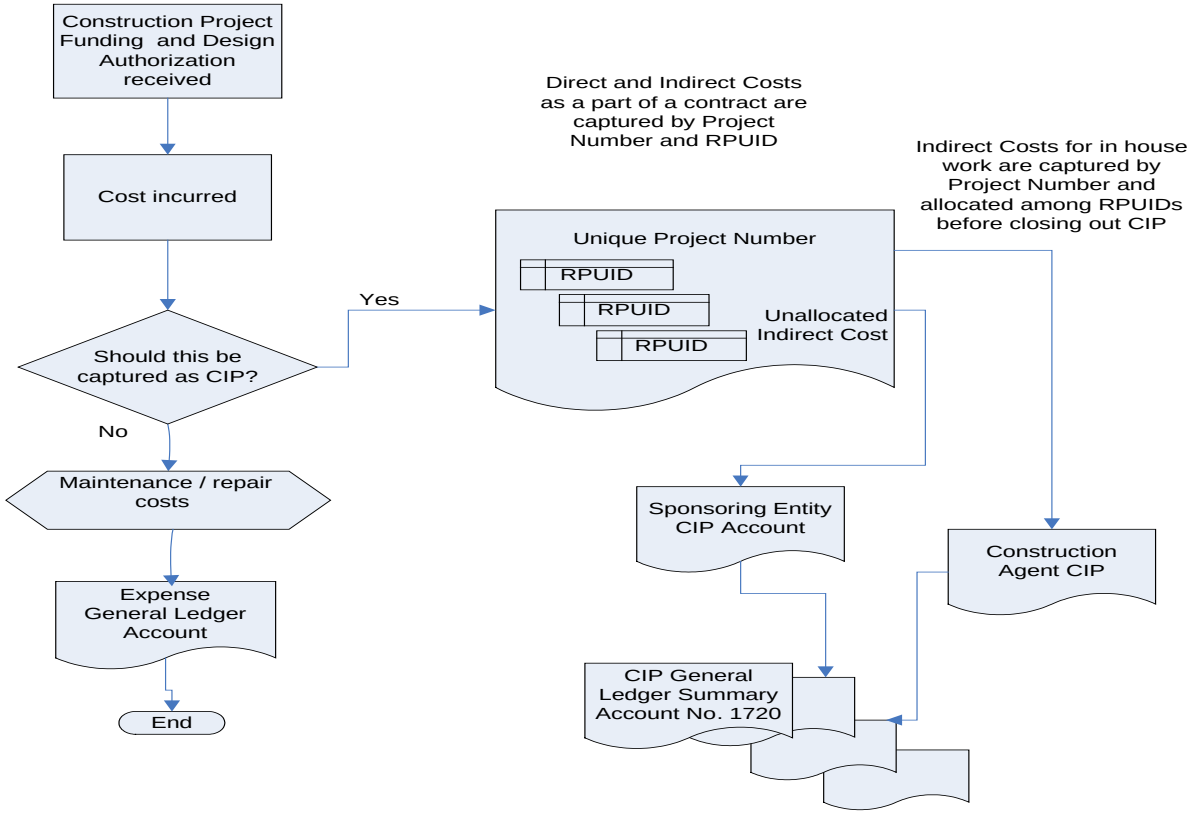
a. A service-unique project number will be assigned by the Component to each approved real property construction project. At least one Real Property Unique Identifier (RPUID) will be assigned or obtained by the real property accountable Component when the CIP account is created. Upon receiving official authorization to perform work on a real property construction project, the sponsoring entity will obtain and assign an RPUID from the real property accountable Component for each real property asset that will result during the construction. A sponsoring entity is defined as the military department, DoD agency or combatant command that sponsors the construction project. DoD agencies and combatant commands are not authorized to own real property; as such, these assets are under the

jurisdiction and held in the inventory of the real property accountable Component for the site where the asset is located. CIP costs will be tracked by both the Service-unique project number and the RPUID to ensure visibility, traceability, and accountability. A project may include one or more real property asset and corresponding RPUIDs. All costs to be capitalized for a construction project will be accumulated in the CIP account. A CIP account must be linked to at least one primary RPUID but may be linked to multiple RPUIDs to provide traceability for all construction costs incurred. A reasonable allocation methodology should be established to assign project costs periodically as the costs are incurred to all corresponding RPUIDs, no later than the time the assets are placed in service (interim acceptance).

b. Any indirect project cost must be allocated across CIP accounts periodically as they are incurred, and no later than final acceptance based on the direct cost of the asset as a percentage of the total direct cost of all assets in the project. Thus, the full cost of real property assets can be adequately captured and reported.

c. The relationship among projects, RPUID and the CIP accounts are provided in Figure 6-1.

FIGURE 6-1: RELATIONSHIPS AMONG A CONSTRUCTION PROJECT, RPUID AND CIP ACCOUNTS



3. Real Property CIP Business Rules. The following encapsulates the business rules that shall be applied in managing CIP throughout its life cycle:

a. Creation of Real Property CIP Account. When a DoD entity is constructing a real property asset to be transferred to another DoD entity under allocations or allotments, the constructing entity must accumulate cost in a CIP account for the benefit of the fund owner. When a DoD entity is constructing a real property asset to be transferred to another DoD entity on a cost reimbursable basis, the constructing entity must accumulate cost in an accounts receivable to be billed to the sponsoring entity since project inception. The billed costs are recorded in the corresponding CIP account by the sponsoring entity.

(1) When there is a cost-shared project between Federal and non-federal entities, a CIP account must only be created if the asset is federally owned. Only the Federal share of construction costs for real property being constructed on federal property, in conjunction with a non-federal project (e.g. state or other entity), should be captured in a CIP account. In the case of a cost-shared project between DoD and another Federal agency (e.g. Department of State), only the DoD share of construction costs for real property being constructed on DoD property should be captured in a CIP account within DoD's financial statements. At the time the asset is placed in service, the asset shall be recorded at its full value in the appropriate general PP&E account of the accountable Component, when the asset is constructed on a federal property.

(2) For cost-shared projects where the Federal Government is the construction agent and constructing a non-federal asset, the cost is accumulated in an accounts receivable to be billed to the customer. If the Federal Government is not the construction agent and the asset is not federally owned, the Federal Government's share of construction cost must be expensed as incurred. If the asset's final ownership was not determined at project design, this cost must be relieved from the CIP account and expensed to the general ledger, when it is determined that the asset will not be federally owned.

b. Relief of the Real Property CIP Account. The CIP account is relieved when an asset or an improvement to an asset is placed in service, at which point the cost accumulated to date in the CIP account must be transferred to the appropriate General Property Plant and Equipment (PP&E) account and recorded in the real property inventory. Once the asset is placed in service, each additional cost incurred must be recorded in the CIP account until final acceptance, and then transferred by RPUID to the appropriate General PP&E account. After real property final acceptance, each additional project cost must be expensed and must not be included in the CIP account. For a real property construction project, all costs for improvements that increase the useful life, efficiency, capacity, or size of an existing asset, or modifies the functionality or use of an asset, shall be capitalized.

(1) To ensure the real property asset is recorded at its full cost, the recorded cost of the asset placed in service must equal the sum of all construction and design costs. A comprehensive list of cost types are outlined in Annex 2. In addition, the sponsoring entity of a real property construction project must ensure that all costs incurred by the

sponsoring entity are provided to the construction agent on a formal document for inclusion in the full cost of the asset, prior to acceptance by real property accountable Component.

(2) The real property accountable officer will provide a copy of the executed "Transfer and Acceptance of Military Real Property" (DD Form 1354) to the sponsoring entity at the acceptance transaction, if the sponsoring entity is not the real property accountable Component for the asset. For an accepted real property asset, and for the purpose of an audit trail, the government's project construction agent and/or the sponsoring entity must provide the real property accountable officer with the list of auditable supporting documentation that must be provided, including their location. The accountable officer, in turn, must ensure the documentation is retained in accordance with applicable laws, regulations and instructions.

(3) If a construction project is cancelled, each cost accumulated in CIP accounts must be expensed. When a portion of a project is cancelled or decreased in scope, the cost directly associated to that portion of the project, and an allocated portion of the common cost in the CIP, must be expensed. All projects deferred for more than two years must be reviewed for continuance or cancellation during the review cycle.

c. Reporting of Real Property CIP Account. The sponsoring entities shall continue to report CIP on their financial statements, proportionate to their shares of investment, until the real property asset is accepted by the accountable Component. The minimum information associated with the CIP amount reported for financial statement preparation purposes must include the Customer Project Number, Project Fund Code(s), Project Detail Cost, Project Organization Code(s), Programmed Amount, and RPUID(s).

When portions of CIP for the same project are reported by multiple entities (construction agent and sponsoring entity), the portions must tie to the total amount of CIP reported for the project. To ensure traceability, CIP costs must be tracked by both the Service-unique project number and the RPUID; the same project number must be used for all phases of the construction project regardless of the performing entity. For a specified project, and for the purpose of an audit trail of the CIP account, the government's project construction agent and/or the sponsoring entity must retain the supporting documentation for their respective portion(s) of the project to which they have fiscal accountability. For additional information regarding representative documentation for a construction project, refer to section 060106.

* 4. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library.***

* C. Buildings, Improvements and Renovations (Account 1730). The Buildings, Improvements and Renovations account is used to record the purchase cost of DoD-controlled buildings, improvements and renovations. When the purchase cost cannot be determined, the estimated fair market value of buildings and the cost of placing such assets in the form intended for use shall be recorded less any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired. Reference

paragraph 060201.C. for assistance in determining recorded costs or acquisition value. The account also is used to record capitalized improvements or renovations to existing buildings. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library***.

* D. Other Structures and Facilities (Account 1740). The Other Structures and Facilities account is used to record the cost of DoD-controlled utilities and improvements to structures and facilities not classified as buildings. Examples include, but are not limited to, fences, roads, bridges, utilities, rail lines, and fuel storage facilities. When the acquisition cost cannot be determined, the estimated fair market value and the cost of placing such assets in the form intended for use shall be recorded less any accumulated depreciation or amortization which would have been taken had the asset been recorded at the time it was acquired. The account also is used to record capitalized improvements to other structures and facilities. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library***.

060203. Equipment (Account 1750)

The Equipment account is used to record the capitalized cost of tangible equipment items of a durable nature that are used by DoD in providing goods and services. Equipment also is referred to as personal property. This account excludes computer software (SGL Account 1830), but includes Automated Data Processing (ADP) systems and hardware (computers and peripherals).

A. ADP Systems/Hardware

1. Definition. An ADP system for accounting and financial statement reporting purposes consists of dedicated equipment or components linked together and used in the performance of a service or function in support of a mission of a DoD Component, command or installation. This definition should not be confused with budgetary or property accountability policy and/or regulations which may be different. ADP systems for the purpose of this definition and the requisite accounting treatment are typically referred to as mainframe or mini computer systems and generally, do not include personal computers linked to a central server and used in an office environment. ADP systems shall be capitalized and depreciated when the total cost of the system (considering the individual components as a whole system) equals or exceeds the DoD capitalization threshold (see paragraph 060103.A.1.d) and has an expected useful life of two years or more.

2. Personal Computers (PCs). PCs that are not organic to an ADP system (attached PCs and used solely for the operation of the ADP system) are excluded from the accounting and financial statement reporting definition of an ADP system. The cost of such PCs, therefore, is not included in the capitalized cost of an ADP system. Such nonorganic PCs are expensed in the year acquired, since the cost of the individual PCs does not equal or exceed the DoD capitalization threshold.

* B. Accounting Entries. The Equipment account is used to record the cost of ADP hardware/systems (personal property) and other equipment in use by DoD Components. Accounting entries used for this account are specified in the ***USSGL SFIS Transaction Library***.

The account also is used to record the cost of improvements to equipment/personal property that meet DoD capitalization threshold. The policy for improvements is provided in paragraph 060204.

060204. Improvements to Existing General PP&E

A. Definition. The costs to improve a General PP&E asset shall be capitalized when the costs of the improvement increase the General PP&E asset's capability, size, efficiency, or useful life. In addition, the cost of an improvement shall be capitalized only when the cost of the improvement equals or exceeds DoD capitalization threshold (see paragraph 060103.A.1.d), regardless of funding source. Applicable improvements shall be capitalized and depreciated in accordance with the criteria described in Annex 3. Capital improvements which extend the life of the asset will be depreciated over the revised remaining extended useful life of the asset. Capital improvements which do not extend the useful life of the asset but have the same useful life as the remaining useful life of the General PP&E asset will be depreciated over the remaining useful life of the asset. Capital improvements which increase the asset's capability, size or efficiency but have an expected useful life that differs from the useful life of the General PP&E asset are depreciated separately. Capital improvements to assets which have already been fully depreciated will be depreciated based on the recovery periods identified in Table 6-1. For real property, improvements shall be capitalized and depreciated in accordance with the business rules for Construction in Progress (CIP) identified in Section 060202.B or the capital improvement depreciation cases presented in Annex 3. For depreciable periods, see Table 6-1 "DoD Standard Recovery Periods for Depreciable General PP&E Assets. Improvements that do not increase an asset's capacity, size, efficiency, or useful life, regardless of the cost of the improvement, shall be expensed. Improvement policy applicable to specific types of property follows:

B. Maintenance. Maintenance and repair costs are not considered capital improvements, regardless of whether the cost equals or exceeds DoD capitalization threshold. Maintenance is the work required to preserve and maintain equipment or real property in such condition that it may be effectively used for its designated functional purpose. Maintenance costs associated with personal property (e.g., maintenance contracts for equipment and software) shall be expensed. Maintenance also includes cyclic work done to prevent damage that would be more costly to restore than to prevent (e.g., painting).

C. Repair. Generally, PP&E personal and real property repair costs shall be expensed. When repair is by replacement, the repair may be expensed or it may be capitalized. According to USC Title 10, Subtitle A, Part IV, Chapter 169, Subchapter I, § 2811 Repair of Facilities, "the term "repair project" means a project to restore a real property facility, system, or component to such a condition that it may effectively be used for its designated functional purpose." When repairing a real property facility, the components of the facility may be repaired by replacement, and the replacement can involve upgrading to current building standards and codes. Such replacements (repairs) may or may not be an improvement for accounting purposes. Crucial to the determination of whether a replacement is a repair or an improvement is the intent behind the replacement. Repair by replacement that is expensed, occurs when a facility or facility component has failed, is in the incipient stages of failing or is no longer performing the

functions for which it was designated. Replacements falling into this category shall be expensed. If the replacement was undertaken to improve or expand the efficiency of an asset that was in good working order, then the replacement is an improvement. A roof or a heating and air conditioning system that is replaced due to the failing of the existing asset shall be classified as a repair and shall be expensed, even if the replacement incorporated a better quality and longer life shingle or a more efficient heating and air conditioning unit. Repair by replacement does not include rebuilding entire structures within the same physical area (footprint).

D. Per Unit Costs. The cost of improvements to more than one General PP&E asset as identified by a unique identifier, when performed under a single contract or work order and that cannot be specifically identified by asset, shall be capitalized only if the allocated cost per General PP&E asset equals or exceeds the DoD capitalization threshold. When more than one improvement is made to a single building and the improvements are part of one overall effort to increase the building's capacity, size, or useful life; the sum of the costs of the improvements shall be capitalized, if the summed costs equal or exceed DoD capitalization threshold. This is required even when the improvements are funded separately. Once a determination has been made that the aggregate costs of the improvements will be capitalized, each improvement should be capitalized and depreciation placed in service.

* E. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

060205. Depreciation

* A. General. DoD General PP&E assets are those assets that have a recorded cost (see 060201.B) that equals or exceeds DoD capitalization threshold and have a useful life or two years or more--often called "capital assets" or "fixed assets." DoD General PP&E includes all capital assets that are not Heritage Assets or Stewardship Land. DoD General PP&E shall be capitalized and, with the exception of land and land rights of unlimited duration, shall be depreciated. Land rights that are for a specified period of time shall be amortized (depreciated) over that time period. Such capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, shall be reflected in DoD financial statements. Accounting entries for depreciation accounts are specified in the ***USSGL SFIS Transaction Library***.

B. Definition of Depreciation for Military Equipment. Depreciation is the systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life. Estimates of useful life of military equipment must consider factors such as usage, physical wear and tear and technological change.

C. Method of Depreciation. Department of Defense policy permits the use only of the straight-line method of depreciation, except for military equipment. For military equipment, an activity-based method of depreciation, which recognizes the change in an asset's value as a result of use rather than time, may also be used.

D. Salvage Value. The salvage value, also known as the residual or scrap value, is the amount that would be expected to be obtained from selling the asset at the end of its useful life, but only when such proceeds (from recycle, resale, or salvage) are permitted to be retained and used by the DoD Component. Typically, personal property (e.g., vehicles, ADP and equipment) will not have a salvage value. If the asset is to be traded in on a new asset, the salvage value is the expected trade-in value. For purposes of computing depreciation, military equipment and real property assets (e.g., buildings, facilities and structures) do not have salvage values.

E. Depreciable Basis. The depreciable basis of a General PP&E asset is the recorded cost reduced by the asset's salvage value, if such salvage value exceeds 10 percent of the asset's cost. If the salvage value is 10 percent or less of the asset's cost, the salvage value is not considered material for purposes of calculating depreciation, and therefore, should not be considered when determining the depreciable basis. (In other words, if the salvage value is less than or equal to 10 percent of the asset's cost, the depreciable basis should be the same as the recorded cost.) Land is not subject to depreciation. Land rights that are for a specified period of time shall be amortized over the specified time period. When land and a building are purchased together, the depreciable basis for the building is the total purchase cost less the actual cost, or estimated value of the land.

F. Useful Life. For purposes of computing depreciation on DoD General PP&E assets, specific recovery periods are prescribed. Table 6-1 reflects the recovery periods to be used for DoD General PP&E, except for military equipment. With respect to military equipment:

1. Depreciation of military equipment and the estimated useful life for military equipment will be based on data provided by the military equipment Program Managers and valued by the OUSD (AT&L) Property, Plant and Equipment Policy Office.

2. Proper supporting documentation must be retained by the program office to justify the estimated useful life of the program. Examples of proper documentation are engineering estimates, operational requirements documents, mission needs statements, commercial industry-equivalent information, contracts, and acquisition documents (such as the Select Acquisition Report).

G. Commencement of Depreciation. In the case of tangible assets, the event that triggers the calculation of depreciation is the date of receipt shown on the asset receiving document or the date installed and placed in service (regardless of whether it is actually used). In the case of constructed PP&E, the costs of constructing the PP&E shall be recorded as construction in progress until it is placed in service, at which time the balance (total construction costs) shall be transferred to General PP&E in accordance with the tables presented in Section 060105.A.2.b. For real property assets, depreciation shall commence when the facility is placed in service, regardless of whether the facility is fully occupied or in use. The actual commencement of depreciation shall be based on either of the following methods:

1. Month Available for Service Method. Under the Month Available for Service Method, the month the asset was available for use, regardless of whether it was actually used, is the month used to commence the calculation of depreciation expense for the first year.

2. Mid-Year Convention Method. Under the Mid-Year Convention Method, six months of depreciation is computed and expensed in the first and last year of an asset's useful life, regardless of the actual month the asset was placed in, or removed from, service.

H. Excess of Useful Life. If an asset remains in use longer than its estimated useful life, it shall be retained in the accountable property system of record, as well as the accounting records, and reflect both its recorded cost and accumulated depreciation until disposition of the asset.

I. Calculation of Depreciation. Except for military equipment, depreciation expense shall be calculated and accumulated using the straight-line method based on the recorded cost less salvage value and divided equally among accounting periods during the asset's useful life based on recovery periods in Table 6-1. Salvage value will be used in the calculation only if it exceeds 10 percent of the cost of the asset. Depreciation of military equipment and the estimated useful life for military equipment will be based on data provided by the military equipment Program Managers and valued by the OUSD (AT&L) Property, Plant and Equipment Policy Office.

J. Recovery Periods. Table 6-1 prescribes the recovery periods (useful lives) that shall be used for depreciable General PP&E assets.

TABLE 6-1 DOD RECOVERY PERIODS FOR DEPRECIABLE GENERAL PP&E ASSETS

DoD RECOVERY PERIODS FOR DEPRECIABLE GENERAL PP&E ASSETS (Excludes Military Equipment and Heritage Assets)	
Description of General PP&E Assets	Recovery Period
General Purpose Vehicles (Includes Heavy Duty Trucks and Buses); ADP Systems and Hardware (Computers and Peripherals); High Tech Medical Equipment; Equipment used in Research, Development, Test and Evaluation (RDT&E); Radio and Television Broadcasting Equipment; and Software Improvements to 5-Year Recovery Period Property (Personal Property)	5 Years*
All Other Equipment, Machinery and Software** Improvements to 20-Year Recovery Period Property	10 Years

Vessels, Tugs, Barges and Similar Water Transportation Equipment (Non-Military Equipment vessels/ships) Steam (12.5K pounds per hour or more) and Electric Generation Equipment (500 Kilowatt or more), Sewers and Other Utilities (including such things as fiber optic cable) Fences, Roads, Bridges, Towers, Ship and Railroad Wharves and Docks, Dry Docks, Fuel Storage Facilities and Other Real Property Structures. Improvements to 40-Year Recovery Period Property	20 Years
Buildings, Hangers, Warehouses, Fuel Storage Buildings, Air Traffic Control Towers, and Other Real Property Buildings	40 Years
Improvements to Leased Buildings and Other Real Property (Leasehold Improvements)	Remainder of Lease Period or 20 Years Whichever Is Less
Land Rights of Limited Duration	Over the Specified Duration

* A recovery period of less than 5 years is permitted when the acquiring DoD Component is certain that the useful life of an asset is at least 2 years but less than 5 years. In such circumstances, the recovery period shall be the known useful life (2-4 years, as appropriate).

** Depending on the nature of the software, it may be depreciated over a period of less than 5 years, 5 years or 10 years. The determining factor should be the actual estimated useful life of the software consistent with that used for planning the software's acquisition.

K. Recovery Period of Less Than Five Years. If a DoD Component determines that a newly acquired General PP&E asset costing more than the DoD capitalization threshold has a useful life of at least 2 years, but less than 5 years, the Component can elect to depreciate the asset over a recovery period that more accurately reflects its useful life (2-4 years, as appropriate). The DoD Component making this election must document the basis for that decision and cannot change the recovery period once depreciation/amortization has been started.

L. Disposal of Depreciable PP&E

1. General PP&E shall be removed from general PP&E accounts and transferred to Other General PP&E (Account 1890) along with associated accumulated depreciation/ amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value. The net realizable value amount is defined as the expected earnings from the disposal of a real property asset less any costs necessary to complete and dispose of the asset. Any difference in the book value of the

PP&E and its expected net realizable value shall be recognized as a gain or a loss in the period of adjustment. The expected net realizable value shall be adjusted at the end of each accounting period and any further adjustments in value recognized as a gain or a loss. However, no additional depreciation/amortization shall be taken once such assets are removed from general PP&E in anticipation of disposal, retirement, or removal from service.

2. General PP&E assets that have been identified for permanent removal from service shall no longer be depreciated once the asset no longer contributes to the operation of the entity. See 060205.M for further guidance. The triggering event for disposal is the time/date the asset no longer provides service in the operations of the entity and is identified for disposal. Depreciation/amortization of General PP&E assets will stop on this date. This date shall also represent the date on which the General PP&E asset and its associated depreciation/amortization and accumulated depreciation/amortization are no longer reported under the General PP&E account on the financial statements and the depreciation/amortization calculation is discontinued.

3. The disposal start date is defined as the calendar date of a legally enforceable and recognizable obligation to complete the disposal action or the date the operation has ceased, whichever comes later. On this date, the asset is no longer depreciated, its book value is removed from the financial records, and the corresponding gain/loss from disposition is recorded. For demolitions, this represents the demolition contract's start date. For transfers and sales, this represents the date on which the instrument is endorsed or operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident.

4. The Disposal Total Proceed Amount is the total amount of money or other consideration received from the disposal of the General PP&E asset. The difference between this amount and the net book value at the time of disposal is recorded as gain or loss. This value must be assigned to each disposal property.

5. General PP&E assets that have been temporarily removed from service/use with the expectation that such assets eventually will be returned to service shall continue to be depreciated during periods of non-use. This policy is applicable to WCF activities and also applies to General PP&E sent to a depot for temporary storage. Depreciation shall cease on General PP&E assets awaiting disposal that are damaged, obsolete, or excess (assets no longer providing the intended service to the entity's operation) or are retired before their intended disposal date based on useful life.

M. Other General PP&E (Account 1890)

1. When a General PP&E asset is identified for other than normal removal from service, such as would be the case for assets that are part of a Base Realignment and Closure (BRAC) or an asset identified as not serving its intended purpose and awaiting disposal actions, the asset shall be removed from the PP&E accounts, along with its associated accumulated depreciation/amortization and be recorded in the Other General PP&E account

(1890) at its net realizable value (NRV). Oftentimes the NRV will be zero. Any difference between the book value of the PP&E asset and its expected NRV shall be recognized as a gain or loss in the period of adjustment. For assets that are part of BRAC, the disposal date is the operation closure date as established by BRAC law.

2. The Disposal Net Realizable Value Amount is defined as the expected earnings from the disposal of a real property asset less any costs necessary to complete and dispose of the asset. The net realizable value is used for assets that will be held for a period of time and disposed of at a future date such as those properties that are part of a BRAC or declared as excess under a special legislation. The net realizable value is an accounting method used to calculate the present value of future earnings the asset is expected to generate, less the cost of owning, holding, developing, and operating the asset. For special legislation (BRAC) properties, the difference between this amount and the net book value at the time a property is identified for disposal is used to post GL account 7110 (Gains on Disposition of Assets-Other) or 7210 (Losses on Disposition of Assets-Other). The Disposal Start Date must calculate this value.

3. The Other General PP&E account shall not be used to record assets that have been removed from service and sent to a depot for storage with the intent to use the assets again in the future or for other assets taken out of service on a temporary basis. Those assets shall remain recorded in the appropriate general ledger account and shall continue to be depreciated. Normal disposal transactions shall not be processed through account 1890 and shall not be accounted for using account 5730, Financial Sources Transferred Out Without Reimbursement.

* 4. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library.***

060206. Assets Under Capital Lease (Account 1810)

A. Definitions

1. Lease Term. For non-operating leases, the lease term is the fixed non-cancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease that can reasonably be expected to be taken.

2. Noncancelable. Noncancelable means the lease is cancelable only on the occurrence of a remote contingency. Funds that are not appropriated by the Congress in future years to cover the lease are considered a remote contingency.

3. Bargain Purchase Option. A lessee's option to purchase leased property for a price which is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable that, at inception of the lease, makes the exercise of the option reasonably assured.

4. Estimated Economic Life. The estimated remaining period during which the property is expected to be economically usable by one or more users, with normal

repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

5. Minimum Lease Payments. The payments that the lessee is obligated to make or can be required to make in connection with the leased property. (Contingent rentals are excluded from the minimum lease payments.)

6. Fair Value. The price for which the property could be sold in an arm's-length transaction between unrelated parties.

7. Interest Rate Implicit in the Lease. The discount rate that, when applied to the minimum lease payments (less executory costs and the unguaranteed residual value), causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased property at the inception of the lease.

8. Renewal or Extension of a Lease. The continuation of a lease agreement beyond the original lease term, including a new lease under which a lessee continues to use the same property.

B. The Assets Under Capital Lease account is used to record the present value of the leased asset and other lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes paid to the lessor under terms of the lease.

C. A lease conveys the use of an asset or part of an asset (such as part of a building) from one entity, the lessor, to another, the lessee, for a specified period of time in return for rent or other compensation. Lessees have capital or operating leases while lessors have sales-type, direct financing or operating leases. Capital, sales-type, and direct financing leases transfer substantially all the benefits and risks of ownership from the lessor to the lessee.

D. When a lease is a capital lease, the lessee shall record the applicable asset and liability at lease inception. The amount to be recorded under a capital lease is the present value of the rental property and other lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance and taxes paid to the lessor. If the present value amount, however, exceeds the fair value of the leased property at the inception of the lease, the amount recorded shall be the fair value. If the executory costs portion of the minimum lease payments cannot be determined, the amount should be estimated. In such cases, the substance of the arrangement, rather than its legal form, shall determine the accounting treatment. All other leases should be accounted for as operating leases with no balance sheet recognition.

E. Lessees shall classify a lease as a capital lease if one of the following four criteria is met:

1. The lease transfers ownership of the property to the lessee by, or at, the end of the lease term;

2. The lease contains an option to purchase the leased property at a bargain price (see paragraph 060206.A.3);

3. The lease term (non-cancelable portion plus all periods, if any, representing renewals or extensions that can reasonably be expected to be taken) is equal to or greater than 75 percent of the estimated economic life of the leased property; and

4. The present value of rental and other minimum lease payments, excluding that portion representing executory costs to be paid by the lessor, equals or exceeds 90 percent of the fair value of the leased property. The lessee shall compute the present value of the minimum lease payments using the interest rate as of January 1 each year of the Treasury Instrument (bill, note or bond) that matches the term of the lease (for example, the interest rate for a 12.5-year capital lease would be the average of the interest rates for a 10-year T-Bill and a 15-year T-Bill) unless:

a. It is practicable for the lessee to learn the interest rate implicit in the lease computed by the lessor, and

b. The implicit rate computed by the lessor is less than the Treasury Instrument Rate.

F. The criteria cited in 060206.E.3 and 060206.E.4 , do not apply if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. (While leases with the GSA typically do not meet the capital lease criteria, if such a lease does meet the criteria it should be capitalized.)

G. If a lease does not meet at least one of the above four criteria, it should be classified as an operating lease. Operating leases of PP&E are leases in which the entity does not assume the risks of ownership of the PP&E. Multi-year service contracts and multi-year purchase contracts for expendable commodities are not capital leases.

H. A portion of each lease payment shall be allocated to interest expense, and the balance shall be applied to reduce the lease liability using the effective interest rate method. (Interest is calculated on the balance of the lease obligation for each period, and the remainder of the payment is applied as a reduction of the lease obligation.) The periodic payment amount allocated to interest expense shall be computed based on the interest rate used to compute the present value of minimum lease payments, unless the lease is recorded at fair value. For such leases, trial and error must be used to compute the interest rate for application to the balance of the lease obligation.

I. For leases with a residual guarantee by the lessee or a penalty for failure to renew the lease at the end of the lease term, following the amortization method in Volume 4, Chapter 7, paragraph 070207.F generally should result in a liability balance that will equal the amount of the guarantee or penalty at the end of the lease term. If a renewal or other extension of the lease term or a new lease under which the lessee continues to lease the same property renders the guarantee or penalty inoperative, the asset and the liability under the lease

shall be adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised agreement and the present balance of the liability. The present value of future minimum lease payments under the revised lease agreement shall be computed using the rate of interest used to record the lease initially. Other renewals and extensions of lease terms shall be considered new agreements.

* J. Sources for entries to these accounts include contracts, payment documents, amortization schedules, and journal vouchers. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

060207. Accumulated Depreciation on Assets Under Capital Lease (Account 1819)

A. The Accumulated Depreciation on Assets Under Capital Lease account accumulates the annual/periodic depreciation expense for assets under capital lease. The depreciation recovery period (useful life) to be used to depreciate personal or real property acquired by a capital lease is the recovery period designated for the type of property indicated in Table 6-1, unless the lease period is less than the recovery period in the table. For example, if a capital lease is used to acquire a fire truck (which has a 5-year recovery period), then the fire truck would be depreciated over five years if the lease period is for at least five years. In the same example, if the lease period is only four years, the fire truck would be fully depreciated over four years.

B. This account shall be used by those activities that are authorized to enter into capital lease agreements.

* C. Sources for entries to this account include journal vouchers showing the basis for the depreciation computation. Financial record retention requirements for such vouchers are contained in Volume 1, Chapter 9. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

060208. Leasehold Improvements (Account 1820)

* A. The Leasehold Improvement account is used to record the value of capitalized improvements to leased property. When leasehold improvements meet or exceed DoD capitalization criteria (see paragraph 060103.A.1.d), such improvements shall be capitalized and amortized for the remainder of the lease period or 20 years whichever is less. Sources for entries to this account include journal vouchers and documents transferring completed construction projects to this account. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

* B. Accumulated Amortization on Leasehold Improvements (Account 1829). The account, Accumulated Amortization on Leasehold Improvements, is used to accumulate the periodic amortization expense for leasehold improvements. Sources for entries to this account include journal vouchers with work papers supporting the computation of the amounts to be amortized over the life of the lease. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

060209. Internal Use Software (Account 1830)

A. Definition. Internal Use Software includes application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program that is used for operational or other internal use. Normally, software is an integral part of an overall system having interrelationships between software, hardware, personnel, procedures, controls, and data. Internal Use Software does not include software embedded in military equipment, nor does it include software used in Special Test Equipment. Internal Use Software is software that is:

1. Purchased from commercial off-the-shelf (COTS) vendors or ready for use with little or no changes;

2. Developed by employees of DoD, including new software and existing or purchased software that is modified with or without a contractor's assistance;

3. Contractor-developed software that DoD paid a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software; and

4. Includes acquisition, finance, logistics, personnel or other business related systems.

* B. Recognition, Measurement. Internal Use Software is recognized and capitalized if it has a useful life of two years or more, provides a significant increase in functionality that is visible to the user (in the case of enhancements) and the cost of the software or enhancement equals or exceeds DoD capitalization threshold. An upgrade is not necessarily a capital improvement. If an upgrade modernizes an operating system, it is normally expensed since the user does not see a significant increase in functionality. As development work accumulates, the costs will be entered into an Internal Use Software In Development account (Account 1832). When the software is accepted, the accumulated costs shall be removed from this "In Development" account, and the cost of the software or enhancement shall be transferred to the Internal Use Software account (Account 1830). Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

1. COTS Software. The capitalized cost of COTS software shall be the actual purchase price, plus any costs incurred for implementation.

2. Contractor-Developed Software. The capitalized cost of contractor-developed software shall include the amount paid to the contractor to design, program, install, and implement new software or to modify existing or COTS software, plus any costs incurred for implementation.

3. Internally Developed Software. The capitalized cost of internally developed software shall include the full cost (direct and indirect costs) incurred during the software development phase. Full cost includes the costs of new software (e.g., contract cost,

salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies and overhead) and technical documentation. The development of technical documentation and manuals is capitalized. The costs of mass-producing manuals are expensed. Project management (direct labor) costs are those cost specifically associated with a particular project and is capitalized. Program management (indirect labor) costs are labor costs associated with an entire program consisting of several individual projects. The costs of program management and the Program Management Office (PMO) that may be incurred during each phase of software development or acquisition project shall be expensed or capitalized depending on their materiality to overall costs of individual software development projects and each phase and/or preponderance of development or acquisition work. Capitalized costs shall be limited to costs incurred after the preliminary design phase. Table 6-2 provides a matrix of software acquisition and development costs and provides additional guidance regarding whether such costs will be expensed or capitalized. The various types of costs incurred during software acquisition and development are explained below:

(a) Direct Labor Costs. Direct labor costs are typically the labor costs of project teams (e.g. programmers, engineers, managers) and are capitalized as part of the costs of the software project. Direct labor costs shall be tracked by project managers and/or program managers and allocated to individual software projects. The allocation methodology must be consistent between projects and must be auditable.

(b) Indirect Labor Costs. Indirect labor costs are typically the labor costs associated with the Program Management Office (PMO) personnel responsible for overseeing more than one software project. In many instances, PMO indirect labor costs are immaterial when compared with the overall costs of a software project, and if determined to be immaterial, will be expensed. PMO indirect costs shall be expensed or capitalized, depending on: 1) their materiality to overall costs of individual software development projects and 2) in which phase the costs were incurred. Decisions regarding the materiality of indirect labor costs, when such costs are expensed, must be justified, documented and must stand up to audit scrutiny. If indirect labor costs are determined to be material to a software project or projects and are to be distributed to the capitalized costs of such project, the costs shall be allocated based on a distribution methodology that it is both documented and auditable.

(c) Overhead Costs. Overhead costs are those costs associated with utilities, building maintenance, and supplies that are essential to the overall accomplishment of a software project. In many instances, overhead costs are immaterial when compared with the overall costs of a software project and if determined to be immaterial, will be expensed. Decisions regarding the materiality of overhead costs when such costs are to be expensed must be justified, documented, and must stand up to audit scrutiny. If overhead costs are determined to be material to a software project or projects and are to be distributed to the capitalized costs of such project, the costs shall be allocated based on a distribution methodology that it is both documented and auditable.

(d) Contractor Costs. Contract costs must be evaluated to determine whether the costs are to be expensed or capitalized. Such determination is based on

the type of work performed by the contractors. Table 6-2 provides a breakdown of the various work activities and whether the cost of such activities must be expensed or capitalized.

TABLE 6-2 SOFTWARE ACQUISITION PHASES

PRELIMINARY DESIGN PHASE	SOFTWARE DEVELOPMENT PHASE	POST-IMPLEMENTATION/ OPERATIONAL PHASE
EXPENSE COSTS	**CAPITALIZE COSTS**	**EXPENSE COSTS**
Activities: • Determination of existence of needed technology • Conceptual formulation of alternatives • Evaluation and testing of alternatives • Final selection of alternatives	Activities: • Design of chosen path, including software configuration and software interfaces • Coding • Technical documentation • Development of user manuals • Installation on hardware • Testing, including parallel processing • Training development	Activities: • Data conversion (includes cleansing, deleting, and repackaging data) • Application maintenance • Implementation assistance (e.g., troubleshooting, system analysis, producing and printing users manuals desk procedures, and similar support to the project's customers)
This phase includes all actions leading to source selection of a COTS or other commercial source. For internally developed software, this phase includes all actions prior to System Requirements Specification (SRS).	Software development starts after the Preliminary Design Phase and includes all development actions such as design, programming, and installation.	Post-implementation includes all operational testing and evaluation, as well as other functional testing conducted after technical acceptance and includes costs incurred to make customer ease of use changes.
PROGRAM MANAGEMENT The costs of program management and the Program Management Office (PMO) that may be incurred during each phase of software development or acquisition are indirect costs. PMO indirect costs shall be expensed or capitalized, depending on: 1) their materiality to overall cost of individual software development projects and 2) in which phase the costs were incurred.		

4. Software Developed by One Activity and Used by Others Without Reimbursement. Software that is developed by one activity and used by another activity or activities without reimbursement shall be capitalized and depreciated by the developing activity (if it meets the capitalization criteria). For example, if the Tricare Management Activity (TMA), of the Defense Health Program, develops software (that meets the capitalization criteria) and installs the software at multiple DoD medical treatment facilities, the TMA shall capitalize and depreciate the software. The cost of the software shall not be allocated to the using activities.

C. Data Conversion Costs. All data conversion costs incurred for internally developed, contractor developed or COTS software shall be expensed as incurred, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software. Such costs may include the purging or cleansing of existing data, reconciliation or balancing of data, and the creation of new/or additional data.

D. Costs Incurred After Final Acceptance Testing (Cutoff). Costs incurred after final acceptance testing has been successfully completed shall be expensed. Acceptance testing is that testing undertaken to verify if a software product meets specifications. Operational testing and evaluation and other functional testing conducted to ease customer use after technical acceptance shall be expensed. When the software is to be installed and capitalized at multiple sites, the capitalization phase ends after acceptance testing is complete at each of those sites.

E. Integrated (Embedded) Software. Computer software that is integrated into (embedded) and necessary to operate equipment (rather than perform an application) shall be considered part of the equipment of which it is an integral part and capitalized and depreciated as part of the cost of equipment (e.g., airport radar and computer-operated lathes). The aggregate cost of the hardware and software shall be used to determine whether to capitalize or expense the costs.

F. Bundled Products and Services. The cost of software purchased as part of a package of products and services (e.g., training, maintenance, data conversion, reengineering, site licenses, and rights to future upgrades and enhancements) shall be allocated as capitalizable and non-capitalizable (expensed) costs based on a reasonable estimate of the value of the individual products or services. Costs that are not susceptible to allocation between maintenance and relatively minor enhancements should be expensed.

G. Bulk Purchases of Software. Bulk purchases of software programs and modules or components of a total software system that individually meet DoD capitalization threshold shall be capitalized. If the per item cost of a bulk purchase (e.g., numerous copies of spreadsheets and word-processing programs) does not meet DoD capitalization threshold, the bulk purchase shall be expensed in the period acquired.

H. Enhancements

1. The acquisition cost of enhancements to existing Internal Use Software (and modules thereof) shall be capitalized when such costs exceed DoD capitalization threshold, and when it is more likely than not that such enhancements will result in a significant increase in functionality that is apparent to the user. For example, if existing software is modified for making ad hoc queries, the cost shall be capitalized if it exceeds the capitalization threshold. The cost of routine or minor changes or modernizations that do not significantly add functionality shall be expensed in the period incurred. Examples include updating data tables, web-enabling, customizing reports, or changing graphic user interfaces. Also, the cost of enhanced versions of software for a nominal charge is expensed in the period incurred.

2. Enhancements normally require new software specifications and may require a change of all or part of the existing software specifications as well.

3. The cost incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life of the software without adding new capabilities shall be expensed. This includes updating the technical platform of a system.

I. Impairment

1. Post Implementation/Operational Software

a. Impairment shall be recognized and measured when one of the following occurs and is related to post implementation/operational software and or modules, thereof:

(1) The software is no longer expected to provide substantive service potential and will be removed from service.

(2) A significant reduction occurs in the capabilities, functions or uses of the software (or a module thereof).

b. If the impaired software is to remain in use, the loss due to impairment shall be measured as the difference between the book value and either:

(1) The cost to acquire software that would perform similar remaining functions (e.g., the unimpaired functions) or, if that is not feasible;

(2) The portion of the book value attributable to the remaining functional elements of the software. The loss shall be recognized upon impairment, and the book value of the asset reduced accordingly. If neither (a) nor (b) above can be determined, the book value shall continue to be amortized over the remaining useful life of the software.

c. If the impaired software is to be removed from use, the loss due to impairment shall be measured as the difference between the book value and the net realizable value (NRV), if any. Typically, the NRV will be zero (0). The loss shall be recognized upon impairment and the book value of the asset reduced accordingly. The NRV, if any, should be transferred to an appropriate asset account until such time as the software is disposed of and the amount is realized.

2. Termination of Software Under Development. When it is determined that software under development (or a module thereof) will not be completed and placed in service, the related book value accumulated for the software (or the balance in a work-in-process account, if applicable) should be reduced to reflect the expected NRV, if any, and the loss recognized. The following are indications of this:

a. Expenditures are neither budgeted nor incurred for the project;

b. Programming difficulties cannot be resolved on a timely basis;

c. Major cost overruns occur;

d. Information has been obtained indicating that the cost of developing the software will significantly exceed the cost of COTS software available from third party vendors; hence, management intends to obtain the product from those vendors instead of completing the project;

e. Technologies that supersede the developing software product are introduced; or

f. The responsibility unit for which the product was being created is being discontinued.

J. Amortization/Depreciation

1. Software that is capitalized shall be amortized/depreciated as provided for in this chapter. The DoD Standard Recovery Period used for depreciation shall be consistent with that used for planning the software's acquisition. See Table 6-1, "DoD Recovery Periods for Depreciable General PP&E Assets" for the specific recovery periods (useful lives) for software.

2. For each module or component of a software project, amortization/depreciation should begin when that module or component has been successfully tested. If the use of a module is dependent on completion of another module(s), the amortization/depreciation of that module shall begin when both that module and the other module(s) have successfully completed testing.

3. When Internal Use Software is replaced with new software, the undepreciated cost of the old software shall be expensed when the new software successfully completes testing. No adjustments will be made to the previously recorded amortization/depreciation. Any additions to the book value or changes in useful life should be treated prospectively. The change should be accounted for during the period of the change and future periods.

4. Internal Use Software must be accounted for in an automated property accountability system.

5. Figure 6-2 provides a decision tree to assist in determining if an Internal Use Software project shall be capitalized.

K. Disclosures. Financial statement disclosures required for Internal Use Software are the same as that for other General PP&E. Thus, the following should be disclosed in the financial statements:

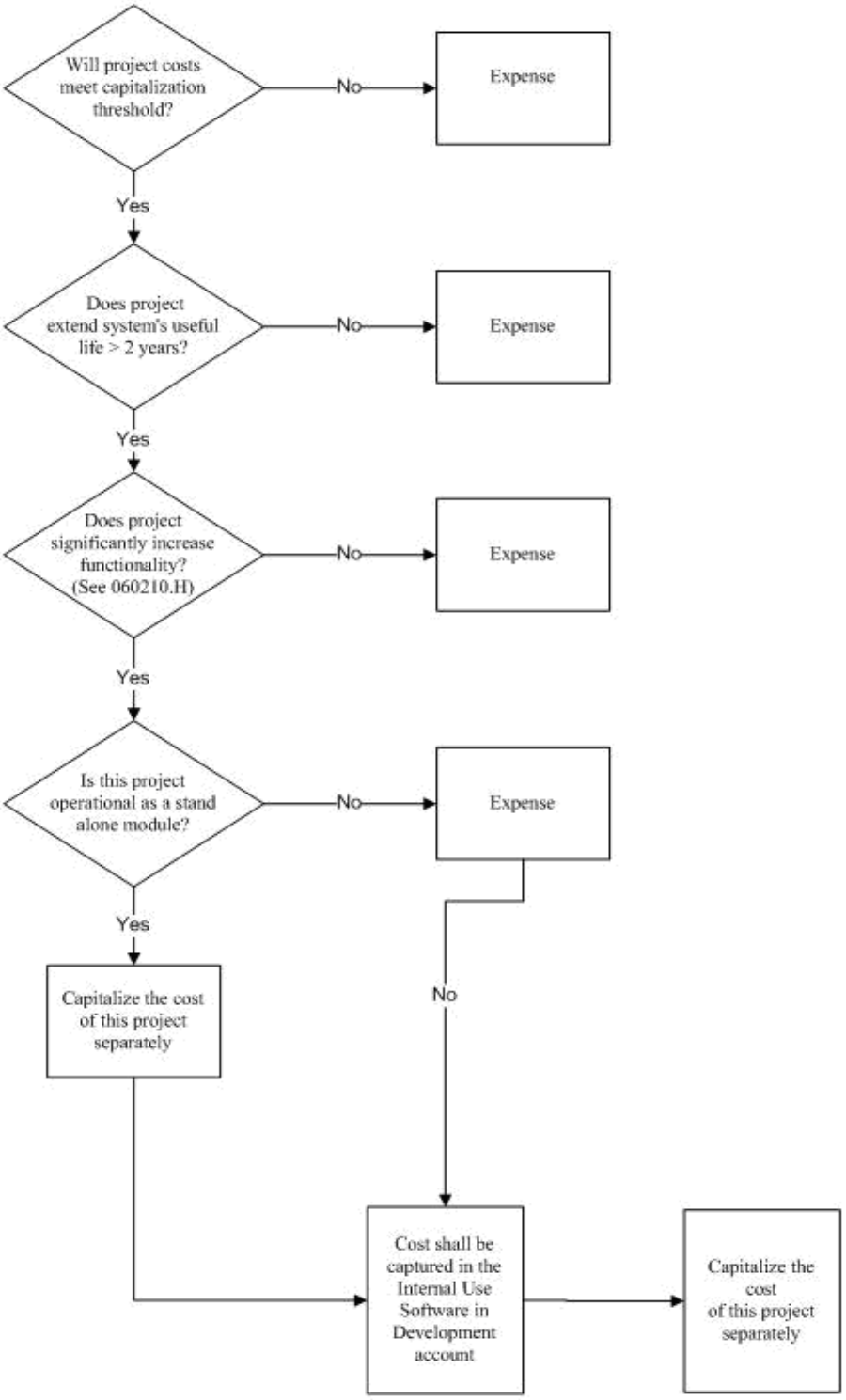
1. The cost, accumulated depreciation, and net book value.

2. The estimated useful life.

3. The method of depreciation (straight-line).

* L. Accounting Entries. Internal Use Software Account 1830 shall be used to record the cost of Internal Use Software. Accounting entries for this account are specified in the ***USSGL SFIS Transaction Library***.

FIGURE 6-2 INTERNAL USE SOFTWARE CAPITALIZATION DECISION TREE



0603 ACCOUNTING FOR STEWARDSHIP PP&E

060301. General

A. Stewardship PP&E is property owned by DoD that meets the definition of one of the following two categories:

1. Heritage Assets. PP&E of historical, natural, cultural, educational or artistic significance (e.g., aesthetic); or with significant architectural characteristics. Heritage Assets are expected to be preserved. Heritage Assets consist of items whose physical properties resemble those of General PP&E and are traditionally capitalized in commercial-type financial statements. The nature of these items, however, differ from General PP&E in that their values may be indeterminable or may have little financial meaning (e.g., museum collections, monuments, assets acquired in the formation of the nation), or that allocating the cost of such assets (e.g., military weapons systems) to accounting periods that benefit from the ownership of such assets is not meaningful.

2. Stewardship Land. Land and land rights other than that acquired for or in connection with General PP&E, land acquired via the public domain, or land acquired at no cost.

B. The Statement of Federal Financial Accounting Standards 29 (SFFAS 29) reclassifies the reporting of all Heritage Assets and Stewardship Land from Required Supplemental Stewardship Information (RSSI) to basic information in the financial statements. The standard requires that entities reference a note on the balance sheet that discloses information about Heritage Assets and Stewardship Land, but does not require the reporting of acquisition cost. This standard is effective for reporting periods beginning after September 30, 2005.

C. The costs of acquiring Heritage Assets (except for Multi-Use Heritage Assets) and Stewardship Land are expensed in the period incurred.

060302. Heritage Assets

A. Heritage Assets are PP&E that are unique for one or more of the following reasons:

1. historical or natural significance;

2. cultural, educational, or artistic (e.g., aesthetic) importance; or

3. significant architectural characteristics.

B. Heritage Assets are generally expected to be preserved indefinitely.

C. The cost or value should not serve as a precursor when deciding if an item should be classified as a Heritage Asset. DoD Components should refer to published registers, and their own judgment, when making this assessment. Designation of a PP&E item as a heritage asset can be done at any time in its life-cycle, based on application of evaluation criteria. DoD Components should assess the importance of an item relative to the ideals of the nation, its citizens and institutions. Display equipment, defined as old or obsolete military equipment which is not considered to warrant museum-level heritage significance, but is on outside display at military installations, is not a Heritage Asset. Similarly, a park bench dedicated to the memory of a person or group is not considered a Heritage Asset. Historic significance may be identified if a property/asset meets at least one of the following criteria used by the National Register of Historic Places as determined by the relevant DoD Component with concurrence by the relevant State Historic Preservation Officer, or as determined by the Keeper of the National Register:

1. Association with historic events or activities (e.g., battles, development of military technology, prehistoric cultural patterns);

2. association with important persons (e.g., important military leaders, political leaders, inventors);

3. distinctive design or physical characteristics (e.g., work of a master architect, landscape architect, planner, or engineer; work representative of a particular approach to military design or a particular type or style of architecture or engineering; a formative example of standardized planned military housing); or

4. potential to provide important information about prehistory or history (e.g., an archeological site on a military installation).

D. Heritage Assets may in some cases serve two purposes: (a) a heritage function and (b) a government operations function. In cases where a Heritage Asset serves two purposes, the Heritage Asset shall be considered, and classified as, a Multi-Use Heritage Asset. An example of a Multi-Use Heritage Asset is the Pentagon, which has been listed on the National Register of Historic Places and also is used as an office building. The full cost of acquisition, betterment or reconstruction of assets classified as Multi-Use Heritage Assets shall be capitalized as General PP&E and depreciated. If a Heritage Asset is not predominantly used in general government operations, it shall be referred to, or classified as, a Heritage Asset and shall not be capitalized as General PP&E.

060303. Recognition and Measurement

A. <u>Heritage Assets</u>

1. The cost of acquiring, improving, reconstructing, or renovating Heritage Assets, other than Multi-Use Heritage Assets, shall be recognized as a cost on the Statement of Net Cost for the period in which the cost is incurred. The cost shall include all costs incurred to bring the asset to its current condition and location.

2. Except for assets classified as Multi-Use Heritage Assets, no amounts for Heritage Assets acquired through donation or devise (a will or clause of a will disposing of property) shall be recognized in the cost of Heritage Assets.

3. Transfers of Heritage Assets, except for Multi-Use Heritage Assets, from one component to another do not affect the net cost of operations or net position of either component. In some cases, assets included in General PP&E may be transferred to a component for use as Heritage Assets. In this instance, the transferring component should recognize a transfer-out of capitalized assets.

B. Multi-Use Heritage Assets

1. The costs of acquisition, improvement, or reconstruction of Multi-Use Heritage Assets shall be capitalized as General PP&E and depreciated if the costs equal or exceed DoD capitalization threshold. Such Multi-Use Heritage Assets shall be depreciated over their useful life or the period of time they are expected to be used in government operations, whichever is shorter.

2. Assets classified as Multi-Use Heritage Assets and acquired through donation or devise shall be recognized as General PP&E at the fair value of the assets at the time received and the amount shall also be recognized as non-exchange revenues on the Statement of Financing.

3. Transfers of Multi-Use Heritage Assets from one Federal entity to another are transfers of capitalized assets. The receiving entity shall recognize a transfer-in as an additional financing source and the transferring entity shall recognize a transfer-out. The value recorded should be the transferring entity's book value of the Multi-Use Heritage Asset. If the receiving entity is not provided the book value, the Multi-Use Heritage Asset shall be recorded at its estimated fair value.

060304. Disclosures

DoD Components with Heritage Assets should reference a note on the balance sheet that discloses information about Heritage Assets. See Volume 6B for the specific reporting requirements.

060305. Stewardship Land

The following are definitions of Stewardship Land:

A. Land and land rights owned by the Federal Government but not acquired for, or in connection with, items of General PP&E is Stewardship Land.

B. "Acquired for or in connection with" is defined as including land acquired with the intent to construct General PP&E and land acquired in combination with General PP&E.

C. Land is defined as the solid part of the surface of the earth. Excluded from the definition are natural resources (e.g., depletable resources, such as mineral deposits and petroleum, renewable resources such as timber and the outer continental shelf resources) related to land.

D. Land and land rights owned by DoD, or DoD Component, and acquired for or in connection with items of General PP&E shall be accounted for and reported as General PP&E.

E. Land rights are interests and privileges held by DoD, or DoD Component, in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights, and other like interests in land.

F. Land and land rights owned by DoD, or DoD Component, but not acquired for or in connection with items of General PP&E shall be reported as Stewardship Land. Land that is standing idle and not used to fulfill mission responsibilities is Stewardship Land. Such land generally should be viewed as an independent, stand-alone asset and not an integral part of operations.

G. Without exception, all land provided to the Department from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of its use. Therefore, public domain or no-cost land used in a General PP&E context shall be reported as Stewardship Land and not reported as General PP&E.

060306. Recognition and Measurement

Land classified as Stewardship Land shall be reported as basic information within the financial statements of the DoD Component responsible for such land. The cost of the acquisition of Stewardship Land shall be recognized on the Statement of Net Cost for the period in which the cost is incurred. The cost should include all costs to prepare Stewardship Land for its intended use (e.g., razing a building). In some cases, land may be acquired along with existing structures. The following treatments shall apply:

A. If the structure would be deemed a heritage asset and is significant in and of itself, the DoD Component shall use its judgment as to whether the acquisition cost shall be treated as the cost of Stewardship Land, Heritage Asset or both.

B. If the structure is to be used in operations (e.g., as General PP&E), but

1. the value of the structure is insignificant, or

2. its acquisition is merely a byproduct of the acquisition of the land, the cost in its entirety shall be treated as an acquisition of Stewardship Land.

C. Significant structures that have an operating use (e.g., a constructed hotel or employee housing block) should be treated as General PP&E by identifying the cost attributable to General PP&E and segregating it from the cost of Stewardship Land acquired.

D. Amounts for Stewardship Land acquired through donation or devise shall not be recognized in the cost of Stewardship Land.

E. Transfers of Stewardship Land from one component to another, does not affect the net cost of operations or net position of either entity. In some cases, land included in General PP&E may be transferred to a component for use as Stewardship Land. In this instance, the transferring component shall recognize a transfer-out of capitalized assets.

060307. Disclosures

DoD Components with Stewardship Land shall reference a note on the balance sheet that discloses information about Stewardship Land. See Volume 6B for the specific reporting requirements.

ANNEX 1 PREPONDERANCE OF USE POLICY

This section illustrates the preponderance of use policy as discussed in section 060105. B.

Case I: General Fund Military Services Criteria:

- Army is a tenant on an Air Force Installation.
- Army is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Army
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Air Force***

Case II: General Fund Military Services Criteria:

- Army is a tenant on an Air Force Installation.
- Army is not the preponderant user of the facility
- Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Army
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Air Force***

Case III: General Fund Defense Agency Criteria:

- GF Defense Agency is a tenant on an Air Force Installation.
- GF Defense Agency is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Reporting Defense Agency***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Defense Agency
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Reporting Defense Agency***

Case IV: General Fund Defense Agency Criteria:

- GF Defense Agency is a tenant on an Air Force Installation.
- GF Defense Agency is not the preponderant user of the facility.
- Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	***Air Force***
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	Defense Agency
Capital Improvement Fund	General Fund
Financial Reporting Entity for Capital Improvement	***Air Force***

Case V: Working Capital Fund Activity Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	*DLA*
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA
Capital Improvement Fund	Working Capital Fund
Financial Reporting Entity for Capital Improvement	*DLA*

Case VI: Working Capital Fund Activity Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is not the preponderant user of the facility.
- Air Force is the preponderant user of the facility.

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	*Air Force*
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA
Capital Improvement Fund	Working Capital Fund
Financial Reporting Entity for Capital Improvement	*DLA*

Case VII: Working Capital Fund Activity Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is the preponderant user of the facility.
- The capital improvement to the facility is funded as follows:
  - DLA 50 percent - WCF
  - DeCA 30 percent - WCF
  - Air Force 20 percent- GF

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	*DLA*
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA, DeCA, AF
Capital Improvement Fund	WCF, GF
Financial Reporting Entity for Capital Improvement - *DLA* *Air Force 20% share is reported by the preponderant user* - *DeCA*	*Amount per Entity* *$50,000 + $20,000* *$30,000*

Case VIII: Working Capital Fund Activity Criteria:

- DLA is a tenant on an Air Force Installation.
- DLA is NOT the preponderant user of the facility.
- Air Force is the preponderant user of the facility.
- The capital improvement to the facility is funded as follows:
  - DLA 50 percent - WCF
  - DeCA 30 percent - WCF
  - Air Force 20 percent - GF

Original Asset	
Original Facility Acquisition Cost	$200,000.00
Financial Reporting Entity for Acquisition Cost	*Air Force*
Capital Improvement	
Capital Improvement Cost	$100,000.00
Capital Improvement Organization	DLA, DeCA, AF
Capital Improvement Fund	WCF, GF
Financial Reporting Entity for Capital Improvement - DLA - DeCA - Air Force	*Amount per Entity* *$50,000* *$30,000* *$20,000*

ANNEX 2 CONSTRUCTION-IN-PROGRESS COST MATRIX

Cost Type	Description
Cost of contract work	Amounts paid for work performed under contract, as well as any incentive fees paid to contractors to reward performance goals.
Direct cost of labor	The direct cost of labor and all associated fringe benefits in connection with the construction project. Includes both military and civilian labor costs.
Direct cost of materials and supplies	The purchase price, the cost of inspection, and loading assumed by the carrier.
Cost of Supervision, Inspection, and Overhead (SIOH)	Support associated with the administration of contracts for facility projects. May include contract award, payments, inspections, material testing, and other actions taken during contract execution.
Cost of transportation	Amounts paid for transportation of workers, materials, and supplies in connection with the construction project.
Cost of handling and storage	Amount paid for packaging and storing the materials and supplies and equipment used in the construction project.
Cost of injuries and damages	Costs incurred as a result of injuries to people or property incurred directly as a result of the construction project.
Cost of legal and recording fees	Legal fees incurred to bring the asset to its intended use (e.g., title or recording fees).
Cost of architecture and engineering studies	Amounts paid for engineering, architectural, and other outside services for designs, plans, specifications, and surveys. May include design reviews, environmental impact studies, and soil testing for the new construction projects.
Cost of facility and site preparation	Amounts paid to prepare the site for new construction, such as soil removal and restoration. Includes amount paid to prepare the asset for its intended use, such as installation of utilities in a facility.
Cost of installed equipment	Fixed equipment and related installation costs required for activities in a facility.
Cost of government furnished equipment or material (GFE, GFM)	An appropriate share of the cost of the government furnished equipment and material and facilities used in construction work.
Cost of donated assets	The fair market value of facilities and equipment donated to the government, as authorized by a special legislation, in connection with the construction project.

ANNEX 3 CAPITAL IMPROVEMENT DEPRECIATION

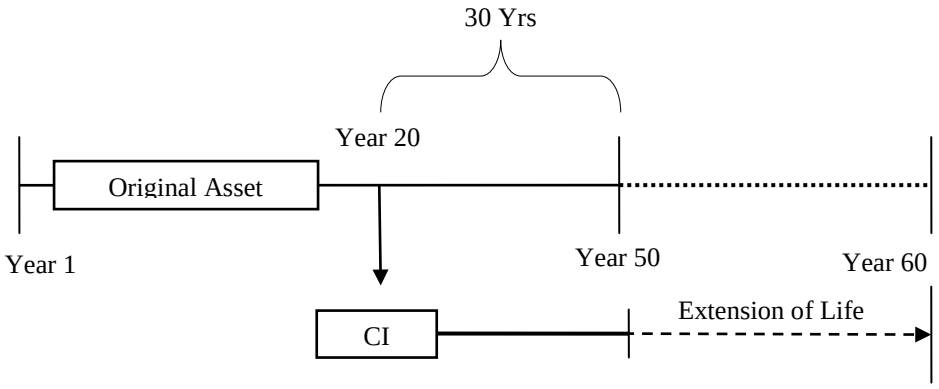
The following Cases I through VIII illustrate depreciation methodology for capital improvements more closely in compliance with the FASAB requirements.

Case I: The Capital Improvement Extends the Useful Life of Existing PP&E

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense (*Using the Straight Line Depreciation Method*)	$4,000
Remaining Useful Life After 20 Years (Yrs.)	30
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	*$120,000*
Capital Improvement – Year 20	
Capital Improvement Cost	$200,000
Useful Life of the Capital Improvement (Yrs.)	40
Impact on total useful life by the Capital Improvement	+10
Depreciation Expense Baseline Starting In Year 20	
Cost Baseline for Depreciation: *Net Book Value + Capital Improvement Cost*	$320,000
Revised Remaining Estimated Useful Life (Yrs.): *30 + 10*	40
Revised Annual Depreciation Expense	$8,000

Examples – Extends the Useful Life:

Major replacements or reconstruction to restore facilities damaged by a natural disaster (i.e., reconstruction of a new building on an existing foundation).



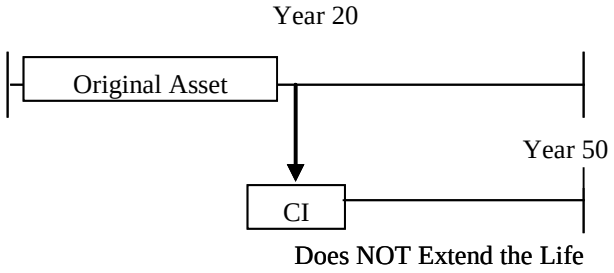
Case II: The Capital Improvement Increases the General PP&E Asset's Capacity, Size, Efficiency, or Modifies the Functionality/Use

The improvement has the same expected useful life as *the remaining useful life of the* PP&E asset to which it relates. The improvement does not extend the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
(Using the Straight Line Depreciation Method)	
Remaining Useful Life After 20 Years (Yrs.)	30
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	*$120,000*
Capital Improvement – Year 20	
Capital Improvement Cost	$100,000
Useful Life of the Capital Improvement (Yrs.)	30
Impact on total useful life by the Capital Improvement	0
Depreciation Expense Baseline Starting In Year 20	
Cost Baseline for Depreciation: *Net Book Value + Capital Improvement Cost*	$220,000
Remaining Estimated Useful Life (Yrs.): *Unchanged*	30
Revised Annual Depreciation Expense	$7,300

Examples

Increase Capacity
Raising the roof of the warehouse to increase cubic feet.



Increase Size
Build an addition, expansion or extension to the building, i.e., increase footprint.

Increase Efficiency
Install building insulation.

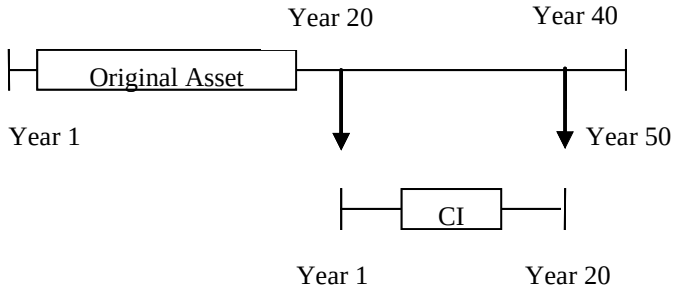
Modify Functionality
Convert an office to a warehouse.
Upgrade architectural elements of a facility that has not or is not failing, e.g., upgrade a flat roof to a pitched roof.

Case III: The Capital Improvement Increases the General PP&E Asset's Capacity, Size and Efficiency or Modifies the Functionality/Use

The improvement has an expected useful life that differs from the expected useful life of the PP&E asset to which it relates. The improvement does not extend the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 20 Years (Yrs.)	30
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	*$120,000*
Capital Improvement – Year 20	
Capital Improvement Cost	$100,000
Extension of the Original Useful Life of the Associated Asset (Yrs.)	0
Capital Improvement Estimated Useful Life (Yrs.)	20
Depreciation Expense Baseline Starting In Year 20	
Record I:	
Cost Baseline for Depreciation: *Net Book Value* of Facility	$120,000
Remaining Estimated Useful Life of Facility (Yrs.)	30
Revised Annual Depreciation Expense	$4,000
Record II:	
Cost Baseline for Depreciation: *Capital Improvement Cost*	$100,000
Estimated Useful Life of Capital Improvement (Yrs.)	20
Revised Annual Depreciation Expense	$5,000

Examples
Increase Efficiency
Install HVAC system where none existed.
Modify Functionality
Install elevator where none existed.

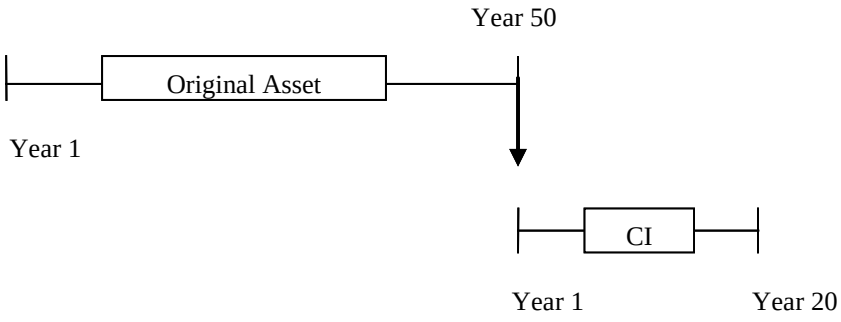


Case IV: The Original Asset Is Fully Depreciated

The capital improvement increases the original asset's size, capacity, and efficiency or modifies the functionality. The improvement does not extend the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 50 Years (Yrs.)	0
Accumulated Depreciation for 50 Years: 50*$4,000	$200,000
Net Book Value: $200,000 - $200,000	*$0*
Capital Improvement – Year 50	
Capital Improvement Cost	$100,000
Extension of the Useful Life of the Associated Asset	0
Capital Improvement Estimated Useful Life (Yrs.)	20
Depreciation Expense Baseline Starting In Year 50	
Record I:	
Cost Baseline for Depreciation: *Net Book Value* of Facility	$0
Remaining Estimated Useful Life of Facility (Yrs.)	0
Revised Annual Depreciation Expense	$0
Record II:	
Cost Baseline for Depreciation*: Capital Improvement Cost*	$100,000
Remaining Estimated Useful Life (Yrs.)	20
Revised Annual Depreciation Expense	$5000

Examples
Increase Size
Extend utility system (e.g., power lines) to the previously un-served areas.
Modify Functionality
Construct office space within a warehouse

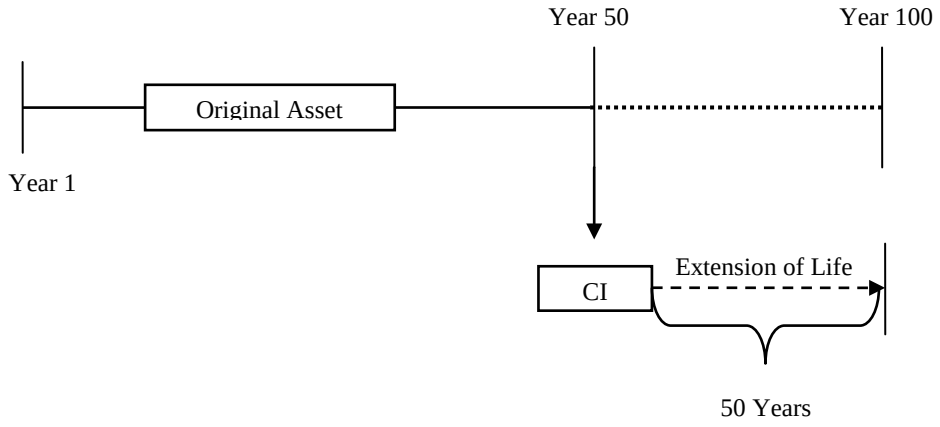


Case V: The Original Asset Is Fully Depreciated

The improvement (major renovation) extends the life of the associated PP&E asset.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 50 Years (Yrs.)	0
Accumulated Depreciation for 50 Years: 50*$4,000	$200,000
Net Book Value: $200,000 - $200,000	*$0*
Capital Improvement – Year 50	
Capital Improvement Cost	$1,000,000
Extension of the Useful Life of the Associated Asset (Yrs.)	50
Depreciation Expense Baseline Starting In Year 50	
Cost Baseline for Depreciation: *Net Book Value + Capital Improvement Cost*	$1,000,000
Revised Remaining Estimated Useful Life (Yrs.): *0 + 50*	50
Revised Annual Depreciation Expense	$20,000

Examples
Extends the Useful Life
Pentagon renovation project.

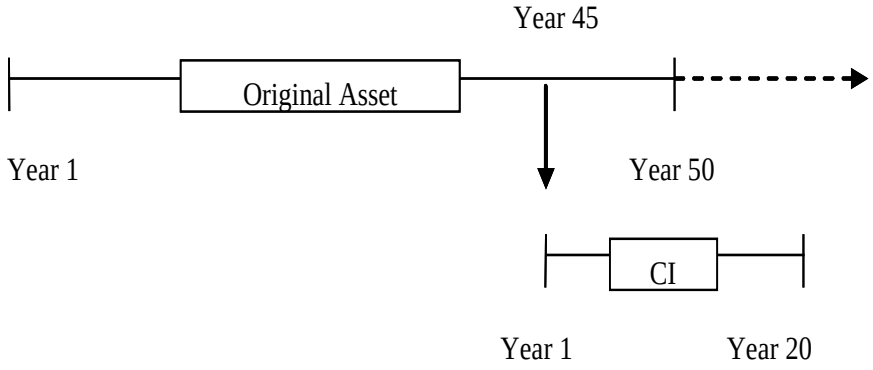


Case VI: The Capital Improvement Increases the General PP&E Asset's Capacity, Size and Efficiency or Modifies the Functionality/Use

The improvement has an expected useful life that differs from the expected useful life of the PP&E asset to which it relates. The improvement does not extend the life of the associated PP&E asset. However, it is assumed that the original asset will continue to be used past its estimated economic life of 50 years.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 45 Years (Yrs.)	5
Accumulated Depreciation for 45 Years: 45*$4,000	$180,000
Net Book Value: $200,000 - $180,000	*20,000*
Capital Improvement – Year 45	
Capital Improvement Cost	$100,000
Extension of the Original Useful Life of the Associated Asset (Yrs.)	0
Capital Improvement Estimated Useful Life (Yrs.)	20
Depreciation Expense Baseline Starting In Year 45	
Record I:	
Cost Baseline for Depreciation: Net Book Value of Facility	$20,000
Remaining Estimated Useful Life of Facility (Yrs.)	5
Revised Annual Depreciation Expense	$4,000
Record II:	
Cost Baseline for Depreciation: Capital Improvement Cost	$100,000
Estimated Useful Life of Capital Improvements (Yrs.)	20
Revised Annual Depreciation Expense	$2,500

Examples
Increase Efficiency
Install HVAC system where none existed.
Modify Functionality
Install elevator where none existed.



Case VII: The Capital Improvement Increases the General PP&E Asset's Capacity, Size, and Efficiency or Modifies the Functionality/Use

The capital improvement is funded by the WCF activity that is not the preponderant user of the facility improved. The associated asset will be reported by the preponderant user of that facility when the capital improvement is reported and depreciated by the WCF activity funding that improvement.

Original Facility Acquisition Cost	$200,000
Original Estimated Useful Life (Yrs.)	50
Annual Depreciation Expense	$4,000
Remaining Useful Life After 20 Years (Yrs.)	30
Accumulated Depreciation for 20 Years: 20*$4,000	$80,000
Net Book Value: $200,000 - $80,000	*$120,000*
Capital Improvement – Year 20	
Capital Improvement Cost	$100,000
Capital Improvement Estimated Useful Life (Yrs.)	20
Depreciation Expense Baseline Starting In Year 20	
Record I:	
Reported by the Preponderant User	
Cost Baseline for Depreciation: Net Book Value of Facility	$120,000
Remaining Estimated Useful Life of Facility (Yrs.)	30
Revised Annual Depreciation Expense	$4,000
Record II:	
Reported by the WCF Activity (*Not a Preponderant User*)	
Cost Baseline for Depreciation: Capital Improvement Cost	$100,000
Estimated Useful Life of Capital Improvements (Yrs.)	20
Revised Annual Depreciation Expense	$2,500

Examples:
Increase Capacity
Raising the roof of the warehouse to increase cubic feet.

Increase Size
Build an addition, expansion or extension to the building, i.e., increase footprint.

Increase Efficiency
Install building insulation.
Install HVAC system where none existed.

Modify Functionality
Convert an office to a warehouse.
Construct office space within a warehouse.
Upgrade architectural elements of a facility that has not or is not failing, e.g., upgrade a flat roof to a pitched roof.
Install

ANNEX 4: REAL PROPERTY FINANCIAL REPORTING COMMON BUSINESS SCENARIOS

This annex depicts common business scenarios and illustrates the implementation of this policy for reporting real property and associated costs, including the imputed costs to be reported on the receiving entities financial statements.

Scenario One

1. The accountable entity funded acquisition of the asset.
2. The accountable entity funds the sustainment, operation, and capital improvements to the asset.
3. The asset is solely used/occupied by receiving entity(ies).
4. The receiving entity(ies) does not reimburse the accountable entity for use of the asset.

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity	1) Asset Acquisition Cost 2) Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense
Receiving Entity(ies) *(Proportionate to each entity's occupancy rate)*	Imputed Cost for the Depreciation Expense associated with the Asset Acquisition Cost	Imputed Cost for Sustainment	Imputed Cost for Operation	Imputed Cost for Capital Improvements and associated Depreciation Expense

Scenario Two

1. The accountable entity funded acquisition of the asset.
2. The receiving entity(ies) funds operation and sustainment (either through direct payment or reimbursement).
3. The receiving entity(ies) funds capital improvements.
4. The asset is solely occupied/used by the receiving entity(ies).

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity	1) Asset Acquisition Cost 2) Acquisition Depreciation Expense			
Receiving Entity(ies) *(Proportionate to each entity's occupancy rate)*	Imputed Cost for the Depreciation Expense associated with the Asset Acquisition Cost	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense

Scenario Three

1. An entity other than the accountable entity funded acquisition of the asset.
2. The original acquisition funding entity funds operation and sustainment (either through direct payment or reimbursement).
3. The original acquisition funding entity funds capital improvements.
4. Asset is solely occupied/used by the original acquisition funding entity.

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity				
Original Acquisition Funding Entity	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense

Scenario Four

1. An entity other than the accountable entity funded acquisition of the asset.
2. The original acquisition funding entity funds operation and sustainment (either through direct payment or reimbursement).
3. The original acquisition funding entity funds capital improvements.
4. The asset is occupied/used by the original acquisition funding entity and a receiving entity.

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity				
Original Acquisition Funding Entity	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense
Receiving Entity *(Proportionate to entity's occupancy rate)*	Imputed Cost for Acquisition Depreciation Expense	Imputed Cost for Sustainment Expenditure	Imputed Cost for Operation Expenditure	Imputed Cost for Depreciation Expense associated with Capital Improvements

Scenario Five

1. The accountable entity funded acquisition of the asset.
2. The asset is solely occupied/used by two receiving entities (A & B).
3. Entity A funds operation and sustainment (either through direct payment or reimbursement) without any reimbursement from Entity B.
4. The accountable entity funds capital improvements without reimbursement from either receiving entity.

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense			1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense
Receiving Entity A *(Proportionate to each entity's occupancy rate)*	Imputed Cost for the Depreciation Expense associated with the Asset Acquisition Cost	Actual Sustainment Expenditure	Actual Operation Expenditure	Imputed Cost for Depreciation Expense associated with Capital Improvements
Receiving Entity B *(Proportionate to each entity's occupancy rate)*	Imputed Cost for the Depreciation Expense associated with the Asset Acquisition Cost	Imputed Cost for Sustainment Expenditure	Imputed Cost for Operation Expenditure	Imputed Cost for Depreciation Expense associated with Capital Improvements

Scenario Six

1. The accountable entity funded acquisition of the asset.
2. The asset is solely occupied/used by two receiving entities (A & B).
3. The accountable entity funds operation and sustainment costs and is fully reimbursed by each receiving entity.
4. Both receiving entities fund capital improvements to the asset.

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity	1) Actual Asset Acquisition Cost 2) Actual Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	
Receiving Entity A *(Proportionate to each entity's occupancy rate)*	Imputed Cost for Acquisition Depreciation Expense	Actual Sustainment Expenditure as Reimbursed	Actual Operation Expenditure as Reimbursed	1) Actual Capital Improvements (for the portion of investment funded) 2) Actual Improvement Depreciation Expense
Receiving Entity B *(Proportionate to each entity's occupancy rate)*	Imputed Cost for Acquisition Depreciation Expense	Actual Sustainment Expenditure as Reimbursed	Actual Operation Expenditure as Reimbursed	1) Actual Capital Improvements (for the portion of investment funded) 2) Actual Improvement Depreciation Expense

Scenario Seven

1. A Defense Agency or Activity other than an accountable entity funded the original acquisition.
2. The acquisition funding entity is no longer managing or utilizing the asset.
3. The asset is now solely utilized by two other entities (receiving entities A & B). Entity A manages the asset and is responsible for funding all of the operation and sustainment costs without reimbursement from Entity B.
4. Both entities fund capital improvements to the asset.

Financial Reporting Component	Acquisition Cost (Capitalized) & Depreciation Expense	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost (Capitalized) & Depreciation Expense
Accountable Entity				
Original Acquisition Funding Entity				
Receiving Entity A	1) Actual Asset Acquisition Cost 2) Actual Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements (for the portion of investment funded) 2) Actual Improvement Depreciation Expense
Receiving Entity B *(Proportionate to entity's occupancy rate)*	Imputed Cost for Acquisition Depreciation Expense	Imputed Cost for Sustainment Expenditure	Imputed Cost for Operation Expenditure	1) Actual Capital Improvements (for the portion of investment funded) 2) Actual Improvement Depreciation Expense

Scenario Eight

1. Two entities (acquisition funding entities) other than the accountable entity jointly fund acquisition of the asset.
2. The two acquisition funding entities jointly fund operation and sustainment.
3. The two acquisition funding entities jointly fund capital improvements.
4. The asset is solely occupied/used by the two acquisition funding entities (A&B).

Financial Reporting Component	Acquisition Cost & Depreciation Expense (Capitalized)	Sustainment Cost (Expensed)	Operation Cost (Expensed)	Capital Improvement Cost & Depreciation Expense (Capitalized)
Accountable Entity				
Acquisition Funding Entity (A) *(Proportionate to entity's share of funding.)*	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2) Actual Capital Improvement Depreciation Expense
Acquisition Funding Entity (B) *(Proportionate to entity's share of funding.)*	1) Actual Asset Acquisition Cost 2) Actual Asset Acquisition Depreciation Expense	Actual Sustainment Expenditure	Actual Operation Expenditure	1) Actual Capital Improvements 2)Actual Capital Improvement Depreciation Expense

VOLUME 4, CHAPTER 7: "INVESTMENTS AND OTHER ASSETS"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 September 2011 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Updated/added Standard General Ledger account numbers and definitions in accordance with Fiscal Year (FY) 2013 DoD Standard Chart of Accounts and FY 2013 DoD General Ledger Account Definitions and Usage Guidance.	Update
Multiple	Changed the name of the Bureau of Public Debt to The Bureau of the Fiscal Service in accordance with U.S. Treasury Financial Manual Transmittal #S2 13-01.	Update
070203.E.	Clarified trust fund portfolio reconciliation is quarterly in accordance with U.S. Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System.	Update

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CHAPTER 7

INVESTMENTS AND OTHER ASSETS

0701 GENERAL

This chapter prescribes the accounting requirements for recording transactions in those asset accounts not covered in Volume 4, Chapters 2 through 6. These requirements are consistent with and implement the general accounting policy for assets prescribed in Volume 4, Chapter 1. Other assets are those assets not used directly in performing the Department of Defense (DoD) mission. These assets consist of securities held in various trust funds, assets acquired through means other than appropriations and assets awaiting disposal.

0702 ACCOUNTING POLICY FOR INVESTMENTS AND OTHER ASSETS

070201. Account References

The following paragraphs describe the accounts used to record financial transactions related to investments and other assets owned by the DoD. The United States Standard General Ledger Standard Financial Information Structure Transaction Library, ***USSGL SFIS Transaction Library*** specifies the accounting entries for these accounts. Financial record retention requirements are in Volume 1, Chapter 9.

070202. Investments

"Investments" represent the value of securities and other assets held for the production of revenues in the form of interest, dividends, rentals or lease payments, net of premiums and discounts.

*070203. Account 161000.0400

Investments in U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market Based:

A. Use this account to record the par value of U.S. Treasury securities held by the DoD Components for non-marketable market based Treasury securities.

B. The DoD Components holding such securities shall maintain an investment subsidiary ledger that provides the name, type, amount, acquisition date, acquisition cost, yield or interest rate, discount or premium, maturity date, and other applicable information for each investment.

C. Maintain a subsidiary account for each trust fund that invests in U.S. Treasury securities.

D. The disposition of a U.S. Treasury security may result in a gain or loss. A comparison of principal proceeds, the book value of a U.S. Treasury security, and any remaining unamortized premium or discount will determine whether there is a gain or loss.

*E. Reconcile quarterly the "Investments in U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market Based" account balance with the trust fund portfolios. Such reconciliations also should occur whenever there is a change in trust fund managers or other employees having access to the securities, or when there is a substantial addition, disposition, or replacement in the composition of the portfolio.

F. Unless otherwise provided for by law, securities held by DoD trust funds are U.S. Treasury securities. The Treasury issues no certificates. Instead, Treasury notifies trust fund managers of portfolio increases or decreases using the "Transaction Confirmation."

G. Source documents for entries to the account include U.S. Treasury securities, the "Transaction Confirmation," collection and disbursement vouchers, amortization schedules, and journal vouchers.

*070204. Accounts 161100.0400, 161200.0400, 161300.0500, and 161300.0600

Discount on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service– Non-Marketable Market Based (Account 161100.0400), Premium on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service- Non-Marketable Market Based (Account 161200.0400), Amortization of Discount on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market Based-Discount (Account 161300.0500) and Amortization of Premium on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market Based-Premium (Account 161300.0600):

A. Use Accounts 161100.0400 and 161200.0400 to record the unamortized discount or premium on U.S. Treasury securities issued by the Bureau of the Fiscal Service. Use Accounts 161300.0500 and 161300.0600 to record the amortization of discount or premium on U.S. Treasury securities issued by the Bureau of the Fiscal Service.

B. A subsidiary account for unamortized premiums or discounts shall be maintained for each trust fund for determining the gain or loss on the disposition of securities held by each trust fund. This information also is needed for reporting on the financial status of each trust fund.

C. The income derived from U.S. Treasury securities other than Treasury bills shall be the interest stated on the face of the securities adjusted for the amortized premium or discount. For Treasury bills, the difference between the purchase price and the price received at the time of sale or maturity is income.

D. Amortize premiums and discounts over the life of the securities using the interest method. Under the interest method of amortization, an amount of interest equal to the book value (cost plus or minus unamortized premium or discount) of the investment times the

effective interest rate. Thus calculated interest is the effective interest of the investment. The difference between the effective interest and the stated interest (par value times the stated interest rate) is the amount by which the discount or premium should be amortized for the accounting period. The effective interest rate (yield to maturity) may be calculated using a financial calculator or the RATE function in Excel.

E. Source documents for entries to this account include amortization schedules and journal vouchers.

*070205. Other Investments (Account 169000.0700)

Use "Other Investments-MHPI-Limited Partnership" to record DoD investments in limited partnerships under the Military Housing Privatization Initiative, authorized by Public Law 104-106, ***Section 2801***.

*070206. Other Assets (Account 199000.9000)

Use "Other Assets" to record the value of assets not otherwise classifiable to a specific asset account excluding assets under contract financing payments. Establish applicable subsidiary accounts as necessary to meet management and reporting needs. Source documents for entries to this account include receiving reports and journal vouchers.

*070207. Other Assets – Contract Financing Payments (199000.0100)

Use this account to record the authorized amount of advance or prepayment disbursements to a contractor prior to acceptance of supplies or services by the government under terms and conditions of a contract financing payment clause, defined by Federal Acquisition Regulation, ***Part 32,*** Contract Financing. This includes advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost reimbursement contracts.

VOLUME 4, CHAPTER 8: "FINANCIAL CONTROL OF LIABILITIES"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

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

Unless otherwise noted, chapters referenced are contained in this volume.

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The previous version dated June 2008 is archived.

PARAGRAPG	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Validated hyperlinks, adjusted fonts and format.	Update

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CHAPTER 8

FINANCIAL CONTROL OF LIABILITIES

0801 GENERAL

080101. Purpose

This chapter prescribes the general accounting policy and definitions to be followed in accounting for Department of Defense (DoD) liabilities covered in Volume 4, Chapters 9 through 13. This guidance does not apply to liabilities accounted for by Nonappropriated Fund activities, which is located in Volume 13, Chapter 4. This chapter implements the general liability provisions of Statement of Federal Financial Accounting Standards ***(SFFAS) Number 1***, "Accounting for Selected Assets and Liabilities" and ***SFFAS Number 5***, "Accounting for Liabilities of the Federal Government."

080102. Overview

A liability is an amount owed to a federal or nonfederal entity for items or services received and expenses incurred (including personnel related costs). Liabilities also result from assets to which title has been acquired (whether delivered or in-transit), ongoing shipbuilding or percentage-of-completion based on construction (based on the entity's engineering and management evaluation of actual performance progress and incurred costs), and cash received but as yet unearned. Included are amounts owed under grants, military and civilian pensions and certain post-retirement benefits, awards, and other indebtedness. In addition to liabilities arising from exchange (reciprocal) transactions, there are liability recognition points for nonexchange transactions generated from both government-related and government-acknowledged events.

0802 ACCOUNTING POLICY FOR LIABILITIES

080201. Recognition Criteria

Criteria for recognizing a liability, as outlined below and depicted in Figure 8-1, starts by identifying the event creating the liability as transaction based or nontransaction-based.

A. Transaction Based Events. Both exchange and nonexchange are transaction based events because they require a transfer of something of value as a result of an entity event. Transaction based events are recognized in accordance with the below criteria:

1. A liability for an exchange transaction is recognized (recorded and reported) when the Department receives goods and services in exchange for a promise to provide money or other resources in the future. Probable and measurable amounts that remain unpaid as of the financial statement report date should be recognized as liabilities.

2. A liability for a nonexchange transaction is recognized for any probable and measurable unpaid amounts due as of the financial statement report date.

3. The entity shall estimate the liability for the financial statement reporting date if the actual amount is unknown.

B. Nontransaction-based Events. Both government-related events and government-acknowledged events are nontransaction-based events. Government nontransaction-based events are recognized in accordance with the below criteria:

1. A liability for a government-related event is recognized at the time of occurrence, if the expected resource outflow is both probable and measurable.

2. Before a government-acknowledged event is considered for recognition, Congress must appropriate or authorize the funds. Once Congress appropriates the funds, the liability must be taken care of by entering into an exchange or nonexchange transaction. The liability is then recognized by following the criteria in section 080201.A for exchange and nonexchange transactions.

C. Recognition of a liability is not dependent on the availability of funds, except for government-acknowledged events. However, the status of funding does dictate the category of the recognized liabilities used for disclosure and reconciliation purposes as outlined in section 080202. Recognized liabilities are categorized as funded liabilities, covered liabilities, or liabilities not covered by budgetary resources (unfunded liabilities).

D. Accounting and reporting provisions need not be applied to immaterial liabilities. However, all assertions of immateriality shall be supportable and the materiality determination shall be fully documented. Both qualitative and quantitative factors need to be considered in determining materiality.

E. Contingent liabilities are recorded and reported as a liability or disclosed as a contingency in a footnote to the financial statements, depending on the probability of occurrence and the ability to estimate the expected outflow of resources. Contingent liabilities should be recorded in DoD financial systems and reported in financial statements when:

1. A past event or exchange transaction has occurred.

2. A future outflow or other relinquishment of resources is probable (the future confirming event or events is more likely than not to occur), and

3. The future outflow or other relinquishment of resources is measurable (with sufficient reliability to be reasonably estimable).

* F. A contingent liability should be disclosed in the annual financial statements if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or additional loss may be incurred. Disclosure is necessary if the financial statements would otherwise be misleading. The decision to disclose shall be based on materiality of the loss contingency and its possible impact on the financial statements and DoD operations.

080202. Reporting and Disclosures

A. Intragovernmental liabilities shall be reported separately from nonfederal entities. See Volume 6B, Chapter 4 for further discussion on reporting.

B. Disclosures shall be made for liabilities that are not covered by budgetary resources. See Volume 6B, Chapter 10 for further discussion on disclosures.

0803 DEFINITIONS

080301. Contingency

A contingency is a condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will be resolved in the future when one or more events occur or fail to occur.

080302. Covered Liabilities

Covered liabilities are comprised of all liabilities for which budget authority has been received but not yet obligated.

080303. Current Liability

A current liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources within 1 year of the reporting date.

080304. Exchange (Reciprocal) Transactions

An exchange transaction is one in which each party relinquishes value and receives value in return.

080305. Funded Liabilities

Funded liabilities are comprised of all liabilities for which budget authority has been received and obligated.

080306. Government-Acknowledged Events

A government-acknowledged event is a nontransaction-based event that is of financial consequence to the Department because the Department has chosen formally to accept the associated financial responsibility. An example would be the assumption of responsibility for damage caused by a natural disaster (such as tornado damages to a U.S. town and the Congress appropriates funds in response to the disaster).

080307. Governmental Liability

A governmental liability is an amount owed by a federal entity to a nonfederal entity. These liabilities are also called non-federal or public liabilities.

080308. Government-Related Events

A government-related event is a nontransaction-based event that involves interaction between the Department and its environment. An example is an expense to be paid as the result of current government operations, such as the estimated cost of repairing accidental damages to private property.

080309. Intragovernmental Liability

An intragovernmental liability is an amount owed by a federal entity to another federal entity.

080310. Liabilities Not Covered By Budgetary Resources

Liabilities not covered by budgetary resources are those liabilities in which budget authority has not been received and congressional action is needed before budgetary resources can be provided. These liabilities are also called unfunded liabilities.

080311. Liability

A liability for federal accounting purposes is a probable and measurable future outflow or other relinquishment of resources as a result of past transactions or events.

080312. Materiality

Materiality is the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

080313. Measurable

A liability is measurable if it has a relevant attribute that can be quantified in monetary units with sufficient reliability.

080314. Noncurrent Liability

A noncurrent liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources beyond 1 year of the reporting date.

080315. Nonexchange Transactions

A nonexchange transaction is one in which the Department promises to provide money or other resources in the future without a promise of receiving direct value in return. An example would be grant payments to state and local governments to carry out a public purpose, when authorized by a law of the United States.

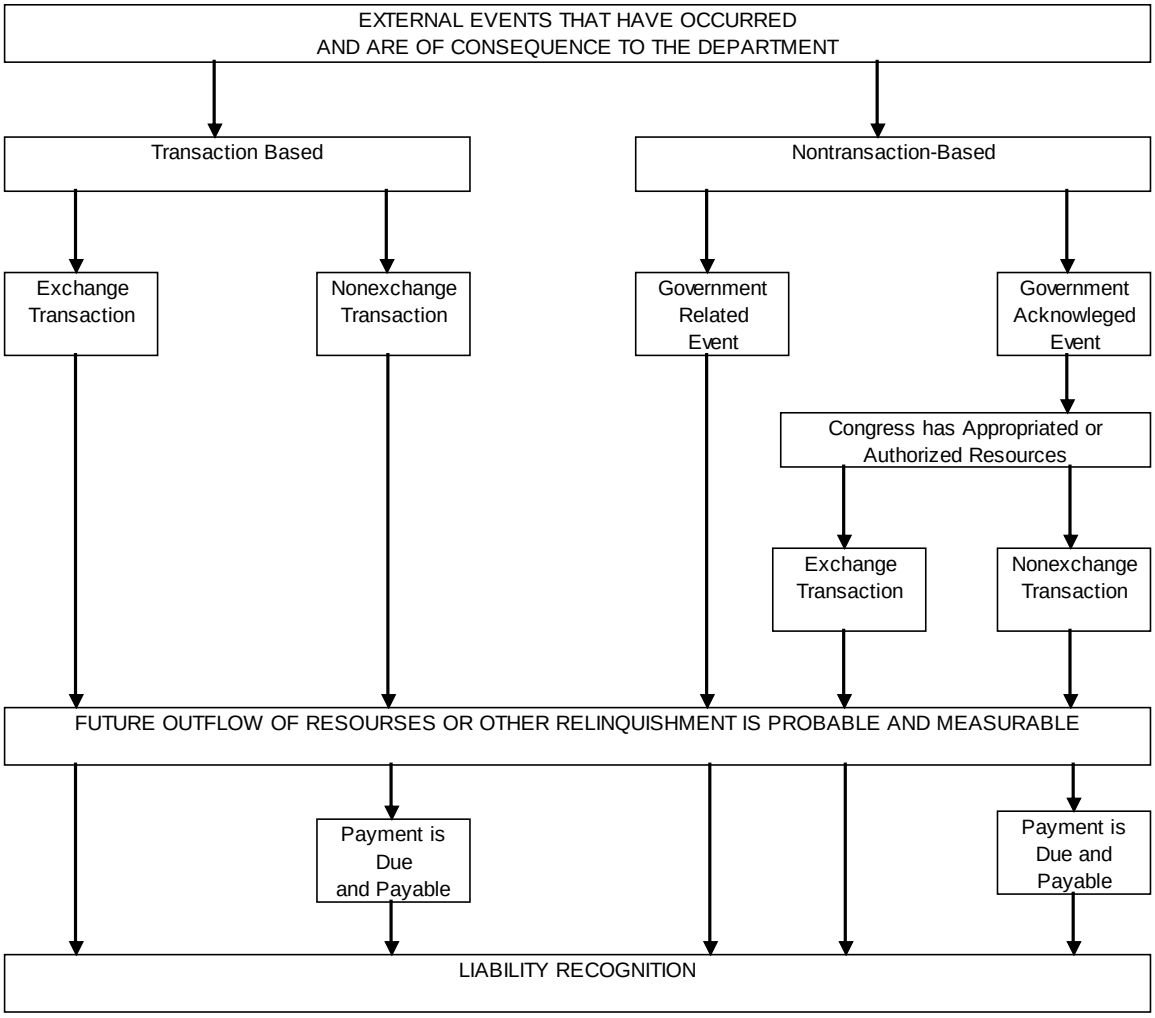
080316. Probable

Probable refers to that which can reasonably be expected or is believed to be more likely than not to occur on the basis of available evidence or logic.

080317. Transaction and Event

A transaction is an event involving the transfer of something of value. An event is a happening that has financial consequences to an entity. An event may be an internal event that occurs within an entity, such as placing an item in service, or an external event that involves interaction between an entity and its environment, such as an act of nature, a theft, vandalism, an injury caused by negligence, or an accident.

Figure 8-1. RECOGNITION OF LIABILITIES



VOLUME 4, CHAPTER 9: "ACCOUNTS PAYABLE"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * symbol preceding the section, paragraph, table, or figure that includes the revision.

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The previous version dated October 2008 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted chapter for clarity and ease of reading. Added electronic links for references.	Update
090101	Added sentence to indicate guidance supplements other currently existing accounts payable authority. Deleted references to United States Standard General Ledger (USSGL) accounts.	Update/ Delete
0902	Clarified definition of accounts payable.	Update
090201.A	Clarified accounts payable recognition criteria.	Update
090201.B	Renumbered "090201.B." to "090201.E". Provides the specific circumstances for basing payables accruals on receiving reports. Included exception to electronic form of submission of payment requests and receiving reports per DFARS 232.7002.	Update
090201.C	Renumbered "090201.C." to "090201.F". Added policy for recording payables based on progress payment requests.	Add
090201.D	Renumbered "090201.D." to "090201.G". Updated estimation policies.	Update
090201.E	Renumbered "090201.E." to "090201.H". Clarified guidance regarding recording payables based on progress payments based on percentage or stage of completion.	Update
090201.F	Renumbered "090201.F." to "090201.I".	Update
090201.G	Renumbered "090201.G." to "090201.J". Clarified that only valid transactions based on documented vendor invoices, receiving reports, or other approved documentation will be recorded.	Update
090201.H	Renumbered "090201.H." to "090201.K". Affirmed that payables will be classified in different categories for financial reports.	Update

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
090201.I	Renumbered "090201.I." to "090201.L". Added that if the vendor does not place a date on the invoice, invoice should be rejected, per 5 CFR 1315-09.	Update
090201.J	Added reference to the Prompt Payment Act of 1982, as amended.	Update
090201.K	Aligned language with definition found in "Budget Treatment of Monetary Credits (GAO/AFMD-85-21.	Update
090201.L	Clarified when entitlement office must take action to determine receipt of goods/services due to non-receipt of receiving reports. Replaced "disbursing office" to "entitlement office".	Update
090201.M	Added policy for identifying unrecorded payables to assist quarterly financial statements.	Add
090201.N	Added policy addressing what to do if an account has expired but not yet closed.	Add
090201.O	Added policy for recording accounts payable canceled.	Add
090201.P	Added language describing how payables are liquidated.	Add
090202.A	Replaced "accounts payable ledger" to "transaction detail in supporting accounting systems".	Update
090202.B	Replaced "disbursing office" with "entitlement office".	Update
090202.C	Renumbered "090202.C." to "090202.D". Added payable write-off policy to address specific contracts.	Update
090202.D	Renumbered "090202.D." to "090202.E". Described reasons for abnormal balances with the need for investigation.	Update
090202.E	Reworded for clarity.	Update
090202.F	Added a section to indicate that documentation must be readily available for stakeholders.	Add
0903	Deleted display of accounting entries and provided link to SFIS Transaction Library. Added link on external reporting guidance. Added guidance on maintaining documentation to support audit.	Delete/ Update

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CHAPTER 9

ACCOUNTS PAYABLE

0901 GENERAL

*090101. Purpose

A. This chapter provides the policies and related procedures of the accounts payable process. Accounts payable are recorded using the appropriate U.S. Standard General Ledger (***USSGL***) proprietary and budgetary accounts established by the U.S. Treasury Financial Management Service (Treasury). The provisions of this chapter implement applicable provisions of Statement of Federal Financial Accounting Standards ***(SFFAS) Number 1***, "Accounting for Selected Assets and Liabilities."

B. Accounts payable does not include liabilities related to on-going continuous expenses such as employees' salaries and benefits covered by other current liabilities. Refer to Chapter 10 for further discussion on employees' salaries and benefits. Accounts payable also does not include amounts for contract holdbacks. Contract holdbacks map to the other liabilities line of the balance sheet.

*0902 ACCOUNTING POLICY FOR ACCOUNTS PAYABLE

SFFAS Number 1 defines accounts payable as amounts owed to other entities for goods and services received (i.e., actual or constructive receipt), progress in contract performance, and rents due to other entities. The following paragraphs outline the policy for recognizing and reviewing the accounts payable liability.

090201. Accounts Payable Recognition

* A. An entity must recognize an accounts payable liability upon receipt of goods or services performed satisfactorily by vendors, contractors, grantees, and lessors or when accepting title to goods, whether the goods are delivered or in-transit. Amounts recorded as accounts payable must be supported by documentation that clearly shows the basis for the amount recorded as a payable (e.g., purchase order or contract, and proof of receipt), and the terms upon which payment is to be made.

* B. The basis for recording accounts payable must be a receiving report that clearly shows the quantities and dates goods and property were received and accepted, or services were satisfactorily performed and accepted. As defined by ***Federal Acquisition Regulation (FAR) 2.101***, a receiving report is written evidence that indicates Government acceptance of supplies delivered or services satisfactorily performed. According to Defense Federal Acquisition Regulation ***(DFARS) 232.7002***, contractors will submit payment requests and receiving reports in electronic form, unless an exception applies. See Volume 10, Chapter 8 for more information on receiving reports. Such quantities must be based on actual counts of items delivered by the vendor. Accompanying inspection reports for the goods or services may

accompany the receiving report. In such instances, the inspection and receiving reports serve as the basis for recording the liability.

* C. The DoD Component must record a payable for contract financing payment requests (***FAR 32.001***) submitted by the contractor and approved by the Administrative Contracting Officer or their authorized representative (for example, Defense Contract Audit Agency) pursuant to ***FAR 32.503***. The offsetting entries for such payables are made to Advances and Prepayments, as described in Volume 4, Chapter 5.

* D. When amounts are not available at the end of an accounting period, the DoD Components must estimate the accounts payable when they accept title to goods, delivered or in transit. The recording of accounts payable is not to be delayed pending receipt of a corresponding invoice for the delivered or accepted goods. In instances where the amount of the liability is not definitely established, DoD Components must estimate and accrue the amounts owed and make adjustments when definite information becomes available. Ensure that a payable is not posted twice when the entity is invoiced in the normal course of operations.

* E. Accounts payable also result from progress payments based on percentage or stage of completion, which are authorized only for fixed-price construction contracts, which include contracts for construction (as defined in FAR 36.102), shipbuilding, and ship conversion, alteration, or repair. The DoD Component should support the percentage of completion with engineering estimates and management evaluation of actual performance progress. Record the unpaid portion of the progress payment request for which the estimate of actual progress has been certified by the contracting officer, as a payable and do not include any amounts held pending completion and acceptance of the contract. The accounts payable is recognized because formal acceptance of the final product by the DoD Component is not the determining factor for accounting recognition. The DoD Component acquires an asset during each accounting period based on constructive or de facto receipt and must recognize an accounts payable during each accounting period. The offsetting entries for such payables are made to Construction-in-Progress) as described in Volume 4, Chapter 6.

F. Invoices received must be determined to be valid before payment. Entities must meet the requirements outlined in Volume 3, Chapter 10 before making payment on an invoice involving canceled accounts.

* G. The entity must not delay recognizing the liability based on the availability of funds and must disclose the accounts payable not covered by budgetary resources. Only record valid transactions based on documented vendor invoices, receiving reports, or other evidence of work progress. A potential violation of the Antideficiency Act (ADA) may exist if the amount of payables exceeds the total availability of funds. For discussion of ADA, see Volume 14.

* H. Accounts payable resulting from transactions with other Federal entities are intragovernmental transactions and must be reported separately from amounts owed to the public. Additionally, intergovernmental transactions must include a specific Federal trading partner code. This will enable reconciliation of intragovernmental transactions between Federal

agencies, the elimination of intragovernmental transactions in the financial statements, and the quarterly reporting to Treasury of the USSGL account balances related to transactions with other Federal agencies.

* I. If an entity is offered a discount by a vendor, whether stipulated in the contract or offered on an invoice, an entity may take the discount if economically justified but only after acceptance has occurred. If the vendor does not place a date on the invoice, reject the invoice. The invoice must have an invoice date, as per ***5 CFR 1315-09***, to be a proper invoice. When an invoice is improper, return the invoice to the vendor within 7 days of receipt of the invoice per ***5 CFR 1315.4(q)(5)***. Refer to Volume 10, Chapter 2 for further discussion on discount offers and calculations.

* J. The DoD Component must record accounts payable for interest incurred on late payments under the ***Prompt Payment Act of 1982, as amended (Public Law 100-496), 31 U.S.C 3901*** and refunds due but not paid at the end of the reporting period. Interest incurred on borrowed funds but unpaid is accrued and recorded on the Debt line of the balance sheet.

* K. Some DoD entities are authorized by specific statutory authority to issue monetary credits as compensation for property or services received from nonfederal entities. With monetary credits, the government gives the seller credits in dollar amounts reflecting the agreed-upon value of the acquired property. The holder of the credits may apply them later to reduce the amount owed the government (by the holder) in other, sometimes unrelated, transactions with the government. An example of this would be an entity entering into a barter agreement in which the services provided to a nonfederal entity have a market value less than the services received (e.g. cross servicing agreements for refueling North Atlantic Treaty Organization ships outlined in Volume 11A, Chapter 8.) When monetary credits are used for exchange transactions, the DoD entity must record a liability equal to the value of the monetary credit.)

* L. The entity must recognize an accounts payable liability upon receipt of an invoice for a contract authorizing fast pay procedures. The fast pay procedures allow payment prior to verifying receipt and acceptance of supplies under the limited conditions listed in the ***FAR 13.402*** and the ***DFARS 213.402***. The limited conditions require the contractor to certify delivery at the time of presenting the invoice and replace, repair, or correct any supplies not received or supplies received damaged or nonconforming to requirements. Entitlement offices must establish the controls described in Volume 10, Chapter 10, section 1003, to ensure receipt within a reasonable period of receiving reports that meet the requirements specified in paragraph 090201.B. Entitlement offices must take action to determine actual receipt of the goods and services when not provided receiving reports in a reasonable period (less than 30 days). The entitlement office must establish an accounts receivable and credit the asset account when it is determined the customer (ordering activity) did not receive the goods or received damaged or nonconforming goods. Entitlement offices may liquidate the accounts receivable by offsetting it against current payments due a vendor. The entitlement office must maintain a clear audit trail of any offset by maintaining complete financial records of all supporting documentation approved by the appropriate management official. If the customer does not anticipate further purchases then the

entitlement office must prepare a contract debt package in accordance with ***FAR 32.604*** and process the demand for payment in accordance with Volume 10, Chapter 18.

* M. Record an accrual for accounts payable to assist quarterly financial statements for items received and accepted but not invoiced. For large undelivered orders not accrued via receipt of an invoice or receiving report, DoD Components must make inquiries of selected Contracting Officer's Technical Representative to determine if goods/services have been received, accepted and accrued accordingly.

* N. When an appropriation account is expired, any remaining balances in the account are no longer available for incurring new obligations. Both the obligated and unobligated balances of expired appropriations must be available for recording, adjusting, and liquidating obligations properly chargeable to that account. Additional guidance on expired accounts may be found in Volume 3, Chapter 10.

* O. When an appropriation account is closed, any remaining balances in the account are required to be cancelled and are not available for obligation or expenditure for any purpose. However, legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be reinstated to canceled payables and paid out of a current unexpired appropriation that is available for obligation for the same purpose as the closed account. See Volume 3, Chapter 10, paragraph 100201.F. for obligation stipulations.

* P. Accounts payable are liquidated when there is a three-way match of a contract, receiving report, and proper invoice. The fast pay process in 090201.M is an exception to requiring a three-way match before payment is made. Refer to Volume 10, Chapter 1.

090202. Reviewing Account Payable Balances

* A. The accounting office must review and reconcile the accounts payable balances to the transaction detail in supporting accounting systems in conjunction with the triannual review of commitments and obligations required in Volume 3, Chapter 8. In addition, budgetary accounts payable balances must be reconciled to proprietary accounts payable balances. The accounting office must research any differences, fully document the rationale for necessary adjustments, and obtain approval from the DoD Component's Comptroller or their designated representative before making the adjustments.

* B. The accounts payable for acceptable final performance on a contract or order must remain on the accounts until liquidated through proper payment. The entitlement office must request an invoice from the contractor for any accounts payable when not receiving an invoice within 180 days from the date of acceptable final performance. If there is no response, the entitlement office must send a follow-up request to the contractor after 60 days. If a contractor remains non-responsive, the funds holder with support from the entitlement office must work with the ACO to obtain overdue invoices. Components must recognize payables from canceled appropriations as outlined in paragraphs 090201.N.

* C. Continued non-receipt of an invoice on firm fixed price contracts may extinguish the contractor's right to payment and relieve the Government's obligation to pay for the uninvoiced goods or services. If, after more than six years since the date of acceptance by the Government, a contractor has failed to invoice the Government for the received goods or services, the relevant accounts payable may be written-off after coordination with the contracting activity and/or legal counsel, and if applicable, Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA). In these instances, coordinate, as necessary, with the contracting activity and legal counsel to determine whether the over-aged accounts payable continues to represent a legal liability of the Government after giving due consideration to the six-year limitation period described herein and codified at ***41 U.S.C. § 7103.*** Adjust the accounting records if it is determined that a legal liability does not exist.

* D. The accounting office must investigate accounts payable debit balances over $100. These debit (abnormal) balances may result from Negative Unliquidated Obligations, where the disbursement is greater than the accounts payable balance (refer to Volume 3, Chapter 11) or from a negative accounts payable, where a disbursement is made prior to a receipt or fast pay invoice being posted in the accounting system so there is no accounts payable to match the disbursement to. If the investigation discloses an overpayment or under recouped funds, the accounting office must coordinate with the entitlement office to offset the amount due on a current invoice as authorized by ***FAR 32.602*** or issue a demand for payment in accordance with ***FAR 32.604***. The accounting and entitlements offices must research negative payables to determine why the receipt or fast pay invoice had not posted to accounting system and then facilitate that posting.

* E. The inability to match a performance report or invoice with a corresponding obligation may indicate a breakdown of fund control processes and a material weakness in internal controls. When the process of posting a transaction to accounts payable does not disclose a corresponding obligation, this may be evidence that either a contract has not been awarded or a posting error has occurred. In this circumstance, the accounting office must request the necessary documentation to support the required accounting entry and notify appropriate officials that receiving reports or invoices are being received without a corresponding undelivered order. Record an obligation for the unresolved negative unliquidated obligation in accordance with section 1103 of Volume 3, Chapter 11.

* F. All documentation must be readily available for review by procurement personnel, auditors, and DoD Component's financial management personnel. Documentation will be retained in accordance with Volume 5, Chapter 21.

0903 ACCOUNTING PROCEDURES FOR ACCOUNTS PAYABLE

* 090301. United States Standard General Ledger (USSGL)

Accounting for accounts payable is covered in the ***United States Standard General Ledger Standard Financial Information Structure Transaction Library.***

090302. Funds Holder Responsibility

Funds holder must maintain complete financial records of all supporting documentation and ensure documentation is readily available for review by auditors.

* 090303. External Reporting

For accounts payable external reporting requirements, refer to Volume 6B, Chapter 4.

VOLUME 4, CHAPTER 10: "ACCRUALS FOR PERSONNEL RELATED LIABILITIES"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by a * 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 November 2011 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Updated hyperlinks and format.	Update
10021	Clarified wording of the paragraph.	Update

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CHAPTER 10

ACCRUALS FOR PERSONNEL RELATED LIABILITIES

1001 GENERAL

100101. Purpose

This chapter provides accounting policy and related requirements for recording Department of Defense (DoD) liabilities for accrued payroll and benefits, actuarial liabilities, and civilian severance pay. This chapter implements applicable provisions of Statement of Federal Financial Accounting Standards ***(SFFAS) Number 1)***, "Accounting for Selected Assets and Liabilities."

100102. Overview

The transactions associated with the accounting events discussed in this chapter are reflected in the ***United States Standard General Ledger (USSGL) Standard Financial Information Structure (SFIS) Transaction Library*** and will be reported in the financial statements required by Treasury and to meet other reporting requirements mandated by Office of Management and Budget (OMB) and the Congress.

100103. Audit Readiness/Internal Procedures.

Each DoD Component shall develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data.

1002 ACCOUNTING POLICY FOR ACCRUALS

100201. Standards

The accounting principles and policy applicable to the Financial Control of Liabilities are cited in Volume 4, Chapter 8. In addition to this guidance, and to ensure clarity, the standards, as listed in the following subparagraphs shall be adhered to in accounting for accruals associated with personnel related liabilities.

A. The accounts shall be updated based on appropriate source documents and reflect the latest pay adjustments, leave balances, levels of benefits, and changes in benefit rules.

B. Reasonable estimates (accruals) of the costs of services performed by DoD military and civilian employees, including overtime, shall be made when a pay period does not coincide with the end of an accounting period. Such accruals shall be recorded in the applicable accounting period based on journal vouchers with supporting documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount of

the liability. The journal vouchers shall be signed by the appropriate authorized accounting official. These accruals shall be removed from the accounts only when the related pay is disbursed.

C. Amounts due for annuities, adjudicated claims, and benefit payments as of the end of the period shall be recorded in the applicable accounting period based on available information, provided that the payment is probable and the amount estimable. Such amounts shall be recorded based on journal vouchers and supporting documentation clearly showing the basis for the amounts recorded. The journal vouchers shall be signed by the appropriate authorized accounting official. Except for the DoD Component's share of fringe benefits computed as a part of the pay computation process, applicable accruals shall be reversed at the start of the next accounting period and actual costs accumulated.

D. Accrue merit bonuses and awards, if significant in amount, in the accounting period earned.

E. A compensated absence is an employee absence (ordinarily for vacation or illness) for which the employee will be paid. When DoD employees accrue rights to take leave with pay, DoD Components incur an expense and liability measured by the salary cost of the time that may be taken.

F. Accrue the cost of unused annual leave, including restored leave, compensatory time, and credit hours earned as well as the fringe benefit costs associated with the leave. Obtain accrued leave amounts from the Defense Civilian Payroll System.

G. Sick leave is expensed as taken as absences due to illness or other contingencies. In addition, home leave and compensatory time for travel are not accrued, as balances not used are not reimbursed by DoD.

H. The expense and related liability for annual leave shall be recorded at the regular hourly rate at which the leave is earned. Use of a fringe benefit rate is also acceptable for calculating accrued annual leave.

I. The liabilities for annual leave and other leave (compensatory time and credit hours), including fringe benefit costs associated with the leave, shall be adjusted to reflect all pay increases and unused leave balances at least quarterly for financial statement purposes.

J. Accrue benefits, including benefits to social security, retirement funds, the Thrift Savings Plan, and group health and life insurance programs in the same manner as gross compensation (see Volume 8, Chapter 3). Accrue other benefits, such as relocation-related real estate costs and personnel allowances, in the period earned.

K. Accrue payments to the Office of Personnel Management for reemployed annuitants and severance pay for former employees in the same manner as gross compensation.

L. Accrue recruitment and relocation bonuses and retention allowances in the period earned.

M. The accrued amounts to be reflected in the general ledger accounts shall not be limited to the amounts covered by available budgetary resources.

100202. Supporting Records

To the extent such liabilities are unfunded DoD Components shall maintain appropriate supporting records of the unfunded portions to provide appropriate footnote disclosure in the financial statements when necessary. Disclosures shall be made for unfunded liabilities in accordance with Volume 6B, Chapter 10.

100203. Liability for Claims

The liability for claims incurred (both reported and unreported) shall be determined by use of accepted actuarial principles and reported in the entities financial statements. If existing legislation requires that amounts paid to participants be recovered from others (e.g., employing agencies), then the estimated amount to be recovered shall be reported as a receivable with the sources of expected repayments clearly indicated.

1003 ACCOUNTING FOR ACCRUALS

The accounts used by DoD Components to record accruals are specified in the ***USSGL SFIS Transaction Library***. Defense Working Capital Fund entities are required to accrue for payroll and related benefits in accordance with the guidance in this chapter.

VOLUME 4, CHAPTER 11: "COMPONENT DEBT"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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*.**

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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
110102.B.2.	Updated hyperlink for USC citation	Update
110305	Corrected verb tense	Update

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CHAPTER 11

COMPONENT DEBT

1101 GENERAL

110101. Purpose

This chapter prescribes the accounting principles and policy to be followed by Department of Defense (DoD) Components to account for debt incurred in accordance with statutory authority.

110102. Overview

The Department's debt primarily consists of interest and principal payments due to the U.S. Treasury and the Federal Financing Bank. Debt incurred by DoD Components is generally associated with direct and guaranteed loans, and housing programs determined to be necessary to carry out the Department of Defense's mission, including mortgage agreements accepted pursuant to the Family Housing Program and the Homeowners Assistance Fund.

A. The Department must pay the debt on direct loans if borrowers (e.g., foreign governments, county or city governments, ship owners, or housing builders) default. For loan guarantees, the Department must pay the amount of outstanding principal guaranteed. The majority of the debt represents direct and guaranteed loans to foreign governments. Before 1992, funds were borrowed from the Federal Financing Bank to either directly loan the funds to foreign governments or to reimburse defaulted guaranteed loans. Beginning in 1992, the Department began borrowing funds for the Foreign Military Financing Program from the U.S. Treasury, in accordance with the Federal Credit Reform Act of 1990, which governs all direct loan obligations and loan guarantee commitments made after FY 1991. Guidance on direct loans and loan guarantees is contained in Volume 12, Chapter 4.

B. Debt Associated with Housing Programs

1. Family Housing Program. The Defense Family Housing Program (FHP) provides housing for military families and for civilian families where circumstances require the Department of Defense to support this program by providing housing referral services, including administration of private rental housing for DoD personnel overseas; leasing private housing for DoD personnel; or by guaranteeing service members' rental, mortgage and mortgage insurance payments on privately owned housing. Guidance for financing the FHP is contained in Volume 2B, Chapter 6, while guidance for accounting for funds made available for this program is contained in Volume 3, Chapter 5.

2. Homeowners Assistance Fund

a. Under ***42 U.S.C. 3374***, the Secretary of Defense is authorized to provide assistance to owners of one- or two-family dwellings located at or near

military installations ordered to be closed in whole or in part. In certain instances, this assistance is rendered by acquiring negotiated title to the properties from such owners. Section (d) of the statute established the Homeowners Assistance Fund (HAF). Section (g) authorized the Secretary of Defense to enter into an agreement with the Secretary of Housing and Urban Development (HUD) with respect to the administration of the program. That agreement provided that, on DoD's behalf, HUD will maintain, manage, and dispose of such properties acquired by the DoD and be reimbursed for all costs incurred in its administration. That agreement was terminated as of January 1, 1993. Since that date, all properties acquired are managed and disposed of by the U.S. Army Corps of Engineers (USACE).

b. The USACE Chief of Engineers is responsible for obtaining title to the properties and for their administration. The Chief of Engineers is also responsible for negotiating the DoD acquisition price with the property owner.

c. Funding for this program is through annual appropriations made available by the Congress.

d. ***DoD Directive 4165.50E***, "Homeowners Assistance Program," (HAP) provides overall policy guidance and information on this program.

1102 ACCOUNTING POLICY FOR DEBT ASSOCIATED WITH HOUSING PROGRAMS

110201. Accounting Policy for Properties under FHP and HAP

The accounting policy for properties acquired under both the FHP and HAP is the same as those for real property discussed in Volume 4, Chapter 6. The accounting policy for the liabilities incurred under both programs is discussed in the following paragraphs.

110202. Liability for Amounts Owed on Housing Acquired under FHP and HAP

The liability for amounts owed on housing acquired under the two programs will be equal to (1) borrowings from other Federal Agencies and the public to construct or acquire the properties, or (2) the mortgages assumed when title passes to the Department of Defense.

110203. Mortgage Balance Payable Reductions

The balance of the mortgages payable will be reduced by that portion of the periodic payments made which represent the mortgage principal.

110204. Liabilities for Borrowing from Other Organizations

Liabilities for borrowings from other Federal Agencies and non-federal organizations will be recorded at the amounts actually obtained. Amounts paid to financial organizations to obtain the borrowings must be treated as a current period operating expense.

1103 ACCOUNTING FOR COMPONENT DEBT

110301. Accounts Used to Report DoD Debt

The accounts used to report DoD debt are described in the following paragraphs. The entries for these accounts are specified in the ***United States Standard General Ledger Standard Financial Information Structure Transaction Library***.

110302. Principal Payable to the Bureau of the Public Debt (Account 2510)

. "Principal Payable to the Bureau of the Public Debt" is used to record amounts borrowed from the Treasury. Accrued Interest associated with these borrowings is recorded to "Accrued Interest Payable" (Account 2140).

110303. Principal Payable to the Federal Financing Bank (Account 2520)

"Principal Payable to the Federal Financing Bank" is used to record amounts borrowed from Federal Financing Banks. Accrued Interest associated with these borrowings is recorded to "Accrued Interest Payable" (Account 2140).

110304. Securities Issued by Federal Agencies Under General and Special Financing Authority (Account 2530)

"Securities Issued by Federal Agencies Under General and Special Financing Authority" is used to record the liability arising from issuing new borrowings authorized under special financing authorities.

110305. Participation Certificates (Account 2540)

"Participation Certificates" are used to record a DoD Component's liability for its share of participation certificates issued pursuant to legislative authority.

110306. Other Debt (Account 2590)

"Other Debt" is used to account for all other forms of DoD liabilities, secured and unsecured, not otherwise classified above.

VOLUME 4, CHAPTER 12: "UNEARNED REVENUE AND OTHER LIABILITIES"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

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

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

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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Updated hyperlinks and format.	Update
120103	Adds: Audit Readiness/Internal Procedures: In promoting audit readiness, this paragraph requires DoD Components to establish internal operating procedures and/or guidance in line with the overarching policy cited in this volume.	Add
120202.C.	Clarified wording to align with the Statement of Federal Financial Accounting Standards 5 (SFFAS 5), paragraph 40.	Clarification
1203	Deleted last sentence of section 1203 of the previous DoD FMR version which stated: "Specific general ledger accounts, Other Deferred Revenue (2320), Liability for Subsidy Related o Undisbursed Loans (2950), and Custodial Liability (2980) require OUSD(C) approval prior to use." OUSD(C) approval for use of these USSGL accounts is no longer required.	Update

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CHAPTER 12

UNEARNED REVENUE AND OTHER LIABILITIES

1201 GENERAL

120101. Purpose

This chapter prescribes the accounting policy and related requirements necessary to establish financial control over the Department of Defense (DoD) liabilities not discussed in Chapters 9 through 11. Environmental and non-environmental disposal cost liabilities and estimated cleanup cost liabilities are discussed in Chapter 13. General Fund and Defense Working Capital Fund (DWCF) entities are required to record unearned revenue and other liabilities in accordance with the guidance in this chapter.

120102. Overview

Unearned revenue and other liabilities will be accounted for in accordance with Statement of Federal Financial Accounting Standards ***(SFFAS) No. 1***, "Accounting for Selected Assets and Liabilities", ***SFFAS No. 5***, "Accounting for Liabilities of the Federal Government", and ***SFFAS No. 12***, "Recognition of Contingent Liabilities Arising from Litigation."

*120103. Audit Readiness/Internal Procedures

Each DoD Component shall develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data.

120104. Glossary

A. Unearned Revenue. Unearned revenue consists of amounts received in advance for goods and services to be delivered at a future date, property used by the DoD Components that is owned by others, liabilities for funds awaiting final disposition and reimbursable activities for services provided by DoD.

B. Other Liabilities. Other liabilities include measurable and probable expected outflows resulting from past transactions or events, and the estimated costs of conditions, situations, or circumstances that will be resolved in the future. "Other Liabilities" represent amounts not otherwise classified to specific liability accounts discussed in this volume.

C. Liability for Nonfiduciary Deposit Funds, Clearing Accounts and Undeposited Collections. This account represents amounts in deposit funds for receipts held in suspense (e.g., 21X6434), temporarily for later refund or payment to some other Treasury fund or other entity, or held by the DoD as banker or agent for others for payment at the direction of the owner. Amounts classified in this account may also represent budget clearing accounts (e.g., F3875) awaiting disposition or reclassification. The liability includes United States (U.S.) currency and coin on hand, cash on deposit at designated depositories, cash in the hands of deputy

disbursing officers, cashiers and agents, negotiable instruments on hand, military payment certificates, unsupported undistributed collections, etc. Such funds are not available for paying salaries, grants, or other expenses of the federal government. Sources for entries to this account include requests for cash, cash collection vouchers, deposit tickets, and invoices for transferred funds.

1202 ACCOUNTING POLICY

120201. Unearned Revenue

Unearned revenue 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. All advances, including those under any long-term contract in excess of revenue earned, shall be recorded as unearned revenue. The DoD Components receiving an advance (unearned revenue) or prepayment (deferred credit) shall 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 shall record the appropriate amount as revenue and reduce the liability accordingly. The two major activities for which DoD receives advances are as follows:

A. Reimbursable Activities. DoD provides services to other federal agencies and to the public on a reimbursable basis. When a nonfederal 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.

B. DWCF Activities. The appropriation language for DoD's DWCF permits the fund to receive advances for supplies and services. Therefore, the DWCF business entities shall 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.

120202. Other Liabilities

Other liabilities include the following items:

A. DoD entities will record a liability for each capital lease at the present value of the rental payments for the entire secured term of the lease. For capital leases, the lease term is the fixed non-cancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease that can reasonably be expected to be taken. This amount will exclude that portion of the payments representing execution cost (i.e., insurance, maintenance and taxes) to be paid by the lessor. If the amount exceeds the fair market value of the leased property at the inception of the lease, the DoD entity will record the liability at the fair market value of the property. If the portion of the minimum lease payments representing execution cost is not determinable from the lease provisions, the amount should be estimated. Specific guidance on capital leases is outlined in Volume 4, Chapter 6.

B. 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. A contingent liability should be recognized in the financial reports and statements when all of these three conditions are met:

1. A past event or exchange transaction has occurred (e.g., a DoD Component has breached a contract with a nonfederal entity).

2. A future outflow or other sacrifice of resources is probable (e.g., the nonfederal 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. The future outflow or sacrifice of resources is measurable (e.g., the DoD Component entity's management determines an estimated settlement amount). The estimated 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 a description of the nature of the contingency should be disclosed.

* C. If any of the above three conditions are not met, the contingent liability need not be recognized in the DoD Components financial reports and statements but should, nevertheless, be disclosed in notes regarded as an integral part of those reports and statements 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.

D. The probability classifications as follows:

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 likely to occur.

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

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

E. Contingent Liability Arising From Progress Payments Based on Cost. As addressed in the ***(FAR 52.232-16),*** **l**iabilities resulting from contracts utilizing progress payments based on cost will be recorded based on the difference between an estimated amount of contractor-incurred cost and authorized progress payments based on cost. The estimated contractor-incurred cost is calculated by dividing the cumulative unliquidated progress payment (based on cost) balance by the contract-authorized progress payment rate. The difference between the resulting

estimated contractor-incurred cost and the balance of unliquidated progress payments based on cost will be recorded as a contingent liability.

*1203 UNITED STATES STANDARD GENERAL LEDGER ACCOUNTS

General ledger accounts used to record unearned revenue and other liabilities are outlined in the ***United States Standard General Ledger (USSGL), Standard Financial Information Structure Transaction Library***. DoD Components shall account and report separately the amount of unearned revenue and other liabilities associated with nonfederal entities and federal entities.

VOLUME 4, CHAPTER 13: "ENVIRONMENTAL LIABILITIES"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Various	Updates references and web links.	Update
130101.B	Adds reference to newly published Federal Accounting Standards Advisory Board (FASAB) Technical Releases (TR) 10, 11, 14, and Technical Bulletin (TB) 2011-2 (dated September 22, 2011).	Add
130101.C	Adds reference to chapter covering financial reporting.	Add
030102	Adds Audit Readiness/Internal Procedures: In promoting audit readiness, this paragraph requires DoD components to establish internal operating procedures and/or guidance in line with the overarching policy cited in this volume.	Add
130103	Deletes current liabilities definition and formula section since this current/non-current environmental liability reporting is not required.	Delete
130103.A	Adds clarifying sentence on routine costs from Statement of Federal Financial Accounting Standard (SFFAS) No. 6.	Add
130103.F	Adds definition for Permanent Removal from Service.	Add
130103.G	Adds definition for Removal from Service.	Add
130103.I	Adds definition for Routine Hazardous Waste Disposal.	Add
130202.B	Adds estimates of certified third-party damage claims that are probable or reasonably possible should be reported.	Add
130202.D.4 130202.D.5	Updates effective dates for recognition and measurement of asbestos-related cleanup costs to 2012.	Update
130202.E.5	Adds requirement for cleanup costs liability to be recognized in full for General Property, Plant, and Equipment (G-PP&E) assets permanently removed from service as required by FASAB TR 14.	Add

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
130202.E.6	Clarifies Components that report Base Closure and Realignment Commission (BRAC) assets on their financial statement also report the associated environmental liability.	Update
130202.E.6	Clarifies definition of an overseas environmental liability.	Update
130202.E.8	Updates guidance for FASAB Technical Bulletin 2006-1 (as amended by TB 2011-2), and TR 10.	Update
130202.F.2	Adds Defense Environmental Restoration Program (DERP) requirement to report single-point cleanup cost estimates.	Add
130204.D	Clarifies disclosure requirements for changes in cost estimates. References audit requirement for tracking actual costs to estimates. Removes discussion of current/non-current liabilities.	Update

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CHAPTER 13

ENVIRONMENTAL LIABILITIES

1301 GENERAL

130101. Purpose

A. This chapter prescribes the accounting policy for measuring, recognizing, and disclosing environmental liabilities and the procedures to record Department of Defense (DoD) environmental liabilities. General accounting principles and policy for liabilities are in Chapter 8. The policies and procedures prescribed in this chapter apply to all environmental liabilities regardless of the funding source or whether the funding is available.

B. This chapter implements applicable provisions of:

1. Statements of Federal Financial Accounting Standards ***(SFFAS) 5***, "Accounting for Liabilities of the Federal Government;"

2. ***SFFAS 6,*** "Accounting for Property, Plant, and Equipment," paragraphs 38, 39, 93, 97 and 98.

3. ***SFFAS 23***, "Eliminating the Category National Defense Property, Plant and Equipment;"

4. ***Statement on Auditing Standards (SAS) Number 57/ AU Section 342***, "Auditing Accounting Estimates;"

5. Federal Accounting Standards Advisory Board (FASAB) ***Technical Bulletin 2006-1,*** "Recognition and Measurement of Asbestos-Related Cleanup Costs," amended by FASAB under ***Technical Bulletin 2011-2***, "Extended Deferral of Effective Date of Technical Bulletin 2006-1; ***Federal Financial Accounting and Auditing Technical Release Number 2,*** "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government;"

* 6. ***Federal Financial Accounting Technical Release 10***, "Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment;"

* 7. ***Federal Financial Accounting Technical Release 11***, "Implementation Guidance on Cleanup Costs Associated with Equipment."

* 8. ***Federal Financial Accounting Technical Release 14***, "Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment (PP&E)."

* C. This chapter does not address roles and responsibilities in the preparation of financial reports, budget formulation for environmental liabilities, describe different types of Property, Plant, and Equipment (PP&E) or provide technical environmental guidance.

1. Refer to Volumes 2A and 2B for guidance on budget formulation.

2. Refer to Chapter 6 for descriptions of the different types of PP&E discussed in this chapter.

* 3. Refer to Volume 6A, Chapter 3 for guidance on roles and responsibilities in the preparation of financial reports.

4. Refer to the following management guidance issued by the Office of the Deputy Under Secretary of Defense (Installation and Environment) for technical guidance: "***Management Guidance for the Defense Environmental Restoration Program***" and "***Guidance for Recognizing, Measuring, and Reporting Environmental Liabilities not Eligible for Defense Environmental Restoration Program Funding***."

130102. Audit Readiness/Internal Procedures

Each DoD Component shall develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data.

130103. Definitions

* A. Environmental Cleanup, Closure, and/or Disposal Costs. For financial statement reporting purposes, the term "environmental cleanup costs" includes costs associated with restoration of environmental sites funded under the Defense Environmental Restoration Program (DERP), corrective actions, and environmental costs associated with the future closure of operations, including closure and disposal of PP&E. Cleanup costs as defined in the ***SFFAS 6, paragraph 85***, include researching and determining the existence of hazardous waste, removing, containing, and/or disposing of hazardous waste from personal or real property and/or personal or real property that consists of hazardous waste at the time of shutdown or disposal, and material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E. Consistent with ***SFFAS 6***, cleanup costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs related to DoD operations that result in hazardous waste. Cleanup costs do not include costs associated with ongoing operations (i.e., "routine" hazardous waste removal and disposal).

B. Environmental Liabilities. For financial reporting purposes, a DoD environmental liability is a future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events. A DoD environmental liability exists when: (1) contamination is present or likely to be present; (2) environmental cleanup, closure, and/or disposal is required by lease contracts, federal, state, and/or local statute, regulation, or other legal agreement; and (3) the

operations that created the liability are DoD related**.** An environmental liability may also exist if environmental contamination is not DoD related, but DoD enters into a binding agreement that formally accepts financial responsibility for cleanup, closure, and/or disposal.

C. Environmental Site. An environmental site is a real property asset or combination of assets with a discrete location(s) for which there is an environmental issue that requires evaluation. Environmental sites must be reviewed to determine if future environmental work required at the site meets the definition of environmental liability.

D. Equipment. Equipment is personal property that is functionally complete for its intended purpose, durable, and nonexpendable. Equipment generally has an expected service life of 2 years or more; is not intended for sale; does not ordinarily lose its identity or become a component part of another article when put into use; has been acquired or constructed with the intention of being used. This definition includes Military or General Equipment. The DoD-recognized Item Unique Identifier (IUID), if available, should be used to identify each item or piece of equipment (see ***Department of Defense Instruction (DoDI) 5000.64***, "Accountability and Management of DoD Equipment and Other Accountable Property"***)***.

E. Hazardous Waste. Per ***SFFAS 6***, the definition of hazardous waste, used in conjunction with environmental cleanup costs previously defined, is a solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics, may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness, or pose a substantial present or potential threat to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed. As noted in ***Technical Bulletin 2006-1***, the term "hazardous waste," as defined in ***SFFAS 6***, was developed by consulting environmental laws, such as the Resource Conservation Recovery Act (RCRA); however the general use of the term in federal accounting standards should not be construed as limiting the application of the standards solely to those materials meeting the definition of "hazardous waste" under RCRA.

* F. Permanent Removal from Service. Permanent removal from service occurs when (1) an asset use is terminated and (2) there is documented evidence supporting management's need to dispose of the asset. If only one of these two business rules occurs, a need for the "permanent" removal of an asset from service has not occurred.

G. Real Property. Land and improvements to the land (i.e., facilities). Real Property includes equipment affixed and built into the facility as an integral part of the facility (such as heating systems), but not movable equipment (e.g., plant equipment, industrial equipment, buoys). The DoD Real Property Unique Identifier (RPUID), if available, should be used to identify each real property asset (see ***DoDI 4165.14***, "Real Property Inventory and Forecasting").

* H. Removal from Service. Removal from service is defined as an event that terminates the use of a General Property Plant and Equipment (G-PP&E) asset (e.g., shut down of a facility). Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identified as excess

to an entity or DoD Component's mission needs. General removal of an asset from service is not the same as "permanent removal from service."

* I. Routine Hazardous Waste Disposal. When estimating future environmental cleanup costs associated with equipment disposals, routine hazardous waste disposal refers to waste that is regulated and managed the same as the disposal of hazardous waste from day-to-day operations and on a regular basis (see ***Federal Financial Accounting Technical Release 11***). Routine hazardous waste disposal is not recognized as an environmental liability (per ***SFFAS 6, Paragraph 93***).

1302 ACCOUNTING POLICY FOR ENVIRONMENTAL LIABILITIES

130201. Environmental Liability Recognition

This section outlines the policy for recognizing, disclosing, and measuring environmental liabilities in accordance with applicable accounting standards.

A. Environmental liabilities must be recognized on the financial statement for probable and measurable future outflows or expenditure of resources for environmental cleanup, closure, and/or disposal actions, in accordance with ***Federal Financial Accounting and Auditing Technical Release Number 2***. A probable environmental liability exists when it is more likely than not that hazardous waste requiring cleanup resulted from operations where DoD was likely involved. A measurable environmental liability exists when a dollar value can be estimated for the cleanup costs or a study is needed to define further cleanup parameters (see subparagraph 130204.B).

* B. DoD reports environmental litigation liabilities separately from other environmental liabilities in the notes to the financial statements. DoD Components should report estimates of certified third-party damage claims that are probable or reasonably possible. See Volume 6B, Chapters 4 and 10 for information regarding reporting of contingent liabilities arising from litigation claims.

C. Environmental conditions that result from current operations and require immediate cleanup, e.g. an oil spill or routine hazardous waste disposal, are not considered environmental liabilities and should be recognized as a current operating expense, assuming the DoD Component completes the cleanup, closure and/or disposal action in the current reporting period. If the DoD Component does not complete the cleanup, closure and/or disposal action within the current reporting period, then an environmental liability should be recorded for that portion of the cleanup, closure and/or disposal action not completed. The DoD Component should record an accounts payable for cleanup, closure, and/or disposal costs incurred and not paid in accordance with Chapter 9.

D. Environmental liabilities are generally recognized in accordance with the following paragraphs.

1. The total estimated cost of environmental liabilities associated with General PP&E placed in service prior to October 1, 1997, shall be recognized as follows:

(a) In the initial year the liability is recorded, unless the costs are intended to be recovered through user charges.

(b) If the costs are intended to be recovered through user charges, DoD Components shall recognize a liability for that part of the asset's useful life that has lapsed since the PP&E was placed into service. The remaining liability shall be systematically recognized over the remaining useful life. Refer to subparagraph 130204.E for additional information on systematically recognizing cost estimates.

2. The estimated environmental liabilities associated with General PP&E placed in service after September 30, 1997, that have future environmental cleanup, closure, and/or disposal requirements shall be systematically recognized over the useful life. The accumulation of the liability and the recognition of the related expense shall commence when it is placed in service, continue in each period that operation continues, and be completed when the General PP&E ceases operation.

3. The estimated environmental liabilities associated with cleanup cost for Stewardship PP&E shall be recognized in the period that the asset is placed into service.

* 4. For asbestos-related environmental liabilities associated with PP&E, the effective date for which systematic recognition of the liability is required is based on the effective date of the implementing requirement (i.e., ***Technical Bulletin 2006-1***, "Recognition and Measurement of Asbestos Related Cleanup Costs," amended by ***Technical Bulletin 2011-2***). Asbestos-related environmental liabilities associated with PP&E placed in service after September 30, 2012, shall be systematically recognized over the remaining useful life of the PP&E.

* 5. Asbestos-related environmental liabilities associated with PP&E placed in service prior to October 1, 2012, shall be recognized for the portion of the estimated total cleanup, closure and/or disposal cost of the estimated useful life that has passed since the PP&E was placed in service. However, if the PP&E has been in service for a substantial portion of its estimated useful life, the estimated total cleanup, closure and/or disposal cost may be recognized in full in the initial year the liability is recorded, unless the costs are intended to be recovered through user charges.

E. The following discusses recognition of environmental liabilities that are specific in nature.

1. Operational Ranges. An environmental liability associated with the cleanup, closure, and/or disposal, including disposal of unexploded ordnance, on operational ranges does not exist until a formal decision is made to close the range or hazardous waste is migrating off the range. If hazardous waste is migrating off the range, the DoD Component will recognize an environmental liability.

2. Conventional Munitions. Environmental liabilities for conventional munitions that are determined to be excess and/or obsolete as of the financial reporting date are recognized for the total disposal estimate. Conventional munitions are typically an inventory item intended for consumption; therefore, an environmental liability would exist only when the munitions are considered excess or obsolete, because the unused portions require special actions to ensure proper disposal.

3. Stockpile and Nonstockpile Chemical Agents and Munitions Inventory, and Buried Chemical Agents and Munitions. Environmental liabilities and related expenses for stockpile and nonstockpile chemical agents and munitions inventory, and buried chemical agents and munitions, should be recognized for cleanup, closure, and/or disposal costs. Per ***50 U.S.C. 1521***, the Department is required to dispose of chemical weapons and materiel contained in the stockpile, as well as the nonstockpile. The stockpile consists of the chemical weapons and materiel in the inventory. The nonstockpile items are binary chemical weapons, miscellaneous chemical warfare materiel, recovered chemical weapons, and former production facilities. Proper action is needed to mitigate risk to human health and the environment from buried chemical agents and munitions.

4. General PP&E Formerly Identified as National Defense PP&E. The ***SFFAS 23*** eliminated the National Defense PP&E category and reclassified these assets (e.g., Military Equipment) as General PP&E. This reclassification requires environmental liability recognition in accordance with the rules established for General PP&E. Refer to subparagraph 130202.D for recognition rules of General PP&E. As a result of this reclassification, the Components are required to adjust environmental liabilities that were recognized in full for assets placed in service on or after October 1, 1997. The ***SFFAS 23*** states that the cumulative effect of adopting this standard should be reported as a change in accounting principle and that the adjustment should be made to the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position in the period of the change without restating the prior periods.

* 5. General PP&E Cleanup Cost for Permanent Removal of Assets. For assets permanently removed from service, the cleanup costs liability associated with the disposal, closure, and/or shutdown of the general PP&E costs should be recognized in full. If removal of service is considered other than permanent, the liability and associated cleanup cost expense shall continue to accumulate. Permanent removal of service is defined under subparagraph 130102.E. In compliance with ***Federal Financial Accounting Technical Release 14***, documentation must exist of management's decision to permanently remove an asset from service. Recognition of the full liability for cleanup costs associated with General PP&E will not be recorded if an asset's useful life has not been terminated and there is no documented evidence validating management's decision to permanently remove the asset from service. See ***http://www.fasab.gov/pdffiles/original_aapc_tr_14.pdf***.

* 6. Financial Reporting Component. Each DoD Component is responsible for accurate reporting of the environmental expense and liabilities for the real property and/or equipment that it records and reports on its financial statements as assets, regardless of ownership. The criteria for determining the General PP&E financial reporting component are

outlined in Chapter 6. Based on these criteria, the Military Department with jurisdiction over the BRAC-related assets will report environmental expense and liabilities attributed to BRAC real property and/or equipment on their General Fund financial statements.

* 7. Overseas Environmental Liabilities. Overseas environmental liabilities are environmental cleanup, closure, and/or disposal costs associated with the operation of installations overseas in accordance with ***DoDI 4715.8***, "Environmental Remediation for DoD Activities Overseas," and international agreements as defined by ***DoD Directive 5530.3***, "International Agreements." Environmental liabilities resulting from DoD operations are considered "Government-Related Events," as defined by ***SFFAS 5***, and will be recognized when the event creating the liability occurs. The requirements to be met will be based on the applicable Final Governing Standards, the Overseas Environmental Baseline Guidance Document, and international agreements, in accordance with ***DoDI 4715.5***, "Management of Environmental Compliance at Overseas Installations."

8. Nonenvironmental Disposal Cost. When estimating the disposal cost of assets containing hazardous waste, nonenvironmental costs that are considered immaterial to the total cost of removing or disposing of the asset(s) (i.e., disposal of nuclear ships) may be recognized as an environmental liability. Materiality depends on the degree to which an omission or misstatement would change or influence the judgment of a reasonable person relying on the information and requires the application of professional judgment. Each DoD Component is responsible for defending any immateriality determinations.

* 9. Asbestos. Both friable and nonfriable asbestos-related cleanup, closure, and/or disposal costs should be estimated in accordance with ***Technical Bulletin 2006-1***, "Recognition and Measurement of Asbestos-Related Cleanup Costs," as amended by FASAB ***Technical Bulletin 2011-2***, "Extended Deferral of the Effective Date of Technical Bulletin 2006-1(Recognition and Measurement of Asbestos-Related Cleanup Costs)." Asbestos-related cleanup, closure, and/or disposal costs are the costs of removing, containing, and/or disposing of:

(1) Asbestos-containing materials from property, or

(2) Material and/or property that consist of asbestos-containing material at permanent or temporary closure, or shutdown of associated PP&E (i.e., when cleanup cannot occur until the end of the useful life or at regular intervals during that life). Asbestos-related cleanup, closure, and/or disposal costs associated with PP&E should be recognized in accordance with subparagraphs 130202D.4 and 130202D.5. ***Technical Release 10***, "Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment," provides a framework for identifying assets containing asbestos, assessing assets to collect information, and/or developing assumptions needed to estimate asbestos cleanup costs. The effective date for reporting is the first quarter, fiscal year 2012.

F. Environmental liabilities are generally based on accounting estimates that are discussed in paragraph 130204. Recognition of necessary adjustments to accounting estimates used in establishing environmental liabilities follows:

1. The cumulative effect of changes in cost estimates is recognized as an expense in the current accounting period and the corresponding liability is adjusted. Pending system modernization, an alternative is to reverse the accumulation entry at the opening of the subsequent fiscal year. In this event, the entire revised estimated liability and related expense would be entered in the current reporting period. These accounting transactions are provided in Table 13-2. Additionally, the related cleanup cost for the current period shall be expensed and accrued as an environmental liability. Refer to subparagraph 130302.C for the appropriate accounting transactions.

* 2. The risk of material misstatement of accounting estimates normally varies with the complexity and subjectivity associated with the process, the availability and reliability of relevant data, the number and significance of assumptions made, and the degree of uncertainty associated with those assumptions. The DERP requires cleanup cost estimates to be single point estimates using the best available data. If a range is estimated for non-DERP environmental liabilities and an amount within the range is considered a better estimate than any other estimate, that amount should be recognized; however, if no amount within a range is considered a better estimate, then the minimum amount in the range should be recognized. Refer to subparagraph 130203.B for disclosure requirements of estimates that are based on uncertainty.

3. Material adjustments that are required to correct errors related to prior period operations shall be recognized as a prior period adjustment that restates the prior period comparative financial statements. Adjustments to correct errors typically result from mistakes, or the oversight or misuse of facts that would materially misstate the entities financial statements. This type of adjustment is reflected in the Statement of Changes in Net Position and omits the expense recognition in the period of implementation. The amounts involved shall be disclosed and to the extent possible, the amount associated with current and prior periods should be noted. Adjustments required for immaterial amounts are recognized as a current period event.

130202. Environmental Liability Disclosures

A. Financial statement disclosures provide pertinent information in notes or narratives about the amounts reported on the face of the financial statements. (Refer to Volume 6B, Chapter 10 for instructions on completing the financial statement notes.) The recognition of environmental liabilities requires the following disclosures associated with the cleanup, closure, and/or disposal cost estimates that must be addressed each reporting period within the financial statement note for environmental liabilities.

1. The sources (list applicable laws and regulations) of cleanup, closure, and/or disposal requirements.

2. The method for assigning estimated total cleanup, closure, and/or disposal costs to current operating periods (i.e., based on consumed useful life or physical capacity of the assets).

3. The unrecognized amounts of environmental liabilities for assets that require the systematic recognition of the total estimated cleanup, closure, and/or disposal costs.

The DoD Component should recognize the portion of the total cost that is attributed to the useful life of the asset that has expired since the asset was placed in service. The balance or the total estimated cleanup, closure and/or disposal cost is the unrecognized cost of the liability.

4. Material changes in the total estimated cleanup, closure and/or disposal costs due to changes in laws, technology, or plans.

5. Portion of the changes in estimated costs due to changes in laws, technology, or plans; and those changes related to prior periods.

6. The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, plans, or applicable laws and regulations.

7. A description of the type of environmental liabilities identified.

B. Environmental liability estimates that are based on an existing condition, situation, or set of circumstances involving uncertainty that is more likely than not to result in a future expenditure to an entity should be fully disclosed within the financial statement notes for environmental liabilities. Environmental liabilities that only have a remote probability or slight chance of occurring do not require disclosure in the general purpose financial statements and accompanying notes, but the law may require disclosure in special purpose reports.

C. Environmental liabilities not covered by budgetary resources should be disclosed in accordance with Volume 6B, Chapter 10. Liabilities not covered by budgetary resources are equal to the total liability minus the liabilities covered by budgetary resources. Environmental liabilities covered by budgetary resources are equal to the following:

1. Undelivered Orders Outstanding for current and prior years.

2. Unobligated appropriated balances available for execution.

3. Other resources authorized for specified purposes in a given year.

D. Documentation to support the environmental liability recognition and disclosures, including management reviews, shall be retained for the life of the liability. Once the liability has been eliminated, the documentation should be retained according to applicable retention and disposal instructions in accordance with Volume 1, Chapter 9.

130203. Environmental Liability Estimates

A. Environmental liabilities are generally developed based on accounting estimates, because the extent of the environmental cleanup, closure, and/or disposal costs cannot be determined until completing cleanup/disposal operations. The DoD Component's responsible program management function and accounting function shall work together to identify and support the environmental liability estimates and maintain audit records to support assumptions, methodologies, and internal controls used in developing the estimates. The responsible program

management function is accountable for generating the cost estimates; the accounting function is responsible for reviewing the cost estimates and ensuring the liability is recognized according to the guidance published in this chapter. Each estimate is based on subjective as well as objective factors. Accordingly, sound business judgment based on knowledge and experience about past and current events and assumptions is required. The accounting estimates are subject to audit standards of ***SAS Number 57/AU Section 342***, "Auditing Accounting Estimates." Organizations that prepare accounting estimates must retain adequate documentation of quality review, estimator and reviewer qualifications, data sources, estimating methodologies, accreditation including the parametric models, and internal control procedures. The process of establishing accounting estimates would normally consist of:

1. Identifying situations for which accounting estimates are required.

2. Identifying the relevant factors that may affect the accounting estimate.

3. Accumulating relevant, sufficient, and reliable data on which to base the estimate.

4. Developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors.

5. Determining the estimated amount based on the assumptions and other relevant factors.

6. Determining that the accounting estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.

B. The environmental cleanup, closure, and/or disposal costs that are probable and reasonably estimable must be estimated based on site-specific information using engineering estimates, comparison with similar sites or equipment, or cost models validated in accordance with ***DoDI 5000.61***, "DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation (VV&A)." The reliability of the cost estimate will depend on the amount of site-specific information available, the extent of experience and resemblance with similar sites or assets, and availability of remediation technology. Once the DoD Component generates a cost estimate, the liability should be recognized in accordance with paragraph 130202 and any uncertainty disclosed in the notes to the financial statements.

1. Site-Specific Study. A cost estimate produced from a site-specific study is generally more reliable because it is based directly on environmental conditions at the site. Further, environmental personnel can evaluate the alternative cleanup, closure, and/or disposal actions identified through a site-specific study to develop engineering estimates and to identify the selected alternative.

2. Experience with Similar Site Conditions or Assets. If a site-specific study has not been completed, then the DoD Component should determine whether the site is

similar to other sites where experience has been gained based on the completion of a comprehensive study or actual remediation. If there is no investigation and/or comparable site data available, costs are not considered reasonably estimable. In this case, the DoD Component should recognize the anticipated costs of conducting future studies until they complete the site-specific study.

3. Availability of Cleanup Technology. If an acceptable cleanup technology is not available to address the site, then the DoD Component should recognize the estimate to contain the hazardous waste and other relevant costs, such as the costs for future studies. The DoD Component should also disclose the range of uncertainty in the notes to the financial statement.

C. Environmental liability estimates must be developed for each environmental site and should include all cleanup, closure, and/or disposal costs. Such cost estimates are calculated on a current cost basis and are based on a current plan, existing laws, and technology. Overhead management costs for environmental sites and equipment that cannot be attributed to specific sites and equipment should be added to environmental liability at a summary level. Environmental liability estimates should include the following cost elements, as applicable:

1. Compensation and benefits of government personnel expected to devote significant time directly to a disposal effort.

2. Cost of employing contractors, engineers, and consultants.

3. Disposal costs (includes demilitarization, material handling, transportation, storage, and tipping fees).

4. Cost of dedicated facilities, machinery, and equipment, and the related operating and maintenance costs.

5. Research and development costs for alternative remediation technologies.

6. Payments to regulatory agencies to provide technical support, e.g. document review of planned studies.

7. Efforts to tear down, remove, and dispose of the item(s), to include transportation, demilitarization, and dismantlement.

8. Planning and design efforts, to include contract advertisement and document reproduction.

9. Landscaping costs to replace landscaping elements damaged or destroyed by remediation efforts.

10. Permits, licenses, and approval to include State Historic Preservation Officer concurrence and documentation. Also included are screening costs of suitable property for the homeless, as established by ***42 USC 11411***.

11. Grants or payments to state, tribal, and local governments.

* D. Environmental liability estimates shall be reviewed annually and revised when there is evidence that significant changes in the cost measurement have occurred, such as changes in scope, ownership, regulation, or technology. In the event of a 10 percent or greater fluctuation in the liability line item from year to year, the nature of the change must be disclosed on the financial statement (see Volume 6B, Chapter 2 for additional information). This information should be obtained from of a summary of changes to the site-level estimates and corresponding reasons for change. At a minimum, long-term cost estimates shall be adjusted upward or downward annually, through indexing, to maintain them on a current cost basis as if acquired in the current period. Once the cost estimates are reviewed and adjusted, the estimated liability should be reduced by the expensed amounts that are paid to reflect the total remaining cleanup costs less any unrecognized portions of a systematically recognized cost estimate. Expenditures should be managed to the site-level to allow for comparison of prior estimates to subsequent results, in accordance with ***SAS Number 57/AU Section 342***, "Auditing Accounting Estimates."

E. A systematic recognition of the cost estimate is preferable based on the use of physical capacity. If physical capacity is not applicable or estimable, the estimated useful life based on the number of years may serve as the basis for the systematic recognition of expense and accumulation of a liability. A more thorough explanation of the term "useful life" is provided in Chapter 6. The current period estimate is equal to:

1. The total final estimated costs of the disposal or closure effort--

2. Divided by the total capacity---

3. Multiplied by the physical capacity used ---

4. Minus the amounts previously recognized as expense---

5. Equals the current period estimate.

F. Components shall maintain records of environmental sites and equipment that contribute to DoD environmental liabilities and reconcile them with PP&E records at least annually. The purpose of the reconciliation is to ensure that all of the Department's environmental liabilities are recognized and documented. The reconciliation may identify asset records that require recognition of an environmental liability or instances where there is no inventory record for assets with a recorded environmental liability. The DoD Components should use the following process to adequately reconcile to the PP&E records:

1. Real Property. The Real Property Inventory (RPI), maintained on behalf of DoD by the Military Departments, is the official DoD facility inventory. Any DoD

Component that maintains a database of real property-related data for its own purpose must reconcile with the official DoD RPI or establish an accurate functional crosswalk.

(a) Record in the real property records whether the real property associated with the record has been reviewed for environmental issues.

(b) Record the project number for each environmental cleanup, closure, and/or disposal project associated with the real property record.

(c) The responsible environmental program office maintains records of each project and associates it with the applicable real property records. This office also maintains a project file for each environmental project.

2. Equipment. To the extent that environmental liabilities associated with equipment disposals are reported in systems other than property systems, environmental liabilities should be reconciled to the accountable property records to ensure all assets are reviewed. Refer to ***DoDI 5000.64***, "Accountability and Management of DoD Equipment and Other Accountable Property" for additional information on accountable property records.

1303 ACCOUNTING PROCEDURES FOR RECORDING ENVIRONMENTAL LIABILITIES

This section illustrates the use of the applicable United States Standard General Ledger (USSGL) accounts for recording the proprietary and budgetary transactions for environmental liabilities.

130301. Estimated Cleanup Cost Liability (USSGL Account 2995)

A. This account represents the estimated amounts owed for projected future cleanup, closure, and/or disposal costs associated with:

1. Hazardous waste from property; or

2. Material and/or property consisting of hazardous waste at a permanent or temporary closure or shutdown of the associated property, plant, and equipment.

B. Subsidiary ledgers shall be established as necessary to meet external reporting requirements and to provide internal control over amounts owed.

130302. Environmental Liability Accounting Entries

The accounting entries depicted in Table 13-1 illustrate the entries that should be used to record transactions for environmental liabilities. The alternative accounting entries depicted in Table 13-2 illustrate the entries that can be used pending system modernization to the Department's business systems.

TABLE 13-1. ACCOUNTING ENTRIES FOR ACCOUNT USSGL 2995 - ESTIMATED CLEANUP COST LIABILITY

1. Dr 6800 Future Funded Expenses
   Cr 2995 Estimated Cleanup Cost Liability

Record the current period liability for cost to be funded in the future. This entry is also applicable for the systematically recognized portions of environmental liabilities.

2. Dr 2995 Estimated Cleanup Cost Liability
   Dr 6100 Operating Expenses/Program Costs
   Cr 2110 Accounts Payable
   Cr 6800 Future Funded Expenses

And

   Dr 4610 Allotments – Realized Resources
   Dr 4801 Undelivered Orders – Obligations, Unpaid
   Cr 4901 Delivered Orders – Obligations, Unpaid

And (if funded by a direct appropriation)

   Dr 3107 Unexpended Appropriations – Used
   Cr 5700 Expended Appropriations

Record previously estimated cleanup costs that are due and payable for receipt of goods or services that have not been paid.

3. Dr 2110 Accounts Payable
   Cr 1010 Fund Balance with Treasury

And

2. Dr 4901 Delivered Orders – Obligations, Unpaid
   Cr 4902 Delivered Orders – Obligations, Paid

Record payment.

2. Dr 3310 Cumulative Results of Operations
   Cr 6800 Future Funded Expenses
   Cr 6100 Operating Expenses/Program Costs

To record the closing of the expense accounts to cumulative results of operations.

TABLE 13-2. ALTERNATIVE ACCOUNTING ENTRIES FOR USSGL ACCOUNT 2995-ESTIMATED CLEANUP COST LIABILITY (PENDING SYSTEM MODERNIZATION)

1. Dr 6800 Future Funded Expenses
   Cr 2995 Estimated Cleanup Cost Liability

Record the current period liability for cost to be funded in the future. This entry is also applicable for the systematically recognized portions of environmental liabilities.

2. Dr 2995 Estimated Cleanup Cost Liability
   Cr 6800 Future Funded Expenses

Reverse accruals at the beginning of the next accounting period.

3. Dr 6800 Future Funded Expenses
   Cr 2995 Estimated Cleanup Cost Liability

Record the total current period revised estimated liability for cost to be funded in the future. This entry is also applicable for the systematically recognized portions of environmental liabilities.

4. Dr 6100 Operating Expenses/Program Costs
   Cr 2110 Accounts Payable

And

Dr 4610 Allotments – Realized Resources
Dr 4801 Undelivered Orders – Obligations, Unpaid
Cr 4901 Delivered Orders – Obligations, Unpaid

And (if funded by a direct appropriation)

Dr 3107 Unexpended Appropriations – Used
Cr 5700 Expended Appropriations

Record previously estimated cleanup costs that are due and payable for receipt of goods or services that have not been paid.

TABLE 13-2. ALTERNATIVE ACCOUNTING ENTRIES FOR USSGL ACCOUNT 2995-ESTIMATED CLEANUP COST LIABILITY (PENDING SYSTEM MODERNIZATION) (Continued)

5. Dr 2110 Accounts Payable
   Cr 1010 Fund Balance with Treasury

And

. Dr 4901 Delivered Orders – Obligations, Unpaid
   Cr 4902 Delivered Orders – Obligations, Paid

Record payment.

6. Dr 3310 Cumulative Results of Operations
   Cr 6800 Future Funded Expenses
   Cr 6100 Operating Expenses/Program Costs

To record the closing of the expense accounts to cumulative results of operations.

VOLUME 4, CHAPTER 14: "IMPROPER PAYMENTS"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 October 2011 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
140503.B.2.b.g.	Added additional methods that may be used for identifying high dollar overpayments that are included in OMB A-123, Appendix C, Part III.	Add

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CHAPTER 14

IMPROPER PAYMENTS

1401 OVERVIEW

140101. Purpose

This chapter establishes the Department of Defense (DoD) policy for compliance with the Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Public Law 111-204, as well as the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300), Executive Order 13520, "Reducing Improper Payments and Eliminating Waste in Federal Programs," (EO) and implementing guidance from the Office of Management and Budget (OMB) Circular A-123, Appendix C, Parts I, II, and III (M-10-13 and M-11-16), "Requirements for Effective Measurement and Remediation of Improper Payments," Office of Management and Budget (OMB) Memorandum M-11-04. The primary purposes of this guidance are to require quantification and estimation of improper payments for reporting purposes, to consolidate departmental reporting requirements, to identify and report high dollar overpayments, and to provide for further development and implementation of plans to identify, estimate, reduce and eliminate future improper payments.

140102. Applicability

A. All DoD Components that process (compute) payments that are not currently measuring and reporting improper payments must conduct risk assessments (see section 1404 of this Regulation) of their payment processes in order to identify areas susceptible to significant improper payments, and establish controls to mitigate risks. Components must conduct random post-payment reviews of a statistically valid sample of the population to estimate improper payments for the total population. The root causes of improper payments must be identified and corrective actions developed and monitored periodically to ensure future improper payments will be reduced and eliminated. Improper payment reduction targets must be established and reviewed annually, and are subject to approval by the Director/OMB. Components must report post-payment review results quarterly for Travel Pay and annually for all other programs to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Accounting and Finance Policy (A&FP) Directorate. The A&FP Directorate reports Department-wide results annually to OMB and in the Agency Financial Report (AFR).

B. DoD Components that process classified payments and/or payment information must comply with the requirements contained in this Regulation, but are excluded from the public reporting requirements.

C. DoD Components that process (compute/entitle) payments are subject to quarterly reporting of high dollar overpayments to both individuals and entities. See subparagraph 140503.B of this Regulation for more information.

1402 DEFINITIONS

140201. Improper Payment

A. All erroneous payments are improper payments. The term "erroneous payment" is afforded the same meaning as "improper payment" within ***OMB Circular A-123, Appendix C***, which uses the terms interchangeably. However, this chapter does not use the terms interchangeably.

B. This chapter does not use the term "erroneous" payment interchangeably with improper payment because not all payments that are "improper" under the IPIA/IPERA are "erroneous" in the context of ***31 U.S.C. 3528,*** also known as Certifying Officers Legislation (CoL). For example, a disbursing officer who makes a duplicate payment or a payment to the wrong payee has made both an "erroneous" and an improper payment. By law, such payments result in payee indebtedness to the United States Government, and thus should be recovered from the payee. As provided for in Volume 5, Chapter 6, of this Regulation, disbursing and certifying officers potentially are financially liable for such payments if such erroneous payments are not recovered from the payee. In contrast, underpayments clearly are "improper" for IPIA/IPERA purposes, but such payments do not give rise to payee indebtedness or expose disbursing or certifying officers to financial liability; therefore, such payments are not "erroneous" as that concept applies in the context of CoL, and as described in Volume 5 of this Regulation. Similarly, inadequately documented payments are "improper" for purposes of IPIA as amended by IPERA reporting but are not "erroneous." Reports and audits should avoid substituting the term "erroneous" payment for "improper" payment when describing DoD improper payments.

C. Components should be mindful when reviewing programs for improper payments to continuously look for instances of potential fraudulent payments or activities within the program under review. Any instances of potential fraud must be reported to the DoD Inspector General (DoDIG) for investigation.

140202. High dollar Improper Overpayment

A high dollar overpayment can be made to an individual or to an entity. A high dollar overpayment is any overpayment that is in excess of 50 percent of the correct amount of the intended payment under the following circumstances:

A. Where the total payment to an individual exceeds $5,000 as a single payment or in cumulative payments for the quarter; or

B. Where the payment to an entity exceeds $25,000 as a single payment or in cumulative payments for the quarter.

140203. DoD Improper Payment Reporting Program

DoD reports on six programs to encompass all payment types. Entitlement programs are Military Pay, Civilian Pay, Travel Pay, Military Retirement, Military Health Benefits, and

Commercial Pay. Additional guidance for recovering overpayments from any of these six programs is included in Volume 10, Chapter 22, "Payment Recapture Audits," of this Regulation.

140204. Entity

For purposes of this Chapter:

A. An entity is a non-individual that owes an outstanding improper payment. The term entity excludes an individual acting in either a personal or commercial capacity (that is, as a sole proprietor), and federal, state, and local government agencies; and,

B. The term outstanding improper payment is an improper overpayment as determined by the agency, and which has not been repaid as required.

140205. Improper Payments Threshold

The IPERA mandates reporting for programs with estimated annual improper payments that exceed both $10 million and 2.5 percent of program or activity payments made during the fiscal year being reported, or any program with $100 million or more in estimated improper payments. Beginning with the Fiscal Year (FY) 2013 AFR reporting, the threshold changes to $10 million and 1.5 percent of program outlays, or $100 million or more in estimated improper payments regardless of improper payment percentage of total program outlays. In addition, OMB reserves the right to require agencies to report on programs not meeting the threshold criteria (typically, the exceptions are high visibility areas or programs with high dollar improper payments that remain below the percentage threshold). In addition, OUSD(C) requires quarterly reporting for the Travel Pay program to facilitate Component implementation of stronger travel payment internal controls and recapture efforts.

140206. Statistical Sampling

Statistical sampling plans must have a minimum probability confidence level of 90 percent and sampling precision of plus or minus 2.5 percentage points to qualify for use in estimation of annual improper payments within each program population. An alternative probability confidence level of 95 percent and sampling precision of plus or minus 3 percentage points may be used, as this variation has previously been approved by OMB. Additional information can be found in ***OMB Circular A-123, Appendix C, Part I.***

140207. Non-reporting Components

Non-reporting Components are defined as those Components that do not process (compute) payments regardless of the disbursing entity (i.e., computation and disbursement are performed by another Component on behalf of a Component). Even though a Component is not responsible for reporting improper payments, if a Component self-identify an improper payment, it should be reported to the appropriate reporting Component. Non-reporting Components should coordinate with entities that compute payments to assist with any corrective actions that

would reduce improper payments in their Component. For example, if DFAS reports improper payments for the Defense Travel System (DTS), the root cause can typically only be corrected at the Component level.

1403 ROLE AND RESPONSIBILITIES OF THE IMPROPER PAYMENT (IP) PROJECT OFFICER

140301. Role

To facilitate compliance with OMB Circular A-123, Appendix C, the Deputy Chief Financial Officer established an Improper Payments (IP) Project Officer in the A&FP Directorate as part of the OUSD(C) oversight responsibility for the Department's IPIA/IPERA reporting.

140302. Responsibilities

The IP Project Officer is responsible for:

A. Reviewing the Department's statistical sampling plans described in paragraph 140402 to ensure they meet or exceed the minimum requirements on an annual basis.

B. Reviewing the quarterly Travel and High Dollar Improper Payment and annual IPIA/IPERA reports described in paragraph 1405 to ensure the reporting requirements are met.

C. Submit the Quarterly High Dollar reports submitted to OMG, the DoDIG and posted to the Comptroller web site as quickly as possible following report completion.

D. Retain supporting documentation for the AFR, quarterly high dollar reporting, and all other reports.

E. Consolidation of the DoD Component level information into a summary level report for management review; and monitoring corrective action to ensure corrective actions are directly linked to the root causes of improper payments.

F. Preparation of Department-wide IPIA/IPERA results and related information for submission to OMB, publication in the AFR, and other IPIA/IPERA reporting requirements.

G. Monitor corrective actions to ensure that such actions continue to prevent improper payments.

1404 REQUIREMENTS

140401. Risk Assessment

Components are required to conduct risk assessments for any payment computation activity where the risk level is unknown or is not currently measured and reported. Components continue these assessments annually until the risk levels are determined and baseline estimates are established. Component management internal control programs should include annual review of the payment computation processes in order to identify weaknesses in internal controls and determine where the potential for error is the greatest. Once baselines are established and results are measured and reported, the measurement and reporting process may replace the separate annual risk assessment. However, known or anticipated significant changes in processes or other risk factors may necessitate reestablishing or continuing the risk assessment process. Such activities must be reported to the OUSD(C), A&FP Directorate. Federal standards for internal control are provided for in ***Appendix A of OMB Circular A-123, Management's Responsibility for Internal Controls.***

140402. Risk Assessment Criteria

A. New agency program;

B. Complex program especially corning computation of payment amount;

C. High annual volume of payments;

D. Payments and/or payment eligibility determined outside the Federal Agency;

E. Recent major program funding changes;

F. Staff have inadequate experience to help train new hires;

G. Major changes in funding, authorities, or authorities, practices, or procedures;

H. Staff responsible for payment decisions must possess the level, experience and personal responsibility;

I. Significant deficiencies in agency audit reports, such as the DoDIG, the Government Accountability Office, etc.; and

J. Risk assessment methodology must be documented and retained.

140403. Statistically Valid Sampling Plan

A. Develop a sampling plan and submit to the OUSD(C), A&FP by October 31st for use in that fiscal year. Components must consult a statistician to ensure the validity of their sample design, sample size, and measurement methodology. Sampling plan revisions must also be submitted. The sampling methodology used must contain the following elements:

1. Define the total payment population and purpose of the review (e.g., random reviews of pay accounts often serve more than one purpose).

2. Describe the sample design to include sample type (i.e., simple random, stratified, or other type), probability and precision levels, frequency of reviews, and selection method.

3. Identify automated systems that support the population and processes associated with payments.

4. Describe the review process performed and documents used by reviewers such as checklists to analyze the results.

5. Describe methods for correcting or initiating correction of improper payments detected among the sampled population.

B. Components with a low volume of transactions may perform 100 percent review of all payments rather than perform random reviews. Document pre- and post-payment review process and submit to the OUSD(C), A&FP by October 31st for use in that fiscal year.

C. Components may include their pre- and post-payment review processes in their standard operating or desk top procedures, and if included, these must be updated periodically to ensure accuracy.

140403. Review

Review a statistically valid sample of pay accounts, vouchers, or claims for each program applicable to the Component. Identify the root causes of improper payments and develop corrective action plans to address the root causes of error. Estimate the amount of improper payments for the total population based on the sample results. If time and resources permit reporting components should review offsets, recalls, rejects, and supplemental payments for improper payments not contained in the statistical samples or collections already included in its reporting.

1405 REPORTING

140501. Annual Reporting – All Department of Defense Improper Payment Reporting Programs

A. DoD Components must report improper payment data annually to OUSD(C), A&FP Directorate for all programs cited in paragraph 140203. A&FP will report the results at Department-wide level in the DoD Agency Financial Report (AFR). In order to meet the AFR reporting schedule, fiscal year end reporting is accelerated. Component draft annual reports (both written and data portions) must be submitted by the 10th business day in September. Component final reports are due not later than close of business on the final business day of September each year.

B. Annual submissions will be based on disbursements in the fiscal year reported. To facilitate the accelerated reporting schedule for the AFR, fourth quarter data may be estimated based on performance in the first, second, and third quarters. Alternatively, the fourth quarter data from the prior year may be substituted, resulting in a one-quarter lag for annual reporting. Either estimation must be disclosed in the narrative section of the submission. The reporting period cannot extend beyond the previous fiscal year. Table 14-1 identifies DoD Components responsible for reporting by program. All annual reporting must encompass 4 quarters or 12 months or reporting. Any reporting that is not for a full year must be approved by the Deputy Chief Financial Officer a minimum of 30 days before fiscal year end.

C. The required format is described in ***OMB Circular A-136***, Section II, Other Accompanying Information, IPIA/IPERA Reporting Details.

D. The annual report is two-part. Provide the results of the post-payment review in Part I:

1. Dollar amount of the total payment population subject to review. Identify the total population if different than the total population subject to review and then explain the difference;

2. Dollar amount of the sample population;

3. Dollar amount of overpayments identified in the sample population;

4. Dollar amount of underpayments identified in the sample population;

5. Dollar amount of total improper payments identified in the sample population (absolute value of over- and underpayments);

6. Percent of total estimated improper payments for the total population;

7. Dollar amount of overpayments estimated for the total population;

8. Dollar amount of underpayments estimated for total population; and

9. Dollar amount of total improper payments estimated for the total population (absolute value of estimated over- and underpayments).

E. Provide the following narrative in Part II:

1. Categorize improper payments as Authentication and Medical Necessity, Verification and Administration, or Federal Administration and Documentation. Table 14-2 provides OMB descriptions of these categories and examples;

2. Identify root causes of improper payments in each error category;

3. Identify the percentage of each error category in relation to the total error percentage;

4. Describe ongoing or planned corrective action, including a timeline, to reduce/eliminate future errors. Corrective actions must be associated with a specific root cause;

5. Describe any obstacles hindering corrective actions (information systems, infrastructure, statutory, or other);

6. Identify budget data for each program and reconcile to the total payments for each program; and

7. For Travel Pay, identify the type of travel payments being processed outside of the DTS.

F. Changes in points of contacts for all reporting Components must be reported to the Improper Payments Project Officer, A&FP, OUSD(C) within 10 days of occurrence.

140502. Annual Reduction Targets – All DoD Improper Payment Information Act/Improper Payment Elimination and Recovery Act Programs

Improper payment reduction targets for the out-years are due annually on the last business day in April. Provide the outlays, percentages, and dollars; for prior year (PY), current year (CY), and three out-years (CY +1, CY + 2, and CY + 3) by program. Provide actual data for prior year; estimate data for the remainder of the current year which will be incomplete at the time reduction targets are required; and estimate data for the out-years. The out-years total payment estimates must match the outlay estimates in the most recent President's Budget. These reduction targets must be approved by OMB. The required format is described in OMB Circular A-136, Section II, Other Accompanying Information, IPIA/IPERA Reporting Details.

140503. Quarterly Reporting

A. Travel Pay

1. In addition to the annual report, all Components that compute travel pay entitlements are required to review and report improper payment data quarterly. The report is cumulative and sorted by quarter. The required data and reporting format for Travel Pay is the same as the annual survey format. Therefore, the fourth quarter travel report will satisfy the annual requirement.

2. First, second, and third quarter Travel Pay reports are due on the 15th business day after the end of each quarter, unless otherwise notified. The fourth quarter travel report must be submitted by the 10th business day in September, unless otherwise notified to meet the AFR reporting schedule.

3. The Defense Finance and Accounting Service (DFAS) is responsible for review and reporting improper payment data for entitlements computed by DTS and the Integrated Automated Travel System for Windows (WinIATS) for the Department of the Army. DoD Components are required to review and report all improper payment data for travel pay entitlements computed outside of DTS and Army WinIATS, regardless of whether DFAS is the disbursing entity. Table 14-1 identifies Components responsible for reporting.

4. The Defense Travel Management Office (DTMO) is the functional proponent for DTS. The OUSD(C), A&FP Directorate will provide quarterly travel survey results to the DTMO Strategic Planning and Policy Division to assist with their efforts to identify and resolve travel related issues for the Department.

B. High Dollar Overpayments to Individuals and Entities

1. All Components that process payments must identify high dollar overpayments to individuals and entities on a quarterly basis, and report them using the same process as used for annual AFR reporting as described in subparagraph 140501.A of this Regulation. The definition of a high dollar overpayment is contained in paragraphs 140202 and 140204.

2. The various methods that may be used for identifying high dollar overpayments are described in detail in ***OMB Circular A-123, Appendix C, Part III***, but include:

a. Statistical samples conducted under IPIA and/or IPERA;

b. Component post-payment reviews;

c. Payment recapture (recovery) audits;

d. Component IG reviews;

e. Self-reports;

f. Reports from the public through internet or telephone hotlines;

g. Reports from any other source, such as completed investigations, audits, or management reports.

3. When reporting high dollar overpayments, Components are to include:

a. Name of entity;

b. City and state of record, or foreign country;

c. Dollar amount of overpayment ;

d. Amount recaptured as of the date of the report; and

e. Reason for the overpayment and corrective action taken.

4. Components must fully disclose the depth and breadth of their reviews, including areas that were not reviewed. For these latter areas, justification must be included as to why they were not included in the quarterly review.

140504. Non-reporting Components

A. DoD Components that do not process payments are non-reporting Components and are not required to accomplish the annual or quarterly surveys. Non-reporting Components are required to annually attest in writing (email) by the 10th business day in September to the OUSD(C), A&FP, that they do not process (compute) payments. Table 14-3 identifies non-reporting Components. This attestation shall establish:

1. That the Component does not process (compute) payments;

2. The identity of the Component(s) that processes payments for the non-reporting Component; the type of payments processed, and the budget amount for such payments.

B. Any changes in reporting status must be reported immediately to the OUSD(C), A&FP.

C. Any change in points of contact must be reported within 10 days of occurrence to the Improper Payments Project Officer, A&FP, OUSD(C).

Table 14-1. DoD Systems and Components Identified for IPIA/IPERA Reporting

IPIA/IPERA Program	System Name	System Owner/User	Post Pay Review and Reporting for IPIA/IPERA
Civilian Pay	Defense Civilian Pay System (DCPS)	DFAS	DFAS
	Unified Civilian Mariner Payroll System (UCPS); Spanish Local National Payroll (LNPS)	Military Sealift Command; NAVSTA Rota Spain	Navy
	Italian Local National Payroll System (LNPS)	Army, Italy Finance Office (IFO)	Army, IFO
	Korean Local National Payroll System (LNPS)	Army, 175th FMC, Korea	Army, 175th FMC, Korea
Military Pay	Defense Joint Military Pay System – Active Component (DJMS-AC)	DFAS for Air Force, Army, Navy	DFAS
	Defense Joint Military Pay System Reserve Component (DJMS-RC)	DFAS for Air Force, Army, Navy	DFAS
	Marine Corps Total Force System (MCTFS)	United States Marine Corps (USMC)	DFAS
Commercial Pay	MOCAS	DFAS/DCMA	DFAS
	IAPS	USAF	DFAS
	CAPS-C & CAPS-W	USA	DFAS
	STARS-ONEPAY	USN	DFAS
	AVEDS/FAS	DLA	DFAS
	FABS	DISA	DFAS
	SAVES	DeCA	DFAS
	TFMS	TRANSCOM/DFAS	DFAS
	DAI	Defense Agencies	DFAS
	EBS	DFAS	DFAS
	GFEBS	USA and DFAS	DFAS
	NAVY ERP (See Note 1)	USN and DFAS	USN and DFAS
	DEAMS	USAF and DFAS	DFAS
	TFM	USMC	DFAS
Military Retirement & Annuitant Pay	Defense Retiree and Annuitant Pay System (DRAS)	DFAS	DFAS

Note 1: Navy will review the payments it entitles beginning with FY 2013 and moving forward. DFAS reviewed what it entitled beginning with FY 2012 and will continue to do so.

Table 14-1. DoD Systems and Components Identified for IPIA/IPERA Reporting (Continued)

IPIA/IPERA Program	System Name	System Owner/User	Post Pay Review and Reporting or IPIA/IPERA
Travel Pay	Defense Travel System (DTS)	USD(P&R), Defense Travel Management Office (DTMO) for DoD-wide users	DFAS
	Integrated Automated Travel System for Windows (WinIATS)	DFAS for Army users	DFAS
	WinIATS; Corps of Engineers Financial Management System (CEFMS)	United States Army Corps of Engineers (USACE)	USACE
	WinIATS	Navy	Navy
	Reserve Travel System (RTS)	Air Force	Air Force
	WinIATS	Army, 175th FMC, Korea	Army, 175th FMC, Korea
	WinIATS	Army, 266th FMC, Germany	Army, 266th FMC, Germany
	WinIATS	Army, IFO	Army, IFO
	WinIATS	Army, Benelux Finance Office (BFO), Belgium	Army, BFO, Belgium
Military Health Benefits	N/A (contracts)	TMA contracts	TMA

Table 14-2. OMB Descriptions of Improper Payment Categories

1. Authentication and Medical Necessity Errors	Examples
(a) Unable to authenticate eligibility criteria such as living arrangement or qualifying child through third party sources because no databases or other resources exist; or (b) Incorrectly assessing the necessity of a procedure (e.g., medical judgment).	❖ Being able to establish that a child lived with a family for a certain amount of time (determining eligibility for the Earned Income Tax Credit) because no database exists to check against; or, ❖ Providing a power wheelchair to a patient that does not need a wheelchair.
2. Verification Errors	Examples
(a) Not verifying recipient information including earnings, income, assets, or work status even though verifying information does exist in third-party databases or other resources; or (b) Input, classify, or process applications or payments incorrectly by a state agency or third party (e.g., local program administrator) who is not the beneficiary.; or (c) errors due to beneficiaries failing to report correct information to any agency.	❖ Not confirming a recipients earnings or work status due to either financial or statutory constraints through existing databases; or, ❖ A beneficiary failing to provide an agency with information on changes in earnings.
3. Documentation and Administrative Errors	Examples
(a) Input, classify, or process applications or payments incorrectly at the Federal, State agency or third party level, who is the beneficiary; or (b) Lacking all of the supporting documentation necessary to verify the accuracy of the payment;	❖ A program does not have documentation to support a beneficiary's eligibility for a benefit; or, ❖ A recipient gets a payment that is excessive due to a data entry mistake.

Table 14-3. DoD Non-reporting Components for IPIA/IPERA

Defense Advanced Research Projects Agency (DARPA)
Defense Commissary Agency (DeCA)
Defense Contract Audit Agency (DCAA)
Defense Contract Management Agency (DCMA)
Defense Human Resources Activity (DHRA)
Defense Information Systems Agency (DISA)
Defense Intelligence Agency (DIA)
Defense Legal Services Agency (DLSA)
Defense Logistics Agency (DLA)
Defense Media Agency (DMA)
Defense Prisoner of War/Missing Personnel Office (DPMO)
Defense Security Cooperation Agency (DSCA)
Defense Security Service (DSS)
Defense Technical Information Center (DTIC)
Defense Technology Security Administration (DTSA)
Defense Threat Reduction Agency (DTRA)
Department of Defense (DoD) Test Resource Management Center (TRMC)
Department of Defense Education Activity (DoDEA)
Department of Defense Inspector General (DoD IG)
Missile Defense Agency (MDA)
National Geospatial Agency (NGA)
National Security Agency/Central Security Service (NSA/CSS)
Office of Economic Adjustment (OEA)
Pentagon Force Protection Agency (PFPA)
Washington Headquarters Service (WHS)

VOLUME 4, CHAPTER 15: "NET POSITION"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 January 2012 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Updated hyperlinks and format to comply with current guidance.	Update

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CHAPTER 15

NET POSITION

1501 GENERAL

Net Position or its equivalent, Net Assets, is the arithmetic difference between the total assets and total liabilities recognized in the Federal Government's or a component entity's balance sheet. Net Position may be positive (assets greater than liabilities) or negative (assets less than liabilities). Net Position accounts represent the net investment of the U.S. Government in the Department of Defense (DoD). As such, it includes all operations of DoD activities, including general funds, working capital funds, and special and trust funds. The general policy to account for the net position of the U.S. Government in DoD is contained in this chapter. Posting entries for the Net Position accounts can be found at the ***United States Standard General Ledger (USSGL) Standard Financial Information Structure (SFIS) Transaction Library***.

1502 STANDARD GENERAL LEDGER ACCOUNTS FOR NET POSITION

150201. Unexpended Appropriations – Cumulative, Account No. 3100

This account reports the amount of unexpended appropriations after fiscal year-end closing. The balance in this account remains the same during the fiscal year. Activity to increase or decrease unexpended appropriations is reflected in other USSGL accounts in the 3100 series. At yearend, the nominal USSGL accounts in the 3100 series are closed to this USSGL account, including special and trust funds that receive appropriations from the General Fund of the Treasury. See **SFIS** (Transactions F300.XXX-F499.XXX) for year-end closing entries**.** USSGL transaction F342.XXX must be used to record the closing of fiscal-year activity to unexpended appropriations. During the fiscal year, the net of debit and credit balances in the 3100 series accounts reflects the total remaining balance of unused appropriations. Special and trust funds that receive appropriations from the General Fund of the Treasury are to use this account.

150202. Unexpended Appropriations- Appropriations Received, Account No. 3101

This account reports the amount of new appropriations received during the fiscal year. Special and trust funds do not use this USSGL account to record appropriations of dedicated and earmarked receipts. However, special and trust funds that receive appropriations from the General Fund of the Treasury are to use this account.

150203. Unexpended Appropriations - Transfers-In, Account No. 3102

This account reports the amount of unexpended appropriations, from current or prior years, transferred in during the fiscal year. Special and trust funds that receive appropriations from the General Fund of the Treasury are to use this account for transfers of unexpended appropriations.

150204. Unexpended Appropriations - Transfers-Out, Account No. 3103

This account reports the amount of unexpended appropriations, from current or prior years, transferred out during the fiscal year. Special and trust funds that receive appropriations from the General Fund of the Treasury are to use this account for transfers of unexpended appropriations.

150205. Unexpended Appropriations – Adjustments, Account No. 3106

This account reports the amount of adjustments during the fiscal year to unexpended appropriations from current or prior years. Examples of adjustments include rescissions, capital transfers, and cancellation of expired appropriations. See the ***USSGL Accounting Guidance for "Cancellations Scenarios."*** Although the normal balance for this account is credit, it is acceptable in certain instances for this account to have a debit balance.

150206. Unexpended Appropriations – Used, Account No. 3107

This account reports the amount of reduction during the fiscal year to unexpended appropriations from current or prior years that is paired with USSGL account 5700, "Expended Appropriations," when goods and services are received or benefits provided. Special and trust funds that receive appropriations from the General Fund of the Treasury are to use this account.

150207. Unexpended Appropriations - Prior-Period Adjustments Due to Corrections of Errors, Account No. 3108

This account reports the amount of net increase or decrease to unexpended appropriations due to errors in prior-period financial statements that resulted from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. (See SFIS account transaction D-304.001, ***USSGL SFIS Transaction Library***.) Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

150208. Unexpended Appropriations - Prior-Period Adjustments Due to Changes in Accounting Principles, Account No. 3109

This account reports the amount of net increase or decrease to unexpended appropriations from a prior-period due to a change from one generally accepted accounting principle to another one that can be justified as preferable or the adoption of a new Federal Accounting Standards Advisory Board (FASAB) standard. (See SFIS account transaction D-302.001, ***USSGL SFIS Transaction Library***.) Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

150209. Cumulative Results of Operations, Account No. 3310

This account reports the net difference since the inception of the activity between (1) expenses and losses, and (2) financing sources including appropriations, revenues, and gains.

Although the normal balance for this account is credit, it is acceptable in certain instances for this account to have a debit balance. The account is increased by revenues and the value of assets transferred in and reduced by expenses requiring current resources, expenses not requiring current resources, expenses recorded that are not currently funded and transfers out.

1503 ACCOUNTING POLICY FOR NET POSITION

150301. Activities Financed By Appropriations

Activities whose operations are financed by appropriations must show the results of their operations as reductions to the Unexpended Appropriations account on a transaction basis and as changes in the Cumulative Results of Operations account with respect to the equity effect of transactions. The Unexpended Appropriations account is increased for the receipt of appropriations or other appropriation like resources and reduced for amounts expended for assets or operating expenses, and any appropriation withdrawals.

150302. Activities Financed by Revenues

Activities whose operations are financed by revenues, generally defined as exchange revenue, must have their results of operations reflected as increases or decreases to the Cumulative Results of Operations account, which will include transfers in of assets, which are recognized as financing sources. Appropriations received for a specific funding purpose will be accounted for in the Unexpended Appropriations account until used as a financing source.

1504 RECOGNITION IN FINANCIAL STATEMENTS

150401. Unexpended Appropriations and Cumulative Results of Operations

The Components entity's Net Position are Unexpended Appropriations and Cumulative Results of Operations and each must be shown in the consolidated balance sheet and statement of changes in net position. See Volume 6B, "Form and Content of DoD Audited Financial Statements."

A. Unexpended Appropriations. This amount includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances. Unexpended appropriations attributable to earmarked funds, if material, must be shown separately on the face of the balance sheet and statement of changes in net position. See ***SFFAS 27, "Identifying and Reporting Earmarked Funds"*** and ***OMB Circular A 136, "Financial Reporting Requirements."***

B. Cumulative Results of Operations. This amount represents the net results of operations since inception plus the cumulative amount of prior-period adjustments. This includes the cumulative amount of donations and transfers of assets in and out without reimbursement. Cumulative results of operations attributable to earmarked funds, if material, must be shown separately on the face of the balance sheet, in accordance with the provisions of SFFAS 27. See ***SFFAS 27, "Identifying and Reporting Earmarked Funds"*** and ***OMB Circular A 136, "Financial Reporting Requirements."***

1505 ACCOUNTING FOR NET POSITION

Transactions affecting net position frequently require a compound entry; that is, entries must be made in both the proprietary (asset, liability, and equity) and the budgetary accounts. Entries to these accounts (3000 series) normally require compound entries to budgetary accounts in the 4000 series of accounts. See ***USSGL Standard General Ledger*** supplement, Part 2, Section 3 for a listing of the transaction postings to the 3000 series accounts. Entries that affect direct program Expended Authority (Paid and Unpaid) must also include postings to Appropriations Used (Revenue) and Unexpended Appropriations (Equity).

1506 CORRECTION OF AN ERROR OR A CHANGE IN ACCOUNTING PRINCIPLE

150601. Errors in Financial Statements

Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. When errors are discovered after the issuance of financial statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:

A. If only the current period statements are presented, then the cumulative effect of correcting the error should be reported as a prior-period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the statement of changes in net position.

B. If comparative financial statements are presented an error should be corrected in the earliest effected period presented by correcting any individual amounts on the financial statements. If the earliest period presented is not the period in which the error occurred and the cumulative effect is attributable to prior-periods, then the cumulative effect should be reported as a prior-period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the statement of changes in net position for the earliest period presented.

C. The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed. Financial statements of subsequent periods need not repeat the disclosures.

D. Prior-period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated. See ***SFFAS No. 21, "Reporting Correction of Errors and Changes in Accounting Principles"*** for additional guidance.

150602. Changes in Accounting Principles

A change in accounting principle is a change from one generally accepted accounting principle to another one that can be justified as preferable. For the purposes of this standard, changes in accounting principles also include those occasioned by the adoption of new federal

financial accounting standards. Unless otherwise specified in the transition instructions section of a new FASAB standard, for all changes in accounting principles that would have resulted in a change to prior-period financial statements:

A. The cumulative effect of the change on prior-periods should be reported as a "change in accounting principle." The adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made.

B. Prior-period financial statements presented for comparative purposes should be presented as previously reported.

C. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure. See ***SFFAS No. 21, "Reporting Correction of Errors and Changes in Accounting Principles"*** for additional guidance.

VOLUME 4, CHAPTER 16: "REVENUE, OTHER FINANCING SOURCES, GAINS AND LOSSES"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 December 2009 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Updated hyperlinks.	Update
Multiple	Updated definitions in compliance with U.S. Government Standard General Ledger (USSGL) Accounts and Definitions.	Update
160402.E	Added Interest Revenue-Other Account (5310) to Exchange Revenue Accounts Section as a primary DoD ledger account.	Add
160402.H	Added Contra Revenue Account for Interest Revenue-Other Account (5319) as a primary DoD ledger account.	Add
160402.I (former 160403.E)	Moved Administrative Fee Revenue Account (5325) to the Exchange Revenue Accounts Section in compliance with the USSGL Treasury Financial Manual (TFM).	Update
160402.J (former 160403.F)	Moved Contra Revenue for Administrative Fees Account (5329) to the Exchange Revenue Accounts Section in compliance with the USSGL TFM.	Update

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
160403.B	Added Interest Revenue-Other Account (5310) to Nonexchange Revenue Section.	Add
160403.D	Revised the description of Penalties and Fines Revenue Account (5320) to more accurately describe the unique nature of this nonexchange revenue account.	Update
160403.E	Adjusted the Statement of Federal Financial Accounting Standards #7 reference to agree with this nonexchange revenue account.	Update
160404.C	Added new transfer accounts established since the last chapter update.	Add

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CHAPTER 16

REVENUE AND OTHER FINANCING SOURCES, GAINS, AND LOSSES

1601 GENERAL

160101. Purpose

This chapter sets forth the accounting policy to be used to account for revenues, other financing sources, gains, and losses.

160102. Overview

[1]This chapter describes the accounting principles and concepts that the Department of Defense (DoD) Components and activities must follow to account for revenues, other financing sources, gains, and losses.[2] Expenses are discussed in Chapter 17. Losses are discussed in both this chapter and Chapter 17 because the same type of transaction sometimes results in a gain and at other times a loss, e.g., disposition of real property at a price above or below the book value. The "Table of Transactions" at Appendix A is provided to assist in classifying exchange and nonexchange revenues, other financing sources, and gains and losses. Also see Volume 6B: "Form and Content of the Department of Defense Audited Financial Statements" for information about how to report revenue on entity financial statements.

1602 REVENUE

160201. Sources of Revenue

Within the Department, revenues are generally amounts earned as a result of normal operations while gains or losses relate to other transactions.[3] Revenues normally result from the sale of, or reimbursement for, goods and services provided to DoD activities, other federal government agencies and the public. Revenue is an inflow or other increase in assets, a decrease in liabilities, or a combination of both that results in an increase in the government's net position during a reporting period. Decreases in advances and prepayment liabilities after delivery of goods or services are examples of how decreases in liabilities impact revenue.

A. Revenue comes from two sources: exchange transactions and nonexchange transactions.

B. The distinction between revenues and gains or losses is a matter of classification in the general ledger accounts and presentation in the financial statements.

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[1] The principle Federal Accounting Standards Advisory Board publication related to this chapter is, ***Statement of Federal Financial Accounting Standards No. 7***, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting."
[2] Refer to Chapter 4 for information concerning reporting of gains and losses on inventory.
[3] For the Federal Government as a whole the primary sources of revenue are taxes and fees. For both the Department and the entire Federal Government donations are also a source of revenue.

Revenues are recorded at gross amount while gains are shown net of related costs.

C. Revenues must be recognized when something of value is provided to another government entity or to the public.

D. Exchange revenue must be posted at the actual price that is received or receivable under the established pricing arrangement.

E. Nonexchange revenues are inflows of resources that the government demands or receives by donation.

F. Refunds. Refunds are recoveries of overpayments and, as such, are **not** revenue. Refunds result from errors in paying invoices or returned items to vendor.

160202. Special Revenue Situations

A. When appropriated funds are used to furnish goods and services on a reimbursable basis and the amounts collected are returned to a miscellaneous receipts account (unless specific legal authority exists to retain such collections), the collections must be treated as a transfer out to other government agencies. The expenses incurred in providing the goods or service must be recorded in the appropriate expense accounts and must not be reduced even though the collection is deposited to miscellaneous receipts. See Volume 11A, Chapter 1: General Reimbursement Procedures and Supporting Documentation for additional information about reimbursements.

B. Revenue must be recorded in the financial records, collected promptly, and deposited in the appropriate Treasury account. Amounts received in advance of performance, however, must be accounted for as unearned revenue until performance is accomplished in accordance with Chapter 12: Unearned Revenue And Other Liabilities.

C. Revenues from Nonappropriated funds activities must be accounted for in accordance with Volume 13, Chapter 5: Revenue and Expenses.

D. When revenues are generated by providing goods and services, the cost of the goods and services provided must be recorded as a cost of goods sold. Use of the cost of goods sold account is discussed in Chapter 17: Expenses and Miscellaneous Items.

160203. Exchange Revenue

A. Exchange revenues are inflows of resources to a governmental entity that the entity has earned. They arise from transactions that occur when each party to the transaction sacrifices value and receives value in return. Exchange revenue also includes most user charges other than taxes. Exchange transactions also include those intra-governmental transactions where the price serves as a full or partial reimbursement for the costs incurred.

B. Revenue from exchange transactions must be recognized at the time goods or services are provided to the public or another government entity for a price.

C. Revenue from specific types of exchange transactions must be recognized as follows:

1. When services are provided to the public or another government entity (except for specific services performed to order under a contract), revenue must be recognized when the services are performed.

2. When goods are made to order under a contract (either short or long term), or specific services are performed under a contract (either short or long term), revenue must be recognized monthly in proportion to estimated total cost when goods and services are acquired to fulfill the contract. The amount of revenue to recognize is based on the ratio of the costs incurred to date to the total estimated costs of completing the contract. If a loss is probable (more likely than not), revenue must continue to be recognized in proportion to the estimated total cost and costs must continue to be recognized when goods and services are acquired to fulfill the contract. Thus, the loss must be recognized in proportion to total cost over the life of the contract.[4]

3. When goods are kept in inventory and are available for sale to customers when ordered, revenue must be recognized when the goods are issued to the customer.

4. When services are rendered continuously over time or the right to use an asset extends continuously over time, such as the use of borrowed money or the rental space in a building, the revenue must be recognized in proportion to the passage of time or the use of the asset.

5. When an asset other than inventory is sold, any gain (or loss) must be recognized when the asset is delivered to the purchaser.

D. Interest on Treasury Securities held by Trust Funds and Special Funds. The source of balances for some trust funds and special funds may not be predominantly nonexchange revenue, and the source of balances for revolving funds and trust revolving funds may not be predominantly exchange revenue. For example, the main source of balances for two major trust funds, the Civil Service Retirement and Disability Fund and the DoD Military Retirement Trust Fund, consists of exchange revenue and other financing sources. In such exceptional cases, the interest must be classified in the same way as the predominant source of funds, as exchange revenue. See ***SFFAS No. 7,*** paragraphs 154-160 for more information.

[4] This is an exception to the general principal on the treatment of losses set forth in SFFAS No. 5, Accounting for the Liabilities of the Federal Government. Refer to footnote 5 of SFFAS No. 7 for more information.

160204. Nonexchange Revenue

A. Nonexchange revenues include income taxes, excise taxes, duties, fines, penalties, and other inflows of resources arising from the Government's power to demand payments, as well as voluntary donations. Nonexchange revenue must be recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets. It is recognized to the extent that the collection is probable (i.e., more likely than not) and the amount is measurable (i.e., reasonably estimable).

B. Nonexchange revenue should be measured by the collecting entities, but should be recognized by the entities legally entitled to the revenue (the recipient entities). SFFAS No. 7, paragraphs 48 through 63 describe the application of this general standard.

1603 OTHER FINANCING SOURCES

160301. Other Financing Sources

The term "revenue" does not encompass all financing sources of government reporting entities, such as most of the appropriations they receive. These other financing sources do however, provide resource inflows to government reporting entities, although not to the government as a whole. Other sources of financing include appropriations used, transfers of assets from other government entities, and financing imputed with respect to any cost subsidies.

160302. Appropriations

Until used, appropriations are not a financing source. They must be recognized in capital as "unexpended appropriations" (and among assets as "Fund Balance with Treasury") when made available for apportionment, even if a Treasury Warrant has not yet been received, or the amount has not been fully apportioned. Unexpended appropriations must be reduced for appropriations used and adjusted for other changes in budgetary resources, such as rescissions and transfers. The net increase or decrease in unexpended appropriations for the period must be recognized as a change in net position of the entity. When used, appropriations must be recognized as a financing source in determining net results of operations. Appropriations are used in operations when goods and services are received or benefits and grants are provided. Goods and services (including amounts capitalized) are considered received when a liability is established. Benefits are considered to be provided when the related liability is established. Grants are considered to be provided when grantees meet the requirements that allow them to use the grants.

160303. Imputed Financing

Government entities often receive goods and services from other government entities without reimbursing the providing entity for all the related costs. In addition, government entities often incur costs such as pensions, which are paid in total or in part by other entities. These goods and services constitute subsidized costs to be recognized by the receiving entity to the extent required by other accounting standards. An imputed financing source must be

recognized equal to the imputed cost. This offsets any effect of imputed cost on net results of operations for the period. Within the DoD, imputed costs can include military personnel costs, pensions, other retirement benefits, other postemployment benefits, costs unreimbursed by tenants of real property, and environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity.

160304. Transfers

An intra-governmental transfer of cash or of another capitalized asset without reimbursement changes the resources available to both the receiving entity and the transferring entity. The receiving entity must recognize a transfer-in as an additional financing source in its result of operations for the period. Similarly, the transferring entity must recognize the transfer-out as a decrease in its result of operations. The value recorded must be the transferring entity's book value of the asset. If the receiving entity does not know the book value, the asset must be recorded at its estimated fair value as of the date of transfer. See Appendix A to this chapter for more information on property, plant, and equipment (PP&E) transfers.

160305. Donations

Donations are contributions to the government, i.e., voluntary gifts of resources to a government entity by a nonfederal entity. Donations may be financial resources, such as cash or securities, or nonfinancial resources such as land or buildings. Revenue arising from donations must be recognized for those inflows of resources which meet recognition criteria for assets and must be measured at the estimated fair market value of the contribution. In cases of the donation of assets classified as heritage assets or stewardship land no amount is recognized because such PP&E would have been expensed if purchased.[5] (See Volume 4, Chapter 6 for additional information about real property donations, PP&E, and Appendix A of this chapter.)

160306. Gains or Losses

When a transaction occurs with the public or another government entity for a price which is unusual or nonrecurring, a gain or loss must be recognized rather than revenue or expense so as to differentiate such transactions. Gains or losses result from the sale, exchange, trade or disposition of government assets (with the exception of inventory held for sale)[6]. As a general rule, any difference between the sales proceeds at more or less than the book value of an asset is recognized as a gain or loss when the asset is sold. This general rule applies to the sale of PP&E, receivables, investments, and other assets where the selling entity is entitled to retain the proceeds of the sale. In addition, the distinction between revenues and gains or losses is a matter of classification in the general ledger accounts and their presentation in financial statements.

[5] This statement does not apply to multi-use assets acquired through donation or devise, which should be recognized as general PP&E at the assets' fair value at the time received, and the amount should also be recognized as non exchange revenue (SFFAS 29, Paragraph 23).

[6] The reclassification of excess, obsolete, or unserviceable inventory will generally result in a loss when revalued because the value is now less than the acquisition or moving average cost of the item. The amount of revaluation is recognized as a loss or gain in determining the net cost of operations.

Revenues are commonly reported at their gross amount while gains or losses are shown net of related book value.

1604 ACCOUNTING FOR REVENUES, OTHER FINANCING SOURCES, DONATIONS, TRANSFERS, AND GAINS AND LOSSES

160401. Transaction Library

The transaction library for recording business events for revenue and other financing sources is found at DoD United States Standard General Ledger (USSGL) Standard Financial Information Structure (SFIS), ***Transaction Library***. Also see Volume 1, Chapter 7: United States Standard General Ledger. Additional information about how to classify transactions is available at ***Appendix B*** of the Statement of Federal Financial Accounting Standards 7: "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," and Appendix A of this chapter. The following series of accounts are the primary USSGL accounts used to record revenue, other financing sources transaction, donations, transfers, and gains and losses (see ***USSGL Treasury Financial Manual***, Supplement II, *Accounts and Definitions*, for a complete list of accounts).

*160402. Exchange Revenue Accounts

A. Revenue From Goods Sold (5100). Use this account to record exchange revenue earned from the sale of purchased or finished goods processed for sale or use under a program of trading or manufacturing. When goods are kept in inventory so that they are available to customers when ordered, revenue must be recognized in the same accounting period that the goods are delivered to the customer. Performers (DoD activities providing goods and/or services at cost) include the Defense Working Capital Fund (DWCF) activities, revolving funds within the Military Departments, revolving funds within the "Other Defense Organizations," the U.S. Army Corps of Engineers, and appropriation funded activities.[7] Customers include any DoD Component, organization, office or other element; non-DoD federal government agencies; others officially representing the federal government; and members of the public (as specified by law). Federal customer orders (funded requests for goods and services) provide budgetary resources to finance reimbursable operations; consequently, customer orders must be obligations of a federal government activity unless otherwise specified by law. [8]

B. Contra Revenue for Goods Sold (5109). Use this account to offset revenue for goods sold when collection of accrued revenue is not expected. Record amounts based on adjustments, returns, allowances, price redetermination, and refunds other than taxes where revenue is earned.

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[7] While most often used for transactions by working capital entities the account can also be used by general fund entities.

[8] Only customer orders from federal customers become budgetary resources in advance of collections. Customer orders from the public do not become budgetary resources until collected. See Receipt And Distribution Of Budgetary Resources At The Execution Level, Volume 3, Chapter 15 for the details about when reimbursable orders become budgetary resources.

C. Revenue From Services Provided (5200). This account is used to record exchange revenue earned from the sale of services provided, including sale of power, and transportation. Most often associated with revenue earned by revolving funds, revenue posted to this account is generally recorded at the point of sale.[9] When services are provided to the public or another government entity, revenue must be recognized in the same accounting period that the services are performed. Service providers include DWCF activities, revolving funds within the Military Department, revolving funds within the "Other Defense Organizations," the U.S. Army Corps of Engineers, and appropriation funded activities. Customers of the Department include any DoD Component, organization, office or other element; non-DoD federal government agencies and others officially representing the federal government; and members of the public (as specified by law). Federal customer orders (funded requests for goods and services) provide budgetary resources to finance reimbursable operations; consequently, customer orders must be obligations of a federal government activity unless otherwise specified by law.

D. Contra Revenue for Services Provided (5209). Use this account to offset revenue for services provided when collection of accrued revenue is not expected. Record amounts based on adjustments, returns, allowances, price redetermination, and refunds other than taxes where revenue is earned.

E. Interest Revenue-Other (5310). This account is used to record revenue earned from interest not associated with investments or borrowings/loans. Depending on the source of the funds, this revenue can be exchange or nonexchange revenue. For example, revenue resulting from interest charges on delinquent receivables is considered exchange (refer to Volume 4, Chapter 3, Annex 1: Interest, Penalties, and Administrative Charges).

F. Interest Revenue-Investments (5311). This account is used to record investment interest revenue. Depending on the source of the funds used to make an investment, the revenue can be exchange or nonexchange revenue. For example, invested balances for the Civil Service Retirement and Disability Fund and DoD Military Retirement Trust Fund are predominantly derived from exchange revenue and other financing sources and the interest earned on those balances must be classified as exchange revenue.[10]

G. Contra Revenue for Interest Revenue–Investments (5318). Record a reduction in revenue for interest accrued on investments when realization is not expected to this account.

H. Contra Revenue for Interest Revenue- Other (5319). Record a reduction in other revenue for interest accrued not associated with investments or borrowings/loans when realization is not expected. Amounts recorded are based on abatements, adjustments, returns, allowances, or price redeterminations.

I. Administrative Fees Revenue (5325). Record revenue from administrative fees to this account including revenue from administrative fees associated with collections on

[9] General fund entities should use this account to record revenue earned by providing services.
[10] For interest revenue not related to investments consult the USSGL Treasury Financial Manual, Section II, U.S. Government Standard General Ledger Accounts and Definitions.

delinquent accounts (refer to Volume 4, Chapter 3, Annex 1: Interest, Penalties, and Administrative Charges).

J. Contra Revenue for Administrative Fees (5329). Record a reduction in revenue for administrative fees when realization is not expected as defined in ***SFFAS No. 7***, paragraph 41.

K. Benefit Program Revenue (5400). Revenue received by agencies administering retirement plans, insurance plans, and other annuity programs are recorded to this account. Employees of the federal government provide service to their employer in exchange for compensation, of which some is received currently (the salary); and some is deferred (pensions, retirement health benefits, and other retirement benefits). The financing of these benefits includes contributions paid by the employer entity to the retirement fund and is an inflow of resources to the retirement fund as part of this exchange transaction. It is a payment by the employer in exchange for the future provision of a pension or other retirement benefit to its employees. Therefore, it is exchange revenue of the entity that administers the retirement plan and, thus, is an offset to that entity's gross cost in calculating its net cost of operations.

L. Contra Revenue for Benefit Program Revenue (5409). Record a reduction in revenue for a benefit program based on adjustments as stipulated by law not including credit losses to this account.

M Insurance and Guarantee Premium Revenue (5500). Revenue earned from insurance and guaranteed premiums. The premiums are recorded as exchange revenue in this account and any interest earned on investments made with premium revenue is therefore exchange revenue recorded to Account 5311.

N Contra Revenue for Insurance and Guarantee Premium Revenue (5509). Record a reduction in revenue for an insurance and guarantee premium based on adjustments stipulated by law not including credit losses to this account.

O Other Revenue (5900). Use this account to record the amount of revenue received but not otherwise classified. For example, funds received for administering international and other agreements when the U.S. Government is reimbursed represent Other Revenue. Other uses of this account include the sale of stockpile materials or the cancellation of a receivable for a reimbursable activity.[11]

P Contra Revenue for Other Revenue (5909). Record a reduction in revenue received (but not otherwise classified above) when realization is not expected to this account. Amounts recorded are based on adjustments, returns, allowances, price redetermination, and refunds other than taxes where revenue is earned. Credit losses on other nonexchange revenue also are recorded in this account.

[11] This account is not limited to exchange transactions.

*160403. Nonexchange Revenue Accounts

A. Nonexchange revenues that can be retained by the collecting entity in accordance with permanent provisions of law or through the authorization and/or appropriations process, are not matched with costs because they are not earned in the operations process. Because they are inflows that finance operations, nonexchange revenues must be classified and recognized only in determining the overall financial results of operations for the period.[12] Collections not authorized by law for retention and use as appropriation reimbursements may be considered either exchange or nonexchange revenue and must be deposited to the general fund of the U. S. Treasury as miscellaneous receipts.

B. Interest Revenue-Other (5310). This account is used to record revenue earned from interest not associated with investments or borrowings/loans. Depending on the source of the funds used to make the investment, the revenue can be exchange or nonexchange revenue. For example, interest revenue resulting from the Military Housing Privitization Program is considered nonexchange.

C. Interest Revenue-Investments (5311).[13] This account is used to record investment interest revenue. Depending on the source of the funds used to make the investment, the revenue can be exchange or nonexchange revenue. Interest on securities held by trust and special funds (except trust revolving funds) is often nonexchange revenue because the investment is made with funds derived from the government's sovereign authority. The key is the source of the funds used to make the investment, i.e., exchange or nonexchange. For example, invested balances for the U.S. Army Corps of Engineers' Harbor Maintenance Trust Fund are predominantly derived from nonexchange revenue and the interest earned on those balances must be classified as nonexchange revenue.

D. Penalties and Fines Revenue (5320). Record revenue derived from penalties and fines to this account. Penalties and fines revenue will be reported as a nonentity custodial activity in accordance with ***SFFAS 7***, paragraphs 260 and 262. The custodial activity will be presented at net value on the balance sheet along with a corresponding amount recorded as a custodial liability. Collection and disposition of custodial revenue to the General Fund Receipt Account will not impact the Net Position of the collecting entity. Refer to Volume 6B, for additional information on reporting of custodial revenue. Refer to Volume 4, Chapter 3, Annex 1 for more information about penalties and administrative charges.

E. Contra Revenue for Penalties and Fines (5324). Record an amount reflecting a reduction in revenue for penalties and fines when realization is not expected as defined in FASAB SFFAS No. 7, paragraph 41.

[12] See FMR Volume 6B, Chapter 6, paragraph 060303.D, etc., for information about how to report nonexchange revenue on financial statements.
[13] For interest revenue not related to investments consult the ***USSGL Treasury Financial Manual***, Section II, U.S. Government Standard General Ledger Accounts and Definitions.

F. Donated Revenue-Financial Resources (5600). Record the donation of financial resources to a Federal Government entity from a non-Federal source, for example, cash or securities to this account and should be measured at the estimated fair value of the contribution.

G. Contra Revenue for Donations–Financial Resources (5609). Record an amount reflecting a reduction in revenue for donated financial resources that are returned; for example, cash or securities to this account and should be measured at the estimated fair value of the contribution.

H. Donated Revenue-Nonfinancial Resources (5610). Record the donation of nonfinancial resources to a Federal Government entity from a non-Federal source, for example, land or buildings to this account.

I. Contra Donated Revenue – Nonfinancial Resources (5619). Record an amount reflecting a reduction in revenue for donated nonfinancial resources that are returned; for example, land or buildings.

*160404. Other Financing Sources

Financing sources, other than exchange and nonexchange revenues, that provide inflows of resources include expended appropriations, transfers of assets from other government entities, and financing imputed with respect to any cost subsidies. Financing outflows may result from transfers of an entity's assets to other Government entities or from exchange revenues earned by the entity that must be transferred to the general fund or another government entity.

A. Expended Appropriations (5700). This account is used to record the amount of appropriations used during the fiscal year when goods and services are received or benefits are provided. Special and trust funds that receive appropriations from the General Fund of the Treasury must use this account.

B. Transfers (5720 and 5730). These accounts are used to record the transfers or capitalized assets between DoD Components without the receipt of a direct appropriation or transfer document from the Office of Management and Budget.

1. Financing Sources Transferred In Without Reimbursement (5720). The amount determined to increase the financing source of a reporting entity that occurs as a result of an asset being transferred in. If the transfer is general PP&E the amount of the asset is recorded at the book value of the transferring entity. However, if the asset is classified as stewardship PP&E in its entirety by both the transferring entity and the recipient entity, the transfer does not affect the net cost of operation or net position of either entity; therefore, it is not revenue, a gain or loss, or other financing source.

2. Financing Sources Transferred Out Without Reimbursement (5730). This account is used to record the amount determined to decrease the financing source of a reporting entity that occurs as a result of an asset being transferred out. The amount of the asset is recorded at book value as of the transfer date. If the asset is general PP&E for the

transferring entity but stewardship for the recipient entity it is recognized as a transfer-out (a negative other financing source) of capitalized assets by the transferring entity.

C. Other Transfer Accounts. Transfers reduce budgetary resources (budget authority and unobligated balances) in one account and increase them in another. Some transfer transactions will have a budgetary impact (see ***USSGL Treasury Financial Manual***, Supplement II and ***OMB Circular No. A-11***, *Preparation and Submission of the Budget*, Section 20.4(j)):

1. Appropriated Earmarked Receipts Transferred In (5740). Record the amount in the expenditure account of earmarked receipts appropriated via warrant from an unavailable receipt account.

2. Appropriated Earmarked Receipts Transferred Out (5745). These accounts are used to record the amount in the unavailable receipt account of earmarked receipts appropriated, via warrant, to an expenditure.

3. Expenditure Financing Sources – Transfers-In (5750). Record the amount of financing sources of a Federal entity representing funds transferred in, or to be transferred in, occurring as a result of a nonexchange expenditure transfer-in from a trust or Federal fund.

4. Nonexpenditure Financing Sources – Transfers-In –Other (5755). This account is used to record the amount of financing sources of a reporting Federal entity representing funds transferred in, or to be transferred in, occurring as a result of a nonexchange, nonexpenditure transfer-in between two trust funds or two Federal funds where a credit to unexpended appropriations is not valid. This account excludes nonexpenditure transfers classified as capital transfers.

5. Expenditure Financing Sources – Transfers –Out (5760). Record the amount of financing sources of a reporting Federal entity representing funds transferred out, or to be transferred out, occurring as a result of a nonexchange expenditure transfer-out to a trust or Federal fund.

6. Nonexpenditure Financing Sources – Transfers-Out – Other (5765). This account is used to record the amount of financing sources of a reporting Federal entity representing funds transferred out, or to be transferred out, occurring as a result of a nonexchange, nonexpenditure transfer-out between two trust funds or two Federal funds where a debit to unexpended appropriations is not valid. This account excludes nonexpenditure transfers classified as capital transfers.

D. Imputed Financing Sources (5780).[14] Record the imputed financing amounts the Federal entity received to cover imputed costs. The balance in this account must equal the balance in USSGL account 6730, "Imputed Costs." Examples of costs that may be imputed include military personnel costs, pensions, other retirement benefits, other postemployment benefits, and unreimbursed tenant cost when occupying a facility that is not

[14] See ***Interpretation of Federal Financial Accounting Standards 6***: "Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4," for additional information about imputed costs.

under the jurisdiction of the tenant. Yet another example is environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity.

1605 GAINS AND LOSSES

For specific guidance on gains and losses you may need to refer to other chapters in the Regulation. For example, for inventory gains and losses refer to Inventory and Related Property, Chapter 4. Another example is the gains and losses associated with Base Realignment and Closing actions, Fiscal Policy for Base Closure and Realignment, Volume 12, Chapter 13.

160501. Gain Accounts

A. Gains on Disposition of Assets-Other (7110). Record the gain on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

B. Gains on Disposition of Investments (7111). Record the gain on the disposition (such as sale, exchange, disposal, or retirement) of investments.

C. Unrealized Gains (7180). Record unrealized gains that include, but are not limited to, unrealized holding gains on available for sale securities in accordance with Financial Accounting Standard (FAS) 115, deferred gains on qualified hedges under FAS 133, and qualified foreign currency translation adjustments under FAS 52.

D. Other Gains (7190). Record the gain on assets resulting from events other than a disposition. This excludes amounts related to the gain on the change in long-term assumptions from experience and gain on the change in long-term assumptions for Federal employee pension, other retirement benefit and other postemployment benefit liabilities, including veteran's compensation. This account includes amounts related to the Federal Employees Compensation Act Program. Uses for this account include transactions for:

1. Miscellaneous gains such as a gain resulting from converting foreign currency holdings to U.S. dollars.

2. Use by general fund activities to record miscellaneous gains, e.g., ammunition, resulting from inventory counts of operating materials and supplies.

160502. Loss Accounts

A. Losses on Disposition of Assets - Other (7210). Record the loss on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

B. Losses on the Disposition of Investments (7211). Record the loss on the disposition (such as sale, exchange, disposal, or retirement) of investments.

C. Unrealized Losses (7280). To record unrealized losses that include, but are not limited to, unrealized holding losses on available for sale securities in accordance with Financial Accounting Standard (FAS) 115, deferred losses on qualified hedges under FAS 133, and qualified foreign currency translation adjustments under FAS 52.

D. Other Losses (7290). Record the loss on assets resulting from events other than disposition. This excludes amounts related to the losses on the change in long-term assumptions from experience and gain on the change in long-term assumptions for Federal employee pension, other retirement benefit and other postemployment benefit liabilities, including veteran's compensation. This account includes amounts related to the Federal Employees Compensation Act Program. Uses for this account include transactions for:

1. Recording a contingent liability.

2. Recording the loss of inventory that is deemed material.

3. Foreign currency.

VOLUME 4, CHAPTER 16, APPENDIX A: "TABLE OF TRANSACTIONS"

A. GENERAL

The Government of the United States (U.S.) has a great many types of transactions that finance its cost of operations that must be classified in ways for revenue accounting. The types of transactions may be exchange transactions; nonexchange transactions; other financing sources; revaluations; or transactions not recognized as revenues, gains, or other financing sources. Transactions may be between a government reporting entity and the public or between two reporting entities within the government (i.e., an intragovernmental transaction).

1. Guidance for the classification of specific revenue transactions occurring is set forth in the Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting" ***SFFAS No. 7*****.** This appendix provides information concerning accounting standards that may be used for classifying transactions that finance the Department of Defense's (DoD) cost of operations and a significant number of lesser transactions. Consult SFFAS No. 7, APPENDIX B when a transaction does not fall within any of the classifications included in this appendix. For the classifications included in this appendix, the number(s) appearing in parentheses following the classifications refer to the paragraph(s) of SFFAS No. 7.

2. Following the structure of SFFAS No. 7, APPENDIX B, the transactions in this appendix are divided into groups: nonexchange transactions; exchange transactions that produce revenue; other financing sources; gains and losses due to revaluation; and transactions that produce amounts not recognized as revenues, gains, or other financing sources.

3. Revenue from exchange transactions is subtracted from gross cost in determining the net cost of operations. (Gains and losses from exchange transactions also affect net cost) Revenue from nonexchange transactions is included in determining the net operating results and, hence, the change in net position. Other financing sources are included in determining net operating results and hence the change in net position. (SFFAS 7, Para. 240)

B. NONEXCHANGE TRANSACTIONS

1. Nonexchange Transactions. A nonexchange transaction arises when one party to a transaction receives value without directly giving or promising value in return. There is a one-way flow of resources or promises. Nonexchange revenue transactions do not require a Government entity to give value directly in exchange for the inflow of resources. The Government does not "earn" the nonexchange revenue.

2. Nonexchange Transactions With the Public. User Fees, Harbor Maintenance Trust Fund is an example of a tax that is termed a "user fee" by law while classified in the budget as a governmental receipt together with other taxes and duties. It is an ad valorem tax imposed on commercial cargo loaded and unloaded at specified U.S. ports open to public navigation. The receipt is earmarked to the Harbor Maintenance Trust Fund administered by the U.S. Army Corps of Engineers (USACE). It is similar in nature to other excise taxes that result from the

government's power to compel payment and that are dedicated to a trust fund or special fund to be spent for a designated purpose (for example, the gasoline excise tax, which is dedicated to the Highway Trust Fund). It, therefore, should be recognized as nonexchange revenue for the Harbor Maintenance Trust Fund by the USACE. (SFFAS 7, Para. 249)

3. Nonexchange Transactions-Intragovernmental. An example of this type of transaction is interest earned from Treasury securities held by trust funds and special funds. Paragraphs 306-310 of SFFAS No. 7, APPENDIX B deal with nonexchange revenue and paragraphs 311-313 contain nonexchange gains and losses.

C. EXCHANGE TRANSACTIONS

1. Exchange Transactions With The Public (Revenue)-Sales of Goods and Services. The cost of production for goods and services, such as electricity, mail delivery, and maps, is defrayed in whole or in part by revenue from selling the goods or services provided. The sales may be made by a revolving fund (such as the Defense Working Capital Fund (DWCF)) or a fund that is not a revolving fund (such as a Military Departments appropriated fund). Customers of the Department may include private parties and businesses when authorized by law, including foreign governments, state and local governments, and others not officially representing the Federal Government. Customer orders (requests for goods and services) must be accompanied by a cash advance unless otherwise specified by law. Each party receives and sacrifices something of value. The sale is, therefore, an exchange transaction, and the revenue is exchange revenue for the entity making the sale. (SFFAS 7, Para. 270)

2. Exchange Transactions With the Public (Gains and Losses)-Sales of Property, Plant, and Equipment (Where the Reporting Entity has Legal Authority to Retain the Proceeds From the Sale of the Asset). This transaction is an exchange transaction, because each party receives and sacrifices something of value. If the sales price equals book value, then there is no gain or loss, because a cash inflow equal to book value is the exchange of one asset for another of equal recorded value and, therefore, not a net inflow of resources. If the sales price is more or less than book value, a gain or loss, respectively, is recognized to the extent of the difference. The amount of the difference ordinarily is a gain or loss rather than a revenue or an expense, because sales of property, plant, and equipment (PP&E) ordinarily represent a nonrecurring inflow of resources. The entire sales price is a gain when the book value of the asset is zero. The book value is zero (a) when the asset is general PP&E that is fully depreciated or otherwise has been written-off or (b) when the asset is stewardship PP&E, for which the entire cost was expensed when the asset was purchased**.** (SFFAS 7, Para. 295-296)

3. Exchange Transactions-Intragovernmental Revenue

a. Intragovernmental Sales of Goods and Services by a Revolving Fund. The cost of providing goods or services by a revolving fund is defrayed in whole or in part by selling the goods or services provided. Performers (DoD activities providing goods and/or services at cost) include DWCF activities, revolving funds within the Military Department reporting entities, revolving funds within the "Other Defense Organizations" reporting entity, and the USACE. Customers of the Department include any DoD Component, organization, office or other element; non-DoD federal government agencies; and others officially representing the

Federal Government. Each party receives and sacrifices something of value. The proceeds are an exchange revenue. (SFFAS 7, Para. 314)

b. Intragovernmental Sales of Goods and Services by an Appropriated Fund or Trust Fund Activity (Other Than a Revolving Fund). The cost of providing goods or services is defrayed in whole or in part by selling the goods or services provided. Performers (DoD activities providing goods and/or services at cost) include the Military Departments, Defense Agencies, and the USACE. Customers of the Department include any DoD Component, organization, office or other element; non-DoD Federal Government Agencies; and others officially representing the Federal Government. Each party receives and sacrifices something of value. The proceeds are an exchange revenue. (SFFAS 7, Para. 315)

c. Employer Entity Contributions to Pension and Other Retirement Benefit Plans for Federal Employees. Employees of the Federal Government provide service to their employer in exchange for compensation, of which some is received currently (the salary); and some is deferred (pensions, retirement health benefits, and other retirement benefits). This is an exchange transaction, because each party sacrifices value and receives value in return. As part of this transaction, the government promises a pension and other retirement benefits (especially health benefits) to the employees after they retire. The financing of these benefits may include contributions paid by the employer entity to the retirement fund. In broad terms, the employer entity contribution is an inflow of resources to the retirement fund as part of this exchange transaction. More narrowly, it is a payment by the employer entity in exchange for the future provision of a pension or other retirement benefit to its employees. Therefore, it is an exchange revenue of the entity that administers the retirement plan and, thus, is an offset to that entity's gross cost in calculating its net cost of operations. Within the DoD, the reporting of this category of revenue applies specifically to the DoD Military Retirement Trust Fund. Any other DoD Component contemplating the use of this category of exchange revenue must first obtain approval from the Office of the Deputy Chief Financial Officer, DoD. (SFFAS 7, Para. 316-317)

d. Interest on Treasury Securities Held by Trust Revolving Funds. A trust revolving fund is a revolving fund that also is classified by law as a trust fund. Like other revolving funds, it earns exchange revenue, which is an offset to its gross cost. Trust revolving funds need capital in their operations, just like other revolving funds, the source of which predominantly is the revenue they have earned. When some of their capital is invested in Treasury securities, the interest is related to their cost of operations in the same way as the revenue earned from selling services. Furthermore, the source of the invested balances is predominantly revenue earned from the sales of services, for which they incurred costs of operations when the revenue was earned. The interest they receive should, therefore, be classified in the same way as the interest received by other revolving funds, which is exchange revenue. The source of balances for some trust revolving funds may not be predominantly exchange revenue. For such exceptions, the interest should be classified in the same way as the predominant source of balances rather than according to the normal rule. (SFFAS 7, Para. 324-325)

e. Interest on Treasury Securities Held by Trust Funds. A major source of revenue for many trust and special funds (such as the DoD Military Retirement Trust Fund, the

DoD Education Benefits Fund, the National Security Education Trust Fund, and the Voluntary Separation Incentive Fund) consists of exchange and other financing sources. When some of their capital is invested in Treasury securities, the interest is related to their cost of operations in the same way as the revenue earned from selling services. Furthermore, the source of the invested balances is predominantly revenue earned from the sales of services, for which they incurred costs when the revenue was earned. Classify the interest received in the same way as the interest received by other revolving funds, which is exchange revenue. (SFFAS 7, Para. 308)

f. Interest on Uninvested Funds Received by Direct Loan and Guaranteed Loan-Financing Accounts. A guaranteed loan financing account holds uninvested balances as reserves against its loan guarantee liabilities and earns interest on these balances that adds to its resources to pay these liabilities. A direct loan financing account may hold uninvested balances to bridge transactions that are integral to its operations, such as when it borrows from Treasury to disburse direct loans prior to the time of disbursement; it earns interest on these balances to reflect the time value of money and, thereby, finance the interest it pays on its debt to Treasury. Thus, in both cases, the interest received by the financing account is earned through exchange transactions with Treasury and is an offset to the financing accounts related costs of operations. The interest is, therefore, an exchange revenue of the financing account. Within the DoD, the reporting of this category of revenue applies specifically to the Family Housing Improvement Fund, Direct Loan Financing Account (97X4166); Family Housing Improvement Fund, Guaranteed Loan Financing Account (97X4167); Defense Export Loan Guarantee Financing Account (97X4168); and Army Initiative Guarantee Loan Financing Account (21X4275). Any other DoD Component contemplating the use of this category of exchange revenue must first obtain approval from the Office of the Deputy Chief Financial Officer, DoD. (SFFAS 7, Para. 326)

4. Exchange Transactions-Intragovernmental-Gains and Losses

Retirement of Debt Securities Prior to Maturity-Revolving Funds and Trust Revolving Funds. Treasury securities held by revolving funds, trust and trust revolving funds (e.g., Military Retirement Trust Fund) are primarily issued in the government account series, which can generally be redeemed on demand. Other Treasury securities held by these funds also may be callable or redeemable on demand. If these debt securities are retired before maturity, the difference, if any, between the reacquisition price and the net carrying value of the extinguished debt should be recognized as a gain or loss by the fund that owned the securities. The gain or loss should be accounted for as a nonexchange gain or loss if the interest on the associated debt securities is classified as a nonexchange revenue, and it should be accounted for as an exchange gain or loss if the interest on the associated debt securities is classified as an exchange revenue. Intragovernmental transactions that produce gains or losses should be classified as producing revenue or expense if they are usual and recurring for a particular reporting entity. (SFFAS 7, Para. 329)

D. OTHER FINANCING SOURCES-INTRAGOVERNMENTAL

1. Cost Subsidies: Difference Between Internal Sales Price (Reimbursement) and Full Cost. One entity may receive goods or services from another entity without paying the full

cost of the goods or services or without paying any cost at all. In these cases, the difference between full cost and the internal sales price or reimbursement (sometimes called a "transfer price") is an imputed cost to the receiving entity. In addition, the financing of the imputed cost also is imputed to the receiving entity. Imputed financing is necessary so that the imputed cost does not reduce the entity's operating results and net position. The imputed financing equals the imputed cost and is recognized as an other financing source. It is not revenue, because the receiving entity does not earn the amount imputed or demand its payment. Within the Department of Defense, examples include military personnel costs not reimbursed by Defense Agencies to the military personnel appropriations and environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity. (SFFAS 7, Para. 333-334)

2. Transfer of General PP&E and Stewardship Assets Without Reimbursement. General PP&E and Stewardship Assets (National Defense PP&E, Heritage Assets, and Stewardship Land) may be transferred from one government entity to another. (SFFAS 7, Para. 358)

a. If the asset that is transferred was classified as general PP&E for the transferring entity and general PP&E for the recipient entity, it is recognized as a transfer-out (a negative other financing source) of capitalized assets by the transferring entity and as a transfer-in (another financing source) of capitalized assets by the recipient entity.

b. If the asset that is transferred was classified as general PP&E for the transferring entity but stewardship PP&E for the recipient entity, it is recognized as a transfer-out (a negative other financing source) of capitalized assets by the transferring entity. No amount is recognized by the entity that receives the asset. (SFFAS 7, Para. 346)

c. If the asset that is transferred was classified as stewardship PP&E for the transferring entity but general PP&E for the recipient entity, it is recognized as a transfer-in (another financing source) of capitalized assets by the recipient entity. No amount is recognized by the transferring entity.

d. If the asset was classified as a stewardship asset in its entirety by both the transferring entity and the recipient entity, the transfer does not affect the net cost of operations or net position of either entity. In such a case, it is not revenue, a gain or loss, or other financing source. (SFFAS 7, Para. 345)

E. REVALUATIONS

Refer to SFFAS No. 7, APPENDIX B for these classifications.

F. TRANSACTIONS NOT RECOGNIZED AS REVENUES, GAINS, OR OTHER FINANCING SOURCES

1. Disposition of Revenue to Other Entities-Custodial Transfers. Revenue, primarily nonexchange revenue, may be collected by an entity acting on behalf of the General Fund or another entity within the government on whose behalf it was collected. The collecting entity

accounts for the disposition of these by debiting a "nonentity" liability account and crediting its "nonentity" Fund Balance With Treasury account. These custodial transfers, by definition, do not affect the collecting entity's net cost of operations or operating results, nor are they part of the reconciliation between its obligations and net cost of operations. The receiving entity recognizes the revenue as nonexchange or exchange revenue, depending on its nature, according to the applicable revenue standards. (SFFAS 7, Para. 353)

2. Sales of Different Types of Government Assets. The sale of government assets (other than forfeited property) is an exchange transaction, because each party receives and sacrifices something of value. As a general rule, any difference between the sales proceeds and book value is recognized as a gain or loss when the asset is sold. The remainder of the transaction does not provide a net inflow of resources, so no gain, revenue, or other financing source is recognized. If the sales proceeds equal book value, there is no gain or loss, because the exchange of one asset for another of equal recorded value is not a net inflow of resources. This general rule applies to PP&E, receivables (other than direct loans), foreclosed property associated with pre-1992 direct loans and loan guarantees, and miscellaneous assets. It does not apply to inventory, nor does it apply to forfeited property. It also does not apply to the sale of direct loans and the sale of foreclosed property associated with post-1991 direct loans and loan guarantees. (SFFAS 7, Para. 354-355)

3. Repayment of Post-1991 Direct Loans. The present value of estimated loan repayments is included in the calculation of the subsidy cost of direct loans, and this subsidy cost is recognized as an expense when the loans are disbursed. The present value of estimated loan repayments is likewise included in the value of the loans receivable. When cash is received for the repayment of loans, decrease the loans receivable by an equal amount. The increase in one asset is offset by an equal decrease in another asset. Therefore, cash inflow from the repayment is not recognized as a revenue, a gain, or another financing source. If the actual repayment is different from the previous estimate, the present value of the difference between cash inflows and outflows over the term of the loan--calculated as of the date of disbursement--is reestimated and is recognized as a subsidy expense or a reduction in subsidy expense. (SFFAS 7, Para. 365)

4. Repayment of Pre-1992 Direct Loans. When pre-1992 direct loans are repaid in whole or in part, the entity exchanges one asset (loans receivable) for another (cash) with equal value. There is no net inflow of resources. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or another financing source. If the loan is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources. (SFFAS 7, Para. 366)

5. Repayment of Receivables-Except Direct Loans. When receivables other than direct loans are paid or repaid in whole or in part, the entity exchanges one asset (loans receivable) for another (cash) with equal value. There is no net inflow of resources. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or another financing source. If the receivable is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources. (SFFAS 7, Para. 367)

6. Sales of Direct Loans. The sale of a direct loan is a modification according to the Federal Credit Reform Act of 1990 regardless of whether the loan being sold was obligated after FY 1991 or before FY 1992. The book value loss (or gain) on a sale of direct loans equals the book value of the loans sold (prior to sale) minus the net proceeds of the sale. It normally differs from the cost of modification, which is recognized as an expense. This difference is due to the different interest rates used to discount future cash flows for calculating the subsidy cost (and subsidy allowance) when the loan is disbursed and for calculating the cost of modification at a later time. If the sale is with recourse, the present value of the estimated loss from the recourse is also recognized as an expense. Any difference between the book value loss (or gain) and the cost of modification is recognized as a gain or loss. The amount of cash inflow equal to book value is not a net inflow of resources to the entity, because it is an exchange of one asset for another of equal recorded value. Therefore, the amount of cash inflow equal to book value is not recognized as a revenue, a gain, or another financing source. (SFFAS 7, Para. 368)

VOLUME 4, CHAPTER 17: "EXPENSES AND MISCELLANEOUS ITEMS"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font

Substantive revisions are denoted by an * 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 December 2010 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Various	Updated hyperlinks	Update
170102.	Added Audit Readiness/Internal Procedures**:** In promoting audit readiness, this paragraph requires Department of Defense (DoD) Components to establish internal operating procedures and/or guidance in line with the overarching policy cited in this chapter.	Addition
170301.E	Revised to align with language in Office of Management and Budget (OMB), Form and Content guidance, OMB Circular A-136 and Volume 6 B, Chapter 10 policy on note disclosures.	Clarification
170302.B.2.	Revised to provide clarity in reading policy.	Clarification
170501.A.	Revised to clarify operating expenses/program costs.	Clarification
170802	Revised to clarify proper title and account for recording depreciation expense for capitalized and donated assets.	Clarification
171304	Revised to clarify reporting the financial disclosure of extraordinary items.	Clarification

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CHAPTER 17

EXPENSES AND MISCELLANEOUS ITEMS

1701 GENERAL

170101. Purpose

This chapter prescribes guidance to account for expenses and miscellaneous items incurred in carrying out Department of Defense (DoD) operations.

170102. Audit Readiness/Internal Procedures

Each DoD Component shall develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data. Relevant records supporting financial statements shall be maintained and made available during financial statement audits.

170103. Overview of Expenses

A. Expenses represent the outflow or consumption of assets or the incurrence of liabilities (or a combination of both) during a period of providing goods, rendering services, or carrying out other normal operating activities related to the Department's programs and missions.

B. In financial accounting and reporting, the costs that apply to an entity's operations for the current accounting period are recognized as expenses of that period, regardless of when cash is exchanged. Expenses are commonly reported at their gross amount at the time the expense is incurred.

C. Most expenses require cash outlays, with the exception of depreciation, other losses, and bad debt expenses. Miscellaneous items result from extraordinary transactions, prior period adjustments, and changes in actuarial liabilities.

D. Expenses are costs that occur as part of normal, routine operations of the DoD Component, as opposed to costs attributable to extraordinary or unexpected events, which are classified as miscellaneous items.

E. An expense normally includes a use or application of budgetary or other resources. Goods and services ordered and received are recorded in the budgetary accounts as expended authority (accrued expenditures) and in the proprietary accounts as an expense. The budgetary accounts provide financial control over the resources provided to the Department and ensure accurate accounting during the budget execution process.

F. Financial control over all commodities such as material, labor, or supplies shall be maintained until consumed (expensed), sold or transferred in accordance with statutory authority. For Defense Working Capital Fund (DWCF) activities, expenses primarily are incurred

in providing goods and services to customers. Refer to Volume 11B, Chapter 12 for DoD FMR policy covering DWCF.

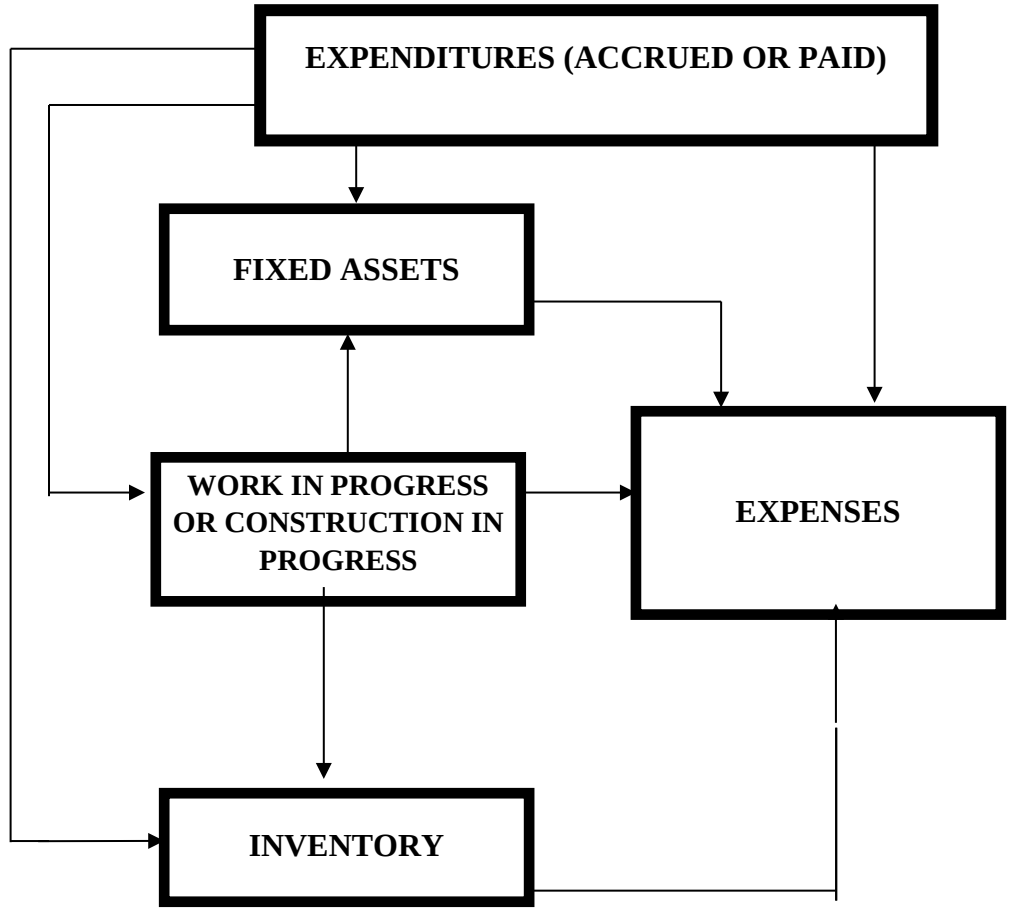
G. Figure 17-1 on the following page illustrates the relationship between Expended Budgetary Authority accounts and Proprietary accounts.

170104. Financial Treatment of Expenses by DWCF

The treatment of expenses by some DWCF activities is different from the treatment accorded to expenses related to appropriation-funded activities. For some activity groups in the DWCF, such as depot maintenance, expenses are accumulated by job order number in the "Work in Process" (account 1720) and subsequently billed to customers. Other activity groups, such as supply management, record civilian personnel costs as an expense to the activity or cost center as a whole, in the same manner as appropriated funded activities.

FIGURE 17-1

EXPENDED BUDGETARY AUTHORITY AND PROPRIETARY ACCOUNT RELATIONSHIPS



Compound budgetary and proprietary entries are required when goods or services are received and/or accepted. Purchased goods or services are recorded in the budgetary accounts as expended authority (expenditures) and in the proprietary accounts as an expense (or asset, when DoD capitalization criteria are met).

1702 ACCOUNTING POLICY FOR EXPENSES AND MISCELLANEOUS ITEMS

170201. Accounting Treatment for Expenses and Miscellaneous Items

A. The Department is accountable for its stewardship in expending resources necessary in carrying out its missions. Examples of operating expenses include personnel costs, contractual services, and the purchase of operating materials and supplies. Expenses also can include an allocation of prior capital outlays (depreciation/amortization) when such information is necessary for management decision-making purposes, to meet external reporting requirements, or to recover costs of operations. Expenses are recognized in the period that services are rendered, not when invoices are received.

B. Particular attention is to be given to expenses incurred by research and development programs, or related to the search for knowledge and the conversion of knowledge into use for DoD missions.

C. Expenses incurred for research and development shall be recorded and reported as an expense in the period incurred unless they are associated with the development of an end item produced for operational use. In the latter case, the expenses should be capitalized if the cost and life expectancy of the end item produced meets the Department's capitalization threshold (see Chapter 6).

170202. Costs for Property, Plant and Equipment (PP&E)

Costs for PP&E acquired or constructed for a particular research and development project shall be capitalized if the acquisition cost exceeds the Department's capitalization threshold (see Chapter 6) and the items have a life expectancy of more than 2 years. Chapter 6 provides accounting guidance for capitalizing and depreciating or amortizing assets.

1703 PRESENTATION IN FINANCIAL STATEMENTS

170301. Reporting Program Costs

A. Program costs shall be reported in the Chief Financial Officer financial statements in the "Statement of Net Cost" as required by Volume 6B, Chapter 5.

B. Program costs include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to a program's outputs. Program costs also include any nonproduction costs that can be assigned to a program but not to its outputs.

C. The costs of program outputs shall include the costs of services provided by other entities regardless of whether the providing entity is fully reimbursed. The costs of program outputs shall also include costs that are paid in total or in part by other entities to the extent that accounting standards require them to be recognized in financial statements. For

example, DoD entities shall recognize imputed costs of pensions and other retirement benefit expenses in their financial statements.

D. Imputed costs are the excess of the costs actually incurred by employing agencies for covered employees over the total contributions made by and for covered employees.

E. The costs of goods and services provided to other federal government programs shall be disclosed separately from the costs of goods and services provided to the public. The former costs are labeled "intragovernmental;" the latter are labeled "public." Intragovernmental costs are eliminated in the Financial Report of the U.S. Government. Refer to Volume 6 B, Chapter 10 for policy on note disclosures related to these costs.

170302. Production and Nonproduction Costs

A. Costs related to the production of outputs shall be reported separately from costs that are not related to the production of outputs (i.e., nonproduction costs) on the Statement of Net Cost.

B. The following nonproduction costs shall be reported separately from other nonproduction costs, if incurred:

1. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets.

2. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets are reported separately from other nonproduction costs (if incurred). Costs associated with multi-use heritage assets are capitalized and depreciated over the expected useful life if they meet the capitalization criteria discussed in Volume 4, Chapter 6.

3. The acquisition cost of acquiring stewardship land.

4. The cost of maintenance not performed but delayed to a future period (deferred maintenance) reported in the Required Supplementary Information section of the financial statements.

C. Costs not related to the production of goods or services are nonproduction costs that must be separately identified on the Statement of Net Cost. Some nonproduction costs include the cost of acquiring, constructing, improving, reconstructing, or renovating Federal mission property, plant and equipment; heritage assets; the cost of acquiring stewardship lands; and deferred maintenance. Nonproduction costs are reported as a separate item in the financial statements and are addressed in the Statement of Federal Financial Accounting Standards ***(SFFAS) Number 4***, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

170303. Losses

Losses are associated with the transactions that are not incurred in the normal operation of the organization (such as the loss on the disposal of property).

1704 ACCOUNTING FOR EXPENSES

170401. Financial Reporting of Expenses

A. Expenses are commonly reported at their gross amount at the time that the expense is incurred. Expenses are recognized in the period that services are rendered, not when invoices are received. The accounting entries are specified in the ***DoD United States General Ledger (USSGL) Transaction Library.***

B. Expenses are further discussed in sections 1705 through 1713. The transactions discussed frequently will require a compound entry; that is, entries must be made in both the proprietary accounts and the budgetary accounts.

C. Entries that affect direct program "Expended Authority" (Paid and Unpaid) also must include postings to "Expended Appropriations" (Other Financing Source) and "Unexpended Appropriations - Used" (Net Position). Additional information on budgetary accounts not covered in this chapter is included in Volume 3, "Budget Execution – Availability and Use of Budgetary Resources."

170402. Expense Transactions Not Requiring Budgetary Authority

Some expense transactions do not require the use of budgetary authority and, therefore, only proprietary accounts are charged. Such expenses most commonly are the result of allocating expenses over more than one reporting period (e.g., depreciation expense), costs incurred that are paid in total or in part by other entities (e.g., imputed costs), or recognizing costs to be funded from future year appropriations (e.g., future funded expenses).

1705 OPERATINIG EXPENSES/PROGRAM COSTS

170501. Operating Expenses/Program Costs

A. Operating expenses/program costs include costs associated with carrying out a specific program or function. Examples include personnel, travel, communications, contractual services, and other program expenses. Amounts paid often represent transactions that require a budgetary entry, moving obligations from the unexpended obligation (undelivered order) to the expended authority stage. DWCF activities routinely post operating expenses/program costs to a cost of goods sold account (either directly or via work-in-progress accounts) so that costs may be matched to revenue upon completion of the task or filling an order.

B. Accounting systems shall have the ability to report expenses related to operating expenses/program costs at the detail necessary to support budget preparation and applicable cost accounting requirements.

170502. Intragovernmental Goods and Services (costs) Purchased

Goods and Services acquired from other government trading partners or programs (i.e., intragovernmental) shall be recorded separately from those purchased from nonfederal entities (i.e., the public).

1706 BENEFIT EXPENSE

170601. Program Activities

For program activities, record the employer's portion of the contributions to the following employee benefit programs administered by Federal agencies: retirement funds, life insurance, Voluntary Separation Incentive Payment (VSIP), Federal Employee's Compensation Act (FECA), unemployment for Federal employees, Social Security (Federal Old-Age, Survivors Insurance, and Federal Disability Insurance) and Medicare (Federal Hospital Insurance (Medicare Part A), Federal Supplementary Medical Insurance (Medicare Part B). Use an "F" (Federal) attribute and a 2-digit trading partner (Treasury Index) code for Federal Agencies' Centralized Trial-Balance System (FACTS 1) reporting, as defined in ***1 Treasury Financial Manual 2-4700***. The amount of benefit expense (such as employment benefits, entitlement benefits due and payable, or insurance and guarantee benefits) incurred by the program agency and/or administering agency for benefit payments shall be recorded in the Agency's General Ledger and reported in a timely manner.

170602. Employer contributions to the Thrift Savings Plan

In the specific instance of employer contributions to the Thrift Savings Plan, use an "N" (non-Federal) attribute. The account shall be supported by subsidiary accounts to show the types of transactions for which entitlement benefits were incurred.

170603. Administrative Expenses

For administering expenses, record the amount of expense incurred for benefit payments to non-Federal entities using an "N" attribute for FACTS 1 reporting. This includes (but is not limited to) costs for retirement, life insurance, health insurance, VSIP, FECA, unemployment, entitlements, and insurance guarantees (i.e., flood insurance).

1707 COST OF GOODS SOLD

170701. Cost of Goods Sold Account

A. The cost of goods sold account is used to record the cost of goods or services sold from stock, by DWCF activities, or by other DoD activities authorized to provide

services or material to other federal government agencies, including other DoD Components, or nonfederal government organizations.

B. This account is used predominantly by revolving fund activities. Appropriated fund activities also shall use this account to support reimbursable programs when necessary. Trust fund activities that need to account for products delivered to other organizations also may use this account.

170702. Work in Progress Account

Work in progress accounts shall be used to accumulate the costs of goods or services in accordance with guidance contained in Chapter 4 and Chapter 6. The amounts recorded in these account series, as well as amounts recorded in applicable inventory accounts, shall be the basis for determining the amounts to be recorded as cost of goods sold.

170703. Intra-governmental Account for Goods and Services

Goods and services (costs) provided to other government programs (i.e., intra-governmental) shall be recorded separately from those provided to nonfederal entities (i.e., the public).

1708 DEPRECIATION, AMORTIZATION, AND DEPLETION

170801. Depreciation, Amortization and Depletion Account

A. "Depreciation, Amortization and Depletion" is used to record the allocation of the cost of an asset (tangible or intangible) over the period of time benefited or the asset's useful life.

B. The amounts to be recorded for depreciation, amortization, and depletion shall be determined in accordance with the guidance contained in Chapters 1, 6, and 7.

170802. Depreciation Expense for Capitalized and Donated Assets

Depreciation expense for capitalized and donated assets is recorded with a debit to Depreciation, Amortization, and Depletion (account 6710) and a credit to the appropriate Accumulated Depreciation account related to the asset. No budgetary entry is made. Depreciation is reported in the "Reconciliation of Net Cost to Budget" footnote to the financial statements, since it is not an expense requiring a cash payment. For the DWCF, depreciation expense also is an element included in the cost recovery rates, used to finance the capital programs. Refer to the ***DoD USSGL Transaction Library*** for additional information on account descriptions for reporting depreciation.

1709 IMPUTED COSTS

170901. Imputed Costs Defined

This amount represents costs incurred which are paid in total or in part by other federal entities. Examples include, but are not limited to, military personnel costs not paid by the benefiting activity, costs for use of real property that is not reimbursed by the entity using the asset, future postemployment benefits, and environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity.

170902. Imputed Costs Account

A. The Imputed Cost account shall be used by all DoD activities receiving goods or services not reimbursed to an activity outside the reporting entity. For example, environmental cleanup costs paid from Defense Agency (Treasury Index (TI) 97) funds but created by one of the Military Departments. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Appropriated and trust fund activities that need to account for such expenses also may use this account.

B. Specific categories of imputed cost are identified by the Office of Management and Budget in Circular A-136, Financial Reporting Requirements.

1710 FUTURE FUNDED EXPENSES

171001. Future Funded Expenses

A. Future funded expenses represent the amount of accrued expenses which are required to be funded from future year appropriations.

B. Examples of future funded expenses include, but are not limited to, accrued annual leave expense (except for working capital funds), accrued worker's compensation, upward re-estimates for credit reform loan programs, and projected future cleanup costs associated with the removing, containing, and/or disposing of hazardous materials associated with PP&E.

1711 LOSSES ON DISPOSITION ASSETS

171101. The Losses on Disposition of Assets Account

A. The Losses on Disposition of Assets account is used to record a loss incurred on the disposition of DoD-owned assets. Such losses can result from the sale, exchange, casualty, or retirement of assets.

B. Losses are reported net of any received proceeds.

C. The Losses on Disposition of Assets account ordinarily shall be used only by DoD activities authorized to dispose of DoD property; however, any DoD Component having control over personal and real property may incur such losses due to events beyond its control. The effect from such losses shall be recorded in Losses on Disposition of Assets in the Statement of Net Cost.

1712 OTHER LOSSES

171201. Other Losses

Other Losses shall be used to record the loss on assets resulting from events other than disposition, such as investment losses and miscellaneous losses.

1713 EXTRAORDINARY ITEMS

171301. Extraordinary Transactions

Extraordinary transactions, events that are distinguished by their unusual nature and by the infrequency of their occurrence, may impact expenses and/or miscellaneous items. Both of the following criteria should be met to classify an event or transaction as an extraordinary item:

171302. Unusual Nature

The underlying event or transaction must possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.

171303. Infrequency of Occurrence

The underlying event or transaction must be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

171304. Financial Disclosure of Extraordinary Items

The total amount of all extraordinary items is included in the applicable Gross Program Cost or Non Production Cost lines of the Statement of Net Cost. Disclosure of the nature and amount of each extraordinary item is included in the notes to the financial statements.

1714 PRIOR PERIOD ADJUSTMENTS, CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING PRINCIPLES

171401. Adjustments to Prior-Period Financial Statements

Circumstances may arise that require an entity to make adjustments to prior-period financial statements due to a change in accounting principle or correction of a material error (or an aggregation of errors). Such circumstances include the retrospective application of a change in accounting principle or the correction of an error in prior-period financial statements pursuant to ***SFFAS Number 21***, "Reporting Corrections of Errors and Changes in Accounting Principles." See Volume 6B, Chapter 6 for information on reporting prior period adjustments in the financial statements.

171402. Change in Accounting Principle

A. A change in accounting principle results from adoption of one Generally Accepted Accounting Principle (GAAP) to another one that can be justified as preferable. Changes in accounting principles also include those occasioned by the adoption of new federal financial accounting standards. The newly-adopted accounting principle should result in more accurate and meaningful financial statement disclosure.

B. The term, accounting principle, includes not only accounting principles and practices but also the methods of applying them. Unless otherwise specified in the transition instructions section of a new federal financial accounting standard, the cumulative effect of the change on prior periods should be reported as a change in accounting principle, with the adjustment made to the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position.

C. Prior period financial statements presented for comparative purposes should be presented as previously reported. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure. See Volume 6B, Chapter 6 for additional information on reporting prior period adjustments in the financial statements.

171403. Correction of Errors

The correction of an error may be due to a change from one non-GAAP method to a GAAP method or an accounting correction. Reporting entities must restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period. Restatement is required only when the error correction is material**.** **(**See Volume 6B, Chapter 6 for additional information on reporting material errors.**)**

VOLUME 4, CHAPTER 19: "MANAGERIAL COST ACCOUNTING"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 January 1995 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
	Added Table of Contents	Add
All	Rewrote entire chapter to use current FASAB concepts, standards and terminology contained in Statement of Federal Financial Accounting Standards Number 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."	Update
Multiple	Added hyperlinks	Add

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CHAPTER 19

MANAGERIAL COST ACCOUNTING

1901 GENERAL

*190101. Scope and Purpose

A. The ***Federal Accounting Standards Advisory Board (FASAB)*** Statement of Federal Financial Accounting Standard (SFFAS) No. 4 – Managerial Cost Accounting Concepts and Standards for the Federal Government – (SFFAS 4) provides cost management guidance and direction to all Federal Government organizational entities. SFFAS 4 was released in July 1995 and mandated implementation for all Federal Agencies by 1998. The principles on cost information collection and related performance measurement depicted in this document will be used first, to support management decision-making across the Department of Defense enterprise and second, to provide accurate, timely cost and performance information for external reporting. The principles herein are applicable to Department of Defense (DoD) organizations that support their mission using appropriated funds, stock funds, and /or working capital funds.

B. Chapter 19 summarizes the basis for DoD cost management. It is the first of four chapters describing how cost management will be executed by organizations within the DoD. Chapters 20 and 21 address concepts and standards for cost accounting in an integrated or interfaced financial management system. Chapter 22 addresses manual cost collection.

C. Cost information is an essential component of any well-managed, cost effective organization. Managerial cost accounting can assist both the Military Services and Defense Agencies as they strive to achieve cost effective mission performance. An operational manager's success depends on a thorough understanding of the organization's mission and the steps needed to accomplish it. This includes knowledge of alternate methods of performing the mission and the costs and impact on output associated with those alternatives. Further, cost information is essential to the Department's compliance with the Government Performance and Results Act (GPRA) of 1993 as cost accounting information coupled with performance measures are essential in evaluating and reporting on efficiency and effectiveness of DoD missions and functions.

D. The objective of managerial cost accounting is to accumulate and record all the elements of cost incurred to accomplish a cost object; i.e., to carry out an activity or operation, or to complete a unit of work with a specific output. The cost object, defined in SFFAS 4 as "an activity or item whose cost is to be measured", must be discrete enough and described in writing to such a level of detail to form a basis to establish cost centers and define output quality requirements. Establishing cost objects is a management decision; however, operations, activities and functions significant to enterprise performance should be included to support organization management and reporting. To assure cost information collection efficiency, managers may aggregate multiple similar outputs for which costs are collected. To support internal management, there may be a series of intermediate cost objects which, when

combined, equal the final cost object. For example, a final cost object may be the cost to overhaul a piece of military equipment – a tank, aircraft or ship – while an intermediate cost object might be the cost of the engine overhaul, weapons system upgrade, and so forth. Certain costs are assigned as direct costs – costs directly related to accomplishing the cost object - while others are grouped as indirect costs and then allocated to various benefiting cost objects. Cost objects may vary from large programs or activities to smaller specific cost objects, such as work orders, manufactured products, or parts of a construction project. The ***Standard Financial Information Structure (SFIS)*** provides examples of cost oriented data elements types for the DoD.

E. Essential to any discussion regarding cost information collection is understanding the difference between budgetary accounting and cost accounting. In any given year, the obligations and outlays incurred may be less than, equal to, or greater than the costs recognized for that period. Costs represent resources used or consumed to accomplish a given cost object. The types of resources consumed may include period outlays for labor and material, while costs may be recognized for the facility at which the work is performed. For example, depreciation costs related to the facility represent a cost to the accounting period and should be allocated to appropriate products/services even though depreciation costs have no impact to the budgetary accounts. Costing is not concerned with the funds used to execute an action, but with the resources (people, supplies, equipment, and so forth) used to complete the action. In budgetary accounting, organizations use allocated funds to acquire inventory and fund employee salaries plus benefits as well as record budgetary obligations to account for the use of the appropriated and allocated funding. In many cases, the unit of issue used for acquiring material is different from the unit of issue for cost consumption. For example, when acquiring inventory, petroleum, oil and lubricants (POL) is purchased by the unit of issue "drum." This budgetary obligation results in an eventual expenditure in the budgetary accounts and an asset in the proprietary accounts. As the POL is consumed, it is issued by the gallon and the corresponding costs are traced to consuming cost objects. The difference in concept lies in the distribution of these different measures (costs and obligations) over a period of time. Table 19-1 uses the purchase of inventory materials as an example to illustrate these timing differences.

F. The cost of a product, service, or other cost object may be recorded either with an integrated or interfaced cost accounting system or with cost finding techniques. Formal cost accounting should be established when management decides that such information must be continuously accumulated, recorded, and controlled. Cost finding techniques should be designed to produce a result that would approximate the result that would have been obtained if a formal cost accounting system was in place. The difference between the two – structured cost accounting and cost finding – provides the capability for organizations to manage the cost of cost information collection.

*190102. Overview

A. Purpose of Cost Accumulation. A critical step in the cost identification process is establishment of the purpose for the cost accumulation. If the purpose is to support billing a customer, then reference should be made to Volume 11 (Reimbursable Operations) for guidance on the cost elements that are reimbursable. If the purpose is to accumulate the full cost

of performing an operation for the purpose of cost comparisons with industry, then all cost elements, including unfunded costs and costs incurred by other entities, should be accumulated. When the full cost to the Federal Government is needed, it may be necessary to include costing rates prescribed by higher authority. For example, OMB uses an unfunded retirement rate for cost comparison purposes in ***OMB Circular No. A-76***. If the purpose is to collect costs required by an organization to support management decision making and internal reporting, then "relevant costs" might be the more appropriate cost information required. Relevant costs are discussed in paragraph 1902. Effective use of cost information comes from understanding the interrelationship of cost information and related value information to management decision making.

B. Program Costs and Costs not Assigned to Programs. Two principal components of cost are Program Costs and Costs not Assigned to Programs. In this context "program" is a broad term that includes product and service outputs for which cost information will be collected. Program costs include direct costs, indirect costs, and non-production costs associated with programs. Program costs include the full cost of the program outputs, which consist of the direct costs and indirect costs. As outlined in paragraph 190405, the cost assignments should be performed by the following methods listed in the order of preference: (a) directly tracing costs whenever feasible and economically practicable, (b) assigning costs on a cause-and-effect basis, or (c) allocating costs on a reasonable and consistent basis. The costs of program outputs shall include the cost of services provided by other federal entities whether or not the providing entity is fully reimbursed. Costs not Assigned to Programs consist of costs that are attributable to the reporting entity or responsibility segment but cannot be assigned reasonably to programs through direct tracing, assignment on a cause-and-effect basis, or a reasonable allocation method. Examples of such costs include high-level general management and administrative support costs. These costs appear on the Statement of Net Costs as part of the entity and sub-organization costs and are labeled "costs not assigned to programs."

C. Funded/Unfunded and Reimbursed/Non-reimbursed Costs. Funded and/or Reimbursed Costs include amounts that were either financed by funds allocated to the entity or that were paid to another entity for goods and services provided by that entity. Unfunded Costs represent amounts for which no entity has paid. An example of an unfunded cost is accrued annual leave. Non-reimbursed, or "imputed" costs represent amounts that were paid by an entity other than the entity receiving the benefit. An example of a non-reimbursed cost is the retirement costs paid by the Office of Personnel Management for federal retirees. If goods and services are received from another federal entity with no or partial reimbursement, the receiving entity may need to record non-reimbursed costs in addition to the reimbursed costs in order to determine the full cost to the government of goods and services received and of outputs ultimately produced by the receiving entity. Recognition of these inter-entity costs that are not fully reimbursed is limited to items that (1) are significant to the receiving entity (the cost of the good or service is large enough that management should be aware of the cost when making decisions), (2) have a direct relationship to the entity's operations (the good or service is an integral part of and necessary to the output produced by the entity), and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity. See Volume 4,

Chapter 16 for a discussion of imputed costs.

D. Direct Costs. Direct costs are costs that can be specifically identified with a single cost object. Direct costs are assigned to cost objects by direct tracing of units of resources consumed by individual activities that lead to the production of an output. Examples of resources consumed would include materials used in the production of the output, labor hours directly worked on the output, facilities and equipment used exclusively in the production of the output, and goods or services received from other entities that are directly used in the production of the output. Although direct cost tracing increases accuracy in cost assignments, it can be expensive. Management must use judgment to determine whether the information and accuracy obtained by direct tracing to identify direct costs is worth the effort and expense of doing so. Many direct costs are incurred internally by the program, responsibility segment, reporting entity, or other cost object, depending on the level of reporting needed. The full cost of these items is to be included in the cost of the output whether or not it is funded in the budget covering the program.

E. Indirect Costs. Indirect costs are costs of resources jointly or commonly used to produce two or more types of outputs but not specifically identifiable with any one of the outputs. Typical examples of indirect costs include costs of general administrative services, general research and technical support, security, rent, employee health and recreation facilities, and operational and maintenance cost for buildings, equipment, and utilities. As with direct costs, indirect costs can be incurred internally or for goods and services received from other federal entities and may or may not be funded in the budget covering the program.

1902 FASAB SFFAS NO. 4 - MANAGERIAL COST ACCOUNTING CONCEPTS AND STANDARDS FOR THE FEDERAL GOVERNMENT

* SFFAS 4 states: "Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, should be integrated with other parts of the system. Managerial costing should use as a basis of accounting, recognition, and measurement appropriate for the intended purpose. Cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other." The common data source (paragraph 190302) is an aggregation of related cost and performance information where the cost information is drawn from the financial management system.

*190201. Full Cost and Relevant Cost

While emphasizing the need to provide reliable and timely information on the full cost of federal programs, SFFAS 4 recognizes various uses of cost information. "Full Cost" is defined in SFFAS 4 as the sum of (1) the cost of resources used or consumed by the segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by external reporting entities. SFFAS 4 requires "the full cost of outputs to be reported in general purpose financial reports" such as financial statements and performance measurement under the GPRA. SFFAS 4 also discusses the need to provide program managers with relevant and reliable information

relating costs to outputs and activities. "Relevant costs" for DoD are those cost elements that are necessary for organization management analyses and/or decision-making purposes when full cost does not add value. Relevant costs are appropriate for decision-making purposes such as internal management decisions and the pricing of government user fees. Within DoD, cost information is essential in the following five areas: (1) cost control and budgeting, (2) performance measurement, (3) determining reimbursements and setting fees and prices, (4) program evaluations, and (5) making economic choice decisions. Each of these uses is discussed below.

*190202. Cost Control and Budgeting

Information on the costs of program activities can be used as a basis to estimate future costs in preparing and reviewing budgets. Once budgets are approved and executed, cost information serves as a feedback mechanism to guide future budget development and decisions. Using cost information federal managers can control and reduce costs, find and avoid waste, and benefit the warfighter by having the right equipment at the right place and time. For example, with appropriate cost information, federal managers can:

A. Compare costs with known or assumed activity benefits, identify value-added and non-value added activities, and make decisions to reduce resources devoted to activities that do not add value.

B. Compare and determine reasons for variances between actual and budgeted costs of an activity or a product. Standard rates used to estimate future costs could facilitate variance analysis.

C. Compare cost changes over time and identify their causes.

D. Identify and reduce, where appropriate, excess capacity costs.

E. Compare costs of similar activities and find causes for cost differences, if any.

F. Support business process improvement initiatives.

*190203. Performance Measurement

A. Measuring performance provides a means of improving program efficiency, effectiveness, and program results. One of the stated purposes of the GPRA of 1993 is to ". . . improve the confidence of the American people in the capability of the federal government, by systematically holding federal agencies accountable for achieving program results." Measuring costs is an integral part of measuring performance in terms of efficiency and cost-effectiveness. Efficiency is measured by relating outputs to inputs and is often expressed by the cost per unit of output. While effectiveness in itself is measured by the outcome or the degree to which a predetermined objective is met, it is commonly combined with full cost information to show "cost-effectiveness.". The efforts and accomplishments of a government entity can be evaluated with the following measures:

1. Measures of organization efforts; the costs of resources used or consumed.

2. Measures of accomplishments which are outputs (the quantity of services provided) and outcomes (the results of those services).

3. Measures that relate efforts to accomplishments, such as cost per unit of output or cost-effectiveness.

B. Performance measurement requires both financial and non-financial measures. Cost is a necessary element for performance measurement, but is not the only element. SFFAS 4 makes the point in many areas that both cost and value information are critical to internal decision making.

*190204. Determining Reimbursements and Setting Fees and Prices

Cost information is an important basis in setting fees and reimbursements. Pricing and costing, however, are two different concepts. In the federal government, setting prices is a policy matter, sometimes governed by statutory provisions and regulations, and other times by managerial or public policies. Thus, the price of a good or service does not necessarily equal the cost of the good or the service determined under a particular set of principles.

*190205. Program Evaluations

Cost of resources consumed by programs coupled with program performance are the primary factors in making policy decisions related to program authorization, modification, and discontinuation. These decisions are usually subject to policy constraints, and often require the consideration of social and economic costs and benefits affecting different sectors of the economy and society.

*190206. Economic Choice Decisions

Often, agencies and programs face decisions involving choices among alternative actions, such as whether to do a project in-house or contract it out; to accept or reject a proposal; or to continue or discontinue a product or service. Making these decisions requires cost comparisons among available alternatives.

1903 SFFAS 4 CONCEPTS

*SFFAS 4 contains both Concepts and Standards that provide guidance for implementation of managerial cost accounting in the federal government. The concepts are intended to provide general guidance rather than specifically defined solutions. Paragraphs 190301 through 190303 discuss the concepts deemed significant to the DoD.

*190301. Concept 1, The Role of Managerial Cost Accounting (MCA) in Financial Management

From SFFAS 4: "Managerial Cost Accounting is the process of accumulating, measuring, analyzing, interpreting, and reporting cost information useful to both internal and external groups concerned with the way in which the organization uses, accounts for, safeguards, and controls its resources to meet its objectives." MCA serves financial management - budgetary and financial accounting and reporting - and Organization Management because it provides information to support both functions. Responsibility for managerial cost accounting rests equally between functional/operational and financial managers.

*190302. Concept 2, Common Data Source

SFFAS 4 explains, "The common data source may include many different kinds of data. It is far more than the information about financial transactions found in the standard general ledger, although that is a significant part of the data source. Few organizations or entities maintain all these data in any one system or location. Furthermore, the use of the term 'data source' is not meant to imply the use of computerized systems for source information. Instead, the term is used in a broad way to include many sources of information." As noted in the excerpt from SFFAS 4, the common data source contains both performance and cost information to support management and decision-making. Maintaining a balance between cost and value is critical within DoD. In addition, acquisition decisions will consider business and operational risk, value to the defense enterprise and cost. The "Common Data Source" concept is intended to ensure that the information necessary, including cost, is used by DoD and DoD component decision makers. With the use of a common data source, cost information reflecting different accounting bases or different recognition and measurement methods should still be traceable back to the original common data source. To be reconcilable, the amount of the differences in the information reported should be ascertainable and the reasons for the differences should be explainable

*190303. Concept 3, Relationship to Budgetary Accounting

MCA should also provide budgetary accounting with cost information for use in preparing yearly and long-term budgets for required resources needed to produce different levels of outputs. MCA also helps in making many budgetary decisions such as those concerning future capital expenditures and purchase/lease alternatives. Actual costs provided by MCA can be useful to forecast future budgetary requirements. Entities can develop standard rates as a tool to estimate future costs and conduct variance analyses. When MCA supplies information for the preparation and review of budgets, cost data should be consistent with the basis of accounting and recognition/measurement used in financial reporting, but may be adjusted to meet budgetary information needs.

1904 SFFAS 4 STANDARDS

*****DoD components and agencies are required to implement the SFFAS 4 standards. The standards provide significant flexibility based on organization size, capabilities and resources. Organizations should take advantage of the flexibility in designing cost accounting capability to meet mission needs.

*190401. Standard 1: Accumulate and Report Costs of Activities on a Regular Basis for Management Information Purposes

A. SFFAS 4 states, "Cost information is essential to effective financial management and should play an important role in federal financial reporting. Managerial Cost Accounting processes are the means of providing cost information in an efficient and reliable manner on a continuing basis….Consistent and regular cost accounting is needed to meet the second objective of federal financial reporting, which states information should be provided to help the user determine the costs of providing specific programs and activities and the composition of, and changes in those costs. That objective also requires the reporting of performance information of federal programs and the changes over time in that performance in relation to the costs….The CFO Act of 1990 states that agency CFOs shall provide for the development and reporting of cost information and the periodic measurement of performance. In addition, the GPRA of 1993 requires each agency, for each program, to establish performance indicators and measure or assess relevant outputs,…Appropriate procedures and practices should also be established to enable the collection, measurement, accumulation, analysis, interpretation, and communication of cost information. Service levels, and outcomes of each program as a basis for comparing actual results with established goals….the methods and procedures followed should be designed to perform at least a certain minimum level of cost accounting and provide a basic amount of cost information necessary to accomplish the many objectives associated with planning, decision making, control, and reporting."

B. SFFAS 4 also clarifies that, "While each entity's managerial cost accounting should meet the basics discussed above, this standard does not specify the degree of complexity or sophistication of any managerial cost accounting process. Each reporting entity should determine the appropriate detail for its cost accounting processes and procedures based on several factors. These include the:

1. Nature of the entity's operations.

2. Precision desired and needed in cost information.

3. Practicality of data collection and processing.

4. Availability of electronic data handling facilities.

5. Cost of installing, operating, and maintaining the cost accounting processes.

6. Any specific information needs of management."

C. There are significant differences in size, mission complexity, and resource availability between the military services and agencies that comprise the DoD. DoD entities must balance cost and value in support of the warfighter. Larger DoD organizations should leverage their Enterprise Resource Planning (ERP) systems to support MCA and related cost information collection. Smaller DoD organizations could use cost-finding techniques or perhaps

obtain MCA services from outside entities. All DoD organizations shall exercise the SFFAS 4 concepts and standards to support financially informed planning, decision-making, control, and reporting.

*190402. Standard 2: Establishing Responsibility Segments to Match Costs with Outputs

SFFAS 4 describes a responsibility segment as "…a component of an organizational entity that is responsible for carrying out a mission, conducting a major line of activity, or producing one or a group of related products or services. In addition, responsibility segments usually possess the following characteristics:

A. Their managers report to the entity's top management directly or whose reports are compiled with other lower-level managers and then forwarded to the level one executive;

B. Their resources and results of operations can be clearly distinguished from those of other segments of the entity."

From the DoD perspective, a reporting entity is a DoD component (Military Service or Defense Agency) that produces a Financial Statement, while the term "responsibility segment" refers to an organization within each DoD component whose commander/director reports directly to the DoD Component Lead. The components may define responsibility segments at lower levels. The functions defined for the "responsibility segment" should be assumed by the commander/director of each direct reporting organization responsible for carrying out a mission, conducting a major line of activity, or producing one or a group of related products or services.

190403. Standard 3: Determine Full Costs of Government Goods and Services

A. SFFAS 4 states, "Reporting entities should report the full cost of outputs in general purpose financial reports. The full cost of an output produced by a responsibility segment is the sum of (1) the cost of resources consumed by the segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities…."Outputs" means products and services generated from the consumption of resources. The full cost of a responsibility segment's output is the total amount of resources used to produce the output. This includes direct and indirect costs that contribute to the output, regardless of funding sources. It also includes costs of supporting services provided by other responsibility segments."

B. Full Cost information is required for general purpose financial reporting. Relevant Cost, on the other hand, is a subset of full cost that is necessary or 'relevant' to a particular management need. Depending on the need, a component's relevant costs may exclude unfunded future costs including Other Retirement Benefits, Other Post Employment Benefits (OPEB), and future funded portions of retirement benefits. DoD components will collect

"relevant" cost information to support management and financially informed decision-making. The DoD Comptroller will coordinate with the owners of funds supporting future costs to develop algorithms to calculate consistent full cost additions to collected relevant cost information.

190404. Standard 4: Recognize the Costs of Goods and Services Provided among Federal Entities

SFFAS 4 directs, "Each entity's full cost should incorporate the full costs of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods and services through either billing or other advice. Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities generally should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity." SFFAS 4, when released, contained implementation guidance language requiring transition to procedures discussed above for recognizing costs among Federal Entities. SFFAS 30, "Inter-Entity Cost Implementation Amending SFFAS 4, *Managerial Cost Accounting Standards and Concepts"*, rescinds the transition language and requires full implementation of Standard 4 as written.

190405. Standard 5: Use Appropriate Costing Methodologies to Accumulate and Assign Costs to Outputs

Per SFFAS 4, the "Cost of resources consumed by responsibility segments should be accumulated by type of resource. Outputs produced by responsibility segments should be accumulated and, if practicable, measured in units. The full costs of resources that directly or indirectly contribute to the production of outputs should be assigned to outputs through cost methodologies or cost finding techniques that are most appropriate to the segment's operating environment and should be followed consistently. The cost assignments should be performed using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable, (b) assigning costs on a cause-and-effect basis, or (c) allocating costs on a reasonable and consistent basis."

190406. Predominant Costing Methodologies and Techniques

Volume 4, Chapters 20, 21 and 22 discuss the predominant costing methodologies and techniques to be used within DoD. Reporting entities may use other methodologies if they meet the intent of SFFAS 4, are well documented, and provide the required results.

Table 9-1 Transaction Stages

TRANSACTION	WHEN ORDER IS PLACED OBLIGATION	WHEN MATERIALS ARE RECEIVED ACCRUED EXPENDITURE	WHEN MATERIALS ARE USED COST OR EXPENSE	WHEN INVOICE IS PAID OUTLAY
Order for materials is placed.	Record the obligation as an undelivered order and decrease uncommitted/ unobligated budgetary resources (see ***DoD FMR Volume 3***).			
Materials are received or constructively received.		Record in the proprietary accounts as an account payable and as an increase in the inventory or OM&S accounts. Record in the budgetary accounts a decrease to undelivered orders and an increase to accrued expenditures unpaid. (see ***DoD FMR Volume 3***)		
Materials are used or consumed.			Record cost (resources consumed) in the proprietary accounts as a decrease in inventory and a charge to the applicable expense account or work in process account. (see ***Chapters 4 and 18*** of this Volume).	
Payment is made for the materials.				Record an outlay in the proprietary accounts as a reduction of accounts payable and a reduction to cash. Record in the budgetary accounts as a decrease to accrued expenditures unpaid and an increase to accrued expenditures paid. (see ***DoD FMR Volume 3*** and ***Chapter 2*** of this Volume).

VOLUME 4, CHAPTER 20: "JOB ORDER COST ACCOUNTING"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by a * 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 January 1995 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
	Added Table of Contents	Add
Multiple	Added hyperlinks to information sources	Add
Multiple	To remove outdated information, deleted citations of specific General Ledger Account Codes, substituting hyperlinks to USSGL and Transaction Library sites.	Update
All	Updated references and language throughout to reflect current FASAB and other guidance.	Update
200301.D	Raised the cost ceiling for low-dollar like item job lots from $750,000 to $1,000,000 to reflect inflation since the ceiling was established.	Update

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CHAPTER 20

JOB ORDER COST ACCOUNTING

2001 GENERAL

200101. Purpose

* A. The purpose of a job order cost accounting capability is to assign and accumulate costs for each job, i.e., an order, a contract, a unit of production, or a batch. Job order costing should be used if the production or service is being performed to meet customer specifications or requirements, if different components are made for inventory, projects are undertaken to construct real property, or when job order accounting is required for a specific organizational unit. Job order costing allows more control, less estimation, and more direct and reliable allocation of costs.

* B. The determination as to the need for a formal job order cost accounting capability is a management decision. The decision to establish such a capability should be based upon a recurring need for cost accounting information. This chapter discusses how to establish a job order cost accounting functionality, the type of source documents required, typical management reports produced by the capability, and possible uses of the reports. The structure for job order data must be consistent with the ***Standard Financial Information Structure (SFIS)*** and the SFIS Business Rules.

200102. Overview

* A. A formal job order cost accounting capability provides cost identification for determining the cost of accomplishing a specific task, such as the cost incurred to overhaul a truck, repair a roof, launch a test vehicle, perform a Research and Development (R&D) project, or overhaul 100 generators. The decision to assign a job number to single or multiple units, or single or multiple tasks depends upon the dollar value of the costs to be incurred, the location at which the task is to be performed, and the commonality of effort to be performed. For example, when tanks are being overhauled, each tank may be assigned a job order number. However, when the job is to overhaul tank treads, hundreds of treads may be included in a single job order.

* B. The management information provided by a job order cost accounting capability is a tool that aids management in the guidance of activities and in the attainment of the objective of producing a maximum of goods and services at minimal costs. The formal cost accounting capability accumulates those costs that are under the control of local management. Management controls all costs funded by appropriations or funds provided to the accounting entity. These costs are referred to as funded costs. If a formal cost accounting capability is used as a basis for billings to other Federal Agencies, or the public, provision must be made for the addition of unfunded costs such as military labor, items obtained from inventory on a free issue basis, and civilian retirement costs not financed by the employee or the Department of Defense (DoD).

2002 JOB ORDER COST ACCOUNTING CAPABILITY

*200201. Job Order Cost Accounting Capability

The job order cost accounting capability is subsidiary to and must be integrated with the general accounting system. For example, the system's subsidiary job cost ledger (job order cost sheets; see paragraph 200404) is controlled by general ledger accounts. Entries and actions discussed in the following sections may be manually or systemically generated.

*200202. Key General Accounts

The key general accounts for job order accounting are: 1) Inventory - Work in Process (resources issued to or planned for an open job), and 2) Inventory - Finished Goods (total cost of the job order when it is completed). Detailed DoD-specific transactions are available in the ***USSGL Transaction Library***. Using standardized transactions, post entries reflecting consumption of supplies and labor, followed by entries reallocating expenses to "in-process" accounts.

2003 ESTABLISHING THE JOB ORDER

200301. Job Orders Categories

Job orders are established in terms of the nature and type of work to be performed. Following are examples of criteria that may be used to establish job order categories.

A. End Items. A separate job order should be established for work performed on stand-alone end items such as airplanes or trucks.

B. Real Property Construction. A separate job order should be established for each real property construction project.

C. Real Property Maintenance. A separate job order should be established for each real property maintenance project.

* D. Low Dollar Like Items. A job lot is normally used when low dollar like items are placed into the process at the same time. However, the estimated cost of any job lot order may not exceed $1,000,000. If the estimated cost is greater than $1,000,000, a separate job order should be established for each $1,000,000 increment.

200302. Identification of Job Order

Management determines the services or products to be costed, schedules work in the production departments, and forwards the order to cost accounting. A job order number is assigned to each identified cost object. The job order number is a control feature for identifying each job and is a means of accumulating departmental labor, material, and overhead cost by job order. As work progresses production departments report costs incurred by job order number. The

information is forwarded to the cost accounting department where the costs are recorded on separate job order cost ledgers (subsidiary job cost ledger). A summary work in process cost schedule for all open job order numbers is prepared and forwarded to the accounting department for posting to the general ledger control accounts Work-in-Process and Construction-in-Progress. The supporting detail for these accounts is identified and maintained by the job order number on individual job order cost ledgers. As production departments complete a job order, the cost accounting department calculates the total cost for the job and prepares a summary schedule for the accounting department. The accounting department prepares the general ledger control account entry transferring the appropriate amount from Work-in-Process and Construction in Progress accounts to the applicable asset accounts. The detail support for these general ledger accounts is identified and maintained by job order numbers assigned to completed job order cost sheets.

*200303. Identifying Direct Productive Labor Hours

Direct Productive Labor Hours (DPLH) are the hours expended by employees that are directly attributable to production. Management identifies employees whose work constitutes productive labor hours within the production department. These hours are totaled and then estimated idle time and leave/holiday hours are deducted. The result is total departmental productive hours, used as a denominator in the determination of the actual shop rate (see paragraph 200305). The standard and actual shop rates are discussed in the following paragraphs.

200304. Standard Shop Rate

A. Management uses cost accounting and engineering studies to develop an earned standard shop rate for each production department's labor hours. As an alternative to developing this rate, management can decide to use the prior period actual shop rate as the current period standard shop rate. The purpose of the standard shop rate is threefold. First, it permits a standard cost for work performed to be billed to customers. Second, it allows for the costing of products when manufactured rather than when actual costs are determined. Third, it functions as a performance measurement tool. Management uses the standard shop rate to measure a department's cost effectiveness or to identify its inefficiencies. The measurement compares actual shop rate cost data to standard shop rate cost data (see paragraphs 200306 and 200307). The resulting variance identifies cost efficiency or inefficiency.

* B. Defense Working Capital Fund activities develop an annual stabilized job order shop rate. The annual adjustment for Defense Working Capital Funds includes a factor to recoup unrecovered prior year costs, if any.

C. Appropriation-funded activities should develop a shop rate for each accounting period. The standard shop rate consists of direct labor, indirect labor, direct material and indirect material cost. In addition to the standard shop rate, general and administrative and overhead expenses may be allocated to customers to identify all costs associated with the job order. The shop rate is typically calculated by accelerating the prior year's rate for wage rates giving consideration to staff changes. Volume 11A Chapter 1 provides specific reimbursement guidance for both appropriated fund and WCF activities. It identifies cost elements billable to customers

within the DoD Component, to other DoD Components, to other Federal Agencies, and to private party customers.

200305. Actual Shop Rate

A. As part of the management and accounting process, an actual shop rate is prepared for each production department. The rate consists of direct labor, indirect labor, direct material and indirect material costs obtained from the same database used to prepare the general ledger control account entries. The sum of these costs divided by the actual productive labor hours incurred (see paragraph 200303) gives the actual shop rate.

* B. Unfunded cost (see paragraph 200311) financed by other organizations or by prior appropriations should be added to the shop rate charges and billed to non-DoD ordering activities or considered in making cost effectiveness comparisons. In addition, general and administrative expenses (see paragraph 200309) should be charged customers in order to recover all cost associated with the job order. Table 20-1 illustrates the determination of a typical actual shop rate. Volume 11 provides guidance for determining types of costs to be recovered from customers, including indirect costs and general and administrative expenses.

Table 20-1 DEPARTMENTAL ACTUAL SHOP RATE

EXAMPLE: DEPARTMENTAL ACTUAL SHOP RATE		
	AMOUNT	**SHOP RATE**
FUNDED COSTS:		
Direct Labor Direct Material Overhead: Indirect Labor Indirect Material	$ 4250 300 250 200	
Subtotal	$ 5000	
UNFUNDED COSTS:		
Military Labor Civilian Retirement Free Issue Material	$ 500 900 523	
Subtotal	$ 1923	
Subtotal Funded and Unfunded	$ 6923	
Depreciation @ 4%	$ 277	
TOTAL FUNDED AND UNFUNDED	$ 7200	
Department's Productive Labor Hours	180 hours	= $ 40

200306. Variance Determination

A. As part of the management process, the cost accounting department compares the earned standard rate to the actual rate. The difference between standard and actual rates is a variance. A favorable variance shows that the production department is operating in an efficient manner. An unfavorable variance alerts management that corrective action may be required.

B. In the event an organization processes a job order at the standard rate and a variance occurs, action must be taken to either apply the variance to the various job orders that have been processed, and if necessary, to adjust the shop rate. When the decision to adjust the shop rate is made, the recalculation must provide for the amortization of any accumulated favorable or unfavorable variances. The variance percentage is determined by dividing the job order actual cost by the earned standard cost as illustrated in Figure 20-1:

Figure 20-1 DETERMINATION OF VARIANCE

EXAMPLE: Determination of Variance

The variance is determined by dividing the actual shop rate by the earned standard shop rate.

$$\frac{\text{Actual Shop Rate}}{\text{Earned Standard Shop Rate}} = \text{Variance}$$

$$\frac{\$40}{\$28.80} = 139\%$$

EXAMPLE: The job order cost sheet for job #111 shows that 50 hours are accumulated in the production department. The computation of the customer charge follows:

(50 hours X [$28.80 X 139%] = $2002)

200307. Variance Analysis

A. Activities using standard costs must analyze the variance account for each standard and determine the causes for a variance. The variances relate to direct costs, overhead, and general and administrative expenses. The variances associated with these categories are discussed in subparagraphs 200307.B. through 200307.D. Table 20-2 provides a chart for identifying possible causes of variances.

B. Direct Costs. Normally, there are four distinct reasons for a direct cost variance that must be analyzed. Labor rate variances, labor time variances, material price variance and material quantity variances may occur whenever labor or material resources are charged to a job on a standard cost basis. Careful analysis is necessary because of the interrelationships of the variances. For example, a lower labor rate might result in higher labor hour content, or it might result in excessive material usage because lower skilled workers spoil more material. Thus, it is important when conducting a variance review to identify all of the possible interrelationships.

C. Indirect (Overhead) Costs. Overhead variances may be classified based on overhead spending and overhead volume. Careful analysis is necessary because of the interrelationships of the variances. An unfavorable overhead variance may result from using equipment that is technically obsolete or which has become worn out, and requires additional maintenance to keep it operating.

D. General and Administrative Expenses

1. These costs can be analyzed in a manner similar to overhead. The analysis would determine whether general and administrative expenses are in line with budget.

2. General and administrative expenses occur at three levels: the installation, the intermediate command and the headquarters command. As a general rule, not recognizing intermediate and headquarters command level general and administrative expenses in determining the cost of an end product should not result in a material understatement of cost since the amounts allocated would be comparatively insignificant (such expenses would be incurred even if the item or service were not produced). When it is necessary to recognize such expenses in developing the cost of an end item or service, the guidance contained in Volume 11 should be followed.

200308. Subsidiary Accounts

Each production and support department shall maintain the capability to array data in sufficient detail necessary to satisfy management information requirements. Subsidiary cost accounts may be established to assist in costing a product or service. For example, it may be necessary to accumulate direct labor, direct material and overhead in separate subsidiary accounts. Accounting information is posted to the subsidiary accounts as it becomes available via labor distribution reports, material reports, and overhead worksheets.

200309. General and Administrative Expenses

The general and administrative (G&A) expenses are accumulated in the activity's indirect cost centers and charged to customers by equitably prorating the expense to job orders. A rate is established in order to prorate the expense to the customer job orders. Customers are billed for the general and administrative expense allocated to their job orders when required in accordance with the guidance contained in Volume 11. See Figure 20-2 for an example of a typical allocation.

Figure 20-2 GENERAL AND ADMINISTRATIVE EXPENSES

EXAMPLE: The activity's general and administrative expenses incurred by indirect cost centers during the period are:

INDIRECT COST CENTER	AMOUNT
A	$ 100
B	50
C	100
D	250
Total G & A Expenses:	$ 500

The job order costs incurred for the accounting period are:

JOB ORDER NUMBER	COST INCURRED
101	$ 500
102	1000
103	2500
104	1000
Total Job Order Cost:	$ 5000

Figure 20-2 GENERAL AND ADMINISTRATIVE EXPENSES (Continued)

FORMULA FOR GENERAL AND ADMINISTRATIVE RATE DETERMINATION

$$\frac{\text{General \& Administrative Expense}}{\text{Total Job Order Cost Incurred}} = \text{Rate}$$

$$\frac{\$\ 500}{\$\ 5000} = 10\%$$

The general and administrative rate is applied to the job order cost in order to distribute the expense to the customers as illustrated in the following example:

JOB ORDER NUMBER	JOB ORDER COST	RATE	=	G & A EXPENSE ALLOCATED
101	$ 500	10%	=	$ 50
102	1000	10%	=	100
103	2500	10%	=	250
104	1000	10%	=	100
Total General & Administrative Expense				$ 500

SCHEDULE OF AMOUNTS BILLED TO CUSTOMERS

JOB ORDER NUMBER	JOB ORDER COST	G & A EXPENSE ALLOCATED	AMOUNT BILLED TO CUSTOMER
101	$ 500	$ 50	$ 550
102	1000	100	1100
103	2500	250	2750
104	1000	100	1100
TOTAL	$ 5000	$ 500	$ 5500

200310. Source Documents Required

The principle cost categories charged to the production departments include direct labor, direct material, contract, and overhead (includes indirect labor and material costs).

* A. Labor Source Documents. Source documents for labor costs are job/labor distribution tickets or employee timesheets. The job/labor distribution ticket is coded with the job order identification number. The ticket accumulates the total employee labor hours by job within a department. The employees' time by job and pay rate information is obtained from the job/labor distribution tickets and used to prepare the departmental shop rate. Job/labor distribution tickets can be prepared by a supervisor or by workers if initialed by a supervisor. In addition, employee hours may be recorded mechanically by a time clock on a time card as employees punch in and out, as they start and stop on each job, through an automated system as employees enter time for specific jobs, or manually by a timekeeper. As an internal control procedure, job/labor distribution ticket hours are compared to total hours. At the end of each pay period, the civilian payroll system summarizes the hours worked as reported on approved time cards, obtains pay rate data from the personnel system, and calculates gross and net pay based on payroll and withholding authorizations for each employee. A labor distribution report that identifies payroll cost by department based upon the job order identification number is prepared using the pay computed by the pay system. This distribution computation may be part of the pay system or it may be included in the cost accounting capability. The responsibility for determining who shall perform the labor distribution is a management function.

B. Material Source Documents. There are many source documents used to identify material costs. This paragraph discusses some of the more common documents:

1. ***DD Form 1348, "DoD Single Line Item Requisition System Document (Manual)"***. This form is prepared by the department requesting material and coded with the job order/department identification number. The form is forwarded to the installation supply officer for approval and to determine the supply availability through the Military Standard Requisitioning and Issue Procedure (MILSTRIP). When the applicable material is dropped from inventory, it is charged to work in process. Chapter 4 provides guidance to be followed in determining the price of material that is released from inventory.

2. Contract Source Documents. Included in this category are contracts and purchase orders used to purchase material from vendors. When material is received, an appropriate inventory and accounts payable accounts are posted. When inventory items are requisitioned and placed into production, the material is costed to a specific job and recorded to the Work-in-Process account.

C. Overhead Source Documents. Overhead costs pertain to the allocation of supporting department costs to producing departments. Overhead costs are allocated through use of worksheets that summarize and allocate supporting department expenses to production departments. Various methods for allocating overhead include direct labor hours, direct labor cost, machine hours, or material cost. The method chosen must be used consistently from one period to the next in order to permit meaningful comparisons.

*200311. Accumulation of Unfunded Cost

The formal cost accounting capability captures the costs that are funded in the current operating installation budget. Costs financed by another organization or activity's appropriations are referred to as unfunded costs. This paragraph provides guidance for identifying unfunded costs for DoD Components operating under direct appropriation procedures.

A. Military Labor

* 1. DoD Components operating systems with formal cost accounting capability that employ military personnel shall maintain a record of the grade and number of hours worked by military personnel for each job in the department. These hours are extended at standard military composite rates in accordance with the guidance in Volume 11. These costs shall be charged to non-DoD ordering activities or considered in making cost comparisons to organizations that have no assigned military personnel. Volume 11A, Chapter 1, provides specific reimbursement guidance for both appropriated fund and WCF activities. It identifies cost elements billable to customers within the DoD Component, to other DoD Components, to other Federal Agencies, and to private party customers.

* 2. DoD Components performing work for non-DoD activities shall recoup military fringe benefits by applying a percentage surcharge to military pay/costs and bill as part of direct costs. The military labor costs and fringe benefit costs shall be charged to non-DoD customers in accordance with guidance contained in Volume 11A Chapter 1, which provides specific reimbursement guidance for both appropriated fund and WCF activities. It identifies cost elements billable to customers within the DoD Component, to other DoD Components, to other Federal Agencies, and to private party customers. Guidance on the disposition of amounts collected is also contained in Volume 11. See Volume 6A, Chapter 11 for guidance on cost recovery relating to military resources used in civil disturbances, and Volume 12, Chapter 6 for guidance on use of the Defense Emergency Response Fund (DERF). See ***DoD Instruction 3025.21*** Defense Support of Civilian Law Enforcement Agencies, and ***DoD Directive 3025.18***, "Military Support to Civil Authorities (MSCA)" for additional guidance.

* B. Unfunded Civilian Retirement Costs. DoD Components with formal cost accounting capability that employ civilian personnel shall apply the unfunded retirement percentage rate, specified in Volume 11, to the civilian labor cost when formulating the actual shop unfunded cost rate. The additional percentage rate is intended to recoup unfunded civilian retirement cost. These costs should be charged to non-DoD ordering activities or considered in making cost comparisons. Guidance on the disposition of amounts collected is also contained in Volume 11.

C. Unfunded Material

1. In accordance with the guidance contained in Volume 11, material includes both inventory and equipment in use. The activity losing the material or equipment shall account for the transfer by making the appropriate budgetary and proprietary entries in

accordance with the guidance contained in Chapters 4, 6, and 15. The accounting entry should reflect acquisition cost and any accumulated depreciation for equipment in use. If the activity receiving the material operates a production facility, it shall adhere to the following procedures and use the prescribed forms. A DD Form 1348 is the source document for requesting unfunded material. The DoD Component should insert the appropriate department code identification number and quantities ordered when preparing the form. Logistic centers or supply activities should issue material cost information to the Components via a non-interfund or unfunded pricing document. Each document provides material price and quantity information.

2. DoD Components shall classify unfunded material, also known as free issue material, received as either consumable material or equipment. Consumable material shall be included in calculating the unfunded portion of the shop rate. DD Form 1348 is the source document for requesting unfunded material or equipment. The DoD Component shall insert the appropriate department code identification number and quantities ordered when preparing the form. Logistic centers should issue material or equipment cost information to the Components via a non-interfund or unfunded pricing document. The non-interfund or unfunded pricing document provides material or equipment cost and quantity information.

D. Unfunded Depreciation. DoD Components operating production facilities that do not have the capability to calculate depreciation on an item-by-item basis shall apply a 4 percent asset use charge to total costs to recoup depreciation on sales to non-federal customers in accordance with the guidance contained in Volume 11.

2004 PRODUCTION COST COMPONENTS

* Production cost consists of direct labor, direct material, and indirect cost (overhead). Direct labor is labor used to transform various components into a finished product or service. The labor must be directly attributed to the job order. Direct material is that material specifically charged to the job. It has a sufficiently large value to be worth charging to the job and to be identified as a major cost element of the finished product or service. Normally, only the more significant items are classified as direct material. Production overhead consists of all indirect costs associated with the production or service processes other than general and administrative expenses. Typically, production overhead costs include, but are not limited to, indirect material or supplies, indirect labor, facility and equipment depreciation, repairs, maintenance, and occupancy costs.

200401. Direct Labor

A. Labor is used to produce products or services either directly or indirectly. Direct labor costs are those that can be identified specifically with a product or service (see paragraph 200403 for a discussion of indirect labor). Civilian and military personnel labor distribution rates shall be established in accordance with the guidance contained in Volume 11.

B. Job tickets and time cards are used as a means of ascertaining the labor cost and of distinguishing between direct labor and indirect labor. During each pay period, job tickets are summarized and direct labor costs are distributed to each job through use of the

standard shop rate. The labor cost incurred in each department is accumulated on the job order cost ledger.

C. At the end of each pay period, the payroll is calculated, posted to general ledger accounts, and recorded in the appropriate job order cost ledgers (subsidiary job cost ledger).

* D. Detailed DoD-specific transactions are available in the ***USSGL Transaction Library.***

200402. Direct Material

A. Direct material costs are those incurred for raw materials, parts, subassemblies, components, and supplies that can be identified specifically for use in producing the product or performing the service. Direct materials and supplies owned by the performing activity, acquired from a Defense Working Capital Fund or from an inventory account financed by appropriated funds, are charged to a job order in accordance with applicable costing procedures. Purchased materials and supplies are charged to a job order at acquisition cost plus the cost of transportation. Customer furnished materials should be accounted for, and reported to customers separately, and should be related to specific end products or services in such a manner as may be required by customers.

B. Materials received are charged to a general ledger inventory control account. Individual material accounts are maintained for each class of materials in a subsidiary ledger. Materials requisitioned and transferred to production are the basis for debits to the proper job order cost sheets in the subsidiary job cost ledger and credits to the material accounts in the subsidiary ledger.

C. At the end of the accounting period, requisitions are summarized. The material requisitioned is classified as either direct material or indirect material. The direct material is debited to the control account for Work-in-Process or Construction-in-Progress and credited to the general ledger inventory control account. The indirect material is debited to the applied overhead control account and credited to the general ledger inventory control account.

200403. Indirect Labor, Materials, and Overhead

A. Indirect labor is not directly identified with a single job order, but is identified with two or more job orders. Indirect labor includes all personnel costs of the department not charged as direct labor, including supervision and administration within the department, as well as nonproductive time. The indirect costs are accounted for by the organizational units supervising the cost control of operations. These units are responsible for allocating costs equitably to cost objects, products, or services.

B. Indirect materials are not directly identified with a single job order, but are identified with two or more job orders. Indirect material includes all material and supplies not charged as direct materials and supplies to the job order. The indirect material cost is distributed

to job order cost ledgers through use of the standard shop rate. Supplies and small quantities of materials put into the production process, which cannot be charged economically to a job order, are charged to the department as an indirect cost.

C. Production overhead includes the cost of items such as equipment depreciation, maintenance of equipment, power, other service department charges, indirect labor, materials, or supplies not charged as direct cost to a department. Supervision costs allocable to several job orders are charged to a job order as indirect cost i.e. production overhead. Supplies and small quantities of materials consumed in the production process, which cannot be traced without undue difficulty directly to production, should be charged to a job order as indirect costs (i.e., production overhead).

D. Overhead is applied to work in process or construction in progress at established rates. During the accounting period, actual overhead is accumulated in the Applied Overhead account. At the close of the accounting period there may be an over or under applied balance, depending on whether the rate established at the beginning of the accounting period was too high or too low. The balance is closed to the appropriate net results of operations account, and the applied overhead rate for the subsequent year is adjusted to reflect the need to recover under-applied overhead or to redistribute over-applied overhead.

200404. Job Order Cost Sheets

* A. The job order cost sheet is the key document for accumulating direct material, direct labor, and overhead cost in a job order cost function. As each job is accepted and scheduled, it is assigned an identification number and a separate job order cost sheet is prepared. When the work is completed, the cost accounting department calculates the job cost and transfers the appropriate cost to the Cost of Goods Sold account or to an appropriate asset account.

B. As production begins, materials are requested and a materials requisition form is prepared. The requisition form serves as the basis for posting material costs to the job order cost sheet. In addition, the various stores requisitions serve as the basis for posting entries to the materials inventory and work in process accounts.

* C. Personnel working in production departments prepare job/labor distribution tickets (or equivalent) that designate time spent on the various jobs. These tickets are the basis for recording labor costs on job order cost sheets through use of the shop rate (see paragraphs 200304 and 200305). At the end of the pay period, the job/labor distribution tickets are summarized and show the jobs worked on by each employee. The job/labor distribution tickets provide the basis for posting direct and indirect labor cost entries to work in process and applied overhead accounts.

D. Applied overhead is allocated to individual jobs based on predetermined shop rates. Consistent with billing guidelines established in Volume 11A Chapter 1, the cost accounting department calculates the amount of overhead to record on the job order cost sheet through use of the shop rate (see paragraphs 200304 and 200305).

E. The job order cost sheet is totaled when the job is completed. The job's cost is transferred from the Inventory - Work-in-Process account to the Inventory - Finished Goods account when the item is completed.

2005 MONTH END REPORTS

An example of a month end production department cost report for three jobs produced by a job order cost accounting function in operation at a Defense Component is at Figure 20-3. The illustration attempts to clarify the concepts and methodologies previously discussed in this chapter.

Table 20-2 POSSIBLE CAUSES OF VARIANCE

TYPE OF VARIANCE	POSSIBLE CAUSES
Labor Rate	Clerical errors Skill mix changes Labor rate changes Production process changes Outdated standard
Labor Time	Clerical errors Skill mix changes Misclassifications of direct/indirect labor Production process changes Reorganization changes Outdated standard Uncontrollable fluctuations Acts of God (Fire, Flood, and so forth) Critical plant or equipment breakdown Critical material delays
Material Price	Clerical errors Production process changes Price changes Outdated standard Uncontrollable fluctuations Economic conditions (Strike, inflation, and so forth)
Material Quantity	Clerical errors Misclassifications of direct/indirect material Production process changes Outdated standard Uncontrollable fluctuations Acts of God
Overhead Spending	Clerical errors Labor skill mix changes Production process changes Material process changes Support service changes Outdated standard Uncontrollable fluctuations Acts of God Economic conditions
Overhead Volume	Clerical errors Misclassifications of direct/indirect Labor skill mix changes Production process changes Reorganization changes Outdated standard Uncontrollable fluctuations Critical plant or equipment breakdown Critical material delays

Figure 20-3 JOB ORDER COST ACCOUNTING REPORT

Error! Bookmark not defined.JOB ORDER COST ACCOUNTING REPORT ASSEMBLY DEPARTMENT FOR THE MONTH OF XXXX 20XX				
	JOB # 1 COSTS	JOB # 2 COSTS	JOB # 3 COSTS	TOTAL COSTS
FUNDED COSTS:				
Direct Labor Direct Material Overhead (Indirect Costs)	$ 6000 3500 2000	$ 5000 2300 1500	$ 5000 2500 1500	$ 16000 8300 5000
Subtotal	$ 11500	$ 8800	$ 9000	$ 29300
UNFUNDED COSTS:				
Military Labor Civilian Retirement Free Issue Material	$ 1600 600 1000	$ 1400 400 1000	$ 1500 500 1000	$ 4500 1500 3000
Subtotal	$ 3200	$ 2800	$ 3000	$ 9000
Total Funded and Unfunded Costs	$ 14700	$ 11600	$ 12000	$ 38300
Depreciation @ 4%	$ 588	$ 464	$ 480	$ 1532
TOTAL COSTS	$ 15288	$ 12064	$ 12480	$ 39832

VOLUME 4, CHAPTER 21: "PROCESS COST ACCOUNTING"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by a * 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 January 1995 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
	Added Table of Contents	Add
Multiple	Remove outdated information, delete citations of specific General Ledger Account Codes, substituting hyperlinks to USSGL and Transaction Library sites.	Update
All	Update references and language throughout to reflect current FASAB and other guidance.	Update
Multiple	Added hyperlinks.	Add

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CHAPTER 21

PROCESS COST ACCOUNTING

2101 GENERAL

*210101. Purpose

The determination as to the need for a formal process cost accounting capability in an accounting system is a management decision. The decision to establish such a capability should be based upon a recurring need for cost accounting information. The cost accounting standards that shall be implemented when a decision has been made to establish a formal process cost accounting capability are in Volume 4, Chapter 19. This chapter discusses how to establish process cost accounting functionality, the type of source documents required, typical cost management reports produced, and possible uses of these reports. Component process costing structure must be consistent with the ***Standard Financial Information Structure (SFIS)*** and the SFIS Business Rules

*210102. Overview

A. A formal process cost accounting functionality provides a cost identification method for determining, reporting, analyzing, and controlling the cost of a particular process or series of processes. It classifies, records, presents, and interprets in a significant manner the material, labor, travel and overhead expenses necessary to produce a product or service. ***Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts*** provides the following definition: "a method that accumulates costs by individual processing divisions (organization divisions that perform production processes). These processing divisions are involved in a continuous production flow, with each division contributing towards the completion of the end products. The output of a processing division either becomes the input of the next processing division or becomes a part of the end product."

B. The management information provided by a process cost accounting capability aids management in the guidance of activities and in attaining the objective of producing a maximum of goods and services at the least amount of costs. The formal cost accounting capability is normally designed to accumulate those costs that are under the control of local management. Typically the system manager controls all costs that are funded by appropriations for funds provided to the accounting entity. These costs are referred to as funded costs. Chapter 20, paragraph 200311, provides guidance for accumulating unfunded cost. If a formal cost accounting functionality is to be used as a basis for billings to other organizations, other Federal Departments or the public, then provisions must be made for the addition of unfunded cost, such as military labor, items obtained from inventory on a free issue basis, and civilian retirement cost not financed by the employee or Department of Defense (DoD) appropriations. Volume 11A Chapter 1 of the FMR provides specific reimbursement guidance for both appropriated fund and WCF activities to use and identifies what cost elements are billed to customers within the DoD Component, to another DoD Component, to another Federal agency, and/or to private party customers.

2102 INTERFACE WITH GENERAL ACCOUNTING SYSTEM

*210201. Formal Process Cost Accounting

Formal process cost accounting functionality must be fully integrated with other modules of the general accounting system, i.e., it must interface with the payroll and fund control modules. Cost accounting functionality subsidiary accounts are controlled by general ledger accounts.

*210202. Principal General Ledger Accounts

The principal general ledger control accounts used with process cost accounting are the Inventory – Finished Goods and the Work–in-Process accounts. Detailed DoD-specific transactions are available in the ***USSGL Transaction Library***. Using standardized transactions, post entries reflecting consumption of supplies and labor, followed by entries reallocating expenses to "in-process" accounts.

2103 ESTABLISHING THE PROCESS COST ACCOUNTING CAPABILITY

*210301. Identification of Cost Centers

A. Normally, the first step in establishing the process cost accounting capability is to request an industrial engineering evaluation of the production processes and flows. This step requires an analysis of the work to be accomplished and a determination of the most logical, efficient, and economical sequence of production and support operations. Production operations are then consolidated into logical cost centers (a clearly defined responsibility area where costs are incurred) (Volume 1, Chapter 4) to perform specific tasks that produce an identifiable and measurable output. Production operations are designated as direct cost centers and support operations are designated as indirect cost centers. For example, a chemical product may require three distinct operations: blending, distilling, and packaging. The blending of ingredients may be assigned to one production cost center while the distillation process is assigned to another production cost center. Finally, the product packaging is assigned to a third production cost center. As the chemical product is completed, it is transferred from the last production cost center to the customer and the associated cost is posted to the Cost of Goods Sold account.

B. The functions of personnel, recruitment, plant maintenance, and accounting may be grouped into indirect cost centers. Each cost center is assigned an identification number that is subsidiary to the general ledger control account Work in Process-In-House. This identification number is entered on all contracts, inventory item requisitions, and labor distribution source documents to result in the accumulation of cost center incurred costs.

210302. Identification of Product to be Produced

The second step in establishing the process cost accounting capability is to determine the specific products to be produced and the definition of what constitutes output in terms of a product for each cost center. For those products to be produced, an industrial engineer determines the direct labor and material requirements for each stage of the process and identifies the measurable

unit of output for each cost center. For example, chemical products may be measured in terms of the number of gallons blended, distilled, and packaged by the various production cost centers.

210303. Establishing Standard Cost per Unit

A. Frequently there is a third step performed by the industrial engineers - the establishment of a standard cost for output units of production cost centers. The standard cost, when compared to the actual unit production cost, can be used by management to measure the cost efficiency of a cost center or to determine if various inefficiencies have entered into the system. The difference between actual cost and standard cost is termed a variance. Management should investigate both favorable and unfavorable variances to determine their cause. A favorable variance shows that the cost center is operating in an efficient manner. An unfavorable variance alerts management that attention is required. In the event an organization prices products at the standard cost and a variance occurs, the standard cost must be adjusted by the variance in order to recover actual cost. The variance is determined by dividing total actual cost of the cost center by the total standard cost. For example, if cost center A had actual cost of $20,000, and had produced 1000 items with a standard cost of $15.00 per unit for a total standard cost of $15,000, then the variance would be 33.3 percent. This variance indicates the cost center is not operating efficiently. Billings at standard cost would also have to be multiplied by 133.3 percent to recover actual cost (i.e., $15.00 x 133.3% = $20.00).

* B. A different costing procedure may be followed by Defense Working Capital Fund (DWCF) organizations that use stabilized prices. These organizations may simply accumulate the variances and recover them as part of the following year's standard price. DWCF activities may not change their rates during execution per Volume 2B Chapter 9 except for depot maintenance activities. Prices are established through the budget process and (except for unusual circumstances) remain fixed during the year of execution. This stabilized rate policy serves to protect customers from unforeseen inflationary increases and other cost uncertainties and better assures customers that they will not have to reduce programs to pay for potentially higher-than anticipated prices. In turn, this policy allows activities to execute the budgeted program level and permits a more effective use of Fund resources.

210304. Source Documents Required

The principal categories of cost charged to the production cost centers are direct labor, direct material, contract, and overhead (includes indirect labor and indirect material costs).

* A. Labor Source Documents. Source documents for labor costs are timesheets (manual or electronic). Time cards are coded with the cost center identification number and accumulate the total labor hours worked by employees assigned to the cost center. Hours may be recorded mechanically by a time clock as employees punch in and out daily, or they may be recorded manually by workers or a timekeeper. At the end of each pay period, the civilian payroll system summarizes the hours worked as reported on approved time cards, obtains pay rate data from the personnel system and calculates gross and net pay, based on payroll and withholding authorizations for each employee. A labor distribution report that identifies payroll cost by cost centers based upon the cost center identification number is prepared using the pay computed by the

pay system. This distribution computation may be part of the pay system or it may be included in the cost accounting function. The responsibility for determining who shall perform the labor distribution is a management function.

B. Material Source Documents. There are many source documents that are used to identify material costs. This paragraph discusses some of the more common documents:

* 1. ***DD Form 1348, "DoD Single Line Item Requisition System Document (Manual)"***. This form is prepared by the activity requesting material and is coded with the cost center identification number. The form is forwarded to the installation supply officer for approval and to determine the supply availability through the Military Standard Requisitioning and Issue Procedure (MILSTRIP). When the applicable material is issued from stock to the requisitioning activity, it is charged to the account and recorded in the subsidiary account established for the cost center. Chapter 4 provides guidance to be followed in determining the price of material that is released from inventory.

2. Contracts and Purchase Orders (Including Government Purchase Card Transactions). Contracts and purchase orders are another major category of source documents used to purchase material from vendors. When the material or services are received, an accounts payable is established and applicable amounts are entered into the Work in Process-In-House subsidiary account for the cost center. Contract and purchase orders are entered directly into the Work in Process-In-House account rather than into the Inventory Held for Sale account because the materials are purchased expressly for a particular job. Direct application is preferable to commingling the materials with other materials in the Inventory Held for Sale Account.

3. Transfer Tickets. Transfer tickets are used when production units are transferred from one cost center to another cost center. The cost center transferring production units prepares the transfer ticket and the receiving cost center signs for receipt of the material. The transfer ticket contains the number of production units being transferred. A copy of this document is provided to the cost accounting office that records the movement of material.

C. Overhead Source Documents. Overhead costs pertain to the allocation of costs incurred by indirect cost centers to direct/producing cost centers. Various methods for allocating overhead include the direct labor hour basis, direct labor cost basis, machine hour basis, or the material cost basis. The method chosen must be used consistently from one period to the next to permit meaningful comparisons. The direct labor hour basis method for allocating indirect cost center expenses to direct cost centers is illustrated in Figure 21-1:

Figure 21-1 ALLOCATION EXAMPLE

The total indirect expenses for the period are $48,000 dollars. Cost center A used 1200 direct labor hours, cost center B used 900 direct labor hours, and cost center C used 300 direct labor hours during the period.

FORMULA:

$$\frac{\text{Indirect Expenses}}{\text{Total Direct Labor Hours All Cost Centers}} = \text{Factor}$$

ILLUSTRATION:

$$\frac{\$48{,}000 \text{ dollars}}{2400 \text{ direct labor hours}} = \$20 \text{ per Hour}$$

Cost Center	Direct Labor Hours		Factor Per Hour		Amount Allocated
A	1200	X	$20	=	$24,000
B	900	X	20	=	18,000
C	300	X	20	=	6,000
Totals	2400				$48,000

Footnote: Material can be added at the beginning of the period, during the period, or during a certain point in the process, e.g., when 50% complete.

210305. Number of Units Produced

A. The number of units still in process (under production) within a process cost center is expressed in terms of equivalent production units. The calculation of equivalent production (weighted average) inventory is based upon a physical inventory to determine the production status. For example, if the cost center had 100 units that were 75% complete for material and labor, 50 units that were 50% complete for material and labor, and 30 units that were 10% complete for material and labor, the equivalent production units would be 103 ([100 x 75% = 75] + [50 x 50% = 25] + [30 x 10% = 3]).

B. The ending inventory of production units are added to the sum of production units transferred out, minus the beginning inventory of equivalent production units to determine the total number of units produced during the accounting period by the department. The calculation is illustrated in Figure 21-2:

Figure 21-2 UNITS PRODUCED EXAMPLE

	NUMBER OF UNITS
Transferred Units	1100
Equivalent Units	103
Sub Total	1203
Less: Beginning Equivalent Units	(100)
Total Production This Month	1103

C. Figure 21-3 illustrates of the use of standard cost to evaluate production efficiency or problems:

Figure 21-3 USE OF STANDARD COSTS

	UNIT COST		NUMBER OF UNITS		COST
Standard Costs					
Labor	$ 50	x	1103	=	$ 55150
Material	35	x	1103	=	38605
Overhead	15	x	1103	=	16545
Total Standard Cost	$100	x	1103	=	$111300
Actual Costs					
Labor					$ 60000
Material					35000
Overhead					20000
Total Actual Cost					$115000
Variance					<$ 3700>

*210306. Variance Analysis

Chapter 20, paragraph 200307, provides guidance for various types of analyses that may be performed. Table 20-2 in Chapter 20 provides a chart for identifying possible causes of variances.

*210307. Subsidiary Accounts

Each cost center should maintain the capability to array data in sufficient detail necessary to satisfy management information requirements and budgeting requirements. Cost center subsidiary accounts may be established within individual cost centers in order to cost a product or service. For example, it may be necessary to accumulate direct labor, direct material, direct travel and overhead in subsidiary accounts. Accounting information is posted to the cost center subsidiary accounts as it becomes available via labor distribution reports, material reports, and overhead worksheets.

2104 MONTH END REPORTS

Month-end production cost reports produced by a process cost accounting system in operation at a Defense Component with three production cost centers is illustrated in Table 21-1. The illustration is presented to clarify the concepts and methodologies previously discussed in this chapter.

Table 21-1 PROCESS COST ACCOUNTING REPORT FOR THE MONTH OF XXXX, 20XX
UNITS PRODUCED

PART A: UNIT PRODUCTION

	COST CENTER A	COST CENTER B	COST CENTER C	TOTAL UNITS 3/
Beginning Inventory	100	200	100	100
Transferred During Month	500	500	500	500
Units to be Accounted for	600	700	600	600
Ending Inventory	100	200	100	100
Production During Month 3/	500	500	500	500

PART B: COST

	COST CENTER A		COST CENTER B		COST CENTER C		TOTAL COST	
	STD.	ACT.	STD.	ACT.	STD.	ACT.	STD.	ACT.
Funded Cost:								
Labor	$ 55150	$ 60000	$ 45000	$ 46000	$ 30000	$ 30000	$ 130150	$ 136000
Material	38605	35000	40000	38000	15000	16000	93605	89000
Overhead	16545	20000	15000	15000	10000	10000	41545	45000
Subtotal	$110300	$115000	$100000	$ 99000	$ 55000	$ 56000	$ 265300	$270000
Unfunded Cost:								
Military Labor	$ 5100	$ 5000	$ 4500	$ 4700	$ 2000	$ 2000	$ 11600	$ 11700
Civilian Retire	3800	3600	2500	2400	1500	1500	7800	7500
Free Issue Mat.	4000	4500	2500	2500	1000	1000	7500	8000
Subtotal	$ 12900	$ 13100	$ 9500	$ 9600	$ 4500	$ 4500	$ 26900	$ 27200
Subtotal Funded & Unfunded	$123200	$128100	$109500	$108600	$ 59500	$ 60500	$ 292200	$ 297200
Depreciation @ 4%	$ 4928	$ 5124	$ 4380	$ 4344	$ 2380	$ 2420	$ 11688	$ 11888
TOTAL COST	$128128	$133224	$113880	$112944	$ 61880	$ 62920	$ 303888	$ 309088

PART C: FINISHED UNIT STANDARD AND ACTUAL COST

FUNDED COST 1/	$ 530.60	$ 540.00
UNFUNDED COST	53.80	54.40
DEPRECIATION FUNDED AND UNFUNDED	23.38	23.78
TOTAL COST 2/	$ 607.78	$ 618.18

* 1/ Funded Unit Standard Cost calculation is Total Funded Cost divided by number of units (i.e. $265,300 / 500 units = $530.60)

2/ General and administrative costs are to be added to the sales price when applicable*

3/ Production quantity flows sequentially from Cost Center A to B to C. "Total Units" represents finished goods resulting from Beginning Inventory plus Cost Center C production less finished units transferred out. "Total Units" production repeats the "transferred" quantity.

VOLUME 4, CHAPTER 22: "COST FINDING"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by a * 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 2010 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Throughout	Updated hyperlinks for USC citations, SFIS citations, and Treasury Department citations, and removed redundant hyperlinks.	Update
Throughout	Clarified wording.	Update

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CHAPTER 22

COST FINDING

2201 GENERAL

220101. Purpose

The DoD components are developing and fielding integrated Enterprise Resource Planning (ERP) systems which will provide more accurate, traceable, consistent, and visible methodologies to track and report costs. Situations which require the manual development of cost estimates will continue to exist. This chapter provides general cost estimation principles for those situations. This guidance will be followed by DoD Components when using cost finding techniques to determine the costs related to performing a service, to be charged for goods or services, or to obtain costs for decision-making or other purposes. Organizations employing formal cost accounting capabilities may use cost finding techniques to identify unfunded costs. However, any organization may from time to time have a need to use these techniques.

220102. Overview

A. Chapter 19 prescribes the basic policy for measuring and allocating costs. This chapter applies that basic policy to cost finding, establishes cost finding documentation policy, and describes generally recognized cost finding techniques and their application.

B. Cost finding is an approach used when the cost accounting system does not provide the actual costs incurred to provide a service, produce a product, or to obtain cost information for decision making and informational purposes. It is available for activities that do not have automated cost accounting capability as part of their accounting system, but who periodically provide reimbursable services or products to other DoD Components, Federal Agencies, or to the public. Cost finding may also be necessary when the cost of an item has not been recorded in the accounting system and the item is being transferred, sold, or recorded in the accounting system for the first time or when measuring productivity.

C. The proper application of cost finding requires knowledge of cost accounting and of the organizational functions associated with the final and intermediate cost objects. The cost finding structure must be consistent with ***Standard Financial Information Structure (SFIS)*** and SFIS Business Rules

2202 POLICY

220201. Documentation

A. Cost finding techniques must be documented when used. The documentation must contain the following:

1. The cost objects (both intermediate and final) to which cost finding techniques are to be applied.

2. The organizations involved in performing the cost objects and the tasks performed by each.

3. The applicable cost elements.

4. A plan that includes the specific cost finding techniques to be used and the criteria followed in selecting the specific cost finding technique.

5. A description of how those techniques will accomplish the cost object.

B. The statement and the work papers shall be retained for the same length of time as other documentation used to support billings to the public.

C. A case study is presented as an addendum to illustrate the application of this chapter. Discussions in the chapter are at the micro level. When different approaches may be usable to document the costs associated with a different cost object (e.g. at the macro level), information will be presented on the alternative approaches.

*220202. Identification of Cost Objects

A. Cost objects are functions or work units for which management decides to identify, measure, and accumulate costs. Cost objects shall be discrete and described to a sufficient level of detail as needed to identify the specific function or product for which a cost is to be established. See the Defense Chief Management Office's (DCMO) SFIS matrix for a discussion of SFIS components relating to organizational units and funding centers.

B. When the cost object is identified as being at a macro (an organizational level, for example) level, the amount of effort required to determine the relevant costs and the associated quantitative data should be less refined than if the cost object is identified as being at the micro (a specific function or operation) level. At the macro level, it is possible that the accounting system, through the use of coding structures and the general ledger operating program expense accounts shown in the Account Transactions section of the ***U.S. Treasury Financial Management Service (FMS) USSGL web site*** or detailed DoD-specific transactions available at the SFIS web site, can provide much of the financial data to establish relevant cost information. At the micro level, it probably will be necessary to use one of the methods described in section 2203 to determine the time required to perform the cost object and develop the cost information.

C. The classification of organizations as either direct (directly involved in performing the cost object) or indirect (performing as a support organization), is dependent on identifying cost objects. At the macro level, staff organizations (not directly involved in production) will be classified as indirect, and line (directly producing outputs) organizations will be classified as direct. At the micro level, it is possible that a staff organization, could be classified

as a direct organization. The distinction between the macro and micro levels will be an important consideration in complying with Office of Management and Budget (OMB) productivity requirements discussed in section 2204 of this chapter. The cost accountant must be able to translate the measurement requirements into source documents, allocation techniques, and other such analysis techniques as necessary to meet the management requirement. Establishing a cost object is a management decision and is essential to the proper application of cost finding techniques to a cost object.

D. Identifying and describing cost objects are very important. Within the Department of Defense, cost finding techniques may be used to compare costs of different organizational units or operations performing the same cost object, prepare budget justification material, to measure productivity, or to measure the cost of performing a particular operation. For example, the costs to issue an electronic funds transfer payment at a disbursing office might be compared with the same costs at other disbursing offices. Cost finding techniques are a tool in identifying more efficient methods of performing a task. Cost objects may also be used to compare organizational efficiency. For example, the costs for an intermediate object, such as processing a personnel action at a personnel office, might be compared with the cost at other personnel offices.

220203. Identification of Organizations Involved

A. Once the cost objects have been identified, the organizational units contributing resources to the cost object must be identified. Generally, the units will be within the organization itself (the installation or unit level; and possibly further within these levels).

B. The initial task is to classify the installation-level organizational units as direct or indirect. A unit responsible for actually performing the work is direct. A unit that provides support or performs an administrative function is indirect.

1. Organizations or units may be either direct or indirect depending on the cost objects identified.

2. An organization classified as indirect will not always be recognized in the computation of costs for a final cost object. At the macro level, staff organizations generally will be recognized as an indirect organization and the related costs allocated among direct organizations. At the micro level, materiality and usefulness will be determining factors.

C. Organizational units can be classified through use of an iterative process or through the use of organizational charts or tables. The iterative process is a series of questions designed to establish the relationship each organization has with the product or service for which cost finding techniques are being developed (Figure 22-1 is a suggested list of such questions). First, the organizational units directly involved in the process are identified. Then the organizations providing indirect functions to the direct organizations are identified through an iterative process consisting of a series of questions designed to establish the relationship of supporting activities to direct line organizations. The procedure is repeated until all organizational units are classified as direct or indirect for all identified cost objects.

D. In order to determine which organizations are involved, it is necessary to identify the flow of actions related to the cost object and the related intermediate cost objects.

E. It is important to understand that the organizational activities involved in a particular cost object or interim cost object can cross organizational lines of responsibility.

220204. Identification of Cost Elements

A. An important aspect of any cost finding technique is identifying the direct and indirect cost elements applicable to the product or service. Both the direct and indirect activities may have the same cost elements. The difference is in the allocation of all applicable indirect costs (factory burden). Chapters 19 and 20 provide guidance to determine factory burden.

*Figure 22-1 IDENTIFICATION AND CLASSIFICATION OF PARTICIPATING ORGANIZATIONS

SUGGESTED LIST OF QUESTIONS USED TO IDENTIFY AND CLASSIFY PARTICIPATING ORGANIZATIONS

What organizations are involved in the final and intermediate cost objects?

Which organization has primary responsibility for the final cost object?

Which organizations perform intermediate cost objects?

Which organization acts in a support role to the organization(s) performing the final or intermediate cost objects.?

What are the specific tasks performed by each of the identified organizations?

In what order do the organizations involved perform their delegated responsibilities?

B. All cost elements must be identified. The first step is to identify all possible cost elements and determine which are significant. Personnel Compensation, Purchased Services, Supplies and Materials are typical major categories within the SFIS Cost Element Code. Current General Ledger accounts are described at the USSGL web site, while the SFIS provides detailed information on transactions and on required cost information. Figure 22-2 gives an example of application of possible expense types (which may be consolidated into one or more USSGL accounts) to direct and indirect activities. After the potential applications are identified, a decision must be made as to which cost elements are sufficiently significant as to warrant separate consideration.

Figure 22-2 EXPENSE TYPE EXAMPLES

EXAMPLE EXPENSE TYPES	DIRECT ACTIVITY	INDIRECT ACTIVITY
Personnel Compensation-Civilian	X	X
Personnel Compensation-Military	X	X
Personnel Benefits-Civilian	X	X
Personnel Benefits-Military	X	X
Benefits for Former Personnel		X
Travel and Transportation of Persons	X	X
Transportation of Things	X	X
Rent, Communications and Utilities	X	X
Printing and Reproduction	X	X
Other Services	X	X
Supplies and Materials	X	X
Equipment (not capitalized)	X	X
Insurance Claims and Indemnities		X
Depreciation of Equipment	X	X
Depreciation of Real Property	X	X
Amortization of Leasehold Improvements	X	X
Bad Debts		X
Annual Leave	X	X

C. After developing the cost data, the individual or group responsible for applying cost finding to the cost object can make a decision as to the significance of each cost element in the final determination. Remember that the information is, at this point, only raw data. Decisions must be made as to the relevance and materiality of each cost element to the cost object. Materiality is determined by analyzing whether excluding the data could distort the computed value for the final cost object.

220205. Application of Prescribed Rates

A. The purpose of using cost-finding techniques is to determine that all applicable cost elements are included in the final cost. When the purpose is the preparation of an internal report or an external report for another Federal Agency or non-federal organization, the

guidance contained in Volume 11 shall be followed to assure that all applicable costs are considered. When the purpose is to establish the cost of an activity associated with the Security Assistance Program, the guidance contained in Volume 15, shall be followed.

B. The following rules shall be applied when determining the individual costs of intermediate and final cost objects:

1. Civilian direct labor costs are computed using step 5 of the applicable pay grade for GS- and GM-series personnel. For Wage Board employees, use step 4 of the applicable pay grade. Amounts included as direct labor costs shall recognize only productive time; that is, the time actually used to perform the function. All other time is indirect labor time, and is included in overhead (factory burden). Actual costs may be used, if known, provided appropriate documentation is available to support their substitution.

2. Civilian personnel benefits costs are computed using the rates contained in Volume 11.

3. Costs for Military personnel are accomplished using the rates for each applicable military grade using standard military composite rates in accordance with guidance in Volume 11.

4. Both military and civilian labor shall be included. Labor that is actually chargeable to jobs shall be recorded as direct labor. Indirect labor (labor that cannot be charged to a specific job) shall be used in computing overhead. Chapters 19 through 21 provide guidance in computing overhead.

5. Direct material cost is determined using standard prices unless the actual cost is known from vendor invoices. Standard prices can be obtained from vendor catalogs, supply system stock databases, recent contract purchases of similar items, or any other available data source.

6. Other costs that can be directly related to the cost object are determined using source documents such as vendor invoices, travel vouchers, and so forth.

7. Indirect costs are based on algorithms that are used to prorate the overhead costs to the cost object based on factors such as the ratio of direct labor costs for the cost object to total labor costs for the installation.

220206. Identification of Source Documents

A. Before the values for each cost can be determined, the source documents for the required data must be identified and copies obtained, together with the documents' locations. In addition, it is necessary to determine the quantities of documents involved, especially if the cost object is to determine average unit costs for a certain action.

B. When the final cost object is to determine the cost of performing one single event, the specific documents involved must be identified. When the cost object is much broader (for example, determining the average cost of issuing electronic payments without regard to whom they are issued), identification of the specific documents involved may not be as significant as the operating costs (including the materials and supplies used) of the organizational units directly involved in the process.

220207. Selection of the Appropriate Cost-Finding Technique

The development of a final cost for the cost object can be made using one of several different techniques or a combination thereof. The decision on the method used will often depend on the purposes for which the cost object has been established. Those cost objects established to determine costs to meet a statutory or a recurring use need could require the use of cost finding techniques with a higher degree of precision than those cost objects established to meet an internal management need. Section 2203 describes various techniques that may be useful in cost finding.

2203 COST-FINDING TECHNIQUES

220301. Observation

A. The observation technique is normally used when the specific effort for which a cost is to be established or a similar effort is currently in process. The first step is to complete the requirements statement required by paragraph 220201. The observer then physically follows the product or service through the various performing organizations, documenting the following:

Figure 22-3 OBSERVATION TECHNIQUE

1.	Events incident to performance.
2.	The grade levels of personnel directly working on the effort.
3.	The length of time spent on the activity.
4.	Direct material used.
5.	Indirect material used.
6.	Types of support received from other organizations.
7.	Any other factors that have an impact on the cost of producing the product or performing the service

B. A traditional flow chart of the entire process may be helpful in organizing, visualizing, and understanding the process under review. The process flow shown in the Figure 22-7 (p. 22-19) illustrates the data gathered through the use of this technique.

C. The observer then lists and computes the cost of each of the identified cost elements. These elements are frequently found in consolidated general ledger expense accounts such ”Operating Expenses/Program Costs” and “Benefit Expense.”. The SFIS provides detailed information on transactions and on required cost information.

D. Any other assumptions must be carefully and accurately documented so that users of the resulting information will have a better understanding of the process used.

220302. Statistical Sampling

A. This technique is normally used when there is a large volume of similar type work being performed on a continuous task basis. An example of the use of this technique is packing, crating, and handling costs incurred at a depot. A random sample of items is selected and a special job order tag is attached to each item selected when it is initially placed into the performance cycle. All personnel who come into physical contact with the items are required to record their organization, pay grade, length of time involved, and type and quantity of material or supplies used. Completed tags are returned to the personnel conducting the study who ensure that all tags have been returned and properly completed.

B. All of the cost elements identified to the cost object are assigned a cost.

C. Resulting cost estimates shall be annotated to disclose the confidence level of the resulting estimate within a specific range.

220303. Independent Appraisal

The independent appraisal technique is normally used when the cost determination is made after the cost object has been completed, and there is no similar product being produced. Normally, the effort would be accomplished by an engineer or an individual who is an expert in the production process. Under this procedure, a list of all resources involved in fabricating the product or performing the service is made. Each resource is then analyzed to establish a reasonable input cost. The total cost of the applied resources represents a reasonable estimate of costs incurred in the cost object.

220304. Commercial Cost

This technique is normally used with incidental activities carried out during a DoD mission requirement. In these circumstances, the application of normal full cost to the production of a product or provision of service would not be representative of the incurred cost. An example would be a Navy carrier transporting a disabled foreign aircraft to a repair facility incident to the performance of its normal mission. In this case, a determination of the commercial charge to transport the disabled aircraft might be more representative of the cost incurred by the Navy vessel.

220305. DELPHI Technique

This technique is useful in those instances when the more traditional cost estimation techniques cannot be applied to a cost object. Accordingly, it is probably the least precise estimating technique, but one that is still useful if another technique is not available or applicable.

A. This technique uses a series of estimates made by a group of experts that is refined as subsequent estimates are made. For example, five construction experts might be given the task of estimating the costs associated with a new construction technique. These experts would be given the initial parameters of the project such as location; required specifications; geographical, environmental, time, and political constraints; and, any other known relevant data at the time of project initiation. Each group member would then develop an initial estimate of component costs and reconvene to discuss their individual analyses. After discussion, each expert would be asked to refine their estimate based on what was learned at the meeting. The evaluation process would be repeated by each participant to arrive at a revised estimate. The process would be repeated as often as necessary, until the group achieved consensus that the estimate at hand was the best available, given the uncertainty of the nature of the project and dissimilarity with other efforts in their experience.

B. This technique is probably more useful in determining what some new product or service should cost rather than determining the actual cost of an existing product or service. However, some of the principles involved may be helpful.

220306. Memorandum Records

This technique is an informal method for gathering cost data and should only be used in those cases when the value of the cost data is of little significance. It is the preparation of memoranda documenting estimates of costs for a specific product or service. It should not be used when significant decisions are to be based on the cost estimates derived or when other more accurate methods are available. It is useful as a cost accumulating tool for those low priority, low value projects or products when it is known that some cost data may be required in the future. However, in this case, a traditional cost accounting system is too costly or too cumbersome relative to the underlying effort.

220307. Analysis of Responsibility Center/Cost Center

This technique can be used where documented, well-supported organizational costs are available through some responsibility center or cost center organizational structure. Costs associated with the center can be allocated to a product or service of the center as a way to estimate at least part of the cost of that product or service.

220308. Combination of Cost-Finding Techniques

Multiple cost finding techniques may be used if it results in a more cost-effective or more accurate estimate. The techniques can also be used to augment data that is generated by a conventional cost accounting system. Use the cost accumulation system or method that gives the

highest quality cost data at the lowest cost. Other techniques may be used if they are logical, accurate, and documented.

220309. Determination of Time and Cost

A. After determining the required time to perform each element of the final and intermediate cost objects, the costs associated with each element must be determined. Since real and capitalized personal property is involved, the cost of these assets must also be included. Figure 22-2 (p. 22-8) in paragraph 220204 illustrates the form that can be used to determine the total costs associated with a final cost object.

B. Personnel costs are obtained from the following sources:

1. Civilian Personnel. Pay scales issued by the Office of Personnel Management.

2. Military Personnel. Standard military composite pay rates issued by OUSD (C). These standard rates include fringe benefits.

3. Civilian Personnel Fringe Benefits. These are determined using the add-on factors in Volume 11.

C. Depreciation and Amortization of Capitalized Personal Property. Refer to Chapters 1 and 6, and Volume 11B for the Defense Working Capital Fund.

D. Depreciation and Amortization of Real Property. Refer to Chapters 1 and 6, and Volume 2B, Chapter 9 for the DWCF.

*ADDENDUM: CASE STUDY - Determination of the Costs Associated With Paying a Contractor Invoice

This case study demonstrates the application of the various requirements contained in this chapter to determining the costs associated with paying a contractor invoice. The situation selected was chosen as being typical of the types of operations occurring within the Department of Defense for which comparisons between organizations can be made.

Paragraph 220201 of this chapter requires a clear statement of the cost objects to which cost finding techniques are to be applied and those techniques to be applied, among other things. Such a statement is presented in Figure 22-4 (p. 22-16.)

The intermediate cost objects related to the final cost object are listed in Figure 22-5 (p. 22-17.) The list is at the summary level and serves as a basis for identifying the processes which must be examined in detail. The compilation is based on the guidance contained in paragraph 220202.

The organizational elements and their relationship to the intermediate and final cost objects are identified in Figure 22-6 (p.22-18.) As described in paragraph 220203, it is developed using the organization chart and descriptions of organization functions. It also categorizes the installation's organizational units as direct (those that are involved in the final cost object) and indirect. Those classified as indirect provide varying degrees of support to the organizational units that are identified as direct. Direct activities may or may not be a part of the same organization.

The process flow associated with paying a contractor invoice, as described in paragraph 220203 is illustrated in Figure 22-7 (p. 22-19.) A comparison of this process flow chart with the organization chart in Figure 22-6 (22-18) will identify organizations that may not be shown on the organization chart. For example, the contract administration activity is not shown on the organization chart and could be a part of supply operations. Similarly, the mail room might be part of base operations. These situations arise when the organization chart is at a higher level than the operation being costed.

The organizational activities realigned as direct and indirect for the purposes of this cost finding study are shown in Figure 22-8 (22-20.) This chart is provided as a basis for clearly identifying which activities are to be classified as direct activities, as described in paragraph 220203.

Examples of the cost elements to be considered in determining the relevant costs associated with this task are identified in Figure 22-9 (p. 22-21.) They are based on Figure 22-2 in paragraph 220204.

The personnel assigned to the direct activities associated with paying a contractor's invoice are listed in Figure 22-10 (p. 22-22.) This information is necessary to support the determination of personnel costs as described in paragraph 220204.

Statistical information as to the equipment, real property, and supplies and materials used in performing the final and intermediate cost objects is provided in Figure 22-11 (p. 22-23.) In addition, the equipment is subdivided between capitalized and expensed equipment.

The personnel rates associated with the personnel assigned to the direct organization activities are summarized Figure 22-12 (p. 22-25.) The costs associated with the final and intermediate cost objects using the guidance in paragraph 220205 concerning application of prescribed rates are computed and shown in Figure 22-13 (p. 22-25.)

The source documents associated with the intermediate and final cost objects are listed in Figure 22-14 (p. 22-26.) Copies of each of these documents would be obtained and included as supporting documentation in the working papers associated with the cost finding task, as required in paragraph 220206.

A compilation of the time required to perform each of the various actions associated with processing a contractor invoice for payment is shown in Figure 22-15 (pp. 22-26 through 22-28.) The civilian or military grade for each person involved in the process, as well as the equipment used and the time of use also is identified. The requirements contained in paragraph 220207 are also addressed in Figure 22-15.

The costs associated with paying a contractor invoice are summarized in Figure 22-16 (p. 22-29.)

Figure 22-4 STATEMENT OF PURPOSE

STATEMENT OF PURPOSE
Determination of Costs
To Pay A Contractor's Invoice

A. PURPOSE

This effort will determine the cost incurred by one DoD organization to pay a contractor's invoice. The information is required to identify the various types of activities involved and the related costs for comparison with similar costs incurred by other DoD organizations.

B. COST OBJECTS

The intermediate and final cost objects associated with this effort include those required to administratively process contract documents, receiving reports and invoices and issue a check or electronic payment.

C. ORGANIZATIONS INVOLVED

Those organizational activities directly involved in processing the contract, processing invoices, mailing documents, and issuing checks or electronic payments will be classified as direct activities. All other activities are considered as indirect activities.

D. COST ELEMENTS

The cost elements in Volume 11 applicable to other Federal Agencies will be accumulated. The following cost elements to be identified for the purposes of this task include personnel (civilian and military), personnel benefits, communications, and supplies and materials.

E. APPROACH

Cost finding is used to establish the cost to pay a contractor invoice. Observation and questions are used to establish the sequence of observations. Time measurement is used to establish the time required to perform each action in the process. These techniques are considered the best approach because preliminary indications are that each action requires only a few minutes of any employees' time. In addition, the use of specific material, equipment and documents can be readily identified and measured. Personnel costs are be based on hourly rates obtained from pay scales for civilian personnel, and standard military composite rates for military personnel.

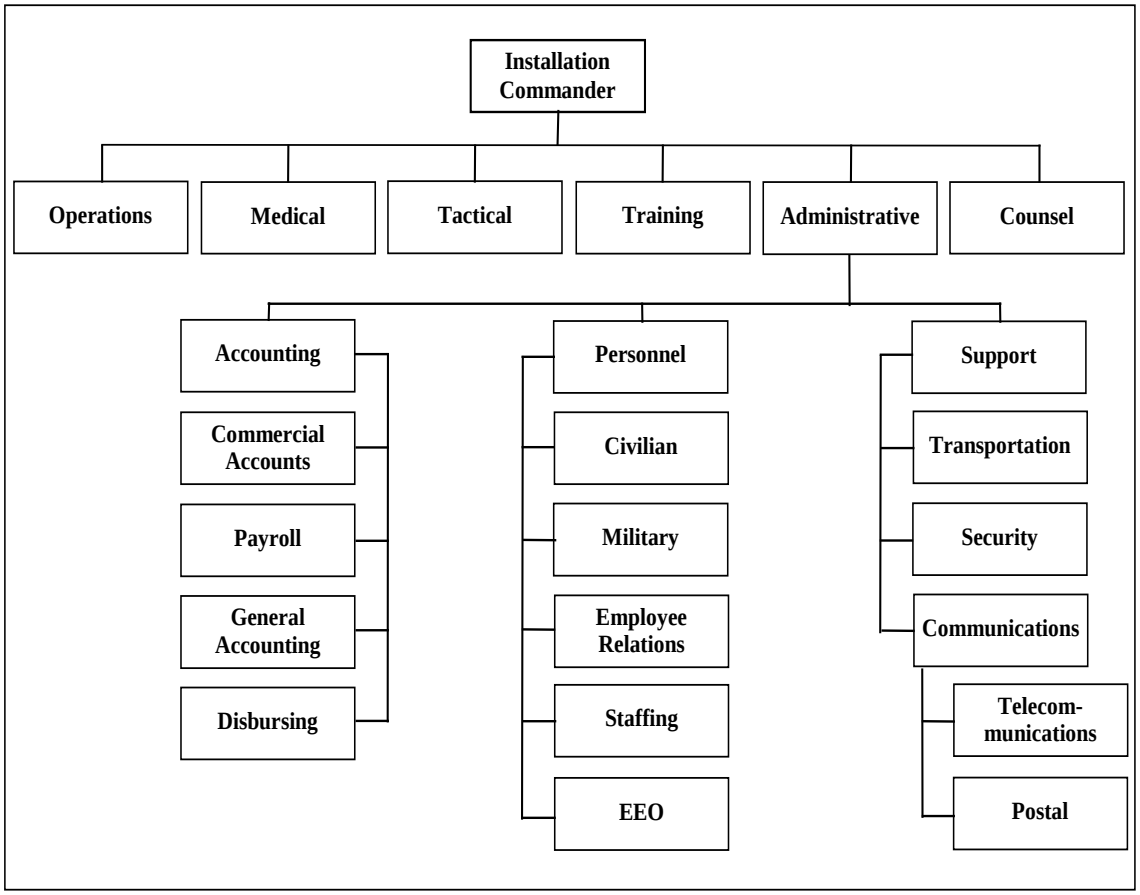
Figure 22-5 COST OBJECTS

FINAL AND INTERMEDIATE COST OBJECTS TO PAY A CONTRACTOR INVOICE

FINAL COST OBJECT:	Pay a contractor invoice
INTERMEDIATE COST OBJECTS:	Establish voucher file
	Maintain voucher file
	Receive receiving reports
	Receive invoices
	Compare invoice to receiving reports and contracts
	Verify whether proposed payment requires additional funding
	Verify that right of offset exists against amounts due the Government by the contractor
	Prepare payment voucher
	Schedule voucher for payment
	Print check (issue e-payment)
	Mail check (NA for e-payment)
	Record payment

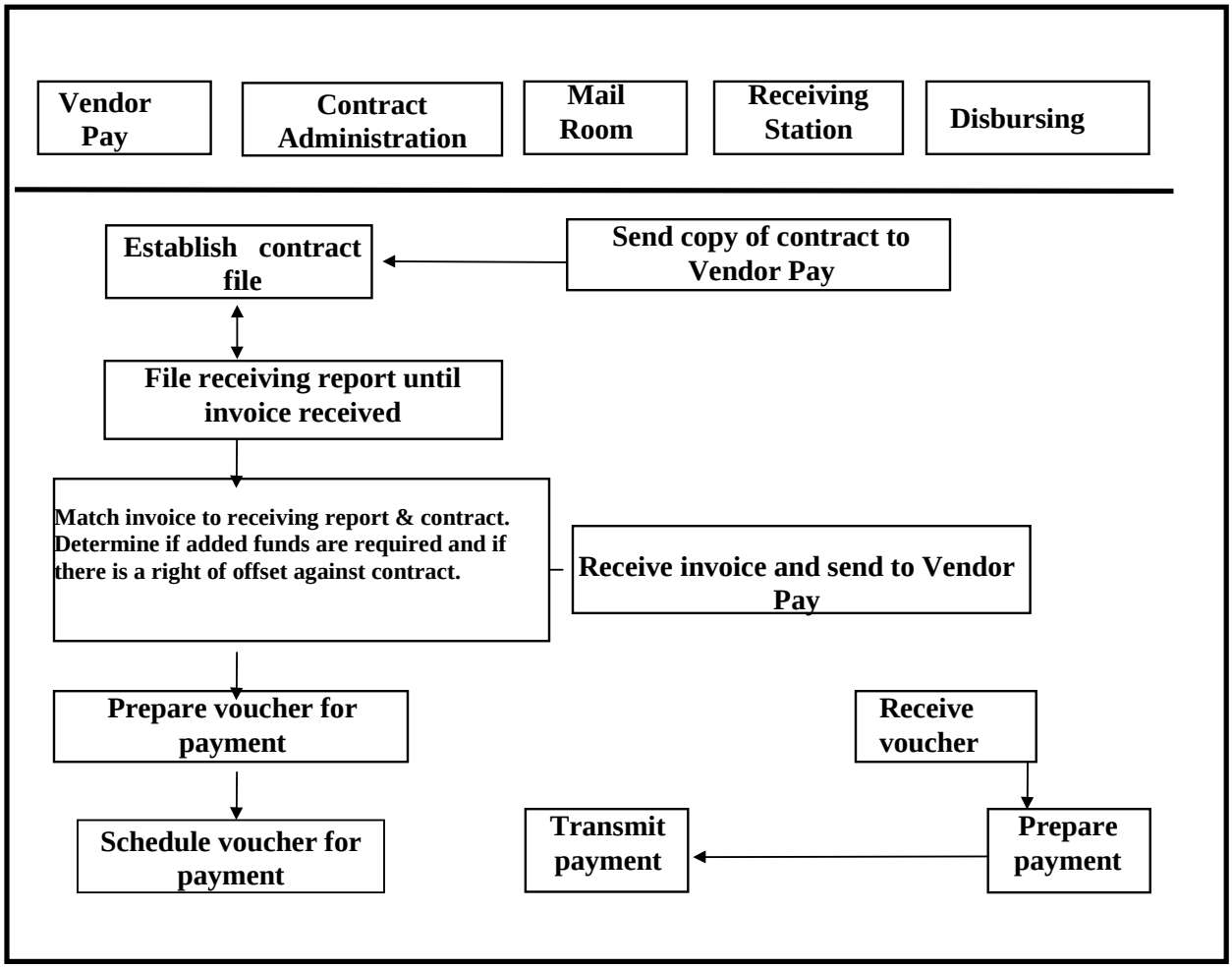
Figure 22-6 NOTIONAL INSTALLATION ORGANIZATION CHART

(Support services may be located at other sites but are shown here for simplicity)



* Figure 22-7 PROCESS FLOW FOR ISSUING PAYMENTS TO CONTRACTORS

(Functional titles may vary)



* Figure 22-8 ORGANIZATION HIERARCHY ASSOCIATED WITH FINAL AND INTERIM COST OBJECT

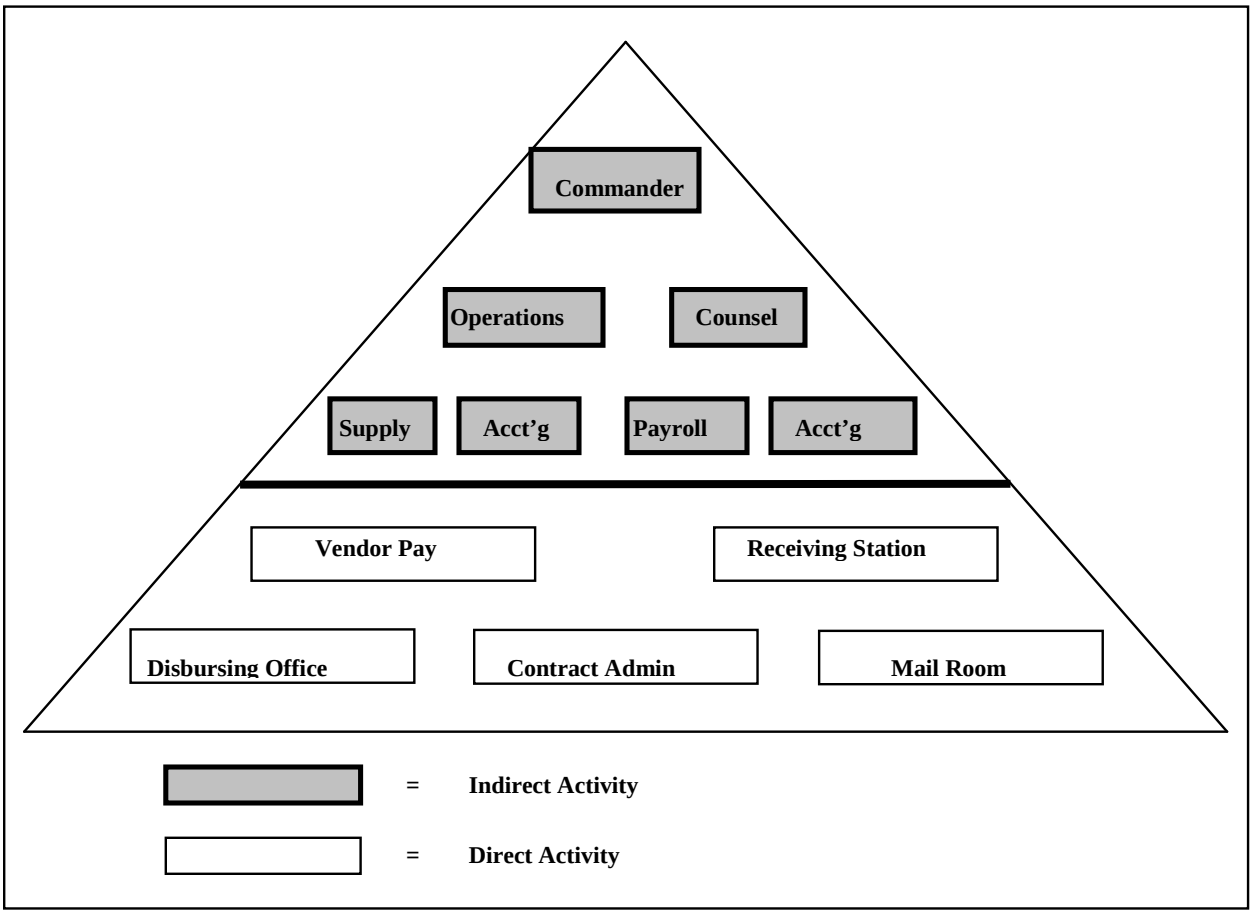


Figure 22-9 COST ELEMENTS

COST ELEMENTS

The cost elements potentially associated with the cost of issuing a payment to a contractor are summarized as follows:

(1) Personnel costs, both military and civilian.

(2) Personnel benefits, both military and civilian.

(3) Communications (telephone).

(4) Supplies and materials.

(5) Postage.

(6) Utilities.

(7) Equipment (depreciation).

(8) Buildings (depreciation).

(9) Leasehold improvements (amortization).

(10) Computer software (amortization).

Figure 22-10 PERSONNEL ASSIGNED TO DIRECT ACTIVITIES

NUMBER OF PERSONNEL ASSIGNED TO DIRECT ACTIVITIES ASSOCIATED WITH FINAL COST OBJECT (*Notional, may not reflect current organizations*)					
	VENDOR PAY	RECEIVING STATION	DISBURSING OFFICE	CONTRACT ADMIN.	MAIL ROOM
Captain (O-3)	1		1		
1st Lieutenant (O-2)	2		3		
2nd Lieutenant (O-1)	1	1	2	1	
Sergeant (E-5)		2	2		1
Private (E-3)	3	4			1
Civilian (GS-8)	2		2	2	
Civilian (GS-6)	2	1	4	2	1
Civilian (GS-5)	5	2	4	4	2
Civilian (GS-3)		2	2		5

Figure 22-11 EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES

EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES ASSOCIATED WITH FINAL COST OBJECT *(Notional, may not reflect current requirements)*					
	VENDOR PAY	RECEIVING STATION	DISBURSING OFFICE	CONTRACT ADMIN.	MAIL ROOM
CAPITALIZED EQUIPMENT:					
Imaging Machines			1	1	
Data Storage and Retrieval Devices	5		1	8	
EXPENSED EQUIPMENT:					
Personal Computers	6		3	7	
Calculators	12	10	16	8	
Laser Printers			2		
Desks	16	6	20	11	2
Chairs	25	7	24	15	11
REAL PROPERTY:					
Office Space (Sq. Ft.)	1,778	480	2,540	1,390	498
Warehouse Space (Sq. Ft.)		1,638			
ADDITIONAL INFORMATION: Imaging machines cost $252,000 each and have a life expectancy of 10 years for depreciation purposes. Data storage devices cost $265,000 and have a life expectancy of 10 years for depreciation purposes.					
Age of Imaging Machines: 3 years old 4 years old			1	1	
Age of Data Storage Devices: 2 years old 3 years old 5 years old	4 1		1	3 3 2	

Figure 22-11 EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES (Continued)

EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES ASSOCIATED WITH FINAL COST OBJECT (CONTINUED)

Real Property:

1. Office space is converted warehousing constructed during 1996. Conversion was made in 2005 at a cost of $755,000. Total amount of warehousing space converted was 35,768 sq. ft.

2. The receiving station is located in another warehouse constructed in 1999 at a cost of $1,547,277.

3. Total warehouse space is 295,480 sq. ft. The office space occupied by the receiving stations was constructed at that time. No improvements have been made to the space since original construction.

Material and Supplies:

1. Standard price per 1,000 of any contract package (includes forms, instructions, and supporting addenda) is $250.

2. Standard price per 1,000 of receiving report forms (DD 250) is $35.

3. Standard price per 1,000 of legal size envelopes is $9.50.

4. Standard price per 1,000 blank check stock is $12.80.

5. Standard price of any accounting form, including voucher schedules is $15.50.

6. Standard monthly prorated cost of office supplies is $125. This includes PC tapes, correspondence paper, pencils, pens, etc.

Expensed Equipment:

1. When necessary, expensed equipment (desks, chairs, etc.) would have a prorated monthly charge of $50 per office. This is a composite rate for all expensed office equipment.

Figure 22-12 SUMMARY OF TIME SPENT

SUMMARY OF TIME SPENT BY PERSONNEL GRADE TO ISSUE A PAYMENT TO A CONTRACTOR (IN MINUTES)						
	VENDOR PAY	RECEIV. STAT.	DISB. OFC.	CONT. ADMIN.	MAIL ROOM	TOTAL
Captain	6		7			13
Sergeant (E-5)			18			18
Private (E-3)			8			8
Civilian (GS-8)	4	8	2			14
Civilian (GS-6)	68		10			78
Civilian (GS-5)	23		6			29
Civilian (GS-3)		17	29		26	72

Figure 22-13 COMPUTATION OF COSTS

COMPUTATION OF COSTS ASSOCIATED WITH ISSUING A PAYMENT TO A CONTRACTOR					
	ANNUAL RATE	HOURLY RATE	MINUTE RATE	TIME USED	COST
PERSONNEL COSTS:					
Captain (O-3)	$ 135,410	$ 65.10	$ 1.08	13	$ 14.04
Sergeant (E-5)	76,878	36.96	.61	18	10.98
Private (E-3)	56,039	26.94	.44	8	3.52
Civilian (GS-8)	139,937	67.27	1.12	14	15.68
Civilian (GS-6)	107,155	51.51	.85	78	66.30
Civilian (GS-5)	91,632	44.05	.73	29	21.17
Civilian (GS-3)	56,039	26.94	.44	72	31.68

Note: Hourly rates recognize all benefit costs.

Figure 22-14 SOURCE DOCUMENTS

SOURCE DOCUMENTS	
1.	DD Form 1155, "Order for Supplies or Services"
2.	DD Form 250, "Material Inspection and Receiving Report"
3.	DD Form 350, "Individual Contracting Action Report"
4.	Payment Voucher Schedule
5.	Blank check (If check payment)

Figure 22-15 TIME REQUIREMENTS

TIME REQUIREMENTS TO PAY A CONTRACTOR INVOICE	
	TIME REQUIRED (IN MINUTES)
VENDOR PAY:	
1. Receives contract from Contract Administration. Date and time stamps and sends to voucher clerk. (Date and time stamp machine used: 10 seconds) (GS-5 Secretary)	4
2. Establish contract file and insert contract. (PC used: 1 minute) (Data storage used: 15 seconds) (GS-6 Voucher examiner clerk)	7
RECEIVING STATION:	
1. Receives material and counts. (GS-3 Receiving clerk)	10
2. Prepares DD 250. (GS-3 Receiving clerk)	5
3. Delivers to Receiving Station Supervisor. (GS-3 Receiving clerk)	2
4. Receiving Stations Supervisor approves and sends to Vendor Pay. (GS-8 receiving Station Supervisor)	8
VENDOR PAY:	
1. Receives receiving report from Receiving Station Supervisor; date and time stamps; sends to voucher examiner clerk. Date and time stamp machine used: 10 seconds) (GS-5 Secretary)	6

Figure 22-15 TIME REQUIREMENTS (Continued)

TIME REQUIREMENTS TO PAY A CONTRACTOR INVOICE (CONT'D)	
	TIME REQUIRED (IN MINUTES)
2. Voucher examiner clerk pulls contract file; reviews receiving report to assure that material received is what was ordered; determines that coding is correct. (PC used: 20 seconds) (Data Storage used: 15 seconds) (GS-6 Voucher examiner clerk)	12
MAIL ROOM:	
1. Receives envelope from contractor; opens it; places in Vendor Pay mail pouch (GS-3 Mail clerk)	4
2. Mail clerk delivers to Vendor Pay. (GS-3 Mail clerk)	22
VENDOR PAY:	
1. Receives mail pouch from mail clerk; removes invoice from mail pouch; date and time stamps; sends to voucher examiner clerk. (PC used: 2 minutes) (GS-5 Secretary)	7
2. Voucher examiner clerk pulls contract file; reviews invoice to assure that invoice agrees with contract and receiving report; determines that coding is correct. (PC used: 22 seconds) (Data Storage used: 11 seconds) (GS-6 Voucher examiner clerk)	9
3. Audits voucher and prepares voucher for payment. (PC used: 18 seconds) (GS-6 Voucher examiner clerk)	8
4. Schedules voucher for payment. (PC used: 2 minutes, 35 seconds) (GS-6 Voucher examiner clerk)	5
5. Forwards voucher, together with supporting documents to supervisor for approval. (GS-6 Voucher examiner clerk)	3
6. Vendor Pay supervisor approves voucher and gives to secretary for transmittal to the disbursing office. (GS-8 Supervisor)	4
7. Secretary gives voucher and supporting documents to Captain. (GS-5 Secretary)	2
8. Captain reviews, approves, and returns to secretary	6
9. Secretary inserts in disbursing office pouch. (GS-5 Secretary)	2
10. Voucher clerk delivers pouch to disbursing office. (GS-6 Voucher examiner clerk)	12

Figure 22-15 TIME REQUIREMENTS (Continued)

TIME REQUIREMENTS TO PAY A CONTRACTOR INVOICE (CONT'D)	
	TIME REQUIRED (IN MINUTES)
DISBURSING OFFICE:	
1. Receives pouch from voucher examiner clerk; opens pouch; delivers payment schedule to disbursing clerk. Date and times stamps documents. (Date and time stamp machine used: 10 seconds) (GS-3 Clerk)	3
2. Disbursing clerk reviews and schedules for payment; gives package to supervisor for approval. (PC used: 3 minutes, 18 seconds) (GS-5 Disbursing clerk)	6
3. Disbursing supervisor reviews and approves; gives to Captain. (GS-6 Supervisor)	4
4. Captain reviews, approves, and returns to disbursing supervisor.	4
5. Disbursing supervisor gives to Sergeant (E-5). (GS-6 Supervisor)	2
6. Sergeant gets blank check from safe; prepares check writer; prints check; gives to disbursing supervisor (Check writer used: 54 seconds)	18
7. Disbursing supervisor gives to Captain (GS-6 Supervisor)	2
8. Captain signs check and returns to disbursing supervisor.	3
9. Disbursing supervisor gives to Private (E-3). (GS-6 Supervisor)	2
10. Private prepares envelope and puts check in envelope.	4
11. Clerk receives envelope from Private and delivers to Mail Room. (GS-3 Clerk)	13
12. Private gives supporting documentation to disbursing supervisor.	4
13. Disbursing supervisor gives documents to clerk. (GS-6 Supervisor)	2
14. Clerk returns documents to Vendor Pay. (GS-3 Clerk)	13
VENDOR PAY:	
1. Secretary receives documents from clerk; date and time stamps. (Date and time stamp machine used: 8 seconds) (GS-5 Secretary)	2
2. Secretary gives to voucher examiner clerk who files documents in contract file. (Data Storage used: 17 seconds) (GS-6 Voucher examiner clerk)	12

Figure 22-16 SUMMARY OF COSTS

SUMMARY OF THE COSTS ASSOCIATED WITH FINAL COST OBJECTIONS ISSUE CHECK TO CONTRACTOR		
PERSONNEL COSTS (INCLUDING BENEFITS):		
Military Civilian	$ 28.54 134.83	
Total Personnel Costs		$ 163.37
CAPITAL EXPENSES:		
Depreciation - Personal Property Depreciation - Real Property Amortization - Real Property Improvements Amortization - ADP Software	-0- -0- -0- -0-	
Total Capital Expenses		-0-
OTHER EXPENSES:		
Travel of Persons Transportation of Things Rent, Communications, Utilities Printing and Reproduction Contractual Services Supplies and Materials Equipment (not capitalized) All other expenses	-0- -0- -0- -0- -0- -0- -0- -0-	
Total Other Expenses		-0-
TOTAL COSTS ASSOCIATED WITH FINAL COST OBJECT		$ 163.37

Note: Capital expenses and other expenses were not computed because neither category contributed a value that would meaningfully affect the outcome. The Data Storage devices are used constantly and the amount of time allocable to document retrieval associated with a particular check is measured in terms of less than one minute. Real property occupied represented approximately 2 percent of total space and if allocated to the cost object based on time required to process a check would be substantially less than $1. Similarly the value of other expenses would be substantially less than $1 (the standard price of the blank check would be $.0128).

VOLUME 4, CHAPTER 22: "COST FINDING"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by a * 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 2010 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Throughout	Updated hyperlinks for USC citations, SFIS citations, and Treasury Department citations, and removed redundant hyperlinks.	Update
Throughout	Clarified wording.	Update

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CHAPTER 22

COST FINDING

2201 GENERAL

220101. Purpose

The DoD components are developing and fielding integrated Enterprise Resource Planning (ERP) systems which will provide more accurate, traceable, consistent, and visible methodologies to track and report costs. Situations which require the manual development of cost estimates will continue to exist. This chapter provides general cost estimation principles for those situations. This guidance will be followed by DoD Components when using cost finding techniques to determine the costs related to performing a service, to be charged for goods or services, or to obtain costs for decision-making or other purposes. Organizations employing formal cost accounting capabilities may use cost finding techniques to identify unfunded costs. However, any organization may from time to time have a need to use these techniques.

220102. Overview

A. Chapter 19 prescribes the basic policy for measuring and allocating costs. This chapter applies that basic policy to cost finding, establishes cost finding documentation policy, and describes generally recognized cost finding techniques and their application.

B. Cost finding is an approach used when the cost accounting system does not provide the actual costs incurred to provide a service, produce a product, or to obtain cost information for decision making and informational purposes. It is available for activities that do not have automated cost accounting capability as part of their accounting system, but who periodically provide reimbursable services or products to other DoD Components, Federal Agencies, or to the public. Cost finding may also be necessary when the cost of an item has not been recorded in the accounting system and the item is being transferred, sold, or recorded in the accounting system for the first time or when measuring productivity.

C. The proper application of cost finding requires knowledge of cost accounting and of the organizational functions associated with the final and intermediate cost objects. The cost finding structure must be consistent with ***Standard Financial Information Structure (SFIS)*** and SFIS Business Rules

2202 POLICY

220201. Documentation

A. Cost finding techniques must be documented when used. The documentation must contain the following:

1. The cost objects (both intermediate and final) to which cost finding techniques are to be applied.

2. The organizations involved in performing the cost objects and the tasks performed by each.

3. The applicable cost elements.

4. A plan that includes the specific cost finding techniques to be used and the criteria followed in selecting the specific cost finding technique.

5. A description of how those techniques will accomplish the cost object.

B. The statement and the work papers shall be retained for the same length of time as other documentation used to support billings to the public.

C. A case study is presented as an addendum to illustrate the application of this chapter. Discussions in the chapter are at the micro level. When different approaches may be usable to document the costs associated with a different cost object (e.g. at the macro level), information will be presented on the alternative approaches.

*220202. Identification of Cost Objects

A. Cost objects are functions or work units for which management decides to identify, measure, and accumulate costs. Cost objects shall be discrete and described to a sufficient level of detail as needed to identify the specific function or product for which a cost is to be established. See the Defense Chief Management Office's (DCMO) SFIS matrix for a discussion of SFIS components relating to organizational units and funding centers.

B. When the cost object is identified as being at a macro (an organizational level, for example) level, the amount of effort required to determine the relevant costs and the associated quantitative data should be less refined than if the cost object is identified as being at the micro (a specific function or operation) level. At the macro level, it is possible that the accounting system, through the use of coding structures and the general ledger operating program expense accounts shown in the Account Transactions section of the ***U.S. Treasury Financial Management Service (FMS) USSGL web site*** or detailed DoD-specific transactions available at the SFIS web site, can provide much of the financial data to establish relevant cost information. At the micro level, it probably will be necessary to use one of the methods described in section 2203 to determine the time required to perform the cost object and develop the cost information.

C. The classification of organizations as either direct (directly involved in performing the cost object) or indirect (performing as a support organization), is dependent on identifying cost objects. At the macro level, staff organizations (not directly involved in production) will be classified as indirect, and line (directly producing outputs) organizations will be classified as direct. At the micro level, it is possible that a staff organization, could be classified

as a direct organization. The distinction between the macro and micro levels will be an important consideration in complying with Office of Management and Budget (OMB) productivity requirements discussed in section 2204 of this chapter. The cost accountant must be able to translate the measurement requirements into source documents, allocation techniques, and other such analysis techniques as necessary to meet the management requirement. Establishing a cost object is a management decision and is essential to the proper application of cost finding techniques to a cost object.

D. Identifying and describing cost objects are very important. Within the Department of Defense, cost finding techniques may be used to compare costs of different organizational units or operations performing the same cost object, prepare budget justification material, to measure productivity, or to measure the cost of performing a particular operation. For example, the costs to issue an electronic funds transfer payment at a disbursing office might be compared with the same costs at other disbursing offices. Cost finding techniques are a tool in identifying more efficient methods of performing a task. Cost objects may also be used to compare organizational efficiency. For example, the costs for an intermediate object, such as processing a personnel action at a personnel office, might be compared with the cost at other personnel offices.

220203. Identification of Organizations Involved

A. Once the cost objects have been identified, the organizational units contributing resources to the cost object must be identified. Generally, the units will be within the organization itself (the installation or unit level; and possibly further within these levels).

B. The initial task is to classify the installation-level organizational units as direct or indirect. A unit responsible for actually performing the work is direct. A unit that provides support or performs an administrative function is indirect.

1. Organizations or units may be either direct or indirect depending on the cost objects identified.

2. An organization classified as indirect will not always be recognized in the computation of costs for a final cost object. At the macro level, staff organizations generally will be recognized as an indirect organization and the related costs allocated among direct organizations. At the micro level, materiality and usefulness will be determining factors.

C. Organizational units can be classified through use of an iterative process or through the use of organizational charts or tables. The iterative process is a series of questions designed to establish the relationship each organization has with the product or service for which cost finding techniques are being developed (Figure 22-1 is a suggested list of such questions). First, the organizational units directly involved in the process are identified. Then the organizations providing indirect functions to the direct organizations are identified through an iterative process consisting of a series of questions designed to establish the relationship of supporting activities to direct line organizations. The procedure is repeated until all organizational units are classified as direct or indirect for all identified cost objects.

D. In order to determine which organizations are involved, it is necessary to identify the flow of actions related to the cost object and the related intermediate cost objects.

E. It is important to understand that the organizational activities involved in a particular cost object or interim cost object can cross organizational lines of responsibility.

220204. Identification of Cost Elements

A. An important aspect of any cost finding technique is identifying the direct and indirect cost elements applicable to the product or service. Both the direct and indirect activities may have the same cost elements. The difference is in the allocation of all applicable indirect costs (factory burden). Chapters 19 and 20 provide guidance to determine factory burden.

*Figure 22-1 IDENTIFICATION AND CLASSIFICATION OF PARTICIPATING ORGANIZATIONS

SUGGESTED LIST OF QUESTIONS USED TO IDENTIFY AND CLASSIFY PARTICIPATING ORGANIZATIONS

What organizations are involved in the final and intermediate cost objects?

Which organization has primary responsibility for the final cost object?

Which organizations perform intermediate cost objects?

Which organization acts in a support role to the organization(s) performing the final or intermediate cost objects.?

What are the specific tasks performed by each of the identified organizations?

In what order do the organizations involved perform their delegated responsibilities?

B. All cost elements must be identified. The first step is to identify all possible cost elements and determine which are significant. Personnel Compensation, Purchased Services, Supplies and Materials are typical major categories within the SFIS Cost Element Code. Current General Ledger accounts are described at the USSGL web site, while the SFIS provides detailed information on transactions and on required cost information. Figure 22-2 gives an example of application of possible expense types (which may be consolidated into one or more USSGL accounts) to direct and indirect activities. After the potential applications are identified, a decision must be made as to which cost elements are sufficiently significant as to warrant separate consideration.

Figure 22-2 EXPENSE TYPE EXAMPLES

EXAMPLE EXPENSE TYPES	DIRECT ACTIVITY	INDIRECT ACTIVITY
Personnel Compensation-Civilian	X	X
Personnel Compensation-Military	X	X
Personnel Benefits-Civilian	X	X
Personnel Benefits-Military	X	X
Benefits for Former Personnel		X
Travel and Transportation of Persons	X	X
Transportation of Things	X	X
Rent, Communications and Utilities	X	X
Printing and Reproduction	X	X
Other Services	X	X
Supplies and Materials	X	X
Equipment (not capitalized)	X	X
Insurance Claims and Indemnities		X
Depreciation of Equipment	X	X
Depreciation of Real Property	X	X
Amortization of Leasehold Improvements	X	X
Bad Debts		X
Annual Leave	X	X

C. After developing the cost data, the individual or group responsible for applying cost finding to the cost object can make a decision as to the significance of each cost element in the final determination. Remember that the information is, at this point, only raw data. Decisions must be made as to the relevance and materiality of each cost element to the cost object. Materiality is determined by analyzing whether excluding the data could distort the computed value for the final cost object.

220205. Application of Prescribed Rates

A. The purpose of using cost-finding techniques is to determine that all applicable cost elements are included in the final cost. When the purpose is the preparation of an internal report or an external report for another Federal Agency or non-federal organization, the

guidance contained in Volume 11 shall be followed to assure that all applicable costs are considered. When the purpose is to establish the cost of an activity associated with the Security Assistance Program, the guidance contained in Volume 15, shall be followed.

B. The following rules shall be applied when determining the individual costs of intermediate and final cost objects:

1. Civilian direct labor costs are computed using step 5 of the applicable pay grade for GS- and GM-series personnel. For Wage Board employees, use step 4 of the applicable pay grade. Amounts included as direct labor costs shall recognize only productive time; that is, the time actually used to perform the function. All other time is indirect labor time, and is included in overhead (factory burden). Actual costs may be used, if known, provided appropriate documentation is available to support their substitution.

2. Civilian personnel benefits costs are computed using the rates contained in Volume 11.

3. Costs for Military personnel are accomplished using the rates for each applicable military grade using standard military composite rates in accordance with guidance in Volume 11.

4. Both military and civilian labor shall be included. Labor that is actually chargeable to jobs shall be recorded as direct labor. Indirect labor (labor that cannot be charged to a specific job) shall be used in computing overhead. Chapters 19 through 21 provide guidance in computing overhead.

5. Direct material cost is determined using standard prices unless the actual cost is known from vendor invoices. Standard prices can be obtained from vendor catalogs, supply system stock databases, recent contract purchases of similar items, or any other available data source.

6. Other costs that can be directly related to the cost object are determined using source documents such as vendor invoices, travel vouchers, and so forth.

7. Indirect costs are based on algorithms that are used to prorate the overhead costs to the cost object based on factors such as the ratio of direct labor costs for the cost object to total labor costs for the installation.

220206. Identification of Source Documents

A. Before the values for each cost can be determined, the source documents for the required data must be identified and copies obtained, together with the documents' locations. In addition, it is necessary to determine the quantities of documents involved, especially if the cost object is to determine average unit costs for a certain action.

B. When the final cost object is to determine the cost of performing one single event, the specific documents involved must be identified. When the cost object is much broader (for example, determining the average cost of issuing electronic payments without regard to whom they are issued), identification of the specific documents involved may not be as significant as the operating costs (including the materials and supplies used) of the organizational units directly involved in the process.

220207. Selection of the Appropriate Cost-Finding Technique

The development of a final cost for the cost object can be made using one of several different techniques or a combination thereof. The decision on the method used will often depend on the purposes for which the cost object has been established. Those cost objects established to determine costs to meet a statutory or a recurring use need could require the use of cost finding techniques with a higher degree of precision than those cost objects established to meet an internal management need. Section 2203 describes various techniques that may be useful in cost finding.

2203 COST-FINDING TECHNIQUES

220301. Observation

A. The observation technique is normally used when the specific effort for which a cost is to be established or a similar effort is currently in process. The first step is to complete the requirements statement required by paragraph 220201. The observer then physically follows the product or service through the various performing organizations, documenting the following:

Figure 22-3 OBSERVATION TECHNIQUE

1.	Events incident to performance.
2.	The grade levels of personnel directly working on the effort.
3.	The length of time spent on the activity.
4.	Direct material used.
5.	Indirect material used.
6.	Types of support received from other organizations.
7.	Any other factors that have an impact on the cost of producing the product or performing the service

B. A traditional flow chart of the entire process may be helpful in organizing, visualizing, and understanding the process under review. The process flow shown in the Figure 22-7 (p. 22-19) illustrates the data gathered through the use of this technique.

C. The observer then lists and computes the cost of each of the identified cost elements. These elements are frequently found in consolidated general ledger expense accounts such ”Operating Expenses/Program Costs” and “Benefit Expense.”. The SFIS provides detailed information on transactions and on required cost information.

D. Any other assumptions must be carefully and accurately documented so that users of the resulting information will have a better understanding of the process used.

220302. Statistical Sampling

A. This technique is normally used when there is a large volume of similar type work being performed on a continuous task basis. An example of the use of this technique is packing, crating, and handling costs incurred at a depot. A random sample of items is selected and a special job order tag is attached to each item selected when it is initially placed into the performance cycle. All personnel who come into physical contact with the items are required to record their organization, pay grade, length of time involved, and type and quantity of material or supplies used. Completed tags are returned to the personnel conducting the study who ensure that all tags have been returned and properly completed.

B. All of the cost elements identified to the cost object are assigned a cost.

C. Resulting cost estimates shall be annotated to disclose the confidence level of the resulting estimate within a specific range.

220303. Independent Appraisal

The independent appraisal technique is normally used when the cost determination is made after the cost object has been completed, and there is no similar product being produced. Normally, the effort would be accomplished by an engineer or an individual who is an expert in the production process. Under this procedure, a list of all resources involved in fabricating the product or performing the service is made. Each resource is then analyzed to establish a reasonable input cost. The total cost of the applied resources represents a reasonable estimate of costs incurred in the cost object.

220304. Commercial Cost

This technique is normally used with incidental activities carried out during a DoD mission requirement. In these circumstances, the application of normal full cost to the production of a product or provision of service would not be representative of the incurred cost. An example would be a Navy carrier transporting a disabled foreign aircraft to a repair facility incident to the performance of its normal mission. In this case, a determination of the commercial charge to transport the disabled aircraft might be more representative of the cost incurred by the Navy vessel.

220305. DELPHI Technique

This technique is useful in those instances when the more traditional cost estimation techniques cannot be applied to a cost object. Accordingly, it is probably the least precise estimating technique, but one that is still useful if another technique is not available or applicable.

A. This technique uses a series of estimates made by a group of experts that is refined as subsequent estimates are made. For example, five construction experts might be given the task of estimating the costs associated with a new construction technique. These experts would be given the initial parameters of the project such as location; required specifications; geographical, environmental, time, and political constraints; and, any other known relevant data at the time of project initiation. Each group member would then develop an initial estimate of component costs and reconvene to discuss their individual analyses. After discussion, each expert would be asked to refine their estimate based on what was learned at the meeting. The evaluation process would be repeated by each participant to arrive at a revised estimate. The process would be repeated as often as necessary, until the group achieved consensus that the estimate at hand was the best available, given the uncertainty of the nature of the project and dissimilarity with other efforts in their experience.

B. This technique is probably more useful in determining what some new product or service should cost rather than determining the actual cost of an existing product or service. However, some of the principles involved may be helpful.

220306. Memorandum Records

This technique is an informal method for gathering cost data and should only be used in those cases when the value of the cost data is of little significance. It is the preparation of memoranda documenting estimates of costs for a specific product or service. It should not be used when significant decisions are to be based on the cost estimates derived or when other more accurate methods are available. It is useful as a cost accumulating tool for those low priority, low value projects or products when it is known that some cost data may be required in the future. However, in this case, a traditional cost accounting system is too costly or too cumbersome relative to the underlying effort.

220307. Analysis of Responsibility Center/Cost Center

This technique can be used where documented, well-supported organizational costs are available through some responsibility center or cost center organizational structure. Costs associated with the center can be allocated to a product or service of the center as a way to estimate at least part of the cost of that product or service.

220308. Combination of Cost-Finding Techniques

Multiple cost finding techniques may be used if it results in a more cost-effective or more accurate estimate. The techniques can also be used to augment data that is generated by a conventional cost accounting system. Use the cost accumulation system or method that gives the

highest quality cost data at the lowest cost. Other techniques may be used if they are logical, accurate, and documented.

220309. Determination of Time and Cost

A. After determining the required time to perform each element of the final and intermediate cost objects, the costs associated with each element must be determined. Since real and capitalized personal property is involved, the cost of these assets must also be included. Figure 22-2 (p. 22-8) in paragraph 220204 illustrates the form that can be used to determine the total costs associated with a final cost object.

B. Personnel costs are obtained from the following sources:

1. Civilian Personnel. Pay scales issued by the Office of Personnel Management.

2. Military Personnel. Standard military composite pay rates issued by OUSD (C). These standard rates include fringe benefits.

3. Civilian Personnel Fringe Benefits. These are determined using the add-on factors in Volume 11.

C. Depreciation and Amortization of Capitalized Personal Property. Refer to Chapters 1 and 6, and Volume 11B for the Defense Working Capital Fund.

D. Depreciation and Amortization of Real Property. Refer to Chapters 1 and 6, and Volume 2B, Chapter 9 for the DWCF.

*ADDENDUM: CASE STUDY - Determination of the Costs Associated With Paying a Contractor Invoice

This case study demonstrates the application of the various requirements contained in this chapter to determining the costs associated with paying a contractor invoice. The situation selected was chosen as being typical of the types of operations occurring within the Department of Defense for which comparisons between organizations can be made.

Paragraph 220201 of this chapter requires a clear statement of the cost objects to which cost finding techniques are to be applied and those techniques to be applied, among other things. Such a statement is presented in Figure 22-4 (p. 22-16.)

The intermediate cost objects related to the final cost object are listed in Figure 22-5 (p. 22-17.) The list is at the summary level and serves as a basis for identifying the processes which must be examined in detail. The compilation is based on the guidance contained in paragraph 220202.

The organizational elements and their relationship to the intermediate and final cost objects are identified in Figure 22-6 (p.22-18.) As described in paragraph 220203, it is developed using the organization chart and descriptions of organization functions. It also categorizes the installation's organizational units as direct (those that are involved in the final cost object) and indirect. Those classified as indirect provide varying degrees of support to the organizational units that are identified as direct. Direct activities may or may not be a part of the same organization.

The process flow associated with paying a contractor invoice, as described in paragraph 220203 is illustrated in Figure 22-7 (p. 22-19.) A comparison of this process flow chart with the organization chart in Figure 22-6 (22-18) will identify organizations that may not be shown on the organization chart. For example, the contract administration activity is not shown on the organization chart and could be a part of supply operations. Similarly, the mail room might be part of base operations. These situations arise when the organization chart is at a higher level than the operation being costed.

The organizational activities realigned as direct and indirect for the purposes of this cost finding study are shown in Figure 22-8 (22-20.) This chart is provided as a basis for clearly identifying which activities are to be classified as direct activities, as described in paragraph 220203.

Examples of the cost elements to be considered in determining the relevant costs associated with this task are identified in Figure 22-9 (p. 22-21.) They are based on Figure 22-2 in paragraph 220204.

The personnel assigned to the direct activities associated with paying a contractor's invoice are listed in Figure 22-10 (p. 22-22.) This information is necessary to support the determination of personnel costs as described in paragraph 220204.

Statistical information as to the equipment, real property, and supplies and materials used in performing the final and intermediate cost objects is provided in Figure 22-11 (p. 22-23.) In addition, the equipment is subdivided between capitalized and expensed equipment.

The personnel rates associated with the personnel assigned to the direct organization activities are summarized Figure 22-12 (p. 22-25.) The costs associated with the final and intermediate cost objects using the guidance in paragraph 220205 concerning application of prescribed rates are computed and shown in Figure 22-13 (p. 22-25.)

The source documents associated with the intermediate and final cost objects are listed in Figure 22-14 (p. 22-26.) Copies of each of these documents would be obtained and included as supporting documentation in the working papers associated with the cost finding task, as required in paragraph 220206.

A compilation of the time required to perform each of the various actions associated with processing a contractor invoice for payment is shown in Figure 22-15 (pp. 22-26 through 22-28.) The civilian or military grade for each person involved in the process, as well as the equipment used and the time of use also is identified. The requirements contained in paragraph 220207 are also addressed in Figure 22-15.

The costs associated with paying a contractor invoice are summarized in Figure 22-16 (p. 22-29.)

Figure 22-4 STATEMENT OF PURPOSE

STATEMENT OF PURPOSE
Determination of Costs
To Pay A Contractor's Invoice

A. PURPOSE

This effort will determine the cost incurred by one DoD organization to pay a contractor's invoice. The information is required to identify the various types of activities involved and the related costs for comparison with similar costs incurred by other DoD organizations.

B. COST OBJECTS

The intermediate and final cost objects associated with this effort include those required to administratively process contract documents, receiving reports and invoices and issue a check or electronic payment.

C. ORGANIZATIONS INVOLVED

Those organizational activities directly involved in processing the contract, processing invoices, mailing documents, and issuing checks or electronic payments will be classified as direct activities. All other activities are considered as indirect activities.

D. COST ELEMENTS

The cost elements in Volume 11 applicable to other Federal Agencies will be accumulated. The following cost elements to be identified for the purposes of this task include personnel (civilian and military), personnel benefits, communications, and supplies and materials.

E. APPROACH

Cost finding is used to establish the cost to pay a contractor invoice. Observation and questions are used to establish the sequence of observations. Time measurement is used to establish the time required to perform each action in the process. These techniques are considered the best approach because preliminary indications are that each action requires only a few minutes of any employees' time. In addition, the use of specific material, equipment and documents can be readily identified and measured. Personnel costs are be based on hourly rates obtained from pay scales for civilian personnel, and standard military composite rates for military personnel.

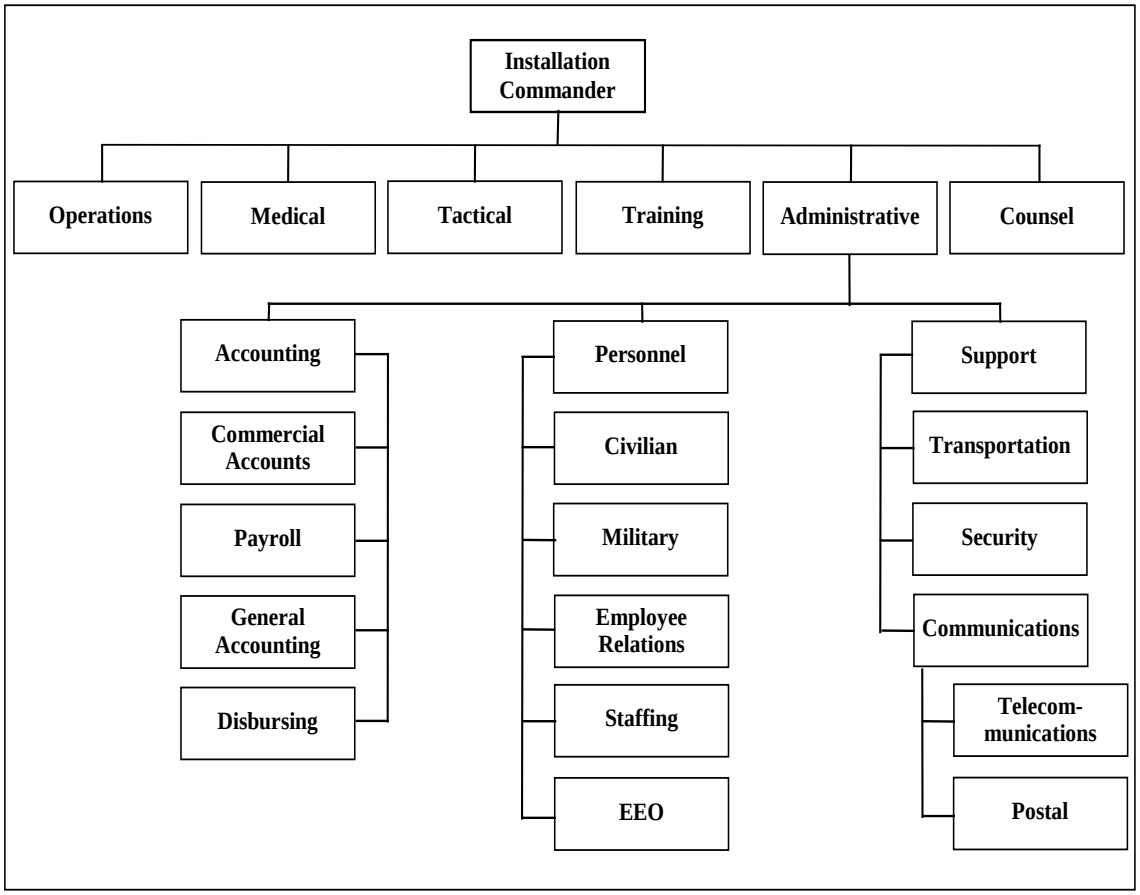
Figure 22-5 COST OBJECTS

FINAL AND INTERMEDIATE COST OBJECTS TO PAY A CONTRACTOR INVOICE

FINAL COST OBJECT:	Pay a contractor invoice
INTERMEDIATE COST OBJECTS:	Establish voucher file
	Maintain voucher file
	Receive receiving reports
	Receive invoices
	Compare invoice to receiving reports and contracts
	Verify whether proposed payment requires additional funding
	Verify that right of offset exists against amounts due the Government by the contractor
	Prepare payment voucher
	Schedule voucher for payment
	Print check (issue e-payment)
	Mail check (NA for e-payment)
	Record payment

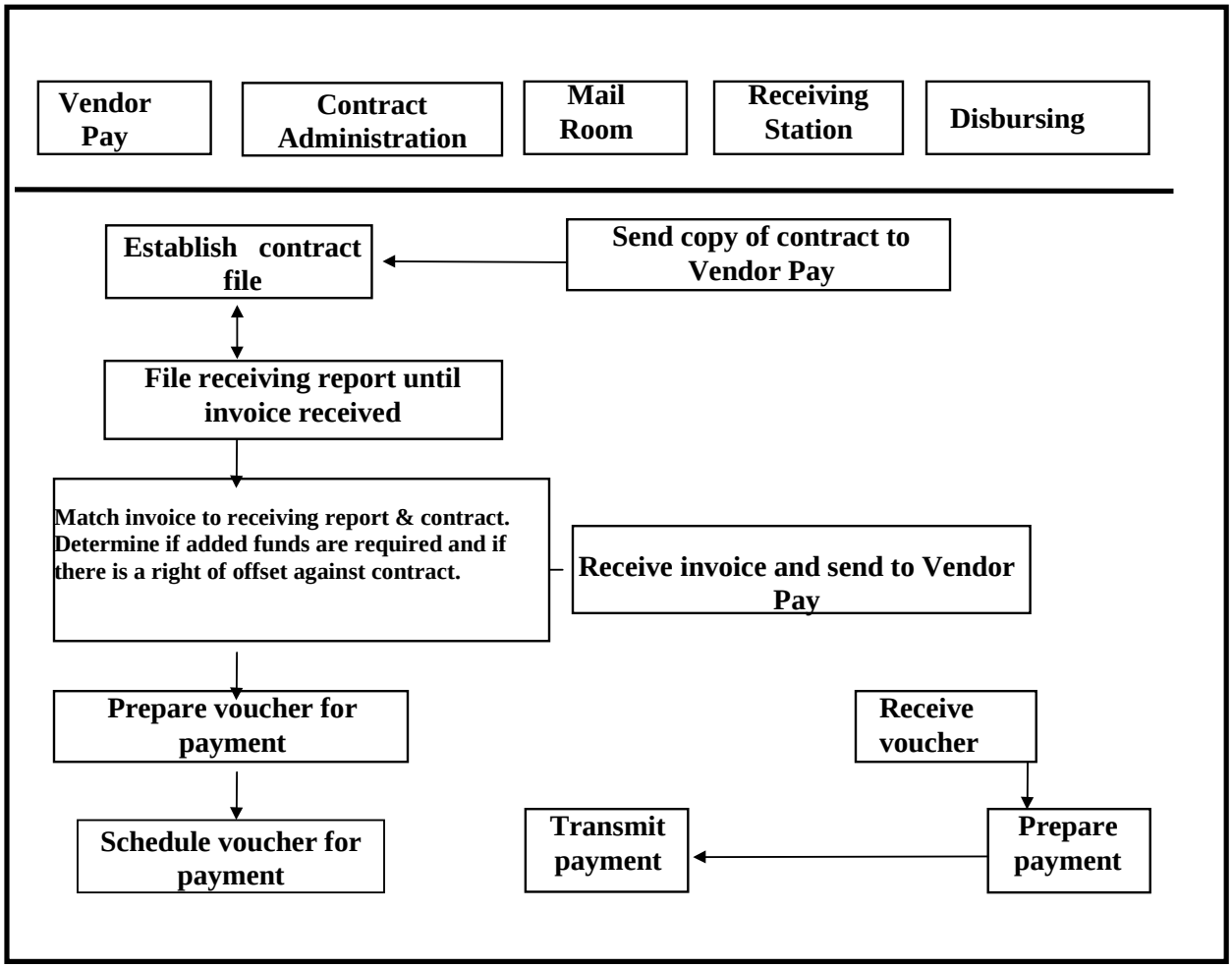
Figure 22-6 NOTIONAL INSTALLATION ORGANIZATION CHART

(Support services may be located at other sites but are shown here for simplicity)



* Figure 22-7 PROCESS FLOW FOR ISSUING PAYMENTS TO CONTRACTORS

(Functional titles may vary)



* Figure 22-8 ORGANIZATION HIERARCHY ASSOCIATED WITH FINAL AND INTERIM COST OBJECT

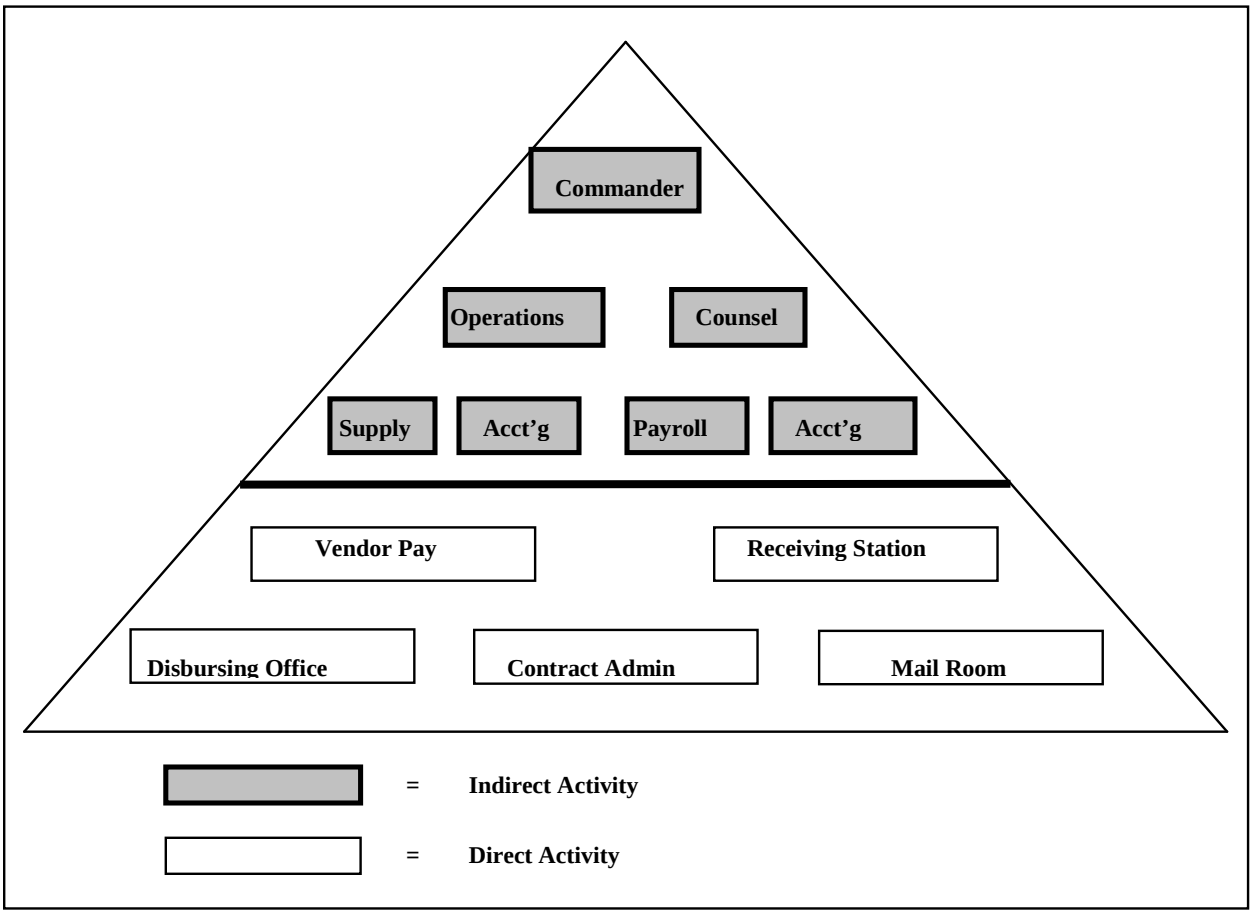


Figure 22-9 COST ELEMENTS

COST ELEMENTS

The cost elements potentially associated with the cost of issuing a payment to a contractor are summarized as follows:

(1) Personnel costs, both military and civilian.

(2) Personnel benefits, both military and civilian.

(3) Communications (telephone).

(4) Supplies and materials.

(5) Postage.

(6) Utilities.

(7) Equipment (depreciation).

(8) Buildings (depreciation).

(9) Leasehold improvements (amortization).

(10) Computer software (amortization).

Figure 22-10 PERSONNEL ASSIGNED TO DIRECT ACTIVITIES

NUMBER OF PERSONNEL ASSIGNED TO DIRECT ACTIVITIES ASSOCIATED WITH FINAL COST OBJECT (*Notional, may not reflect current organizations*)					
	VENDOR PAY	RECEIVING STATION	DISBURSING OFFICE	CONTRACT ADMIN.	MAIL ROOM
Captain (O-3)	1		1		
1st Lieutenant (O-2)	2		3		
2nd Lieutenant (O-1)	1	1	2	1	
Sergeant (E-5)		2	2		1
Private (E-3)	3	4			1
Civilian (GS-8)	2		2	2	
Civilian (GS-6)	2	1	4	2	1
Civilian (GS-5)	5	2	4	4	2
Civilian (GS-3)		2	2		5

Figure 22-11 EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES

EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES ASSOCIATED WITH FINAL COST OBJECT *(Notional, may not reflect current requirements)*					
	VENDOR PAY	RECEIVING STATION	DISBURSING OFFICE	CONTRACT ADMIN.	MAIL ROOM
CAPITALIZED EQUIPMENT:					
Imaging Machines			1	1	
Data Storage and Retrieval Devices	5		1	8	
EXPENSED EQUIPMENT:					
Personal Computers	6		3	7	
Calculators	12	10	16	8	
Laser Printers			2		
Desks	16	6	20	11	2
Chairs	25	7	24	15	11
REAL PROPERTY:					
Office Space (Sq. Ft.)	1,778	480	2,540	1,390	498
Warehouse Space (Sq. Ft.)		1,638			
ADDITIONAL INFORMATION: Imaging machines cost $252,000 each and have a life expectancy of 10 years for depreciation purposes. Data storage devices cost $265,000 and have a life expectancy of 10 years for depreciation purposes.					
Age of Imaging Machines: 3 years old 4 years old			1	1	
Age of Data Storage Devices: 2 years old 3 years old 5 years old	4 1		1	3 3 2	

Figure 22-11 EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES (Continued)

EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES ASSOCIATED WITH FINAL COST OBJECT (CONTINUED)

Real Property:

1. Office space is converted warehousing constructed during 1996. Conversion was made in 2005 at a cost of $755,000. Total amount of warehousing space converted was 35,768 sq. ft.

2. The receiving station is located in another warehouse constructed in 1999 at a cost of $1,547,277.

3. Total warehouse space is 295,480 sq. ft. The office space occupied by the receiving stations was constructed at that time. No improvements have been made to the space since original construction.

Material and Supplies:

1. Standard price per 1,000 of any contract package (includes forms, instructions, and supporting addenda) is $250.

2. Standard price per 1,000 of receiving report forms (DD 250) is $35.

3. Standard price per 1,000 of legal size envelopes is $9.50.

4. Standard price per 1,000 blank check stock is $12.80.

5. Standard price of any accounting form, including voucher schedules is $15.50.

6. Standard monthly prorated cost of office supplies is $125. This includes PC tapes, correspondence paper, pencils, pens, etc.

Expensed Equipment:

1. When necessary, expensed equipment (desks, chairs, etc.) would have a prorated monthly charge of $50 per office. This is a composite rate for all expensed office equipment.

Figure 22-12 SUMMARY OF TIME SPENT

SUMMARY OF TIME SPENT BY PERSONNEL GRADE TO ISSUE A PAYMENT TO A CONTRACTOR (IN MINUTES)						
	VENDOR PAY	RECEIV. STAT.	DISB. OFC.	CONT. ADMIN.	MAIL ROOM	TOTAL
Captain	6		7			13
Sergeant (E-5)			18			18
Private (E-3)			8			8
Civilian (GS-8)	4	8	2			14
Civilian (GS-6)	68		10			78
Civilian (GS-5)	23		6			29
Civilian (GS-3)		17	29		26	72

Figure 22-13 COMPUTATION OF COSTS

COMPUTATION OF COSTS ASSOCIATED WITH ISSUING A PAYMENT TO A CONTRACTOR					
	ANNUAL RATE	HOURLY RATE	MINUTE RATE	TIME USED	COST
PERSONNEL COSTS:					
Captain (O-3)	$ 135,410	$ 65.10	$ 1.08	13	$ 14.04
Sergeant (E-5)	76,878	36.96	.61	18	10.98
Private (E-3)	56,039	26.94	.44	8	3.52
Civilian (GS-8)	139,937	67.27	1.12	14	15.68
Civilian (GS-6)	107,155	51.51	.85	78	66.30
Civilian (GS-5)	91,632	44.05	.73	29	21.17
Civilian (GS-3)	56,039	26.94	.44	72	31.68

Note: Hourly rates recognize all benefit costs.

Figure 22-14 SOURCE DOCUMENTS

SOURCE DOCUMENTS	
1.	DD Form 1155, "Order for Supplies or Services"
2.	DD Form 250, "Material Inspection and Receiving Report"
3.	DD Form 350, "Individual Contracting Action Report"
4.	Payment Voucher Schedule
5.	Blank check (If check payment)

Figure 22-15 TIME REQUIREMENTS

TIME REQUIREMENTS TO PAY A CONTRACTOR INVOICE	
	TIME REQUIRED (IN MINUTES)
VENDOR PAY:	
1. Receives contract from Contract Administration. Date and time stamps and sends to voucher clerk. (Date and time stamp machine used: 10 seconds) (GS-5 Secretary)	4
2. Establish contract file and insert contract. (PC used: 1 minute) (Data storage used: 15 seconds) (GS-6 Voucher examiner clerk)	7
RECEIVING STATION:	
1. Receives material and counts. (GS-3 Receiving clerk)	10
2. Prepares DD 250. (GS-3 Receiving clerk)	5
3. Delivers to Receiving Station Supervisor. (GS-3 Receiving clerk)	2
4. Receiving Stations Supervisor approves and sends to Vendor Pay. (GS-8 receiving Station Supervisor)	8
VENDOR PAY:	
1. Receives receiving report from Receiving Station Supervisor; date and time stamps; sends to voucher examiner clerk. Date and time stamp machine used: 10 seconds) (GS-5 Secretary)	6

Figure 22-15 TIME REQUIREMENTS (Continued)

TIME REQUIREMENTS TO PAY A CONTRACTOR INVOICE (CONT'D)	
	TIME REQUIRED (IN MINUTES)
2. Voucher examiner clerk pulls contract file; reviews receiving report to assure that material received is what was ordered; determines that coding is correct. (PC used: 20 seconds) (Data Storage used: 15 seconds) (GS-6 Voucher examiner clerk)	12
MAIL ROOM:	
1. Receives envelope from contractor; opens it; places in Vendor Pay mail pouch (GS-3 Mail clerk)	4
2. Mail clerk delivers to Vendor Pay. (GS-3 Mail clerk)	22
VENDOR PAY:	
1. Receives mail pouch from mail clerk; removes invoice from mail pouch; date and time stamps; sends to voucher examiner clerk. (PC used: 2 minutes) (GS-5 Secretary)	7
2. Voucher examiner clerk pulls contract file; reviews invoice to assure that invoice agrees with contract and receiving report; determines that coding is correct. (PC used: 22 seconds) (Data Storage used: 11 seconds) (GS-6 Voucher examiner clerk)	9
3. Audits voucher and prepares voucher for payment. (PC used: 18 seconds) (GS-6 Voucher examiner clerk)	8
4. Schedules voucher for payment. (PC used: 2 minutes, 35 seconds) (GS-6 Voucher examiner clerk)	5
5. Forwards voucher, together with supporting documents to supervisor for approval. (GS-6 Voucher examiner clerk)	3
6. Vendor Pay supervisor approves voucher and gives to secretary for transmittal to the disbursing office. (GS-8 Supervisor)	4
7. Secretary gives voucher and supporting documents to Captain. (GS-5 Secretary)	2
8. Captain reviews, approves, and returns to secretary	6
9. Secretary inserts in disbursing office pouch. (GS-5 Secretary)	2
10. Voucher clerk delivers pouch to disbursing office. (GS-6 Voucher examiner clerk)	12

Figure 22-15 TIME REQUIREMENTS (Continued)

TIME REQUIREMENTS TO PAY A CONTRACTOR INVOICE (CONT'D)	
	TIME REQUIRED (IN MINUTES)
DISBURSING OFFICE:	
1. Receives pouch from voucher examiner clerk; opens pouch; delivers payment schedule to disbursing clerk. Date and times stamps documents. (Date and time stamp machine used: 10 seconds) (GS-3 Clerk)	3
2. Disbursing clerk reviews and schedules for payment; gives package to supervisor for approval. (PC used: 3 minutes, 18 seconds) (GS-5 Disbursing clerk)	6
3. Disbursing supervisor reviews and approves; gives to Captain. (GS-6 Supervisor)	4
4. Captain reviews, approves, and returns to disbursing supervisor.	4
5. Disbursing supervisor gives to Sergeant (E-5). (GS-6 Supervisor)	2
6. Sergeant gets blank check from safe; prepares check writer; prints check; gives to disbursing supervisor (Check writer used: 54 seconds)	18
7. Disbursing supervisor gives to Captain (GS-6 Supervisor)	2
8. Captain signs check and returns to disbursing supervisor.	3
9. Disbursing supervisor gives to Private (E-3). (GS-6 Supervisor)	2
10. Private prepares envelope and puts check in envelope.	4
11. Clerk receives envelope from Private and delivers to Mail Room. (GS-3 Clerk)	13
12. Private gives supporting documentation to disbursing supervisor.	4
13. Disbursing supervisor gives documents to clerk. (GS-6 Supervisor)	2
14. Clerk returns documents to Vendor Pay. (GS-3 Clerk)	13
VENDOR PAY:	
1. Secretary receives documents from clerk; date and time stamps. (Date and time stamp machine used: 8 seconds) (GS-5 Secretary)	2
2. Secretary gives to voucher examiner clerk who files documents in contract file. (Data Storage used: 17 seconds) (GS-6 Voucher examiner clerk)	12

Figure 22-16 SUMMARY OF COSTS

SUMMARY OF THE COSTS ASSOCIATED WITH FINAL COST OBJECTIONS ISSUE CHECK TO CONTRACTOR		
PERSONNEL COSTS (INCLUDING BENEFITS):		
Military Civilian	$ 28.54 134.83	
Total Personnel Costs		$ 163.37
CAPITAL EXPENSES:		
Depreciation - Personal Property Depreciation - Real Property Amortization - Real Property Improvements Amortization - ADP Software	-0- -0- -0- -0-	
Total Capital Expenses		-0-
OTHER EXPENSES:		
Travel of Persons Transportation of Things Rent, Communications, Utilities Printing and Reproduction Contractual Services Supplies and Materials Equipment (not capitalized) All other expenses	-0- -0- -0- -0- -0- -0- -0- -0-	
Total Other Expenses		-0-
TOTAL COSTS ASSOCIATED WITH FINAL COST OBJECT		$ 163.37

Note: Capital expenses and other expenses were not computed because neither category contributed a value that would meaningfully affect the outcome. The Data Storage devices are used constantly and the amount of time allocable to document retrieval associated with a particular check is measured in terms of less than one minute. Real property occupied represented approximately 2 percent of total space and if allocated to the cost object based on time required to process a check would be substantially less than $1. Similarly the value of other expenses would be substantially less than $1 (the standard price of the blank check would be $.0128).

VOLUME 4, CHAPTER 23: "COST DISTRIBUTION FOR INFORMATION TECHNOLOGY FACILITIES"

SUMMARY OF MAJOR CHANGES

All changes are denoted by blue font.

Substantive revisions are denoted by an * 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 January 1995 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
	Added Table of Contents.	Add
Multiple	Added hyperlinks.	Add
230202	Updated reference.	Update
230703.F	Added a step addressing Accumulated Operating Results.	Add

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CHAPTER 23

COST DISTRIBUTION FOR INFORMATION TECHNOLOGY FACILITIES

2301 PURPOSE

230101. Accounting Requirements

The purpose of this chapter is to provide accounting requirements and guidance applicable to cost distribution for information technology facilities. The term "information technology facility" (ITF) is used in this chapter in lieu of data processing facility, data processing installation, central design activity, computer center, data center, and similar terms. It encompasses all resources used to provide data or information processing and telecommunications services. The chapter provides instructions for accounting for the full costs of operating ITFs, as required by ***OMB Circular No. A-130***, "Management of Federal Information Resources."

230102. Obligation Data or Service Costs

The identification of obligation data or service costs related to ITF operations can provide important information to organizational managers, ITF managers, and users that may result in more efficient operation and use of the ITF. Such information can show trends by which the efficiency of the services may be measured. Also, the cost identification process can demonstrate utilization and cost trends, develop user profiles, isolate information technology costs, improve planning, and become an important element in management's overall evaluation of the ITF. Obligation or cost data can be used to support budget exhibits and provide the information needed to support management decisions related to ITFs.

2302 REQUIREMENTS

230201. Accounting Systems

DoD Component accounting systems shall provide sufficient accounting support to ITFs for them to identify obligations or operating costs applicable to their operations. ITFs shall identify costs applicable to services provided to users if: (a) services are provided to more than one organizational or accounting entity, (b) it operates one or more general management computers, and (c) it has annual operating costs or obligations greater than $5 million. An ITF shall identify costs applicable to services provided to users if it has an annual reimbursable program of more than $500 thousand.

230202. Cost Identification Guidance

The cost identification guidance in this chapter also can be used to support management needs to identify ITF costs related to the life cycle of an Automated Information System (AIS). For example, management must identify AIS program development and procurement costs to determine if the major AIS threshold, as defined in ***DoD Directive 5000.01***, has been exceeded.

230203. Excluded Services

Services provided under emergency conditions or reciprocal backup agreements are excluded from the service-costing requirement. Defense Working Capital Fund (DWCF) activities that operate ITFs shall follow the guidance contained in this chapter for the ITF function and chapters 19 through 21 of this Volume, as applicable, for other functions.

2303 REIMBURSEMENTS

The specific policy applicable to the billing for ITF services is contained in Volumes 11A (Reimbursable Operations, Policy and Procedures) and 11B (Reimbursable Operations, Policy and Procedures - Working Capital Funds (WCF)). Volume 11A or 11B shall be followed as appropriate to determine if an ITF should bill for its services and at what price. This chapter provides guidance to identify all costs associated with ITF services regardless of any billing requirements.

2304 DEFINITIONS

The following are definitions for certain terms used within this chapter:

230401. Cost Center

A logical or physical grouping of one or more similar services for the purpose of identifying obligations or developing the cost identification for the services. Services are grouped into cost centers in order to (a) normalize between services that use similar resources with different capabilities; (b) apply surcharges and discounts to services; (c) identify costs for different classes of the same service; or (d) identify obligations. A software design team in a central design activity is an example of a cost center. One or more cost centers will make up an ITF. A cost center also can be referred to as a service center.

230402. Costs

A. Direct Costs. Any item of cost that is easily and readily identified to a specific unit of work or output within the ITF cost centers. Typical direct costs include civilian and military personnel costs, supplies, materials, and contract services. (See Volume 11A for guidance relevant to general fund activities and Volume 11B, Chapter 11 for guidance applicable to DWCF activities)

B. Indirect Costs. An item of cost that is incurred for more than one specific unit of work or output within the ITF, and, therefore, cannot easily and readily be identified to a single item and must be allocated. There are numerous allocation methods that can be used; however, indirect costs are normally allocated based on total direct costs or total direct labor costs. An example of indirect costs is the management personnel of a computer operations room that provides for the development, implementation and administration of all policy guidance and procedures for the computer operations room.

C. General and Administrative Costs (G&A). An item of cost that supports the total operation of the ITF not just selected cost centers. There are numerous allocation methods that can be used; however, G&A costs are normally allocated based on total direct costs or total direct labor costs. Examples of G&A costs are the front office of the ITF, administrative staffs, or general maintenance and repair expenses.

230403. General Management Computer

A general management computer is a digital computer that is used for any purpose other than as a part of a process control system, space system, mobile system, or equipment that is an integral part of a weapon or weapons system. It excludes equipment involved with intelligence activities and cryptologic national security activities.

230404. Information Technology Facility (ITF)

An information technology facility is an organizationally defined set of personnel, hardware, software, and physical facilities, operated within or on behalf of the Department of Defense, a primary function of which is the operation of information technology. An ITF includes:

A. The personnel who operate computers or telecommunications systems; develop or maintain software; provide user liaison and training; schedule computers, prepare and control input data; control, reproduce, and distribute output data; maintain tape and disk libraries; provide security; and provide direct administrative support to personnel engaged in these activities.

* B. The owned or leased computer and telecommunications hardware, including central processing units; associated peripheral equipment such as disk drives, tape drives, printers, and consoles; data entry equipment; telecommunications equipment including control units, terminals, modems, and dedicated telephone and satellite links provided by the facility to enable data transfer and access to users. Hardware acquired and maintained by users of the facility is excluded (e.g., sponsor owned hardware procured solely to support a particular customer's order/workload and not used to support multiple customers' orders/workload).

* C. The software, including operating system software, utilities, sorts, language processors, access methods, data base processors, and similar multi-user software required by the facility for support of the facility and/or general use by users of the facility. All software acquired or maintained by users of the facility is excluded (e.g., sponsor owned hardware procured solely to support a particular customer's order/workload and not used to support multiple customers' orders/workload).

D. The physical facilities, including computer rooms, tape and disk libraries, stock-rooms and warehouse space, office space, and physical fixtures.

230405. Obligations

Amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Obligations are

directly related to budget authority received for a given fiscal year, and the amounts of budget authority obligated are reported monthly in budget execution reports. (See Volume 6A, Chapter 4.)

230406. Service

A service is any work done by the ITF for a user or group of users.

230407. Unit of Service

A unit of service is the end product or unit used to measure the amount of service received by users. Examples of service units are central processing unit (CPU) time for Multiple Virtual Storage (MVS) CPU service, UNISYS Standard Unit of Processing (SUPS), Megabyte Storage, Application Support and Hardware Services for Windows or UNIX, direct labor hours expended to develop a software application or checks processed for a payroll service. The unit of service selected should be an accurate unit of the dominant type of work performed by the ITF. If a single unit cannot be determined, then the possibility of dividing the work into multiple services should be considered. For example, preparing a report by an ITF can require CPU time, data storage and retrieval, and printing. Total cost for the report may involve summing costs of each required service.

230408. User

A user is an individual, organizational or functional entity that receives ITF services. A user may be internal or external to the DoD Component.

2305 IDENTIFICATION OF OBLIGATION/COST DATA

The identification and recording of obligation or cost data for ITFs shall be in accordance with Volume 11 and Volume 4. Because detailed information on recording and reporting obligations and costs are contained throughout this Regulation, guidance will not be repeated here. Accounting support must be provided to ITFs so that they can identify obligation or cost data and report it when required.

2306 IDENTIFICATION AND ALLOCATION OF COSTS

230601 Allocation Process

The identification and allocation of costs is a process by which the costs incurred by the ITF for providing its services are collected by function and related to the service unit being supported. The costs of direct functions are directly related to the service unit they support. However, an allocation process is used to properly relate indirect and G&A costs to the appropriate service units. A full description of the allocation process must be documented. A description (including a schematic) of the allocation process that shows the relationships of the various cost center indirect and G&A costs should be available for review by appropriate authority and for user understanding of the allocation process.

230602. Cost Centers

All costs associated with the operation of an ITF shall be distributed to the appropriate service units. Charges must be equitable to resources consumed and priority requested. Dedicated services are to be identified to specific users. For multi-user services, workload measurement tools should be used to insure ITF costs are equitably charged to users for all service units consumed. Within the ITF, further breakdowns shall be made to specific cost centers. Costs within these centers should be determined within a documented cost element structure. See Figure 23-1 for a breakdown of potential information technology cost elements associated with an ITF. The identification and allocation process should be established by knowledgeable and informed people who are familiar with the particular ITF operation.

230603. Review Period

The identification and allocation process must be reviewed periodically to ensure that no service has been inadvertently omitted or unnecessarily included.

230604. Unit of Service Rates

Where appropriate, e.g., cost center or completion of a process, specific units of service shall be established to produce a rate for each type of service provided. Figure 23-2 is an example of the possible types of information technology services being performed and their related unit(s) of service and workload measurements.

230605. Direct Costs

All direct costs associated with an ITF shall be identified to the applicable function, service and cost centers. (See subparagraph 230402.A, Figure 23-3, and Volume 11.)

230606. Indirect Cost Pools

Indirect cost pools shall be established for each cost center to identify the indirect costs associated with each product or service within the cost center. These costs shall be allocated periodically based on an acceptable allocation method such as total direct costs or total direct labor costs. The allocation method applied must be documented.

230607. G&A Cost Pools

A G&A cost pool shall be established for an ITF. Applicable costs shall be identified to the G&A cost pool and periodically allocated based on an acceptable allocation method such as total direct and indirect costs. The allocation method applied must be documented.

230608. Review Period for Indirect and G&A Costs

Indirect and G&A costs shall be evaluated periodically to verify cost type (that is, indirect or overhead), and adjust allocations to the applicable service units as necessary.

230609. Documentation of User and Services Provided

A record shall be maintained to identify the users of an ITF and the services provided to each user. The total output of an ITF should be reconcilable with the work accomplished or produced by the ITF for each customer. Statements of charges or identification of ITF services to users shall be derived from records kept by the ITF. These records are needed for billing, verification of cost allocations, and for future planning and budgeting.

230610. Management Control Procedures

Management control procedures for implementing this chapter are to be established and documented.

2307 RATE COMPUTATION

230701. Developing Rates

Figure 23-4, "Information Needed to Define the Current Environment," provides some suggested actions or questions to be answered that may be helpful before beginning to develop rate computations.

230702. Points for Consideration When Developing Rates

When developing rates, these points should be understood:

A. Services and their unit(s) of service should be easily understood by the ITF users.

B. Services should represent a significant portion of the ITF's work, and the unit(s) of service should be a valid measure of the amount of work performed.

C. Services are not limited to equipment based units. Other services, especially personnel based services, are often costly and should be identified.

D. When possible, services that are transaction or output based should be selected so that the users can easily understand them.

E. Services and the cost collection/allocation process should be reviewed periodically to insure that rates are an accurate reflection of what it costs the ITF to provide each service. Policies and procedures need to be in place to facilitate this process.

230703. Rate Development Procedures

Rate development should follow a sequential procedure. Identified below are six basic steps that should be taken for all reimbursable charges. Step 6 applies to DWCF only.

A. Step 1. Identify all costs associated with the ITF. Figures 23-5 and 23-5A provide sample cost data for two ITFs; a central design activity (CDA) and the other a data processing installation (DPI). For ease in demonstration, only one productive cost center, along with the general and administrative cost center, was identified for each and is representative of an annual period. Additionally, the cost in each productive cost center is identified by the direct and indirect amounts.

B. Step 2

1. For each productive cost center, identify the direct costs of each product and service by service unit. This is achieved by identifying the direct cost of all functions performed in support of products/ services produced and relating those costs to the service unit(s) supported. Note that the CDA has a service unit for customer direct pass through items. This includes travel, costs for testing, contractor support services, and so forth, performed for specific customers that should be reimbursed by the benefiting customers only.

2. Additionally, the units of work/workload should be identified since they are paramount in determining the level of resources required to support them. Initially, this may have to be estimated by informed personnel; however, after a given period of time, the information should be systematically gathered and documented from workload job accounting software packages and/or labor tracking systems as applicable. The total direct cost of each service unit and the associated units of work/workload for the DPI and CDA have now been determined. (See Figure 23-6.)

C. Step 3. Indirect costs of each productive cost center must be allocated to the service units produced/supported in that cost center. Indirect rates for this allocation process are calculated by dividing the total indirect cost by the allocation base selected. In Figure 23-7, the allocation base selected is total direct costs for the DPI and direct labor costs for the CDA. Once the indirect rates have been calculated, they are used to allocate the indirect cost to each service unit supported within the cost centers. For the DPI, this is achieved by multiplying the total direct cost of each service unit by the indirect rate. For the CDA, this is achieved by multiplying the total direct labor costs of each service unit by the indirect rate. The example shows that the total indirect costs of $475,000 and $442,500 for the DPI and CDA respectively, have been fully allocated to all service units supported within each organization. The total indirect costs of each service unit/output for the DPI and CDA have now been determined.

D. Step 4. General and administrative (G&A) costs must be allocated to all services produced within the ITF. The G&A rate for this allocation process is calculated by dividing the G&A costs by the allocation base selected. In Figure 23-8, the allocation base selected for both the DPI and CDA is total direct plus indirect costs. Once the G&A rate is calculated, it is used to allocate the G&A costs to all service units provided by the ITF. This is achieved by multiplying the total direct plus indirect cost of each service unit by the G&A rate. The example shows that the total G&A costs of $495,600 and $403,200 for the DPI and CDA respectively, have been fully allocated to all service units supported within each organization. The total direct, indirect and G&A costs of each service unit for the DPI and CDA has now been determined.

E. Step 5. Establish the rate for each unit of service by dividing the total direct, indirect and G&A costs (Step 4) of each service unit by the associated units of customer work/workload required (Step 2). These rates incorporate the total costs of all cost centers in producing each product and service and the related service unit(s). Such rates should be verified periodically because they form the basis by which a customer is billed (in accordance with the reimbursement policy found in Volume 11) or by which costs can be identified and allocated for planning or budgeting (e.g., operating an automated information system (AIS) within a DPI or developing and/or modernizing an AIS within a CDA). (See Figure 23-9.)

* F. Step 6. Applicable to DWCF only. Evaluate whether any adjustment to the rate (Step 5) is required in the next budget development cycle to return accumulated profits or to recover accumulated losses to achieve Accumulated Operating Results of $0 in the budget year. The gain or loss amounts are divided by the number of service units and either subtracted or added to the rate, as appropriate. Evaluate whether planned capital outlays is expected to exceed planned capital collections during the budget year. If this excess would cause the working capital fund to fall below the required 7-10 days of cash, then a capital surcharge should be considered for inclusion in the rate. Planned capital depreciation, a component of stabilized rates charged to the customer, is the amount used for capital collections. See Volume 2B, Chapter 9 for detailed guidance on rate-setting in DWCF Activity Groups.

Figure 23-1 POTENTIAL COSTS ASSOCIATED WITH AN ITF

POTENTIAL COSTS ASSOCIATED WITH AN ITF

Personnel. Both civilian and military persons who manage and perform information technology (IT) functions. This includes work such as development and maintenance of computer software, operation and management of in-house data processing centers and departments, data preparation, electronic output reproduction and distribution, equipment maintenance, and contract management. It also includes persons performing IT related custodial services, security, and building maintenance. This also includes other personnel related costs for leave, holiday, fringe benefits, training, travel, and recruiting.

Equipment. Nonrecurring expenditures for acquisition and recurring costs for rental and leasing of computers, associated on-line and off-line IT equipment, and special purpose IT furniture. If the dollar value of equipment and its projected service life meet the capitalization criteria set forth in Chapters 1 and 6 of this Volume or in Volume 11B, depreciation may be applicable.

Computer Software. Nonrecurring expenditures for acquisition, development, and conversion and recurring expenses for rental and leasing of all types of software--operating, multipurpose, and application. If the dollar value of the software and its projected life meet the capitalization criteria in Chapters 1 and 6 of this Volume, or Volume 11B, depreciation may be applicable.

Space Occupancy. Funded and unfunded costs for (1) rental and lease of buildings and general office furniture, (2) building maintenance, (3) regular telephone service and utilities, and (4) custodial services and security.

Supplies. Expenditures for non-capital office supplies and general and special purpose data processing materials. Special purpose supplies are those prepared for one or a few applications. IT data storage media may be considered either supplies or items of equipment.

Contracted Services. Expenditures and contracting expenses for:

(1) Technical and consulting services for agency-operated computer facilities and equipment, including equipment maintenance; security and custodial services for computer facilities; finance and accounting; and advice on the acquisition, selection, and use of computer facilities or software.

(2) Computer system services and off-line equipment services such as key data entry, report reproduction, and testing.

(3) Analysis, design, programming, documentation, and testing for development, modification, conversion, and maintenance of computer software.

(4) Data communications network services, associated telecommunications line charges, channel lease and rental, equipment rental and maintenance, and telecommunications system analysis and design.

Services from Other Units or Agencies. The costs of other governmental agencies or organizational elements for those services cited under "Contracted Services," above.

Intra-agency Services and Overhead. The costs of normal agency support services and overhead, either billed or allocated, and the costs of central ADP management, policy, and procurement services.

Figure 23-2 EXAMPLES OF COST CENTERS, SERVICES AND UNITS OF SERVICE

COST CENTER A MAINFRAME PROCESSING:

PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	WORKLOAD MEASURE
IBM PROCESSING	CPU TIME	HOURS
UNISYS PROCESSING	SUPS	HOURS
	DASD	MEGABYTES PER DAY
	TAPE STORAGE	MEGABYTES PER DAY

COST CENTER #1 SERVER PROCESSING:

PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	WORKLOAD MEASURE
BASIC SERVER	OPERATING ENVIRONMENT (OE)	PER OE
DATABASE ADMIN	OPERATING ENVIRONMENT	PER OE
STORAGE	DISK STORAGE	GIGABYTES PER MONTH
OTHER	DIRECT COST	NUMBER OF CUSTOMERS

Figure 23-3 TYPES OF COSTS AND ASSOCIATED WITH OPERATING AN ITF

TYPES OF COSTS ASSOCIATED WITH OPERATING AN ITF
(See Volume 11)

Direct civilian labor
(1) Payroll costs
(2) Leave or holiday costs
(3) Funded fringe benefit costs
(4) Unfunded fringe benefit costs

Indirect civilian labor
(1) Payroll costs
(2) Leave or holiday costs
(3) Funded fringe benefit costs
(4) Unfunded fringe benefit costs

Direct military labor
(1) Payroll costs
(2) Leave and holiday costs
(3) Other support cost factors

Indirect military labor
(1) Payroll costs
(2) Leave and holiday costs
(3) Other support cost factors

Use of DoD assets
(1) Asset use charge
(2) Depreciation on investments
(3) Interest on investment in assets

Contractor support services

Equipment maintenance

Software maintenance

Utilities

Telephone

Training

Rental and leases

Travel/Temporary duty costs

Supplies and materials

Building services

Figure 23-4 INFORMATION NEEDED TO DEFINE THE CURRENT ENVIRONMENT

INFORMATION NEEDED TO DEFINE THE CURRENT ENVIRONMENT

1. Describe the ITF hardware and software configuration.

2. Provide an organization chart that identifies the lowest organizational entity within the activity.

3. List of functions performed by organizational entity.

4. Describe the various types of processing done (local applications, batch, on-line, real-time, and so forth).

5. What are the staffing levels for the ITF (number of management personnel, programmers, analysts, operators, and so forth)?

6. Provide an inventory listing of the ITF's hardware and software.

7. Explain how the ITF supports the various components within the agency, and provide numbers for the various types of users within each component.

8. Identify the products and services provided.

9. Does the ITF provide services to any outside users? If so, how many outside users are there and what percentage of the ITF workload does each comprise?

10. Identify customers and whether the ITF is being reimbursed by them for services provided. If yes, identify the amount by customer.

11. Have IT/ITF costs been isolated within the budget? To what level of detail?

12. What type of capacity planning currently is done? What are workload estimates based on? How often are these estimates updated?

13. Identify the prior year actual operating cost and any approved programmed budget changes.

14. Ascertain whether hardware/software is owned or leased.

15. Identify the workload measurement tools to collect the applicable utilization data, e.g. labor distribution system for a design activity.

Figure 23-5 EXAMPLE OF RATE COMPUTATION

STEP 1: IDENTIFY THE TOTAL COST OF THE ITF BY COST CENTER

CENTRAL DESIGN ACTIVITY:

COST ELEMENTS	TOTAL COSTS	COST CENTER #1 CDA SERVICE DIRECT	COST CENTER #1 CDA SERVICE INDIRECT	COST CENTER #2 G & A OVERHEAD
LABOR	$2,153,800	$1,500,000	$350,000	$303,800
MATERIALS & SUPPLIES	101,700	75,000	15,000	11,700
TRAVEL	143,400	100,000	20,000	23,400
CONTRACTUAL SERVICES	358,400	250,000	50,000	58,400
DEPRECIATION	8,500	0	5,000	3,500
EQUIPMENT	14,900	10,000	2,500	2,400
TOTAL	$2,780,700	$1,935,000	$442,500	$403,200

DATA PROCESSING INSTALLATION:

COST ELEMENTS	TOTAL COSTS	COST CENTER A MAINFRAME PROCESSING DIRECT	COST CENTER A MAINFRAME PROCESSING INDIRECT	COST CENTER B G & A OVERHEAD
LABOR	$1,821,500	$1,175,000	$300,000	$346,500
MATERIALS & SUPPLIES	288,300	250,000	25,000	13,300
TRAVEL	71,600	25,000	20,000	26,600
CONTRACTUAL SERVICES	746,600	580,000	100,000	66,600
DEPRECIATION	199,000	175,000	20,000	4,000
EQUIPMENT	42,600	30,000	10,000	2,600
TOTAL	$3,169,600	$2,235,000	$475,000	$459,600

Figure 23-6 EXAMPLE COMPUTATION OF SERVICE UNIT RATE

STEP 2: IDENTIFY DIRECT COST AND THE RELATED UNITS OF WORK BY BILLABLE SERVICE UNIT

ITF	PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	DIRECT LABOR COSTS	DIRECT NON-LABOR COSTS	TOTAL DIRECT COSTS	WORK LOAD
DPI CC A	IBM PROCESSING UNISYS PROCESSING	CPU TIME	$550,000	$475,000	$1,025,000	$10,800
		SUPS	350,000	290,000	640,000	610,000,000
		DASD	150,000	125,000	275,000	157,016
		TAPE STORAGE	125,000	170,000	295,000	26,940,333
TOTAL DPI			$1,175,000	$1,060,000	$2,235,000	
CDA CC #1	BASIC SERVER	PER OE	$770,000		$770,000	$17,942
	DATABASE ADMIN	PER OE	480,000		480,000	15,145
	STORAGE	GB PER MONTH	250,000		250,000	10,518
	OTHER	DIRECT COST		435,000	435,000	1,000
TOTAL CDA			$1,500,000	$435,000	$1,935,000	

Figure 23-7 EXAMPLE OF COMPUTATION OF SERVICE UNIT RATES

STEP 3: COMPUTE INDIRECT RATES FOR EACH COST CENTER AND ALLOCATE INDIRECT COSTS

INDIRECT RATE:

DPI = INDIRECT COSTS / TOTAL DIRECT COSTS

COST CENTER A = $475,000 / $2,235,000
= 21.253%

CDA = INDIRECT COSTS / DIRECT LABOR COSTS

COST CENTER #1 = $442,500 / $1,500,000
= 29.50%

ITF	PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	TOTAL DIRECT COSTS	COST CENTER A @ 21.253%	COST CENTER #1 @ 29.500%
DPI CC A	IBM PROCESSING	CPU TIME	$1,025,000	$217,841	
	UNISYS PROCESSING	SUPS	640,000	136,018	
		DASD	275,000	58,445	
		TAPE STORAGE	295,000	62,696	
TOTAL DPI			$2,235,000	$475,000	$0
			TOTAL DIRECT LABOR		
CDA	BASIC SERVER	PER OE	$770,000		$227,150
	DATABASE ADMIN	PER OE	480,000		141,600
	STORAGE	GB PER MONTH	250,000		73,750
TOTAL CDA			$1,500,000	$0	$442,500

Figure 23-8 EXAMPLE OF COMPUTATION OF SERVICE UNIT RATE

STEP 4: COMPUTE GENERAL AND ADMINISTRATIVE (G&A) RATE AND ALLOCATE G&A COSTS

G&A RATE = G&A COSTS / TOTAL DIRECT + INDIRECT COST

DPI = $459,600 / ($2,235,000 + 475,000)
= $459,600 / $2,710,00
= 16.959%

CDA = $403,200 / ($1,935,000 + $442,500)
= $403,200 / $2,377,500
= 16.959%

ITF	PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	TOTAL DIRECT COSTS	INDIRECT COSTS	TOTAL DIRECT + INDIRECT	G&A @ 16.959%	TOTAL DIRECT INDIRECT AND G&A
DPI	IBM PROCESSING UNISYS PROCESSING	CPU TIME	$1,025,000	$217,841	$1,242,841	$210,779	$1,453,260
		SUPS	640,000	136,018	776,018	131,608	907,626
		DASD	275,000	58,445	333,445	56,550	389,995
		TAPE STORAGE	295,000	62,696	357,696	60,663	418,359
TOTAL DPI			$2,235,000	$475,000	$2,710,000	$459,600	$3,169,600
CDA	BASIC SERVER JC	PER OE	$770,000	$227,150	$997,150	$169,106	$1,166,256
	DATABASE ADMIN	PER OE	480,000	141,600	621,600	105,417	727,017
	STORAGE	GB PER MONTH	250,000	73,750	323,750	54,905	378,655
	OTHER	DIRECT COST	435,000	0	435,000	73,772	508,772
TOTAL			$1,935,000	$442,500	$2,377,500	$403,200	$2,780,700

Figure 23-9 EXAMPLE OF COMPUTATION OF SERVICE UNIT RATE

STEP 5: COMPUTE THE SERVICE UNIT RATES

ITF	PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	WORKLOAD MEASURE	UNITS OF WORK/ WORKLOAD	TOTAL DIRECT, INDIRECT AND G&A COSTS	SERVICE UNIT RATE
DPI	IBM PROCESSING	CPU TIME	HOURS	10,800	$1,453,620	$134.5944
	UNISYS PROCESSING	SUPS	HOURS	610,000,000	907,626	.0015
		DASD	MB PER DAY	157,016	389,995	2.4838
		TAPE STORAGE	MB PER DAY	26,940,333	418,359	.0155
TOTAL DPI					$3,169,600	
CDA	BASIC SERVER	OPERATING ENVIRONMENT	PER OE	17,942	$1,166,256	$65.0014
	DATABASE ADMIN	OPERATING ENVRONMENT	PER OE	15,145	727,017	48.0038
	STORAGE	DISK STORAGE	GB PER MONTH	10,518	378,655	36.0007
	OTHER	DIRECT COST	DIRECT COST	1,000	508,772	508.772
TOTAL CDA					$2,780,700	