

**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**  
**FINANCIAL MANAGEMENT REGULATION**

**VOLUME 11B: “REIMBURSABLE OPERATIONS  
POLICY - WORKING CAPITAL FUNDS (WCF)”**

**UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)**

**VOLUME 11B, CHAPTER 1: “DEFENSE WORKING CAPITAL FUNDS GENERAL POLICIES”**

**SUMMARY OF MAJOR CHANGES**

All changes are denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [April 2013](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
010101 – 010102	Added a “Purpose” paragraph, and an “Authoritative Guidance” paragraph to better align the chapter with the formatting guidelines established in the standard operating procedures.	Addition
010201	Updated the U.S. Department of the Treasury Account Fund Symbols in accordance with the most recently updated Federal Account Symbols and Titles Book.	Revision
010206	Updated the sources of budgetary resources to better align the paragraph with guidance found in the Office of Management and Budget (OMB) Circular A-11.	Revision
010301.J	Added an additional responsibility under the Under Secretary of Defense (Comptroller) responsibilities related to exercising funds control as prescribed by OMB, Congress, and DoD policy.	Addition
010304	Changed Deputy Under Secretary of Defense (Acquisition, Technology and Logistics) to Deputy Under Secretary of Defense (Acquisition and Sustainment) in accordance with Public Law 114 – 328, effective February 1, 2018.	Revision

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## CHAPTER 1

**DEFENSE WORKING CAPITAL FUNDS GENERAL POLICIES**

## 0101 GENERAL

## \*010101. Purpose

The purpose of this chapter is to provide financial management policy for Defense Working Capital Funds (DWCF). Guidance includes the responsibilities of management and their roles surrounding the maintenance of a unit's funds.

## \*010102. Authoritative Guidance

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

A. Title 10, United States Code, section 2208 ([10 U.S.C. § 2208](#)), "Working Capital Funds";

B. [10 U.S.C. § 2563](#), "Articles and Services of Industrial Facilities: Sale to Persons outside the Department of Defense";

C. [10 U.S.C. § 7543](#), "Army Industrial Facilities: Sales of Manufactured articles or services outside Department of Defense";

D. [31 U.S.C. § 3515](#), "Financial Statements of Agencies";

E. Federal Account Symbols and Titles ([FAST Book](#)), Agency Identifier Codes, Treasury Financial Manual Supplement;

F. Department of Defense Directive ([DoDD 4275.5](#)), "Acquisition and Management of Industrial Resources";

G. Office of Management and Budget ([OMB Circular A-11](#)), "Preparation, Submission and Execution of the Budget."

## 0102 DWCF REQUIREMENTS

## \*010201. Treasury Fund Symbol

The DWCF are established under the authority of 10 U.S.C. § 2208. The U.S. Department of the Treasury (Treasury) Account Symbol for the DWCF is 097X4930. The Military Departments and Defense Agencies subnumbered account identifiers assigned are shown in Table 1.1. The Defense Counterintelligence and Security Agency WCF, Treasury account 097X4932, is also established under 10 U.S.C. 2208 authority.

Table 1.1. DoD Component Account Identifiers

<b>DoD Component</b>	<b>Treasury Assigned Account Number</b>
Army	097X4930.001
Navy	097X4930.002
Air Force	097X4930.003
Defense Commissary Agency	097X4930.004
Defense Agencies	097X4930.005
Defense Counterintelligence and Security Agency	097X4932

010202. Activity Groups

The DWCF consists of individual activity groups that are managed by DoD Components for providing goods and services, on a reimbursable basis, to other activities within the DoD and to non-DoD activities when authorized.

010203. Charters

The DoD Component individual activity groups financed through the DWCF **must** be chartered under the DWCF to achieve the following objectives:

A. The DWCF is designed to:

1. Create a cost conscious environment for both customers and providers. Customers benefit by becoming aware of the cost of their service requirements and behaviors, deriving cost savings by limiting demands to actual requirements and adjusting behaviors to reduce the cost of providing services. Providers scrupulously reduce or eliminate costs to provide services, and assist customers in identifying and modifying behaviors that increase cost.

2. Provide a more effective means for controlling the costs of goods and services required, produced, or furnished by DWCF activities, and a more effective and flexible means for financing, budgeting, and accounting for the costs thereof.

3. Create and recognize contractual relationships between DWCF activities and those activities that budget for and order the end-products or services.

4. Provide managers of DWCF activities the financial authority and flexibility required to procure and effectively use manpower, materials, and other resources.

5. Encourage more cross-servicing among the DoD Components and among their operating agencies, with the aim of obtaining more economical use of facilities.

6. Facilitate budgeting for and reporting of the costs of end-products. This will underline the cost consequences of choosing between alternatives.

B. Specific objectives include the following:

1. Instill in the officials of ordering Agencies a greater sense of responsibility and self-restraint in balancing the costs of specific goods and services to be ordered against the benefits and advantages of their procurement, especially in the light of alternative or competing demands.

2. Place ordering agencies in the position of critically evaluating purchase prices (that is, costs of performing activities) as well as quality and delivery-speed of goods and services ordered.

3. Enable ordering agencies to budget and account on an “end-product” basis (the same as when buying from commercial contractors), thereby simplifying budget presentations, budgetary control, and accounting procedures for both producers and ordering agencies.

4. Encourage ordering agencies’ management to improve program planning and scheduling in response to producers’ efforts to plan and negotiate for orders as far in advance as feasible.

5. Establish, whenever feasible, standard prices or stabilized rates and unit prices for goods and services furnished by DWCF activities, thus enabling ordering Agencies to more confidently plan and budget.

6. Furnish managers of DWCF activities with modern management tools comparable to those utilized by efficient private enterprises engaged in similar types of activities.

7. Improve cost estimating and cost control through comparison of estimates and actual costs.

8. Obtain alert, forward-looking financial planning at DWCF activities by making them financially dependent on reimbursements received for goods and services furnished in fulfilling orders from customers.

9. Encourage producers of goods and services to coordinate labor forces and inventories with workload, budgeting, and cost control.

10. Provide flexibility within budget cycles to changes in supply and demand.

C. A charter **must** be prepared in accordance with Chapter 2 and submitted to the [Office of the Under Secretary of Defense \(Comptroller\) \(OUSD\(C\)\)](#), [Program/Budget, Director of Operations](#) for approval. Before charter preparation, ensure that the proposed business entity meets the criteria established as described in Chapter 2, paragraph 020202. Each DWCF business

entity **must** review its charter annually to assure it remains current. Changes **must** be prepared and submitted to the OUSD(C) **Director of Operations** for approval.

010204. **Financing**

A. The DWCF receives its initial working capital through an appropriation or a transfer of resources from existing appropriations of funds and uses those capital resources to finance the initial cost of products or services.

B. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. After initial capitalization, a DWCF activity's operations are funded by the reimbursements it receives from its customers for the goods or services provided.

C. Customers may not place orders with DWCF activities for the purpose of extending the life of their appropriations or avoiding any statutory limitation or restrictions pertaining to those funds. Additional guidance applicable to all working capital funds can be found in Volume 3, Chapter 19.

D. Amounts earned by the DWCF are available for financing obligations without fiscal year limitation, although DWCF activity obligation authority is dependent on receipt of contract authority, and/or cost authority provided by the receipt of customer orders as documented in the DWCF activity annual operating budget.

1. The Supply Management activity groups and the Capital Investment Program receive contract authority. Contract authority permits obligations to be incurred in advance of appropriations or in anticipation of receipts from customers, but in accordance with an apportionment, allotment, or other limiting authority.

2. Other than the Supply Management activity groups and the Capital Investment Program, all other DWCF obligations must be supported by budgetary resources that are immediately available for outlay even though the outlay may not occur until a future date.

010205. **Authorized Customers**

Customers of the DWCF activity may be:

A. Any DoD command, organization, office, or other element.

B. Non-DoD federal government agencies.

C. Private parties and concerns when authorized by law including foreign governments, and state and local governments.

D. Those U.S. manufacturers, assemblers, or developers authorized by 10 U.S.C. § 2208(h) and in accordance with 10 U.S.C. §§ 2563 and 7543.



\*010206. Sources of Budgetary Resources

When an activity receives budgetary resources from more than one source ([spending authority from offsetting collections, direct appropriation, contract authority](#)), the receiving activity must maintain records [that will enable it](#) to control and separately report the transactions relating to each type of source ([in accordance with OMB Circular A-11](#)). Budgetary resources may be received at any level of an organization from the individual activity up to the Departmental level.

010207. Annual Operating Budgets

Annual operating budgets for the DWCF provide official management cost goals to the Military Services and Defense Agencies for each individual activity group. The annual budget consists of two primary parts—the operating budget and the capital budget. The operating budget represents the annual operating costs of an activity or Component, including depreciation and amortization expenses. The capital budget represents the amount of financial resources that are authorized for use in the acquisition of capital assets. Volume 2B, Chapter 9 and Volume 3, Chapter 19 provides additional details on the annual operating budgets for the DWCF.

010208. Customer Orders

Customer orders (funded requests for goods or services) provide budgetary resources necessary to finance operations [for non-supply management activities, and to liquidate contract authority for supply management activities](#). Budgetary resources are recognized from [anticipated customer orders that obligate budgetary resources of another federal government activity, and from cash advances from non-federal customers, to include orders from non-appropriated fund instrumentalities](#). To be valid, customer orders must be obligations of a federal government activity and cash advances from nonfederal customers. Cash advances may also be requested from federal government activities when directed and approved in advance by the OUSD(C). When accepted, customer orders create a quasi binding contractual relationship between a DWCF activity and its customer since acceptance of a customer order requires that the performing entity agree in writing to perform the work for the customer entity. Except as authorized in Chapter 11, a DWCF business entity [must not initiate work or services or incur obligations in excess of anticipated orders received unless specific authorization is provided by a signed annual operating budget approved by the Director of Operations, to ensure other budgetary resources are available at the DWCF sub-account level](#). Customers may request a deobligation of their funds for goods or services ordered that were not provided. Return of customer funds is permissible only if the DWCF activity has not commenced work on the good or service ordered or incurred an obligation for those goods or services.

010209. Stabilized Rates and Prices

The DWCF individual activity groups operate on a break-even basis in accordance with budgetary guidance contained in Volume 2A and Volume 2B. Rates are required to be established during the budget process at levels estimated to recover the budgeted costs of goods or services to be provided including all general and administrative overhead costs, prior period gains and losses,

and applicable surcharges. The budget process ensures that adequate resources are requested in the customers' fund accounts to pay the established rates and prices. Specific budget formulation requirements are contained in Volume 2B, Chapter 9.

#### 010210. Restrictions on Use of Customer Appropriations

A. Customers must comply with statutory limitations and restrictions imposed on the appropriated funds charged when placing an order with the DWCF. A DWCF customer cannot use appropriated funds to do indirectly (i.e., through placement of an order with a DWCF activity) that which it is not permitted to do directly. Thus, the availability of an appropriation funding an order cannot be expanded or changed by placement with an activity financed by the DWCF.

B. Appropriated funds cited on reimbursable orders are available only for the purposes permissible under the source appropriation and remain subject to the same restrictions. The ordering activity retains primary responsibility for determining the applicability of the appropriated funds cited on the order. However, if instances arise when it is apparent that the ordering appropriation is not appropriate for the purpose provided, then the DWCF activity should return the order with a request for an applicable appropriation to cite.

#### 010211. Financial Reporting

Under the provisions of 31 U.S.C § 3515 and 10 U.S.C 2208(n), the Department is required to have audited financial statements covering all accounts and associated activities of the Department. The DWCF financial information will be included in DoD's Annual Financial Report. Specific financial statement reporting requirements are contained in OMB Circular A-136, "Financial Reporting Requirements." Volume 6B also identifies recurring reporting requirements applicable to the DWCF.

#### 010212. Mobilization Capability

Each DWCF activity group must plan for and maintain the capability to expand or alter operations, or to provide extraordinary supply or other functional area support necessary, to meet an operational contingency as documented in Defense Planning Guidance or operational plans. All costs at individual activities within the DWCF related to maintaining a capacity to meet mobilization requirements will be reimbursed by funds that are from direct appropriations and will not be financed through customer rates. Volume 2B, Chapter 9 provides specific guidance for the types of mobilization costs that can be funded by a direct appropriation.

### 0103 RESPONSIBILITIES OF MANAGEMENT

#### 010301. Under Secretary of Defense (Comptroller)

A. Establish DoD policy on DWCF operations.

B. Provide oversight on all financial management activities relative to the operations of the DWCF.

C. Authorize or approve DWCF Charters of specific activities to be included in the DWCF and the terms under which such activities **must** be operated.

D. Rescind the DWCF Charters of specific activities that no longer meet DWCF criteria or that may be operated more efficiently under other financing.

E. Establish all necessary budget preparation, accounting, and reporting policies.

F. Review and approve operating and capital budgets, and monitor and analyze budget execution.

G. Provide DWCF operations oversight through budget execution reviews.

H. Advise DWCF managers on accounting and reporting policies.

I. Monitor compliance with this guidance and other policy issuances through analysis of reports, audits, and reviews of business entity operations.

\* J. Exercise funds control responsibilities in accordance with congressional direction, OMB guidance, and DoD policy.

**010302.** Director, Defense Finance and Accounting Service (DFAS)

A. Advise and assist the USD(C) in the development of requirements, systems, and procedures to comply with statutory and regulatory requirements.

B. Advise DWCF activities on the accounting and reporting procedures.

C. Issue supplementary instructions to guidance contained within this Regulation for unique requirements within the DoD Components and to provide detailed operating instructions.

D. Review DWCF accounting systems for compliance with established financial systems requirements.

E. Prepare external and internal accounting reports for the DWCF.

**010303.** Military Department Secretaries and Defense Agency Directors

A. Manage DWCF activities within approved funding limitations.

- B. Designate a management agency or command to be responsible for effective management of each DWCF activity.
- C. Comply with, and recommend changes to, this and other governing regulations.
- D. Provide periodic financial and management information as required by the USD(C).
- E. Submit to the USD(C) proposed Charters authorizing new DWCF activities or rescinding Charters of existing DWCF activities.

**\*010304.** DWCF Activity Management Agency or Command

A. Budget and provide appropriated funds for the costs of maintaining unutilized plant and facilities being held for mobilization purposes at DWCF activities. Mobilization maintenance costs for unutilized plant and facilities include costs of labor, materials, contractual services, and overhead that were incurred for that purpose. Retention of facilities in excess of those necessary for current or planned workload **must** be in accordance with DoDD 4275.5, "Acquisition and Management of Industrial Resources." The acquisition, retention, or disposal of unutilized plants and facilities at transportation activities must be approved by the Deputy Under Secretary of Defense ([Acquisition and Sustainment](#)).

- B. Assign responsibility and authority to designated officials for management and operation of DWCF activities.
- C. Assure that all DWCF activities operate within approved funding limitations.
- D. Evaluate the operation of DWCF activities to determine compliance with established requirements.
- E. Initiate change, as needed, to the charter of the DWCF activities.

**010305.** Individual DWCF Activity Management

- A. Incur obligations and costs as necessary and allowable to perform the activity mission.
- B. Control performance costs in line with the annual budget approved by the USD(C).
- C. Evaluate the operation of DWCF activities to determine compliance with established requirements.

D. Identify to higher management any impediments in achieving performance and cost goals.

E. Identify and justify to higher management investments that will produce future improvements in effectiveness and efficiency.

F. Establish, monitor and assess internal controls and resolve internal control weaknesses.

**010306.** DWCF Activity Customers

A. **Budget** for the cost of material, work, and services ordered from a DWCF activity.

B. Manage budgetary resources provided in annual operating budget for the cost of material, work, and services ordered from DWCF activities.

C. **Notify** the DWCF **Activity Management** as early as possible if it wishes to terminate a previously ordered service. The customer is liable for funding all costs **incurred** with service delivery until termination.

0104 ACCOUNTING STANDARDS

The DWCF will adhere to the accounting standards hierarchy in Volume 1, Chapter 2.

0105 DWCF SYSTEMS AND CONTROL

**010501.** DWCF Financial Management Systems

A. Transactions are executed in accordance with budgetary and financial **standards and requirements issued by OMB and Treasury**, consistent with the purposes authorized, and are reported in accordance with **the Federal Accounting Standards Advisory Board**, Statements of Federal Financial Accounting Standards.

B. Assets are properly safeguarded to deter fraud, waste and abuse.

C. Performance measurement information is adequately supported.

**010502.** DWCF Accounting Systems

DWCF accounting systems **must** have the capability to account for the status of budgetary resources on a continuous basis. Budgetary controls **must** be designed to prevent incurring obligations in excess of budgetary resources. **System owners must ensure compliance with each new Standard Financial Information Structure matrix that is updated based on guidance released from Treasury.**

**010503.** Legacy Systems

DoD Components will continue to bear the cost of their legacy system until they have fully transitioned to the emerging/migratory system. However, if the Component has not fully transitioned from the legacy system to the emerging/migratory system due to a DFAS related implementation problem, then the customer bears no direct cost for the legacy system. The costs for the legacy system that DFAS cannot abolish will go into the DFAS customer rates as part of overhead costs. See Figure 1-1.

A. If the customer has fully transitioned from the legacy system to the emerging/migratory system, then that customer bears no direct cost for the legacy system. However, the costs for a legacy system that DFAS cannot abolish will go into the DFAS customer rates as part of overhead costs.

B. If the customer has not fully transitioned from the legacy system to the emerging/migratory system but the customer is running the systems parallel for testing purposes, to include running the legacy system for prior year data not transitioned, then that customer bears a cost for both systems until the customer fully transitions to the emerging/migratory system.

C. If the customer has not transitioned from the legacy system to the emerging/migratory system because of DoD Component related implementation problems, then that customer will bear the cost for the legacy system even if they are the last DoD Component on the legacy system.

D. If the customer has not transitioned from the legacy system to the emerging/migratory system due to a DFAS related implementation problem, then that customer bears no direct cost for the legacy system. The costs for a legacy system that DFAS cannot abolish will go into the DFAS customer rates as a part of overhead costs.

E. The customer must be fully transitioned from the legacy system to the emerging/migratory system before the beginning of a new fiscal year. It is not appropriate to change allocation of legacy costs between customers in the year of execution.

F. When all customers have transitioned to the emerging/migratory system and DFAS is able to abolish the legacy system, the system's residual undepreciated value will be charged to the DFAS Accumulated Operating Result.

**0106 FUNDS MANAGEMENT**

Financial resources establishing a DWCF must be appropriated. Continuing operations are generated by reimbursements received. Anticipated reimbursements and anticipated customers' orders are not considered a budgetary resource. Obligations incurred (**Undelivered Orders – Obligations, unpaid or Prepaid/Advanced and Delivered Orders – Obligations, paid or unpaid**) are claims against budgetary resources. A sufficient fund balance with the Treasury must support all DWCF cash outlays. Refer to Volume 3, Chapter 19 for further guidance on funds management.

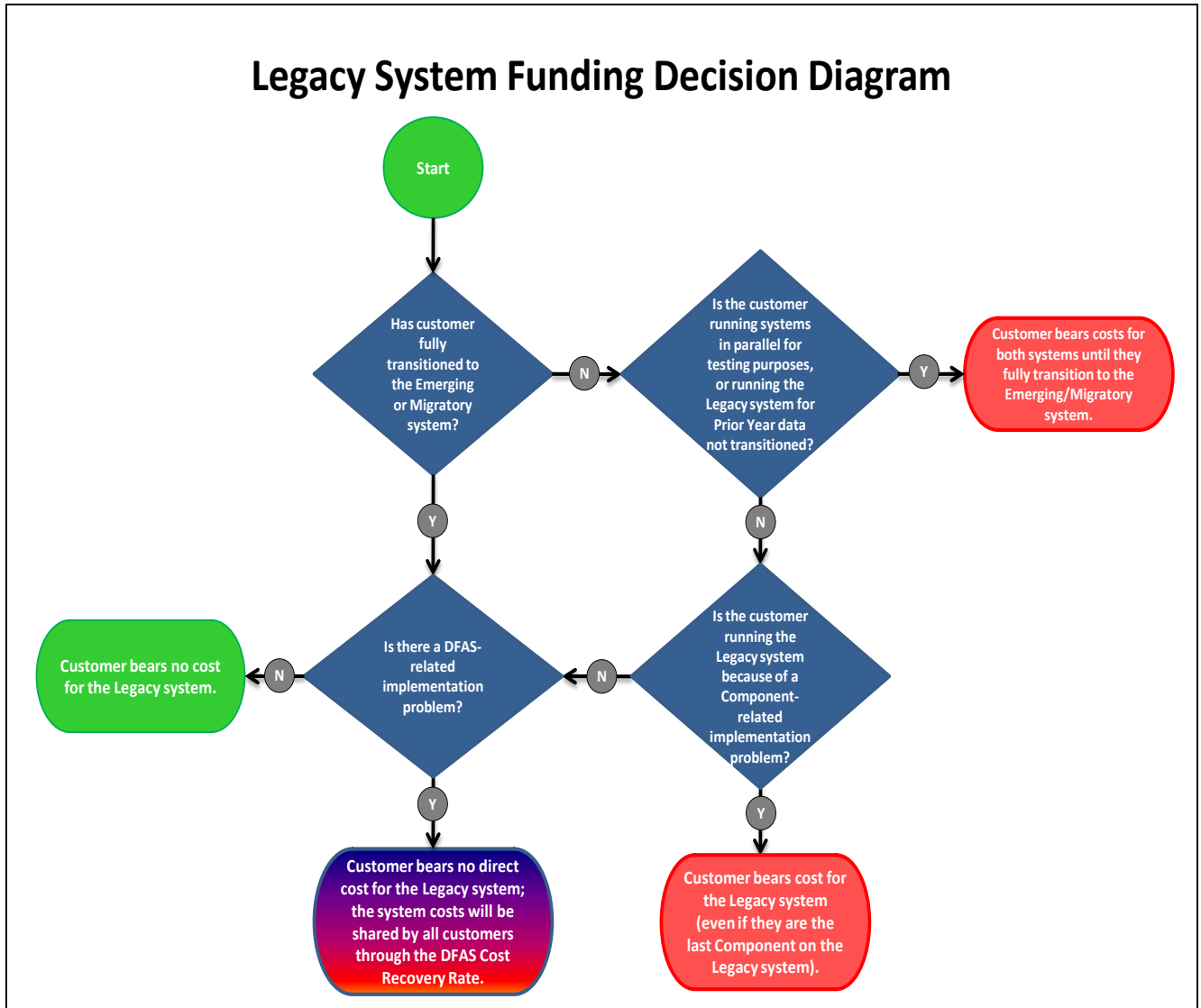
## 0107 GENERAL LEDGER ACCOUNTS

All DWCF activities **must** adhere to the United States Standard General Ledger (USSGL) published by the Treasury **Bureau of the Fiscal Service**. The USSGL Standard Financial Information Structure Transaction Library provides a decomposition of USSGL accounting transactions for DoD. See Volume 1, Chapter 7 for further details.

## 0108 AUDITING

Under 31 U.S.C. § 3515, the **DoD** activities, **of which a DWCF is considered a component**, are required to prepare audited financial statements. **While preparing for and undergoing audit, DWCF activities must be able to provide documentation that must be of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for recorded amounts.** The DWCF is subject to audit by the DoD Inspector General, the Government Accountability Office, and other parties when contracted or otherwise authorized.

Figure 1-1. Legacy System Funding Decision Diagram





**VOLUME 11B, CHAPTER 2: “ESTABLISHMENT OF FUND ACTIVITIES,  
TRANSFER OF FUND FUNCTIONS AND CLOSURE OF FUNDS ACTIVITIES”**

**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

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The previous version dated October 2002 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Various	Updated hyperlinks.	Update
0201	Clarified the purpose of the chapter.	Update
020201	Added statutory references for working capital funds.	Add
020301	Updated roles and responsibilities for reviewing business entities for inclusion or exclusion in the DWCF.	Update
020401	Clarified entity may request an appropriation of funds to supplement its resources.	Update
020402.B	Clarified entity shall bill unfunded leave liability.	Update
020402.C	Clarified policy for depreciating transferred capital assets.	Update
020505	Added requirement to monitor transferred proprietary account balances to ensure proper liquidation.	Add
020506	Added requirement to monitor transferred budgetary account balances to ensure proper liquidation.	Add
020506.A.4.A	Adds policy for the gaining activity to record newly transferred personnel and real property in an approved accountable system of record	Add
020506.F 020506.G.1 020506.G.2	Added policy for monitoring all remaining and transferred balances to ensure timely and proper liquidation occurs.	Add
020602.I	Added requirement to address unbilled receivables.	Add
020602.L	Added guidance to bill customers for unreimbursed costs prior to closing.	Add

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## CHAPTER 2

**ESTABLISHMENT OF FUND ACTIVITIES, TRANSFER OF FUND FUNCTIONS  
AND CLOSURE OF FUND ACTIVITIES**

## \*0201 PURPOSE

This chapter provides requirements for the chartering of Defense Working Capital Fund (DWCF) activities. This chapter also provides requirements for transfer of fund functions and closure of fund activities.

## 0202 ESTABLISHMENT OF FUND ACTIVITIES

## \*020201. Submission of Charter

Prior to the financing of an activity under the DWCF, a proposed charter shall be submitted to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), [Revolving Funds](#) for approval. The DoD has authority under [10 U.S.C. 2208](#) to establish DWCFs to finance inventories of supplies and provide working capital for industrial and commercial-type activities.

## 020202. Criteria for a DWCF Activity

In order for a Service or DoD agency organization or program or function to be considered for inclusion in the DWCF it must meet all of the following criteria:

A. Outputs that relate to products or services provided by the activity group to customers (i.e., production of goods or provision of services that are common to requirements of more than one [major command](#), and/or DoD Component.)

B. A cost accounting system is available that is capable of collecting costs of producing outputs. The activity must have the capability to charge prices or rates that are capable of recovering the full funded costs of the provided goods and services in accordance with Chapter 1 of this volume. For additional information on general cost concepts refer to Volume 4, Chapter 19 of this regulation.

C. Activities that require and order products or services (i.e., customers) can be identified so that resources can be aligned in the account of the customer with the requirement. The demand for the goods or services to be provided by the program or organization must come from multiple customers within DoD and/or other federal government entities.

D. Identification of a buyer-seller relationship to the extent that the buyer can influence cost and workload and the buyer has alternative sources that can provide the products or services. [Operation of the program or organization as a DWCF business area should result in](#)

a better identification of the full cost of operations and may also result in better quality goods/services and/or result in decreased costs to the federal government.

### 0203 DEFENSE WORKING CAPITAL FUNDS CHARTER REQUIREMENTS

#### \*020301. Charter Format

The DWCF charter format is included in [Annex 1](#) of this chapter. Charter provisions are applicable to each DoD Component activity group included within the DWCF. The charters describe the mission of that Component by activity group. Before charter preparation, actions shall be taken to ensure that the proposed business entity meets the criteria listed in paragraph 020202. Activities must document these criteria as it applies to all proposals for new DWCF business entities, as well as, the addition of new lines of business within existing DWCF business entities. After charter approval, the chartered DWCF business entity shall review it annually to assure it remains current. Changes, if needed, shall be prepared and submitted to the OUSD(C), Revolving Funds for approval.

#### 020302. Charter Contents

Each charter shall include the following as a minimum:

- A. Statutory authority that authorizes the establishment of a DWCF activity or activity group.
- B. Brief description of the mission of the activity or activities and nature of its products or services.
- C. Designation of the organization (Management Command) directly below the departmental-level that has authority over the management of the DWCF activity group. Additionally, the charters shall state whether the Management Command is funded from the DWCF.
- D. Name and location of the activity or activities to be operated under the charter.
- E. Statement of any policy exceptions specifically authorized for the fund's activity group or any activity included within the fund's activity group.
- F. Cancellation of any previously approved charter(s), if applicable.

#### 020303. Charter Support

Documentation supporting the charter application of an activity requesting entry into the DWCF shall include:

A. Explanation of how the proposed DWCF activity meets the minimum criteria listed, in paragraph 020202, above, and any additional requirements of the [OUSD\(C\)](#) for the specific activity or activities.

B. Justification of any exception to the provisions of this Regulation.

#### 020304. Amendment or Cancellation of Charters

Requests for cancellations or amendments of existing charters shall be forwarded to the [OUSD\(C\)](#), [Revolving Funds for approval](#) and supported by the following information:

A. Justification for the proposed action that may consist of copies of supporting evaluations or studies.

B. Information as to the disposition of assets and liquidation of liabilities, as necessary.

#### 020305. Annual Charter Review

The DoD Components shall review DWCF operations each fiscal year to ensure that the charters are current. Any required changes shall be submitted to the [OUSD\(C\)](#), [Revolving Funds](#) in accordance with paragraph 020304, above.

### 0204 COMMENCEMENT OF FUND OPERATIONS

Upon charter approval and commencement of DWCF operations, financial control over initial appropriations, assets, liabilities, and capital shall be established in accordance with the following guidance:

#### \*020401. Initial Appropriation and/or Reappropriation

Before a DWCF activity can begin operations, it needs fiscal resources. To begin initial operations, a DWCF business entity is provided necessary capital either by a nonexpenditure transfers from another working-capital fund or appropriation following congressional notification required by Title 31, United States Code, subsections 2208(r), or Congress may appropriate initial capital in response to a request in the President's budget submission to Congress. The latter is necessary when the level of anticipated cash available is estimated to be insufficient during the initial fiscal year of operation. Appropriations made available to commence operation of a DWCF entity remain available for obligation without fiscal year limitation for their specified purpose until expended or withdrawn. A reappropriation to a DWCF activity is statutory authority to restore or extend the obligational availability of all or part of the unobligated balance of budget authority that has expired or would otherwise expire in an annual or multiple-year appropriation. Typical budgetary and proprietary accounting entries applicable to receipt and distribution of appropriations and reappropriations are illustrated in Volume 3, Chapter 13 of this Regulation. The accounts established for use by departmental-level accounting entities implement the [United States Standard General Ledger \(USSGL\)](#).

**020402.** Initial Assets and Liabilities

A. Working capital to commence operations may be provided by a nonexpenditure transfer of fund balances from another appropriation or federal (general) fund account to the DWCF account. [Volume 3, Chapter 13 of this Regulation contains information about nonexpenditure transfers.](#)

\*B. Personnel assigned from an appropriated fund activity to a DWCF activity are accompanied by a liability for the amount of accrued earnings and annual leave earned by those employees prior to their transfer. [Payment](#) in the form of cash or other agreed upon equivalent assets such as inventories or equipment [shall](#) be made to the receiving DWCF activity for the amount of the liabilities assumed.

\*C. Assets provided from other appropriations or funds to commence operations of a DWCF activity shall be recorded as Financing Sources Transferred in Without Reimbursement. The DWCF shall record a liability for an item transferred from a non-DWCF account only when the item is undelivered at the time of the transfer and the obligation for the item on the books of the organization from which the item was transferred resulted from a reimbursable order from a customer. Otherwise, bills for assets on order at the time of the transfer to the DWCF shall be paid by the appropriation or fund originally ordering the item. This is appropriate since the original appropriation or fund ordering the item was funded through the budget process to procure the item. [Depreciation of capital assets that are transferred into a DWCF activity without reimbursement and with no pre-existing depreciation schedules or accumulated depreciation, shall be calculated based on the net value \(original acquisition cost less calculated accumulated depreciation\) plus any associated costs for transportation, installation, and other related costs necessary to put the asset into operational use.](#) For additional information on accounting for [PP&E](#) refer to Volume 4, Chapter 6 of this Regulation.

D. At the time of initial capitalization, Financing Sources Transferred In Without Reimbursement shall equal the value of all assets excluding nonexpenditure transfer of Treasury fund balances from other appropriations, plus the initial appropriation transferred to the activity without reimbursement or assumption of liability by the DWCF less the sum of the obligations transferred to the activity for which DWCF resources are liable for future disbursement.

**0205** TRANSFER OF DWCF FUNCTIONS**020501.** Transfer Actions

The general actions and related procedures in paragraph [020502](#) through [020508](#) shall be followed when transferring all or a portion of the functions from a DWCF activity to another DWCF activity or to an appropriation funded activity. Specific actions and procedures shall usually be necessary to accommodate unique circumstances of the transferring activities.

**020502.** Functions to be Transferred

In the case of a partial transfer of functions, specific negotiations should take place between the affected organizations to identify specific functions that are to be transferred, the effective date(s) of transfer, and the disposition of functions not transferred. Action must be taken to ensure that valid requirements are funded by the activity having the requirement. Follow-on negotiations should identify and remedy any initial oversight and specific directions should be provided once these follow-on actions are complete. All actions taken shall be consistent with the negotiated agreements. Pending final negotiations, all excluded functions shall remain with the current organization.

**020503.** Physical, Financial, and Personnel Resources

The organizations involved shall identify resources to be transferred incident to the functional transfer. Follow-on actions shall identify resources not recognized in the original negotiations, and specific directions shall be provided commensurate with finalized agreements. All actions taken shall be consistent with negotiated agreements.

**020504.** Interim Funding

If an interim funding method is to be used to fund the transfer, pending resolution of other issues, [the organizations involved will](#) determine the method and intended duration of the interim funding. Funding provided by a locally established order should not exceed 30 days.

**\*020505.** Budgetary Accounts

There should not be an automatic transfer of budgetary account balances from the losing activity to the gaining activity. Where items included in an existing obligation or order are for continuing services or other requirements of the transferred entity, an agreement must be negotiated between the losing and gaining activities. This agreement must specify whether accountability will remain identified to the losing activity, or if documents will be modified to reflect the gaining fund cite and paying office. In instances where accountability remains identified to the losing activity, a reimbursable support agreement shall be negotiated, and accounting support shall continue to be provided by the losing activity and paid for by the gaining activity. [All actions relating to the fiduciary aspects of the transfer will be captured and monitored as part of the overall transfer plan. A senior financial official from the organizations involved and the servicing DFAS site will be identified and accountable for ensuring the integrity of the post transfer financial balances. Specific action items will be identified in the transfer plans to ensure that all account balances are maintained and properly liquidated subsequent to the transfer. Transferred balances will be closely monitored to ensure that pending and in-process transactions are properly posted in a timely fashion, and balances are not orphaned.](#) The following actions are needed for the transfer of outstanding commitments, obligations, and unfilled customer orders.

A. Outstanding commitments for functions to be transferred from the losing activity should be canceled, but only when managed in coordination with the gaining activity to



ensure that the procurement cycle is not interrupted. Concurrent with cancellation at the losing activity, the new commitment shall be entered into the accounting system by the gaining activity, and purchases under the document shall reflect the gaining activity as the accountable entity. In those cases where cancellations of an outstanding commitment would unduly interrupt the purchase cycle, a reimbursable order from the gaining activity, citing gaining activity funding, shall be provided to the losing activity.

B. Undelivered orders and other outstanding obligations account balances shall not be transferred from the losing activity to the gaining activity without validation. All undelivered orders and other outstanding obligations for goods and services ordered but undelivered directly related to functions transferring from the losing activity shall be reviewed, and decisions made on the appropriate disposition for each transaction. Undelivered orders and other outstanding obligations for items or services no longer required shall be canceled, and any termination costs which result from the cancellation shall be the responsibility of the losing activity. If outstanding obligations support a continuing need, that need may be filled through either a modification to the undelivered order or continued funding by the original ordering activity with reimbursement from the new requiring activity.

C. Unfilled customer order account balances shall not be transferred from the losing activity to the gaining activity without validation. Unfilled customer orders citing current funding which are directly related to functions transferring from the losing activity shall be reviewed to determine what orders for goods or services remain outstanding, and to identify the activity responsible for providing these goods or services to the customer. If goods or services are to be provided by the gaining activity, reimbursement to the gaining activity may be provided through either an amendment to the unfilled customer order or through funding provided by the losing activity. If an unfilled customer order is amended, the losing activity, along with the gaining activity, must ensure that the customer is advised of this decision. If goods or services are to be provided by the losing activity, the losing activity shall continue to bill the customer, and return any remaining unobligated balances to the customer after the order is completed.

\*020506. Proprietary Accounts

All actions relating to the fiduciary aspects of the transfer will be captured and monitored as part of the overall transfer plan. A senior financial official from the organizations involved and the servicing DFAS site will be identified and accountable for ensuring the integrity of the post transfer financial balances. Specific action items will be identified in the transfer plans to ensure that all account balances are maintained and properly liquidated subsequent to the transfer. Transferred balances will be closely monitored to ensure that pending and in process transactions are properly posted in a timely fashion, and balances are not orphaned.

A. The following actions are required incident to the transfer of PP&E from one DoD entity to another. Detailed information on PP&E assets may be found in Volume 4, Chapter 6, of this Regulation.

1. A preliminary agreement will be documented between losing and gaining activities as to the specific PP&E to be transferred. Ownership of selected assets, such

as equipment, hardware, software, furniture, etc., necessary to the performance of the functions being transferred shall transfer to the gaining activity. Assets required exclusively in support of the function being transferred also shall be transferred to the gaining activity. Ownership of shared assets shall be determined based upon guidance in Volume 4, Chapter 6, of this Regulation. Accounting entries to remove PP&E from the accountable records of the losing activity must agree with the transfer of physical assets and support physical and financial accountability for the PP&E transferred to the gaining activity.

2. A joint inventory will be conducted and documented between representatives of the losing and gaining activity to mutually verify the availability and accuracy of PP&E and related information scheduled for transfer. The PP&E not transferred because of condition or unavailability shall be disposed of and removed from the accountable records of the losing activity prior to transfer. After validation of assets to be transferred, a final listing shall be compiled showing all pertinent information for the assets agreed upon for transfer.

3. Losing activities must provide copies of physical custody control records to gaining activities and prepare accountability transfer documents. The losing activity shall provide the gaining activity copies of all Property Record Cards (or similar physical custody records) used to maintain physical control of each item included on the final listing of assets to be transferred. Transfer documents shall be prepared concurrently to remove asset accountability from the records of the losing activity. A copy of each transfer document shall be provided to the gaining activity to support the value of capital asset accountability to be established. The transfer document shall disclose, if known, the original acquisition cost and the accumulated depreciation for items transferred. If those values are not known, the transfer value shall be the fair market value amount mutually agreed to by the losing and gaining activities. However, if those values are not known, such a transaction shall not create a financial gain or loss for the gaining or losing activity. Each transfer document shall identify the losing and gaining activity, by name and DoD Activity Address Code (DoDAAC) along with current points of contact.

4. Gaining activities must establish physical custody and control of assets transferred using copies of physical custody control records provided by the losing activities, and prepare accountability acceptance documents.

\*a. Each gaining activity shall prepare new property records (DoD Property Record ([DD Form 1342](#))) for each item of equipment. Computer generation of DoD Property Records is authorized if the data elements are included in the same order as on the printed [DD Form 1342](#). Official property custody records shall be maintained by the gaining activity. [DD Form 1354](#) (Transfer and Acceptance of DoD Real Property) shall be used to record the physical custody/accountability of real property. The gaining shall record newly transferred personnel and real property in an approved accountable system of record.

b. Specific categories of equipment and plant property are monitored and controlled by offices, other than the installation having ownership and physical custody of the item. Notification shall be made to the following control offices consistent with the property control and management requirements of each applicable item:

(1) Notify Defense Supply Center Richmond for Federal Supply Group 34 (Metalworking Machines).

(2) Notify Naval Facilities Engineering Command and the Navy Facility Assets Data Base for Navy real property item accountability changes such as buildings, etc.

(3) Notify Military Traffic Management Command for railroad equipment.

(4) Notify Plant Property Accounting Office/Activity and Transportation Equipment Management Center for industrial plant equipment items.

c. Each gaining activity shall receive a copy of all transfer documents from the losing activity to support the value of all capital asset accountability to be established. Each transfer document shall identify the losing and gaining activities, both by name and DoDAAC. Adequate controls must be established to ensure that proper accountability is maintained for all PP&E transferred to gaining activities. Those controls should provide, at a minimum, assurance that assets transferred and their values are consistent with and/or reconcilable to the joint inventory conducted between representatives of the losing and gaining activity, copies of transfer documents received from the losing activity, and DoD Property Records ([DD Form 1342](#)) prepared by the gaining activity.

B. Detailed information on construction-in-progress may be found in Volume 4, Chapter 6. Ownership of assets under development, e.g., physical assets or software under development, shall be transferred to the gaining activity where such efforts are directly related to the functions being transferred. The losing activity shall debit the financing Account 5730 and credit the Account 1720, "Construction In Progress," for the value of work completed to date. Concurrently, the gaining activity shall record the same value as a debit to the Construction in Progress account and a credit to the financing Account 5720, "Financing Sources Transferred In Without Reimbursement." Both of the transfer actions should occur in the same accounting period. The gaining activity shall record the transaction based on notification by the losing activity or the designated liaison office. The capital budget authority of the gaining DWCF activity shall require appropriate adjustment for assets transferred during construction to ensure authority for the gaining activity to complete the asset.

C. Detailed information on work in process may be found in Volume 4, Chapter 4 of this [regulation](#). Work in process for customers (unfilled customer orders) shall not be transferred from the losing activity to the gaining activity without validation. Unfilled customer orders citing current funding which are directly related to transferring functions shall be reviewed to determine what orders for goods or services remain outstanding, and to identify the activity responsible for providing these goods or services to the customer. If the work in process is to be completed by the gaining activity, reimbursement to the gaining activity may be provided through either an amendment to the unfilled customer order or through funding provided by the losing activity. If an unfilled customer order is amended, the losing activity,

along with the gaining activity, must ensure that the customer is advised of this decision. If the work in process is to be completed by the losing activity, the losing activity shall continue to bill the customer, and return any remaining unobligated balances to the customer after the order is completed. Transactions outstanding prior to the transfer shall remain on the accounting records of the losing entity until completed, canceled, or reissued as a gaining activity responsibility.

D. Detailed information on raw materials may be found in Volume 4, Chapter 4 of this [regulation](#). Raw materials on hand that shall be transferred should be validated prior to their transfer. If the precise value of raw materials for which accounting is to be transferred cannot reasonably be validated prior to transfer, representatives from both the losing and gaining activity shall jointly review the most current physical and financial reconciliation records available. Concurrently, any apparent abnormal financial values or financial transactions which appear abnormal shall be jointly reviewed and a consensus reached as to the reliability of records being transferred. Statistical sampling or other methods of verification should be used, as appropriate. Records of accountability being transferred must be as reasonably accurate as possible. Raw materials accounting transfers shall be based on the mutually validated on hand values of the accountable records of the losing activity. If accountability for raw materials is to continue to be maintained using existing supply and financial records, the above validation procedures and requirements remain the same.

E. Detailed information on inventory may be found in Volume 4, Chapter 4 of this [regulation](#). Inventory in transit is the value of items moving between a DoD supply activity and a contractor or other government supplier, or moving between storage locations within a DoD Component. Amounts posted to this account are based upon ownership acceptance, or payments made for materiel not yet physically received. Amounts recorded in this account are supported by individual documents evidencing the ownership acceptance or payment prior to receipt. As is the case with the inventory records, records supporting the transfer of accountability for inventory in transit must be as accurate as possible. Where practical, each document should be reviewed for validity. Inventory in transit values transferred shall be based on the validated value of documents supporting inventory in transit values. In those instances where transactions are determined to be invalid, action should be initiated to adjust the accountable records of the losing activity. If accountability for inventory in transit is to continue to be maintained using existing financial records, the above validation procedures and requirements remain the same.

\*F. Detailed information on accounts receivable may be found in Volume 4, Chapter 3, "Receivables," of this regulation. Accounts receivable that are to be transferred should be validated prior to their transfer. If the precise value of accounts receivable for which accountability is to be transferred cannot reasonably be validated prior to transfer, representatives from both the losing and gaining activity shall jointly review the most current physical and financial reconciliation records available. The accounts receivable values transferred shall be based on the mutually validated accounts receivable values. Statistical sampling or other methods of verification should be used, as appropriate. Records of accountability being transferred must be as reasonably accurate as possible. Any adjustment amounts shall be included on the accountable records of the losing activity. Action may be taken to terminate collection action and write off the debt when the criteria in Volume 4, Chapter 3,

paragraph 030407, of this regulation apply. All remaining and transferred balances will be closely monitored by the involved organizations and the servicing DFAS to ensure timely and proper liquidation occurs.

G. Detailed information on liabilities may be found in Volume 4, Chapters 9 and 10 of this regulation.

\*1. Accounts payable that are to be transferred should be validated prior to their transfer. If the precise value of accounts payable for which accountability is to be transferred cannot reasonably be validated prior to transfer, representatives from both the losing and gaining activity shall jointly review the most current physical and financial reconciliation records available. The accounts payable values transferred shall be based on the mutually validated accounts payable values. Statistical sampling or other methods of verification should be used, as appropriate. Records of accountability being transferred must be as reasonably accurate as possible. Appropriate action shall be taken to adjust all transactions recorded as accounts payable which are determined to be no longer valid. Any adjustment amounts shall be included on the accountable records of the losing activity. All remaining and transferred balances will be closely monitored by the involved organizations and the servicing DFAS to ensure timely and proper liquidation occurs.

\*2. The liability for accrued payroll and annual leave for employees transferring from a revolving fund activity to another revolving fund activity or to an appropriated activity becomes a liability to the gaining activity as of the date of the transfer. This liability shall be recorded on the respective records in the appropriate net position and liability accounts. The losing revolving fund activity shall provide a listing to identify individuals transferring and confirm the value of the leave liability of those employees. Regardless of the contributing event, a revolving fund activity that loses employees through reorganization or transfer to an appropriation-financed activity shall transfer cash equal to the accrued payroll to the gaining appropriated fund activity and cash equal to the amount of any funded accrued annual leave value to the Treasury as miscellaneous receipts. All remaining and transferred balances will be closely monitored by the involved organizations and the servicing DFAS to ensure timely and proper liquidation occurs.

H. Detailed information on net position may be found in Volume 4, Chapter 15 of this regulation. An increase to net position is recognized when an activity operating within the DWCF receives an asset that shall not require the use of available resources to finance the item. Conversely, a decrease to net position is recognized each time an activity receives a liability (e.g., accounts payable and unfunded annual leave) from another activity for which payment in the form of cash or other assets is not provided. Entries vary depending on what is being transferred. Various situations have been covered in the preceding paragraphs detailing transactions that impact net position. Additional information relating to net position may be found in Chapter 10, of this volume.

## 020507. Determine New Fund Citation, and New or Revised Data Structure

A. A fund citation must be used on all accounting documents. To permit continued operation of transferred functions by the gaining activity, the gaining activity shall ensure that the proper fund code is provided to those installations transferring to its command and that instructions for preparation of requisitions are provided sufficient to ensure billing to the proper accountable activity. The fund citations provided must include the applicable accounting classification code, and must also identify any applicable fund code(s), either system unique, or DoD-wide, or both. All obligating documents such as contracts, small purchase actions, travel orders, training requests, and requisitions prepared for purchase of materiel from the military supply system or the General Services Administration shall cite the gaining activity accounting classification code.

B. A DoDAAC is used to identify a DoD installation (or, in some instances, components thereof) for purposes of mail and communications, shipment of materiel, or billing for assets issued from the DoD military supply system. The DoDAAC assignments are controlled by each of the DoD Components; however, they are centrally maintained and distributed to the DoD Components by the Defense Automatic Addressing Systems Office to ensure total system visibility. The DoDAAC (in Navy terms, the Unit Identification Codes (UIC)) is required on Military Standard System requisition documents to ensure compatibility with the logistics management systems. These requisition documents become obligating documents and are the basis for creation of other logistics and financial documents. The circumstance of each transfer action may require identification of the transferred or consolidated segment of the losing activity as a new entity. In such cases, new DoDAACs shall be established and distributed to applicable activity personnel to ensure the proper preparation and subsequent processing of transactions for accounting and reporting. Concurrently, each transfer shall be evaluated to ensure that all Service Code assignments, fund code assignments, routing identifier codes, and all other Military Standard supply and financial systems coding have been established consistent with the transfer status of the new entity.

## 020508. Other Actions Required to Accomplish the Accounting Transfer

A. Reimbursable agreements may exist between the losing installation and other entities for the provision or receipt of services and other support. It is essential that such reimbursable agreements be identified and that the gaining activity and the providing or receiving entity negotiate Intra-Service Support Agreements or Service Support Agreements to define reimbursable services and support to be provided and received.

B. The transfer of payroll processing shall normally be accomplished either at the beginning of a pay period or at the beginning of a fiscal year. Whenever payroll transfers occur, an agreement shall be negotiated between the activities as to the date to be used for transfer. The losing activity is responsible for the salary and benefits of all transferring employees through the agreed upon transfer date. The losing activity also shall be responsible for payment in the form of cash or other assets for any unused compensatory time, and merit pay bonuses earned by transferring employees for the fiscal year.

C. Travel advances and outstanding travel obligations for travel which has occurred, or is in process, shall remain with the losing activity pending settlement. Only travel for transferring activity personnel begun after the effective date of the transfer shall be an obligation of the gaining activity. The losing and gaining activity shall jointly review outstanding travel documents and deobligate those no longer valid. Where temporary duty begins before and ends after the effective transfer date, travel documents shall contain fund citations (and appropriate estimates) to ensure payment of travel costs commensurate with the duty station of the individual during each of the travel periods. Separate travel documents for each period are recommended. Copies of all related travel documents shall be provided to both the losing and gaining activities to ensure proper processing. The losing activity shall prepare the travel order, and make appropriate disbursements. Amounts charged to the gaining activity shall be processed as a Transaction for Others or other agreed-upon procedures by the losing activity. Losing activities shall always obtain authority to cite gaining activity funding on travel orders.

D. If an outstanding contract(s) is essential to the needs of another DoD activity, that need may be filled through a contract modification citing the appropriation or fund of the other DoD activity. It is especially important that contracts for PP&E be terminated when feasible. Termination costs which result from the cancellation shall be identified as base closure costs.

E. A contract modification must be sent to contractors, under normal change procedures, for each contract for which the responsibility for contract payment is transferred. This is necessary to advise the contractor of a change in paying office. If responsibility for both contract payment and accounting for the losing and gaining activity remains unchanged, a contract modification is not necessary. Instead, the accounting office shall transfer transactions (i.e., payments, refunds, collections) identified to the losing activity that properly belong to the gaining activity and record those transactions as a transaction of the gaining activity. Concurrently, for reports to the Treasury Department, disbursement and collection values are reported as if they occurred within the gaining activity.

F. The gaining activity shall develop procedures to control and manage the required accounting and system changes. Account control totals and other internal control mechanisms shall be developed and used to insure that accounting integrity is maintained.

G. The gaining activity shall provide specific instructions to new organizational elements transferred to it including points of contact, office symbols and phone numbers, in order to continue the reporting function in an efficient and effective manner.

## 0206 CLOSURE OF DWCF ACTIVITY

### 020601. General

The DWCF **does** not have any funds available to them for payment of costs or absorption of losses that are not related to their output. Reimbursable rates developed for DWCF activities generally recover only costs incurred in providing requested goods or services. Costs over and

beyond those costs generally are not considered in reimbursement rate computations. As a result, the DWCF **does** not have, through their normal operations, funds available for payment of costs resulting from closure actions that are directed by higher authority such as the Base Realignment & Closure (BRAC) Commission. The OUSD(C), OUSD(C)(P/B), Directorate for Military Construction provides instructions applicable to budget formulation and congressional justification for BRAC appropriations.

020602. Base Closure Actions

The following general actions and related procedures shall be followed upon notification that a DWCF activity is to be closed. In the case of a partial transfer of a particular function, specific actions and procedures are identified in paragraph 0205, above. Specific actions and procedures shall usually be necessary to accommodate unique circumstances of the closing activities.

A. The organizations involved shall identify the specific functions to be terminated and the disposition of these functions. Specific guidelines on the disposition of these functions shall be provided once the review is complete.

B. The organizations involved shall identify and validate the physical, financial, and personnel resources to be disposed of or terminated at the closing activity. Specific directions shall be provided once the review is complete.

C. The organizations involved shall identify any interim funding method and intended duration. If an interim funding method is to be used to fund the closure, the affected organizations shall determine the method and intended duration of the interim funding. Funding provided by a locally established order should not exceed 30 days.

D. The organizations involved shall identify outstanding commitments for the functions of the closing activity to be terminated. Outstanding commitments that are not absolutely necessary should be canceled.

E. The organizations involved shall review all existing contracts not directly associated with a funded customer order and terminate those for which the contracted service or good is, or shall be, no longer essential. It is especially important that contracts for PP&E be terminated when feasible. Termination costs which result from the cancellation shall be identified as base closure costs.

F. The organizations involved shall review and validate the undelivered orders of the closing activity for goods and services ordered but undelivered. Undelivered orders for goods and services ordered but undelivered directly related to the functions to be terminated shall be reviewed and decisions made on the appropriate disposition for each transaction. Undelivered orders for items or services no longer required or that are not likely to be delivered shall be cancelled and the appropriate amounts deobligated.



G. The organizations involved shall review and validate the outstanding accounts payable. Accounts payable directly related to the functions being terminated from the closing activity shall be reviewed and decisions made on the appropriate disposition for each accounts payable for goods received but not yet paid, return of goods that are no longer needed, and recovery of the amounts payable. If the precise value of accounts payable for which accountability is to be terminated cannot reasonably be validated prior to closing, representatives from the organizations involved shall jointly review the most current physical and financial reconciliation records available. The accounts payable shall be based on the mutually validated accounts payable values. Statistical sampling or other methods of verification should be used, as appropriate. Records of accountability being terminated must be as reasonably accurate as possible. Appropriate action shall be taken to adjust all transactions recorded as accounts payable which are determined to be no longer valid. Any adjustment amounts shall be included on the accountable records of the closing activity.

H. The organizations involved shall review and validate the unfilled customer orders. Unfilled customer orders citing current funding which are directly related to the functions to be terminated from the closing activity shall be reviewed and decisions made on the appropriate disposition for each unfilled customer order. If unfilled customer orders for goods or services can be completed by the closing activity prior to closing, the closing activity may continue work. If customer orders cannot be completed, the closing activity shall bill the customer for the work completed and return any remaining unobligated balances to the customer.

\*I. The organizations involved shall review and validate the outstanding accounts receivable to include any unbilled amounts. Accounts receivable which are directly related to the functions to be terminated from the closing activity shall be reviewed and decisions made on the appropriate disposition for each account. If the precise value of accounts receivable for which accountability is to be terminated cannot reasonably be validated prior to closing, representatives from the organizations involved shall jointly review the most current physical and financial reconciliation records available. The accounts receivable shall be based on the mutually validated accounts receivable values. Statistical sampling or other methods of verification should be used, as appropriate. Records of accountability being terminated must be as reasonably accurate as possible. Any adjustment amounts shall be included on the accountable records of the closing activity.

J. The organizations involved shall reconcile financial and logistic stock records with physical inventories; determine whether quantities on hand are in excess of requirements to complete the remaining productive workload and other closeout needs; purge the inventories of all obsolete, damaged and surplus items; and dispose of excess material and supplies in accordance with logistics inventory policies and procedures.

K. The organizations involved shall review and validate outstanding travel advances and travel obligations. Travel that is no longer required shall be deobligated. Outstanding travel advances and travel obligations for which travel has occurred, or is in process, shall be liquidated prior to closing the activity.

\*L. The organizations involved shall review and validate advance payments received in advance of performance. If the closing activity has received payment for ordered work in advance of its performance, then the amount of the advance less the amount of obligations, if any, incurred in partial completion of the order shall be returned to the financing appropriation. If the amount of the advance is less than the obligations incurred, the closing activity shall bill the customer for the unreimbursed obligations incurred and ensure that collection is received prior to closing. Move cost to overhead expense when the BRAC funds expire.

M. The organizations involved shall prepare fiscal year end financial statements for the closed activity.

N. The organizations involved shall forward a request for cancellation of existing charters to the OUSD (C), Revolving Funds.

020603. Financing BRAC Related Costs

Costs at a DWCF activity must be financed by a BRAC account when those costs are a direct result of a BRAC determination that a base is to be closed. Stated in a different manner, charges for goods and services provided through DWCF may not include amounts necessary to cover costs incurred in connection with the closure or realignment of a military installation. The BRAC costs are those required to carry out actions that are in direct support of closing or realigning bases. Prior year, current year, or budget year operating losses in the DWCF shall not be budgeted in the BRAC base closure accounts. Although overhead associated with the costs listed below shall be charged to the BRAC account, increases in overhead on existing and new customer work shall not be considered a direct result of a determination that a base be closed and, therefore, shall not be charged to a BRAC account. Costs identifiable directly to base closure actions shall be accumulated separately for reimbursement from a BRAC account. Costs attributable to base closure actions include:

A. Environmental Restoration and Mitigation includes reducing, removing and recycling hazardous waste, and removing unsafe buildings and debris.

B. Planning includes advance planning and design that may be required to transfer functions from an activity being closed to another military installation.

C. Outplacement Assistance in relocation, training, or other necessary assistance to civilian employees employed by the Department at installations being closed.

D. Community Programs include economic adjustment assistance to a community in which the closed base is located, or community planning assistance to the community to which functions shall be transferred as a result of closure of a military installation.

## 020604. Financing Non-BRAC Related Base Closure Costs

Paragraph 020603, above, specifies costs to be financed from a BRAC account. Other costs at an activity undergoing closure, or to be closed, shall not be financed by a BRAC account even though the closure was directed as a result of a determination of a BRAC. Those other costs shall be financed either by the DWCF (initially) or by an operations and maintenance appropriation as follows:

A. The following shall be financed by the DWCF (initially) to the extent permitted by amounts available from existing and new customer orders:

1. Current year costs in support of customer orders.
2. Prior year, current year, or budget year operating losses.
3. Increases in overhead even though those increases could be attributed to decisions to close bases.

B. The following shall be financed through a transfer from the Operation & Maintenance (O&M) appropriation of the DoD Component responsible for the activity incurring the following costs and loss.

1. All costs at a closing activity in the year of closure that are not associated with a valid work order or are as a result of other than a determination of a BRAC that the activity be closed.
2. Direct and indirect (including General and Administrative) operating costs for which there are not sufficient resources in existing customer orders or other resources of the closing activity.
3. Current year and prior year losses (to the extent not financed from existing and new customer orders as stated in paragraph 020604.A.2, above) shall be financed as a pass through from the O&M appropriation of the DoD Component responsible for the activity incurring the loss.

## 020605. Procedures for Requesting DoD Base Closure Account Funds

To request an allocation of DoD base closure account funds, an activity that has been selected for closure by a DoD BRAC determination shall request guidance from the OUSD(C), ODC(P/B), Directorate for Military Construction.

## 020606. Allocation of DoD Base Closure Account Funds

The Directorate for Military Construction, ODC(P/B) shall, upon approval by the Office of Management and Budget of an [Apportionment and Reapportionment Schedule \(SF 132\)](#) for the base closure account, provide a Fund Authorization Document to the Director for Budget and

Finance, Washington Headquarters Services (WHS) to fund the Financial Plan as approved. The Director for Budget and Finance, WHS, shall, in accordance with direction received from the Directorate for Military Construction, allocate DoD base closure funds to the Military Departments or Defense Agencies. Upon receipt of the allocation from the WHS, the Military Departments or Defense Agencies shall distribute the base closure funds to the installations responsible for base closure actions. Upon receipt of the fund distribution, the installation shall record the allotment from the DoD base closure account. [Budgetary accounting entries](#) to distribute direct funds to an installation-level is illustrated in [the USSGL Standard Financial Information Structure \(SFIS\) Transaction Library](#).

020607. Use of DoD Base Closure Account Funds

An activity shall implement base closure and realignment actions and administer its allocation of base closure funds in accordance with the approved financial plan. The prior approval of the Directorate of Military Construction, (ODC(P/B)), is required if a project that does not appear on the approved financial plan is to be executed. The general ledger entries for the recording the accounting transactions on the use of direct funds are illustrated in Chapter 3, paragraph 0302, of this volume.

020608. Base Closure Account Reporting Requirements

An installation receiving an allotment of DoD base closure account funds shall prepare a report on the status of its allotment. The status report shall be transmitted to the entity from which the allotment was received in accordance with the reporting due dates required by that entity.

020609. Disposition of PP&E Assets

A. The loss (or gain) from the sale, lease, or other disposal of PP&E assets shall be recorded by the activity having financial custody of those assets. The sale, lease, or other disposal action shall only be recorded in proprietary accounts of that installation. Any proceeds generated from the sale, lease, or other disposal of PP&E assets does not add to, or otherwise affect, the budgetary accounts of that activity.

B. Proceeds resulting from the transfer or disposal of PP&E (including buildings and structures) due to a base closure directed by a BRAC shall be deposited as reimbursements into the DoD base closure account. Proceeds resulting from transfer or disposal of PP&E (including buildings and structures) due to a base closure directed by other than a BRAC shall be deposited as reimbursements into the appropriate miscellaneous receipt Treasury account. Examples of transactions involving proceeds resulting from the transfer or disposal of PP&E include funds derived from temporary leases of government property and property upon which settlement has occurred and title has been passed to the new owners. "Good faith" deposits or earnest funds should be deposited to the Budget Clearing Account (Suspense), F3875, until finalization of the sale (settlement) takes place. Upon finalization of the sale (settlement), deposits made to the Budget Clearing Account (Suspense) shall be transferred to the appropriate Treasury miscellaneous receipt account as indicated above. [Per Treasury](#)

regulation [TFM Bulletin 2011-06](#), the suspense account F3875 is to temporarily hold unidentifiable collections.

C. A copy of deposit documents, or other notification, shall be provided to the Defense Finance and Accounting Service for all deposits made to a base closure account. The deposit document or other notification shall identify the specific base closure account to which the deposit was made.

020610. Withdrawal of Direct Appropriations or Reappropriations

The withdrawal of a direct appropriation or reappropriation is recorded at the departmental-level. The withdrawal of the allocation, if any, of an appropriation or reappropriation issued to the intermediate or activity-level is recorded as a decrease at the intermediate and activity-level and as an increase at the departmental-level as appropriate. [The USSGL Standard Financial Information Structure \(SFIS\) Transaction Library](#) is the source for the typical budgetary and proprietary accounting entries applicable to receipt, allocation and withdrawal of appropriations.

020611. Cumulative Results of Operations

A DWCF activity that is undergoing closure should request reimbursement for its recoverable costs, as specified in paragraph 020604: (1) customer accounts for costs attributable to normal day-to-day operations, (2) the account financing the closure for costs attributable to closure activity, and (3) transfer from the O&M appropriation of the DoD Component responsible for the activity for costs in the year of closure, including prior year losses, that are not associated with a valid work order or are as a result of other than a determination of a BRAC that the activity be closed. All reimbursements and costs (including extraordinary gains and losses) flow to Account 3310, "Cumulative Results of Operations (Normal)." Upon completion of all operations and all closure activity, Account 3310 of the closed activity shall have either a positive or a negative balance. If any portion of the balance in general ledger Account 3310 (Normal) is deferred for recovery from, or return to, customers in the subsequent fiscal year stabilized rate or standard price development, that deferred amount shall be transferred to general ledger Account 3310 (Deferred). Entries to general ledger Account 3310 (Deferred) shall not be made unless the decision to recover or return such amounts from cumulative results of operation was authorized by the OUSD(C), ODC/(P/B), Directorate for Revolving Funds. Additional information relating to cumulative result of operations may be found in Volume 4, Chapter 15.

020612. Residual Assets

Any financial assets (e.g., cash, receivables, and unobligated authority) that remain after the above actions shall remain in the DWCF and are available to meet the overall requirements of the DWCF or other obligational authority requirements as may be authorized. All remaining residual asset account balances shall be reviewed and validated to determine appropriate actions to be taken. The residual balances shall be reduced to zero within one year from the date an activity ceases operations. These actions shall be documented in writing and provided to the appropriate management command for action.

## 020613. Residual Liabilities

Any financial liabilities (e.g., payables and obligated authority) that remain after the above actions shall remain in the DWCF. All remaining residual liability account balances shall be reviewed and validated to determine appropriate actions to be taken. The residual balances shall be reduced to zero within one year from the date an activity ceases operations. These actions shall be documented in writing and provided to the appropriate management command for action.

CHAPTER 2, ANNEX 1: CHARTER FORMAT

DEPARTMENT OF DEFENSE  
(MILITARY DEPARTMENT/DEFENSE-WIDE) WORKING CAPITAL FUND  
(TITLE OF WORKING CAPITAL FUND ACTIVITY GROUP,  
e.g., SUPPLY MANAGEMENT) CHARTER

1. AUTHORITY

The (insert the name of the working capital fund and the fund's activity group), is (was) established, effective \_\_\_\_\_ (DATE) \_\_\_\_\_, under the authority of Title 10, United States Code, Section 2208. Operations of the (insert the name of the fund's activity group) shall be conducted in accordance with applicable Department of Defense policies and regulations.

2. MISSION

(Provide a brief statement of the mission of the fund's activity group.)

3. MANAGEMENT COMMAND

(Provide the name and location of the fund's activity group management command.)

4. ACTIVITY COMPOSITION

See Attachment. (Attach a list of each activity included within the fund's activity group and each activity's location. The attachment should include an "as of" date.)

5. AUTHORIZED EXCEPTIONS

(Indicate any policy exceptions specifically authorized for the fund's activity group or any activity included within the fund's activity group. Also, explicitly state/reference the document approving that exception. Documentation supporting any authorized exceptions shall be submitted with the charter request. If no exceptions are authorized, state "None.")

DEPARTMENT OF DEFENSE  
(MILITARY DEPARTMENT/DEFENSE-WIDE) WORKING CAPITAL FUND  
(TITLE OF WORKING CAPITAL FUND ACTIVITY GROUP,  
e.g., SUPPLY MANAGEMENT) CHARTER

6. CANCELLATION

(This section provides for the cancellation of any previously approved charter(s). Identify the previous approved charter(s) with its date(s) and specify that it hereby is canceled as a result of the approval of this charter.)

Submitted by: \_\_\_\_\_  
(Title of Submitting Official)

Approved: \_\_\_\_\_  
Under Secretary of Defense (Comptroller)



DEPARTMENT OF DEFENSE  
(MILITARY DEPARTMENT/DEFENSE-WIDE) WORKING CAPITAL FUND  
(TITLE OF WORKING CAPITAL FUND ACTIVITY GROUP,  
e.g., SUPPLY MANAGEMENT) CHARTER - ATTACHMENT

ACTIVITY COMPOSITION: (As of \_\_\_\_\_ DATE \_\_\_\_\_)

(List each activity included within the fund's activity group and each activity's location. Include page number if list is longer than one page.)

<u>Activity</u>	<u>Location</u>
(Name of Activity)	(City and State)

Attachment

**VOLUME 11B, CHAPTER 3: “BUDGETARY RESOURCES”**

**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\*\*\*](#).

[This is an initial publication.](#)

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
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**CHAPTER 3****BUDGETARY RESOURCES****0301 APPROPRIATIONS PROVIDED TO DEFENSE WORKING CAPITAL FUNDS****030101. General Information**

Additional information relating to receipt and distribution of budgetary resources may be found in Volume 3, Chapters 13, 14, and 15, of this Regulation. Volume 14, "Administrative Control of Appropriations," of this Regulation contains guidance on Antideficiency Act violations.

**030102. Purpose of Appropriations**

An appropriation is an authorization by an act of Congress that permits agencies to incur obligations and to make payments out of the United States (U.S.) Treasury for specified purposes. The DWCF may receive direct appropriations for two general purposes--to provide working capital, and to provide financing for specific projects or tasks.

**030103. Working Capital**

Direct appropriations may be provided for working capital purposes such as when the cumulative results of operations and/or the cash position is either negative or approaching negative or for other purposes. In those instances, the cash outlays and obligations may have previously occurred and the appropriation may therefore provide financing after the fact. The receipt of the appropriation provides an immediate infusion of cash and is accounted for as illustrated in paragraph 0302, below. The amount of the appropriation used must be accounted for and reflected on accounting records and financial reports. If the amount of the appropriation is in excess of negative net and cumulative results of operations, the amount of the appropriation used shall only be the amount sufficient to bring the total of accumulated operating results and net operating results to a zero dollar (\$-0-) position. In that case, the remaining amount of the appropriation shall be used to offset any subsequent year net operating losses.

**030104. Specific Projects/Tasks**

An appropriation may be provided for specific projects or tasks. An example is an appropriation provided to finance costs of the U.S. Transportation Command (USTRANSCOM) for emergency or humanitarian transportation costs. Another example is an appropriation provided to finance Defense Commissary Agency operating costs.

**030105. Transportation Mobilization Requirements**

Because a capability must be maintained by the USTRANSCOM Transportation activity group to expeditiously respond to requirements to transport personnel, material, or other elements required to satisfy a mobilization condition, direct appropriation funding may be

provided to the Air Mobility Command (AMC) and to the Military Traffic Management Command (MTMC) as follows.

A. For AMC, airlift flying hours and associated costs are based on the requirement to maintain the capability of the airlift system, including crew training (and concurrent mobilization) requirement. The airlift system training generated capacity is used by the Department of Defense (DoD) to move air eligible cargo and passengers. In order to extend air eligibility and increase capacity utilization, rates are generally established to be competitive with commercial airlift carriers. However, due to the mobilization requirement, the resulting revenue does not cover the full costs of airlift operations. This requirement will be recorded/budgeted as follows.

1. The costs for military personnel will be recorded (at the civilian equivalency rate) in accordance with the policy on Military Personnel Expense in Chapter 12, "Expenses," of this volume. Military personnel within the AMC will be directly funded by the Military Personnel appropriation. Although the cost shall be recorded, it shall be recorded so that it is not required to be recovered in customer rates. Military personnel expense is reported on the monthly Accounting Report 1307 as provided for in Chapter 15, of this volume.

2. The balance of the mobilization requirement costs will be funded through a direct appropriation to the Air Force (See paragraph 0302, below).

B. The MTMC shall plan for and maintain a Reserve Industrial Capacity (RIC) to transport personnel resources, material and other elements required to satisfy a mobilization requirement. The costs of RIC will be funded by the Army Operation and Maintenance appropriation.

## 0302 DIRECT APPROPRIATIONS RECEIVED

### 030201. Receipt and Allocation of Direct Appropriations.

The receipt of a direct appropriation or reappropriation is recorded at the departmental-level only. The allocation, if any, of the direct appropriation or reappropriation is recorded at the activity group and activity-level as appropriate. The receipt and allocation of direct appropriations provided to the DWCF are accounted for as follows.

A. Departmental-level entries include:

Dr 4119 Other Appropriations Realized (Direct)  
Cr 4450 Unapportioned Authority (Direct)

Dr 1010 Funds Balance with Treasury  
Cr 3101 Unexpended Appropriations–Appropriations Received

This entry is to record receipt of a direct appropriation to the DWCF and establishes the Fund Balance with Treasury. The source document for the budgetary account posting is the

Office of Management and Budget (OMB) appropriation apportionment (SF-132), “Apportionment and Reapportionment Schedule.” The source document for the proprietary account posting is the Treasury Warrant (TFS Form 6200), “Department of the Treasury Appropriation Warrant.” (This is a departmental-level entry only.)

Dr 4450 Unapportioned Authority (Direct)  
Cr 4510 Apportionments (Direct)

This entry is to record amount of direct budgetary authority apportioned by the OMB and available for allotment. The source document is the SF-132. (This is a departmental-level entry only.)

Dr 4510 Apportionments (Direct)  
Cr 4540 Internal Funds Distribution-Issued (Direct)

Dr 3101 Unexpended Appropriations-Appropriations Received  
Cr 1010 Funds Balance with Treasury (Funds  
Disbursed-Operating Program)

This entry is to record direct obligational authority and cash issued to an intermediate-level. (This is a departmental-level entry only.)

B. Intermediate-level entries include:

An intermediate-level is used to record receipt of allocations or suballocations from higher authority and the subsequent issuance of allotments and cash to lower level activities.

Dr 4550 Internal Fund Distributions Received (Direct)  
Cr 4560 Funds Available for Allotment (Direct)

Dr 1010 Funds Balance with Treasury (Funds Collected-Operating  
Program)  
Cr 3101 Unexpended Appropriations-Appropriations Received

This entry is to record receipt of direct obligational authority and cash issued from departmental-level. (This is an intermediate-level entry only.) The DWCF Components that are structured organizationally into three (or more) levels may issue additional suballocation of budgetary resources to other lower level commands.

Dr 4560 Funds Available for Allotment (Direct)  
Cr 4570 Allotments Issued (Direct)

Dr 3101 Unexpended Appropriations-Appropriations Received  
Cr 1010 Funds Balance With Treasury (Funds  
Collected-Operating Program)

This entry is to record direct obligational authority issued to an activity (execution) level. (This is an intermediate-level entry only.)

C. Activity (execution) level entries include:

Dr 4580 Allotments Received (Direct)

Cr 4610 Allotments - Realized Resources (Direct)

Dr 1010 Funds Balance with Treasury (Funds Collected -  
Operating Program)

Cr 3101 Unexpended Appropriations-Appropriations Received

This entry is to record receipt of direct obligational authority issued from an intermediate-level. (This is an activity-level entry.)

030202. Reduction or Withdrawal of Direct Appropriations

The reduction or withdrawal of an unexpired direct appropriation or reappropriation is recorded at the departmental-level. The reduction or withdrawal of the allocation, if any, of an appropriation or reappropriation issued to the intermediate or activity-level is recorded as a decrease at the intermediate and activity-level and as an increase at the departmental-level, as appropriate. The reduction or withdrawal is the reverse of the entries in paragraph 030201, above, except that Account 3106 should be substituted for Account 3101. The entry to record the reduction or withdrawal of an unexpired direct appropriation or reappropriation from departmental-level is as follows. (This is a departmental-level entry only.)

Dr 4450 Unapportioned Authority (Direct)

Cr 4396 Authority Permanently Not Available Pursuant to Public Law

Dr 3106 Unexpended Appropriations-Adjustments

Cr 1010 Funds Balance with Treasury

030203. Use of a Direct Appropriation in DWCF

The use of a direct appropriation issued to a DWCF is recorded at the activity-level.

Dr 4610 Allotments-Realized Resources (Direct)

Cr 4700 Commitments (Direct)

Entry to record commitment.

Dr 4700 Commitments (Direct)

Cr 4801 Undelivered Orders-Obligations, Unpaid (Direct)

Entry to record undelivered order without an advance.

Dr 4801 Undelivered Orders-Obligations, Unpaid (Direct)  
Cr 4901 Delivered Orders-Obligations, Unpaid (Direct)

Dr 6100 Operating Expenses/Program Costs  
Cr 2110 Accounts Payable

Entries to record the delivery of goods and services and accrue a liability.

Dr 3107 Unexpended Appropriations-Used  
Cr 5700 Expended Appropriations

Entry to record appropriations used this fiscal year.

Dr 4901 Delivered Orders-Obligations, Unpaid (Direct)  
Cr 4902 Delivered Orders-Obligations, Paid (Direct)

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

Entries to record payment and disbursement of funds.

### 0303 CUSTOMER ORDERS

#### 030301. Anticipation of Customer Order

The DWCF should estimate the dollar amount of reimbursable orders it expects to receive in the current fiscal year. Anticipated reimbursable program authority does not provide obligation authority. The recordation of anticipated reimbursable program authority provides only authority to accept reimbursable orders. The accepted reimbursable order provides the obligation authority. The estimated anticipated reimbursable order value shall be recorded as follows.

A. Departmental-level entries include:

Dr 4210 Anticipated Reimbursements and Other Income  
Cr 4450 Unapportioned Authority

Entry to record estimated reimbursements and other income.

Dr 4450 Unapportioned Authority  
Cr 4590 Apportionments Unavailable-Anticipated Resources

Entry to record estimated reimbursements and other income when OMB apportions the anticipated amounts.



Dr 4590 Apportionments Unavailable-Anticipated Resources  
 Cr 4210 Anticipated Reimbursements and Other Income

Entry to record the issue of reimbursable authority.

B. Activity-level entries to record the receipt of an allocation of reimbursable authority:

Dr 4210 Anticipated Reimbursements and Other Income  
 Cr 4590 Apportionments Unavailable-Anticipated Resources

030302. Receipt of Customer Orders

Customer orders received are requisitions and other orders accepted for items to be furnished on a reimbursable basis. The amount of budgetary resources available for obligation from customer orders is the sum of:

A. Orders received from federal government accounts that represent valid obligations of the ordering account, whether or not accompanied by an advance, plus

B. Orders received from the public, including state and local governments, but only to the extent accompanied by a cash advance. Reimbursable orders received from nonfederal customers are recognized only to the extent that a cash advance has been received.

C. Throughout the year, unfilled customer order amounts should be adjusted to the extent that orders are filled, canceled, or new orders received.

D. The acceptance of a customer order without an advance and with an advance is recorded as follows.

Dr 4221 Unfilled Customer Orders Without Advance  
 Cr 4210 Anticipated Reimbursements and Other Income  
 and

Dr 4590 Apportionments Unavailable-Anticipated Resources  
 Cr 4610 Allotments-Realized Resources (Reimbursable)

Entries to record acceptance of customer orders without advance.

Dr 4222 Unfilled Customer Orders With Advance  
 Cr 4210 Anticipated Reimbursements and Other Income  
 and

Dr 4590 Apportionments Unavailable-Anticipated Resources  
 Cr 4610 Allotments-Realized Resources (Reimbursable)

Dr 1010 Funds Balance with Treasury (Funds Collected-Operating Program)  
 Cr 2310 Advances from Others

Entries to record acceptance of customer orders with advance.

030303. Performance of Customer Orders by Performing Activity

A. The performing DWCF activity does not pay for goods or services in advance.

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

Entries to record undelivered order without advance.

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

Dr 6100 Operating Expenses/Program Costs  
Cr 2110 Accounts Payable

Entries to record delivery of goods or services and accrue a liability.

Dr 4901 Delivered Orders-Obligations, Unpaid (Reimbursable)  
Cr 4902 Delivered Orders-Obligations, Paid (Reimbursable)

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

Entries to record payment and disbursement of funds without an advance.

B. The performing DWCF activity pays for goods or services in advance.

Dr 4610 Allotments-Realized Resources (Reimbursable)  
Cr 4802 Undelivered Orders-Obligations,  
Prepaid/Advanced (Reimbursable)

Dr 1410 Advances to Others  
Cr 1010 Funds Balance with Treasury (Funds  
Disbursed-Operating Program)

Entries to record undelivered order with an advance.

Dr 4802 Undelivered Orders-Obligations,  
Prepaid/Advanced (Reimbursable)  
Cr 4902 Delivered Orders-Obligations, Paid (Reimbursable)

and

Dr 6100 Operating Expenses/Program Costs  
Cr 1410 Advances to Others

Entries to record delivery of goods or services.

030304. Recognition of Reimbursement Earned (Revenue)

A. The entries to record the recognition of reimbursements earned in the performing activity for goods sold or services provided on a reimbursable order without an advance are as follows.

Dr 4251 Reimbursements and Other Income Earned-Receiveable  
Cr 4221 Unfilled Customer Orders Without Advance

Dr 1310 Accounts Receivable  
Cr 5100 Revenue From Goods Sold  
Cr 5200 Revenue From Services Provided

B. The entries to record the recognition of reimbursements earned in the performing activity for goods sold or services provided on a reimbursable order with an advance are as follows.

Dr 4252 Reimbursements and Other Income Earned-Collected  
Cr 4222 Unfilled Customer Orders With Advance

Dr 2310 Advances from Others  
Cr 5100 Revenue From Goods Sold  
Cr 5200 Revenue From Services Provided

C. An earned reimbursement is the amount of the customer orders that have been filled, provided that in the case of orders from the public, including state and local governments, the amount is limited to the amount of the cash advance received. Earned reimbursements should not exceed the amount of individual customer orders as well as letters of intent, commanders' orders, congressionally mandated actions, and other emergency situations. The amount of budgetary resources available for obligation from earned reimbursements can be calculated as the sum of:

1. Customer orders from federal government accounts that have been filled but not yet billed;
2. Accounts receivable representing federal government customer orders that has been filled but not collected.
3. Cash received as advances from the public for customer orders that have been filled; and

4. Cash received as reimbursement for federal government customer orders that have been filled.

030305. Collection of Customer Bill

The entries for recording a collection of a customer bill in the performing activity for reimbursable services without an advance is as follows.

Dr 4252 Reimbursements and Other Income Earned-Collected  
Cr 4251 Reimbursements and Other Income Earned-Receiveable

Dr 1010 Funds Balance with Treasury (Funds Collected-Operating Program)  
Cr 1310 Accounts Receivable

0304 NONEXPENDITURE FUND TRANSFERS

030401. Definition

A nonexpenditure transfer is to move budgetary resources from one budget account, appropriation, or fund to another that does not involve an outlay. Nonexpenditure transfers of funds may be received from another appropriation or fund or may be made to another appropriation or fund when appropriate and authorized. A nonexpenditure transfer of funds received from another appropriation or fund increases the amount of available budgetary resources. A nonexpenditure transfer of funds made to another appropriation or fund decreases the amount of available budgetary resources.

030402. Additional Information

Additional information on the transfers of cash and associated budgetary balances can be found in paragraph 0405, Chapter 4 of this volume.

030403 Accounting Entries

Typical budgetary and proprietary accounting entries applicable to transfer of budgetary resources to and from other appropriations and funds are illustrated below. Documentation supporting these entries includes SF 1151, "Nonexpenditure Transfer Authorization."

A. The entry to record an anticipated transfer-out from a DWCF to another appropriation or fund is as follows. (This is a departmental-level entry only.)

Dr 4450 Unapportioned Authority  
Cr 4160 Anticipated Transfers-Current Year Authority  
or  
Cr 4180 Anticipated Transfers-Prior Year Balances

B. The entry to record the actual authorized transfer-out of an amount appropriated to the DWCF to another appropriation or fund is as follows. (This is a departmental-level entry only.)

Dr 4160 Anticipated Transfers-Current Year Authority

Cr 4170 Transfers-Current Year Authority

or

Dr 4180 Anticipated Transfers-Prior Year Balances

Cr 4190 Transfers-Prior Year Balances

Dr 3103 Unexpended Appropriations-Transfers-Out

Cr 1010 Funds With Treasury (Funds Disbursed-Operating Program)

C. The entry to record an anticipated transfer-in from another appropriation or fund to a DWCF is as follows. (This is a departmental-level entry only.)

Dr 4160 Anticipated Transfers-Current Year Authority

or

Dr 4180 Anticipated Transfers-Prior Year Balances

Cr 4450 Unapportioned Authority

D. The entry to record the actual authorized transfer-in of an appropriated amount to the DWCF from another appropriation or fund is as follows. (This is a departmental-level entry only.)

Dr 4170 Transfers-Current Year Authority

Cr 4160 Anticipated Transfers-Current Year Authority

or

Dr 4190 Transfers-Prior Year Balances

Cr 4180 Anticipated Transfers-Prior Year Balances

Dr 1010 Funds with Treasury (Funds Collected-Operating Program)

Cr 3102 Unexpended Appropriations-Transfers-In

### 0305 DEFINITION OF BUDGETARY RESOURCES

The composition of DWCF budgetary resources are defined below. Prior to incurring an obligation, sufficient budgetary resources must be available for obligation in accordance with statutory, administrative, and other restrictions, after consideration of the claims against such budgetary resources.

#### 030501. Sources of Budgetary Resources

A. Direct appropriations and/or reappropriations provided directly to the DWCF or a DWCF Component by an appropriation act or other law and in accordance with statutory limitations, if any, by purpose, amount, and time.

B. Contract authority authorized by specific statutory authority. Contract authority permits obligations to be incurred in advance of an appropriation or in anticipation of customer orders to a revolving fund (e.g., the DWCF). Unless otherwise specified by statute, contract authority is available for obligation only within the fiscal year for which it is provided. By definition, contract authority is unfunded and, therefore, obligations incurred through use of contract authority may not be liquidated (i.e., paid) until funded by an appropriation of liquidating cash or, more commonly within the DWCF, by offsetting collections (See paragraph D, below) credited to the DWCF.

C. Nonexpenditure transfers between DWCF Component subnumbered accounts or, when authorized by statute, between a DWCF Component subnumbered account and a direct appropriation or non-DWCF fund. Nonexpenditure transfers into the DWCF increase budgetary resources. Nonexpenditure transfers from the DWCF decrease budgetary resources.

D. Offsetting collections credited to the DWCF consisting of earned reimbursements, both collected and uncollected, and unfilled customer orders from:

1. Federal government accounts that represent valid obligations of the ordering account whether or not accompanied by an advance.

2. The public, including state and local governments, but only to the extent accompanied by an advance received and credited to the appropriate DWCF Treasury subnumbered account.

3. 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. Refunds are not available for obligations until the refund is collected. Refunds collected in the same fiscal year as the obligations 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 OMB.

E. Recoveries of prior year obligations are cancellations or downward adjustments of obligations incurred in prior fiscal years that were not outlayed. Within the DWCF, recoveries of prior year obligations are automatically apportioned and are available for new obligations as well as upward adjustments of previously existing valid obligations.

030502. Restrictions on Budgetary Resources

A. Statutory Restrictions include:

1. Amounts appropriated to the DWCF may be used only for the purpose for which stated in the appropriation act or other law providing the amounts, for no more than the amount appropriated (or otherwise made available), only within the time period for which the funds are available for obligation, and are subject to such other limitations and/or restrictions as may be stated in the applicable appropriation act or other law providing the

amounts, as well as such other statutory restrictions--both express and implied--as may be relevant.

2. Based upon the authority in Title 10, U.S. Code (U.S.C.), Section 2210, the OMB apportions anticipated contract authority at the beginning of a fiscal year for the amount of the DWCF program. Contract authority itself is not an appropriation; it provides the authority to enter into binding contracts but not the funds to make payments under these contracts. Unless otherwise specified by statute, contract authority is available for obligation only within the fiscal year for which it is provided. Contract authority may be used only for the purpose, amount, and time specified by statute relating to that contract authority. Within the DWCF, contract authority is available for two purposes--capital asset program obligations (all DWCF activity groups) and supply management operations. Supply Management activity groups includes Supply Management, Distribution Depots, Defense Commissary Agency (Resale), and the Defense Reutilization and Marketing Service.

3. A nonexpenditure transfer is a transfer to move budgetary resources from one appropriation or fund to another that does not involve an outlay. Statutory restrictions on the purpose, availability, and use of appropriated funds require that no change be made to those restrictions through the use of a nonexpenditure transfer into the DWCF unless such change is specifically authorized by law.

4. There are no statutory restrictions placed on the obligational availability (or availability to liquidate contract authority obligations) of offsetting collections (See paragraph 030501.D, above) or orders credited to the DWCF.

B. In addition to statutory restrictions, DWCF budget authority may be apportioned or otherwise further restricted through administrative action.

1. Many of the activity groups included within the DWCF are not apportioned. Some activity groups, such as the Supply Management activity groups may receive an apportionment. For example, the Supply Management activity groups may receive a SF-132, "Apportionment and Reapportionment Schedule," or other comparable document for contract authority received for its general operations. Additionally, a SF-132 apportionment may be received for direct appropriations received (for example, appropriations received to procure war reserve materials and operate Defense commissaries). If an apportionment is received, obligations must be kept within the apportioned limits even though the amount apportioned may be less than the total budgetary resources that otherwise would be available. Failure to do so is a potential violation of the Antideficiency Act (Title 31, U.S.C., Section 1517(a)).

2. An administrative limitation cannot be used to change or eliminate a statutory restriction. An administrative action can only further restrict the purpose, amount, or time for which budgetary resources may be used. An administrative division, if any, of budgetary resources provided to a DWCF Component, or subdivision, by the Under Secretary of Defense (Comptroller) (USD(C)) or his representative; and/or a subdivision, if any, of budgetary resources provided to a DWCF activity group or activity (operating unit) by a DWCF Component official must be adhered to. If an administrative limitation is received, obligations

must be kept within the limitation even though the limitation may be less than the total budgetary resources that otherwise would be available. Administrative limitations may be provided in various formats but must be in writing, signed, and clearly state that it is a violation of the Antideficiency Act (Title 31, U.S.C., Section 1517(a)) to incur obligations that exceed the limitation.

C. Budgetary resources must be available for obligation. As noted in the preceding paragraphs, budget authority is available for obligation only in accordance with purpose, amount, and time restrictions imposed by statute, by apportionments imposed by the OMB, and by administrative limitations imposed by authorized officials within the Office of the USD(C) and the DWCF Components. Also, other events reported on line 5 and lines 6.A through 6.E of the SF-133, "Report on Budget Execution and Budgetary Resources," further restrict the availability of budgetary resources. An explanation of those events and identification of the SF-133 lines on which they are reported is included in OMB Circular A-34, "Instruction on Budget Execution." The SF-133 report lines on which these other availability restrictions may be reported are:

- Line 5 Temporarily Not Available Pursuant to Public Law
- Line 6.A Permanently Not Available-Cancellations of Expired and No-Year Accounts
- Line 6.B Permanently Not Available-Enacted Rescissions
- Line 6.C Permanently Not Available-Capital Transfers and Redemption of Debt
- Line 6.D Permanently Not Available-Other Authority Withdrawn
- Line 6.E Permanently Not Available-Pursuant to Public Law
- Line 6.F Permanently Not Available-Anticipated Rest of Year

030503. Claims Against Budgetary Resources.

Claims against budgetary resources must be considered in the determination of budget authority that is available for obligation. Claims against budgetary resources should be recorded in financial records of the DWCF entity. The financial records should be maintained in sufficient detail to permit a segregation of budgetary resources and, within that segregation, an identification of claims against the budgetary resources.

A. Where an activity receives budgetary resources from more than one source, the receiving activity must maintain records which will enable it to control separately the transactions relating to each source. The sources of budgetary resources are reimbursable authority from customer orders accepted, contract authority, direct authority from appropriations, and nonexpenditure fund transfers if the funds transferred are subject to restrictions different from those existing in the account to which transferred.

B. Of the three general availability restrictions--purpose, amount, and time--purpose should be determinable from administrative records while amount and time should be determinable from financial records. A DWCF entity should have two primary types of financial accounts--proprietary and budgetary. The balance of budgetary resources available for obligation can be determined only from budgetary accounts. Proprietary accounts, by



themselves, are not sufficient to determine budgetary resources. For example, nonbudgetary assets such as inventories of stock for sale are not considered a budgetary resource. Additionally, a fund balance (i.e., cash) does not necessarily denote the availability of a budgetary resource. For example, a fund balance, although present, may have claims against it (accounts payable for example) and is, therefore, not available for additional obligation. Neither, however, do all budgetary accounts represent a budgetary resource available for obligation. For example, anticipated customer orders are not budgetary resources available for obligation. Additionally, claims against budgetary resources, such as undelivered orders and unpaid accrued expenditures must enter into the determination of unobligated balances and, therefore, budgetary resources available for obligation. Further, administrative restrictions or other withheld amounts limit the balance of budgetary resources available for obligation. Budgetary resources available for obligation can be determined from data required to be reported on the SF 133. Budgetary resources available for obligation may be computed, using the following formula, from amounts properly displayed on the SF 133:

#### REPORT ON BUDGET EXECUTION AND BUDGETARY RESOURCES (SF 133)

##### Computation To Evaluate Budgetary Resources Available For Obligation

Add: Line 7 Total Budgetary Resources  
 Less: The portion of Anticipated Borrowing Authority included in line 1.B  
 Less: The portion of Anticipated Contract Authority included in line 1.C (see note 1)  
 Less: Line 1.E Other (Anticipated) Budget Authority  
 Less: Line 2.C Anticipated Transfers, Balances (+ or -)  
 Less: Line 3.C Anticipated Spending Authority Without Advance  
 Less: Line 3.D.2 Anticipated Transfers from Trust Funds  
 Less: Line 4.B Anticipated Recovery of Prior Year Obligations  
 Less: Line 6.F Anticipated Cancellations or Withdrawals for Rest of Year (+ or -)  
 Less: Line 8 Obligations Incurred  
 Less: Line 10.A Unobligated Balances Not Available-Appportioned for Subsequent Periods  
 Less: Line 10.B Unobligated Balances Not Available-Deferred  
 Less: Line 10.C Unobligated Balances Not Available-Withheld Pending Rescission  
 Less: Line 10.D Unobligated Balances Not Available-Other

Equals: Available Unobligated Balance (see note 2)

Note 1. Amount on line 1.C includes both Anticipated and Realized Contract Authority. (See footnote to the DWCF SF 133 to identify the portion of anticipated contract authority.) The Anticipated Contract Authority identified in a footnote to the DWCF SF 133 is available for obligation during the current fiscal year. On the September SF 133 report, the anticipated contract authority is reduced to zero. For purposes of this evaluation, the anticipated contract authority available during the fiscal year is eliminated on the September SF 133 report so that the value reported is the budgetary resources available, supported by orders or realized contract authority.

Note 2. Should Equal: Line 9.A.1 Available Unobligated Apportionment  
 Less: Anticipated Contract Authority (see Footnote to SF 133)

Plus: Line 9.B Balance Exempt from Apportionment  
Plus: Line 9.C Other Available Unobligated Balances

C. In the event that budgetary resources available to a DWCF Component, activity group, or activity are not sufficient, a DWCF manager shall not assume that sufficient budgetary resources exist elsewhere within the DWCF to fund obligations in excess of resources available. Rather, the manager of the DWCF Component, activity group or activity, as applicable, shall request, in writing, an increase in authority to incur obligations from its management command or responsible DWCF Component and shall defer the incurring of additional obligations until budgetary resources are sufficient to fund them.

**VOLUME 11B, CHAPTER 11: “REIMBURSEMENTS AND REVENUE RECOGNITION”**

**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**.

**This is an initial publication.**

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

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**CHAPTER 11****REIMBURSEMENTS AND REVENUE RECOGNITION**

## 1101 REIMBURSEMENTS

## 110101. General Information

Additional information relating to reimbursements may be found in Volume 3, Chapter 15, "Receipt and Use of Budgetary Resources" of this Regulation.

## 110102. Reimbursement Principles

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

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

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

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

## 110103. Reimbursable Orders

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

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

## 110104. Basis for Reimbursement

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

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

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

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

## 110105. Use of Project Order/Economy Act Order

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

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

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

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

#### 110106. Reimbursement for Contingency Operations and Humanitarian Efforts

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

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

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

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

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

110107. Work Performed in Advance of Reimbursable Order

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

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

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

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

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

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

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



## 110108. Followup on Unfunded Reimbursable Orders

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

## 110109. Billing Standard

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

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

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

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

#### 110110. Disputed Bills Between DoD Components

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

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

### 1102 REVENUE RECOGNITION

#### 110201. General

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

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

#### 110202. Policy

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

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

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

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

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

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

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

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

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

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

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

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

#### 110203. Types of Orders

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

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

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

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

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

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

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

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

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

8. Supply Management includes receipt, reclamation, storage, and issue of consumables and reparable items.

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

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

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

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

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

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

15. Other Services include services not otherwise classified.

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

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

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

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

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

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

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

#### 110204. Revenue Billings

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

B. Revenue billings shall be accomplished at least monthly including applicable labor, material, overhead, and surcharges as well as the value of material in inventory that is identified and held in reserve for specific orders, and amounts of work in progress in contractors' plants and other government plants that are identified to specific orders. The billings should be made as late as possible in the month so that they shall include the above items to the maximum extent possible and still permit the orderly processing of the collection in the same month. Every effort should be made to reduce the billing and collection lag so that a greater portion of the costs shall be recovered in the same month they are incurred.

## 1103 ACCOUNTING FOR REIMBURSEMENTS AND REVENUE RECOGNITION

## 110301. General

The following illustrate typical budgetary and proprietary accounting entries applicable to reimbursements and revenue recognition. Additional information on customer orders can be found in Chapter 3 of this volume and additional information on work in process can be found in Chapter 7 of this volume.

## 110302. Acceptance of Customer Order

A. Entry to record acceptance of customer order without an advance payment that has been previously anticipated. A proprietary entry is not necessary for this transaction.

Dr 4221 Unfilled Customer Orders Without Advance	\$100,000	
Cr 4210 Anticipated Reimbursements & Other Income		\$100,000
and		
Dr 4590 Apportionments Unavailable-Anticipated Resources		\$100,000
Cr 4610 Allotments-Realized Resources (Reimbursable)		\$100,000

B. Entry to record acceptance of customer order with an advance payment that has been previously anticipated.

Dr 4222 Unfilled Customer Orders With Advance	\$100,000	
Cr 4210 Anticipated Reimbursements and Other Income		\$100,000
and		
Dr 4590 Apportionments Unavailable-Anticipated Resources		\$100,000
Cr 4610 Allotments-Realized Resources (Reimbursable)		\$100,000
Dr 1010 Funds Balance with Treasury (Funds Collected-Operating Program)	\$100,000	
Cr 2310 Advances from Others (Unearned Revenue)		\$100,000

## 110303. Accounting for Performance on Customer Order

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

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

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

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

C. Entry to record issue of supplies and materials to a job order. Parts and materials issued to a specific job shall be recorded as a direct cost. Parts and materials issued for the general use of a cost center (production indirect) or for G&A of an activity shall be recorded as an indirect cost. A budgetary entry is not necessary for this transaction since supplies and materials were released from stock that was previously purchased and held for later use.



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

D. Periodic, but not less than monthly, proprietary entry to record assignment of direct costs to work in process.

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

E. Periodic, but not less than monthly, proprietary entry to record the assignment/allocation of indirect expenses to work in process. (The allocation basis should be one that is a reasonable representation of the expense distribution that would have occurred had all actual indirect costs been known at that time. In this example, and purely for illustration purposes, indirect labor cost is allocated on the basis of 30 percent of direct labor costs {30% x \$35,000 = \$10,500}. Indirect supplies and materials cost are allocated on the basis of 22 percent of direct supplies and materials {22% x \$8,000 = \$1760}.)

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

#### 110304. Revenue Recognition - Percentage of Completion

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

B. Revenue Recognition for Customer Orders Accepted Without Advance  
Payment

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

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

C. Revenue Recognition for Customer Orders Accepted With Advance  
Payment

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

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

110305. Collection for Work on Customer Orders

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

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

## 110306. Payment of Expenses Incurred

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

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

## 110307. Loss on the Completion of Customer Order

A. A loss occurs when the recorded costs exceed the funded amount of the customer order. Completion of a customer order is when all work requested on a customer order has been completed or the funded amount authorized on the existing customer order has been recognized under the percentage of completion method of revenue recognition.

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

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

## 1104 PRIOR PERIOD ADJUSTMENTS

## 110401. General

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

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

110402. Events for which Prior Period Adjustments are Applicable

Prior period adjustments are applicable only to:

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

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

110403. Accounting for Prior Period Adjustments

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

110404. Example of a Prior Period Adjusting Entry

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

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

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

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

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

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

In fiscal year (FY) 2001, the error made in FY 2000 is discovered. Upon investigation, it is found that \$30,000 of the advance payment has been earned in the current FY 2001. Thus, a prior period adjusting entry is

needed to recognize the \$20,000 portion of the advance payment that remains unearned and the \$30,000 portion of the advance that is earned. The entry to accomplish that adjustment is as follows:

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

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

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

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

**\* VOLUME 11B, CHAPTER 12: “COSTS”**

**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

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

The previous version dated **April 2010** is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Title	Revised title of the chapter from Expenses to Costs to better reflect the nature of the chapter content.	Revision
All	Revised the chapter format to be consistent with the Department of Defense (DoD) Financial Management Regulation (FMR) Revision Standard Operating Procedures (SOP).	Revision
1201	Added Purpose and Authoritative Guidance paragraphs in accordance with the DoD FMR SOP. Renumbered subsequent paragraphs following the addition.	Addition
120101	Revised the Overview paragraph to further define “costs”.	Revision
120301	Revised paragraph to include requirement to fully reflect the depreciation of capital equipment in their operating costs and rates in the form of the capital investment recovery and capital surcharge.	Revision
120302	Revised paragraph to include requirement to use a reasonably accurate useful life in calculating depreciation schedules for assets classified as capital investments and addressed the need to adjust the capital investment recovery rate for capital assets transferred in.	Revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
120602	Deleted guidance involving management headquarters that is duplicative of that already addressed in Volume 2B, Chapter 9.	Deletion

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## CHAPTER 12

COSTS

## \*1201 GENERAL

## 120101 Overview

A. As used in this chapter, costs are either defined as realized or unrealized. Unrealized costs are considered "obligations" whereas realized costs are considered "expenses." In accordance with the full cost approach defined in Statement of Federal Financial Accounting Standards (SFFAS Number 4, "Managerial Cost Accounting Standards and Concepts," all costs (unrealized and realized) must be allocated to projects.

B. The full costs of resources that directly or indirectly contribute to the completion of projects/services should be assigned to projects/services through costing methodologies or cost finding techniques that are most appropriate to the segment's operating environment and should be followed consistently. Costs should be assigned to projects/services using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable (Direct Production Costs), (b) assigning costs on a cause-and-effect basis (Indirect Production Costs), or (c) allocating costs on a reasonable and consistent basis (General and Administrative (overhead)).

C. Additional information relating to costs can be found in Volume 4, Chapter 17, "Expenses and Miscellaneous Items" and Chapter 19 "Managerial Cost Accounting". For Defense Working Capital Fund (DWCF) entities, all costs (realized or unrealized), unless specifically exempted by DWCF Policy or exception to policy, shall be recovered through billings to customers.

## 120102 Purpose

This chapter describes costs associated with DWCF, and sets forth the criteria for allocating certain costs to projects/services in accordance with Federal accounting standards.

## 120103 Authoritative Guidance

This chapter is based on regulatory and statutory requirements cited throughout the chapter. The primary statutory source is Title 10, United States Code (U.S.C.), section 2208. The primary accounting sources include SFFAS Number 4, and SFFAS Number 6, "Accounting for Property, Plant and Equipment".

## 1202 MILITARY PERSONNEL EXPENSE

## 120201. Military Personnel Cost

The cost of military personnel [may](#) involve two separate processes. The first involves the payment to military personnel appropriations for the budgeted amount of military personnel for an activity group – regardless of the actual number of military personnel assigned. The second involves the costing of military personnel to jobs or cost centers for work performed at the civilian equivalency rate for the number and grade of military personnel assigned to the DWCF activity. Rate guidance is provided in Volume 11A, Chapter 6, Appendix B. See Volume 2B, Chapter 9 “[Defense Working Capital Fund Budget Justification Analysis](#)” or additional military personnel pricing policy.

## 120202. Military Leave or Other Absences

There will be no additional acceleration of the civilian equivalency rate charged to customer orders for military leave or other absences.

## 120203. Military Personnel Services

[DWCF activities must price](#) military personnel services reimbursement in support of DWCF operations using the civilian equivalency rate. The [respective](#) Military Departments and DWCF [activities](#) may schedule reimbursement of the appropriate military appropriation at the beginning of each fiscal year, or in the last month of each fiscal year quarter.

## 120204. Unresolved Disputes

In the event of an unresolved dispute between the military personnel appropriation manager and a DWCF activity on the budgeted amount of the deposit, the budgeted amount requested by the military personnel appropriation manager [must](#) be provided. Upon resolution of the dispute, the [military personnel appropriation manager will provide a refund to the](#) DWCF activity, if any is due, [for](#) the applicable amount.

## 120205. Variances

As a result, a variance may result between the amount paid to military personnel appropriations and the amount applied to work performed. That variance will result in a debit or credit amount in United States Standard General Ledger (USSGL) 2110 Accounts Payable. The amount of the variance shall be reduced to zero at the end of the fiscal year by adjusting USSGL 2110 Accounts Payable and USSGL 6100 Operating Expenses/Program Costs equal the amount budgeted paid to the military personnel appropriation. The purpose of this adjustment is to eliminate the variance between the costs applied to work performed and the budgeted amount.

## 1203 DEPRECIATION EXPENSE

Depreciation is the recognition of the acquisition cost of an asset over its useful life. In most cases, the depreciation expense represents the capital investment recovery (CIR) that is included in stabilized rates or prices to recover cash used by the activity to acquire or replace assets. Recovery of depreciation expense is the primary financing source for DWCF capital investments.

## \*120301. Capital Equipment

DWCF activities will fully reflect the depreciation of capital equipment in their operating costs and rates in the form of the CIR. If the depreciation expense is insufficient to cover the costs of capital investments, then an additional capital surcharge may be applied as stated in Volume 2B, Chapter 9.

## \*120302. Capital Assets Transferred In

DWCF activities will calculate the depreciation of capital assets that are transferred into a DWCF business entity without reimbursement based on its net value (original acquisition cost less calculated accumulated depreciation) plus any associated costs for transportation, installation and other related costs necessary to put the asset into operational use. DWCF activities must use reasonably accurate useful lives in calculating depreciation schedules for all assets classified as capital investments, in accordance with generally accepted accounting principles. Since the transfer of capital assets without reimbursement to the DWCF does not involve an outlay, the CIR must be adjusted accordingly. For further explanation regarding useful life see Volume 4, Chapter 6 “General Property, Plant, and Equipment”.

## 120303. Depreciation Budgeting

Guidance related to budgeting for depreciation can be found in Volume 2B, Chapter 9. For additional information relating to depreciation of Department of Defense (DoD) capital assets, refer to Volume 4, Chapter 6.

## 1204 MANAGEMENT IMPROVEMENT INITIATIVES

DWCF activities must expense any management improvement initiative that does not qualify for the Capital Investment Program and is not subject to depreciation. See Volume 4, Chapter 6 for further policy on real property maintenance and repair.

## 1205 REAL PROPERTY MAINTENANCE AND REPAIR

DWCF activities must expense major real property maintenance and repairs in the period in which the maintenance and repair occurs if the costs do not meet the DWCF Capital Investment Program criteria. See Volume 4, Chapter 6 for further policy on real property maintenance and repair.

## 1206 MAJOR DoD HEADQUARTERS ACTIVITIES COSTS

## 120601. General

Each DWCF activity is under the management control of a designated DoD Component. The DWCF headquarters [activities costs](#) is related to specific DWCF activity operations, and is separate from the general policy direction for the Department or a DoD Component. [DWCF activities must identify](#) management headquarters funded from the DWCF in the DWCF Charter (Management Command) for each applicable activity. See Chapter 2 for guidance on DWCF charter requirements.

\*120602. Identification and Payment for [Major DoD Headquarters Activities Costs](#)

Refer to [Volume 2B, Chapter 9, paragraph 090107](#) for the DoD guidance related to headquarters activities.

## 1207 ACCOUNTING FOR COSTS

The [DoD United States Standard General Ledger \(USSGL\) Transaction Library](#) illustrates the accounting entries [with related](#) USSGL accounts.

**VOLUME 11B, CHAPTER 13: “COST ACCOUNTING REQUIREMENTS FOR  
DEPOT MAINTENANCE”**

**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.

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The previous version dated [April 2010](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Various	Updated the United States Standard General Ledger (USSGL) chart of account codes contained in the chapter to reflect the most recent six-digit codes published by the United States (U.S.) Treasury.	Revision
Various	Revised terminology referring to indirect costs to more clearly be termed indirect production costs. Also revised terminology referring to general and administrative (G&A) costs to more clearly be termed G&A (overhead) costs.	Revision
130102	Added the relevant overarching authoritative guidance supporting the policy contained in the chapter.	Addition
130301.J	Added the establishment of working capital fund rates used for customer program budgets as information that management should have available from the cost accounting and reporting module.	Addition
130303.B.3	Revised the guidance to reflect reference to the use of the Department of Defense (DoD) USSGL transaction library within the Standard Financial Information Structure (SFIS) for the accounting scenarios for making adjustments for inventory accounts.	Revision
130305	Added a definition for what is considered to be a “significant” accrued expense as defined in Statement of Federal Financial Accounting Standards (SFFAS) 4, “Managerial Cost Accounting Standards and Concepts”.	Addition
130306	Added the USSGL account for recording immaterial adjustments that cannot be identified to the appropriate job order.	Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
1304	Revised the layout of previous policy from a paragraph format to a tabular format for ease of reading and understanding.	Revision
130502.B	Updated the paragraph to direct the reader to the DoD USSGL transaction library within SFIS for transactions for recording under/over absorbed overhead.	Revision
130601	Added guidance contained in SFFAS 4 regarding process costing.	Addition
130603	Added guidance that a thorough analysis of alternative cost accounting and assignment methods should be conducted before process cost procedures are adopted, and added the requirement to document the method used to accumulate and allocate process center costs.	Addition
130701	Added the requirement for periodic re-evaluations of work measurement standards.	Addition
130603 (Previous Version)	Deleted the paragraph since DoD Instruction (DoDI) 5010.34 was cancelled July 14, 2010 and DoDI 5010.37 was cancelled December 14, 2012, both of which were the basis for the policy in this paragraph.	Deletion
130805	Added guidance that Defense Working Capital Fund (DWCF) activities must not bill or accept reimbursement for certain military labor, or include their cost in the calculation of the net operating results used for developing future rates or prices.	Addition
130806	Revised guidance to reflect that a timekeeping system also collects labor hour data.	Revision
130807	Revised the guidance to better align with cost allocation verbiage contained in SFFAS 4.	Revision
130812	Clarified guidance that the cost of temporary employees that a DWCF activity does not pay for are nonrecoverable, and must not be included in the calculation of net operating results used for future rates or prices.	Revision
130813	Added reference to the DoD USSGL transaction library for the DoD general ledger accounts and related transaction posting detail for civilian leave and benefits.	Addition
130903	Revised the paragraph terminology to align with that used in SFFAS No. 3 "Accounting for Inventory and Related Property". Added reference to Volume 4, Chapter 4 for more detailed guidance on the calculation of moving average cost.	Revision/ Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
130908	Deleted specific posting entries and referred the reader to the USSGL/SFIS and Volume 4, Chapter 4 for specific transactional posting guidance.	Deletion/ Addition
130909	Revised the guidance involving the basis for the costs to be charged to a job order, and the handling of any resulting credits when reparable carcasses are exchanged with the Supply activity.	Revision
130910	Revised the paragraph title to “Items Beyond Repair” versus “Non-Reparable Carcasses” and clarified that the depot must order and pay for a replacement from the Supply activity.	Revision
131004	Revised account 151100, “Operating Materials and Supplies Held for Use”, to account 152500, “Inventory-Raw Materials” to align the USSGL chart of account code with the nomenclature used in the paragraph.	Revision
131101	Revised the paragraph title and guidance terminology to reflect that it is applicable to indirect production costs rather than overhead.	Revision
131106	Clarified the guidance terminology to ensure it is interpreted to consistently apply to both indirect production and G&A (overhead) rate variances.	Revision
131107	Clarified the guidance terminology to ensure it is interpreted to consistently apply to both indirect production and G&A (overhead) rate variances.	Revision
131108	Clarified the guidance terminology to ensure it applies to indirect production as well as G&A (overhead), and referred the reader to the DoD USSGL transaction library in SFIS for the specific accounting entries to account for under/over-applied overhead.	Revision
131109	Added the applicable object class codes for recording the specific type of transportation costs discussed in the paragraph.	Addition
131210	Added the applicable U.S. Code reference governing proceeds from sales of surplus property.	Addition
131211	Removed policy that is duplicative of that contained in Volume 11B, Chapter 14, and Volume 2B, Chapter 9.	Deletion
131212.B	Clarified the guidance to depict that indirect costs associated with a cancellation or reduction action could include both indirect production and G&A (overhead).	Revision
131215.C	Clarified the guidance to state that a completed order for items a DWCF manufactures for itself will either be charged to an asset account or to a job order.	Revision

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## CHAPTER 13

**COST ACCOUNTING REQUIREMENTS FOR DEPOT MAINTENANCE**

## 1301 GENERAL

## 130101. Purpose

The purpose of this chapter is to prescribe depot maintenance cost accounting requirements for Defense Working Capital Fund (DWCF) activities to uniformly record, accumulate, and report the job order cost of performing DWCF functions. Depot maintenance reporting requirements and procedures are contained in Volume 6A, Chapter 14, "Depot Maintenance Reporting".

## \*130102. Authoritative Guidance

A. [Title 10, United States Code \(U.S.C.\) section 2460](#) generally defines depot maintenance and repairs as:

1. Material maintenance or repair requiring the overhaul, upgrade, or rebuild of parts, assemblies, or subassemblies, and the testing and reclamation of equipment as necessary, regardless of the source of funds for the maintenance or repair, [or the location at which the maintenance or repair is being performed;](#)

2. Including all aspects of software maintenance classified by the [Department](#) as depot level maintenance and repair, and interim contractor support or contractor logistics support (or any similar contractor support), to the extent that such support is for the performance of services;

3. Not including the procurement of major modifications or upgrades of weapon systems that are designed to improve program performance, the nuclear refueling [or defueling of an aircraft carrier and any concurrent complex overhaul,](#) and the procurement of parts for safety modifications; and

4. Including the installation of parts for safety modifications.

B. Statement of Federal Financial Accounting Standards (SFFAS) Number 4 "[Managerial Cost Accounting Standards and Concepts](#)" sets forth the fundamental elements for cost accounting in Federal agencies. [SFFAS 3](#) "[Accounting for Inventory and Related Property](#)" identifies the accounting standards that apply to several types of tangible property, other than long term fixed assets, held by federal government agencies.

C. Volume 4, Chapter 19 "Managerial Cost Accounting" provides guidance on implementing managerial cost accounting within the Department.

## 1302. OVERARCHING POLICY

### 130201. General.

A. DWCF depot maintenance activities that utilize a job order costing methodology **must use** formal cost accounting **practices in compliance with the provisions of SFFAS 4.**

B. DWCF activities **must ensure compliance with** the requirements of this chapter **and Volume 4, Chapter 4 “Inventory and Related Property”** for all material, whether owned by the Department of Defense (DoD), other federal agencies, state or local governments, foreign governments or private parties.

C. DWCF activities **must uniformly** record, accumulate, and report job order costs to assist management in measuring productivity and efficiency; developing and using performance measurement and cost standards; and highlighting areas **that** need increased management emphasis. This data also assists in the identification of total capability, duplication of capacity, and areas of interservice support of DWCF workload.

D. Depot maintenance serves to support Intermediate (I) and Organizational (O) level maintenance by providing technical assistance and performing maintenance that is beyond the capability/responsibility of the I and O levels.

### 130202. Facilities Requirement.

Depot maintenance may be performed in Government-Owned, Government-Operated facilities; Government-Owned, Contractor-Operated facilities; or Contractor-Owned, Contractor-Operated facilities. The primary funding source for depot maintenance operations is DoD operation and maintenance appropriations made available to customers of depot maintenance. Centrally managed procurement appropriations **may finance** certain specific programs such as weapon system upgrades and similar modernization and/or modification programs. **Activities funded** by an appropriation or fund legally authorized **for the purpose**, as well as customers outside of the DoD such as the Coast Guard and Foreign Military Sales, may place an order for maintenance work.

### 130203. Managerial Cost Accounting.

A. Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practical, should be integrated with other parts of the financial management system **to provide consistent, cost-based information for reporting and management’s use.**

B. DoD depot maintenance activities **must, in accordance with SFFAS 4:**

1. Accumulate and report the costs of activities on a regular basis for management information purposes;

2. Establish responsibility segments, and measure and report the costs of each segment's outputs and calculate the unit cost of each output;
3. Determine and report the full costs of government goods and services, including direct and indirect production costs and general and administrative (G&A) (overhead);
4. Recognize the full costs of goods and services provided by other federal entities; and
5. Use and consistently follow costing methodologies or cost finding techniques most appropriate to the segment's operating environment to accumulate and assign costs to outputs. (Refer to Volume 4, Chapter 19 for additional guidance on managerial cost accounting).

### 1303 ESTABLISHING THE COST ACCOUNTING MODULE

#### 130301. Job Order Cost Accounting Module

A job order cost accounting module should be subsidiary to, and integrated within, the financial system defined in Volume 1, Chapter 3 "Federal Financial Management Improvement Act Compliance". The cost module should be integrated with the depot payroll, fund control, and material control modules. Specifically, management should have information available from the cost accounting and reporting module to assist in the:

- A. Comparison of historical unit cost trends with replacement cost trends to include proper identification and categorization of costs;
- B. Oversight in the utilization of resources;
- C. Evaluation of program budgets;
- D. Comparison of cost trends among DWCF entities or between DWCF and contract sources;
- E. Managerial direction and guidance for DWCF programs;
- F. Evaluation of DWCF activities for efficient use of resources;
- G. Estimation of DWCF requirements;
- H. Monitoring of DoD Component compliance with various congressionally mandated reporting requirements;
- I. Examination of the behavior of cost drivers over time (e.g. relationship between a given cost item and the quantity of its related cost driver(s) over time); and

\* J. Establishment of DWCF Rates used for customer program budgets based on historic models of cost of repair and applied overhead.

130302. Requisite Module

The cost accounting module **must** be established for, but not limited to, all DWCF depot maintenance activities.

130303. Chart of Accounts

A. The [United States Standard General Ledger](#) (USSGL) provides a uniform chart of accounts and technical guidance for standardizing federal government agency accounting. Guidance on the use of individual general ledger accounts and transactions applicable to the DoD is provided within the [Standard Financial Information Structure](#) (SFIS). The DoD Standard Chart of Accounts ([SCOA](#)) includes all the point accounts and other information related to the USSGL for DoD purposes.

B. The following guidance further explains the use of the USSGL chart of accounts by a DWCF activity. For detailed DoD general ledger account guidance and DWCF transaction posting refer to the DoD SCOA and the DoD [USSGL Transaction Library](#).

1. Account 152500, “Inventory-Raw Materials,” **must** be used to record all materials held for the purpose of providing a good or service to a customer regardless of the method acquired, e.g., purchase, donation, or transfer without reimbursement. DWCF activities **must** not charge raw materials to the work-in-process account until the materials are issued for use. Raw material issues **must** then be charged to appropriate job orders or cost centers. Unneeded material and supplies **must** be returned to the Inventory-Raw Materials account when a determination is made that the material is available for other uses.

2. DWCF activities **must** verify raw materials records and adjust them to physical counts. Any adjustments needed to reconcile the physical count with the recorded (book) value of raw materials **must** be charged to the appropriate cost center or to a gain or loss account as described in paragraph 130908.

\* 3. Account 152600, “Inventory-Work-in-Process,” is the control account for all unbilled job orders. (Refer to Volume 4, Chapter 4 for work-in-process accounting policy.) The amount of work-in-process consists of all costs applied to unbilled job orders including direct labor, direct materials, direct contractual costs (exclusive of contracts that are awarded that directly cite the funds issuer’s line of accounting), and applied overhead expenses. The balance in this account **must** be reconciled to the total charges on unbilled job orders as of the end of each quarter. In addition, the validity and reasonableness of the charges recorded on the unbilled job orders **must** be verified on a random sample basis at least annually. This validation **must** be performed by personnel not assigned to the accounting or maintenance function. For example, personnel from a DoD Component audit service or a local internal review staff may be

assigned to perform this function. Based on the results of the verification, DWCF activities must adjust accounts in accordance with the accounting scenarios contained in the DoD USSGL Transaction Library within SFIS.

4. DWCF activities must use account 141000, “Advances and Prepayments,” to record payment for expenses that properly apply to future accounting periods. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. This account must not be used solely to level out significant expenses but must, in fact, represent an equitable distribution to the appropriate time period commensurate with the benefits that will accrue to that future period from the current payment. Refer to Volume 4, Chapter 5 “Advances and Prepayments” for additional guidance and definitions regarding prepayments.

#### 130304. Customer Funding

Depot maintenance workload performed by DWCF activities is considered nonseverable in nature and thus customers must fund the full price of the order, through completion of the effort, using a reimbursable order. The DWCF activity must recognize revenue and bill the customer funding an order or, when advance payments have been received, relieve those advance payments to the appropriate revenue account. Revenue billings to customers must reflect due credit for the advances received. In no case must the total amount of revenue recognized and billed exceed the amount of the order. Chapter 11 “Reimbursements and Revenue Recognition” contains requirements for reimbursements and revenue recognition for DWCF entities.

#### \*130305. Accruals

DWCF activities must record accrued expenses that are significant (material) in relation to the recording of costs for a DWCF activity in the appropriate expense accounts, budgetary accounts, and applicable liability accounts during the accounting period that the benefit was received rather than at the time of the payment for the expense. For example, DWCF activities must record accruals for accrued salaries, annual and sick leave, employee benefits, estimates for utilities, major real property maintenance and repair, and other significant services received and not yet paid. SFFAS 4 states that the determination of whether an item is material (i.e., significant) depends on the degree to which omitting information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission.

#### \*130306. Missing or Erroneous Data

Occasions may arise when, due to missing or erroneous data, costs incurred cannot be identified to charge to the appropriate job order. Such costs must be temporarily recorded in the applicable expense account under suspense control until the correct data is available to make the proper distribution to the correct job order. Any unadjusted amount at the end of a fiscal year, if immaterial, must be charged to the applicable cost center using Account 610000 “Operating Expenses/Program Costs”.

## \*1304 ESTABLISHING JOB ORDERS

The performing activity **must** establish job orders in accordance with the following table:

Value of work to be performed	Units subject to “pre-shop analysis” <sup>1</sup> or “examination and evaluation”	Units NOT subject to “pre-shop analysis” or “examination and evaluation”
>\$150,000/unit	Job order per item	Not applicable
\$25,000 to \$150,000/unit <sup>1</sup>	Job order per monthly induction	Job order per monthly induction
<\$25,000/unit <sup>2</sup>	Job order per quarterly induction	Job order per quarterly induction valued at \$500,000 or more
<\$25,000/unit <sup>3</sup> AND <\$500,000/TMS or NSN	Not applicable	Job order per quarterly induction, not to exceed \$1,000,000 per job order

<sup>1</sup>inspections and tests and other similar activities performed to determine work requirements

<sup>2</sup>for multiples of the same identification number (Type Model Series (TMS) or National Stock Number (NSN))

<sup>3</sup>homogenous group, by stock classification, subclassification, repair category, or other appropriate criteria

## 1305 JOB ORDER REQUIREMENTS

## 130501. Job Order Cost Assignment Requirements

DWCF activities **must assign costs** to individual job orders at the time the job order receives a benefit from the incurrence of an expenditure. The benefit may occur at any time but usually occurs subsequent to the time the obligation is incurred, and before the disbursement occurs. DWCF activities may charge costs to job orders based on standard costs when those costs are properly adjusted for variances to arrive at the actual cost. Costs, including standard costs, **must** be recorded based on accrual concepts. **DWCF activities must not charge** direct material, labor, or other direct costs to job orders based on planned, programmed, or reserved amounts. Refer to Volume 4, Chapter 19 for additional guidance on job order cost accounting.

## 130502. Job Order Opening and Closing Requirements

A. DWCF activities **must** open a job order when a new job order is required under [section 1304](#).

\* B. **DWCF activities must** close a job order as soon as all direct, indirect production, and G&A (overhead) are determined and assigned to the job order. Normally, all such costs **must** be determined and posted to the job order within 30 days of the completion of all direct labor chargeable to the job order. The job order **must** be closed with the use of predetermined indirect and G&A (overhead) rates when authorized. **DWCF activities must apply** such indirect and G&A (overhead) rates consistently to all job orders. At the end of the fiscal year, any under and/or over absorbed indirect and G&A (overhead) (variances) **must** be **adjusted using the transactions contained in the DoD USSGL Transaction Library within SFIS**.



## 130503. Segregation of Cost for Cancelled and Completed Job Orders

DWCF activities must identify costs associated with the cancellation or reduction of partially completed maintenance work, and report these costs separately from the costs of normally completed work. Paragraph 131212 provides additional guidance on cancelled or reduced scope orders.

## 130504. Customer Order Support of Job Orders

Customer orders, either project orders or Economy Act orders, from the activity responsible for the financing appropriation, are required to support each job order. The customer must provide full and adequate funds to cover all requirements. A customer may, however, issue orders to cover multiple job orders when agreed to in writing with the depot maintenance activity.

## 1306 PROCESS COST CENTERS PROCEDURES

## \*130601. Process Cost Centers

A DWCF activity may perform certain unique operations that lend themselves to process cost center procedures. Process costing is a method of cost accounting that first collects costs by process and then allocates the total costs of each process equally to each unit of output flowing through it during an accounting period. For example, plating and painting operations are particular processes that may be uniformly and consistently performed to units that either are end items or will become part of end items. Rather than attempting to directly account for and assign each direct labor hour and material cost to an item that has undergone the particular plating or painting process, use of a process cost center allows the labor and material costs of the cost center to instead be accumulated and allocated to those items that were plated and/or painted during the respective accounting period. SFFAS 4 recognizes that process costing is appropriate when the production of goods or services involves a regular pattern of process, the output consists of homogeneous units, and all units are produced through the same process procedures. (Refer to Volume 4, Chapter 19 for additional guidance on process cost accounting).

## 130602. Cost Allocation Basis

The DWCF activities must allocate process cost center costs to the job orders for the units processed through the cost center during the respective accounting period. The basis for the allocation of costs must be the number of equivalent units (e.g., number of units, linear feet, square feet, hours operating time) processed on-the-job orders through the cost center during the accounting period.

## \*130603. Cost Allocation Consistency

The DWCF activity should conduct a thorough analysis of alternative cost accounting and assignment methods before it adopts process cost center procedures. The method used to accumulate and allocate the costs for such operations must be documented and consistently applied from accounting period to accounting period to ensure consistency in the assignment of costs.

## 1307 USE OF WORK MEASUREMENT STANDARDS

## \*130701. Work Measurement Standards

DWCF activities that establish work measurement standards for labor, material, and indirect production and G&A (overhead) costs must develop cost estimates for each job order using these standards. Incurred costs must be compared against estimated costs to determine if corrective actions are required to control significant variances. Established work measurement standards need to be periodically re-evaluated and updated as necessary to assure that they encourage improvements in efficiency and continue to be within an attainable range.

## 130702. Basis of Work Measurement Standards

DWCF activities that establish work measurement standards must base the standards on generally accepted industrial engineering techniques where high value, high volume work is involved. The work measurement standards may be established by in-house or other DoD personnel or they may be established by original equipment manufacturer's specifications of maintenance tasks and frequencies (product reliability engineered standards). DWCF activities that establish work measurement standards for labor, material, indirect production, or G&A (overhead) costs must continuously review the standards to verify their accuracy in light of advanced processing equipment, and higher level of skills used. For low-value, low-volume work, the work measurement standards may involve less sophisticated engineering techniques, but the work measurement standards or estimated resources required must be developed for all work accepted.

## 1308 LABOR COSTS

## 130801. Civilian Labor Hours

DWCF activities must record all civilian labor hours worked in a cost center as either a direct cost on a job order or as an indirect production cost that will be allocated to a job order. Civilian labor hours must be charged at the current payroll rate to include DoD paid personnel benefits.

## 130802. Use of Actual and Average Labor Rates

DWCF activities must use actual civilian payroll hourly rates as the basis to record labor costs. Average labor rates may only be used to record labor costs for cost centers when the range of actual hourly pay rates within that center is limited and significant distortions of recorded costs would not result from their use. DWCF activities must not use stabilized rates approved for billing purposes as the basis to record labor or other costs incurred. Stabilized rates are the result of budget estimates; actual costs incurred must be recorded in the cost accounting system independent of the rate setting process.

## 130803. Labor Distribution System

DWCF activities must use a labor distribution system to charge all direct labor hours and costs to applicable job orders. Each pay period, DWCF activities must reconcile and correct differences between the labor hours recorded for payroll purposes, payroll costs incurred, and the labor hours and costs distributed to job orders and indirect production cost centers through the labor distribution system. For discrepancies that cannot be reconciled between job order records and payroll records without incurring a major expenditure of resources, DWCF activities must correct the job order records to equal the payroll records. Differences due to the use of average cost center labor rates must be charged to G&A expenses.

## 130804. Military Labor Hours

DWCF activities must record all military hours worked as either a direct cost on a job order or as an indirect production cost of a cost center. DWCF activities must charge military labor hours to the job order at the current civilian equivalent rate applicable to the rank and military service of each military member. (Refer to Chapter 12 “Expenses” for the military personnel costing process.)

## \*130805. Military Personnel Depot Maintenance Costs

DWCF activities must record as an unfunded depot maintenance cost all military labor performed by a “ship’s force” or other military personnel that are part of the operating forces or an intermediate level organization that are loaned, without reimbursement, to and working under the supervision or direction of the depot maintenance activity when weapons systems, platforms or components are undergoing depot maintenance in a DWCF depot. Military personnel “on loan” and not assigned to DWCF activities are funded under other appropriations. The DWCF activities must not bill these labor costs to, or accept reimbursement from, the customer. These costs are nonrecoverable and DWCF activities must not include them in the calculation of the net operating results used for developing future rates or prices. When military personnel are not working under the supervision or direction of the depot maintenance activity (not assigned), any maintenance work they perform must not be considered depot maintenance.

## \*130806. Timekeeping

A DWCF activity must maintain a timekeeping system to collect and distribute both military and civilian labor to applicable job orders or cost centers. A timekeeping system must provide the following information:

- A. Source of Hours Available:
  - 1. Normal duty hours available by cost center.
  - 2. Premium time, overtime, and holiday time by cost center.
  - 3. Loaned labor hours by gaining and losing cost center.

- B. Application of Hours Available:
1. Direct hours worked by cost center on each job order.
  2. Indirect hours worked by cost center.
  3. Nonproductive (e.g., annual, sick) hours by cost center.

\*130807. Allocation of Hours

DWCF activities must apply the allocation of hours worked to benefiting job orders, activities, services, or products on a per unit basis, where applicable. The allocation of hours worked to benefiting job orders may also be based on industrially engineered earned hour (actual hour efficiency of a cost center if the employees in the cost center are of a homogeneous type and the allocation of labor hours are properly adjusted for variances to arrive at actual hours worked). The industrially engineered earned hour method of allocation is not appropriate for a cost center with a diverse workforce or different types of workload.

130808. Supervisor Responsibilities

Supervisors are responsible for the validity of timekeeping records. Supervisors are also responsible for establishing the job order(s) for each pertinent employee and notifying employees of the job orders. Employees are responsible for certifying that the time charged to job orders is correct. DWCF activities must reconcile the source documents used to record the hours worked by each employee on each job order to the total payroll hours.

130809. Direct Labor

Direct labor is work that can be identified, without undue cost or difficulty, to a single, specific job order. Direct labor generally includes the hands-on maintenance, repair, overhaul, test, and related direct production effort that follow the established sequence and content of work necessary to accomplish the billable job. Direct labor does not include the support work identified as either indirect production or G&A (overhead) in nature.

130810. First Line Supervision

First line supervision is that position level immediately over nonsupervisory workers. First line supervisors and above occupy an official supervisory designated position, and when acting in a supervisory capacity, must have their labor costs charged by the DWCF activity as an indirect production cost of the cost center supervised. First line supervisors may be borrowed and when used as direct labor, DWCF activities must classify the time of the first line supervisor as direct labor and charge it to the applicable job order rather than as an indirect production cost. "Crew chiefs," "snappers," "team leaders," and other subordinate job leaders are not first line supervisors.

## 130811.        Loaned Labor

DWCF activities must place special emphasis on accurately recording the use of loaned labor, which occurs when an employee is temporarily transferred (loaned) from one cost center to another within a DWCF activity. When an employee is loaned, the gaining cost center must record the labor hours of the employee. Care must be exercised to assure that the costs of loaned employees are not charged by both, or by neither of, the loaning and gaining cost centers. First line supervisors at both the loaning and gaining cost centers may be tasked to validate that such costs are accurately recorded. Only personnel assigned to the DWCF are recoverable in the rate structure, while loaned labor is funded by other appropriations.

## \*130812.        Temporary Employees

If employees are temporarily assigned to a DWCF activity from an organizational entity other than DWCF activity and the DWCF activity neither pays the individual directly nor makes payment or reimbursement to the activity loaning the employee, the labor costs must be recorded as unfunded. These costs are nonrecoverable and DWCF activities must not include them in the calculation of net operating results used for developing future rates or prices.

## \*130813.        Civilian Leave and Benefits

The following requirements apply to accounting for civilian leave and benefits. For DoD general ledger accounts and related transaction posting detail, refer to the DoD SCOA and the DoD USSGL Transaction Library.

## A.        Accruals.

1.        Account 221000, “Accrued Funded Payroll and Leave,” must be used to account for accrued annual leave of DWCF civilian employees. DWCF activities must include a factor for annual leave accruals in stabilized rates or prices in order to provide funding for annual leave.

2.        Account 221300, “Employer Contributions and Payroll Taxes Payable,” must be established to account for accrued sick leave, accrued holiday, and other miscellaneous leave in addition to other employee benefits such as life and health insurance, and retirement contributions. The accruals are to be based on estimates of leave to be taken, not the amount of leave earned.

B.        Leave must be costed to job orders based on an allocation factor for all time worked except when a holiday is involved. When an employee works on a holiday, the regular pay for the holiday must be charged against the holiday leave accrual liability, the same as for employees who do not work on the holiday. DWCF activities will only cost the additional pay for working on the holiday, along with the leave accrual, at the prescribed allocation factor, to the job order as stated in paragraph 130816.

C. Leave actually taken **must** be relieved from the appropriate accrued leave account **based** on payroll labor distributions, and **must** not be charged to current job orders.

D. **Reconciliation.**

1. The amount of annual leave accrued **must** be reconciled at the end of the fiscal year with individual employee leave records. Adjustments to reconcile the balance in the account to the individual leave records **must** be costed to USSGL Account 610000, "Operating Expenses/Program Costs" as a G&A (**overhead**) expense adjustment. After reconciliation, the balance of the accrued annual leave account **must** be carried forward into the following fiscal year.

2. At fiscal year-end, the estimates of sick leave, holiday leave, and other leave to be taken **may** not agree with the actual leave taken. Adjustments necessary to result in a \$0 balance in the sick leave, holiday leave, and other leave **accounts must** be costed to Account 640000, "Benefit Expense (Personnel Benefits – Civilian)" as a G&A (**overhead**) expense adjustment. Accrued sick, holiday, and other leave balances are not to be carried forward into the following fiscal year.

130814. Allocation Factors

The use of allocation factors for calculating leave accruals and applying them to the proper cost centers on labor cost distributions is normally the simplest, most economical, and most accurate method of accruing and costing leave. **DWCF activities must** update the allocation factors periodically to limit the adjustments to the accrued leave accounts to a minor amount at the end of the fiscal year.

A. A DWCF activity may determine its own allocation leave accrual factors because of variances caused by average length of service, climate, turnover, and local leave usage experience.

B. When establishing the allocation factors, it is necessary to estimate the average annual work days for the activity to which the factor **must** be applied. The following is an illustration:

C.	Total days in year	365.0	
	Less time off		
	Average annual leave taken	20.0	
	Average sick leave taken	9.0	
	Holidays and other events	11.0	
	Saturdays and Sundays	<u>104.0</u>	
	Normal time off		<u>144.0</u>
	Normal work days		221.0
	Estimated overtime work	3.5	
	Estimated holiday time work	<u>.5</u>	
	Average work days		225.0

D. The annual leave accrual factor may be calculated as follows:

1.	Average days net accrual of annual leave		21
2.	Average work days (computed in para. 130814.C) +		225
3.	Preliminary accrual factor (excluding pay adjustments) [(1) ÷ (2)]	=	.093
4.	Estimated regular pay for regular time and overtime worked and premium pay for holiday time worked	x	\$10,000,000
5.	Total amount accrued for annual leave using preliminary factor	=	\$ 930,000
6.	Estimated increase in accrual of annual leave due to pay increase	+	\$ 30,000
7.	Total leave accrual requirements	=	\$ 960,000
8.	Amount to which leave accrual factor is to be applied (para. 130814.D.4)		\$10,000,000
9.	Annual leave accrual factor	=	.096

E. The composite leave accrual factor may be calculated as follows:

<u>Type of Leave</u>	<u>Average Days Annually</u>		<u>Average Work Days</u>		<u>Accrual Factor</u>
Annual	(refer to para. 130814.D.9)	=			.096
Sick	9	÷	225	=	.040
Holiday and Other	11	÷	225	=	<u>.049</u>
Composite Accrual Factor					.185

## 130815. Fringe Benefits

In addition to the factor for leave, DWCF activities must add a factor to cover the employer's share of other employee fringe benefits such as retirement, life insurance, health, and other benefits. Each activity may develop its own factor. Standard accrual factors for leave, retirement, insurance, health, and other benefits must be applied against all payroll costs.

## 130816. Overtime Premium

The costs of overtime premium pay (that is, the amount paid for working overtime that is above the normal labor hour rate) must not be charged directly to the applicable job order except when the overtime is clearly caused by the unique conditions of the job order. A clear relationship for the incurrence of overtime costs may be established when a DWCF activity agrees with a customer to meet an expedited completion date or accepts additional work within the same time frame on the same order. Otherwise, the overtime premium must be recorded as an indirect production cost.

## 130817. Other Premium Pay

Other premium pay includes payments for extra shift, hazardous duty, and night duty. Consistent with the policy for overtime premium, DWCF activities must only classify other premium pay as a direct labor charge when the incurrence of the premium pay is clearly the result of unique conditions of the job order. Unless the peculiar conditions of the job order require the incurrence of the premium pay, premium pay must be charged as indirect labor costs.

## 1309 MATERIAL COSTS

## 130901. Raw Materials

All material purchased by DWCF depot maintenance activities, for the purpose of providing a good or service to a customer, must be accounted for in general ledger account 152500, "Inventory-Raw Materials". This account must be debited based upon receipt of materials and supplies. The same account must be credited with an offsetting debit (charge) to general ledger account 152600, "Inventory-Work-In-Process," upon issue of the material for use in the performance of DWCF work. Inventory accounting policy and related requirements necessary to establish financial control over DoD inventory, operating materials and supplies, and stockpile materials is contained in Volume 4, Chapter 4.

## 130902. Allocation of Direct and Indirect Material

Direct material and supplies must be charged directly to the applicable job order. Indirect material must be charged to the using cost center upon issue.



\*130903. Moving Average Cost (MAC)

Materials and supplies contained in the inventory account must be valued at historical cost using the moving average cost flow assumptions in accordance with SFFAS 3 and Volume 4, Chapter 4. More detailed guidance regarding the calculation of MAC is contained in Volume 4, Chapter 4.

130904. Acceptance and Use of Customer Furnished Material

DWCF activities must accept and use customer furnished material only when its use could be expected to result in a more economical, efficient, or timely output.

130905. Return of Customer Furnished Material

A. DWCF activities must return customer furnished material that remains after job order completion to the customer within 60 days unless there is, or soon will be (generally within 90 days), a direct production requirement from the customer who furnished the material for which the material may be used.

B. If the customer abandons the material, it may be retained if needed for other work requirements. If the inventory is retained, no accounting entry is needed other than the original accepting entry.

130906. Direct Material

Direct material is that material and supplies that can be identified, without undue cost or difficulty, to the performance of work specified by a work authorization document or job order. A small amount of material may be treated as indirect material even though the material is incorporated as part of the final product, if this practice is consistently applied to all job orders. Direct material may either be incorporated as a part of the final product or consumed in the process.

130907. Indirect Material

Indirect material is that material that cannot be identified, without undue cost or difficulty, to the performance of work as specified by a work authorization document or job order. The determination of what constitutes “without undue cost or difficulty,” although not defined, is subject to reasonable interpretation. If questioned, it is the responsibility of the DWCF activity to demonstrate that identification of material (or labor) as direct would be unduly costly or difficult in relation to the benefit received.

\*130908. Excess Materials

DWCF activities should review the material and supplies on hand in a cost center at least annually to determine if excesses exist. Those items that are excess and are not needed for a particular job order must be returned to the materials and supply stock account. The unused material returned to the materials and supplies stock account must be recorded as follows:

A. Credit **must** be granted to the job order originally charged for unused direct material and that material **must** be recorded as an increase to Account 152500, "Inventory-Raw Materials". If the job order to which the material was originally charged has been closed, and a decision is made not to reopen the order to post the credit, the credit **must** be applied to Account 719000, "Other Gains."

B. Credit **must** be granted for the return of usable indirect material to the materials and supplies stock account. The credit **must** be applied to the indirect material expense account of the applicable cost center.

C. Items in excess of the needs of a DWCF activity **must** be returned to the supply system. DWCF activities **must record transactions for materials returned and credit received (if any) in accordance with the DoD USSGL/SFIS requirements and transaction library and Volume 4, Chapter 4.**

\*130909.      **Reparable Carcasses**

When an item such as an assembly, subassembly, or an end item is designated as an "exchange" item, the depot can **order and pay for a replacement from the Supply activity to install on the customer's equipment.** The job order **must be charged the price the depot pays for the replacement. Further, the depot must return the damaged part or carcass to the Supply activity. If the depot receives credit from the Supply activity, the depot must credit the job order for the amount received.** For non-DoD carcasses including those owned by foreign governments, refer to the requirements in Volume 15, "Security Assistance Policy and Procedures".

\*130910.      **Items Beyond Repair**

If an exchange carcass is **beyond repair** or an exchange item is missing and the depot maintenance activity **must order and pay for a replacement from the Supply activity,** the cost of the new item **must** be charged to the job order as a direct material cost.

## 1310 OTHER DIRECT COSTS

131001.      **Purchased Services**

Purchased services **must** be charged as direct costs to the job order that benefits from the services. If only one job order benefits from a contract or purchase, the cost of the contract **must** be charged to that job order. If more than one job order benefits from a contract, the costs of the contract **must** be prorated to the benefiting job orders based **on** estimates or calculations of the benefits received by each job order.

131002.      **Purchased Services Benefiting Indirect Cost Centers**

Purchased services that benefit indirect cost centers **must** be recorded as indirect **production** costs. If purchased services benefit the activity as a whole, they **must** be recorded as G&A (**overhead**) costs.

## 131003. Contracts Supplementing Capacity or Capability

The costs of contracts that supplement the capacity or capability of a DWCF activity **must** be charged to the job orders that use the additional services.

## \*131004. Material Costs

The costs of material procured from contractors **must** be recorded in account 152500, “Inventory-Raw Materials” and charged to job orders under normal procedures. If, however, material is procured for a specific job order, the acquisition cost of the material **must** be a direct charge to the applicable job order.

## 131005. Travel and Per Diem Expenses

Travel and per diem expenses (including regular labor hours spent in travel) **must** be charged as direct costs only if the labor hours worked while traveling are charged as direct labor. If the traveler works on more than a single job order, the travel and per diem expenses **must** be prorated based on the related direct labor hours to each order. If the travel is not related to job orders, all travel and per diem expenses **must** be charged as an indirect production expense of the employee’s cost center.

## 1311 INDIRECT COSTS

## \*131101. Indirect Production Rates and Standard Costs

The indirect production rates and standard costs discussed in this chapter should not be confused with stabilized billing rates. Stabilized billing rates or stabilized prices are used solely to price work to DoD-funded customers and may only be changed upon approval of the Office of the Under Secretary of Defense (Comptroller) (OUSDC).

## 131102. Indirect Production Costs

DWCF activities **must** record as indirect production costs, by object class as specified in Office of Management and Budget (OMB) Circular A-11, all costs incurred that are not chargeable as direct costs, unless specifically designated otherwise. Indirect production costs **must** be recorded by activity, department, cost center, or other organizational element responsible for incurring the cost. The number and type of indirect production cost centers to be established is a function of the diversity of the indirect activities at the depot and the level of management information required. The minimum number of cost centers required to separately identify and record homogeneous groupings of cost is a function of the number of different types of facilities, equipment, and/or skills required in the indirect area. The number of additional cost centers is a management prerogative in terms of the number and type of cost centers needed to ensure efficient and effective operations.

131103. Indirect **Production** Cost Pools

Costs of departments, service, and processing centers that provide support directly to direct cost centers **must** be classified as operating support indirect **production** cost pools. The costs assigned to these cost pools **must** be allocated in full to the benefiting direct cost centers (**refer to** paragraph 131105) and not included in the G&A expense rate described in paragraph 131106. Costs assigned to operating support indirect **production** cost pools **must** be allocated to the benefiting direct cost centers using a base that results in the distribution of costs incurred in proportion to the benefits received.

131104. Indirect **Production** Cost Allocation

Indirect **production** costs **must** be allocated to job orders by the use of an operations rate and a G&A (**overhead**) rate as described in paragraphs 131105 and 131106, respectively. These rates **are not** the stabilized rates and prices to be used to price DoD customer bills. **Refer to** Volume 2B, Chapter 9 “Defense Working Capital Fund Budget Justification Analysis” for policy guidance on stabilized rates and prices.

## 131105. Operations Rate

**DWCF activities must** develop an operations rate for each direct cost center in which direct labor is utilized in the performance of DWCF activities. The operations cost pool **must** consist of all indirect production costs incurred by the cost center plus the allocated share of operating support costs of departments or service cost centers, if any (**refer to** paragraph 131103). Use direct labor hours, including both military and civilian direct labor, as the basis for **allocating** the operations cost pool to the direct cost centers. This base is appropriate because operations in a DWCF activity is normally a function of direct labor hours. When the use of direct labor hours as an allocation base will not result in an equitable allocation of the **operations cost pool** costs (that is, charges are not commensurate with benefits received), a more appropriate **alternate** allocation base may be selected providing:

A. An organizational authority **that** is above the level of the local performing DWCF activity, including the OUSD(C), has not directed that particular DWCF activity to use a specific allocation base. If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing DWCF activity;

B. The alternate allocation base preferred for use is approved by the comptroller of the local performing DWCF activity; **and**

C. Justification for the decision is documented and retained in the office of the local comptroller for review.

\*131106. G&A (Overhead) Rate

DWCF activities must allocate G&A expenses to job orders using an allocation rate separate from the operations rate. The G&A expense pool is comprised of all G&A expenses incurred by a DWCF activity. The base used to allocate G&A expenses to a job order is total incurred costs (both direct and indirect production costs). When the use of total incurred costs as an allocation base will not result in an equitable allocation of G&A expenses (that is, charges are not commensurate with benefits received), a more appropriate alternate allocation base may be selected providing:

A. An organizational authority that is above the level of the local performing depot maintenance activity, including the OUSD(C), has not directed that particular depot maintenance activity to use a specific allocation base. If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing DWCF activity;

B. The alternate allocation base preferred for use is approved by the comptroller of the local performing DWCF activity; and

C. Justification for the decision is documented and retained in the office of the local comptroller for review.

\*131107. Variances

Indirect production costs and G&A (overhead) expenses must be allocated to job orders using, respectively, the indirect production rate and G&A rate. These rates are not the stabilized rates and prices to be used to price DoD customer bills. (Refer to Volume 2B, Chapter 9 for policy on stabilized rates and prices.) The indirect production and G&A rates must be developed based upon estimated costs with an anticipated level of activity (base). The applied overhead account must be used to record any over- and/or under- absorbed indirect production and G&A (overhead). A variance between actual indirect production and G&A (overhead) costs and applied indirect production and G&A (overhead) may require a change in the indirect production or G&A (overhead) rate as applicable. The development of a new indirect production and/or G&A (overhead) rate must include plans to absorb the amount of the realized variance during the time period the new rate is in effect. A change in the indirect production or G&A (overhead) rate must be approved by the comptroller of the performing DWCF activity when it is apparent that:

A. The variance is not due to seasonal fluctuations such as summer vacations;

B. The variance will continue to exist at fiscal year-end; and

C. The expected variance is significant. The determination of what is “significant” must be made by, or in consultation with, the local DWCF comptroller.

\*131108. Completed Job Orders

When a job order is complete, it **must** be closed (moved from work-in-process to Account 650000, “Cost of Goods Sold”) including **indirect production and G&A (overhead)** costs allocated based upon **the particular** rates in effect during the life of the order. Adjustments in rates made after a job order is closed **must** not be posted to a completed job order unless the effect of the adjustment would have a significant impact on the total costs assigned to the job order. Adjustments applicable to the current fiscal year for **under/over-applied indirect production and G&A (overhead)** **must** be **accounted for using the DoD USSGL Transaction Library within SFIS**.

\*131109. Permanent Change of Station

The costs of Permanent Change of Station movements for transferred civilian employees that are the responsibility of a DWCF activity **must** not be charged as a direct cost but as an indirect **production** expense and recorded in accounts 610000, “Operating Expenses/Program Costs. **Use object class 210 to record travel and transportation costs of persons and object class code 220, as identified in OMB Circular A-11, to record the transportation cost of items to make the proper distinction of expense type.**

## 1312 COSTS REQUIRING SPECIAL ATTENTION

131201. Quality Assurance

**DWCF activities must** charge quality assurance **costs** (including test design and analysis); **testing conducted** to independently assure the quality of the work accomplished; and related supervision and support **incurred in direct support of a customer order**, directly to the order. **DWCF activities must** charge quality assurance costs that are not identifiable to specific job orders to an operating support indirect cost center as described in paragraph 131103 and allocate **the costs** to the benefiting direct cost centers.

131202. Inspections and Tests

Operational inspections and tests performed to determine the condition of the item and make adjustments (calibrate) are inherent **in performing maintenance** and **must** be recorded as “direct labor - production.” **Specifically, DWCF activities must** record inspections and tests made to determine work requirements, **such as** pre-shop analysis, initial evaluation and inspection, and pre-inspection or shakedown inspection, as “direct labor” on the applicable job order. **Likewise, DWCF activities must** record final inspection and tests performed after a process is complete to assure operational or functional adequacy as “direct labor - production.”

131203. Repairables

The National Inventory Control Point item manager **directs** the reclamation of unserviceable depot level repairables. **Depots must** establish a separate job order for each reclamation project and return items produced as a by-product of the reclamation process to the DoD supply system.

## 131204. Borrowed Assemblies, Subassemblies, Components, or Parts

## A. Depots use two terms in reference to borrowed assemblies.

1. “Backrobbing” (also called “rob-back”) is defined as the taking of an assembly, subassembly, component, or part from an item that has been inducted for maintenance for use on another item inducted for maintenance with the intention of replacement at a later time. It is the temporary borrowing of the required part.

2. “Cannibalization” is defined as the taking of an assembly, subassembly, component, or part from an item (serviceable or unserviceable) that has not been inducted for maintenance (without regard to its location or ownership) by a maintenance activity for use on an item that has been inducted for maintenance.

B. Generally, borrowing is authorized only to prevent a work stoppage. Depots must charge the current acquisition cost of the assembly, subassembly, component, or part that was borrowed, and the cost of installing it, to the benefiting job order. Depots must charge all costs incurred in removing the borrowed item and reinstalling the replacement item to the operations cost pool of the cost center requiring the part. These costs must not be separately identified for reporting purposes.

## 131205. Calibration

Depots must charge the cost of calibration of an assembly, subassembly, component, part, or other equipment from an item that has been inducted for maintenance to the benefiting job order. Calibration of equipment used by a depot maintenance cost center in the performance of its work must be charged as an indirect production expense of the cost center that uses the item being calibrated.

## 131206. Modifications and Upgrades

A. Depots must establish a separate job order for each modification or upgrade of a major end item such as an aircraft. Separate job orders must only be established for other than major end item modifications or upgrades when the work is easily identifiable; such as when the modification or upgrade is the primary purpose of inducting the item. Depots must charge the cost of material used in the modification or upgrade process, such as a modification kit, and the cost of direct labor incurred to install the modification, to the modification job order.

B. Depots must also charge to the modification or upgrade job order the modification or upgrade material (modification kits) used for the modification or upgrade job order when a modification or upgrade is performed concurrently with depot maintenance work on the same major end item. In addition, repair requirements that are the direct result of the modification/modernization installation work (also referred to as repair incident to mod) are also legitimate charges to the modification job order. However, direct labor must be charged as modification or upgrade work only when it is peculiar to the modification or upgrade process.

For example, **depots must** charge labor costs incurred in disassembly, test, inspection, repair, rebuild, replacement and servicing that are performed as a normal part of the overhaul to depot maintenance overhaul when modification or upgrade is performed concurrently with overhaul; these costs must not be prorated between overhaul and modification or upgrade.

C. **Depots** may charge labor costs incurred installing a modification or upgrade concurrently with depot maintenance overhaul work to the depot maintenance overhaul job order if the amount of the modification or upgrade labor is so small that no significant or material distortion in either the modification or upgrade or the depot maintenance cost will occur. When this practice is followed, there **must** be no adjustments to the depot maintenance overhaul job order based on labor or material standards or other estimates of modification or upgrade labor in order to support reimbursement from fund citations for modification or upgrade work.

#### 131207. Information Technology

A. **Depots must** capitalize the costs of computer programming efforts for DWCF equipment (that is, the costs of software development efforts for use on DWCF activity assets) when they meet the DoD capitalization criteria. Programming efforts that do not meet prescribed capitalization criteria **must** be treated as operations overhead expense of the performing cost center. If the programming effort consumes significant amounts of resources, **the depot must** establish a separate indirect department or service center and allocate the service center's capitalized and other costs to the benefiting direct cost centers based on program use. **Depots must** charge the costs of programming effort for non-DWCF activities to those activities before allocating the remaining costs to the benefiting direct cost centers. When the programming costs are not appropriately chargeable as an **indirect production** cost, **depots must** charge the costs to a G&A (**overhead**) expense account. General cost guidance applicable to information technology can be found in Volume 4, **Chapter 6 "Property, Plant, and Equipment"**.

B. DWCF activities perform software support to ensure that fielded software systems, as updated by modification and improvement efforts, continue to support original missions. All DWCF costs for software support **must** be charged to specific job orders established for this purpose. **DWCF activities must** include all applicable direct labor, direct material, all other direct costs, **indirect production** and G&A (**overhead**) costs **in** costs charged to the orders.

#### 131208. Machine Set-Up Costs

A. **Depots must** charge the cost of programming efforts for automatic test and numerically controlled machines to the benefiting job order(s). However, if a **depot** expends significant effort for programming that benefits more than one job order, then the **depot must** allocate the programming cost to all benefiting job orders. **If new machinery or equipment is required, then these costs are part of the Capital Investment Program.** The nonproductive labor hours of employees waiting for programming to be completed is an indirect expense of the worker's cost center.

B. **Depots must** charge machine tool set-up time to the benefiting job order(s). Set-up time is normally recorded as direct labor on a job order and should not be separately



recorded from the job order. However, if a significant effort is expended for a set-up that **must** benefit more than one job order, then the **depot** should allocate the set-up to all benefiting job orders. The nonproductive labor hours of employees waiting for a set-up to be completed **are** an indirect expense of the worker's cost center.

131209. Defective Work and Spoilage Costs

A. **Depots must** charge the applicable job order for efforts undertaken to correct work defects and spoilage when quality control standards are not met. Examples of corrective work that should be directly charged to a job order include:

1. Reworking castings, welds, and brazing involving acceptable reject rates.
2. Minor realignment or refitting of units that are improperly finished or aligned.
3. Resoldering of connections broken in transit.

B. **Depots must** charge the responsible cost center's indirect material and labor costs with the costs of the corrective work when unusual defects or excessive spoilage occurs. When the responsible cost center cannot be determined, depots **must** charge the applicable material and labor cost as an indirect **production** cost. Defective work and spoilage that **are** chargeable to indirect **production** costs include the following:

1. Costs for additional material and labor necessary to remedy or rework end products when defects beyond acceptable levels are detected during the normal production and inspection processes. Such costs do not add value to the work performed but are necessary to bring the work up to stated specifications.

2. Costs related to work on items with defects so severe that the item must be removed from the production process and sold as scrap or returned in part to raw materials. When this happens, the **depot must** relieve the applicable job order of the costs and charge the indirect **production** costs of the responsible cost center. If a responsible cost center cannot be determined, the depot **must** charge a G&A (**overhead**) account for "Defective Work and Spoilage" for the costs of the rejected item.

\*131210. Disposition

A. **Depots must comply with 40 U.S.C. section 574** and Volume 11A, Chapter 5, "Disposition of Proceeds from Department of Defense Sales of Surplus Personal Property" regarding disposition of proceeds from DoD sales of surplus property. Proceeds from the sale of surplus property generated, collected, or otherwise obtained by DWCF activities as a part of normal operations **must** be credited to the DWCF and accounted for as follows:

B. Estimated proceeds from the sale of material removed during work on vessels, aircraft, vehicles, and weapons that can be feasibly and economically related to a specific job order may be credited to that job order. When actual proceeds are known, the job order amount **must** be adjusted if the job order is still open. Otherwise, the net difference between the estimated amount and the actual amount of proceeds **must** be adjusted to USSGL Account 711000, “Gains on Disposition of Assets - Other”.

C. Carcasses received from customers that are later condemned or deemed unserviceable are considered a normal part of DWCF operations. Therefore, the proceeds from the sale of carcasses received from customers **must** be credited to USSGL Account 711000.

D. All other proceeds from the sale of DWCF items **must** be credited to USSGL Account 711000.

\*131211. Mobilization Capability Costs

Mobilization capability costs include the costs to maintain a surge capacity and/or maintain other assets, functions, or capabilities required to meet an operational contingency as documented in [the Secretary’s force planning guidance](#) or operational plans. Surge capacity most often manifests itself in facilities and equipment that are unutilized or underutilized during normal peacetime operations. [DoD policy and guidance associated with mobilization costs is contained in Chapter 14 “Mobilization Costs”, and in Volume 2B, Chapter 9.](#)

131212. Job Order Cancellations or Reductions in Scope

A. [Depots must](#) charge the costs incurred plus the applied indirect [production and G&A \(overhead\)](#) costs, and costs associated with the cancellation or reduction, to the customer when a job order is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs on the order. Funds personnel **must** ensure the customer provides and/or does not reduce funding below amounts required to cover canceled/reduced orders. Examples of directly associated cancellation or reduction costs to be charged to customers are advance planning costs, noncreditable direct material, special test equipment, necessary preservation and/or shipment effort, and any additional effort necessitated by the cancellation and/or reduction; for example, salvaging of material. In addition, [depots must](#) charge the customer [for](#) the costs of salaries payable to employees hired specifically to work on the canceled order until the employees are, or could have been, separated through a reduction in force or other appropriate action (taking into account appropriate administrative lead time), or reassigned to other direct jobs.

\* B. Costs [that](#) are indirectly associated with cancellation or reduction actions **must** not be charged to the customer. Although normally allocated indirect [production and G&A \(overhead\)](#) costs **must** be charged to canceled or reduced customer orders, [any](#) underapplied [indirect production and G&A \(overhead\)](#) costs that may [occur as a](#) result of a reduced workload base of the DWCF activity as a whole **must** not be charged to the customer canceling or reducing their order. [The underapplied](#) costs **must** be recorded against the net operating results of the performing DWCF activity.

## 131213. Employee Training Costs

A. Depots **must** record the cost of training performed for the DWCF activity's benefit as an indirect expense of the employees' cost center. General developmental training for WCF employees not required to support actual productive workload (i.e., training in the installation, operation, and maintenance of DoD weapons, equipment, and systems to develop organic expertise) may not be charged as a direct cost to customer orders.

B. Training costs **must** include all applicable elements of cost, **including** labor **costs** of trainees, travel, transportation, per diem costs, labor **costs** of instructors, tuition, books, and materials. Training costs **must** include the cost of planning the course of instruction, conducting the course, and any related support effort.

C. The development and qualification of employees requested by activities outside of the performing DWCF activity **must** be charged to a specific job order.

D. The hours of on-the-job training in the form of actual productive effort (as opposed to observation or other noncontributory effort) **are** chargeable as direct labor to the related job order. Noncontributory effort, including time spent observing others, should be charged to the indirect costs of the cost center of the employee.

## 131214. Technical Assistance

Depot maintenance technical assistance is a specialized service, provided by qualified depot maintenance technicians, that is performed in many different ways depending upon the requirement. Technical assistance may include instruction on maintenance repair or support processes for military equipment, special programs for military reserve units, training foreign nationals using uniquely qualified personnel to provide technical assistance, performing specific work requiring special skills for operational activities, other maintenance organizations, or foreign governments. All depot maintenance activity costs for technical assistance **must** be charged to specific job orders established for that purpose. The costs charged to these job orders **must** include direct labor, direct material, all other direct costs, and operations overhead and G&A costs including variances for applied overhead.

## 131215. Assets Manufactured by a DWCF Activity for Itself

Normally, the material requirements of a DWCF activity are met by the supply system or commercial procurement. However, in some cases, material requirements may be fulfilled by a manufacturing process at the DWCF activity. The manufacturing process includes several phases:

A. **Preparation of** a work authorization document (in-house job order) to replace the normal funded customer order;

B. The costing of direct labor, material, and applied overhead to the manufacturing job order as work-in-process; **and**

\* C. The posting of the completed job order to an asset account, or, if the transaction is reimbursable, to a [job order](#).

#### 131216. Special Non-DWCF Functions

Occasionally, some uniquely qualified DWCF personnel are asked to perform various types of special functions that are not DWCF activities or functions. Such work is chargeable to other separately budgeted functions such as supply operations, property disposal, or family housing.

#### 131217. Concurrent Maintenance

Concurrent maintenance occurs when the [depot](#) inducts component parts of an end item into the maintenance process at the same time as the end item is inducted for maintenance. This approach is used instead of an exchange. The approach selected is usually a function of the desired outcome and the availability of exchanges. Concurrent maintenance and exchange do not normally result in the same costs being incurred, and no attempts should be made to balance the costs incurred for work performed in the two separate modes. All concurrent maintenance costs **must** be charged to the weapon system order and not allocated to component repair job orders.

#### 131218. Host/Tenant Support Services

The DWCF activities give and receive different types and levels of support services to and from the host installation depending upon location and mission assignments.

A. Uniform costing requires that support services that benefit the performance of the depot maintenance function be recognized as part of the indirect expenses of the benefiting cost center, or the entire DWCF activity as appropriate, regardless of the funding source for the support services.

B. The DWCF activities **must** not provide or receive goods or services on a nonreimbursable basis. In addition, offset or barter arrangements **must** not be made with other activities for goods or services. Special arrangements to avoid normal funding requirements may result in apparent violations of the Antideficiency Act.

#### 131219. Employee Bonuses and Awards

[Depots](#) **must** charge monetary awards paid to employees for suggestions and one-time bonuses, such as special act awards performance bonuses, and productivity gain sharing program payouts, to indirect [production costs](#) of the cost center of the employee receiving the award. Annual pay increases resulting from the [employee](#) performance appraisal [process](#) are simply increases in base pay that affect regular payroll cost.

**VOLUME 11B, CHAPTER 14: “MOBILIZATION COSTS”****SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

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

The previous version dated **November 2009** is archived.

<b>PARA</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Revised language throughout to reduce the usage of passive voice.	Revision
1401	Revised the format of the first paragraph to comply with the “Department of Defense Financial Management Regulation Revision Standard Operating Procedures” by creating a “General” section. Subsequent sections were renumbered.	Revision
140301	Added language to explain the cost required to maintain unutilized property and equipment must be reimbursed unless funds are appropriated for that purpose.	Revision
140303	Added language to clarify that investment expenses are non-recoverable for rate setting purposes.	Addition
140304	Added language to clarify that United States Transportation Command expenses are non-recoverable for rate setting purposes.	Addition

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## CHAPTER 14

MOBILIZATION COSTS

## \*1401 GENERAL

## 140101 Overview

Each [Defense Working Capital Fund \(DWCF\)](#) activity group must plan for and maintain the capability to expand or alter operations, or to provide extraordinary supply or other functional area support necessary, to satisfy mobilization conditions when required. The nature and extent of the costs to be paid by a separate appropriation rather than charged to other customers through the rates must be in accordance with this policy.

## 140102 Purpose

The policy contained herein [addresses the requirement for a separate appropriation for peacetime costs to maintain a mobilization capability and](#) applies to all DWCF activity groups. This requirement is hereafter referred to as a mobilization requirement. [The Statement of Federal Financial Accounting Standards 4](#) describes managerial cost accounting for the Federal Government which provides a general understanding of cost accounting, definitions of direct and indirect costs, and the methodology for accumulating the total costs of the supporting DWCF mobilization/ surge activities.

## 140103 Authoritative Guidance

[The National Defense Authorization Act](#) delineates appropriations for mobilization costs.

## 1402 DEFINITIONS

## 140201. Mobilization Capability Costs

Mobilization capability costs include the costs to maintain a surge capacity, to procure and maintain approved war reserve material levels, and/or to maintain other assets, functions, or capabilities required to meet an operational contingency as documented in [the Secretary's force planning guidance](#) or operational plans.

## 140202. Surge Capacity

A. An activity group's total surge capacity often manifests itself in facilities and equipment that are unutilized or underutilized during normal peacetime operations. Unutilized (Reserve) plant and equipment capacity is that part of a DWCF activity's assets including plant and equipment that is held in a standby, idle, or lay away status or for war reserve storage. [The DWCF uses a separate appropriation to procure and/ or maintain wartime reserve materials, and to maintain other assets, functions, or capabilities required to meet an operational contingency.](#)

B. Unutilized capacity associated with the ability to satisfy a projected surge capability is considered a mobilization requirement eligible for separate appropriation funding if it is utilized only 20 percent or less of available workdays in a month. The DWCF rates must not include the cost of unutilized capacity. Instead, the host activity will budget direct appropriated fund support (labor, materials, contractual support, and overhead) for the unutilized capacity and will reimburse the DWCF activity for costs incurred [in the DWCF](#).

C. Unutilized capacity associated with the ability to provide capability in excess of any known or projected requirement is not a mobilization requirement.

140203. War Reserve Materiel

War reserve materiel includes secondary items procured and/or stored in support of wartime scenarios established in the [Secretary's force planning guidance](#) or contingency operations identified in specific Operational Plans.

1403 FUNDING

\*140301. Operations

[The cost incurred to maintain unutilized plant and equipment capacity must be reimbursed unless funds have been appropriated directly to the DWCF for that purpose. The DWCF activity must separately accumulate](#) the portions of direct, indirect, and general and administrative (G&A) costs supporting the maintenance of this capacity. When a portion of a DWCF activity's plant is purposely set aside as idle capacity, the Component must request a direct [operation and maintenance](#) appropriation to pay for the cost of essential operation and maintenance for that portion of the plant and idle equipment as well as an allocated portion of G&A costs. The percentage of G&A costs allocated to the cost center for the unutilized plant capacity must be the same as the percentage of G&A costs allocated to other cost elements of the activity. Separate cost centers must be maintained for all such costs.

140302. War Reserve Materiel

The purchase of secondary items of supply as War Reserve Materiel must be funded from a direct appropriation. [The applicable Supply Management or Commissary Resale activity Annual Operating Budget must reflect](#) such appropriated amounts as a separate goal. Items such as ammunition and/or principal and major end items procured for war reserve must not be funded with DWCF, but must be funded through amounts available to Component/Defense Agency procurement appropriations.

\*140303. Capital Investments

[Component procurement appropriations must fund](#) new capital asset investments at DWCF activities necessary to satisfy a mobilization requirement. The DWCF activity groups must assume ownership of such assets. New capital assets to satisfy a mobilization requirement (as well as other, older capital assets laid away for use in mobilization) [must be depreciated for reporting](#)



purposes on the Accounting Report (Monthly) 1307 (AR(M) 1307). These expenses are non-recoverable for rate setting purposes because the assets are funded by appropriations, see Volume 2B, Chapter 9.

\*140304. United States Transportation Command

The United States Transportation Command (USTRANSCOM) activity must maintain a capability to respond expeditiously to requirements to transport personnel, material, or other elements required to satisfy a mobilization condition. The following paragraphs describe direct appropriations, requested by the Air Force or Army, as appropriate, that support USTRANSCOM operations.

A. The Air Mobility Command (AMC) bases airlift flying hours and associated costs on the requirement to maintain the capability of the airlift system, including crew training (and concurrent mobilization) requirement. The Department of Defense (DoD) uses the airlift system training generated capacity to move air eligible cargo and passengers. The USTRANSCOM generally establishes rates that are competitive with commercial carriers to extend air eligibility and increase capacity utilization. However, resulting revenue does not cover the costs of operations due to the mobilization requirement. This requirement will be budgeted and recorded as follows:

1. The costs for military personnel will be recorded at the civilian equivalency rate in accordance with the policy on Military Personnel Expense in Chapter 12. A Military Personnel appropriation will directly fund military personnel within the AMC. These expenses must be reported on the AR(M) 1307; they are recoverable for rate setting purposes because the expenses are reimbursed to the respective Military Personnel appropriation, see Volume 2B, Chapter 9.

2. The Air Force will request a direct appropriation for and place an order with the DWCF to fund the balance of the mobilization requirement costs. This will assure that revenue is reflected to offset the costs.

B. The Surface Deployment and Distribution Command must plan for and maintain a Reserve Industrial Capacity (RIC) to transport personnel resources, material and other elements required to satisfy a mobilization requirement. The costs of RIC will be funded by the Army Operation and Maintenance appropriation.

1404 ACCOUNTING

140401. Cost Center Capability

DWCF activities must establish a cost center capability to separately account for all costs applicable to the continuance of a mobilization requirement. Where necessary, DWCF activities must maintain such costs to the function or task level, as necessary to segregate costs between normal operating costs and mobilization costs.

## 140402. War Reserve Items

DWCF activities must account for purchases of DWCF-funded War Reserve items at the same level of detail as items procured for peacetime requirements, recording amounts in separate general ledger accounts, or appropriate subaccounts, to retain separate visibility of such assets. Inventory levels funded by such amounts are not available for sale; therefore, DWCF activities must maintain and report War Reserve costs separately to ensure that the unit cost targets for Supply Management activities are not affected.

## 1405 REPORTING

The DWCF activities must record and report financial information on the maintenance of a mobilization capability in accordance with the DoD accounting and reporting requirements specified for the DWCF. AR(M) 1307 must be prepared to include a footnote that identifies the amount of the mobilization requirement costs that are funded through direct appropriations or reimbursable orders accepted specifically for mobilization requirements.

**VOLUME 11B, CHAPTER 15: “SUPPLY MANAGEMENT ACTIVITIES”****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 1994 is archived.

<b>PARA</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
<b>ALL</b>	Restoration of deleted sections of Volume 11B Chapter 55	Clarification
150302	Expanded the definition of Standard Price	Clarification
150302	Defined Materiel Cost	Clarification
150302	Expanded the definitions of cost recovery elements	Clarification
150302	Revenue from operations other than the sale of inventory should be classified as “Other Income”.	Clarification
150402	Unfunded Contract Authority requires a source of reimbursement	Clarification
150403	Liquidation of Contract Authority	Clarification

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**CHAPTER 15****SUPPLY MANAGEMENT ACTIVITIES**

## 1501 GENERAL

This chapter provides the policies and procedures to guide budget formulation and execution for supply management activities of the Defense Working Capital Fund (DWCF).

## 1502 BACKGROUND

This guidance is applicable to all DoD working capital funds.

## 1503 PRICING OF INVENTORY ITEMS

## 150301. Introduction.

Policies and procedures to be used in the budget development of prices for supply management activity items are contained in Volume 2B, Chapter 9, "Defense Working Capital Funds Activity Group Analysis", DoD Financial Management Regulation, DoD 7000.14-R.

## \*150302. Standard Price

Standard price is the current value of inventory plus all cost recovery elements required to ensure that sufficient budgetary resources are available to fund the entire cost of operations. As a general rule, each cataloged item with an assigned national stock number, and under DoD Inventory Control Point management, shall have a standard price for sales to all authorized customers. Non-DoD customers providing direct support to DoD related mission requirements shall be charged the standard price. All other non-DoD customers will be charged as prescribed in Volume 2B, Chapter 9 section 090103. Exceptions to this policy may be authorized elsewhere in this chapter. Components shall establish product prices at the lowest practical item level in order to promote cost visibility/management and to motivate cost effective customer/supplier behavior. At a minimum, prices should be established by Federal Supply Class (FSC) or other comparable level at which specific cost allocations can be made. Product pricing levels above the FSC must be approved by the Director of Revolving Funds, Office of the Under Secretary of Defense (Comptroller). The standard sales price of each item shall be determined in advance of the execution year to allow for publication before the price is effective. The standard sales price becomes effective for billing purposes on the first day of the fiscal year. A standard price will not be changed during the fiscal year without the prior approval of the Director of Revolving Funds except as stated in paragraph 150305 of this chapter. The dollar amount of unfilled customer orders accepted at the previous fiscal year's standard price shall be adjusted (upon notification to the customer) to reflect the latest standard price when notice of the price change is received. Normally, all recurring local procurements shall be cataloged and assigned a local standard price including any retail level cost recovery element except when the volume of local procurements of an item does not justify the assignment of a local standard price. In those cases,

a local purchase of such a nonstandard item shall be priced based upon procurement cost plus any retail level cost recovery element.

A. Latest Acquisition Cost (LAC) should be used to establish an inventory item's unit standard price for materiel cost. LAC is the most current cost of a representative procurement. LAC may be calculated by dividing the most current cost amounts by the sum of their quantities. For items without a procurement history, an acquisition cost may be estimated based upon current manufacturer's price listings or market price quotations. The acquisition cost of an item procured by means of a multiyear contract may include upfront costs such as setup costs that will not be incurred in future years. In those situations, the setup cost should be prorated over the total planned volume of items to be purchased under the contract. Undefined Contract Actions (UCAs) may be used as the basis for updating LAC. However, in these cases the "not to exceed price" will be used, not the "award price."

B. Total cost recovery is the sum of the dollar amount of all non-materiel costs. The cost recovery rate is calculated by dividing total non-materiel costs by total materiel costs. This represents the percentage markup on materiel costs required to operate the supply activity. The sum of non-materiel and materiel costs represents the amount of revenue required (standard price) to liquidate the total amount of contract authority requested in order to break-even. These cost elements should be displayed on the SM-5a budget exhibit (See Volume 2B, Chapter 9). These factors are also used to calculate the stabilized rate for supply activities.

1. The basis for the Cost Recovery Rate (CRR) is a markup on total materiel costs to cover operating costs. Total materiel costs represents total replenishment costs for all materiel sold to customers. The basis for replenishment costs is the authorized representation of inventory valuation (LAC). To this value, cost elements for inflation, product cost growth, loss/obsolescence/damage/washout, and provisioning may be added. Normal inventory costs to be included in this cost recovery element are the net of losses and gains from incoming and outgoing shipments, physical inventory adjustments, inventory losses as a result of shrinkage, theft, deterioration, damage contamination, defective items if not reimbursed by supplier, obsolescence, and adjustments to reconcile internal records. Obsolescence consists of the current replacement cost of new or modified items required to replace items no longer needed due to changes in technology, laws, customs, or operations (for example, modification or replacement of a weapon system or commodity). Extraordinary losses such as those due to armed hostilities, riot, or significant damage due to fire, flood, earthquake, storms, or other abnormal events are not normal inventory losses and should not be included in the cost recovery element for inventory expenses. Appropriations should be sought from Congress to fund extraordinary losses.

(a) Inflation is the dollar amount of the standard rate of inflation as published by the Office of Management and Budget (OMB).

(b) The Product Cost Growth Factor (PCGF) is a cost element to account for any anticipated price growth beyond standard inflation.

(c) Loss/obsolescence/damage/washout is a cost element that is associated with any costs that are expected to be incurred for these types of situations where a replacement unit is required. Activities that manage maintenance and repair missions on an exchange carcass basis incur replacement cost for carcass washouts and losses. Carcass washouts (sometimes termed “condemnations”) are carcasses that, during the initial inspection, are determined to be repairable but during the repair process are determined to be unrepairable and are also determined to require replacement. If the carcass is determined to be unrepairable because of customer cannibalization or other malicious damage caused by the customer, the customer shall be charged the difference between the exchange price and the current standard price and this cost shall not be included in the surcharge element. Lost carcasses (for example, in transit to the customer or to the supply system) shall be investigated and necessary internal controls strengthened as required by DoDFMR Volume 12, Chapter 7.

(d) The provisioning cost element is provided in situations which a weapon system was originally fielded under a contractor logistics support agreement. If the contractor either fails to perform, or a decision is made at the component level to transfer program management to a DWCF supply activity, the component may decide to fund the provisioning action in the standard price of the item. The component may also decide to fund this action using contract authority without an immediate reimbursement so long as a funding source can be identified and used for reimbursement by the time of first delivery and the action has been pre-approved by the Director of Revolving Funds. Pre-approved reimbursable transactions of this type shall be recorded as “other income” and will not be included in the standard price.

(e) Inventory augmentation costs finance the acquisition of inventories which are required over and above demand replacement (excluding mobilization requirements which are financed by appropriations) to maintain the level of materiel support at the currently approved position. Inventory Augmentation is normally funded by direct appropriation, but may be included as a cost recovery element if approved by the Director of Revolving Funds.

2. Cost recovery elements for operating costs shall be included in the standard sales price of an item including payroll, personnel travel, transportation, defense agency billings, other WCF purchases, operating materiel and supplies, rent/communications/utilities, depreciation, transportation and other service contracts (See paragraph 150302 C of this chapter).

3. Infrastructure costs shall be identified separately and may include depreciation, capital programs (depreciation, capital surcharges) and systems sustainment recovery elements. Each fund manager may determine if reimbursement for infrastructure costs will be collected in the year the capital program is executed or over an approved depreciation schedule that allocates collections to the capital program.

4. Other cost recovery elements may be added to the price and must be approved by the Director of Revolving Funds during the budget submission. Typical revolving fund adjustments include Accumulated Operating Results adjustment, cash corpus retention and fund management adjustments.

C. The purpose of the cost recovery elements are to balance total revenues with total net operating costs, plus or minus changes in levels of assets, such as inventory or cash. Total net operating costs shall not include requirements funded by appropriations, such as war reserve appropriated amounts (see Volume 4, Chapter 4, paragraph 0405 for treatment of War Reserve Materiel). The costs to be accounted for within the recovery elements shall encompass:

1. The costs of operating wholesale inventory control points and wholesale supply depots shall be financed by the supply management activity. Such costs include civilian labor and benefits, military labor, supplies, purchased services, reimbursements to other Defense agencies that provide support to supply management operations. The cost of performing equivalent functions at the retail level (installation/area supply support) may be included in the cost recovery rate assessed by the wholesale activities if the retail activity is managing the distribution of DLA, GSA or any other government agency where an additional rate would not be applicable.

2. The costs incurred by separate activities and functions that exist primarily to benefit the mission of a wholesale inventory control point and/or a wholesale supply depot. Mission support cost pools shall be established that identify costs incurred by activities and functions that directly provide benefits to wholesale inventory control points and wholesale supply depots. These cost pools will include all costs (civilian labor and benefits, supplies, purchased services, and other costs) incurred in functions such as line management (command and control), staff management (policy functions), and centralized service functions (e.g., procurement, accounting, personnel, ADP, etc.). The portion of such overhead cost pools that directly benefit the supply management activity mission shall be allocated to, and reimbursed by, the supply management activity. The allocation shall be based upon the relationship of the cost of the benefits provided to the supply management activity to the cost for all activities or functions.

3. The term “shipping and transportation” includes costs for packing, crating, handling, transportation, and, where appropriate, port loading, and unloading. Items may be shipped from a stocking point (issues) or to a stocking point (returns).

(a) Costs to be included are transportation costs for items issued by the supply management activity. To the extent that first destination transportation is not included in the acquisition cost, an estimate of the cost shall be included in this element. Second destination transportation costs should be based on the assumption of average cost as adjusted by projected changes in the budget year. Second destination transportation costs financed by a supply management activity generally include only transportation within the continental United States (CONUS) and between overseas locations. An additional transportation charge shall be assessed for expedited delivery and delivery outside CONUS based on destination, e.g., Europe, Far East, Near East and for contingency operations.

(b) The costs of providing and managing commissary items, including related operating costs incurred to support the mission of commissaries, shall be identified as commissary operating costs. These costs include but are not limited to, costs incurred to support commissaries at a headquarters or regional level. Commissary operating



costs shall be charged to, and reimbursed by, appropriations made available to the Defense Working Capital Fund for commissaries and the commissary trust revolving fund as prescribed in DoD Instruction 1330.17, "Armed Services Commissary Operations."

(c) Costs to be included are shipping and transportation costs only for items approved by an item manager for return from DoD customers to the supply management activity. The supply management activity shall reimburse 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 shall not be paid by the supply management activity.

(d) Costs to be included are shipping and transportation costs for the return of reparable exchange carcasses from customers. Customers will not be charged separately for carcass returns because supply activities factor shipping and transportation costs for customer returns of carcasses into cost recovery projections.

(e) Costs to be included are shipping and transportation costs for lateral distributions of stock when directed by an item manager. When a shipment is made at the direction of an Integrated Material Manager (IMM), the supplying (issuing) activity shall be reimbursed by the IMM for the costs of packing, crating, handling, and transportation to move that materiel.

4. If a supply management activity experiences a sudden decrease in volume of customer orders, it may require additional revenue in order to liquidate contract authority associated with undelivered inventory ordered from vendors. It may be obtained either through transfer or direct appropriation to the revolving fund, or by supply management activity establishment of a cost recovery element (or combination of both). Once undelivered order stock levels have stabilized to a level appropriate for the new volume of demand, any cash surcharge will be eliminated.

D. A cost recovery element used by a retail level supply activity:

1. Will include inventory (materiel) expenses. Inventory expenses applicable to the retail-managed items are the net impact of gains and losses at the retail level, obsolescence, and shelf-life deterioration.

2. May include other cost recovery elements, when approved by the Director of Revolving Funds.

E. Direct reimbursable costs are costs not associated with the primary operations of a business activity (such as selling inventory) and will be excluded from the cost recovery rates. Cost reimbursement is to be reported as "Other Income" on the AR 1307 and the Fund-14. All costs that are reimbursed in "Revenue from Sales" are considered operating costs and will be factored into the rates and the unit cost goal for that activity.

150303. Foreign Military and Private Party Sales

As prescribed in Volume 15, “Security Assistance Policy and Procedures,” of this Regulation, the selling price of Defense Working Capital Fund items to Foreign Military Sales customers shall be the current Defense Working Capital Fund price for that item.

150304. Lateral Redistribution of Stock

An item manager may direct a lower stock level to issue stock when the total cost of such action is lower or when the item manager does not have stock available to meet a requisition’s response time and the lower level does -- such action is termed “lateral redistribution.” As provided in DoD 4140.1-R, DoD Supply Chain Materiel Management Regulation, billing procedures associated with lateral redistributions directed by an item manager will ensure an issuing activity is reimbursed for both the standard price of the materiel and the standard packing, crating, handling, and transportation costs associated with a redistribution. The item manager will bill the requesting activity for the standard price of the materiel and reimburse the issuing activity for the standard price of the materiel and the standard packing, crating, handling, and transportation costs.

150305. Authorized Changes of Standard Prices

DoD Components shall set product prices on an annual basis. Those prices cannot be changed during a fiscal year without justification to, and prior written approval of the Director of Revolving Funds. The only exceptions to the requirement for prior approval are:

- A. Subsistence items sold to a commissary may be changed on a procurement lot basis.
- B. Subsistence items sold for troop issue purposes may be changed on a monthly basis.
- C. Clothing items required for a mandatory clothing bag may be changed when a related change occurs in the clothing allowance for military personnel.
- D. Unit of issue changes.
- E. First time buys.
- F. Changes in logistical relationships between repairable items.
- G. Changes in prices for items managed as the secondary inventory control activity (SICA) for another agency.
- H. Gross pricing errors.
- I. Changes from non-supply activity to a supply activity.

- J. Changes in prices of components prices for sets kits and outfits (SKO).
- K. Items become obsolete, obsolescent or in long supply.
- L. Price challenges or breakouts.
- M. Discounted product prices (see 150306.).
- N. Customer requested product changes.
- O. Seasonal price variations for materiel normally bought for direct vendor delivery.

150306. Discount Pricing

As a general rule, all product prices must reflect the full cost of the product and the related management activity. However, discount pricing is permitted under the following conditions:

A. With the prior approval from the Director of Revolving Funds, a supply activity may charge a customer a discounted price for a supply item. The request to discount an item price should be accompanied with an analysis of the cost (profit/loss) impact anticipated as a result of charging a lower price.

B. Reductions from standard prices may be made subsequent to approval by the Director for Revolving Funds upon determination that there is an actual difference in utility or desirability of an item because of age, condition, or model for items being phased out of the system, items no longer being procured, items with limited remaining shelf life, items in a less than “fully serviceable“ condition, and items in long supply, i.e., assets stratified as “potential reutilization stock. “

C. Policies and procedures to be used in the development of exchange prices for supply management activity items are contained in Volume 4, Chapter 4, “Inventory and Related Property,” of the DoD Financial Management Regulation, DoD 7000.14-R.

150307. Pricing for Additional/Premium Service

Components may establish and offer variable levels of service related to a product, at variable prices, to allow customers the opportunity to economize according to their needs. Appropriate fees may be established annually and may vary according to the item/class of items. Refunds (credits) will be made available for those instances where a customer has paid for a level of service that was not provided. This permissible policy is not intended to authorize a reduced charge for some customers. It is intended to authorize an additional charge for customers who ask, and are willing to pay, for enhanced service. Individual orders may be assessed additional cost recovery rates based on the following elements:

- A. Expedited delivery.
- B. Delivery outside the continental United States based on destination, e.g., Europe, Far East and Near East.
- C. Depot handling fees related to order issues only. The fee(s) will include a minimum charge for low priced orders, a standard charge for bin item issues, a standard charge for normal bulk item issues, and special charges for unusual bulk item issues, e.g., special handling and extraordinary quantities.

#### 1504 CONTRACT AUTHORITY FOR SUPPLY MANAGEMENT OPERATIONS

##### 150401. Background

Based on the authority in 10 U.S.C. 2210, the OMB apportions anticipated contract authority at the beginning of a fiscal year for the amount of the approved supply management activity program. This anticipated contract authority becomes realized contract authority when obligations are incurred by the supply management activity. Unfunded contract authority is the amount by which obligations incurred exceed customer orders accepted (obligations less customer orders accepted). Contract authority provided to a supply management activity is subject to apportionment as required by the Anti-Deficiency Act in accordance with the procedures prescribed in OMB Circular A-11, "Instructions on Budget Execution" (See Volume 3 Chapter 19).

##### 150402. Budgetary Resources

Budgetary resources for supply management activities available for use during a fiscal year consist of any congressionally appropriated and reappropriated amounts made available; the net of any nonexpenditure transfers into and out of the supply management activity and other Federal Government accounts (cash transfers); balances made available from the previous fiscal year contract authority; and apportioned anticipated contract authority. Normally, supply management activities may obligate based on two primary sources: contract authority and appropriated funds for war reserve/mobilization purposes. Liabilities (accounts payable) are typically payable from the fund balance with Treasury within the next 30 days. Unfunded (unliquidated) contract authority should be considered a long-term liability for supply management activities because budgetary resources required for payment of these contracts have not yet materialized through customer orders or appropriations from Congress. For supply management activities, the primary sources of budgetary authority are the fund balance with Treasury, collections from customers, appropriations and unfilled customer orders. Claims on budgetary authority are primarily accounts payable, and unliquidated contract authority (undelivered orders) (See Volume 3 Chapter 19).

- A. At the end of each fiscal year, unused balances of funds appropriated to the supply management activity shall be used to offset the need for anticipated contract authority. Such amounts are not available for use until they are reapportioned and reflected on the

supporting financing schedule as an increase to the limit imposed for obligation authority on an approved apportionment in the new fiscal year.

B. The OMB may approve and apportion anticipated contract authority in the amount of the approved supply management activity operating program.

C. The OMB apportionment of anticipated reimbursements as anticipated contract authority currently includes a footnote, consistent with the following:

Pursuant to 10 U.S.C. 2210(b), obligations/commitments may be incurred in excess of the amount of the apportioned resources actually realized in the amount of contract authority approved, but not in excess of the total apportioned. The estimated unfunded balance of this contract authority pursuant to 10 U.S.C. 2210(b) of \$ on September 30, 20xx is increased by \$ provided that this amount is automatically reduced to the extent that orders are realized.

D. Anticipated contract authority becomes realized contract authority when obligations are incurred. These obligations require budgetary resources at the time of disbursement.

E. The receipt of customer orders provides budgetary resources for realized contract authority. Customer orders received are requisitions and other orders accepted for items to be furnished on a reimbursable basis. Budgetary resources provided from a customer order are available to fund obligations provided that, in the case of orders from the public, an advance has been collected. Throughout the fiscal year, the cumulative amount of resources available from customer orders is adjusted to the extent that orders are canceled, or revised upward or downward because of standard price changes, quantity adjustments, etc. The amount of budgetary resources available for obligation from customer orders is the sum of orders received from Federal Government accounts that represent valid obligations of the ordering account, plus advances received on orders accepted from the public. Orders from the public include orders received from state and local governments. These budgetary resources shall replace the budgetary resources apportioned as anticipated reimbursements.

1. The receipt of a customer order at the activity level shall be recorded as an increase to customer orders accepted and an increase to unfilled customer orders. This is necessary because supply management activities receive obligation authority based on anticipated reimbursements without regard to the timing of the receipt of the customer order. In other words, supply management activities receive contract authority in lieu of obligation authority which is commonly used for non-supply activities. If the normal accounting for the receipt of a customer order were used, duplicate obligation authority from the receipt of the order would occur at the allotment level. Instead, receipt of customer orders is an offset to unliquidated contract authority and provides budgetary resources. The difference is that supply management activities incur the obligation before budgetary resources are provided. For non-supply activities, the budgetary resources are provided first, and then obligations are incurred (See Volume 3 Chapter 19).

2. For apportioned activities, these budgetary resources shall replace the budgetary resources apportioned as anticipated reimbursements at the departmental level based upon the net change in customer orders received during the month.

F. At the end of each fiscal year, any unobligated balances of appropriated funds applicable to apportioned working capital fund activities shall be used to offset the need for unfunded contract authority. Such funds are not available for use until they are reapportioned and reflected on the supporting financing schedule as an increase to the limit imposed for obligation authority on an approved apportionment in the new fiscal year. Any unobligated contract authority balance at the end of the fiscal year is adjusted to zero.

#### 150403. Contract Authority and Cash Management

Although the responsibility for cash management is at the component level, the liquidation of contract authority is only authorized by collections from customer orders, or by an appropriation to liquidate contract authority. Cash collections from supply management activities are the primary funding source approved for the liquidation of contract authority unless otherwise approved in writing by the Director of Revolving Funds. Supply management activities may also submit requests as part of the component's budget request, for appropriations for the sole use of liquidating realized contract authority if a change in customer demands warrants this action. Similarly, any proposed negative surcharges identified in the budget justification materiel, other than AOR recovery, must be pre-approved in writing by the Director of Revolving Funds.

### 1505 MULTIPLE YEAR CONTRACTS

#### 150501. Background

Multiyear contracts permit the purchase on one contract of more than one annual program increment of items to obtain a maximum economic advantage. For example, an economic order quantity in a multiyear contract may exceed a normal annual buy and yet be advantageous to the Government. Supply management activities are authorized to use multiple year contracts to procure items from a single contractor. Sole source items with a stable demand projection that are procured from a single contractor shall be evaluated to determine if the items should be acquired by means of a multiple year contract. As with multiyear contracts funded by procurement appropriations, the supply management activity may purchase items in an amount corresponding to the economic order quantities deemed appropriate for procurement in each year. Components, parts, and raw materiel for use in manufacture of items being acquired under a multiyear contract may be procured in quantities exceeding the current annual requirement when it is more economical and cost effective to do so. This is referred to as advance economic order quantity (EOQ) procurement. Advance EOQ procurements integral to multiyear contracts shall be funded in the most economical manner. They may be funded fully in single year increments on a termination liability basis, or included in a multiyear contract along with the nonrecurring contract costs. Under 10 U.S.C. 2306, the Department of Defense is authorized to enter into multiyear contracts containing cancellation clauses that may include both nonrecurring and recurring costs. This law specifies congressional reporting requirements based on

cancellation ceilings. Further, annual DoD appropriations Acts may contain specific language requiring limitations on the use of multiyear contracts. In addition, a single proposed multiple year contract in excess of \$100 million or \$10 million in estimated termination liability shall be submitted to the Director of Revolving Funds for approval prior to awarding the contract. Each separate option to extend a multiple year contract shall be considered as a single multiple-year contract for the purposes of this approval requirement. The DoD Components shall refer to annual guidance contained in Under Secretary of Defense (Comptroller) Multiyear Procurement Appropriation Language Guidance Memoranda for specific requirements and restrictions imposed by the Congress.

#### 150502. Obligations

The supply management activity shall obligate the minimum amount required for the period of the contract.

A. If the contract provides for annual terms with options to extend the terms in subsequent years, the obligation shall be for the amount required to be procured by the Government in the first year. The obligation for each option year shall be recorded when the option is exercised.

B. If the contract provides for minimum quantities over a period of more than one year, the obligation shall be recorded for the sum of all of the minimum quantities times the agreed price. If the contract provides for minimum dollar amounts for a period of more than one year, the obligation shall be recorded for the sum of the minimum dollar amounts.

C. The bona fide needs rule derived from Title 31 United States Code, section 1502(a), applies to appropriations limited to a definite period of time. Although the bona fide needs principle does not statutorily restrict a supply management activity from incurring obligations against contract authority for requirements of the subsequent fiscal year, contract authority conferred to the activity for a year may impose limitations on execution of obligations. Also, because supply management activities use contract authority to incur obligations to acquire stock or order items for delivery to customers, and do not execute budgetary resources dependent on receipt of funded customer orders, the timing of a supply management activity's obligations against contract authority do not govern, establish or reflect whether the customer's order to the supply management activity is a bonafide need of the customer appropriation charged.

#### 150503. Cost of Items

The cost of items procured by multiple year contracts shall be the amount paid for each item. If termination costs are incurred or if minimum guaranteed amounts are not met for items procured, the additional costs paid under the terms of the contract shall be recorded as supply management activity materiel obligations.

## 1506 BUDGETARY ACCOUNTS

## 150601. Background

Budgetary accounts are used to control and account for obligation authority received from appropriations and contract authority apportioned by OMB. Supply management activities are subject to apportionment as required by the Anti-Deficiency Act in accordance with the procedures prescribed in OMB Circular A-11, "Instructions on Budget Execution" (See Volume 3 Chapter 19).

## 150602. Allocations

The general provisions of the annual Appropriations Act provide that "Except in amounts equal to the amounts appropriated to working capital funds in this Act, no obligations may be made against a working capital fund to procure war reserve materiel inventory unless the Secretary of Defense has notified the Congress prior to any such obligation." Obligation authority for mobilization purposes shall be allocated and allotted separately as a direct program. Operating obligations consist of all obligations that do not meet the criteria defined for mobilization and shall be allocated and allotted separately as a reimbursable program. Obligations shall be accounted for and reported separately as mobilization and operating. Subaccounts to the budgetary accounts prescribed by this Regulation shall be established by the Defense Finance and Accounting Service to satisfy these requirements.

## 150603. Budget Execution

For supply management activities, balances for budgetary accounts are displayed on the SF 133 and the DFAS AR 1307 part VII (See Volume 3 Chapter 19).



