

**VOLUME 4, CHAPTER 5: “ADVANCES AND PREPAYMENTS”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated October 2008 is archived.

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

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## CHAPTER 5

ADVANCES AND PREPAYMENTS

## 0501 GENERAL

## 050101. Purpose

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

## 050102. Overview

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

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

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

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

a. a specific appropriation or other law; or

b. the President to be made to:

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

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

(b) an obligation of the Government; or

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

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

## 0502 ADVANCES

### 050201. Advances (Cash Outlays Made)

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

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

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

1. An advance under an appropriation to the Department of Defense may be made to pay for:
  - a. compliance with laws and ministerial regulations of a foreign country;
  - b. rent in a foreign country for periods of time determined by local custom;
  - c. tuition; and
  - d. public service utilities.

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

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

b. necessary supplies and services.

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

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

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

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

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

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

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

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

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

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

#### 0503 PREPAYMENTS

##### 050301. General

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

##### 050302. Contract Financing Payments

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

##### 050303. Authority

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

#### 0504 ACCOUNTING FOR ADVANCES AND PREPAYMENTS (USSGL ACCOUNT 1410)

##### \*050401. Accounting Entries for Advances and Prepayments

The [USSGL Standard Financial Information Structure Transaction Library](#) illustrates the accounting entries and USSGL accounts to be used.

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

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

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

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

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

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

#### 050402. Travel Advances

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

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

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

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

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

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

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

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

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

#### 050403. Grant Awards

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



## 050404. Contract Financing Payments

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

## 050405. Advances to Contractors and Suppliers

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

## 050406. Advances to Government Agencies and Funds

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

## 050407. Advances Made to the General Public

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

## 050408. Defense Working Capital Fund (DWCF)

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