

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 June 2009 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
050101	Revised to comply with October 2014 policy memorandum limiting recording of contract financing payments as advances to only those contract financing payments described in Federal Acquisition Regulation (FAR) 32.4.	Revision
050201.C.2.	Revised four-digit general ledger account to Department of Defense (DoD) Standard Chart of Account (SCOA) six-digit account and added appropriate four digit point account.	Revision
050302 and 050303	Moved contract financing payment discussed to Paragraph 050404.	Revision
050401.D.	Added appropriate DoD SCOA accounts and point accounts for recoveries of current year advances and prepayments.	Revision
050401.E.	Added appropriate accounting treatment for recoveries of prior year advances and prepayments, which are treated differently than recoveries of current year advances and prepayments in accordance with the Office of Management and Budget Circular A-11, Section 20.11. Subsequent paragraphs were renumbered.	Addition
050402.F	Revised four-digit general ledger account to DoD (SCOA) six-digit account and added appropriate four digit point account.	Revision
050404	Incorporated policy memorandum and the content from 050202 and 050303 into a single contract financing payment paragraph. Only those contract financing payments described in FAR 32.4 are recorded as advances and prepayments. The remainder are recorded as inventory work in process, construction in process, internal use software in development or expensed.	Addition

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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. [Most contract financing payments are not advances and prepayments. Only contract financing payments delineated as advance payments for non-commercial items described in Federal Acquisition Regulation \(FAR\) 32.4 are advances and prepayments.](#)

050102. Overview

Advances and prepayments [are](#) 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 [using](#) advances is contained in [31 United States Code \(U.S.C.\) 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 **must** be supported by documentation that clearly shows the basis for the amount recorded and the terms upon which an advance or prepayment is made. Documentation **must** be readily available for review by auditors.

0502 ADVANCES

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 **must** be supported by the contracting officer's determination that all statutory requirements are met and that the provisions of FAR Part 32-Contract Financing, subpart 32-402 and 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. **C**ompliance with laws and ministerial regulations of a foreign country;

b. **R**ent in a foreign country for periods of time determined by local custom;

c. **T**uition; and

d. **P**ublic 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:

country; and

- a. Pay and allowances to members of the armed force of that
- 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 **must** 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 **must** be recorded in account 141000.9000, "Advances and Prepayments". Subsidiary accounts shall be established for each country and each organization or person to whom the advance is made.

D. Advances **must** 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 **must** 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. [Refer to Volume 1, Chapter 9 for documentation retention requirements.](#)

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

0503 PREPAYMENTS

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 **must** record the prepayment when it is made. At the end of the fiscal year, prepayments **must** 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.

0504 ACCOUNTING FOR ADVANCES AND PREPAYMENTS

*050401. Accounting Entries for Advances and Prepayments

The [DoD USSGL Transaction Library](#) illustrates the accounting entries and [United States Standard General Ledger \(USSGL\)](#) 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 **must** account and report separately the amount of advances and prepayments associated with Non-federal entities and Federal entities.

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

D. Recoveries of unused advances **and prepayments received the same year as the original obligation are** recorded as recoupments; i.e., as a debit to account 101000.0120, Fund Balance with Treasury - Funds Disbursed and a credit to 141000.9000, Advances and Prepayments. Additionally, budgetary account 480200.9000, Undelivered Orders - Obligations, Prepaid/Advanced is debited, and budgetary account 461000.9000, Allotments, Realized Resources is credited. This permits the Funds Disbursed account to support the disbursements balances reported on the [Standard Form \(SF\) 133](#), "Report on Budget Execution and Budgetary Resources."

E. Recoveries of unused advances **and prepayments related to prior year obligations are** recorded as a debit to account 101000.0110, Fund Balance with Treasury - Funds Collected and a credit to 141000.9000, Advances and Prepayments. Budgetary account

487200.900, Downward Adjustments of Prior - Year Prepaid/Advanced Undelivered Orders - Obligations, Refunds Collected, is debited and either budgetary account 445000.9000, Unapportioned Authority, or 465000.9000, Allotments - Expired Authority, is credited. These recoveries are designated as collections rather than a reduction of disbursements.

F. 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.

G. Advances **must** be reviewed periodically to determine whether the amounts advanced are in excess of the recipient's current needs. Amounts determined in excess **must** be collected from the recipient. The required review **must** be made at least semiannually. Refer to Volume 1, Chapter 9 for records retention requirements.

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 **must** 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 **must** be reviewed to determine if the original justification for the advances is 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 131000.9000, "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

A. According to [FAR 32.001](#), contract financing payments are authorized disbursements of monies to a contractor prior to the acceptance of supplies or services. Contract financing payments include:

1. Advance payments;
2. Performance based payments;
3. Commercial advance and interim payments; and
4. Progress payments based on cost or percentage of completion.

B. Contract financing payments do not include:

1. Invoice payments;
2. Payments for partial deliveries; or
3. Lease or rental payments.

C. Contract financing payments defined in FAR 32.4 and containing clauses outlined in FAR 52.232-12 are recorded as advances and prepayments using USSGL 141000.0200, Advances and Prepayments, Outstanding Contract Financing Payments.

D. Contract financing payments described in FAR 32, Contract Financing, with the exception of advance payments for non-commercial items delineated in FAR 32.4, are not advances. The remaining contract financing payments are recorded as:

1. Account 152600.9000, Inventory Work in Process;
2. Account 172000.0200, Construction in Process;
3. Account 183200.9000, Internal Use Software in Development; or
4. Account 610000.9000, Operating Expenses/Program Costs.

E. Additional information is contained in Table 1.

F. Contract financing payments are more fully discussed in Volume 10, Contract Pay Policy.

050405. Advances to Contractors and Suppliers

Entries to record advances to contractors and suppliers are recorded when 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. Refer to Volume 1, Chapter 9 for records retention requirements.

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. 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 [policy](#) in this chapter.

*Table 1 – Contract Financing Payments Matrix

Contract Type	Payment Type	FAR Clause	Accounting Treatment			
			Goods	Financing	Services	Financing
Fixed Price	Advance Payment	52.232-12, Advance Payments (Note 1)	141000.0200	Yes	141000.0200	Yes
	Performance Based Payment	52.232-32, Performance-Based Payments	152600.9000, 172000.0200, or 183200.9000	Yes	610000.9000	Yes
	Commercial Advance Payment	52.232-29, Terms for Financing of Purchases of Commercial Items (Note 2)	141000.0200	Yes	141000.0200	Yes
	Commercial Interim Payment	52.232-29, Terms for Financing of Purchases of Commercial Items (Note 2)	152600.9000, 172000.0200, or 183200.9000	Yes	610000.9000	Yes
	Commercial installment payment	52.232-30, Installment Payments for Commercial Items (Note 3)	152600.9000, 172000.0200, or 183200.9000	Yes	610000.9000	Yes
	Progress payment based on cost	52.232-16, Progress Payments	152600.9000, 172000.0200, or 183200.9000	Yes	610000.9000	Yes
	Progress payment based on percentage or stage of completion	52.232-5, Payments Under Fixed-Price Construction Contracts	152600.9000, 172000.0200, or 183200.9000	Yes	610000.9000	Yes
Cost Reimbursement (excluding Labor Hour and Time & Material)	Interim Payment	52.216-7, Allowable Cost and Payment	172000.0200	Yes	610000.9000	No (Note 4)
	Advance payment	52.232-12, Advance Payments, Alt II (Notes 1 and 5)	141000.0200	Yes	141000.0200	Yes
Time and Materials	Interim Payment	52.232-7 -- Payments Under Time-and-Materials and Labor-Hour Contracts and 52.216-7 Allowable Cost and Payment	183200.9000 or 610000.9000	Yes	610000.9000	No (Note 4)
Labor Hour	Interim Payment	52.232-7 -- Payments Under Time-and-Materials and Labor-Hour Contracts	N/A	N/A	610000.9000	No (Note 4)
Note 1: And Alternates as applicable, except for specific rules pertaining to Alt II, shown.						
Note 2: Commercial advance payments and commercial interim payments are defined as contract financing in 32.202-1 and 32.202-2.						
Note 3: Not listed among types of contract financing payments in 32.001, but referred to as such in 52.232-30 paragraph (a).						
Note 4: The definition of contract financing payments at 32.001 excludes interim payments on a cost reimbursement contract for services.						
Note 5: Cost type contracts with Advance Payments can have two types of financing, depending on whether the interim payments are financing (see Note 4), as the terms of the 52.216-7 clause still apply to the interim payments.						

*Table 2 – General Ledger Accounts

Account Title	Construction in Progress (CIP)
Account Number	172000.0200
Definition	The amount of direct labor, direct material, and overhead incurred in the construction of general property, plant and equipment (except for information technology software) for which the Federal agency will be accountable. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. This account does not close at yearend.
Account Title	C Internal Use Software in Development
Account Number	183200.9000
Definition	The full cost amount incurred during the software development stage of (1) contractor-developed software, and (2) internally developed software, (as defined in FASAB SFFAS No. 10, "Accounting for Internal Use Software"). Upon completion, these costs will be transferred to USSGL account 1830, "Internal Use Software." This account does not close at yearend.
Account Title	Inventory Work in Process
Account Number	152600.9000
Definition	The accumulated cost or value of inventory used in the production process. Work-in-process inventory includes the cost of raw materials, direct labor, and overhead. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. This account does not close at yearend.
Account Title	Advances
Account Number	141000.0200
Definition	The advance or prepayment amount on outstanding contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets. Prepayments are expenditures that are generally recurrent in nature. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. This account does not close at yearend.
Account Title	Operating Expenses/Program Costs
Account Number	610000.9000
Definition	Operating expenses and program costs not otherwise classified. This account closes at yearend.