CHAPTER 8

FINANCIAL CONTROL OF LIABILITIES

0801  GENERAL

★  080101.  Purpose. This chapter prescribes the general accounting principles and policy to be followed in accounting for Department of Defense (DoD) liabilities. Detailed accounting principles and policies for specific liability types are in Chapters 9 through 14 of this volume. The requirements for researching and correcting negative unliquidated obligations, unmatched disbursements, disbursements in suspense accounts, and disbursements in-transit are in Volume 3, Chapter 11, of this Regulation. Policy and procedures on identifying and reconciling differences among contract files, and related disbursement and accounting records are in Volume 10, Chapter 20, of this Regulation. Policy and procedures on DoD loan guarantees are in Volume 12, Chapter 4, of this Regulation.

★  080102.  Overview

★  A.  A liability is an amount owed to a federal or nonfederal entity for items or services received and expenses incurred (including personnel related costs). Liabilities also result from assets to which title has been acquired (whether delivered or in-transit), ongoing shipbuilding or percentage-of-completion based construction (based on the entity’s engineering and management evaluation of actual performance progress and incurred costs), and cash received but as yet unearned. Included are amounts owed under grants, military and civilian pensions and certain post-retirement benefits, awards, and other indebtedness. In addition to liabilities arising from exchange (reciprocal) transactions, there are liability recognition points for nonexchange transactions, and government-related and government-acknowledged events. Liability recognition shall not be based on the availability of funds.

★  B.  A current liability is one that will be paid within the next fiscal year and should be classified as a current liability on the balance sheet.

★  C.  A noncurrent liability is one that will not be paid within the next fiscal year.

★  D.  A contingency is a condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will be resolved in the future when one or more events occur or fail to occur.

★  1.  Whether a contingency should be recorded and reported as a liability or disclosed as a contingency in a footnote to the financial statements depends on the probability of occurrence and the ability to estimate the expected outflow of resources. Further details on contingency recognition are in paragraphs 120303 through 120305 of Chapter 12 of this volume.

★  2.  There is an exception to the contingent liability recognition standard for recognizing losses on matters of pending litigation and unasserted claims. For such a
contingency, a liability should be recognized when a future outflow of resources is “likely” to occur (as contrasted with “more likely than not”), a past event or exchange transaction has occurred, and the future outflow of resources is measurable. Financial statement footnote disclosure is required when it is at least reasonably possible that a loss or additional loss may have been incurred.

0802 ACCOUNTING POLICY FOR LIABILITIES

★★ 080201. Exchange (Reciprocal) Transactions. An exchange transaction is one in which each party sacrifices value and receives value in return. A liability is recognized (recorded and reported) when the Department receives goods and services in exchange for a promise to pay in the future, normally within the fiscal year. Probable (i.e., “more likely than not”) and measurable amounts that remain unpaid as of the financial statement report date should be recognized as liabilities.

★★ 080202. Nonexchange Transactions. A nonexchange transaction is one in which the Department promises to pay in the future without a promise of receiving direct value in return. An example would be grant payments to state and local governments to carry out a public purpose, when authorized by a law of the United States. Unpaid amounts due as of the financial statement report date, whether or not reported to the Department, should be recognized as liabilities. Unreported amounts should be estimated.

★★ 080203. Government-Related Events. A government-related event is a nontransaction based event that is recognized at the time of occurrence, if the expected resource outflow is both probable and measurable. An example is an expense to be paid as the result of current government operations, such as the estimated cost of repairing accidental damages to private property.

★★ 080204. Government-Acknowledged Events. A government-acknowledged event is not transaction based, however, the Department has chosen formally to accept the associated financial responsibility. Such events are recognized as liabilities only when--and to the extent--that the resulting exchange or nonexchange transaction already has occurred, the Congress has appropriated or authorized resources, and unpaid amounts are due (but not necessarily overdue) as of the financial statement report date. Examples include the assumption of responsibility for damage caused by a natural disaster (such as tornado damages to a U.S. town and the Congress appropriates funds in response to the disaster) or environmental restoration activities conducted at an overseas location (such as cleanup of a former overseas U.S. facility and the Congress appropriates funds specifically for the cleanup).