

**SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 4, CHAPTER 8
“FINANCIAL CONTROL OF LIABILITIES”**

Substantive revisions are denoted by a ★ preceding the section, paragraph, table or figure that includes the revision.

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

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
Multiple	Incorporates Volume 11B Chapter 9 general liability guidance, clarifies recognition criteria, and adds a description of standards, definitions, and reporting and disclosure requirements.	Update

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CHAPTER 8

FINANCIAL CONTROL OF LIABILITIES★0801 GENERAL

080101. Purpose. This chapter prescribes the general accounting policy and definitions to be followed in accounting for Department of Defense (DoD) liabilities covered in Chapters 9 through 13 of this Volume. This guidance does not apply to liabilities accounted for by Nonappropriated Fund activities, which is located in Volume 13, Chapter 4. This chapter implements the general liability provisions of Statement of Federal Financial Accounting Standards (SFFAS) Number 1, “Accounting for Selected Assets and Liabilities” and SFFAS Number 5, “Accounting for Liabilities of the Federal Government.”

080102. Overview. A liability is an amount owed to a federal or nonfederal entity for items or services received and expenses incurred (including personnel related costs). Liabilities also result from assets to which title has been acquired (whether delivered or in-transit), ongoing shipbuilding or percentage-of-completion based on construction (based on the entity’s engineering and management evaluation of actual performance progress and incurred costs), and cash received but as yet unearned. Included are amounts owed under grants, military and civilian pensions and certain post-retirement benefits, awards, and other indebtedness. In addition to liabilities arising from exchange (reciprocal) transactions, there are liability recognition points for nonexchange transactions generated from both government-related and government-acknowledged events.

★0802 ACCOUNTING POLICY FOR LIABILITIES

080201. Recognition Criteria. Criteria for recognizing a liability, as outlined below and depicted in Figure 8-1, starts by identifying the event creating the liability as transaction based or nontransaction-based.

A. Transaction Based Events. Both exchange and nonexchange are transaction based events because they require a transfer of something of value as a result of an entity event. Transaction based events are recognized in accordance with the below criteria:

1. A liability for an exchange transaction is recognized (recorded and reported) when the Department receives goods and services in exchange for a promise to provide money or other resources in the future. Probable and measurable amounts that remain unpaid as of the financial statement report date should be recognized as liabilities.

2. A liability for a nonexchange transaction is recognized for any probable and measurable unpaid amounts due as of the financial statement report date.

3. The entity shall estimate the liability for the financial statement reporting date if the actual amount is unknown.

B. Nontransaction-based Events. Both government-related events and government-acknowledged events are nontransaction-based events. Government nontransaction-based events are recognized in accordance with the below criteria:

1. A liability for a government-related event is recognized at the time of occurrence, if the expected resource outflow is both probable and measurable.

2. Before a government-acknowledged event is considered for recognition, Congress must appropriate or authorize the funds. Once Congress appropriates the funds, the liability must be taken care of by entering into an exchange or nonexchange transaction. The liability is then recognized by following the criteria in section 080201.A for exchange and nonexchange transactions.

C. Recognition of a liability is not dependent on the availability of funds, except for government-acknowledged events. However, the status of funding does dictate the category of the recognized liabilities used for disclosure and reconciliation purposes as outlined in section 080202. Recognized liabilities are categorized as funded liabilities, covered liabilities, or liabilities not covered by budgetary resources (unfunded liabilities).

D. Accounting and reporting provisions need not be applied to immaterial liabilities. However, all assertions of immateriality shall be supportable and the materiality determination shall be fully documented. Both qualitative and quantitative factors need to be considered in determining materiality.

E. Contingent liabilities are recorded and reported as a liability or disclosed as a contingency in a footnote to the financial statements, depending on the probability of occurrence and the ability to estimate the expected outflow of resources. Contingent liabilities should be recorded in DoD financial systems and reported in financial statements when:

1. A past event or exchange transaction has occurred.
2. A future outflow or other relinquishment of resources is probable (the future confirming event or events is more likely than not to occur), and
3. The future outflow or other relinquishment of resources is measurable (with sufficient reliability to be reasonably estimable).

F. A contingent liability should be disclosed in the annual financial statements if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or additional loss may have been incurred. Disclosure is necessary if the financial statements would otherwise be misleading. The decision to disclose shall be based on materiality of the loss contingency and its possible impact on the financial statements and DoD operations.

080202. Reporting and Disclosures.

A. Intragovernmental liabilities shall be reported separately from nonfederal entities. See Volume 6B, Chapter 4 for further discussion on reporting.

B. Disclosures shall be made for liabilities that are not covered by budgetary resources. See Volume 6B, Chapter 10 for further discussion on disclosures.

★0803 DEFINITIONS

080301. Contingency. A contingency is a condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will be resolved in the future when one or more events occur or fail to occur.

080302. Covered Liabilities. Covered liabilities are comprised of all liabilities for which budget authority has been received but not yet obligated.

080303. Current Liability. A current liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources within 1 year of the reporting date.

080304. Exchange (Reciprocal) Transactions. An exchange transaction is one in which each party relinquishes value and receives value in return.

080305. Funded Liabilities. Funded liabilities are comprised of all liabilities for which budget authority has been received and obligated.

080306. Government-Acknowledged Events. A government-acknowledged event is a nontransaction-based event that is of financial consequence to the Department because the Department has chosen formally to accept the associated financial responsibility. An example would be the assumption of responsibility for damage caused by a natural disaster (such as tornado damages to a U.S. town and the Congress appropriates funds in response to the disaster).

080307. Governmental Liability. A governmental liability is an amount owed by a federal entity to a nonfederal entity. These liabilities are also called non-federal or public liabilities.

080308. Government-Related Events. A government-related event is a nontransaction-based event that involves interaction between the Department and its environment. An example is an expense to be paid as the result of current government operations, such as the estimated cost of repairing accidental damages to private property.

080309. Intragovernmental Liability. An intragovernmental liability is an amount owed by a federal entity to another federal entity.

080310. Liabilities Not Covered By Budgetary Resources. Liabilities not covered by budgetary resources are those liabilities in which budget authority has not been received and congressional action is needed before budgetary resources can be provided. These liabilities are also called unfunded liabilities.

080311. Liability. A liability for federal accounting purposes is a probable and measurable future outflow or other relinquishment of resources as a result of past transactions or events.

080312. Materiality. Materiality is the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

080313. Measurable. A liability is measurable if it has a relevant attribute that can be quantified in monetary units with sufficient reliability.

080314. Noncurrent Liability. A noncurrent liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources beyond 1 year of the reporting date.

080315. Nonexchange Transactions. A nonexchange transaction is one in which the Department promises to provide money or other resources in the future without a promise of receiving direct value in return. An example would be grant payments to state and local governments to carry out a public purpose, when authorized by a law of the United States.

080316. Probable. Probable refers to that which can reasonably be expected or is believed to be more likely than not to occur on the basis of available evidence or logic.

080317. Transaction and Event. A transaction is an event involving the transfer of something of value. An event is a happening that has financial consequences to an entity. An event may be an internal event that occurs within an entity, such as placing an item in service, or an external event that involves interaction between an entity and its environment, such as an act of nature, a theft, vandalism, an injury caused by negligence, or an accident.

★ Figure 8-1

Recognition of Liabilities

