VOLUME 4, CHAPTER 9: “ACCOUNTS PAYABLE”

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.

<table>
<thead>
<tr>
<th>PARAGRAPH</th>
<th>EXPLANATION OF CHANGE/REVISION</th>
<th>PURPOSE</th>
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</thead>
<tbody>
<tr>
<td>All</td>
<td>Reworded and reformatted chapter for clarity and ease of reading. Added electronic links for references.</td>
<td>Update</td>
</tr>
<tr>
<td>090101</td>
<td>Added sentence to indicate guidance supplements other currently existing accounts payable authority. Deleted references to United States Standard General Ledger (USSGL) accounts.</td>
<td>Update/Delete</td>
</tr>
<tr>
<td>0902</td>
<td>Clarified definition of accounts payable.</td>
<td>Update</td>
</tr>
<tr>
<td>090201.A</td>
<td>Clarified accounts payable recognition criteria.</td>
<td>Update</td>
</tr>
<tr>
<td>090201.B</td>
<td>Renumbered “090201.B.” to “090201.E”. Provides the specific circumstances for basing payables accruals on receiving reports. Included exception to electronic form of submission of payment requests and receiving reports per DFARS 232.7002.</td>
<td>Update</td>
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<tr>
<td>090201.C</td>
<td>Renumbered “090201.C.” to “090201.F”. Added policy for recording payables based on progress payment requests.</td>
<td>Add</td>
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<tr>
<td>090201.E</td>
<td>Renumbered “090201.E.” to “090201.H”. Clarified guidance regarding recording payables based on progress payments based on percentage or stage of completion.</td>
<td>Update</td>
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<tr>
<td>090201.F</td>
<td>Renumbered “090201.F.” to “090201.I”.</td>
<td>Update</td>
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<tr>
<td>090201.G</td>
<td>Renumbered “090201.G.” to “090201.J”. Clarified that only valid transactions based on documented vendor invoices, receiving reports, or other approved documentation will be recorded.</td>
<td>Update</td>
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<tr>
<td>090201.H</td>
<td>Renumbered “090201.H.” to “090201.K”. Affirmed that payables will be classified in different categories for financial reports.</td>
<td>Update</td>
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<td>PARAGRAPH</td>
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<tr>
<td>090201.I</td>
<td>Renumbered “090201.I.” to “090201.L”. Added that if the vendor does not place a date on the invoice, invoice should be rejected, per 5 CFR 1315-09.</td>
<td>Update</td>
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<tr>
<td>090201.K</td>
<td>Aligned language with definition found in “Budget Treatment of Monetary Credits (GAO/AFMD-85-21.</td>
<td>Update</td>
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<tr>
<td>090201.L</td>
<td>Clarified when entitlement office must take action to determine receipt of goods/services due to non-receipt of receiving reports. Replaced “disbursing office” to “entitlement office”.</td>
<td>Update</td>
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<tr>
<td>090201.M</td>
<td>Added policy for identifying unrecorded payables to assist quarterly financial statements.</td>
<td>Add</td>
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<tr>
<td>090201.N</td>
<td>Added policy addressing what to do if an account has expired but not yet closed.</td>
<td>Add</td>
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<tr>
<td>090201.O</td>
<td>Added policy for recording accounts payable canceled.</td>
<td>Add</td>
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<tr>
<td>090201.P</td>
<td>Added language describing how payables are liquidated.</td>
<td>Add</td>
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<tr>
<td>090202.A</td>
<td>Replaced “accounts payable ledger” to “transaction detail in supporting accounting systems”.</td>
<td>Update</td>
</tr>
<tr>
<td>090202.B</td>
<td>Replaced “disbursing office” with “entitlement office”.</td>
<td>Update</td>
</tr>
<tr>
<td>090202.C</td>
<td>Renumbered “090202.C.” to “090202.D”. Added payable write-off policy to address specific contracts.</td>
<td>Update</td>
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<tr>
<td>090202.D</td>
<td>Renumbered “090202.D.” to “090202.E”. Described reasons for abnormal balances with the need for investigation.</td>
<td>Update</td>
</tr>
<tr>
<td>090202.E</td>
<td>Reworded for clarity.</td>
<td>Update</td>
</tr>
<tr>
<td>090202.F</td>
<td>Added a section to indicate that documentation must be readily available for stakeholders.</td>
<td>Add</td>
</tr>
<tr>
<td>0903</td>
<td>Deleted display of accounting entries and provided link to SFIS Transaction Library. Added link on external reporting guidance. Added guidance on maintaining documentation to support audit.</td>
<td>Delete/Update</td>
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0901 GENERAL

*090101. Purpose

A. This chapter provides the policies and related procedures of the accounts payable process. Accounts payable are recorded using the appropriate U.S. Standard General Ledger (USSGL) proprietary and budgetary accounts established by the U.S. Treasury Financial Management Service (Treasury). The provisions of this chapter implement applicable provisions of Statement of Federal Financial Accounting Standards (SFFAS) Number 1, “Accounting for Selected Assets and Liabilities.”

B. Accounts payable does not include liabilities related to on-going continuous expenses such as employees’ salaries and benefits covered by other current liabilities. Refer to Chapter 10 for further discussion on employees’ salaries and benefits. Accounts payable also does not include amounts for contract holdbacks. Contract holdbacks map to the other liabilities line of the balance sheet.

*0902 ACCOUNTING POLICY FOR ACCOUNTS PAYABLE

SFFAS Number 1 defines accounts payable as amounts owed to other entities for goods and services received (i.e., actual or constructive receipt), progress in contract performance, and rents due to other entities. The following paragraphs outline the policy for recognizing and reviewing the accounts payable liability.

090201. Accounts Payable Recognition

* A. An entity must recognize an accounts payable liability upon receipt of goods or services performed satisfactorily by vendors, contractors, grantees, and lessors or when accepting title to goods, whether the goods are delivered or in-transit. Amounts recorded as accounts payable must be supported by documentation that clearly shows the basis for the amount recorded as a payable (e.g., purchase order or contract, and proof of receipt), and the terms upon which payment is to be made.

* B. The basis for recording accounts payable must be a receiving report that clearly shows the quantities and dates goods and property were received and accepted, or services were satisfactorily performed and accepted. As defined by Federal Acquisition Regulation (FAR) 2.101, a receiving report is written evidence that indicates Government acceptance of supplies delivered or services satisfactorily performed. According to Defense Federal Acquisition Regulation (DFARS) 232.7002, contractors will submit payment requests and receiving reports in electronic form, unless an exception applies. See Volume 10, Chapter 8 for more information on receiving reports. Such quantities must be based on actual counts of items delivered by the vendor. Accompanying inspection reports for the goods or services may
accompany the receiving report. In such instances, the inspection and receiving reports serve as the basis for recording the liability.

* C. The DoD Component must record a payable for contract financing payment requests (FAR 32.001) submitted by the contractor and approved by the Administrative Contracting Officer or their authorized representative (for example, Defense Contract Audit Agency) pursuant to FAR 32.503. The offsetting entries for such payables are made to Advances and Prepayments, as described in Volume 4, Chapter 5.

* D. When amounts are not available at the end of an accounting period, the DoD Components must estimate the accounts payable when they accept title to goods, delivered or in transit. The recording of accounts payable is not to be delayed pending receipt of a corresponding invoice for the delivered or accepted goods. In instances where the amount of the liability is not definitely established, DoD Components must estimate and accrue the amounts owed and make adjustments when definite information becomes available. Ensure that a payable is not posted twice when the entity is invoiced in the normal course of operations.

* E. Accounts payable also result from progress payments based on percentage or stage of completion, which are authorized only for fixed-price construction contracts, which include contracts for construction (as defined in FAR 36.102), shipbuilding, and ship conversion, alteration, or repair. The DoD Component should support the percentage of completion with engineering estimates and management evaluation of actual performance progress. Record the unpaid portion of the progress payment request for which the estimate of actual progress has been certified by the contracting officer, as a payable and do not include any amounts held pending completion and acceptance of the contract. The accounts payable is recognized because formal acceptance of the final product by the DoD Component is not the determining factor for accounting recognition. The DoD Component acquires an asset during each accounting period based on constructive or de facto receipt and must recognize an accounts payable during each accounting period. The offsetting entries for such payables are made to Construction-in-Progress) as described in Volume 4, Chapter 6.

* F. Invoices received must be determined to be valid before payment. Entities must meet the requirements outlined in Volume 3, Chapter 10 before making payment on an invoice involving canceled accounts.

* G. The entity must not delay recognizing the liability based on the availability of funds and must disclose the accounts payable not covered by budgetary resources. Only record valid transactions based on documented vendor invoices, receiving reports, or other evidence of work progress. A potential violation of the Antideficiency Act (ADA) may exist if the amount of payables exceeds the total availability of funds. For discussion of ADA, see Volume 14.

* H. Accounts payable resulting from transactions with other Federal entities are intragovernmental transactions and must be reported separately from amounts owed to the public. Additionally, intergovernmental transactions must include a specific Federal trading partner code. This will enable reconciliation of intragovernmental transactions between Federal
agencies, the elimination of intragovernmental transactions in the financial statements, and the quarterly reporting to Treasury of the USSGL account balances related to transactions with other Federal agencies.

I. If an entity is offered a discount by a vendor, whether stipulated in the contract or offered on an invoice, an entity may take the discount if economically justified but only after acceptance has occurred. If the vendor does not place a date on the invoice, reject the invoice. The invoice must have an invoice date, as per 5 CFR 1315.09, to be a proper invoice. When an invoice is improper, return the invoice to the vendor within 7 days of receipt of the invoice per 5 CFR 1315.4(g)(5). Refer to Volume 10, Chapter 2 for further discussion on discount offers and calculations.

J. The DoD Component must record accounts payable for interest incurred on late payments under the Prompt Payment Act of 1982, as amended (Public Law 100-496), 31 U.S.C 3901 and refunds due but not paid at the end of the reporting period. Interest incurred on borrowed funds but unpaid is accrued and recorded on the Debt line of the balance sheet.

K. Some DoD entities are authorized by specific statutory authority to issue monetary credits as compensation for property or services received from nonfederal entities. With monetary credits, the government gives the seller credits in dollar amounts reflecting the agreed-upon value of the acquired property. The holder of the credits may apply them later to reduce the amount owed the government (by the holder) in other, sometimes unrelated, transactions with the government. An example of this would be an entity entering into a barter agreement in which the services provided to a nonfederal entity have a market value less than the services received (e.g. cross servicing agreements for refueling North Atlantic Treaty Organization ships outlined in Volume 11A, Chapter 8.) When monetary credits are used for exchange transactions, the DoD entity must record a liability equal to the value of the monetary credit.

L. The entity must recognize an accounts payable liability upon receipt of an invoice for a contract authorizing fast pay procedures. The fast pay procedures allow payment prior to verifying receipt and acceptance of supplies under the limited conditions listed in the FAR 13.402 and the DFARS 213.402. The limited conditions require the contractor to certify delivery at the time of presenting the invoice and replace, repair, or correct any supplies not received or supplies received damaged or nonconforming to requirements. Entitlement offices must establish the controls described in Volume 10, Chapter 10, section 1003, to ensure receipt within a reasonable period of receiving reports that meet the requirements specified in paragraph 090201.B. Entitlement offices must take action to determine actual receipt of the goods and services when not provided receiving reports in a reasonable period (less than 30 days). The entitlement office must establish an accounts receivable and credit the asset account when it is determined the customer (ordering activity) did not receive the goods or received damaged or nonconforming goods. Entitlement offices may liquidate the accounts receivable by offsetting it against current payments due a vendor. The entitlement office must maintain a clear audit trail of any offset by maintaining complete financial records of all supporting documentation approved by the appropriate management official. If the customer does not anticipate further purchases then the
entitlement office must prepare a contract debt package in accordance with *FAR 32.604* and process the demand for payment in accordance with Volume 10, Chapter 18.

* M. Record an accrual for accounts payable to assist quarterly financial statements for items received and accepted but not invoiced. For large undelivered orders not accrued via receipt of an invoice or receiving report, DoD Components must make inquiries of selected Contracting Officer’s Technical Representative to determine if goods/services have been received, accepted and accrued accordingly.

* N. When an appropriation account is expired, any remaining balances in the account are no longer available for incurring new obligations. Both the obligated and unobligated balances of expired appropriations must be available for recording, adjusting, and liquidating obligations properly chargeable to that account. Additional guidance on expired accounts may be found in Volume 3, Chapter 10.

* O. When an appropriation account is closed, any remaining balances in the account are required to be cancelled and are not available for obligation or expenditure for any purpose. However, legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be reinstated to canceled payables and paid out of a current unexpired appropriation that is available for obligation for the same purpose as the closed account. See Volume 3, Chapter 10, paragraph 100201.F. for obligation stipulations.

* P. Accounts payable are liquidated when there is a three-way match of a contract, receiving report, and proper invoice. The fast pay process in 090201.M is an exception to requiring a three-way match before payment is made. Refer to Volume 10, Chapter 1.

090202. Reviewing Account Payable Balances

* A. The accounting office must review and reconcile the accounts payable balances to the transaction detail in supporting accounting systems in conjunction with the triannual review of commitments and obligations required in Volume 3, Chapter 8. In addition, budgetary accounts payable balances must be reconciled to proprietary accounts payable balances. The accounting office must research any differences, fully document the rationale for necessary adjustments, and obtain approval from the DoD Component’s Comptroller or their designated representative before making the adjustments.

* B. The accounts payable for acceptable final performance on a contract or order must remain on the accounts until liquidated through proper payment. The entitlement office must request an invoice from the contractor for any accounts payable when not receiving an invoice within 180 days from the date of acceptable final performance. If there is no response, the entitlement office must send a follow-up request to the contractor after 60 days. If a contractor remains non-responsive, the funds holder with support from the entitlement office must work with the ACO to obtain overdue invoices. Components must recognize payables from canceled appropriations as outlined in paragraphs 090201.N.
C. Continued non-receipt of an invoice on firm fixed price contracts may extinguish the contractor’s right to payment and relieve the Government’s obligation to pay for the un invoiced goods or services. If, after more than six years since the date of acceptance by the Government, a contractor has failed to invoice the Government for the received goods or services, the relevant accounts payable may be written-off after coordination with the contracting activity and/or legal counsel, and if applicable, Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA). In these instances, coordinate, as necessary, with the contracting activity and legal counsel to determine whether the over-aged accounts payable continues to represent a legal liability of the Government after giving due consideration to the six-year limitation period described herein and codified at 41 U.S.C. § 7103. Adjust the accounting records if it is determined that a legal liability does not exist.

D. The accounting office must investigate accounts payable debit balances over $100. These debit (abnormal) balances may result from Negative Unliquidated Obligations, where the disbursement is greater than the accounts payable balance (refer to Volume 3, Chapter 11) or from a negative accounts payable, where a disbursement is made prior to a receipt or fast pay invoice being posted in the accounting system so there is no accounts payable to match the disbursement to. If the investigation discloses an overpayment or under recouped funds, the accounting office must coordinate with the entitlement office to offset the amount due on a current invoice as authorized by FAR 32.602 or issue a demand for payment in accordance with FAR 32.604. The accounting and entitlements offices must research negative payables to determine why the receipt or fast pay invoice had not posted to accounting system and then facilitate that posting.

E. The inability to match a performance report or invoice with a corresponding obligation may indicate a breakdown of fund control processes and a material weakness in internal controls. When the process of posting a transaction to accounts payable does not disclose a corresponding obligation, this may be evidence that either a contract has not been awarded or a posting error has occurred. In this circumstance, the accounting office must request the necessary documentation to support the required accounting entry and notify appropriate officials that receiving reports or invoices are being received without a corresponding undelivered order. Record an obligation for the unresolved negative unliquidated obligation in accordance with section 1103 of Volume 3, Chapter 11.

F. All documentation must be readily available for review by procurement personnel, auditors, and DoD Component’s financial management personnel. Documentation will be retained in accordance with Volume 5, Chapter 21.
090302. Funds Holder Responsibility

Funds holder must maintain complete financial records of all supporting documentation and ensure documentation is readily available for review by auditors.

* 090303. External Reporting

For accounts payable external reporting requirements, refer to Volume 6B, Chapter 4.