

VOLUME 4, CHAPTER 12: “OTHER LIABILITIES”

SUMMARY OF MAJOR CHANGES

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (*) 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 **November 2011** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Title	Renamed the Chapter from “Unearned Revenue and Other Liabilities” to “Other Liabilities” since “Unearned Revenue” is an Other Liability.	Revision
1201	Revised General section to comply with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures signed June 2015.	Revision
1202	Revised the Definition Section to include general ledger accounts currently reported as Other Liabilities on the DoD Balance Sheet.	Revision
120401	Added guidance from Statement of Federal Accounting Standards 7, “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting” regarding the accounting for Liabilities for Advances and Prepayments.	Addition
120404	Added accounting policy for the Liability for Nonfiduciary Deposit Funds and Undeposited Collections.	Addition
120405	Added accounting policy for the Liability for Clearing Accounts.	Addition

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CHAPTER 12

*OTHER LIABILITIES

*1201 GENERAL

120101. Overview

This chapter describes the accounting principles and concepts that the Department of Defense (DoD) Components must follow to account for other liabilities. Other liabilities are those not recognized in specific categories on the Balance Sheet and primarily include immaterial liabilities that do not warrant separate reporting. Personnel related liabilities are reported as other liabilities on the DoD Balance Sheet, but are discussed in Chapter 10. Non-environmental disposal cost liabilities and estimated cleanup cost liabilities are reported as other liabilities, but are discussed in Chapter 13.

120102. Purpose

This chapter prescribes the accounting policy and related requirements necessary to establish financial control over the DoD liabilities not discussed in Chapters 9, 10, 11, or 13. General Fund and Defense Working Capital Fund (DWCF) entities are required to record other liabilities in accordance with the guidance in this chapter.

120103. Authoritative Guidance

Other liabilities will be accounted for in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 1, “Accounting for Selected Assets and Liabilities,” SFFAS 5, “Accounting for Liabilities of the Federal Government,” and SFFAS 12, “Recognition of Contingent Liabilities Arising from Litigation.” The United States Standard General Ledger (USSGL) Treasury Financial Manual (TFM), the Standard Financial Information Structure (SFIS) Transaction Library, and the DoD Standard Chart of Accounts (SCOA) provide additional guidance on general ledger accounts, definitions, and uses.

*1202 DEFINITIONS

120201. Unearned Revenue

The Department of Treasury USSGL Board designed four accounts as Unearned Revenue:

A. Liability for Advances and Prepayments (USSGL account 231000). Liability for Advances and Prepayments consists of amounts received in advance for goods and services to be delivered at a future date and for which revenue has not been earned. Liability for Advances and Prepayments is also recorded if an agency requests advance or progress payments prior to the receipt of cash and records the amount.

B. Other Deferred Revenue (USSGL account 232000). Other Deferred Revenue is the amount of revenue or income received but not yet earned from non-federal sources not otherwise classified as advances or prepayments. For example, Deferred Revenue would be recorded for the pending sale of a forfeited asset.

C. Liability for Nonfiduciary Deposit Funds, and Undeposited Collections (USSGL account 240000). This account represents the amount of offsetting undeposited collections and collections deposited in nonfiduciary deposit funds awaiting disposition. Deposit funds account for monies that do not belong to the Federal Government. They include monies held temporarily until ownership is determined (such as earnest money paid by bidders) or held by the Federal Government for others (such as state and local taxes withheld from federal employees' salaries and not yet paid to the state or local governments).

D. Liability for Clearing Accounts (USSGL account 241000). The Liability for Clearing Accounts represents the amount that offsets collections deposited in clearing accounts awaiting disposition or reclassification. Budget clearing accounts contain amounts known to belong to the Federal Government but held temporarily until additional information is collected to correctly identify the collections into appropriate receipt or expenditure accounts.

120202. Other Liability Accounts

A. Capital Lease Liability (USSGL account 294000). Capital Lease Liabilities represents the present value of liabilities for assets acquired under a lease agreement that meets the test for capitalizing the assets.

B. Contingent Liability (USSGL account 292000). Contingent Liabilities represents the amount that is recognized as a result of a past event where a future outflow or other sacrifice of resource is probable and measurable, with the exception of contingent liabilities related to environmental cleanup cost, which are recorded in USSGL account 299500, Estimated Cleanup Cost Liability.

C. Other Liabilities. Other Liabilities include measurable and probable expected outflows resulting from past transactions or events, and the estimated costs of conditions, situations, or circumstances that will be resolved in the future. Other Liabilities represent amounts not otherwise classified to specific liability accounts and include immaterial liabilities that do not warrant separate reporting. There are several USSGL accounts that can be used to record these amounts. Refer to the USSGL TFM, the SFIS Transaction Library, and the DoD SCOA.

1203 AUDIT READINESS/INTERNAL CONTROL OPERATING PROCEDURES

Each DoD Component must develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, complete, and relevant financial data.

1204 ACCOUNTING POLICY

*120401. Liability for Advances and Prepayments

A. When advance fees or payments are received, such as for large-scale, long-term projects, revenue should not be recognized until costs are incurred from providing the goods and services (regardless of whether the fee or payment is refundable). An increase in cash and an increase in “unearned revenue,” should be recorded when the cash is received in accordance with SFFAS 7, paragraph 37. “Unearned revenue” was subsequently renamed as Liability for Advances and Prepayments by the Department of Treasury USSGL Board.

B. Liability for Advances and Prepayments includes advances received that are transfers of assets from the public and other federal entities to cover future expenses or the acquisition of other assets. The DoD Components receiving an advance or prepayment must record the amount received as a liability until payment is earned (goods or services have been delivered or contract terms met). After the payment is earned (performance has occurred), the DoD Components must record the appropriate amount as revenue and reduce the liability accordingly. The two major activities for which DoD receives advances are as follows:

1. Reimbursable Activities. DoD provides services to other federal agencies and to the public on a reimbursable basis. When a non-federal customer enters into a reimbursable agreement with DoD, the customer is required to pay for services in advance unless exempted by law. Generally, non-DoD entities are required to pay in advance.

2. DWCF Activities. The appropriation language for DoD’s DWCF permits the fund to receive advances for supplies and services. Therefore, the DWCF business entities may be advanced funds identified in the DWCF customer orders during the fiscal year, as required, to enable the DWCF activity to pay for its costs of operation.

120402. Liability for Capital Leases

DoD entities will record a liability for each capital lease at the present value of the rental and other minimum lease payments. For capital leases, the lease term is the fixed non-cancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease that can reasonably be expected to be taken. This amount will exclude that portion of the payments representing execution cost (i.e., insurance, maintenance and taxes) to be paid by the lessor. If the amount exceeds the fair market value of the leased property at the inception of the lease, the DoD entity will record the liability at the fair market value of the property. If the portion of the minimum lease payments representing execution cost is not determinable from the lease provisions, the amount should be estimated. Specific guidance on capital leases is outlined in Chapter 6.

120403. Contingent Liability

A. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A contingent liability should be recognized in the financial reports and statements when all of these three conditions are met:

1. A past event or exchange transaction has occurred (e.g., a DoD Component has breached a contract with a non-federal entity).

2. A future outflow or other sacrifice of resources is probable (e.g., the non-federal entity has filed a legal claim against a DoD Component for breach of contract and the Component entity's management believes the claim is likely to be settled in favor of the claimant).

3. The future outflow or sacrifice of resources is measurable (e.g., the DoD Component entity's management determines an estimated settlement amount). The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed.

B. If any of the three conditions identified in 120403.A are not met, the contingent liability need not be recognized in the DoD Components financial reports and statements but should, nevertheless, be disclosed in notes regarded as an integral part of those reports and statements when it is at least reasonably possible that a loss or additional loss may have been incurred. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

C. The probability classifications as follows:

1. Probable. The future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur.

2. Reasonably Possible. The chance of the future confirming event or events occurring is more than remote but less than probable.

3. Remote. The chance of the future event or events occurring is slight.

D. Contingent Liability Arising From Progress Payments Based on Cost. As addressed in the Federal Acquisition Regulation [clause 52.232-16](#), liabilities resulting from contracts utilizing progress payments based on cost will be recorded based on the difference between an estimated amount of contractor-incurred cost and authorized progress payments based on cost. The estimated contractor-incurred cost is calculated by dividing the cumulative unliquidated progress payment (based on cost) balance by the contract-authorized progress payment rate. The difference between the resulting estimated contractor-incurred cost and the balance of unliquidated progress payments based on cost will be recorded as a contingent liability.

*120404. Liability for Nonfiduciary Deposit Funds and Undeposited Collections

Deposit funds must be recorded as a liability because those assets do not belong to the Federal Government. The liability includes currency and coin on hand, cash on deposit at designated depositories (excluding Disbursing Officer held cash), negotiable instruments on hand, military payment certificates, and unsupported undistributed collections. Such funds are not available for paying salaries, grants, or other expenses of the Federal Government. Sources for entries to this account include requests for cash, cash collection vouchers, deposit tickets, and invoices for transferred funds.

A. The deposit fund account (liability) classification is proper for any account that meets one of the following criteria:

1. Monies withheld from payments for goods and services received. Record the monies in a deposit fund when charging a budget account and holding the funds pending payment (for example, payroll deductions for State income taxes).

2. Monies the Government is holding awaiting distribution based on a legal determination or investigation. This category includes monies in dispute where ownership is in doubt and there is no present basis for estimating ultimate distribution.

3. Deposits received from outside sources for which the Government is acting solely as a banker, fiscal agent, or custodian.

B. Deposit funds, such as those included in the following list, should be used when appropriate. A full list of DoD deposit accounts can be located in the Department of Treasury [FAST Book](#):

1. X6500 - Advances without orders from non-federal sources: Use this account for advances without orders from non-federal sources. However, credit advances without orders from another federal agency should be recorded in F3885, "Undistributed intergovernmental payments."

2. X6276 - Other federal payroll withhold allotments. Use this account only when federal payroll withholding amounts must be held to make monthly payments.

*120405. Liability for Clearing Accounts

A. Budget Clearing Accounts (BCAs) are used to temporarily account for transactions that belong to the Government that have not been matched to a specific receipt or expenditure account. For example, an Intragovernmental Payment and Collection System collection that cannot be immediately matched to a reimbursable agreement should be accounted for in a clearing account. Refer to Chapters 2 and 3 for a discussion of the requirements for reconciling, aging, and clearing Budget Clearing Accounts.

B. Treasury established clearing accounts to temporarily hold unidentifiable general, special, or trust funds collections that belong to the Federal Government. Departments should use the following accounts:

1. BCA F3875, to temporarily credit unclassified transactions from the public when there is a reasonable presumption that the amounts belong to their agencies.

2. Undistributed intergovernmental payments account, F3885, to temporarily credit unclassified transactions between federal agencies.