CHAPTER 14

INVESTMENT OF THE U.S. GOVERNMENT

1401 GENERAL

140101 This chapter prescribes the accounting principles and policy that shall be followed in accounting for the equity of the U.S. Government in the Department of Defense.

140102 The equity of the U.S. Government in the Department of Defense is the difference between its assets and liabilities and consists of five major components as follows:

A. Net amounts appropriated by the Congress.


C. Results of operations.

D. Donations and other items.

E. Deferred liquidating cash authority.

140103 The accounting processes for each of these major components and their respective general ledger accounts are discussed in Chapter 15 of this Volume.

1402 ACCOUNTING POLICY FOR INVESTMENT OF THE U.S. GOVERNMENT

140201 The net investment of the U.S. Government (also called Invested Capital) appears in both appropriated and nonappropriated activities. It represents amounts invested in certain property and the investments to commence operations or new activities of business fund activities, where periodic revenue and/or cost determination is essential. Property includes inventory, property, plant, equipment, and other capitalized assets such as leasehold improvements and books and materials purchased for permanent retention in libraries.

140202 Additions to net investment occur in activities financed from appropriations when:

A. Property, plant, and equipment purchased are received and accepted.

B. Other property meeting the capitalization criteria in Chapter 1 of this Volume is acquired.

C. Property, plant, and equipment are transferred in from other Federal Agencies without reimbursement.

140203 In revolving funds, additions to net investment occur when:

A. Property, plant, and equipment are transferred in from other Federal Agencies without reimbursement.

B. Initial investments are made to commence operations or begin a new activity.

C. Appropriations subsequent to initial investments are expended for property, plant, and equipment.

140204 The amount of the additions to net investment for property acquisitions shall equal the amount recorded for the property acquired.

140205 Decreases in net investment occur when:

A. Property is sold, exchanged, permanently transferred without reimbursement, donated, or otherwise disposed of.

B. Property purchased in activities financed by appropriations (or otherwise purchased with appropriations that are not an initial investment in revolving funds or
business-like activities) is sold, exchanged, transferred out without reimbursement, donated, or otherwise disposed of.

C. Amounts representing initial investments to commence operations or begin a new activity in revolving funds or business-like activities are returned to the investor (an agency or entity other than the reporting agency) or otherwise transferred to another agency or revolving fund, as is the case when a major function or activity is assumed by another agency.

140206 The reductions in net investment for related asset costs or losses charged to expense during the period are credited to Financing Sources in the Report of Operations when required by the Treasury.

140207 Amounts of net investment in which a transferor agency retains a reversionary interest—such as property reverting back to the transferor if certain conditions occur—shall be disclosed in the notes to the financial statements.

140208 Cumulative results of operations is the net difference between the following:

A. Expenses, losses, and transfers out from the inception of an agency or activity.

B. Financing sources (i.e., appropriations and revenues) and gains from the inception of an agency or activity (whether financed from appropriations, transfers in, revenues, reimbursements, or any combination of the four) to the reporting date (when the annual financial statements are prepared). Cumulative results of operations is sometimes referred to as "retained earnings" in business operations fund activities.

140209 Cumulative results of operations is adjusted annually by the results of operations (reported in the Statement of Operations) and by other items. Increases occur when the result of operations show an excess of financing sources and gains over expenses, losses, and transfers out. Decreases occur when an excess of expenses, losses, and transfers out exist. In business operations funds, the excess is sometimes referred to as "net income" or "loss." Adjustments to cumulative results of operations may also arise from such events as prior period adjustments and distributions of the excess financing sources and gains, in accordance with law, regulation, or administrative designation.

140210 Unexpended appropriations represent amounts of authority at the reporting date that are either:

A. Unobligated and have not lapsed, have been rescinded or withdrawn.

B. Obligated, but not yet expended (e.g., undelivered orders). Unexpended appropriations include, but are not limited to, combinations of the unobligated allotment and unliquidated obligation accounts.

140211 Decreases in unexpended appropriations occur when unobligated amounts lapse, are withdrawn, or are rescinded; obligations representing undelivered orders are canceled (deobligated) after the related appropriation has lapsed, been withdrawn, or rescinded; and undelivered orders are received and accepted.

140212 Increases in unexpended appropriations occur when funding (or obligation) authority is made available and when funds are made available from withdrawn unobligated amounts.

140213 Donations are nonreciprocal transfers of assets or services from state, local, or foreign governments; individuals; or others not considered a related party to the Department of Defense. Other items include assets acquired by discovery, adverse possession, exercised right of eminent domain, results of war, or receipt of escheat property (property for which title is vested in or reverted to the Government because it was not claimed by the owner or heirs to a deceased owner).

140214 Donations shall be recorded at the fair market value plus any costs incurred to place the donated item(s) in use. Chapters 1 and 6 of this Volume provide guidance for determining amounts to be capitalized.
140215 Increases in the donations account occur when assets or services are received that meet the Component’s capitalization criteria. Decreases in the donations account occur when the donated assets or services are either:

A. Sold, transferred out, donated, or otherwise disposed of.

B. Used or consumed in operations.

The dollar amount of donated assets or services used or consumed, including recognition of depreciation on donated assets in operations, shall be reflected as part of the cost of operations.

140216 The fund balance in trust funds represents the net difference between trust fund assets and liabilities. Since the nature of trust funds is to account for assets and liabilities held or serviced in a trust capacity, the equity of the fund is shown as a single item in the Report of Financial Position.

140217 Assets and liabilities transferred without a monetary exchange between DoD Components shall generally be accounted for at the amount recorded on the transferor’s books.

No gains or losses shall be recognized on such transactions. This standard does not apply to sales and other transactions that occur in the normal operation of business funds. However, it does apply to transfers of property that are not part of the normal operation of these type activities.

A. When a DoD Component transfers assets and/or liabilities to another Component without any offsetting transfer from the other Component, the transferor’s asset, liability, and equity accounts shall be reduced for the items transferred and the transferee’s asset, liability, and equity accounts increased accordingly. The transferee shall record the items received at the acquisition cost together with any accumulated depreciation recorded on the transferor’s books.

B. When two or more DoD Components exchange assets and/or liabilities (offsetting transfers), each transferee Component shall record the assets and/or liabilities received at the amount the asset and/or liability was carried at in the transferor’s records together with any accumulated depreciation. Even though a change in equity occurs when net book values are not identical, no gains or losses shall be recognized by either Component.