VOLUME 4, CHAPTER 17: "EXPENSES AND MISCELLANEOUS ITEMS"

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 December 2010 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Various	Updated hyperlinks	Update
170102.	Added Audit Readiness/Internal Procedures**:** In promoting audit readiness, this paragraph requires Department of Defense (DoD) Components to establish internal operating procedures and/or guidance in line with the overarching policy cited in this chapter.	Addition
170301.E	Revised to align with language in Office of Management and Budget (OMB), Form and Content guidance, OMB Circular A-136 and Volume 6 B, Chapter 10 policy on note disclosures.	Clarification
170302.B.2.	Revised to provide clarity in reading policy.	Clarification
170501.A.	Revised to clarify operating expenses/program costs.	Clarification
170802	Revised to clarify proper title and account for recording depreciation expense for capitalized and donated assets.	Clarification
171304	Revised to clarify reporting the financial disclosure of extraordinary items.	Clarification

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CHAPTER 17

EXPENSES AND MISCELLANEOUS ITEMS

1701 GENERAL

170101. Purpose

This chapter prescribes guidance to account for expenses and miscellaneous items incurred in carrying out Department of Defense (DoD) operations.

170102. Audit Readiness/Internal Procedures

Each DoD Component shall develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data. Relevant records supporting financial statements shall be maintained and made available during financial statement audits.

170103. Overview of Expenses

A. Expenses represent the outflow or consumption of assets or the incurrence of liabilities (or a combination of both) during a period of providing goods, rendering services, or carrying out other normal operating activities related to the Department's programs and missions.

B. In financial accounting and reporting, the costs that apply to an entity's operations for the current accounting period are recognized as expenses of that period, regardless of when cash is exchanged. Expenses are commonly reported at their gross amount at the time the expense is incurred.

C. Most expenses require cash outlays, with the exception of depreciation, other losses, and bad debt expenses. Miscellaneous items result from extraordinary transactions, prior period adjustments, and changes in actuarial liabilities.

D. Expenses are costs that occur as part of normal, routine operations of the DoD Component, as opposed to costs attributable to extraordinary or unexpected events, which are classified as miscellaneous items.

E. An expense normally includes a use or application of budgetary or other resources. Goods and services ordered and received are recorded in the budgetary accounts as expended authority (accrued expenditures) and in the proprietary accounts as an expense. The budgetary accounts provide financial control over the resources provided to the Department and ensure accurate accounting during the budget execution process.

F. Financial control over all commodities such as material, labor, or supplies shall be maintained until consumed (expensed), sold or transferred in accordance with statutory authority. For Defense Working Capital Fund (DWCF) activities, expenses primarily are incurred in providing goods and services to customers. Refer to Volume 11B, Chapter 12 for DoD FMR policy covering DWCF.

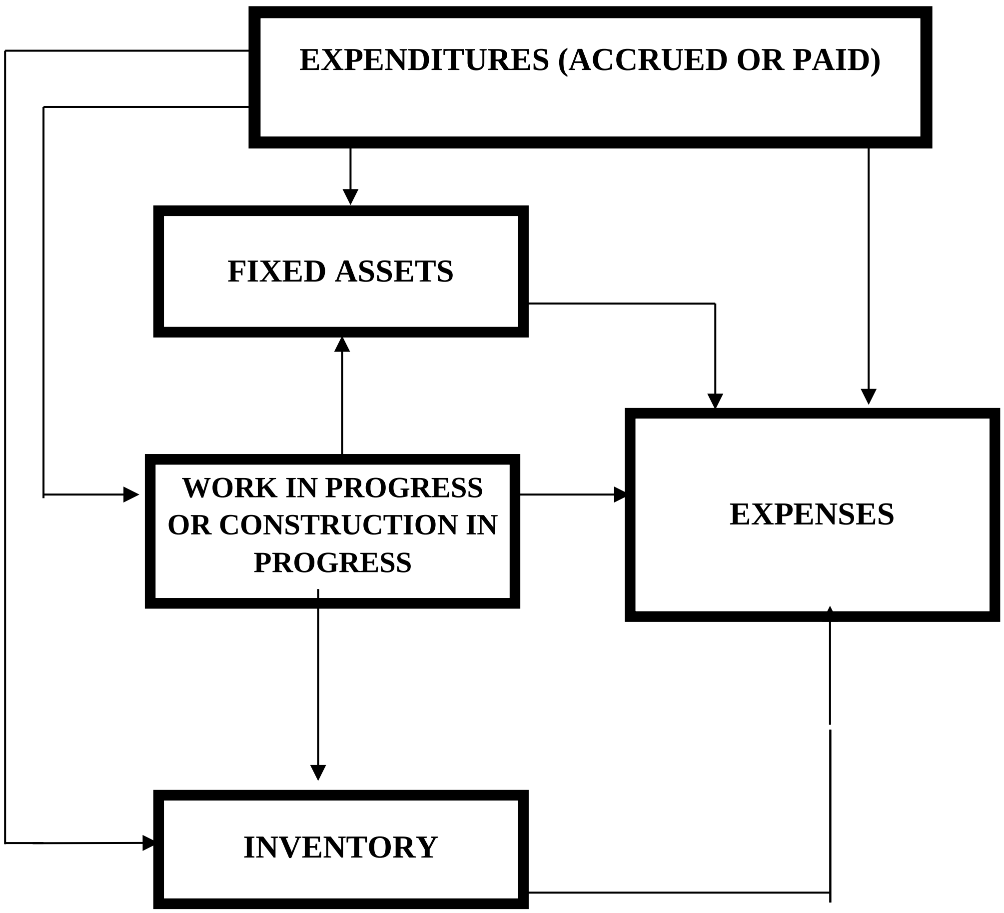
G. Figure 17-1 on the following page illustrates the relationship between Expended Budgetary Authority accounts and Proprietary accounts.

170104. Financial Treatment of Expenses by DWCF

The treatment of expenses by some DWCF activities is different from the treatment accorded to expenses related to appropriation-funded activities. For some activity groups in the DWCF, such as depot maintenance, expenses are accumulated by job order number in the "Work in Process" (account 1720) and subsequently billed to customers. Other activity groups, such as supply management, record civilian personnel costs as an expense to the activity or cost center as a whole, in the same manner as appropriated funded activities.

FIGURE 17-1

EXPENDED BUDGETARY AUTHORITY AND
PROPRIETARY ACCOUNT RELATIONSHIPS



Compound budgetary and proprietary entries are required when goods or services are received and/or accepted. Purchased goods or services are recorded in the budgetary accounts as expended authority (expenditures) and in the proprietary accounts as an expense (or asset, when DoD capitalization criteria are met).

1702 ACCOUNTING POLICY FOR EXPENSES AND MISCELLANEOUS ITEMS

170201. Accounting Treatment for Expenses and Miscellaneous Items

A. The Department is accountable for its stewardship in expending resources necessary in carrying out its missions. Examples of operating expenses include personnel costs, contractual services, and the purchase of operating materials and supplies. Expenses also can include an allocation of prior capital outlays (depreciation/amortization) when such information is necessary for management decision-making purposes, to meet external reporting requirements, or to recover costs of operations. Expenses are recognized in the period that services are rendered, not when invoices are received.

B. Particular attention is to be given to expenses incurred by research and development programs, or related to the search for knowledge and the conversion of knowledge into use for DoD missions.

C. Expenses incurred for research and development shall be recorded and reported as an expense in the period incurred unless they are associated with the development of an end item produced for operational use. In the latter case, the expenses should be capitalized if the cost and life expectancy of the end item produced meets the Department's capitalization threshold (see Chapter 6).

170202. Costs for Property, Plant and Equipment (PP&E)

Costs for PP&E acquired or constructed for a particular research and development project shall be capitalized if the acquisition cost exceeds the Department's capitalization threshold (see Chapter 6) and the items have a life expectancy of more than 2 years. Chapter 6 provides accounting guidance for capitalizing and depreciating or amortizing assets.

1703 PRESENTATION IN FINANCIAL STATEMENTS

170301. Reporting Program Costs

A. Program costs shall be reported in the Chief Financial Officer financial statements in the "Statement of Net Cost" as required by Volume 6B, Chapter 5.

B. Program costs include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to a program's outputs. Program costs also include any nonproduction costs that can be assigned to a program but not to its outputs.

C. The costs of program outputs shall include the costs of services provided by other entities regardless of whether the providing entity is fully reimbursed. The costs of program outputs shall also include costs that are paid in total or in part by other entities to the extent that accounting standards require them to be recognized in financial statements. For example, DoD entities shall recognize imputed costs of pensions and other retirement benefit expenses in their financial statements.

D. Imputed costs are the excess of the costs actually incurred by employing agencies for covered employees over the total contributions made by and for covered employees.

E. The costs of goods and services provided to other federal government programs shall be disclosed separately from the costs of goods and services provided to the public. The former costs are labeled "intragovernmental;" the latter are labeled "public." Intragovernmental costs are eliminated in the Financial Report of the U.S. Government. Refer to Volume 6 B, Chapter 10 for policy on note disclosures related to these costs.

170302. Production and Nonproduction Costs

A. Costs related to the production of outputs shall be reported separately from costs that are not related to the production of outputs (i.e., nonproduction costs) on the Statement of Net Cost.

B. The following nonproduction costs shall be reported separately from other nonproduction costs, if incurred:

1. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets.

2. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets are reported separately from other nonproduction costs (if incurred). Costs associated with multi-use heritage assets are capitalized and depreciated over the expected useful life if they meet the capitalization criteria discussed in Volume 4, Chapter 6.

3. The acquisition cost of acquiring stewardship land.

4. The cost of maintenance not performed but delayed to a future period (deferred maintenance) reported in the Required Supplementary Information section of the financial statements.

C. Costs not related to the production of goods or services are nonproduction costs that must be separately identified on the Statement of Net Cost. Some nonproduction costs include the cost of acquiring, constructing, improving, reconstructing, or renovating Federal mission property, plant and equipment; heritage assets; the cost of acquiring stewardship lands; and deferred maintenance. Nonproduction costs are reported as a separate item in the financial statements and are addressed in the Statement of Federal Financial Accounting Standards ***(SFFAS) Number 4***, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

170303. Losses

Losses are associated with the transactions that are not incurred in the normal operation of the organization (such as the loss on the disposal of property).

1704 ACCOUNTING FOR EXPENSES

170401. Financial Reporting of Expenses

A. Expenses are commonly reported at their gross amount at the time that the expense is incurred. Expenses are recognized in the period that services are rendered, not when invoices are received. The accounting entries are specified in the ***DoD United States General Ledger (USSGL) Transaction Library.***

B. Expenses are further discussed in sections 1705 through 1713. The transactions discussed frequently will require a compound entry; that is, entries must be made in both the proprietary accounts and the budgetary accounts.

C. Entries that affect direct program "Expended Authority" (Paid and Unpaid) also must include postings to "Expended Appropriations" (Other Financing Source) and "Unexpended Appropriations - Used" (Net Position). Additional information on budgetary accounts not covered in this chapter is included in Volume 3, "Budget Execution – Availability and Use of Budgetary Resources."

170402. Expense Transactions Not Requiring Budgetary Authority

Some expense transactions do not require the use of budgetary authority and, therefore, only proprietary accounts are charged. Such expenses most commonly are the result of allocating expenses over more than one reporting period (e.g., depreciation expense), costs incurred that are paid in total or in part by other entities (e.g., imputed costs), or recognizing costs to be funded from future year appropriations (e.g., future funded expenses).

1705 OPERATINIG EXPENSES/PROGRAM COSTS

170501. Operating Expenses/Program Costs

A. Operating expenses/program costs include costs associated with carrying out a specific program or function. Examples include personnel, travel, communications, contractual services, and other program expenses. Amounts paid often represent transactions that require a budgetary entry, moving obligations from the unexpended obligation (undelivered order) to the expended authority stage. DWCF activities routinely post operating expenses/program costs to a cost of goods sold account (either directly or via work-in-progress accounts) so that costs may be matched to revenue upon completion of the task or filling an order.

B. Accounting systems shall have the ability to report expenses related to operating expenses/program costs at the detail necessary to support budget preparation and applicable cost accounting requirements.

170502. Intragovernmental Goods and Services (costs) Purchased

Goods and Services acquired from other government trading partners or programs (i.e., intragovernmental) shall be recorded separately from those purchased from nonfederal entities (i.e., the public).

1706 BENEFIT EXPENSE

170601. Program Activities

For program activities, record the employer's portion of the contributions to the following employee benefit programs administered by Federal agencies: retirement funds, life insurance, Voluntary Separation Incentive Payment (VSIP), Federal Employee's Compensation Act (FECA), unemployment for Federal employees, Social Security (Federal Old-Age, Survivors Insurance, and Federal Disability Insurance) and Medicare (Federal Hospital Insurance (Medicare Part A), Federal Supplementary Medical Insurance (Medicare Part B). Use an "F" (Federal) attribute and a 2-digit trading partner (Treasury Index) code for Federal Agencies' Centralized Trial-Balance System (FACTS 1) reporting, as defined in ***1 Treasury Financial Manual 2-4700***. The amount of benefit expense (such as employment benefits, entitlement benefits due and payable, or insurance and guarantee benefits) incurred by the program agency and/or administering agency for benefit payments shall be recorded in the Agency's General Ledger and reported in a timely manner.

170602. Employer contributions to the Thrift Savings Plan

In the specific instance of employer contributions to the Thrift Savings Plan, use an "N" (non-Federal) attribute. The account shall be supported by subsidiary accounts to show the types of transactions for which entitlement benefits were incurred.

170603. Administrative Expenses

For administering expenses, record the amount of expense incurred for benefit payments to non-Federal entities using an "N" attribute for FACTS 1 reporting. This includes (but is not limited to) costs for retirement, life insurance, health insurance, VSIP, FECA, unemployment, entitlements, and insurance guarantees (i.e., flood insurance).

1707 COST OF GOODS SOLD

170701. Cost of Goods Sold Account

A. The cost of goods sold account is used to record the cost of goods or services sold from stock, by DWCF activities, or by other DoD activities authorized to provide services or material to other federal government agencies, including other DoD Components, or nonfederal government organizations.

B. This account is used predominantly by revolving fund activities. Appropriated fund activities also shall use this account to support reimbursable programs when necessary. Trust fund activities that need to account for products delivered to other organizations also may use this account.

170702. Work in Progress Account

Work in progress accounts shall be used to accumulate the costs of goods or services in accordance with guidance contained in Chapter 4 and Chapter 6. The amounts recorded in these account series, as well as amounts recorded in applicable inventory accounts, shall be the basis for determining the amounts to be recorded as cost of goods sold.

170703. Intra-governmental Account for Goods and Services

Goods and services (costs) provided to other government programs (i.e., intra-governmental) shall be recorded separately from those provided to nonfederal entities (i.e., the public).

1708 DEPRECIATION, AMORTIZATION, AND DEPLETION

170801. Depreciation, Amortization and Depletion Account

A. "Depreciation, Amortization and Depletion" is used to record the allocation of the cost of an asset (tangible or intangible) over the period of time benefited or the asset's useful life.

B. The amounts to be recorded for depreciation, amortization, and depletion shall be determined in accordance with the guidance contained in Chapters 1, 6, and 7**.**

170802. Depreciation Expense for Capitalized and Donated Assets

Depreciation expense for capitalized and donated assets is recorded with a debit to Depreciation, Amortization, and Depletion (account 6710) and a credit to the appropriate Accumulated Depreciation account related to the asset. No budgetary entry is made. Depreciation is reported in the "Reconciliation of Net Cost to Budget" footnote to the financial statements, since it is not an expense requiring a cash payment. For the DWCF, depreciation expense also is an element included in the cost recovery rates, used to finance the capital programs. Refer to the ***DoD USSGL Transaction Library*** for additional information on account descriptions for reporting depreciation.

1709 IMPUTED COSTS

170901. Imputed Costs Defined

This amount represents costs incurred which are paid in total or in part by other federal entities. Examples include, but are not limited to, military personnel costs not paid by the benefiting activity, costs for use of real property that is not reimbursed by the entity using the asset, future postemployment benefits, and environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity.

170902. Imputed Costs Account

A. The Imputed Cost account shall be used by all DoD activities receiving goods or services not reimbursed to an activity outside the reporting entity. For example, environmental cleanup costs paid from Defense Agency (Treasury Index (TI) 97) funds but created by one of the Military Departments. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Appropriated and trust fund activities that need to account for such expenses also may use this account.

B. Specific categories of imputed cost are identified by the Office of Management and Budget in Circular A-136, Financial Reporting Requirements.

1710 FUTURE FUNDED EXPENSES

171001. Future Funded Expenses

A. Future funded expenses represent the amount of accrued expenses which are required to be funded from future year appropriations.

B. Examples of future funded expenses include, but are not limited to, accrued annual leave expense (except for working capital funds), accrued worker's compensation, upward re-estimates for credit reform loan programs, and projected future cleanup costs associated with the removing, containing, and/or disposing of hazardous materials associated with PP&E.

1711 LOSSES ON DISPOSITION ASSETS

171101. The Losses on Disposition of Assets Account

A. The Losses on Disposition of Assets account is used to record a loss incurred on the disposition of DoD-owned assets. Such losses can result from the sale, exchange, casualty, or retirement of assets.

B. Losses are reported net of any received proceeds.

C. The Losses on Disposition of Assets account ordinarily shall be used only by DoD activities authorized to dispose of DoD property; however, any DoD Component having control over personal and real property may incur such losses due to events beyond its control. The effect from such losses shall be recorded in Losses on Disposition of Assets in the Statement of Net Cost.

1712 OTHER LOSSES

171201. Other Losses

Other Losses shall be used to record the loss on assets resulting from events other than disposition, such as investment losses and miscellaneous losses.

1713 EXTRAORDINARY ITEMS

171301. Extraordinary Transactions

Extraordinary transactions, events that are distinguished by their unusual nature and by the infrequency of their occurrence, may impact expenses and/or miscellaneous items. Both of the following criteria should be met to classify an event or transaction as an extraordinary item:

171302. Unusual Nature

The underlying event or transaction must possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.

171303. Infrequency of Occurrence

The underlying event or transaction must be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

171304. Financial Disclosure of Extraordinary Items

The total amount of all extraordinary items is included in the applicable Gross Program Cost or Non Production Cost lines of the Statement of Net Cost. Disclosure of the nature and amount of each extraordinary item is included in the notes to the financial statements.

1714 PRIOR PERIOD ADJUSTMENTS, CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING PRINCIPLES

171401. Adjustments to Prior-Period Financial Statements

Circumstances may arise that require an entity to make adjustments to prior-period financial statements due to a change in accounting principle or correction of a material error (or an aggregation of errors). Such circumstances include the retrospective application of a change in accounting principle or the correction of an error in prior-period financial statements pursuant to ***SFFAS Number 21***, "Reporting Corrections of Errors and Changes in Accounting Principles." See Volume 6B, Chapter 6 for information on reporting prior period adjustments in the financial statements.

171402. Change in Accounting Principle

A. A change in accounting principle results from adoption of one Generally Accepted Accounting Principle (GAAP) to another one that can be justified as preferable. Changes in accounting principles also include those occasioned by the adoption of new federal financial accounting standards. The newly-adopted accounting principle should result in more accurate and meaningful financial statement disclosure.

B. The term, accounting principle, includes not only accounting principles and practices but also the methods of applying them. Unless otherwise specified in the transition instructions section of a new federal financial accounting standard, the cumulative effect of the change on prior periods should be reported as a change in accounting principle, with the adjustment made to the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position.

C. Prior period financial statements presented for comparative purposes should be presented as previously reported. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure. See Volume 6B, Chapter 6 for additional information on reporting prior period adjustments in the financial statements.

171403. Correction of Errors

The correction of an error may be due to a change from one non-GAAP method to a GAAP method or an accounting correction. Reporting entities must restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period. Restatement is required only when the error correction is material. (See Volume 6B, Chapter 6 for additional information on reporting material errors.)