

**SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 4, CHAPTER 17
“EXPENSES AND MISCELLANEOUS ITEMS”**

All changes are denoted in blue font

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

Hyperlinks are denoted by underlined, bold, italic font.

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
Table of Contents	Added Table of Contents	Add
Various	Updated hyperlinks. Deleted transaction-level guidance for closing and general expense entries, such as bad debt and interest.	Update/Delete
170102	Added information on accrual accounting concepts.	Add
Figure 17-1	Revised title and updated narrative.	Update
170202.A	Clarified accounting treatment for research and development expenses incurred in the production of a specific end item that will be capitalized.	Update
170301.A and C	Added accounting treatment for multi-use heritage assets, deferred maintenance, and nonproduction costs. Deleted the term, “National Defense Property, Plant, and Equipment,” which was rescinded in <u><i>Statement of Federal Financial Accounting Standard No. 23.</i></u>	Add/Delete
170302	Added guidance on reporting of nonproduction costs, which are identified in the Statement of Net Cost.	Add
170303	Added guidance on losses associated with transactions outside of normal operations.	Add
170401	Added reference to United States Standard General Ledger (USSGL) Standard Financial Information Structure (SFIS) Transaction Library. Added information on when expenses should be recognized.	Add
1706	Expanded guidance on accounting for benefits expenses.	Update
170802	Added guidance on depreciation of donated assets.	Add
170903	Added reference to OMB guidance on imputed cost categories.	Add
1711	Added guidance on reporting losses on disposition of assets.	Add
1713	Clarified that extraordinary items are events and transactions distinguished by their unusual nature and infrequency of occurrence.	Update

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PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
1714	Added guidance on accounting for a Change in Accounting Principle and Correction of Errors.	Update
Figures 17-2 through 17-22	Deleted Figures 17-2 through 17-22, Treasury account descriptions.	Delete

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CHAPTER 17

EXPENSES AND MISCELLANEOUS ITEMS1701 GENERAL

170101. Purpose. This chapter prescribes guidance to account for expenses and miscellaneous items incurred in carrying out Department of Defense (DoD) operations.

* 170102. Overview. Expenses represent the outflow or consumption of assets or the incurrance 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. 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. 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.

170103. Expenses are costs that occur as part of normal, routine operations of the Component, as opposed to costs attributable to extraordinary or unexpected events, which are classified as miscellaneous items. 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. 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 (see Volume 11B, Chapter 12 of this Regulation), expenses primarily are incurred in providing goods and services to customers. Figure 17-1 on the following page illustrates the relationship between Expended Budgetary Authority accounts and Proprietary accounts.

170104. 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 (USSGL 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.

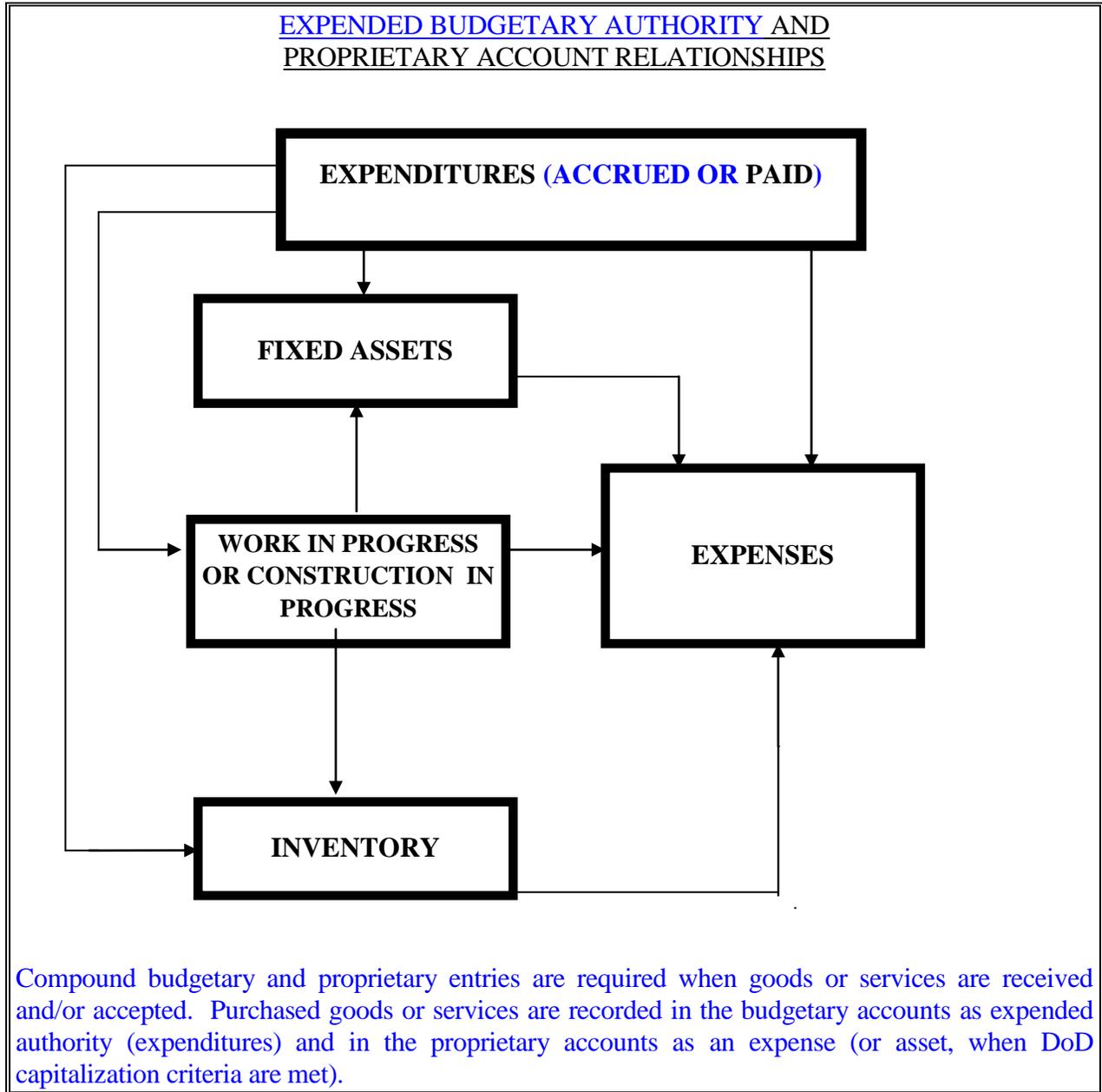


FIGURE 17-1

1702 ACCOUNTING POLICY FOR EXPENSES AND MISCELLANEOUS ITEMS

170201. 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.](#)

170202. 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.

* A. 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 \[Chapter 6\]\(#\) of this volume\).](#)

B. Costs for property, plant [and](#) equipment (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](#) of this volume) and the items have a life expectancy of more than 2 years. [Chapter 6](#) of this volume provides accounting guidance for capitalizing and depreciating or amortizing assets.

1703 PRESENTATION IN FINANCIAL STATEMENTS

170301. Program Costs. 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](#) of this Regulation. These 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. 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. 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. The costs of goods and services provided to other federal government programs shall be reported 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. 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. In addition, the following nonproduction costs shall be reported separately from other nonproduction costs, if incurred:

* A. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets; however, the 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, of this Regulation.

B. The acquisition cost of acquiring stewardship land.

* C. 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 .

* 170302. 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 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. 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 USSGL SFIS Transaction Library. Expenses are further discussed in sections 1705 through 1713 of this chapter.

A. The transactions discussed frequently will require a compound entry; that is, entries must be made in both the proprietary accounts and the budgetary accounts.

B. 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,” of this Regulation.

* 170402. 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 OPERATING EXPENSES/PROGRAM COSTS

170501. Operating Expenses/Program Costs are the total outlay in cash or its equivalent applied in 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.

170502. Accounting systems shall have the ability to report these expenses at the detail necessary to support budget preparation and applicable cost accounting requirements.

170503. Goods and services (costs) purchased from other government programs (i.e., intragovernmental) shall be recorded separately from those purchased from nonfederal entities (i.e., the public).

1706 BENEFIT EXPENSE

* 170601. 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 2-4000. 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. 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. 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 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.

170702. 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.

170703. 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](#) of this volume. 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.

170704. Goods and services (costs) provided to other government programs (i.e., intragovernmental) shall be recorded separately from those provided to nonfederal entities (i.e., the public).

1708 DEPRECIATION, AMORTIZATION AND DEPLETION

170801. “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](#). 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](#) of this volume.

* 170802. [Depreciation expense for capitalized, donated assets is recorded with a debit to Operating Expenses/Program Costs and a credit to the Accumulated Depreciation account of 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.

1709 IMPUTED COSTS

170901. 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. 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.

* 170903. 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. Future funded expenses represent the amount of accrued expenses which are required to be funded from future year appropriations. Examples 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 OF ASSETS

171101. 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.

* 171102. Losses are reported net of any received proceeds.

171103. 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. 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, 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:

A. 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.

B. 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.

* 171302. The total amount of all extraordinary items is disclosed on the face 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. 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 of this Regulation for information on reporting prior period adjustments in the financial statements.

* 171402. 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. 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. 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 Chapter 6, Volume 6B of this Regulation for additional information on reporting prior period adjustments in the financial statements.

* 171403. 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 Chapter 6, Volume 6B of this Regulation for additional information on reporting material errors.)