

**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 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 [September 2015](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
170102	Added additional authoritative guidance.	Added
170511	Added reference to Statement of Federal Financial Accounting Standards 55: Amending Inter-entity Cost Provisions.	Added
170802.C	Revised explanation of Change in Accounting Principle.	Revision
170803	Revised explanation of Correction of Errors.	Revision

Table of Contents

VOLUME 4, CHAPTER 17: “EXPENSES AND MISCELLANEOUS ITEMS” ..... 1

1701 GENERAL ..... 4

    170101. Purpose ..... 4

    \*170102. Authoritative Guidance ..... 4

1702 AUDIT REMEDIATION AND INTERNAL PROCEDURES ..... 5

1703 EXPENSE OVERVIEW ..... 5

    170301. Definition ..... 5

    170302. Financial Accounting and Reporting..... 5

    170303. Exceptions to Cash Outlays..... 5

    170304. Unusual or Nonrecurring Transactions ..... 5

    170305. Budgetary Accounts ..... 5

    170306. Financial Control..... 6

    170307. DWCF Expenses ..... 6

    170308. Relationship between Budgetary and Proprietary Accounts ..... 7

FIGURE 17-1 ..... 7

1704 PRESENTATION IN FINANCIAL STATEMENTS ..... 8

    170401. Expense Recording..... 8

    170402. Reporting Program Costs ..... 8

    170403. Production and Nonproduction Costs ..... 8

    170404. Intragovernmental Transactions..... 9

    170405. Losses..... 9

1705 ACCOUNTING TREATMENT FOR EXPENSES..... 9

    170501. Accounting Treatment for Expenses and Miscellaneous Items ..... 9

    170502. Costs for Property, Plant and Equipment (PP&E) ..... 9

    170503. Work in Process Account..... 10

    170504. Depreciation, Amortization and Depletion Account..... 10

    170505. Depreciation Expense for Capitalized and Donated Assets..... 10

    170506. Operating Expenses/Program Costs..... 10

    170507. Benefits Expense ..... 11

    170508. Employer contributions to the Thrift Savings Plan..... 11

    170509. Administrative Expenses..... 11

    170510. Cost of Goods Sold Account..... 11

    \*170511. Imputed Costs Account ..... 11

    170512. Future Funded Expenses ..... 12

    170513. Expense Transactions Not Requiring Budgetary Resources..... 12

Table of Contents (Continued)

1706 LOSSES ..... 12

    170601. Losses on Disposition of Assets Account ..... 12

    170602. Users of Losses on Disposition of Assets Account..... 12

    170603. Other Losses..... 12

1707 EXTRAORDINARY ITEMS ..... 13

    170701. Extraordinary Transactions ..... 13

    170702. Unusual Nature..... 13

    170703. Infrequency of Occurrence..... 13

    170704. Financial Disclosure of Extraordinary Items ..... 13

1708 PRIOR PERIOD ADJUSTMENTS ..... 13

    170801. Adjustments to Prior Period Financial Statements..... 13

    170802. Change in Accounting Principle ..... 13

    \*170803. Correction of Errors ..... 14

## CHAPTER 17

**EXPENSES AND MISCELLANEOUS ITEMS**

## 1701 GENERAL

## 170101. Purpose

The purpose of this chapter is to provide guidance to account for expenses and miscellaneous items, such as gains and losses, incurred in carrying out Department of Defense (DoD) operations. Additionally, this chapter provides instruction on how to identify and account for extraordinary items and adjustments to prior period financial statements.

## \*170102. Authoritative Guidance

The Federal Accounting Standards Advisory Board concluded in Statement of Federal Financial Accounting Standards ([SFFAS](#)) 5, “Accounting for Liabilities of the Federal Government” that expenses are not independent of assets and liabilities and do not have their own essential characteristics. Expenses are changes in assets and/or liabilities during a reporting period that result in a change in net position. Thus, the definition of expenses is dependent on the definitions of assets and liabilities. Additional guidance for expenses is found in the following:

- A. [SFFAS 4, Managerial Cost Accounting Standards and Concepts.](#)
- B. [SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.](#)
- C. [SFFAS 21, Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources.](#)
- D. [SFFAS 55, Amending Inter-entity Cost Provisions.](#)
- E. [Statement of Federal Financial Accounting Concepts \(SFFAC\) 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements.](#)
- F. [SFFAC 7, Measurement of Accrual-Basis Financial Statements in Periods after Initial Recording.](#)
- G. [SFFAS 6, Accounting for Property, Plant, and Equipment.](#)
- H. [SFFAS 3, Accounting for Inventory and Related Property.](#)
- I. [Treasury Financial Manual, Volume 1, Part 2, United States Standard General Ledger Part 2 Fiscal Year 2019 Reporting.](#)
- J. [Office of Management and Budget \(OMB\) Circular A-136, “Financial Reporting Requirements”.](#)

## 1702 AUDIT REMEDIATION AND INTERNAL 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, timely, and relevant reporting of financial data. Relevant records supporting financial statements must be maintained and made available during financial statement audits.

## 1703 EXPENSE OVERVIEW

## 170301. Definition

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 entity's programs and missions **which results in a decrease in the entity's net position.**

## 170302. Financial Accounting and Reporting

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.

## 170303. Exceptions to Cash Outlays

Most expenses require cash outlays. There are exceptions such as depreciation, other losses, bad debt expenses and miscellaneous items. Miscellaneous items **may** result from extraordinary transactions, prior period adjustments, and changes in actuarial liabilities.

## 170304. Unusual or Nonrecurring Transactions

Expenses are costs that occur as part of normal, routine operations of the entity, as opposed to costs attributable to extraordinary or unexpected events, which are classified as miscellaneous items. Unusual or nonrecurring transactions or having resulted from peripheral or incidental activities of an entity should be recognized as a gain or loss, rather than as a revenue or expense.

## 170305. Budgetary Accounts

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 (Delivered Orders – Obligations, Unpaid) and in the proprietary accounts as an expense. The budgetary accounts provide financial control over the resources provided to the entity and ensure accurate accounting during the budget execution process.

## 170306. Financial Control

Financial control over all commodities such as material, labor, or supplies must 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 policy covering DWCF.

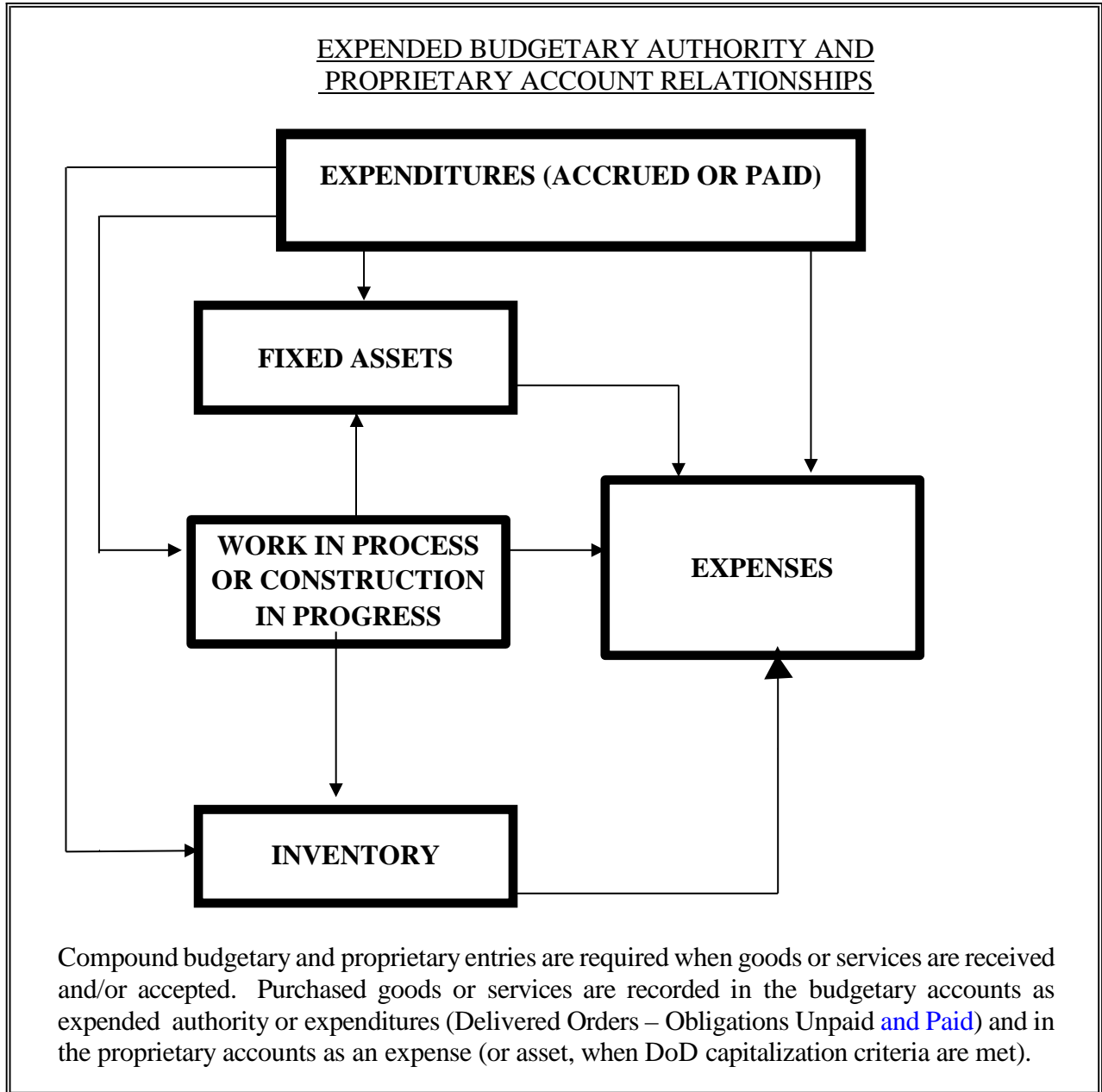
## 170307. DWCF Expenses

The treatment of expenses by some DWCF activities is different from the treatment accorded to expenses related to appropriation funded activities. The proper term to describe expenses accumulated in asset accounts is costs. For some activity groups in the DWCF, such as depot maintenance, costs are accumulated by job order number in the "Construction in Progress" (account 172000) or "Inventory Work in Process" (account 152600) 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.

170308. Relationship between Budgetary and Proprietary Accounts

Figure 17-1 illustrates the relationship between Expended Budgetary Authority accounts and Proprietary accounts.

FIGURE 17-1



## 1704 PRESENTATION IN FINANCIAL STATEMENTS

## 170401. Expense Recording

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) Standard Financial Information Structure ([SFIS](#)) Transaction Library.

## 170402. Reporting Program Costs

A. Program costs must be reported 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 must include the costs of services provided by other entities regardless of whether the providing entity is fully reimbursed. The costs of program outputs must 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 Components must recognize imputed costs of pensions and other retirement benefit expenses in their financial statements.

D. Imputed costs represent the unreimbursed portion of the full cost of goods and services received from another source. In the case of post-employment benefits for retired, terminated, and inactive employees, 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. Imputed costs encompass all unreimbursed portions of the full cost of goods and services received by a DoD entity from a providing DoD [entity](#) according to [SFFAS 55](#).

## 170403. Production and Nonproduction Costs

A. Costs related to the production of outputs must be reported separately from costs that are not related to the production of outputs (i.e., nonproduction costs) on the Statement of Net Cost. Nonproduction costs are reported as a separate item in the financial statements and are addressed in the SFFAS 4.

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



1. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets. Costs associated with multi-use heritage assets are capitalized and depreciated over the expected useful life if they meet the capitalization criteria discussed in Chapter 28.

2. The acquisition cost of acquiring stewardship land.

3. 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.

#### 170404. Intragovernmental Transactions

Goods and Services acquired from other government trading partners or programs (i.e., intragovernmental) must be recorded separately from those purchased from nonfederal entities (i.e., the public). Additionally, goods and services (costs) provided to other government programs (i.e., intragovernmental) must be recorded separately from those provided to nonfederal entities (i.e., the public).

#### 170405. 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).

### 1705 ACCOUNTING TREATMENT FOR EXPENSES

#### 170501. 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.

#### 170502. Costs for Property, Plant and Equipment (PP&E)

Costs for PP&E acquired or constructed for a particular project must be capitalized if the acquisition cost exceeds the Department's capitalization threshold (see Chapter 6), the items are not intended for sale in the ordinary course of operations, the items have been acquired or constructed with the intention of being used by the entity, and the items have a life expectancy of

more than two years. [An asset may be expensed \(account 615000\) if the amount of the expenses recognized by a purchasing agency when a capitalized asset acquired from another federal agency does not meet the purchasing agency's capitalization threshold.](#) Chapter 6 provides accounting guidance for capitalizing and depreciating or amortizing assets.

170503. Work in Process Account

Work in process accounts must be used to accumulate the costs of goods or services in accordance with guidance contained in Chapters 4, 5, 6, and 28. The amounts recorded in these accounts, as well as amounts recorded in applicable inventory accounts, must be the basis for determining the amounts to be recorded as cost of goods sold.

170504. 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 must be determined in accordance with the guidance contained in Chapters 1, 6, 7, and 26.

170505. 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 671000) 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 Net Outlays" 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 SFIS Transaction Library for additional information on account descriptions for reporting depreciation.

170506. 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 (delivered order) stage. DWCF activities routinely post operating expenses/program costs to a cost of goods sold account (either directly or via work in process accounts) so that costs may be matched to revenue upon completion of the task or filling an order.

B. Accounting systems must 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.

170507. Benefits Expense

The employer's portion of the contributions to the following employee benefit programs administered by Federal agencies are Federal expenses: 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)). 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 must be recorded in the entity's General Ledger and reported in a timely manner.

170508. Employer contributions to the Thrift Savings Plan

Employer contributions to the Thrift Savings Plan are nonfederal expenses. The account must be supported by subsidiary accounts to show the types of transactions for which entitlement benefits were incurred.

170509. Administrative Expenses

Administrative expenses incurred for benefit payments are generally nonfederal expenses. 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).

170510. 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 must 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.

\*170511. Imputed Costs Account

The Imputed Cost account must be used by all DoD activities receiving goods or services not reimbursed to an activity outside the reporting entity. [SFFAS 55 provides for recognition of significant inter-entity costs among and between federal agencies by business-type activities and allows non-business-type activities to elect not to recognize inter-entity costs, with the exception of](#)

inter-entity costs for personnel benefits and the United States Department of the Treasury Judgement Fund settlements unless otherwise directed by OMB. Business-type activity is significantly self-sustaining activities that finance their accounting cycle of operations through collections of exchange revenues. For example, working capital funds would be considered business-type activities.

170512. Future Funded Expenses

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

170513. Expense Transactions Not Requiring Budgetary Resources

Some expense transactions do not require the use of budgetary resources 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).

1706 LOSSES

170601. 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.

170602. Users of Losses on Disposition of Assets Account

The Losses on Disposition of Assets account ordinarily must 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 must be recorded in Losses on Disposition of Assets in the Statement of Net Cost.

170603. Other Losses

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

## 1707 EXTRAORDINARY ITEMS

## 170701. 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 criteria of **unusual nature and infrequency of occurrence must** be met to classify an event or transaction as an extraordinary item.

## 170702. 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.

## 170703. 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.

## 170704. 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.

## 1708 PRIOR PERIOD ADJUSTMENTS

## 170801. 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 21. See Volume 6B, Chapter 6 for information on reporting prior period adjustments in the financial statements.

## 170802. Change in Accounting Principle

A change in accounting principle results from adoption of one Generally Accepted Accounting Principle 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.

A. 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.

B. Prior period financial statements presented for comparative purposes should be presented as previously reported.

\* C. 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.

\*170803. Correction of Errors

When errors are discovered after the issuance of the financial statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:

A. If only the current period statements are presented, then the cumulative effect of correcting the error should be reported as a prior period adjustment with the adjustment made to the beginning balance of cumulative results of operations in the Statement of Changes in Net Position.

B. If comparative financial statements are presented, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements. If the earliest period is not the period in which the error occurred and the cumulative effect is attributable to prior periods, then the cumulative effect should be reported as a prior period adjustment with the adjustment made to the beginning balance of cumulative results of operations in the Statement of Changes in Net Position for the earliest period presented.

C. The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed. Financial statements of the subsequent periods need not repeat the disclosures.

D. Prior period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated. (See Volume 6B, Chapter 6 for additional information on reporting material errors.)