

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 **April 2013** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reorganized chapter for better information flow.	Revision
170101	Expanded on the purpose of this chapter to include extraordinary items and prior period adjustments.	Addition
170102	Added Authoritative Guidance Paragraph to the General section to comply with the Department of Defense Financial Management Regulation Standard Operating Procedure and renumbered subsequent paragraphs and subparagraphs.	Addition
170304	Added distinction between gains/losses and revenue/expenses.	Addition
170401	Added reference to SFIS library	Addition
170402.D	Revised to clarify imputed cost definitions and examples.	Revision
170402	Deleted reference to Federal Mission property, plant and equipment, which was eliminated with the publication of Statement of Federal Financial Accounting Standard (SFFAS) 23, “Eliminating the Category National Defense Property, Plant and Equipment.	Deletion
170404	Added Intragovernmental cost reporting requirements	Addition
170502	Added capitalization criterion.	Addition
170512	Added uses of imputed costs found in Federal Financial Accounting Standards Board Interpretation 6, “Accounting for Imputed Intra-Departmental Costs: An Interpretation of SFFAS 4” and SFFAS 5, along with the Office of Management and Budget Circular A-136, “Federal Reporting Requirements.”.	Addition

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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 (FASAB) 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 SFFAS 4, “Managerial Cost Accounting Standards;” Interpretation 6, “Accounting for Imputed Intra-Departmental Costs: An Interpretation of SFFAS 4;” SFFAS 21, “Reporting Corrections of Errors and Changes in Accounting Principles; and in the Statement of Federal Financial Accounting Concepts 7, “Measurement of Accrual-Basis Financial Statements in Periods after Initial Recording.”

1702 AUDIT READINESS 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 EXPENSES 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.

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 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.

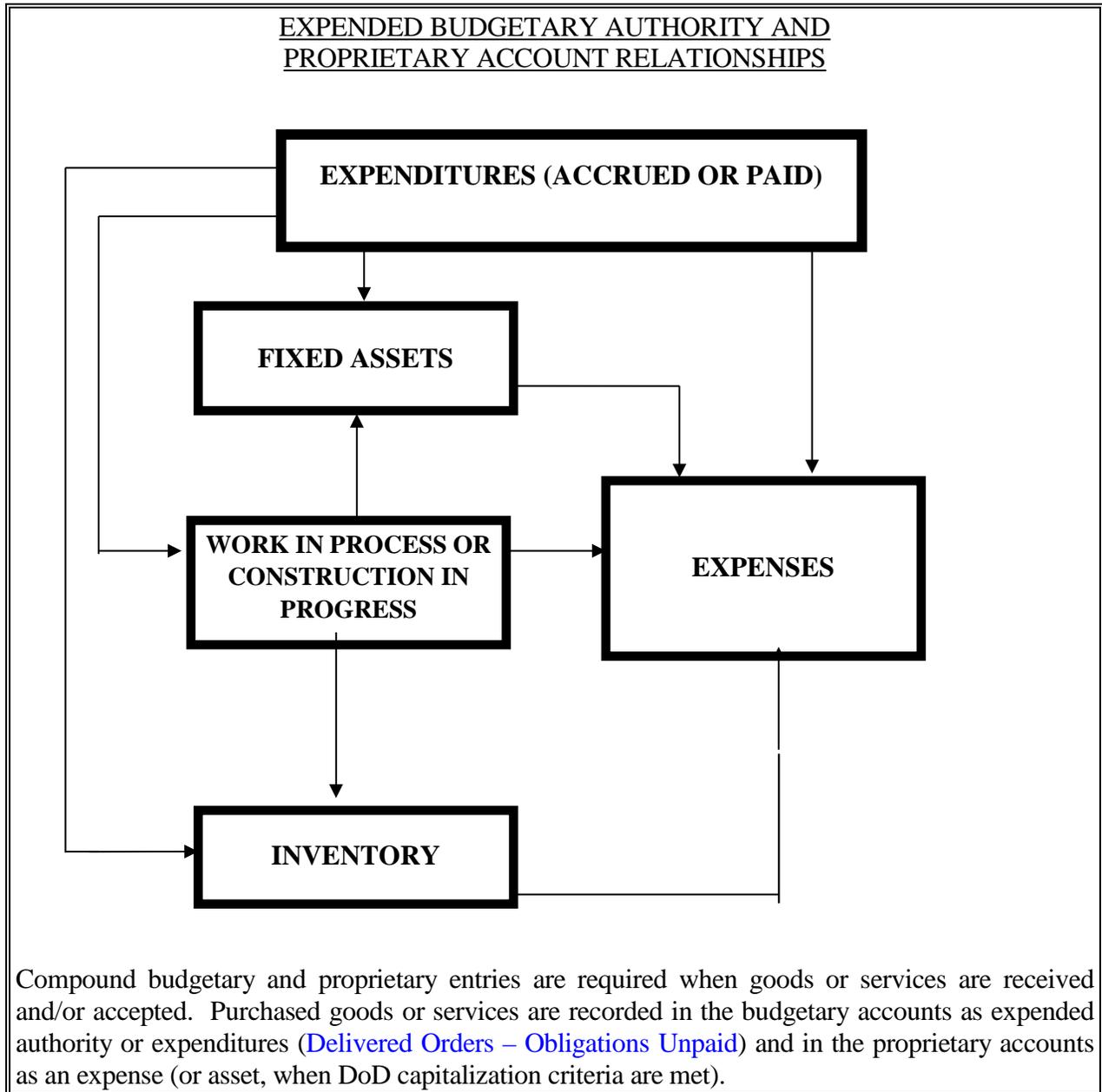
170307. DWCF Expenses

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. Relations 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 according to FASAB Interpretation 6.](#)

E. The costs of goods and services provided to other federal government programs must 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 [consolidated financial statements](#). Refer to Volume 6B, Chapter 10 for policy on note disclosures related to these costs.

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 Volume 4, Chapter 6.

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.

C. **Costs** incurred for research and development must 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).

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

Costs for PP&E acquired or constructed for a particular research and development 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. 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, and 6. The amounts recorded in these account, 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, and 7.

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 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 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

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.

170512. Imputed Costs Account

A. The Imputed Cost account must 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 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 in SFFAS 5 and FASAB Interpretation 6, as well in the Office of Management and Budget in [Circular A-136](#), Financial Reporting Requirements.

*170513. 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.

170514. 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).

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 of the following criteria should 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. 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.

170803. 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.)