MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Accounting and Reporting Contract Financing Payments

The purpose of this memorandum is to clarify the proper accounting and reporting of Contract Financing Payments (CFPs). CFPs are authorized government disbursements to a contractor prior to acceptance of supplies or services by the government. Effective immediately, progress payments, performance-based payments, and commercial interim payments for goods on fixed price contracts and interim payments under cost reimbursement contracts, except services, should no longer be recorded as Advances and Prepayments-Outstanding Contract Financing Payments (General Ledger Account Code (GLAC) 141000.0200). The aforementioned CFPs must be recorded in the appropriate general ledger account (i.e., Construction in Progress (GLAC 172000.0200), Internal Use Software in Development (GLAC 183200.9000), Inventory Work in Process (GLAC 152600.9000), or as Operating Expenses/Program Costs (GLAC 610000.9000)). Please refer to the attached matrix that describes the different financing payments and associated accounting treatment.

Components should collaborate with the servicing contracting office to examine the contract terms, to clearly identify goods and services to be delivered, and to determine the funding to be applied. This process will assist in determining the appropriate accounting treatment and the appropriate account to be used in recording all CFPs. When recording CFPs, Components should ensure the corresponding contract number, line items, and applicable accounting classification reference numbers are recorded in the accounting system, contract management system, and payment systems of record.

This policy will be incorporated in the next published update to the Department of Defense Financial Management Regulation, Volume 4, Chapter 5. My point of contact is Ms. Maryla Engelking, at maryla.e.engelking.civ@mail.mil or (703) 571-1657.

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

This Policy Memo was incorporated in Volume 4 Chapter 5 which was published in May 2015 effectively canceling this memo.
### Contract Financing Payments Matrix

<table>
<thead>
<tr>
<th>Contract Type</th>
<th>Payment Type</th>
<th>FAR Clause</th>
<th>Goods</th>
<th>Financing</th>
<th>Services</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Price</td>
<td>Advance payment</td>
<td>52.232-12, Advance Payments (Note 1)</td>
<td>141000.0200</td>
<td>Yes</td>
<td>141000.0200</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Performance based payment</td>
<td>52.232-32, Performance-Based Payments</td>
<td>152600.9000, 172000.0200, or 183200.9000</td>
<td>Yes</td>
<td>610000.9000</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Commercial advance payment</td>
<td>52.232-29, Terms for Financing of Purchases of Commercial Items (Note 2)</td>
<td>141000.0200</td>
<td>Yes</td>
<td>141000.0200</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Commercial interim payment</td>
<td>52.232-29, Terms for Financing of Purchases of Commercial Items (Note 2)</td>
<td>152600.9000, 172000.0200, or 183200.9000</td>
<td>Yes</td>
<td>610000.9000</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Commercial installment payment</td>
<td>52.232-30, Installment Payments for Commercial Items (Note 3)</td>
<td>152600.9000, 172000.0200, or 183200.9000</td>
<td>Yes</td>
<td>610000.9000</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Progress payment based on cost</td>
<td>52.232-16, Progress Payments</td>
<td>152600.9000, 172000.0200, or 183200.9000</td>
<td>Yes</td>
<td>610000.9000</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Progress payment based on percentage or stage of completion</td>
<td>52.232-5, Payments Under Fixed-Price Construction Contracts</td>
<td>152600.9000, 172000.0200, or 183200.9000</td>
<td>Yes</td>
<td>610000.9000</td>
<td>Yes</td>
</tr>
<tr>
<td>Cost Reimbursement (excluding Labor Hour and Time &amp; Material)</td>
<td>Interim Payment</td>
<td>52.216-7, Allowable Cost and Payment</td>
<td>172000.0200</td>
<td>Yes</td>
<td>610000.9000</td>
<td>No (Note 4)</td>
</tr>
<tr>
<td></td>
<td>Advance payment</td>
<td>52.232-12, Advance Payments, Alt II (Notes 1 and 5)</td>
<td>141000.0200</td>
<td>Yes</td>
<td>141000.0200</td>
<td>Yes</td>
</tr>
<tr>
<td>Time and Materials</td>
<td>Interim Payment</td>
<td>52.232-7 -- Payments Under Time-and-Materials and Labor-Hour Contracts</td>
<td>183200.9000</td>
<td>Yes</td>
<td>610000.9000</td>
<td>No (Note 4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>or 610000.9000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor Hour</td>
<td>Interim Payment</td>
<td>52.232-7 -- Payments Under Time-and-Materials and Labor-Hour Contracts</td>
<td>N/A</td>
<td>N/A</td>
<td>610000.9000</td>
<td>No (Note 4)</td>
</tr>
</tbody>
</table>

Note 1: And Alternates as applicable, except for specific rules pertaining to Alt II, shown.

Note 2: Commercial advance payments and commercial interim payments are defined as contract financing in 32.202-1 and 32.202-2.

Note 3: Not listed among types of contract financing payments in 32.001, but referred to as such in 52.232-30 paragraph (a).

Note 4: The definition of contract financing payments at 32.001 excludes interim payments on a cost reimbursement contract for services.

Note 5: Cost type contracts with Advance Payments can have two types of financing, depending on whether the interim payments are financing (see Note 4), as the terms of the 52.216-7 clause still apply to the interim payments.
### General Ledger Accounts

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Account Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction in Progress (CIP)</td>
<td>Internal Use Software in Development</td>
</tr>
<tr>
<td>Account Number 172000.0200</td>
<td>Account Title 183200.9000</td>
</tr>
<tr>
<td>Definition</td>
<td>Definition</td>
</tr>
<tr>
<td>The amount of direct labor, direct</td>
<td>The full cost amount incurred during the software development</td>
</tr>
<tr>
<td>material, and overhead incurred in</td>
<td>stage of (1) contractor-developed software, and (2)</td>
</tr>
<tr>
<td>the construction of general property,</td>
<td>internally developed</td>
</tr>
<tr>
<td>plant and equipment (except for</td>
<td>software, (as defined in FASAB SFFAS No. 10, &quot;Accounting</td>
</tr>
<tr>
<td>information technology software) for</td>
<td>for Internal Use Software&quot;). Upon completion, these costs</td>
</tr>
<tr>
<td>which the Federal agency will be</td>
<td>will be transferred to USSGL account 1830, &quot;Internal Use</td>
</tr>
<tr>
<td>accountable. Upon completion, these</td>
<td>Software.&quot; This account does not close at yearend.</td>
</tr>
<tr>
<td>costs will be transferred to the</td>
<td></td>
</tr>
<tr>
<td>proper capital asset account as the</td>
<td></td>
</tr>
<tr>
<td>acquisition cost of the item. This</td>
<td></td>
</tr>
<tr>
<td>account does not close at yearend.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory Work in Process</td>
<td>Advances</td>
</tr>
<tr>
<td>Account Title 152600.9000</td>
<td>Account Title 141000.0200</td>
</tr>
<tr>
<td>Account Number 152600.9000</td>
<td>Definition</td>
</tr>
<tr>
<td>Definition</td>
<td>Definition</td>
</tr>
<tr>
<td>The accumulated cost or value of</td>
<td>The advance or prepayment amount on outstanding contract</td>
</tr>
<tr>
<td>inventory used in the production</td>
<td>financing payments made in contemplation of the future</td>
</tr>
<tr>
<td>process. Work-in-process inventory</td>
<td>performance of services, receipt of goods, incurrence of</td>
</tr>
<tr>
<td>includes the cost of raw materials,</td>
<td>expenditures, or receipt of other assets. Prepayments are</td>
</tr>
<tr>
<td>direct labor, and overhead. Upon</td>
<td>expenditures that are generally recurrent in nature. Upon</td>
</tr>
<tr>
<td>completion, these costs will be</td>
<td>completion, these costs will be transferred to the proper</td>
</tr>
<tr>
<td>transferred to the proper capital</td>
<td>capital asset account as the acquisition cost of the item.</td>
</tr>
<tr>
<td>asset account as the acquisition cost</td>
<td>This account does not close at yearend.</td>
</tr>
<tr>
<td>of the item. This account does not</td>
<td></td>
</tr>
<tr>
<td>close at yearend.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses/Program Costs</td>
<td></td>
</tr>
<tr>
<td>Account Title 610000.9000</td>
<td></td>
</tr>
<tr>
<td>Account Number 610000.9000</td>
<td>Definition</td>
</tr>
<tr>
<td>Definition</td>
<td>Operating expenses and program costs not otherwise classified.</td>
</tr>
<tr>
<td></td>
<td>This account closes at yearend.</td>
</tr>
</tbody>
</table>