



OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-1100

OCT 9 2014

COMPTROLLER

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

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

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

Account Title	Construction in Progress (CIP)
Account Number	172000.0200
Definition	The amount of direct labor, direct material, and overhead incurred in the construction of general property, plant and equipment (except for information technology software) for which the Federal agency will be accountable. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. This account does not close at yearend.

Account Title	Internal Use Software in Development
Account Number	183200.9000
Definition	The full cost amount incurred during the software development stage of (1) contractor-developed software, and (2) internally developed software, (as defined in FASAB SFFAS No. 10, "Accounting for Internal Use Software"). Upon completion, these costs will be transferred to USSGL account 1830, "Internal Use Software." This account does not close at yearend.

Account Title	Inventory Work in Process
Account Number	152600.9000
Definition	The accumulated cost or value of inventory used in the production process. Work-in-process inventory includes the cost of raw materials, direct labor, and overhead. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. This account does not close at yearend.

Account Title	Advances
Account Number	141000.0200
Definition	The advance or prepayment amount on outstanding contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets. Prepayments are expenditures that are generally recurrent in nature. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. This account does not close at yearend.

Account Title	Operating Expenses/Program Costs
Account Number	610000.9000
Definition	Operating expenses and program costs not otherwise classified. This account closes at yearend.