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COMPTROLLER

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL OPERATIONS AND COMPTROLLER)
COMPTROLLERS OF THE DEFENSE AGENCIES

SUBJECT: Early Implementation of Statement of Federal Financial Accounting Standards 55, *Amending Inter-Entity Cost Provisions*

This memorandum establishes early implementation of Statement of Federal Financial Accounting Standards (SFFAS) 55 as policy for all Department of Defense (DoD) components regarding recognition of inter-entity costs.

SFFAS 55 rescinds SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4.*

SFFAS 55 revises SFFAS 4 to provide for the continued 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 Treasury Judgment Fund settlements unless otherwise directed by the Office of Management and Budget (OMB).

Effective immediately, the DoD elects to not recognize imputed costs and corresponding imputed financing from non-business-type activities, aside from the exceptions stated above.

SFFAS 4 requires continued recognition of significant inter-entity costs by business-type activities. Business-type activity is defined as significantly self-sustaining activities that finance their accounting cycle of operations through collections of exchange revenue as defined in SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting (Footnote 33A of SFFAS 55).* For example, working capital funds would be considered business-type activities. Components are to document their analysis supporting the identification of significant business-type activities and conclusions reached.

Paragraphs 110 and 111 of SFFAS 4, as amended, are restored to their original language; however, the standards have been adjusted to require business-type activities to recognize inter-entity costs.

- 110. Implementation of this standard on inter-entity costing should be accomplished in a practical and consistent manner. The OMB may issue guidance identifying additional inter-entity costs that entities should recognize. The inter-entity costs should be specified in accordance with this standard including the recognition criteria presented in paragraphs 111 through 113 of SFFAS 4.

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- Excerpt from paragraph 111. Recognition of all significant inter-entity costs is important when those costs constitute inputs to government goods or services provided for a fee or user charge.

SFFAS 55 amends SFFAS 4 by adding a new sub-title "Component Reporting Entity Disclosures" following paragraph 113 and adding paragraph 113A.

- 113A. Component reporting entities should disclose that only certain inter-entity costs are recognized for goods and services that are received from other federal entities at no cost or at a cost less than the full cost. An example disclosure includes when goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed [by the component reporting entity] are recognized as imputed cost [in the Statement of Net Cost], and are offset by imputed revenue [in the Statement of Changes in Net Position]. Such imputed costs and revenues relate to business-type activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

The DoD Financial Management Regulation 7000.14-R, specifically Volume 4, Chapters 6 and 16 and Volume 6B, Chapters 5 and 10, will be updated to reflect SFFAS 55.

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