

VOLUME 6B, CHAPTER 5: “STATEMENT OF NET COST”**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also 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 [January 2018](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Clarified language for readability and made updates to comply with administrative instructions.	Revision
1.3 (050103)	Updated to reflect the current title of Treasury Financial Manual, Volume 1, Part 2, Chapter 4700.	Revision
2.1 (050201)	Combined paragraphs 050201 and 050202 (previous version) discussing the formats used to generate the consolidated and consolidating Statement of Net Cost (SNC).	Revision
3.1.1.2., 3.1.3.2., 3.1.4.1.2. 3.2.1.1. (050301.A.2, 050301.C.2, 050301.D.1.b, 050302.A.1)	Replaced note numbers with a reference to the notes to the financial statements.	Revision
3.1.2. (050301.B)	Replaced the reference identifying performance measures used for reporting purposes from the Financial Improvement and Audit Readiness Guidance to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer DoD Internal Control Over Financial Reporting Guide.	Revision
3.1.2. (050301.B)	Replaced information explaining the presentation of the SNC with a reference to Figures 5-1 and 5-2 containing the current SNC formats.	Revision
3.1.4. (050301.D)	Replaced language explaining the recognition of non-reimbursed inter-entity costs with a reference to Statement of Federal Financial Accounting Standards (SFFAS) 4, “Managerial Cost Accounting Standards and Concepts,” which contains this information.	Revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
3.1.4.1.1. (050301.D.1.a)	Replaced the categories used to report inter-entity imputed costs with a reference to the gross program cost categories included in Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements," dated June 28, 2019.	Revision
3.1.4.1.2. (050301.D.1.b)	Revised to include information on SFFAS 55, "Amending Inter-entity Cost Provisions," which rescinded SFFAS 30, "Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts." Replaced reference to Technical Release 8, "Clarification of Standards Relating to Inter-Entity Costs," with reference to Technical Release 19, "Rescission of Technical Release 8	Revision
3.1.4.2.1. (050301.D.2.a)	Replaced the reference to Interpretation of Federal Financial Accounting Standards 6, "Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4," which was rescinded by SFFAS 55, with a reference to SFFAS 4.	Revision
3.2 (050302)	Revised the line numbers used on the SNC to more clearly present information.	Revision
3.2.1.1. (050302.A.1)	Replaced the listing of stewardship property, plant, and equipment costs with a reference to OMB Circular A-136, which contains this information.	Revision
3.2.3. (050302.C)	Replaced the policy for reporting earned revenues with a reference to OMB Circular A-136, which contains this information.	Revision
3.2.6. (050302.F)	Replaced the policy for reporting costs not assigned to programs with a reference to OMB Circular A-136, which contains this information.	Revision
Figure 5-1	Revised numbering and line titles for the Consolidated SNC to improve usability.	Revision
Figure 5-2	Revised presentation for the Consolidating SNC to include a column used to summarize data at the Component level.	Revision

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CHAPTER 5

STATEMENT OF NET COST

1.0 GENERAL (0501)

1.1 Overview (050101)

The Statement of Net Cost (SNC) is designed to show [separately](#) the components of the net cost of the reporting entity's operations for the [reporting](#) period. The net cost of operations is the gross cost incurred by the reporting entity less any exchange revenue earned from its activities.

1.2 Purpose (050102)

This chapter prescribes the policy for preparing the DoD SNC. Additionally, this chapter provides standard formats for the published and working versions of the SNC.

*1.3 Authoritative Guidance (050103)

The concept of exchange revenue incorporated throughout this chapter is described in the Statement of Federal Financial Accounting Standards ([SFFAS](#)) [7](#), “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting;” Office of Management and Budget (OMB) [Circular A-136](#), “Financial Reporting Requirements,” dated [June 28, 2019](#); and Treasury Financial Manual, Volume 1, Part 2, Chapter [4700](#), “[Federal Entity](#) Reporting Requirements for the Financial Report of the United States Government.” [Annual updates to OMB Circular A-136 are on the OMB website.](#)

2.0 FORMATS FOR THE SNC (0502)

*2.1 Format for the Working Version of the Consolidated/[Consolidating](#) SNC (050201)

Use the formats presented in [Figures 5-1 \(consolidated\) and 5-2 \(consolidating\) for the SNC](#). Consider all versions of the statements, and notes leading up to the final submission to the Defense Finance and Accounting Service (DFAS) Financial Reporting Directorate, “working versions.” The working versions of all statements will include the line numbers as shown in [Figures 5-1 and 5-2](#). All amounts will remain in dollars and cents in the working versions of the statements and note schedules in order to improve communication among the preparers, the reviewers, and the auditors during the financial statements preparation process. Consolidating statements are not required by OMB Circular A-136. However, they are useful for financial management and may be published in a reporting entity’s annual financial report.

2.2 Published SNC Format (050202)

The final DoD published statements, including the SNC, and the notes to the principal statements will display dollars rounded to the nearest millions with one decimal point. All Component statements will display dollar amounts rounded to the nearest whole thousand on the final published principal statements and in the tables/schedules contained in the notes to the

principal statements. Dollar amounts in note narratives will be reported with a maximum of three position integers and a single decimal value followed by an identifier, such as millions or billions (e.g. \$340.1 million, not \$340,100 thousand). The line numbers shown in Figures 5-1 and 5-2 are for reference only and are not included in the final versions.

3.0 INSTRUCTIONS FOR THE PREPARATION OF THE SNC (0503)

3.1 General Instructions (050301)

3.1.1. Net Cost of Operations. All figures used on the SNC are pre-closing trial balances.

3.1.1.1. Pre-closing trial balances include end of period adjusting entries to recognize on an accrual basis, revenues and expenses, and the proper amounts for assets, liabilities, and net position amounts. They do not include closing entries, which reduce nominal accounts to zero. The Consolidating SNC is organized in a manner that allows users of the financial data to differentiate between costs and revenues resulting from both program and non-program operations, and provides the framework for analysis of metrics and outcomes of the various DoD programs and activities.

* 3.1.1.2. Net program costs are the gross program costs incurred by the reporting entity, plus losses (gains) from actuarial assumption changes for military retirement or other postemployment benefits, less any exchange program revenue earned from its activities. This amount represents the net cost of a sub-organization or entity funded by sources other than exchange revenues. The gross cost of a program consists of the full cost of the outputs produced by that program, as defined by [SFFAS 4](#), “Managerial Cost Accounting Standards and Concepts,” plus any nonproduction costs that are assignable to the program. Nonproduction costs are costs linked to events other than the production of goods and services. [Refer to Chapter 10 for disclosure requirements in the notes to the financial statements.](#)

* 3.1.2. Programs Reported. DoD has identified performance measures in the [Office of the Under Secretary of Defense \(OUSD\) \(Comptroller\)/Chief Financial Officer DoD *Internal Control Over Financial Reporting Guide*](#) for gross costs. DoD currently does not accumulate costs for major programs based on performance measures, in part because financial processes and systems do not yet fully collect costs in line with these measures. DoD divides programs by the seven major appropriation groupings addressed in paragraph [050401](#). [Refer to Figures 5-1 and 5-2 for the current SNC formats.](#)

3.1.3. Sub-Entity Programs.

3.1.3.1. Preparers of the SNC decide the exact classification of sub-entities and major programs based on:

3.1.3.1.1. Metrics and outcomes described in the entity’s strategic and performance plans, as required by the Government Performance and Results Act of 1993 ([GPR](#)), as amended by the GPR Modernization Act of 2010 ([GPRAMA](#));

3.1.3.1.2. Entity's budget structure;

3.1.3.1.3. Guidance for defining and structuring responsibility segments presented in SFFAS 4; and

3.1.3.1.4. Requirements of the GPRAMA.

* 3.1.3.2. When data is available at the program element level, reporting entities may provide information as a supplemental schedule in the note to the SNC or in "Other Information." The SNC and related supporting schedules must show the net cost of operations for the reporting entity as a whole and its sub-entities and program elements, as applicable. In the Consolidating SNC, DoD identifies Components by the reporting entities described in Chapter 1. The Components may further break out the Consolidating SNC and provide any additional supporting schedules in [the notes to the financial statements](#).

* 3.1.4. Imputed Costs. SFFAS 4 requires reporting entities to measure and report the full costs of their outputs (products and services) in financial reports. Imputed costs and financing sources included in the SNC must be identifiable to a specific trading partner. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services through either billing or other advice. [SFFAS 4 identifies inter-entity costs that are not fully reimbursed. See SFFAS 4 for additional information.](#)

3.1.4.1. Inter-Entity Imputed Costs.

* 3.1.4.1.1. Inter-entity imputed costs represent costs that are paid in total or in part by entities external to DoD. Costs displayed on the SNC include certain imputed costs as directed by OMB. All federal agencies are required to report imputed costs for the [gross program cost](#) categories described in [OMB Circular A-136](#) to ensure consistency in reporting across the Government.

* 3.1.4.1.2. [SFFAS 55](#), "Amending Inter-entity Cost Provisions," requires the recognition of significant inter-entity costs by business-type activities. Additional guidance on inter-entity costs is available in Federal Accounting Standards Advisory Board [Technical Release 19](#), "Rescission of Technical Release 8." Disclose intragovernmental full costs and earned revenues, and public costs and earned revenues, in the notes to the financial statements.

3.1.4.2. Intra-Entity Imputed Costs.

* 3.1.4.2.1. Intra-entity imputed costs represent costs that are paid in total or in part by other entities within DoD. Costs displayed on the SNC include intra-entity imputed costs as required by [SFFAS 4](#). Imputed intra-entity cost is the unreimbursed portion of the full costs of goods and services received by the entity from a providing entity that is part of the same entity or larger reporting entity (i.e. other bureaus, components, or responsibility segments within the entity or larger reporting entity). An example of an intra-entity imputed cost would be a DoD tenant receiving rent-free business space from another DoD entity. Volume 4, Chapter 19 provides

additional detail on intra-entity costs. DoD reporting entities should report the following intra-entity imputed costs:

3.1.4.2.1.1. Imputed Costs for Military Pension Expense. DoD reporting entities will recognize an imputed cost that is equal to the reported employer entity pension expense for the accounting period, as computed using factors provided by the OUSD (Personnel and Readiness) (P&R), less any accounting period contributions by the Military Departments to the Military Retirement Fund. Report administrative entity expenses only in the Military Retirement Fund audited financial statements.

3.1.4.2.1.2. Imputed Costs for Military Health Benefits. DoD reporting entities will recognize imputed costs equal to the employer entity expense for the military health benefits that is attributable to the Military Department (as computed using factors provided by the OUSD(P&R)) for the accounting period. The administrative entity for the military health benefits is the OUSD(P&R). Report the administrative entity's actual expenses only in the Medicare-Eligible Retiree Health Care Fund, Defense Health Agency, and Other Defense Organizations-General Funds financial statements.

3.1.4.2.2. DoD management, in accordance with the full cost provision of SFFAS 4, determines how intragovernmental costs incurred within DoD will be assigned, allocated, or imputed for purposes of accounting for the full cost of a program and its output(s). As a result, recognition of intra-entity imputed costs is not limited to specific cost categories as in the case of inter-entity imputed costs.

3.1.5. SFFAS 33. SFFAS 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates," requires entities reporting liabilities for federal civilian and military employee pensions, other retirement benefits, and other postemployment benefits, including veterans' compensation, to report changes in those liabilities that result from gains and losses due to changes in long-term assumptions as a separate line item on the SNC.

*3.2 Line Item Instructions (050302)

The Department of the Treasury provides a United States Standard General Ledger crosswalk detailing the accounts and attributes included in each line item of the SNC. DFAS ensures the Defense Departmental Reporting System, Audited Financial Statements is updated with all crosswalk changes made by the Department of the Treasury.

3.2.1. Program Costs - Line 1. This line includes the full costs of each program's outcome. It consists of both direct and indirect costs of the output and the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities. To the extent accounting systems and defined DoD business rules allow, the reporting entity will accumulate and assign costs using the costing methodology found in SFFAS 4. Program costs also include any nonproduction costs that can be assigned to the program but not to its outputs. Report costs related to the production of outputs separately from nonproduction costs that cannot

be traced to the production of outputs. The costs of program outputs include costs of services provided by other entities whether or not the providing entity is fully reimbursed.

* 3.2.1.1. [Recognize](#) the cost of Stewardship Property, Plant, and Equipment as a cost in the SNC in the period it is incurred, report separately from other nonproduction costs, and disclose in [the notes to the financial statements](#). Refer to [OMB Circular A-136](#) for additional information. The entity that received the funds reports these costs and separately discloses them in [the notes to the financial statements](#). Report heritage assets and stewardship land according to Chapter 10 and [SFFAS 29](#), “Heritage Assets and Stewardship Land.” Refer to [Volume 4, Chapter 28](#), for additional information on heritage assets, multi-use heritage assets, and stewardship land.

3.2.1.2. Reporting entities will consider differentiating other significant costs when, by doing so, the usefulness of the statements would be improved either because the amount of a particular cost is large or because of its special nature. Consider elements of other nonproduction costs significant when the element represents 10 percent or more of the value of the line.

3.2.2. [Gross Costs - Line 1.A](#). This line contains costs that arise from the purchase of goods or services. [Eliminate](#) the effects of intra-entity business transactions in the reporting entity’s statements. See Chapter 13 for elimination reporting requirements.

* 3.2.3. [\(Less: Earned Revenue\) - Line 1.B](#)

3.2.3.1. This line contains exchange revenues that arise when a federal entity provides goods and services to the public or another government entity for a price. [Report](#) the full amount of exchange revenue on the SNC or supplementary schedule regardless of whether the entity is permitted to retain the revenue in whole or in part.

3.2.3.2. Earned revenue should be deducted from the full cost of outputs or outcomes to determine their net cost unless it is not practical or reasonably possible to do so. If that cannot be done, deduct earned revenue from the gross cost of programs to determine the net program costs. When that is not practical or reasonably possible, deduct earned revenue from the costs of sub-organizations to determine the sub-organizations’ net cost of operations. Refer to [OMB Circular A-136](#) for additional policies for assigning earned revenue to outputs, outcomes, programs, or sub-organizations.

* 3.2.4. [Net Cost before Losses/\(Gains\) from Actuarial Assumption Changes for Military Retirement Benefits – Line 1.C](#)

3.2.5. [Losses/\(Gains\) from Actuarial Assumption Changes for Military Retirement Benefits – Line 1.D](#). This line contains gains and losses from changes in long-term assumptions used to measure military retirement benefits (i.e., Military Retirement Fund and Medicare-Eligible Retiree Health Care Fund). See SFFAS 33 for further guidance on gains and losses from long-term assumptions.

3.2.6. Net Program Costs Including Assumption Changes - Line 1.E.

* 3.2.7. Costs Not Assigned to Programs – Line 1.F. These costs are part of the entity and sub-organization costs and should be reported on the SNC as “Costs Not Assigned to Programs.” Exchange transactions resulting in the recognition of “Extraordinary” items not properly assignable to specific programs will be included in this line. Extraordinary items are costs or income as unusual in type or amount as to be accorded special treatment in the general ledger accounts. Disclose extraordinary items if they represent 10 percent or more of this line. Refer to [OMB Circular A-136 for specific examples.](#)

3.2.8. Less: Earned Revenue Not Attributable to Programs - Line 1.G. Earned revenue that is insignificant, or cannot be attributed to particular outputs or programs, is reported separately as a deduction in arriving at net cost of operations of the sub-organization or reporting entity as a whole.

3.2.9. Net Cost of Operations – Line 2. This line is the gross cost incurred by the reporting entity less any exchange revenue earned from its activities. This amount represents the net cost of a sub-organization or entity that must be financed by sources other than exchange revenues. Report the financing sources required to fund the “Net Cost of Operations” on the [Statement of Changes in Net Position.](#)

4.0 PROGRAM PRESENTATION (0504)

4.1 DoD Agency-wide Program Presentation (050401)

Report the program data from the SNC for the consolidated DoD financial statements by major appropriation grouping until financial processes and systems are upgraded. The seven appropriation groupings to be reported are:

4.1.1. Military Retirement Benefits;

4.1.2. Civil Works;

4.1.3. Military Personnel;

4.1.4. Operations, Readiness and Support;

4.1.5. Procurement;

4.1.6. Research, Development, Test, and Evaluation; and

4.1.7. Family Housing and Military Construction.

4.2 DoD Reporting Entities (050402)

Managers of the DoD reporting entities identified in Chapter 1 may report the program distribution of net costs by existing entity program units or by appropriation grouping as specified in paragraph 050401. If management chooses a program distribution other than by the appropriation grouping in paragraph 050401, a supplemental SNC by appropriation grouping must be provided. This supplemental schedule is required in order to prepare the consolidated DoD SNC.

*Figure 5-1. Consolidated Statement of Net Cost

DEPARTMENT OF DEFENSE				
[Agency]				
CONSOLIDATED STATEMENT OF NET COST				
FOR THE YEARS ENDED SEPTEMBER 30, 20(CY) AND 20(PY)				
(Amounts in dollars and cents)	Current Year		Prior Year	
1. Program Costs:				
A. Gross Costs				
Military Retirement Benefits	\$	\$\$\$	\$	\$\$\$
Civil Works		\$\$\$		\$\$\$
Military Personnel		\$\$\$		\$\$\$
Operations, Readiness & Support		\$\$\$		\$\$\$
Procurement		\$\$\$		\$\$\$
Research, Development, Test & Evaluation		\$\$\$		\$\$\$
Family Housing & Military Construction		_____	_____	\$\$\$
B. (Less: Earned Revenue)		_____	_____	(\$\$\$)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		_____	_____	\$\$\$
D. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		_____	_____	\$\$\$
E. Net Program Costs Including Assumption Changes		\$\$\$		\$\$\$
F. Costs Not Assigned to Programs		\$\$\$		\$\$\$
G. Less: Earned Revenue Not Attributable to Programs		_____	_____	(\$\$\$)
2. Net Cost of Operations	\$	_____	\$	_____

The accompanying notes are an integral part of these financial statements.

*Figure 5-2. Consolidating Statement of Net Cost

DEPARTMENT OF DEFENSE [REPORTING ENTITY] CONSOLIDATING STATEMENT OF NET COST For the Years Ended September 30, 20(CY) and 20(PY) (Amounts in dollars and cents)								
	Sub-entity A	Sub-entity B	Sub-entity C	Component Level	Combined Total	Eliminations	20(CY) Consolidated	20(PY) Consolidated
I. Program Costs								
A. Gross Costs	\$ \$\$\$	\$ \$\$\$	\$ \$\$\$	\$ \$\$\$	\$ \$\$\$	\$ \$\$\$	\$ \$\$\$	\$ \$\$\$
Military Retirement Benefits	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
Civil Works	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
Military Personnel	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
Operations, Readiness & Support	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
Procurement	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
Research, Development, Test & Evaluation	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
Family Housing & Military Construction	<u>\$\$\$</u>	<u>\$\$\$</u>						
B. (Less: Earned Revenue)	<u>(\$\$\$)</u>	<u>(\$\$\$)</u>						
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<u>\$\$\$</u>	<u>\$\$\$</u>						
D. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<u>\$\$\$</u>	<u>\$\$\$</u>						
E. Net Program Costs Including Assumption Changes	<u>\$\$\$</u>	<u>\$\$\$</u>						
F. Costs Not Assigned to Programs	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$	\$\$\$
G. Less: Earned Revenue Not Attributable to Programs	<u>(\$\$\$)</u>	<u>(\$\$\$)</u>						
2. Net Cost of Operations	<u>\$ \$\$\$</u>	<u>\$ \$\$\$</u>						

The accompanying notes are an integral part of these statements.