

CHAPTER 57  
WORK IN PROCESS  
AND  
CONSTRUCTION IN PROCESS

A. WORK IN PROCESS

1. Contents of Work In Process. Defense Working Capital Fund (DWCF) activities, primarily those involved in depot maintenance or other industrial-type operations, who routinely perform tasks that take more than a month, record operating costs within a work in process account so that costs may be matched to revenue upon completion of the task. Work In Process consists of the costs of the direct materials, direct labor, direct purchased services, and indirect costs, including general and administrative costs, used in producing customized personal property whether fabricated by the DoD or by a non-DoD organization under contract. When the costs are incurred by a DWCF activity, the related costs, regardless of the source of funding, shall be accumulated by job order. Work in process accounts bring the costs under financial control and segregates them from current accounting period expenses. Examples of work in process are:

a. Costs of additions, alterations, improvements, rehabilitations, and replacements of DoD fixed assets exclusive of construction in process.

b. Costs of maintaining and producing DoD equipment and inventory.

2. Types of Work In Process. Work In Process may consist of: Work In Process - In House; Work In Process - Contractor; Work In Process - Other Government Activities; and Work In Process - Government Furnished Material (GFM).

3. Basis for Valuation of Work In Process. Work in Process - In-House shall be recorded at the actual cost of direct labor and direct materials used in completion of job order and shall also include an allocation of indirect expenses and general and administrative (G&A) expenses. "Work In Process - Contractor" and "Work In Process - Other Government Plants" shall be valued at the amount paid or payable to those entities (based upon the unpaid amounts of requests for progress payments, cost reimbursements, and other invoices received). Work In Process - Government Furnished Material (GFM) shall be valued at the issued items' standard price and quantity. The GFM account shall be supported by records that identify quantities of items and dollar amounts by contract number.

4. Relief of Work In Process. The direct costs and allocated indirect costs and G&A expenses recorded in work in process accounts shall be transferred upon completion or termination of the job to cost of goods sold or, if the completed work is to be retained for use by the producing activity, to an applicable asset or, if it does not meet the DoD capitalization criteria, an expense account. ("Completion" includes that portion of work financially complete under the percentage of completion revenue recognition policy.) The amount relieved shall be the costs incurred that are associated with the revenue earned. The costs incurred ordinarily will not be equal to the revenue earned. The costs incurred may be more than, or less than the revenue earned depending upon whether a loss or gain was taken on the work performed.

B. ACCOUNTING FOR OPERATIONS AND WORK IN PROCESS

1. Accounting for Operations. The following illustrate typical budgetary and proprietary accounting entries applicable to in-house work of customer orders. Operating expenses recorded in the 6000 series of the general ledger accounts should be designated as direct expense or indirect expense; for example, general ledger account 6111, "Personnel Compensation - Civilian," should be designated to separately record and accumulate direct civilian labor from indirect civilian labor. The following illustrative budgetary and proprietary accounting entries shall be recorded at the activity (performing) level only.

a. Payroll

Dr 4614 Uncommitted/Unobligated Allotments -  
Reimbursable Program - Current Period

Cr 4920 Accrued Expenditures - Unpaid -  
Reimbursable Program

Dr 6111 Personnel Compensation - Civilian (Direct)

Dr 6111 Personnel Compensation - Civilian (Indirect)

Dr 6113 Personnel Benefits - Civilian (Direct)

Dr 6113 Personnel Benefits - Civilian (Indirect)

Cr 2211 Accrued Payroll - Civilian

Cr 2213 Accrued Payroll - Civilian - Employer Share  
of Fringe Benefits

Budgetary and proprietary entries to record accrual of civilian employee compensation earned during the period.

b. Supplies and Materials

Dr 4614 Uncommitted/Unobligated Allotments -  
Reimbursable Program - Current Period

Cr 4920 Accrued Expenditures - Unpaid -  
Reimbursable Program

Dr 1511 Operating Materials and Supplies Held for Use

Cr 2113 Accounts Payable - Public - Current

Budgetary and proprietary entries to record invoice for supplies and materials received.

Dr 6121 Supplies and Materials (Direct)

Dr 6121 Supplies and Materials (Indirect)

Cr 1511 Operating Materials and Supplies Held for Use

Proprietary entry to record issue of supplies and materials. Parts and materials issued to a specific job shall be recorded as a direct cost. Parts and materials issued for the general use of a cost center (production indirect) or for general administration of an activity (G&A) shall be recorded as an indirect cost. (There is no budgetary entry for movement of amounts between proprietary accounts.)

c. Assignment of Direct Costs

Dr 1581 Work In Process - In-House

Cr 6111 Personnel Compensation - Civilian (Direct)  
Cr 6113 Personnel Benefits - Civilian (Direct)  
Cr 6121 Supplies and Materials (Direct)

Periodic, but not less than monthly, entry to record assignment of direct costs to work in process.

d. Allocation of Indirect Costs

Dr 1581 Work In Process - In-House  
Cr 6600 Applied Overhead

Periodic, but not less than monthly, entry to record allocation of indirect expenses to work in process.

e. Payment of expenses incurred

Dr 4920 Accrued Expenditures - Unpaid - Reimbursable Program  
Cr 4940 Accrued Expenditures - Paid - Reimbursable Program

Dr 2211 Accrued Payroll - Civilian  
Dr 2213 Accrued Payroll - Civilian - Employer Share of  
Fringe Benefits  
Dr 2113 Accounts Payable - Public - Current  
Cr 1012.1 Funds Disbursed - Operating Program

Entry to record payment of civilian payroll and other expenses.

f. Adjustment of Over and Under Applied Overhead

Dr 6600 Applied Overhead  
Dr 7293 Other Miscellaneous Losses  
Cr 7193 Other Miscellaneous Gains  
Cr 6111 Personnel Compensation - Civilian (Indirect)  
Cr 6113 Personnel Benefits - Civilian (Indirect)  
Cr 6121 Supplies and Materials (Indirect)  
Cr 6125 Depreciation of Equipment

Periodic, but not less than annual, entry to record closure of indirect expenses to the applied overhead account. Variances between actual indirect expenses and applied indirect expenses are accounted for as a gain or loss as illustrated above.

2. Accounting for Work in Process. Four "Work in Process" subsidiary accounts control applicable work, payments, and property that receive special attention. "Work in Process-In-House," "Work in Process - Contractor," and "Work in Process - Other Government Activities," identify the performing activity. "Work in Process - Government-Furnished Material," identifies that portion of Government property furnished to contractors and subcontractors for the performance of DoD contracts for other than real property.

a. Work in Process - In-House (Account 1581). "Work in Process - In-House" is used to record the cost of work in process performed by DoD personnel. A subsidiary account shall be maintained to accumulate the costs of each job order and facilitate the transfer of costs to the cost of goods sold account. Sources of entries to this account include billings under contracts for

material, supplies, and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed work in process; and documented losses. The following illustrate the most common entries to this account:

- (1) Dr 1581 Work in Process - In-House  
Cr 6000 Expense Accounts series (Direct)

To record the assignment of costs incurred.

- (2) Dr 1581 Work in Process - In-House  
Cr 6600 Applied Overhead

To record the allocation of applied indirect and other overhead costs to work in process.

- (3) Dr 1581 Work in Process - In-House  
Cr 1766 Equipment Not in Use

To record the value of equipment incorporated into DoD in-house work in process.

- (4) Dr 1581 Work in Process - In-House  
Cr 1582 Work in Process - Contractor  
Cr 1583 Work in Process - Other Government Activities  
Cr 1584 Work in Process - Government-Furnished Material

To record work performed by other entities (subcontractors) that is to be incorporated into work that will be completed in-house.

- (5) Dr 6500 Cost of Goods Sold  
Cr 1581 Work in Process - In-House

To record the value of DoD in-house work in process that is completed in response to a customer order.

b. Work in Process - Contractor (Account 1582). "Work in Process - Contractor" is used to record the cost of work in process performed by DoD contractors. Subsidiary accounts shall be maintained for each contract to track the value of work performed as represented by progress payments. Sources for entries to this account include contractor requests for progress payments, invoices, payment vouchers, property acceptance documents, accounting records, and documented losses. The following illustrate the most common entries to this account:

- (1) Contract Work on Customer Orders

Dr 4614 Uncommitted/Unobligated Allotments -  
Reimbursable Program - Current Period  
Cr 4820 Undelivered Orders - Reimbursable Program

Issuance of order to contractor to perform work.

- (2) Progress Payment Made To Contractor

Dr 4820 Undelivered Orders - Reimbursable Program  
Cr 4920 Accrued Expenditures - Unpaid -  
Reimbursable Program

Dr 1582 Work In Process - Contractor  
Cr 2113 Accounts Payable - Public - Current  
Cr 2130 Contract Holdbacks

Progress billing received from contractor for partial completion of ordered work  
(A portion is withheld from payment pending successful completion of contract).

Dr 4920 Accrued Expenditures - Unpaid - Reimbursable Program  
Cr 4940 Accrued Expenditures - Paid - Reimbursable Program

Dr 2113 Accounts Payable - Public - Current  
Cr 1012.1 Funds Disbursed - Operating Program

Progress payment made to contractor for partial completion of ordered work.

(3) Contractor Delivery of Ordered Work

Dr 4820 Undelivered Orders - Reimbursable Program  
Dr/Cr 4614 Uncommitted/Unobligated Allotments -  
Reimbursable Program - Current Period  
(If the Accrued Expenditure - Unpaid differs  
from the amount of the undelivered order.)  
Cr 4920 Accrued Expenditures - Unpaid - Reimbursable  
Program

Dr 1582 Work In Process - Contractor  
Dr 2130 Contract Holdbacks  
Cr 2113 Accounts Payable - Public - Current

Final billing received from contractor for delivery of ordered work.

(4) Release of Delivered Work to In-House Work

Dr 1581 Work in Process - In-House  
Cr 1582 Work in Process - Contractor

To record the liquidation of "Work in Process - Contractor" when related work is to  
be incorporated into other work being performed in-house.

(5) Release of Delivered Work to Customer

Dr 6500 Cost of Goods Sold  
Cr 1582 Work in Process - Contractor

To record the liquidation of "Work in Process - Contractor" when related work is  
completed and accepted for delivery to a customer in response to its order.

c. Work in Process - Other Government Activities (Account 1583). "Work in Process -  
Other Government Activities" is used to record the cost of work in process performed by other  
Federal Government Agencies. A subsidiary account shall be maintained for each contract to

track the value of work performed as represented by progress payments. Sources for entries to this account include interagency agreements, invoices, payment vouchers, property acceptance documents, and documented losses. The following illustrate the most common entries to this account:

- (1) Dr 1583 Work in Process - Other Government Activities  
Cr 2111 Accounts Payable - Government - Current

To record value of work performed by another Government Agency as represented by requests for progress payments.

- (2) Dr 1581 Work in Process - In-House  
Cr 1583 Work in Process - Other Government Activities

To record the liquidation of "Work in Process - Other Government Activities" when related work is to be incorporated into other work being performed in-house.

- (3) Dr 6500 Cost of Goods Sold  
Cr 1583 Work in Process - Other Government Activities

To record the liquidation of "Work in Process - Other Government Activities" when related work is completed and accepted for delivery to a customer in response to its order.

d. Work in Process - Government-Furnished Material (Account 1584). "Work in Process - Government-Furnished Material" is used to record the value of that portion of Government personal property furnished to contractors and subcontractors (including other Federal Agencies) for the performance of DoD contracts. Government property, in this case, includes all personal property acquired directly by the Department of Defense and made available for incorporation into personal property end products to be delivered under DoD contracts or to be consumed or expended in the performance of those contracts. A subsidiary account shall be maintained for each contractor that is furnished Government property. The subsidiary accounts shall be subdivided by contract. Increases to this account shall be supported by documentation evidencing issues of Government material to contractors, whether from inventory or from another contractor in accordance with DoD instructions. Decreases to this account shall occur only when the end item is accepted by the Department of Defense and received into inventory, or the material is returned to inventory or otherwise disposed of at DoD's direction. Periodically, but at least annually, this account shall be reconciled with the property accountability records maintained by the contractor. This reconciliation involves coordination with the assigned property administrator for the contract. Property administrators shall be provided financial data on the value of GFM for use in completing contract close out or termination. On contract completion or termination the account shall be adjusted to reflect the disposition of unused GFM provided to the contractor for use in meeting contractual requirements. Sources for entries to this account include shipping and issue documents, property acceptance documents and property administrator reports, material-return documents, collection and deposit documents, settlement agreements, and documented losses. The following illustrate the most common entries to this account:

- (1) Dr 1584 Work in Process - Government-Furnished Material  
Cr 1511 Operating Materials and Supplies Held for Use  
Cr 1766 Equipment Not in Use

To record the value of Government property furnished to contractors for the performance of DoD contracts for other than real property.

- (2) Dr 1511 Operating Materials and Supplies Held for Use
  - Dr 1766 Equipment Not in Use
  - Dr 6120 Other Services
    - Cr 2113 Accounts Payable - Public - Current
    - Cr 1584 Work in Process-Government-Furnished Material

To record the value of Government property that is:

- (a) Incorporated into end products accepted by DoD for final payment.
- (b) Consumed or expended in the performance of DoD contracts.

- (3) Dr 1511 Operating Materials and Supplies Held for Use
  - Dr 1766 Equipment Not in Use
    - Cr 1584 Work in Process-Government-Furnished Material

To record the value of Government-provided property returned by the contractor.

- (4) Dr 1320 Claims Receivable-Public or Other Losses
  - Cr 1584 Work in Process-Government-Furnished Material

To record claim for the loss, damage, or destruction of Government property furnished in connection with DoD contracts.

## C. ACCOUNTING FOR CONSTRUCTION IN PROCESS

1. Purpose. The "Construction in Process" accounts are used to accumulate costs of DoD real property construction projects. Included in this category is equipment that is installed as an integral part of the real property and that normally cannot be removed without dismantling the property. Examples of such equipment include heating and air conditioning systems, overhead cranes, elevators, etc. These costs include direct labor, direct material, purchased services and overhead. All of these costs, including those financed as "minor construction," are recorded in "Construction in Process" accounts as long as the construction project is expected to meet the DoD capitalization criteria. The recording of costs in "Construction in Process" accounts brings the costs under financial control and segregates them from expenses.

2. Construction Overhead. Construction overhead includes any cost of construction in process that benefits more than a single construction project. Overhead may include costs for supervision and other indirect labor, supplies and materials, transportation, depreciation of other assets used in construction of the asset in process, etc. Construction overhead must be collected in cost pools and allocated to specific construction projects in proportion to the benefits received. Often, a common single element such as square feet, direct labor hours, direct labor dollars, etc. is used to allocate overhead costs. However, other methods, such as total cost, may also be used. The objective is to select an overhead allocation base that best represents the beneficial or causal relationship between the expenses incurred and all benefiting or causing segments.

3. Subsidiary Accounts. There are four "Construction in Process" subsidiary accounts to control applicable work and property that receive special attention. "Construction in Process - In-House," "Construction in Process - Contractor," and "Construction in Process - Other Government Agencies" identify who is performing the construction. "Construction in Process - Government-Furnished Material" identifies that portion of Government property furnished to contractors and subcontractors for the performance of DoD construction contracts.

4. Construction Funded by Other than the DWCF. Construction in process at a DWCF activity, but not funded by the DWCF activity, shall not be accounted for as construction in process by the DWCF activity although the asset, when completed, will be used in DWCF operations. Construction in process of this nature is, as a rule, financed by a Military Construction appropriation and is accounted for by the DoD construction agent (the Army Corps of Engineers or Naval Facilities Engineering Command). The DoD construction agent either performs or contracts for the actual work, as applicable, when it is responsible for the construction. The DoD accounting entity that is to receive the constructed property financed by other than DWCF funds does not account for the construction costs until it accepts accountability for the completed asset.

5. Termination of Projects. When construction projects are terminated before completion, the circumstances must be examined carefully to determine suitable write-offs and other applicable accounting adjustments.

6. Construction in Process (Account 1720)

a. "Construction in Process" is used to record the costs of direct labor, direct material, and overhead incurred in the construction of property and plant. On completion, these costs shall be transferred to the proper capital asset account as the acquisition cost of the item.

b. This account is a summary account used for financial control and reporting purposes. No entries are posted to this account.

7. Construction in Process - In-House (Account 1721)

a. "Construction in Process - In-House" is used to record the cost of construction performed by DoD personnel.

b. Subsidiary accounts shall be maintained for each construction project to facilitate the transfer of costs to the applicable real property account.

c. The following entries illustrate the most common use of this account:

- (1) Dr 1721 Construction in Process - In-House
  - Cr 1511 Operating Materials and Supplies Held for Use
  - Cr 1750 Equipment
  - Cr 6000 Expense accounts series

To record the costs incurred by the Department of Defense for construction in process.

- (2) Dr 1730 Buildings
  - Dr 1740 Other Structures and Facilities
  - Cr 1721 Construction in Process - In-House

To record the value of DoD in-house construction projects completed.

d. Sources of entries to this account include billings under contracts for materials, supplies, and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed construction projects; and documented losses.

8. Construction in Process - Contractor (Account 1722)

a. "Construction in Process - Contractor" is used to record the value of work performed by contractors other than other Government Agencies in accordance with the terms of the applicable construction contracts. Progress payments for such work are discussed in Subpart 32.5 of the Federal Acquisition Regulation. Other types of payments, such as cost reimbursements also are included in this account.

b. Subsidiary accounts shall be maintained for each construction project to facilitate the transfer of costs to the applicable real property account.

c. The following entries illustrate the most common use of this account:

- (1) Dr 1722 Construction in Process - Contractor  
Cr 2113 Accounts Payable - Public - Current

To record the allowable costs of construction in process reported by contractors other than Federal Government Agencies.

- (2) Dr 1730 Buildings  
Dr 1740 Other Structures and Facilities  
Cr 1722 Construction in Process - Contractor

To transfer completed projects to the applicable real property accounts.

d. Sources of entries to this account include contracts, contractor requests for progress payments, invoices, payment vouchers, construction acceptance documents, accounting records, and reports of survey.

9. Construction in Process - Other Government Activities (Account 1723)

a. "Construction in Process - Other Government Activities" is used to record the value of work performed by other Federal Agencies for the construction of facilities, utilities, and ground improvements not yet accepted by the Department of Defense.

b. Subsidiary accounts shall be maintained for each construction project to facilitate the transfer of costs to the applicable real property account.

c. The following entries illustrate the most common use of this account:

- (1) Dr 1723 Construction in Process - Other Government Activities  
Cr 2111 Accounts Payable - Government - Current

To record the allowable costs paid for construction being performed by another Federal Agency.

- (2) Dr 1730 Buildings  
Dr 1740 Other Structures and Facilities  
Cr 1723 Construction in Process - Other Government Activities

To transfer completed projects to the applicable real property accounts.

d. Sources of entries to the "Construction in Process - Other Government Activities" account include invoices, payment vouchers, construction acceptance documents, and reports of survey.

10. Construction in Process-Government-Furnished Material (Account 1724)

a. "Construction in Process - Government-Furnished Material" is the account for recording the value of that portion of Government property furnished to contractors and subcontractors (including other Federal Agencies) for the performance of DoD construction contracts. "Government property" in this case includes all personal property acquired directly by the Department of Defense and made available for incorporation into construction end products to be delivered under DoD construction contracts or to be consumed or expended in the performance of those construction contracts.

b. Subsidiary accounts shall be maintained for each contractor and contract that is furnished Government property.

c. The following entries illustrate the most common use of this account:

(1) Dr 1724 Construction in Process - Government-  
Furnished Material  
Cr 1511 Operating Materials and Supplies Held for Use  
Cr 1750 Equipment

To record the value of Government property furnished to contractors for the performance of DoD construction contracts.

(2) Dr 1730 Buildings (a)  
Dr 1740 Other Structures and Facilities (a)  
Dr 6000 Expense Accounts series (b)  
Cr 1724 Construction in Process Government-Furnished Material

To record the value of Government property that is as follows:

(a) Incorporated into or attached to a construction end product accepted by the Department of Defense.  
(b) Consumed or expended in the performance of DoD construction contracts.

(3) Dr 1511 Operating Materials and Supplies Held for Use  
Dr 1750 Equipment  
Cr 1724 Construction in Process - Government-Furnished Material

To record the value of Government property returned by contractors.

(4) Dr 1320 Accounts Receivable - Claims Receivable - Public  
Cr 1724 Construction in Process - Government-Furnished Material

To record a claim against a contractor for the value of the loss, damage, or destruction of Government property furnished in connection with DoD construction contracts.

- (5) Dr 7293 Other Miscellaneous Losses  
Cr 1724 Construction in Process - Government- Furnished Material

To record the nonrecoverable value of the loss, damage, or destruction of Government property furnished in connection with DoD construction contracts.

d. Sources of entries to this account include shipping and issue documents, construction acceptance documents and property administrator reports, material-return documents, collection and deposit documents, settlement agreements, and documented losses.

11. Capital Assets Under Development-DWCF (Account 1725)

a. "Capital Assets Under Development-DWCF" is the account used by the DWCF to accumulate the cost of capital assets that is being manufactured, constructed, or otherwise developed for use and retention by the performing activity. (General ledger account 1515, "Operating Materials and Supplies Under Development," is the counterpart of this account used to accumulate the cost of non-capital assets -- See Chapter 56.) The total cost to develop or manufacture a capital asset consists of, but is not limited to; direct and indirect labor, directly related material, contractual and reimbursable support cost, applicable overhead, and allocated general and administrative costs incurred in the development or manufacture of a capital asset. Software development (programs, routines, and subroutines) cost shall also include the computer operating costs for testing, developing, and parallel processing. The total cost of developing or manufacturing assets for use by any segment of the business area, including installation and other costs necessary to place the asset in use, shall be accumulated in the construction-in-process general ledger account 1725, "Capital Assets Under Development-DWCF" Upon completion, delivery and installation of the developed or manufactured asset, the account shall be relieved and the amount in that account capitalized to the applicable asset account. The capital asset shall then be depreciated by the business area at which it is installed.

b. The following entries illustrate the most common use of this account:

- (1) Dr 1725 Capital Assets Under Development-DWCF  
Cr 6000 Expense Accounts series (Direct)

To record the assignment of costs incurred.

- (2) Dr 1725 Capital Assets Under Development-DWCF  
Cr 6600 Applied Overhead

To record the allocation of applied indirect and other overhead costs to assets under development.

- (3) Dr 1750 Equipment  
Dr 1830 Automated Data Processing Software  
Cr 1725 Capital Assets Under Development-DWCF

To record the value of completed assets to their applicable asset classification.