

## CHAPTER 59

### LIABILITIES

#### A. GENERAL STANDARDS

1. General Information. General information relating to liabilities may be found in Chapter 8, “Liabilities,” Chapter 9, “Accounts Payable,” Chapter 10, “Accrued Personnel Liabilities,” and Chapter 13, “Other Liabilities,” of Volume 4 of this regulation.

2. Definition of the Term “Liability”. A liability is a probable and measurable future outflow of resources arising from past transactions or events.

3. Liabilities Covered by Budgetary Resources (Funded Liabilities). These are liabilities incurred which will be covered by available budgetary resources. Budgetary resources include: (a) new budget authority; (b) offsetting collections credited to an appropriation or fund account; (c) recoveries of unexpired budget authority through downward adjustments of prior year obligations; and (d) unobligated balances of such resources at the beginning of the year or transferred in during the year.

a. Intragovernmental Funded Liabilities. Intragovernmental liabilities, for the Defense Working Capital Fund (DWCF), are claims against the DWCF by non-DWCF DoD and other federal entities. Intragovernmental liabilities include accounts payable to non-DWCF DoD and other federal entities and other current liabilities such as advances and prepayments received from those entities.

b. Governmental Funded Liabilities. Governmental liabilities, for the DWCF as well as for other DoD entities, are amounts that the federal government or an entity within the federal government owes to nonfederal entities. The term “nonfederal entities” encompasses domestic and foreign persons and organizations outside the U.S. Government. The term “public” is also used to represent nonfederal entities. Governmental liabilities include accounts and interest payable to nonfederal entities, other liabilities due to nonfederal entities, and advances and prepayments received from nonfederal entities.

4. Liabilities Not Covered by Budgetary Resources (Unfunded Liabilities). These are liabilities incurred which are not covered by available budgetary resources. These include liabilities resulting from the receipt of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods, for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or earnings of the entity. Notwithstanding an expectation that the appropriations will be made, whether they in fact will be made is completely at the discretion of the Congress.

a. Intragovernmental Unfunded Liabilities. These are liabilities, not covered by available budgetary resources, that arise from transactions among federal entities.

b. Governmental Unfunded Liabilities. These are liabilities, not covered by available budgetary resources, that arise from transactions with nonfederal entities.

5. Recognition of Liabilities. A liability should be recognized when it is incurred, regardless of whether it is covered by available budgetary resources. Financial statement disclosure should be made for liabilities that are not covered by available budgetary resources.

## B. SPECIFIC STANDARDS

1. Accounts Payable. Accounts payable are amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities. Accounts payable are not intended to include liabilities related to on-going continuous expenses such as employees' salary and benefits, which are covered by other current liabilities. Amounts owed for goods or services received from federal entities represent intragovernmental transactions and should be reported separately from amounts owed to the public.

2. Recognition of Accounts Payable. When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated. When a contractor provides the government with goods that are also suitable for sale to others, the liability usually arises when the contractor physically delivers the goods and the government receives them and takes formal title. However, when a contractor builds or manufactures facilities or equipment to the government's specifications, formal acceptance of the products by the government is not the determining factor for accounting recognition. Constructive or de facto receipt for facilities or equipment constructed or manufactured according to agreements or contract specifications occurs in each accounting period based on an estimate of work completed under the contract or agreement. The estimate of such amounts should be based primarily on the federal entity's engineering and management evaluation of actual performance progress and incurred costs. As a rule, actual performance progress and incurred costs are evidenced by progress billings from the contractor and are verified by the contract administrator.

3. Interest Payable. Interest payable should be recorded for the amount of interest expense incurred and unpaid. Within the DoD, interest payable results primarily from late payment of bills by a DoD activity (see provisions in 31 U.S.C. 3901 through 3907, Prompt Payment) and on refunds (see provisions in 26 U.S.C. 6611). The provisions of the Prompt Payment Act require that interest penalties be paid from funds available to carry out the programs for which the penalty was incurred, that is, interest penalties under the Prompt Payment Act shall be charged directly to the account that funds the payment of the underlying liability.

4. Other Current Liabilities. The term "other current liabilities" is used to report current liabilities that are not recognized in specific categories such as accounts payable; interest payable; debt owed to the public, Treasury, or other entities; and liabilities for loan guarantee losses. Other current liabilities due to federal entities are intragovernmental liabilities that should be reported separately from those due to employees and the public. Other current liabilities include unpaid expenses that are accrued for the fiscal year for which the financial statements are prepared and are expected to be paid within the fiscal year following the reporting date. Examples of "other current liabilities" are:

a. Accrued employees wages, bonuses, and salaries for services rendered in the current fiscal year for which paychecks will be issued in the following year.

b. Advances and prepayments received for goods to be delivered or services to be performed. An advance equal to the price of an item shall be collected before delivery or shipment of an item to customer who is not chartered, sanctioned, authorized, or under contract to perform a function of the Federal Government. Federal Government nonappropriated fund

instrumentalities are authorized to perform a morale, welfare, and recreation function for the Federal Government. Before revenues are earned, the current portion of the advances and prepayments should be recorded as other current liabilities. After the revenue is earned (goods or services are delivered, or performance progress is made according to engineering evaluations), the entity should record the appropriate amount as a revenue or financing source and should reduce the liability accordingly.

5. Relationship of liabilities to obligations. A federal entity, under budgetary accounting, records an obligation (i.e., an undelivered order) when the entity places a purchase order or signs a contract. An obligation, once incurred, reduces an entity's resources available for obligation. Budgetary accounting entries are required to record the amounts obligated and to reduce the available budget authority. For financial reporting purposes, liabilities are recognized when goods and services are received or are recognized based on an estimate of work completed under a contract or agreement. When liabilities are recognized, the undelivered order recorded in budgetary accounts is reduced and an accrued expenditure-unpaid is recorded. Addendum 1 illustrates this relationship.

6. Supporting Records. Supporting records shall be maintained for all liabilities. The supporting record shall identify the amount owed by individual transaction, the date recorded, and the identity of the payee. At least quarterly, the supporting records shall be reconciled with the general ledger balance. All differences shall be investigated and all errors corrected.

7. More specific and detailed information on the accounting for liabilities are contained in Volume 4, "Accounting Policies and Procedures," of this Regulation.

Compound entry to both types of accounts required to record budget authority and funds available.

Budgetary Accounts  
Proprietary Accounts  
Budget Execution Accounts  
Asset and expense accounts  
Comments

Compound entry required to both types of accounts when performance has been received or an accrual established.

Compound entry required to both types of accounts to record cash disbursements.

Budgetary transaction complete unless a refund or error correction is required.

Transactions to track disposition of assets obtained with appropriations are captured in the proprietary accounts. Amounts to be either capitalized or expensed, as appropriate.

#### Appropriation

Transactions to execute the budget are contained in the budget execution accounts.

During this accounting phase transactions are not posted to the proprietary accounts.

Transactions begin posting to the proprietary accounts when performance has been received.

Budget Execution Reports  
Financial Statements