CHAPTER 3

ASSETS

0301 GENERAL. Assets are economic resources obtained or controlled by NAF Instrumentalities (NAFI) as a result of past transactions or events. They are classified on financial statements as either current or non-current.

0302 CURRENT ASSETS. Current assets are those items of cash and other assets or resources that can be reasonably expected to be converted to cash or consumed during the normal operating cycle (12 months). These include cash and cash equivalents, short-term investments, accounts receivable, inventories, and prepaid expenses.

030201. Cash. Almost all accounting transactions affect the cash account at one time or another and these transactions occur most frequently. Cash includes coin and paper currency of all kinds including amounts on deposit in a banking institution.

A. Reconciliation of Bank Accounts. All bank statements or reports will be reconciled at a minimum monthly. Any discrepancies found shall be reported immediately to NAFI management.

B. Cash in Imprest Funds.

1. Change funds use these funds to make change and cash checks. Cash received from operations may be used to replenish the fund at the end of the day as long as daily receipts are deposited in total and all checks cashed from these funds are deposited daily. In no case will the custodian exchange dollars for foreign currency, except as provided in paragraph 3 below.

2. Petty Cash Funds. These funds are established by the NAFI to handle minor disbursements. The AO advances to an individual from the NAFI or activity that is designated as petty cash custodian a fixed amount of funds. Disbursements are made by the appointed individual and a petty cash voucher is completed to support each transaction. When needed, requests to reimburse the petty cash fund are sent to the AO from the NAFI with petty cash vouchers and cash register receipts (or equivalent) attached. At the minimum, a request to reimburse petty cash is sent to the AO by the NAFI as of the last day of the month. The AO issues a check payable to the petty cash fund custodian by name to reimburse the petty cash fund and the vouchers are charged to the appropriate expense accounts.

a. Each manager within a NAFI appoints individuals to act as petty cash custodians in writing.

b. The amount of a petty cash fund will not exceed one month's requirements.

c. Any one transaction will not exceed $500 or a lower amount if prescribed by the Military Services. Transactions will not be fragmented to circumvent this limitation.

d. If cash is given as bingo prizes, use a separate petty cash fund.

e. In foreign locations, an NAFI may have one petty cash fund in the local foreign currency as well as one in dollars. If an NAFI gives cash bingo prizes both in dollars and foreign currency, two bingo petty cash funds should be established.

f. NAFIs will not use petty cash funds for cashing checks or paying salaries and wages.

3. Foreign Currency Cash Funds. These funds are used to buy and sell foreign currency as a service to members and customers.

4. Other Imprest Funds. The NAFI requests establishment of an imprest fund for designated purposes. The NAFI custodian forwards an approved request to establish an imprest fund, the dollar amount authorized, and the purpose of the fund to the AO. The AO retains all documents authorizing the fund. The AO establishes the imprest fund by issuing a check. When needed the NAFI requests reimbursement of the change fund and forwards supporting documentation pertaining to the disbursements to the AO. These funds are reimbursed as of the last day of each month.

5. Accounting for Imprest Funds. Upon initial issuance of the change fund, the NAFI's cash account is reduced and the appropriate asset account (change funds issued) is increased. Disbursements to the petty cash fund are recorded to the applicable expense accounts in the month petty cash was disbursed by the petty cash custodian. Increases to these funds should be requested from the NAFI custodian in writing. The AO issues a check for the approved amount and increases the asset account accordingly.

C. Blank Check Stock

1. The AO may designate someone to perform the duties of keeping the records and controlling the blank check stock, but it cannot be one of the check writers.

2. Checks will be sequentially prenumbered and stored in a locked container.

D. Check Signing Equipment. There are three components to check-signing equipment: a signature plate, a key to the machine, and the machine itself. The signatory maintains the signature plate and a person other than the signatory maintains the key to the machine. Maintain a log to record machine usage. Whenever the machine is operated, the authorized operator enters the beginning and ending readings, date, and initials the log.

E. Change of Signatory. When a change of signatory occurs destroy the signature plates. A certificate of destruction is prepared and signed by the two witnesses and the successor signatory.

030202. Investments. Investment policy is found in DoD Instruction 7000.12.

030203. Accounts Receivable. Detailed records will be maintained so that it is possible to accurately identify the debtor and the amount of the debt. Accounts receivable subsidiary records will be, on a monthly basis, reconciled to the general ledger control accounts.

A. Customer Accounts Receivable. Amounts recorded in accounts receivable that result from in house credit (charge) sales of merchandise and services, and dues are considered customer type accounts receivable. For this type receivable, the following applies:

1. A subsidiary ledger is maintained for each individual account.

2. Charge monthly dues as applicable. In many operations it is possible to pay dues and fees in advance. If advance dues or fees are received, record the amounts received as unearned income. When the amount is earned, record an entry that debits unearned income and credits the applicable revenue account.

3. Monthly statements are sent to members or participants of the NAFIs that permit charge sales, charge dues, or deferred payments.

4. An aged accounts receivable report will be prepared for all NAFIs with internal credit systems. Account balances are normally due and payable on the first day after the statement date of the month in which credit was extended. Current month dues will be treated the same as current month charge sales and normally become payable the first day after the statement date. The aging of accounts receivable shall be accomplished immediately following a successful billing statement generation. The aging report, at a minimum, will be broken down as follows:

a. Over 30 days delinquent on the current statement is the second billing the patron has received.

b. Over 60 days delinquent on the current statement is the third billing the patron has received.

c. Over 90 days delinquent on the current statement is the fourth billing the patron has received.

5. If delinquent fees are authorized by the DoD Component, they are charged to the delinquent account each month. Establish that amount as a customer receivable.

B. Returned Checks. A subsidiary is maintained, by individual, for returned checks receivable. The NAFI is responsible for collection actions and maintains records for returned checks received from the bank and deposits made for returned checks.

C. Other Accounts Receivable. Items in this category include amounts due from other NAFIs, amounts due from higher headquarters for grants and other payments, and amounts due from outsiders.

D. Allowance for Bad Debts. If using the allowance method for bad debts, at the end of each reporting period determine and records the amount of accounts receivable estimated to be uncollectible. The amount to be recorded as estimated is based on a review of the average writeoffs of accounts receivable based on historical data. Adjust the allowance for bad debts to cover those accounts expected to become uncollectible during the next reporting period.

030204. Inventory.

A. Resale. Goods held for sale in the normal course of a business are designated as resale inventory items. A value is assigned to these goods which represents the cost of acquistion. When the goods are sold, the value assigned is used to determine profit for the accounting period as shown on the income statement, and to properly report assets on the balance sheet at the end of the accounting period.

B. Inventory Subsidiary. All items are recorded at cost. Cost is the purchase price less trade and cash discounts. If cash discounts are not material to warrant changing individual prices, the amount of the discount is credited to the purchases account and not to individual items. Discounts lost and excise taxes paid will not be included in the cost of merchandise but will be recorded in the applicable operating expense account. Include freight, insurance, and handling charges in the cost of merchandise if they can be identified to specific items. If they cannot be identified to specific items, record directly against the appropriate expense account.

C. Stock Record. The stock record is used to record resale merchandise and supplies in a warehouse or storeroom. It requires a complete description of the merchandise and all pertinent information regarding receipt and issue.

D. Spoilage, Breakage, Obsolete Material, Customer Complaint or Reject Items. Immaterial losses of inventory resulting from spoilage, breakage, becoming obsolete, rejected, or a constant customer complaint item are absorbed in cost of goods. Material losses are recorded in a Spoilage and Breakage expense account to the applicable operation.

E. Consigned Merchandise and Tickets. Merchandise held on consignment is maintained and accounted for by consignor. Inventory of consigned merchandise is for accountability purposes only. These items are physically inventoried monthly, or at the end of an event for tickets (or whichever comes first). The inventory is not recorded in the general ledger.

F. Inventory in Transit. Inventory in transit consists of inventory where title has passed to the NAFI, but the inventory has not been received at a NAFI warehouse. Appropriate entries should be made to account for these items at the balance sheet date.

G. Physical Counts of Inventory. Inventories are required to be physically counted. Following are the policies and procedures related to physical inventories of merchandise.

1. The inventory lists should be printed in the same sequence in which the merchandise is stored or arranged for display, or in stock record number sequence.

2. A cutoff date is to be established for sales, issues, returns, adjustments, and transfers so inventory quantities and related accounting entries can be recorded.

3. Merchandise received during the inventory will not be counted unless the payable or payment will be recorded in the general ledger as of the inventory cutoff date.

4. Merchandise sold during the inventory will be included in the inventory count, unless the related sale and receivable or cash received will be recorded in the general ledger as of the inventory cutoff date.

5. Physical inventories will be conducted separately for each department.

6. Inventories of merchandise held on consignment and returnable containers, will be separate from NAFI-owned merchandise. Inventory lists will be prepared for each owner of the goods.

7. At the conclusion of the inventory, any discrepancies are provided to the NAFI custodian for resolution. The general ledger is adjusted to match the physical count that was observed by the observation team.

H. Physical Inventory Observation. At least annually, the physical inventories will be observed by at least one person who is clearly independent of the activity conducting the inventory. The objective is to observe the inventory to determine the accuracy of the accounting records. Since it is frequently impractical to observe all physical inventories at one time, the observations may be staggered throughout the year.

030205. Prepaid Expenses. Payments made for expenses that apply to a specific period of time are amortized over that period. Any unexpired portion is shown as a prepaid asset. Many NAFI supply-type expenses are paid before the items purchased are actually used. Examples of supply-type items include tableware, kitchenware, glassware, linens, uniforms and prepaid bingo prizes. Advance payments for maintenance, rent, insurance are examples of expenses that span numerous months. The accounting principle of materiality should be considered before employing the prepaid concept. An advance or prepayment is never amortized for more than its expected usage. Monthly expenses will be computed and prorated over each month of the period covered by the advance payment. Supplies will be expensed based on expected usage provided by the NAFI custodian. The unexpired prepaid expense subsidiary will be reconciled to the related control account.

0303 NON-CURRENT ASSETS. Long-term, tangible assets that will not be converted to cash or consumed during the next 12 months are classified as non-current. These assets are expected to benefit the NAFI for more than one accounting period. Non-current assets include fixed assets, land, leases, long-term investments, long-term loans, long-term receivables, and long-term prepaid expenses.

030301. Fixed Assets. Fixed assets are also commonly referred to as property, plant and equipment. It includes capital assets such as buildings, equipment, furniture, fixtures, tools, machinery and livestock. Intangibles are excluded from this category. Fixed assets are defined as property, plant and equipment purchased, donated, or transferred to a NAFI that have an expected life of two or more years and a cost of $1000 or more.

A. Acquisition Cost. Unless otherwise stated below, fixed assets are recorded at cost plus any expenditures necessary to place those assets into use as intended, e.g., installation, freight, testing, legal fees to establish title, and any other costs of putting the asset in the condition and location for use. Purchase discounts should be applied to reduce the costs, however, interest charges should not be capitalized.

1. Assets Purchased in Quantity. Like items purchased in a quantity in excess of one are capitalized in accordance with the appropriate Service appendix even if the per unit cost is not at the level required for capitalization. All other criteria for fixed assets must be met.

2. Self-Constructed Assets. If fixed assets are built or manufactured by the NAFI, all costs incurred, materials, permits, taxes, insurance and overhead costs should be capitalized in accordance with the appropriate appendice.

3. Assets Traded-In. When an asset is traded-in at time of purchase, the new asset will be recorded at the amount of the monetary consideration paid plus the trade-in allowance for the old asset. The acquisition cost and accumulated depreciation of the traded-in asset are removed from the accounting records. If the trade-in allowance is less than the book value of the old asset, then a loss will result. These losses should be recorded as "other expenses" in the records of the NAFI. If the trade-in allowance is more than the book value of the old asset, the difference is subtracted from the acquisition cost of the new asset. No gain is recognized.

4. Construction in Progress. Construction in progress includes all cost attributable to a construction project (i.e., building and improvement). This includes, but is not limited to, costs of new buildings, renovation of existing buildings, and fixed assets which are purchased as part of the project. Record amounts based on documentation supporting the contract completion. When progress payments to contractors are based on a percentage completion clause, record amount of payments due or paid. In addition to costs related to a construction project, fixed assets received but not billed may be recorded. Transfer the cost of construction in progress to the appropriate fixed asset account and commence depreciation when the project begins producing revenue or project is utilized or the final payment is disbursed. NAFI management establishes the facility depreciation periods according to depreciation tables in the appropriate Service appendix.

5. Donated or Transferred Assets. Assets donated or transferred without the expenditure of funds should be recorded at the fair market value on the date the asset is donated or transferred. If the fair market value cannot be determined, the amount recorded should be the book value of the donated asset in the donor's accounting records.

6. Non-Monetary Exchanges. When assets are exchanged between NAFIs without monetary consideration, it is called a non-monetary exchange. The assets received in such exchanges should be recorded on the books of the gaining NAFI at the net book value on the books of the losing NAFI. The offsetting entry is to Equity on both the gaining and the losing NAFI.

7. Appropriated Fund (APF) Property Obtained for Free. These assets should be recorded separately from other fixed assets because title and control of these assets remains with APFs. For APF fixed assets expected to benefit more than one accounting period, any acquisition costs such as repairs, transportation, and installation (and any subsequent outlays that extend the useful life of the asset) should be recorded and depreciated over the useful life of the asset. For APF fixed assets held one year or less, all costs are an expense for the period the asset is held.

8. Leases. Leases may be used for equipment or for real property and are categorized as either a capital lease or an operating lease.

a. Capital Leases. A capital lease is based on the concept that a lease transfers substantially all of the benefits and risk as to the ownership of equipment to the lessee. The lease is recorded as an asset by the lessee and is amortized in a manner similar to depreciating assets if one of the following conditions are met:

(1) The lease transfers ownership of the asset to the lessee at the end of the lease term.

(2) The lease contains a purchase option.

(3) The lease term is equal to 75% or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls

within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.

(4) The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including profit thereon, equals or exceeds 90% of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor.

b. Operating Leases. If none of the above conditions is met, the lease is an operating lease. Payments on an operating lease shall be charged to expense over the lease term as it becomes payable. If payments are not made on a straight-line basis, the expense nevertheless shall be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which benefits are derived from the leased property, in which case that basis shall be used.

c. Disclosures. If either capital or operating leases are material, then information concerning the leases should be disclosed in the NAFI financial statements or the footnotes.

B. Subsequent Expenditures.

1. Subsequent expenditures for fixed assets fall into three categories: maintenance and repair; improvements; and additions.

a. Maintenance and Repair. Expenditures in this category are designed to prevent an asset from deteriorating (e.g., painting the interior of the enlisted club) or to return the asset to its original level of performance (e.g., a tune-up on a motor vehicle). These expenditures do not improve the performance of the asset or extend the life of the asset. Maintenance and repair expenditures are expensed in the period incurred.

b. Improvements. Improvements are expenditures which extend the useful life of an asset (e.g., an engine overhaul on a motor vehicle) or improve original asset performance. Improvements should be capitalized and depreciated.

c. Additions. Expend-itures which increase the size of an asset (e.g., adding a new section to the club) are called additions. Additions should be capitalized and depreciated.

2. The objective is to match the expenditures with the period benefited. Thus, expenditures which benefit only the current period should be expensed and expenditures which benefit future periods should be capitalized. As a rule, any expenditure of $1000 or less should be expensed.

C. Government Title Fixed Assets. An aspect of NAF accounting is that some assets, particularly buildings, are purchased using NAF and the NAFI has exclusive use, but title rests with the government. NAF procured property or facilities may be transferred to APF for maintenance when allowed by the Service regulations. Upon receipt of approved documentation from NAFI management, record these items in the NAF property records and general ledger as Fixed Assets-APF titled (signifies government title) and commence depreciation.

D. Fixed Assets in Transit. On occasion, title to fixed assets may pass to the NAFI and payment may be made before the NAFI has physical possession of the property. Typically, this happens when property destined for a NAFI overseas is delivered to a state-side port for over water transportation by government means. Payment is made based on the receipt at the port and is recorded to the appropriate Fixed Asset account. Depreciation begins when the asset is placed in service.

E. Disposition of Property. Disposal means that the NAFI activity manager has physical control of the item and disposes of it. Documents are prepared and approved by the appropriate official for the disposition of fixed assets. When property is transferred to APFs, it will be evidenced on the form required by APFs.

F. Physical Inventories. A physical inventory of all fixed assets will be conducted at least annually. Since it is frequently impractical to perform a physical inventory of all of the fixed assets of a NAFI at one time, physical inventories may be scheduled and conducted by area.

G. Property Subsidiary. Property subsidiaries serve as property control records. As a minimum the property subsidiary should list each piece of property, acquisition date, acquisition value, useful life, depreciation to date, and current book value. This subsidiary can be either mechanized or manual. If mechanized is available, it should be used. Documentation is prepared by the NAFI whenever any data on the subsidiary records is changed even though no general ledger entries are required, e.g., fixed assets are transferred from one location to another.

H. Claims. When an insured asset is destroyed or damaged, and the claim is settled, the affected accounts are adjusted. Usually claim settlements do not exceed the acquisition value less accumulated depreciation of the property destroyed (book value).

I. Depreciation. Depreciation accounting distributes the cost or other basic value of tangible capital assets over the estimated useful life of such assets in a systematic and rational manner. Accounting for depreciation as an expense is an integral part of the accrual basis of accounting. Accordingly, all NAF activities will recognize depreciation of their fixed assets. For NAF capital assets whose title is transferred to APFs, but is still used by the NAFI, continue to depreciate these fixed assets on the NAFI's book until the items are fully depreciated.

1. Several steps are involved in computing depreciation:

a. Calculate Asset Cost or Value.

b. Estimate the Useful Life of the Asset. A reliable source for determining the useful life of the asset is the experience with similar assets.

c. Estimate the Salvage Value for the Asset. The value, if any, remaining at the end of an asset's useful life may, if allowed by the appropriate appendice, be subtracted from the acquisition cost of the asset before computing depreciation.

d. Divide the Net Cost or Value of the Asset Over the Useful Life. The straight line method of depreciation is used for determining he monthly depreciation expense.

2. Once a method of depreciation has been selected for a particular asset, it should generally never change.

030302. Land. The value of any land is always recorded separately from buildings or other structures built on the land. The primary reason is that land, unlike other fixed assets, has an indefinite life span and therefore is never depreciated. As a general rule, NAFIs are located on Government-owned land and do not record the value of land.