

VOLUME 13, CHAPTER 5: “INCOME AND EXPENSES”

SUMMARY OF MAJOR CHANGES

All changes are 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 **April 2013** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
ALL	Replaced instances of “Revenue” with “Income” in the title and throughout the chapter to match Nonappropriated Fund (NAF) Standard General Ledger (NAFSGL) verbiage.	Revision
ALL	Verified and updated references, updated hyperlinks and formatting to comply with current administrative instructions, and made clarifying editorial changes.	Revision
ALL	Deleted general ledger account classification definitions to avoid duplication of the NAFSGL maintained by the Office of the Deputy Assistant Secretary of Defense (Military Community and Family Policy).	Deletion
ALL	Rearranged information to flow in a logical sequence and renumbered sections, paragraphs, and subparagraphs accordingly.	Revision
050102	Inserted an “Authoritative Guidance” paragraph to comply with current administrative instructions.	Addition
0502	Inserted a “Chart of Accounts” section to direct users to the NAFSGL on the NAF Accounting website.	Addition
0505	Expanded section to provide additional statutory authorities available to NAF instrumentalities.	Revision

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CHAPTER 5

INCOME AND EXPENSES

0501 GENERAL

050101. Purpose

This chapter prescribes the standard policies surrounding Department of Defense (DoD) Nonappropriated Fund (NAF) income and expenses. NAF instrumentality (NAFI) programs and facilities must be operated, maintained, and funded as an integral part of the DoD personnel and readiness program. Policies in this chapter apply to all NAIs and their supporting accounting offices (AOs), except the Military (Armed) Service Exchanges (Army and Air Force Exchange Service, Navy Exchange Command, and Marine Corps Exchange).

*050102. Authoritative Guidance

The accounting policy and related requirements prescribed are in accordance with the applicable provisions of:

A. *Financial Accounting Standards Board* Accounting Standards Codification (*ASC*). Users can obtain free access to the ASC by registering for the Basic View, which allows browsing by ASC topic;

B. DoD Instruction (DoDI) *1015.15*, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;” and

C. Title 10, United States Code (U.S.C.), sections *2241*, *2491*, *2492*, *7459*, *8478*, and *9459*.

*0502 CHART OF ACCOUNTS

The NAF Standard General Ledger (NAFSGL) Chart of Accounts, to include definitions and general ledger account codes for income and expense accounts, is maintained along with other relevant information on the *DoD NAF Accounting website*.

0503 INCOME STANDARDS

050301. Recognition

In accordance with ASC, Topic 605, Subtopic 10, Section 25, NAIs must recognize revenue (classified as “income” in the NAFSGL) when it is realized or realizable. Earned income is recognized at the time of delivery of the goods or performance of the service. If cash or credit payments are received prior to time of delivery or performance, then income is unearned. If cash or

credit payment has not been received at time of delivery or performance, then an accounts receivable is posted for the amount due.

050302. Recording

The AO **must** record **income** in the appropriate NAFI's financial records on a consistent basis in the appropriate cost center and in the operating cycle that the **income** is earned. **Income** is recorded in accordance with DoDI 1015.15.

0504 EXPENSE STANDARDS

Expenses are decreases in economic benefits during an accounting period, in the form of outflows (or other asset depletion) or the incurrence of liabilities that result in a decrease in equity. In NAF accounting, expenses are the costs related to the sale of goods and services consequent to the operation of the NAFI.

050401. Recognition

NAFIs must recognize **costs** as an expense in the period that the **income** with which they are associated is recognized (the matching principle). Cost elements are included in inventory and expensed when the items are sold and **income** from the sale is recognized. If no connection with **income** can be established, then the asset's cost is allocated to the accounting period benefited in a systematic and rational manner. This form of expense recognition involves the expected length of benefit and the relationship and cost of each period (e.g., depreciation of fixed assets, amortization of intangibles, and allocation of rent and insurance). All other costs are recognized in the accounting period in which they are incurred.

050402. Recording

Using the accrual method of accounting, AOs **must** record expenses on a consistent basis in the appropriate cost center and in the operating cycle in which the expense was incurred. See [Statement of Financial Accounting Concepts No. 6, "Elements of Financial Statements,"](#) for further guidance on accrual accounting.

*0505 ACCOUNTING FOR APPROPRIATED FUND (APF) SUPPORT TO NAFIs

050501. Legal Authority

Title 10, **U.S.C. § 2241** is the basic statutory authority to provide APFs to support Morale, Welfare, and Recreation (MWR) functions. MWR (Utilization Support and Accountability (USA)) and Uniform Funding and Management (UFM) are two mechanisms for provision of APF support to NAFIs. The MWR (USA) and UFM practices involve use of NAFs for MWR expenses that, per funding policies in DoDI 1015.15, should be borne by APFs. MWR (USA) enables NAFIs to use NAFs to execute such expenses, subject to subsequent APF reimbursement under Memoranda of Agreement (MOAs). Unlike MWR (USA) practices (which involve reimbursement from APFs), under UFM practices, APFs may be transferred into NAF accounts prior to expenditure. Funds appropriated to DoD and available for MWR programs are treated as

NAFs for all purposes under UFM MOAs and remain available until expended. Title 10, U.S.C. § 2491 provides statutory authority for UFM practices. [Other statutory authorities available to NAFIs are 10 U.S.C. §§ 2492, 7459, 8478 and 9459.](#)

050502. MWR (USA) Recording

A. [Income](#). The AO [must](#) record funds received from appropriated sources for expenses covered by the [MWR \(USA\) income](#).

B. [Expense](#). The AO [must](#) record authorized expenses (which is the amount subject to APF reimbursement), as they occur, in the applicable expense accounts [to allow identification of MWR \(USA\) support in accordance with DoDI 1015.15, Enclosure 6.](#)

050503. UFM Recording

A. [Income](#). The AO [must](#) record UFM funds received in advance in the cash account with a contra entry to an Unearned [Income](#) (liability) account identified as UFM. As UFM expenses are recorded, the Unearned [Income](#) account [must](#) be reduced by the same amount in the same reporting cycle.

B. [Expense](#). The AO [must](#) record authorized [expenses](#), as they occur, in the applicable expense accounts to allow identification of UFM support in accordance with DoDI 1015.15, paragraph E.6.3.4 and reduce the Unearned [Income](#) account as applicable in the same reporting cycle.

050504. Other [APF](#) Support

Direct support is an APF category that occurs when APFs are obligated and expended (e.g., furnishing of utilities, [fire/safety support, refuse removal, and snow removal](#)) and the NAFI does not incur the expense subject to reimbursement. In this case, the NAFI does not administer APFs as if they were NAFs.