

VOLUME 4, CHAPTER 1: “FINANCIAL CONTROL OF ASSETS”

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 [September 2008](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
010101 and 010202	Updated definition of Assets. Delineated that fiduciary assets meeting the definition in the Statement of Federal Financial Accounting Standards 41 are not reported on the Federal Entity’s Balance Sheet.	Revision
010103	Added an Authoritative Guidance paragraph.	Addition
010204	Updated Entity versus Nonentity Assets description and reporting requirements.	Revision
010304	Updated Accounting Requirements for Cash.	Revision
010601	Updated examples of Advances.	Revision
010602	Updated definition of Prepayments.	Revision
010701	Updated definition of Property, Plant, and Equipment.	Revision

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CHAPTER 1

FINANCIAL CONTROL OF ASSETS

0101 GENERAL

*010101. Overview

Assets are items owned by the federal government which have probable (more likely than not) economic benefits that can be obtained or controlled by a Federal Government entity. A Department of Defense (DoD) asset is any item of economic value owned by a DoD Component or held in a fiduciary capacity under the control of a DoD Component. However, fiduciary assets matching the definition outlined in the Statement of Federal Financial Accounting Standard (SFFAS) 31, “Accounting for Fiduciary Activities” must not be recognized on the Balance Sheet of the Federal entity. These assets are defined as “the collection or receipt, and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which non-Federal individuals or entities (“non-Federal parties”) have an ownership interest that the Federal Government must uphold. The fiduciary relationship must be based on statutory or other legal authority and the fiduciary activity must be in furtherance of that relationship.”

010102. Purpose

This chapter sets forth overall standards for the DoD Components to follow in accounting for assets. One of the objectives of DoD accounting is establishing financial control, from time of acquisition to time of disposal, over all assets provided to, or acquired by, the DoD. Such control ensures proper and authorized use as well as adequate care and preservation, since no asset can be acquired, put into use, transferred, written down, written off, or disposed of, without the proper authorization necessary to document and record the transaction. Account for all tangible assets provided to the DoD including assets in transit and assets in the hands of contractors, private parties, and other government agencies.

*010103. Authoritative Guidance

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

A. Financial Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Concepts (SFFAC) 6, “Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information;”

B. FASAB SFFAS 1, “Accounting for Selected Assets and Liabilities;”

C. FASAB SFFAS 3, “Accounting for Inventory and Related Property;”

D. FASAB SFFAS 6, “Accounting for Property, Plant, and Equipment;”

E. FASAB SFFAS 8, “Supplementary Stewardship Reporting;”

- F. FASAB SFFAS 31, “Accounting for Fiduciary Activities;”
- G. Office of Management and Budget (OMB Circular A-136), “Financial Reporting Requirements;”
- H. The United States Department of the Treasury (Treasury) Bureau of the Fiscal Service Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 3200, “Foreign Currency Accounting and Reporting;”
- I. TFM Volume 1, Part 2, Chapter 3400, “Accounting for and Reporting on Cash and Investments Held Outside of the United States (U.S.) Treasury;”
- J. TFM Volume 1, Part 2, Chapter 5100, “Reconciling Fund Balance with Treasury Accounts;” and
- K. Department of Defense Instruction (DoDI 5000.64), “Accountability and Management of DoD Equipment and Other Accountable Property.”

*0102 ACCOUNTING REQUIREMENTS

010201. Accounting Requirements Overview

Sections 0103 through 0108 provide policy on specific accounting requirements for various categories of assets. The general requirements prescribed in this section apply to all assets.

*010202. Definition of Asset

An asset is a resource that embodies economic benefits or services that DoD controls. An asset has two essential characteristics:

- A. It embodies economic benefits or services that can be used in the future; and
- B. The DoD controls access to the economic benefits or services and, therefore, can obtain them or deny or regulate the access of other entities.

010203. Noncash Assets

Noncash assets will be valued promptly, once acquired by or taken into possession by the DoD, and subjected to financial accounting control. For purposes of this paragraph, promptly means no later than the entity’s fiscal year-end.

*010204. Entity Versus Nonentity Assets

DoD Components report entity assets separately from nonentity assets in Note 2 of the entity's financial statements. The entity's Balance Sheet combines entity assets and nonentity assets.

A. Entity assets are assets that the reporting DoD Component has authority to use in its operations, that is to say, the DoD Component has the authority to decide how the asset is used, or is legally obligated to use the asset to meet statutory obligations.

B. Nonentity assets are assets held by a DoD Component but are not available for the Component to use in its operations. In some circumstances, a DoD Component may maintain cash or other nonentity assets in a fiduciary capacity for the Treasury, other government agencies or non-federal entities. DoD Components must report both entity assets and nonentity assets under an entity's custody or management in the entity's financial statements. However, DoD Components must not recognize on the Balance Sheet nonentity assets meeting the definition of fiduciary assets, but should disclose them in accordance with the provisions of FASAB SFFAS 31. Disclose in Note 2 of the entity's financial statements nonentity assets reported on an entity's Balance Sheet in accordance with OMB Circular A-136, Section II 4.3.3 Assets; see also Volume 6B, Chapter 10. Recognize an amount equal to nonentity assets as a liability (due to Treasury or other entities) on the Balance Sheet.

010205. Intragovernmental Versus Public Transactions

A. Intragovernmental assets arise from transactions among Federal Agencies and represent claims of a Military Department or Defense Agency against other DoD Components and other Federal Agencies.

B. Public assets arise from transactions between DoD Components and non-federal entities, which include domestic and foreign persons and organizations outside the U.S. Government. The term "public" can also be used to represent non-federal entities.

010206. Accounting Events

The accounting events discussed in Chapters 2 through 7 frequently will require compound accounting entries; that is, accounting entries must be made simultaneously in both the proprietary accounts and the budgetary accounts. Additional information on budgetary accounts, not covered in this chapter, is included in Volume 3.

0103 FUND BALANCE WITH TREASURY AND CASH

010301. Fund Balance with Treasury (FBWT) Policy

FBWT is an asset account that reflects the available funds in the entity's accounts with Treasury that authorizes the entity to make expenditures and pay liabilities. Collections and disbursements by the Department increase or decrease the balance of the account. Treasury

requires all federal agencies to reconcile their FBWT accounts on a regular and recurring basis to assure the integrity and accuracy of their internal and Government wide financial data. Any differences identified during the reconciliation process must be researched and resolved. Reconciliation documentation (including support for any adjustments required) must be prepared and retained. Evidence of review and approval for the reconciliation and any adjustments must be contained in the documentation. Unresolved differences compromise the reliability of FBWT balances and Treasury's published financial statements. This, in turn, compromises the overall integrity and status of the Department's and Government wide financial position. Chapter 2 provides more detailed information on accounting for cash and FBWT.

010302. Cash Held Outside of Treasury

In limited circumstances, in addition to "FBWT," DoD reporting entities may be authorized to hold cash outside of Treasury to provide check-cashing services in accordance with Volume 5. Cash includes all monetary resources on hand or on deposit with banks and other financial institutions, including coins, currency, and readily negotiable instruments (such as checks and money orders).

010303. Restricted Cash

Restrictions are usually imposed on cash deposits by law, regulation, or agreement. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons and nature of restrictions.

*010304. Accounting Requirements for FBWT and Cash

The requirements prescribed by this paragraph apply to accounting for FBWT and cash.

A. FBWT and Cash accounting will:

1. Be complete, accurate and timely.
2. Cover cash receipts, cash disbursements, and cash balances.
3. Comply with applicable laws and regulations.
4. Disclose errors, losses, and gains. DoD Components must identify, resolve and correct errors on a timely basis as detailed in Chapter 2.

B. Record cash receipts immediately upon collection, kept under control, and deposited intact as soon as practicable. Disbursing Officers (DOs) and their cash agents may hold cash collections for operating requirements within their cash-holding authority.

C. Make **cash** disbursements only after receiving an approved voucher package containing evidence of performance (i.e., receipt of goods and/or services via DD Form 250, Material Inspection and Receiving Report), a valid purchase order, and a valid invoice. Cash disbursements can also be made after receiving an authorized advance payment request. Cash disbursements and collections will be recorded promptly in the applicable DoD accounting system and reported in the Statement of Transactions.

D. Cash receipts and disbursements are to be reconciled with appropriate documents and accounting records, as applicable within each accounting period. The reconciliation should document and serve to verify that all amounts reflected in the supporting documentation agrees with the postings to the U.S. Standard General Ledger account 101000, Fund Balance with Treasury and 109000, Fund Balance with Treasury Under a Continuing Resolution. Any differences identified during the reconciliation process must be researched and resolved. Reconciliation documentation (including support for any adjustments required) must be prepared and retained. Evidence of review and approval for the reconciliation and any adjustments must be contained in the documentation.

E. Account for foreign currencies in subsidiary accounts separate from U.S. currency. Report foreign currencies at the U.S. dollar equivalent using the exchange rates prescribed by the Secretary of the Treasury. Disclose the fact that a foreign currency is not freely exchangeable in the notes to the financial statements. Accounting entities may prepare financial statements for their own use, which may or may not be in U.S. dollars. These entity level statements will be translated into U.S. dollars when used to prepare departmental financial statements. See Volume 6A, Chapter 7 for additional information related to foreign currencies.

F. Guidance relating to cash management procedures prescribed by the Treasury is in Chapter 2.

0104 RECEIVABLES

010401. Receivables Overview

Amounts due the DoD will be recorded accurately in the appropriate receivable account in the accounting period during which the transaction or event giving rise to the receivable occurs. Receivables arise from claims to cash or other assets and include accounts receivable, interest receivable, and loans receivable. Guidance relating to receivables is contained in Chapter 3.

010402. Recognition of Receivable

FASAB SFFAS 1 requires that a receivable be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., payment not received by the due date on the invoice), or goods or services provided. If the exact amount is unknown, then a reasonable estimate should be made.

0105 INVENTORY AND RELATED PROPERTY

010501. Definition of Inventory and Related Property

Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. Inventory includes items for sale or transfer to entities outside the Federal Government or to other Federal Entities.

A. Inventory will be recognized as an asset when title passes to the purchasing entity or when the goods are delivered to the purchasing entity. Delivery or constructive delivery will be based on the terms of the contract regarding shipping and/or delivery.

B. Inventory will be valued at historical cost, using the moving average cost assumption unless an exception is specifically authorized.

C. Guidance relating to inventories is contained in Chapter 4.

010502. Operating Materials and Supplies and Stockpile Materials

Related property for purposes of this volume includes operating materials and supplies and stockpile materials.

0106 ADVANCES AND PREPAYMENTS

*010601. Advances

Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Common examples include, travel advances disbursed to employees prior to business trips, and cash or other assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee. Advances are reduced when related goods or services are received, contract terms are met, or progress is made under a contract, or anticipated expenses are realized. Advances are assets of the paying entity. Guidance relating to advances is contained in Chapter 5.

*010602. Prepayments

Prepayments are payments made by a Federal Entity to cover certain periodic expenses before those expenses are incurred. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. Reduce prepayments when goods or services are received by the DoD Component or prepaid expenses expire. Prepayments are assets of the paying entity. Guidance relating to prepayments is contained in Chapter 5.

010603. Reporting Intragovernmental Transactions

Advances and prepayments made from one Federal Entity to another Federal Entity are intragovernmental transactions and should be accounted for and reported separately from those made to non-federal entities.

0107 PROPERTY, PLANT, AND EQUIPMENT (PP&E)

*010701. Definition of PP&E

PP&E is composed of General PP&E, [Heritage Assets](#), and [Stewardship Land](#). [FASAB SFFAS 6](#) defines PP&E as tangible assets, including land, that have estimated useful lives of two years or more, are not intended for sale in the ordinary course of operations, and have been acquired or constructed with the intention of being used or being available for use by the entity. PP&E also includes assets acquired through capital leases, including leasehold improvements, property owned by the reporting entity in the hands of others (e.g. state and local governments, colleges and universities, or Federal contractors), and land rights. [Heritage Assets](#) are PP&E of historical, natural, cultural, educational, or artistic significance (e.g., aesthetic); or with significant architectural characteristics. [Stewardship Land](#) is land and land rights other than that acquired for or in connection with [General PP&E](#), land acquired via the public domain, or land acquired at no cost. Accounting for PP&E in which the government has an ownership interest is important because public funds are invested. [Account and control](#) property in the accountable property systems of record. The DoD has an obligation to safeguard its property from theft, abuse, waste, and unauthorized use and otherwise manage the property efficiently and effectively. Consistent with the [DoDI 5000.64](#), DoD is accountable for all property acquired, leased, or otherwise obtained throughout an asset's lifecycle: from initial acquisition and receipt; through accountability and custody; until formally relieved of accountability by authorized means, including disposition; or through a completed evaluation and investigation for lost, damaged, destroyed, or stolen property. [See additional guidance relating to PP&E in Chapter 6 and Volume 12, Chapter 14.](#)

010702. Recording General PP&E Assets

Record all General PP&E assets in accounting records at cost. Such costs [will](#) include all costs incurred to bring the PP&E to a form and location suitable for its intended use in operations. The cost of [Stewardship PP&E](#) (except for [Multi-Use Heritage Assets](#)) [will](#) be expensed in the accounting period in which incurred.

0108 OTHER ASSETS

010801. Other Assets Classified

Other assets include investments, and other miscellaneous assets not otherwise classified, that cannot be classified in a specific category identified in sections [0102](#) through [0107](#).

010802. Financial Control

Guidance relating to these other assets is included in Chapter 7. The basic purpose is to ensure financial control over these assets and the recording of expenses or dispositions in the appropriate accounting periods.