

VOLUME 4, CHAPTER 5: “ADVANCES AND PREPAYMENTS”**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also 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 [February 2021](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Completed administrative updates in accordance with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.0	Added general clarifying language on advances and prepayments and reference to 31 United States Code Section 3324, “Advances.”	Addition
1.3.1, 3.3.2 (previous version)	Removed reference regarding 10 United States Code Section 2307, “Contract financing,” as this law was repealed.	Deletion
2.0	Updated definitions related to advances and prepayments.	Revision
3.0	Updated accounting policy to include Standard Financial Information Structure reference and DoD Component responsibilities. Added clarifying language on the accounting for advances and prepayments.	Revision/ Addition

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CHAPTER 5

ADVANCES AND PREPAYMENTS

*1.0 GENERAL

1.1 Overview

1.1.1. Advances and prepayments are reported in the Department of Defense (DoD) financial statements as assets and liabilities such as accounts receivable and accounts payable. The Office of Management and Budget (OMB Circular A-11), “Preparation, Submission, and Execution of the Budget” categorizes intragovernmental assets as claims of a federal agency against other federal agencies which, when collected, can be used in the agency’s operations. Transactions with non-federal entities create governmental assets and liabilities. DoD Components must separate intragovernmental and governmental assets and liabilities.

1.1.2. DoD prepays to cover certain period expenses before those expenses are incurred. Federal agencies’ advances and prepayments are accounted for and reported separately as intragovernmental transactions.

1.1.3. Support advances and prepayments with documentation that clearly shows the basis for the amounts recorded and the applicable terms. The supporting audit trail must include sufficient information to show the period the advances were made, the budget authority for the advances, the period the advances were liquidated, and the related approving authorities. Make the audit trail documentation readily available for management and auditors to review. Refer to Volume 6A, Chapter 2 for audit trail guidance.

1.1.4. Per Title 31, United States Code, section 3324 (31 U.S.C. § 3324) Advances may be made only if it is authorized by (1) a specific appropriation or other law; or (2) the President.

1.2 Purpose

This chapter prescribes DoD accounting policy for advances and prepayments made to employees, other federal agencies, non-federal entities, and foreign governments.

1.3 Authoritative Guidance

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

1.3.1. 10 U.S.C. § 2396, “Advances for payments for compliance with foreign laws, rent in foreign countries, tuition, public utility services, and pay and supplies of armed forces of friendly foreign countries;”

1.3.2. 31 U.S.C. § 6101, “Definitions” (Includes definitions for domestic assistance programs;)

1.3.3. [31 U.S.C. § 6302](#), “Definitions” (Using Procurement Contracts and Grant and Cooperative Agreements);

1.3.4. [31 U.S.C. § 6303](#), “Using Procurement Contracts;”

1.3.5. [31 U.S.C. § 6304](#), “Using Grant Agreements;”

1.3.6. [31 U.S.C. § 6305](#), “Using Cooperative Agreements;”

1.3.7. [Federal Acquisition Regulation \(FAR\) Part 32](#), “Contract Financing;”

1.3.8. Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards ([SFFAS](#)) [1](#), “Accounting for Selected Assets and Liabilities;” and

1.3.9. [Grants.gov](#). The Grants.gov program management office was established in 2002 as a part of the President's Management Agenda. Managed by the Department of Health and Human Services, Grants.gov is an E-Government initiative operating under OMB.

*2.0 DEFINITIONS

2.1 Advances

According to SFFAS 1, advances are [federal entity](#) cash outlays made to employees, contractors, grantees, or others [for](#) the recipients’ anticipated expenses or as advance payments for the cost of goods and services the entity acquires. OMB Circular A-11 defines advances as [federal agency](#) cash outlays to cover the recipients’ anticipated expenses or for the costs of goods and services the agency is to receive. Examples include travel advances disbursed to employees prior to business trips, and cash or other governmental assets disbursed under a contract, grant, or cooperative agreement before [the contractor or grantee provides the](#) services or goods. [Percentage of completion](#) progress [contract](#) payments are not advances. [A DoD Component](#) advances only to payees [under](#) a mutually binding legal relationship [for](#) not [more than](#) the amount obligated.

2.2 Contract

FAR Subchapter A, subpart 2.1 defines a contract as a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the Government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task letters issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by [31 U.S.C.6301](#), et seq.

2.3 Cooperative Agreement

In accordance with 31 U.S.C. § 6305 [cooperative agreements](#) transfer anything of value from the federal awarding agency or pass-through entity to the non-federal entity to carry out a public purpose authorized by a United States law. [The federal government or pass-through entity does not acquire](#) property or services for their direct benefit or use. [A cooperative agreement requires](#) substantial involvement between the federal awarding agency or pass-through entity and the non-federal entity in carrying out the activity defined in the federal award.

2.4 Entity Cash

SFFAS 1, paragraph 28, defines entity cash as the amount of cash that the reporting entity holds and is authorized by law to spend.

2.5 Grants

31 U.S.C. § 6304 defines a grant as an agreement wherein the executive agency transfers a thing of value to the State or local government or other recipient to carry out a public purpose of support or stimulation authorized by a United States law.

2.6 Imprest Fund

According to [FAR Part 13.001](#), an imprest fund is a cash fund of a fixed amount, advanced to an agency finance or disbursing officer to disburse cash in relatively small amounts. An imprest fund does not use appropriations.

2.7 Intragovernmental Assets

SFFAS 1, paragraph 18 defines intragovernmental assets as claims of a federal entity against other federal entities.

2.8 Intragovernmental Liabilities

SFFAS 1, paragraph 18 defines intragovernmental liabilities as claims against the entity by other federal entities.

2.9 Prepayments

SFFAS 1 [states that a federal entity prepays](#) to cover certain periodic expenses before those expenses are incurred. [Percentage of completion](#) progress payments made to a contractor are not prepayments. Prepayments apply when it is a generally accepted industry practice to pay for items such as rents, subscriptions, and maintenance agreements in advance of the service being provided and the prepayment is authorized by law.

*3.0 ACCOUNTING FOR ADVANCES AND PREPAYMENTS

3.1 Accounting Policy

3.1.1. Refer to the DoD [Standard General Ledger \(USSGL\)](#) Chart of Accounts and Transaction Library for the most current general ledger account numbers, definitions, and required journal entries. [DoD USSGL Transaction Library and Standard Reporting Chart of Accounts](#) are available on the [Standard Financial Information Structure \(SFIS\)](#) web page. SFIS provides the current USSGL accounts to be used, defines these accounts, and illustrates the required proprietary and/or related budgetary accounting entries.

3.1.2. Advances and prepayments must comply with the law or regulation requirements. Organizations or individuals (other than DoD employees requesting travel advances) requesting advances must demonstrate that all external financing sources have been exhausted before [DoD Components authorize](#) an advance. When [the recipient satisfies](#) advance conditions, [the DoD Component must collect](#) unused portions of the advance immediately and return [the same](#) to the original appropriation. [DoD Components must record the prepayment when it is made.](#) At the end of each quarter and fiscal year-end, the DoD Component must review prepayments and expense the expired portion. Prepayments are recurrent transactions that do not provide financing as a precondition of performance.

3.1.3. Accounting activities must [account for and segregate capitalized assets and expenses into separate line items](#). The Certifying Officer must consult the Requiring Activity (buyer or program office) when the related purchase request does not include sufficient information to segregate between capital and expense items. [Record](#) advances and prepayments paid out as assets. [Record](#) advances and prepayments received as liabilities. In the financial statements, [do not record](#) advances and prepayments paid out as elimination entries for advances and prepayments received. [Liquidate](#) advances and prepayments and [record](#) either an expense or capitalized asset when goods or services are received, contract terms are met, or prepaid expenses expire.

3.1.4. [Receivables are](#) claims to cash or other assets against another entity. [A receivable is established when](#) revenue is recognized, and payment has not been received in advance. Receivables include but are not limited to, monies due for the sale of goods and services and monies due for indebtedness. [DoD indebtedness](#) examples include overdue travel advances, overpayments, and any other event resulting in a determination that a debt is owed to the DoD. Refer to Chapter 3 for further guidance.

3.1.5. SFFAS 1 categorizes [federal entities'](#) advances and prepayments as intragovernmental assets and liabilities. Account for and report these [assets and liabilities](#) separately from those made to non-federal entities.

3.1.6. SFFAS 1 states that advances and prepayments made must be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire. A travel advance, for example, must be initially recorded as an asset and must be subsequently reduced when travel expenses are

incurred. Amounts of advances and prepayments that are subject to refund (for example, a settled travel claim indicating the traveler owes part of the advance to the government) must be transferred to accounts receivable.

3.1.7. SFFAS 1 states that federal entities receive advances and prepayments from other federal and non-federal entities for goods to be delivered or services to be performed. Advances and prepayments received/paid between federal entities are intragovernmental liabilities/assets. Advances and prepayments received/paid between a federal entity and a non-federal entity are governmental liabilities/assets. Before revenues are earned, the current portion of the advances and prepayments are recorded as other current liabilities. After the revenue is earned (goods or services are delivered, or performance progress is made), the federal entity records the revenue or financing source and reduces the liability accordingly. Intragovernmental liabilities are reported separately from governmental liabilities due to employees and the public.

3.1.8. Volume 3, Chapter 8 requires a quarterly review of dormant accounts. This quarterly review is an important part of exercising sound internal controls to increase each DoD Component's ability to use available appropriations before they expire and ensure remaining open obligations are valid and liquidated before the appropriations are cancelled. This increases mission readiness for the DoD.

3.2 Recoveries and Adjustments

Ensure that sound internal controls monitor advances and prepayments made. Recover unneeded and unused balances as soon as information indicates they are excess to the original purposes. Unused advance and prepayment recoveries received the same year as the original obligation are recorded as recoupments. Collections are recoveries of unused advances and prepayments of prior-year obligations. Use the SFIS web page given in subparagraph 3.1.1. to decompose DoD USSGL accounting transactions for recoveries and adjustments.

3.3 Contract Financing Payments

According to FAR 32.001, the Government authorizes disbursements of monies to a contractor prior to the acceptance of supplies or services in contract financing payments. Contract financing payments include advance payments, performance-based payments, commercial advances, interim payments, progress payments based on cost, progress payments based on a percentage or stage of completion, and interim payments under a cost reimbursement contract. Contract financing payments do not include invoice payments, payments for partial deliveries, or lease and rental payments. Contract financing payments are more fully discussed in Volume 10, Chapter 8.

3.4 Grant Awards and Cooperative Agreements

DoD Components account for advance payments to award recipients (including amounts drawn against letters of credit) until the recipient has performed under the grant or agreement. Once the recipient has performed, the assisting agency must record an expense equal to the cost of the services performed or costs incurred and reduce the advance account by a like amount.

Periodically, the advances must be reconciled with the supporting transaction documentation as part of the quarterly review process as outlined in [section 3.0](#). In addition, [review](#) each advance periodically to determine whether [the](#) amounts are [more than](#) the grantee's current needs. [Collect excess](#) amounts from the recipient. [Time](#) the review as each grant milestone or reporting requirement is reached. [Grant agreements, disbursement vouchers, collection vouchers, and grant performance reports are sources for entries.](#) Payment provisions for grants and other instruments of assistance are more fully discussed in Volume 10, Chapter 19 and Volume 12, Chapter 5.

3.5 Advances to Foreign Countries

10 U.S.C. § 2396 [authorizes](#) advances to foreign countries. [DoD appropriations may be used](#) to comply with the laws and ministerial regulations of a foreign country; to pay rent for periods determined by local custom, tuition, and public service utilities; and to a friendly foreign country's disbursing official or its armed forces members, for their pay and allowances, and necessary supplies and services. [Assign](#) the advances to the appropriate SFIS element (country code) found on the SFIS web page under the SFIS Values Library Service subcategory and record [the advances](#) in the related DoD Component subsidiary ledger account.

3.6 Advances [in](#) Military Pay

[Refer to Volume 7A, Chapter 32, for military members' pay advance details.](#) This includes basic allowance for subsistence and housing; overseas station allowances; family separation allowance; and clothing and uniform allowances. Pay advances to military members must only be to ease hardships imposed by the lack of regular payments when a member is mobilized; ordered to duty at a distant station; or deployed aboard a ship for more than 30 days.

3.7 Advances [in](#) Civilian Pay

[Refer to Volume 8, Chapter 3, for civilian personnel pay advance details.](#) This includes foreign post assignment advances, advance payments to evacuees, advances in pay for newly hired employees, and advances in pay for employees relocating within the U.S. or its territories.

3.8 Advances as Imprest Funds

Imprest Funds are cash advances against a specific Line of Accounting (LOA) from the Disbursing Officer to an appointed cashier. [The funds are a form of "Cash Held Outside of Treasury" but because an entity LOA is cited as the Imprest Fund, the advance is "entity cash."](#) Refer to Chapter 2 for further guidance.

3.9 Travel Advances

3.9.1. A [commander or supervisor-approved](#) travel order must be issued before [military members or civilian personnel travel](#) unless an urgent or unusual situation prevents prior issuance. [Do not authorize](#) cash travel advances unless an exception is granted. Record the maximum advance amount authorized on the travel order.

3.9.2. The DoD traveler obtains cash from an automated teller machine (ATM) with an assigned Government Travel Charge Card (GTCC) for expenses that cannot be charged to the GTCC. The traveler must not exceed the limit specified in the travel order. Personnel who are not eligible for a GTCC may obtain travel advances only via electronic funds transfer. The commander or supervisor, in coordination with the Disbursing Officer, may authorize cash advances in limited situations where no other process is available to accomplish the mission.

3.9.3. A DoD traveler must submit a travel claim voucher within five working days of return. The responsible settlement office accounts for funds in accordance with the applicable DoD Component's accounting or disbursing regulations. Refer to Volume 9, Chapter 5 for further guidance.

3.9.4. Travel advances are also permitted when criteria are met for the following:

3.9.4.1. Transportation documents or funds are lost or stolen.

3.9.4.2. Temporary lodging expense in connection with a Permanent Change of Station to a Permanent Duty Station.

3.9.4.3. House hunting trip expenses if offered and chosen under the Lodging Plus method.

3.9.4.4. Temporary quarters subsistence expense up to 30 days.

3.9.4.5. Mobile home transportation allowances.

3.9.4.6. Evacuation travel and transportation allowances under an evacuation authority.

3.9.4.7. Dislocation Allowance paid to a Service member's designated dependent in moving a household.

3.9.5. Refer to the [Joint Travel Regulations](#) sections 050402, 050602, 054007, 054207, 054407, and 060105 for details.

3.10 Defense Working Capital Fund

Defense Working Capital Fund entities must record advances and prepayments in accordance with the policies in this chapter. Refer to Volume 3, Chapter 19 for further guidance.

3.11 Inventory Bid Deposits

Record bid deposits received on inventory available for sale as advances. The advance account is relieved in two instances. Record sales proceeds when the inventory has been delivered to successful buyers. Refund the bid deposit and cancel the sale. Refer to Chapter 4 for further guidance.