

## 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 [May 2015](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
1.1 (050101)	Added the Office of Management and Budget Circular A-11 and Title 31, United States Code, section 3324 guidance.	Revision
1.3 (050103)	Added an Authoritative Guidance paragraph.	Addition
2.0 (0502)	Added a Definitions section.	Addition
3.1 (050301)	Relocated general guidance on prepayments to <a href="#">050213</a> and added requirements from Statement of Federal Financial Accounting Standards, Number 1.	Revision
3.2 (050302)	Removed the journal entries and directed readers to the Standard Financial Information Structure web page.	Deletion / Addition
3.3 (050303)	Added advance payment guidance for commercial, non-commercial and pool agreements.	Addition
3.5 (050305)	Updated guidance on advances to foreign countries.	Revision
3.6 (050306)	Updated guidance on advances for military pay.	Revision
3.7 (050307)	Updated guidance on advances for civilian pay.	Revision
3.8 (050308)	Added guidance on imprest funds type advances.	Addition
3.9 (050309)	Updated travel advance guidance.	Revision
Table 1	Removed former Table 1 and provided guidance at <a href="#">050303</a> .	Deletion
Table 2	Removed former Table 2 and at <a href="#">050301</a> referred readers to the DoD USSGL Chart of Accounts and Transaction Library.	Deletion

## Table of Contents

VOLUME 4, CHAPTER 5: “ADVANCES AND PREPAYMENTS” .....	1
1.0 GENERAL (0501).....	3
*1.1 Overview (050101) .....	3
1.2 Purpose (050102) .....	3
*1.3 Authoritative Guidance (050103).....	3
*2.0 DEFINITIONS (0502) .....	4
2.1 Advances (050201) .....	4
2.2 Commercial Item (050202) .....	5
2.3 Contract (050203) .....	5
2.4 Cooperative Agreement (050204).....	5
2.5 Federal Financial Assistance (050205) .....	5
2.6 Governmental Assets (050206).....	5
2.7 Governmental Liabilities (050207) .....	6
2.8 Grant Agreement (050208) .....	6
2.9 Imprest Fund (050209).....	6
2.10 Intragovernmental Assets (050210) .....	6
2.11 Intragovernmental Liabilities (050211) .....	6
2.12 Letters of Credit (050212).....	6
2.13 Prepayments (050213).....	7
2.14 Simplified Acquisition Threshold (050214) .....	7
3.0 ACCOUNTING FOR ADVANCES AND PREPAYMENTS (0503).....	7
*3.1 Accounting Policy (050301) .....	7
*3.2 Recoveries and Adjustments (050302) .....	8
*3.3 Contract Financing Payments (050303).....	9
3.4 Grant Awards and Cooperative Agreements (050304) .....	10
*3.5 Advances to Foreign Countries (050305) .....	10
*3.6 Advances for Military Pay (050306).....	10
*3.7 Advances for Civilian Pay (050307).....	11
*3.8 Advances as Imprest Funds (050308) .....	11
*3.9 Travel Advances (050309).....	11
3.10 Defense Working Capital Fund (DWCF) (050310).....	12
3.11 Inventory Bid Deposits (050311).....	12

## CHAPTER 5

ADVANCES AND PREPAYMENTS

## 1.0 GENERAL (0501)

## \*1.1 Overview (050101)

1.1.1. Advances and prepayments are predominantly reported in the 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 Federal agency assets as claims of a Federal agency against other Federal agencies which, when collected, can be used in the agency’s operations. It goes on to define non-Federal assets as transactions of the Federal Government with non-Federal entities. Chapter 8 defines a liability as an amount owed to a Federal or non-Federal entity for items or services received and expenses incurred (including personnel related costs).

1.1.2. OMB Circular A-11 defines advances as cash outlays made by a Federal agency to cover a part or all of the recipients’ anticipated expenses or for the costs of goods and services the agency is to receive. It further defines prepayments as payments made by a Federal agency to cover certain period expenses before those expenses are incurred. Account and report separately those advances and prepayments made to Federal agencies as they are intragovernmental transactions.

1.1.3. Amounts recorded as advances and prepayments must be supported by documentation that clearly shows the basis for the amounts recorded and the terms upon which an advance or prepayment is made. 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. This audit trail documentation must be readily available for review by auditors and management. Refer to Volume 6A, Chapter 2 for audit trail guidance.

1.1.4. Advance payments are prohibited by Title 31, United States Code, section 3324 (31 U.S.C. § 3324) “Advances.” Exceptions to the advance payment prohibition are located in specific appropriation acts or other laws, or when granted by the President as provided in 31 U.S.C. § 3324.

## 1.2 Purpose (050102)

This chapter provides the requirements by which DoD Components must account for advances and prepayments made to employees, other Federal agencies, non-Federal entities and foreign governments.

## \*1.3 Authoritative Guidance (050103)

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

1.3.1. [10 U.S.C. § 2307](#) “Contract financing.”

1.3.2. [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.”

1.3.3. [31 U.S.C. § 6101](#) “Definitions” (Program Information).

1.3.4. [31 U.S.C. § 6302](#) “Definitions” (Using Procurement Contracts and Grant and Cooperative Agreements).

1.3.5. [31 U.S.C. § 6303](#) “Using Procurement Contracts.”

1.3.6. [31 U.S.C. § 6304](#) “Using Grant Agreements.”

1.3.7. [31 U.S.C. § 6305](#) “Using Cooperative Agreements.”

1.3.8. DoD U.S. Standard General Ledger (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.

1.3.9. [Federal Acquisition Regulation \(FAR\) Part 32](#). The FAR Part 32, “Contract Financing” prescribes policies and procedures for contract financing and other payment matters.

1.3.10. [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.

1.3.11. Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards ([SFFAS](#)) *No. 1*, “Accounting for Selected Assets and Liabilities.” This statement defines and illustrates the distinction between Entity Assets and Non-entity Assets, as well as Intragovernmental and Governmental Assets and Liabilities. Advances and prepayments are reported and accounted for in accordance with this standard.

## \*2.0 DEFINITIONS (0502)

### 2.1 Advances (050201)

According to SFFAS 1, 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. 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. Progress payments made to a contractor based on a percentage of

completion of the contract are not advances. Advances are made only to payees to whom a Component has a mutually binding legal relationship and not in excess of the amount obligated. The “Glossary” chapter defines these as disbursements of funds before performance have been certified by an authorized DoD receiving official.

## 2.2 Commercial Item (050202)

*FAR Subchapter A, subpart 2.1* defines this as any item, other than real property, that is customarily used by the general public or by non-governmental entities for purposes other than governmental purposes, and (i) has been sold, leased, or licensed to the general public; or (ii) has been offered for sale, lease, or license to the general public.

## 2.3 Contract (050203)

The “Glossary” Chapter defines this as a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them.

## 2.4 Cooperative Agreement (050204)

According to Grants.gov, a cooperative agreement is a legal instrument of financial assistance between a Federal awarding agency or pass-through entity and a non-Federal entity. In accordance with 31 U.S.C. §§ 6302, 6303, 6304, and 6305 it is used to 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 law of the United States (see 31 U.S.C. § 6101(3)); and not to acquire property or services for the Federal Government or pass-through entity's direct benefit or use. It is distinguished from a grant in that it provides for 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.

## 2.5 Federal Financial Assistance (050205)

Grants.gov categorizes Federal financial assistance as a broad term to refer to the various ways the U.S. government redistributes resources to eligible recipients. Federal financial assistance means assistance that non-Federal entities receive or administer in the form of grants; cooperative agreements; non-cash contributions or donations of property (including donated surplus property); direct appropriations; food commodities; and other financial assistance.

## 2.6 Governmental Assets (050206)

SFFAS 1 states that governmental assets reportable by a Federal entity include cash, accounts and interest receivable from non-Federal entities, and advances and prepayments made to non-Federal entities.

## 2.7 Governmental Liabilities (050207)

SFFAS 1 stipulates that governmental liabilities include accounts and interest payable to non-Federal entities, other liabilities due to non-Federal entities, and advances and prepayments received from non-Federal entities.

## 2.8 Grant Agreement (050208)

The *FASAB Handbook, Appendix E* provides this definition as taken from 31 U.S.C. § 6304. An executive agency must use a grant agreement as the legal instrument reflecting a relationship between the U.S. Government and a State, a local government, or other recipient when the principal purpose of the relationship is to transfer 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 law of the U.S. instead of acquiring (by purchase, lease, or barter) property or services for the direct benefit or use of the U.S. Government. The “Glossary” chapter defines Grants as assistance awards for which no substantial involvement is anticipated between DoD and the recipient during performance of the contemplated activity.

## 2.9 Imprest Fund (050209)

According to *FAR Part 13.001* “Definitions,” imprest fund means a cash fund of a fixed amount established by an advance of funds, without charge to an appropriation, from an agency finance or disbursing officer to a duly appointed cashier, for disbursement as needed from time to time in making payment in cash for relatively small amounts. In addition, the Defense Federal Acquisition Regulation Supplement, *(DFARS) subpart 213.305* “Imprest funds and third party drafts,” provides for use of imprest funds on a very limited basis by installation commanders and commanders of other activities with contracting authority.

## 2.10 Intragovernmental Assets (050210)

SFFAS 1 categorizes intragovernmental assets as inclusive of an entity’s fund balance with Treasury, investments in Treasury securities, accounts and interest receivable from Federal entities, and advances and prepayments to Federal entities.

## 2.11 Intragovernmental Liabilities (050211)

SFFAS 1 stipulates that intragovernmental liabilities include accounts and interest payable to Federal entities and other current liabilities due to Federal entities, such as receipt of Federal advances and prepayments.

## 2.12 Letters of Credit (050212)

FAR subpart 32.406 requires that an agency must use a letter of credit to provide advance payments to contractors unless the agency has obtained a waiver from the Treasury Department. The requirement is that the agency expects to have a continuing relationship with each contractor

for a year or more, with advances of at least \$120,000 a year and if not then, the advance must be by direct Treasury check.

### 2.13 Prepayments (050213)

SFFAS 1 categorizes prepayments as payments made by a Federal entity to cover certain periodic expenses before those expenses are incurred. Progress payments made to a contractor based on a percentage of completion of the contract 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. When expenses are prepaid, DoD Components must record the prepayment when it is made. At the end of **each quarter and at fiscal year-end**, prepayments must be reviewed and the expired portion expensed. Prepayments differ from advances in that prepayments relate to transactions that are recurrent in nature and do not provide financing as a precondition of performance.

### 2.14 Simplified Acquisition Threshold (050214)

**41 U.S.C. § 134** “Simplified acquisition threshold” stipulates that this means \$250,000. FAR Subchapter A, subpart 2.1 increases the threshold to \$300,000, \$750,000 and \$1.5 million for the acquisition of supplies or services to support: a contingency operation; an emergency or major disaster response; a humanitarian or peacekeeping operation; an operation to facilitate defense against or recovery from a cyber, nuclear, biological, chemical, or radiological attack; or a request from the Secretary of State or the Administrator of the U.S. Agency for International Development to provide international disaster assistance. Refer to FAR Subchapter A, subpart 2.1 for details.

## 3.0 ACCOUNTING FOR ADVANCES AND PREPAYMENTS (0503)

### \*3.1 Accounting Policy (050301)

3.1.1. Refer to the DoD USSGL Chart of Accounts and Transaction Library for the most current general ledger account numbers, definitions and required journal entries.

3.1.2. Advances and prepayments must comply with requirements authorized by applicable law or regulations. Organizations or individuals (other than DoD employees requesting travel advances) requesting advances must demonstrate that all external financing sources have been exhausted before an advance is authorized. When the conditions under which an advance was made are satisfied, the unused portions of the advance must be collected immediately and returned to the **appropriation** from which originally made.

3.1.3. Accounting activities must verify all contract line items are properly accounted for and segregated into separate line items between capitalized assets and expenses. The Certifying Officer must consult the Requiring Activity (buyer or program office) when the related purchase request does not include sufficient information to ensure proper segregation between capital and expense items. Refer to the Under Secretary of Defense (Comptroller), Deputy Chief Financial Officer memorandum, “Ensuring Proper Line Item Structure to Support **Asset Valuation**” dated

March 24, 2020. Advances and prepayments paid out are recorded as assets. Advances and prepayments received are recorded as liabilities. In the financial statements, advances and prepayments paid out should not be recorded as elimination entries for advances and prepayments received. Advances and prepayments are liquidated and either an expense or capitalized asset is recorded when goods or services are received, contract terms are met, or prepaid expenses expire.

3.1.4. Receivables arise from claims to cash or other assets against another entity. At the time revenue is recognized and payment has not been received in advance, a receivable must be established. Receivables include, but are not limited to, monies due for the sale of goods and services and monies due for indebtedness. Examples of indebtedness to the DoD 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 advances and prepayments made to Federal entities as intragovernmental actions. Account for and report these separately from those made to non-Federal entities.

3.1.6. SFFAS 1 provides for Federal entities to receive advances and prepayments from other entities for goods to be delivered or services to be performed. 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), the entity should record the appropriate amount as a revenue or financing source and should reduce the liability accordingly. Other current liabilities due to Federal entities are intragovernmental liabilities that should be reported separately from those due to employees and the public.

3.1.7. A quarterly review of dormant accounts (DAR-Q) is required by Volume 3, Chapter 8. This requirement replaces the former Triannual Review and is effective for all DoD Components beginning Quarter 1, Fiscal Year 2020. This quarterly review is an important part of exercising sound internal controls in order to increase each Component's ability to use available appropriations before they expire and ensure remaining open obligations are valid and liquidated before the cancellation of the appropriation. This will enable increased mission readiness for the Department.

### \*3.2 Recoveries and Adjustments (050302)

DoD Components must ensure that sound internal controls exist to monitor the use of advances and prepayments made. Unneeded and unused balances must be recovered as soon as information indicates they are excess to the purposes for which originally made. Recoveries of unused advances and prepayments received the same year as the original obligation are recorded as recoupments. Recoveries of unused advances and prepayments related to prior-year obligations are designated as collections rather than a reduction of disbursements. Use the SFIS web page given at [050103.I](#) for a decomposition of DoD USSGL accounting transactions for recoveries and adjustments.



### \*3.3 Contract Financing Payments (050303)

3.3.1. According to FAR 32.001, contract financing payments are authorized **Government** disbursements of monies to a contractor prior to the acceptance of supplies or services **by the Government**. **It stipulates that** contract financing payments include advance payments, performance-based payments, commercial advance and 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. **It underscores that** 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.

3.3.2. Contract financing payments authorized **in FAR 32 includes** advance payments for both commercial item purchase financing and non-commercial item purchase financing based on the statutory authority provided in 10 U.S.C. § 2307.

3.3.2.1. Commercial advance payments **may be made providing:**

3.3.2.1.1. the contract item financed is a commercial supply or service;

3.3.2.1.2. the contract price exceeds the simplified acquisition threshold (see 050214);

3.3.2.1.3. the contracting officer determines that it is appropriate or customary in the commercial marketplace to make financing payments for the item;

3.3.2.1.4. authorizing this form of contract financing is in the best interest of the Government;

3.3.2.1.5. adequate security is obtained (the value of the security must be at least equal to the maximum unliquidated amount of contract financing payments to be made to the contractor);

3.3.2.1.6. prior to any performance of work under the contract, the aggregate of commercial advance payments must not exceed 15 percent of the contract price;

3.3.2.1.7. the contract is awarded on the basis of competitive procedures or, if only one offer is solicited, adequate consideration is obtained (based on the time value of the additional financing to be provided) if the financing is expected to be substantially more advantageous to the offeror than the offeror's normal method of customer financing; and

3.3.2.1.8. the contracting officer obtains concurrence from the payment office concerning liquidation provisions when required.

3.3.2.2. Make non-Commercial advance payments only when the advance payments will not exceed the contractor's interim cash needs. This determination must be based on three initial criteria. An analysis of the cash flow required for contract performance,

consideration of the reimbursement or other payment cycle, and to the extent possible, use of the contractor's own working capital. Other considerations require that the advance payments are necessary to supplement other funds or credit available to a contractor, the recipient is considered a responsible contractor and, the Department will benefit from performance prospects, or there are other practical advantages.

3.2.3. An advance payment pool agreement is a means of financing the performance of more than one contract held by a single contractor. Refer to Volume 5, Chapter 9 for further guidance.

### 3.4 Grant Awards and Cooperative Agreements (050304)

Advance payments to award recipients (including amounts drawn against letters of credit) must be accounted for as advances of the assisting DoD Component until the recipient has performed under the grant or agreement. Once the recipient has performed under the grant or agreement, the assisting agency must record an expense in an amount 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 0503. In addition, each advance must be reviewed periodically to determine whether amounts are in excess of the grantee's current needs. Amounts determined to be in excess must be collected from the recipient. The timing of the review should be coordinated with DoD grantors so that the review occurs as each grant milestone or reporting requirement is reached. Sources for entries include grant agreements, disbursement vouchers, collection vouchers and reports on grant performance. 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 (050305)

Advances to foreign countries are authorized by 10 U.S.C. § 2396, which authorizes the use of DoD appropriations - to comply with the laws and ministerial regulations of a foreign country; to pay rent for periods of time determined by local custom, tuition, and public service utilities; and to a friendly foreign country's disbursing official or its armed force members, for their pay and allowances, and for necessary supplies and services. These advances must be assigned to the appropriate SFIS element (country code) found on the SFIS web page under the SFIS Values Library Service sub category and recorded in the related DoD Component subsidiary ledger account.

### \*3.6 Advances for Military Pay (050306)

Details concerning advances to military members for pay are included in Volume 7A. 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 ship for more than 30 days.

### \*3.7 Advances for Civilian Pay (050307)

Details concerning advances to civilian personnel for pay are included in Volume 8. 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 (050308)

SFFAS 1, paragraph 28, defines entity cash as the amount of cash that the reporting entity holds and is authorized by law to spend. Imprest Funds are cash advances against a specific Line of Accounting (LOA) from the Disbursing Officer to an appointed cashier. As advances, these funds are a form of “Cash Held Outside of Treasury” but because an entity LOA is cited as the basis of the Imprest Fund, the advance is considered “entity cash.” Refer to Chapter 2 for further guidance.

### \*3.9 Travel Advances (050309)

A Commander or Supervisor approved travel order must be issued before travel is performed unless an urgent or unusual situation prevents prior issuance. Cash travel advances must not be authorized unless an exception is granted. Record the maximum advance amount authorized on the travel order.

3.9.1. The standard practice is for the traveler to use an assigned Government Travel Charge Card (GTCC) to obtain cash from an automated teller machine (ATM). The traveler must only use ATM cash for expenses that cannot be charged to the GTCC, and 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.

3.9.2. A traveler must submit a travel claim voucher within five working days of return. The responsible settlement office that accounts for funds against which the advance is charged is responsible for settlement or collection action in accordance with the applicable Component’s accounting or disbursing regulation. Refer to Volume 9, Chapter 5 for further guidance.

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

3.9.3.1. Transportation documents or funds are lost or stolen.

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

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

3.9.3.4. Temporary quarters subsistence expense up to 30 days.

3.9.3.5. Mobile home transportation allowances.

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

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

3.9.4. Refer to the Joint Travel Regulations (JTR) sections 050402, 050602, 054007, 054207, 054407 and 060105 for details.

### 3.10 Defense Working Capital Fund (DWCF) (050310)

DWCF entities are required to record advances and prepayments in accordance with the guidance in this chapter. Refer to Volume 3, Chapter 19 for further guidance.

### 3.11 Inventory Bid Deposits (050311)

Record bid deposits received on inventory available for sale as advances. The advance account is relieved in two instances. Sales proceeds are recorded when the inventory has been delivered to successful buyers. The bid deposit is refunded and the sale canceled. Refer to Chapter 4, paragraph 040805 for further guidance.