VOLUME 4, CHAPTER 9: "ACCOUNTS PAYABLE"

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 April 2016 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
1.0 (0901)	Added overview paragraph to define accounts payable, clarified the purpose of this chapter, and revised the authoritative guidance paragraph to reflect all authoritative sources for this chapter in one place.	Addition/ Revision
2.2 (090202)	Revised paragraph defining accounts payable recognition in accordance with the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 1 and SFFAS 5. Added G-invoicing forms to the list of appropriate documentation to support the recording of accounts payable.	Revision/ Addition
2.12 (090212)	Updated required frequency of review to quarterly from triannual.	Revision
Policy Memo	Incorporated applicable guidance from the Deputy Chief Financial Officer policy memorandum, "Policy Change for Recording Contract Holdbacks (FPM18-01-R)," dated September 16, 2019 into this chapter.	Notification

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CHAPTER 9

ACCOUNTS PAYABLE

*1.0 GENERAL (0901)

1.1 Overview (090101)

A liability, for Federal accounting purposes, is a probable future outflow or other sacrifice of resources as a result of past transactions or events. Accounts Payable is one of several liabilities covered by Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 1, SFFAS 5, and Volume 11B, Chapter 9.

1.2 Purpose (090102)

1.2.1. This chapter provides the financial management policy for recording accruals for both intragovernmental and non-federal accounts payable.

1.2.2. The accounts payable policy in this chapter does not address liabilities related to on-going continuous expenses such as contract holdbacks to be paid after one year of the balance sheet date or employees' salaries and benefits, both of which are reported as other current liabilities and covered in Volume 4, Chapter 12.

1.3 Authoritative Guidance (090103)

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

1.3.1. Title 31, United States Code, Chapter 39 (***31 U.S.C. Chapter 39***), "Prompt Payment";

1.3.2. ***41 U.S.C. § 7103***, "Decision by contracting officer";

1.3.3. Title 5, Code of Federal Regulations, Section 1315.9 (***5 CFR § 1315.9***), "Required documentation";

1.3.4. ***48 C.F.R. § 46.501***, "General";

1.3.5. ***48 C.F.R. §§ 52.247.29 - 52.247.49***, "Solicitation Provisions and Contract Clauses";

1.3.6. Office of Management and Budget ***(OMB) Circular A-123, Appendix C***, "Requirements for Payment Integrity Improvements";

1.3.7. ***OMB Circular A-136,*** "Financial Reporting Requirements";

1.3.8. FASAB ***SFFAS 1,*** "Accounting for Selected Assets and Liabilities";

1.3.9. FASAB ***SFFAS 5***, "Accounting for Liabilities of the Federal Government";

1.3.10. Treasury Financial Manual ***(TFM) Chapter 4700***, "Federal Entity Reporting Requirements for the Financial Report of the United States Government";

1.3.11. TFM United States Standard General Ledger (***USSGL***); and

1.3.12. Department of Defense (DoD) United States Standard General Ledger (***DoD USSGL***) Transaction Library.

*2.0 ACCOUNTING POLICY (0902)

2.1 Accounts Payable (090201)

Accounts payable are liabilities owed by the DoD for goods and services received from, progress in contract performance made by, and rents due to other entities.

2.2 Accounts Payable Recognition – General (090202)

2.2.1. When DoD Components accept title to goods, whether the goods are delivered or in-transit, the Component must recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed must be estimated.

2.2.2. When a contractor provides a DoD Component with goods that are also suitable for sale to others, the accounts payable generally arises when the contractor physically delivers the goods and the Component receives them and takes formal title.

2.2.3. When a contractor builds or manufactures facilities or equipment to a DoD Component's specifications, formal acceptance of the products by that Component is not the determining factor for accounting recognition. For facilities or equipment constructed or manufactured by contractors or grantees according to agreements or contract specifications, amounts recorded as payable should be based on an estimate of work completed under the contract or the agreement. The estimate of such amounts must be based primarily on the Component's engineering and management evaluation of actual performance progress and incurred costs.

2.2.4. Amounts recorded as accounts payable must be supportable with appropriate documentation. Documentation includes:

2.2.4.1. Documentation that relates to an obligation,

2.2.4.2. Agreement or transaction with another entity (e.g., a contract, DD Form 448, Military Interdepartmental Purchase Request [MIPR], project order, Reimbursable Work Order [RWO], or, Intra-agency Agreement Form (IAA) General Terms and Condition (GT&C) Section Form 7600A and the Order Requirements and Funding Information (Order) Section Form 7600B), and

2.2.4.3. Documentation that relates to establishment of the amount recognized as payable (e.g., acceptance certificate on an inspection or receiving report form or commercial shipping document/packing list).

2.2.5. DoD Components must accurately record all accounts payable liabilities.

2.2.6. Responsibility for obtaining and maintaining documentation evidencing amounts payable resides with the DoD Component that is the buyer of goods or services, rather than the seller.

2.2.7. Audit evidence of "receipt" must document the item(s) or service(s) and related applicable quantities received, the date the item(s) or the service(s) were received, and contain the authorizing official's name and authorizing signature or electronic equivalent. DoD Components must ensure the audit evidence includes the calculations used to determine the amount accrued, or the basis used to estimate the amount. The documentation may, for example, include monetary amounts shown on or calculated from a purchase order or contract, historical data, or documented using a contracting officer or technical representative provided value. If audit evidence includes Personally Identifiable Information or sensitive commercial or proprietary information (such as internal labor rates provided to support certain incurred cost vouchers), such information may be redacted or described in aggregate.

2.2.8. DoD Components must develop, implement, and validate internal controls are in place and effectively operating for all intragovernmental and interfund transactions, and for transactions with the public. Components must ensure receipt and acceptance is properly accomplished and documented by authorized personnel. Documentation must be made available within the timeframe prescribed by the auditor when requested during audits.

2.2.9. The timing of the recording of an accounts payable liability for goods is determined by 48 CFR §§ 52.247.29 - 52.247.49. When amounts are not available at the end of an accounting quarter, DoD Components must estimate the accounts payable as identified in paragraph 090203.

2.2.10. If a DoD Component is offered a discount by a vendor, whether stipulated in the contract or offered on an invoice, the Component may take the discount if economically justified at the time of recognizing the accounts payable. Refer to Volume 10, Chapter 2 for further discussion on discount offers and calculations.

2.3 Accounts Payable Recognition – Estimating the Accrual (090203)

2.3.1. When definitive amounts or invoices are not available, but the requirements for recording an accounts payable liability as stated in paragraph 090202 exist, DoD Components must estimate and record an accrual when any of the following conditions identified in subparagraphs 090203.A.1 – 3 exist. This estimate must be later reversed, and a more definitive amount recorded, when more complete data becomes available (e.g., upon receipt of an invoice or billing) in the normal course of business.

2.3.1.1. Services are performed but the corresponding invoices are not received at period end (e.g., professional service contract).

2.3.1.2. Equipment and facilities are being manufactured or built based on the Government's specifications but the corresponding invoices are not received at period end (e.g., aircraft, or building).

2.3.1.3. Goods received and accepted by the Government but the corresponding invoices are not received at period end (e.g. computers delivered and accepted by the Government but invoices are not yet received).

2.3.2. DoD Components must have effective controls in place to ensure that a payable is not recorded again (i.e., duplicated) when an invoice is subsequently received involving the same procured goods or services in the normal course of operations.

2.3.3. The supporting documents (or mechanized program(s) used for the accrual estimates) must clearly show the calculations and data used to compute the amounts. This documentation must also identify who prepared the estimate, the date prepared, and who received and reviewed/approved the estimate. DoD Components must ensure the documentation is of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for the recorded amount.

2.3.4. Methods for calculating the accrual estimate must be periodically validated for reasonableness by comparing the estimate to actual data once available. At a minimum, the estimating methodology must be reviewed at fiscal year-end. The estimating methodology will also need to be reviewed if there is a material change to the business process that causes material differences between the method's estimate and actual amounts or if the initial assumptions used in making the estimate materially change and the initial accrual estimate is materially affected. Performance of these reviews, as well as approval of the review, must be documented by the DoD Component. This documentation must be maintained for auditors to validate that the review was performed and that it was approved by management.

2.4 Accounts Payable Recognition – Quarterly Accruals (090204)

2.4.1. To assist in developing more accurate financial statements, at least quarterly, DoD Components must ensure an accrual is recorded for all procurements in which DoD has received a measurable benefit from, or ownership title to, but have not been documented due to the lack of a receiving report or invoice. Components may need to make inquiries to cognizant contracting officers or the contracting officer's technical representatives to identify material dollar value of undelivered orders not yet invoiced or captured in receiving reports to assist with establishing these quarterly accruals. In the event that the Component cannot obtain all necessary information from the contracting representatives within the 21 days allowed for the preparation of quarterly financial statements, the best available information should be used to estimate the accrual. Adjusting entries must be made in subsequent periods, as information becomes available from contracting representatives.

2.4.2. DoD Components must also accrue temporary duty (TDY) travel taken, not yet disbursed or otherwise accounted for as a liability, as an accounts payable liability at least quarterly. Additionally, Components will need to record an accounts payable liability for TDY travel that crosses two or more accounting quarters on an estimated/proportional basis, if significant. The accrued liability must be recorded in the applicable accounting period and supported with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount of the liability. This supporting documentation must also evidence who prepared and who received the estimate and the dates these activities were completed. If accruals are posted by mechanized programs, documentation of information such as who prepared the estimate, date prepared, who received the estimate, or who reviewed the estimate may not be available. In this case, all available information captured by the mechanized program should be captured in the accrual.

2.4.3. DoD Components must also accrue Permanent Change of Station (PCS) travel taken, not yet disbursed or otherwise accounted for as a liability, as an accounts payable liability at least quarterly. Additionally, Components will need to record an accounts payable liability for PCS travel that crosses two or more accounting quarters on an estimated/proportional basis, if significant. The accrued liability must be recorded in the applicable accounting period and supported with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount of the liability. This supporting documentation must also provide evidence of who prepared and who received the estimate and the dates these activities were completed, in accordance with 090902.G. If accruals are posted by mechanized programs, documentation of information such as who prepared the estimate, date prepared, who received the estimate, or who reviewed the estimate may not be available. In this case, all available information captured by the mechanized program should be captured in the accrual.

2.4.4. When estimating these accruals, DoD Components must follow the policy stated in paragraph 090203.

2.4.5. Fixed-priced construction contracts containing payment provisions allowing for contractors to receive progress payments based upon the percentage or stage of completion require special consideration when recording the accounts payable liability. When accounts payable liability is expected to be paid within the year:

2.4.5.1. Components must record the payable in an amount that reflects the unpaid portion of the contractor's progress payment request for which the estimate of actual progress has been concurred to or approved by the contracting officer. The accounts payable amount recorded must include any amounts being withheld from the contractor pending acceptance and completion, or for other contract administration reasons, as per the terms of the contract. The supporting documentation should include engineering estimates and management evaluation of actual performance progress to validate the percentage of completion used. The contracting officer or their designee must maintain the supporting documentation, and be prepared to provide it to the Defense Finance and Accounting Service or other auditors to support the accounts payable amount.

2.4.5.2. The accounts payable for this type of contract is recognized because formal acceptance of the final product by the DoD Component is not the determining factor for accounting recognition. The DoD Component acquires an asset during each accounting period based on constructive or de facto receipt, and thus must recognize/record an accounts payable during each accounting period to reflect the accumulation of that asset.

2.5 Accounts Payable Recognition – Availability of Funds (090205)

DoD Components must not delay the recognition of an accounts payable liability pending the availability of funds. The accounts payable not covered by budgetary resources must be disclosed in the notes to the financial statements (refer to Volume 6B, Chapters 4 and 10). A potential violation of the Antideficiency Act (ADA) may exist if the amount of a payable exceeds the total availability of funds. Refer to Volume 14 for the financial management policy regarding an ADA violation.

2.6 Intragovernmental Purchases (090206)

2.6.1. Procuring a good or service from another DoD Component or Federal entity is considered an intragovernmental purchase under the TFM Chapter 4700. Payables due to DoD Components or other Federal entities are intragovernmental payables and must be reported separately from payables due to public entities. Note that OMB Circular A-11 uses the term "intergovernmental" for transactions between or among accounts of Federal entities, and that transactions with non-appropriated fund instrumentalities are reported as transactions with the public. The United States Department of the Treasury (Treasury) considers both interdepartmental and intradepartmental transactions to be subsets of intragovernmental transactions. The separation of intragovernmental and public transactions needs to be identified at the transaction level in accordance with Treasury regulations to allow for the proper summarization at the various reporting levels within the DoD, and ultimately the Federal Government as a whole. Identification at the transaction level will also support auditability down to the transaction level where the supporting documentation would normally exist. It also provides the capability to perform intragovernmental elimination entries at various organizational reporting levels, assuming the correct trading partner codes were utilized.

2.6.2. DoD Components must record accounts payable liability for intragovernmental purchases in the appropriate accounting period to recognize the receipt of goods or services ordered regardless of the document used in placing the order (e.g., MIPR, project order, or RWO). Components must ensure the liability is recorded during the accounting period that the benefit was received and not delayed pending receipt of a corresponding interagency billing or subsequent payment thereof. Documentation supporting the amount recorded must clearly show the basis (description of the good, quantity and amount; for services, description of the service, labor hours and amount) for the amount recorded as a payable (e.g., MIPR, project order, RWO, reciprocal agreement) and proof of receipt. The documentation must also be of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for recorded amounts.

2.6.2.1. In accordance with the TFM Chapter 4700 section 9.1.3, as the seller performs the work necessary to deliver the agreed-upon goods/services, the seller should report detailed supported balances to the buyer according to Volume 6B, Chapter 13, at a minimum, on a quarterly basis.

2.6.2.2. It is incumbent upon the DoD Component (buyer) to identify and record all accounts payable accruals. The Component (buyer) is ultimately responsible for their own financial statements, and thus must engage with the seller to identify the appropriate amount to accrue.

2.6.3. DoD Components must ensure an accounts payable liability is also recorded when the goods are received or the buying DoD Component has gained title to an asset. Component buyers need to work with the intragovernmental seller to ensure this business event is identified and the corresponding accounts payable liability is recorded.

2.7 Late Payment Interest (090207)

DoD Components must record in accounts payable an amount for prompt payment interest and other penalties incurred on late payments as required under terms of the non-federal contract. Refer to Volume 10, Chapter 7 for the policy on late payment interest and penalties. Components must also consider and record a quarterly accrual estimate for late payment interest and/or penalties to reflect any expected large dollar value late payments that will result in a significant interest and/or penalty liability in the reporting period. Defining what amounts are "significant" for these purposes is left to the discretion of the Component.

2.8 Refunds Due (090208)

DoD Components must record an accounts payable liability to reflect the amount of refunds due but not paid at the end of the reporting period, when applicable. The amount to record should either be for the exact amount of the refund when known and positively established and clearly documented, or estimated under the provisions in paragraph 090203. See Chapter 5 for additional guidance on refunds due.

2.9 Monetary Credits (090209)

2.9.1. DoD entities may be authorized by specific statutory authority to issue monetary credits as compensation for property or services received from non-federal entities. If the DoD entity exercises this authority, it must also record an accounts payable liability during the period the benefit from the property or services is received. These monetary credits give the seller credits in dollar amounts reflecting the agreed-upon value of the acquired property or received service. The holder of the credits may apply them later to reduce an amount later owed to the government (by the holder) in other, sometimes unrelated, transactions with the government. When monetary credits are used for exchange transactions, the DoD entity must record an accounts payable liability equal to the value of the monetary credit.

2.9.2. DoD Components must ensure the documentation supporting the accounts payable entry specifically identifies the property or services received, the date received, the name and signature of the DoD receiving official and include the bilateral agreement between the non-federal entity and designated DoD representative establishing the agreed-upon value. Components must also ensure the documentation is of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for the recorded amount.

2.10 Closed Appropriations (090210)

When an appropriation account is closed, any remaining balance in the account is required to be cancelled and unavailable for obligation or expenditure for any purpose. However, legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be reinstated to canceled payables and paid out of a current unexpired appropriation that is available for obligation for the same purpose as the closed account. Refer to Volume 3, Chapter 10 for more specific requirements for expired and closed accounts and Volume 3, Chapter 13 for more specific policy addressing payables involving closed appropriations.

2.11 Liquidating Accounts Payable (090211)

Accounts payable recorded in relation to receipt of a particular good or service must be liquidated when the liability created by the payable is settled. Generally, this occurs after a three-way match of a contract, receiving report, and proper invoice is performed, and a disbursement is made to satisfy the billed amount. In other than the three-way match scenario, the accounts payable liability will be liquidated when all required prepayment approvals have occurred, and other payment controls satisfied that result in generating a payment or recognizing an exchange-in-kind transaction business event.

2.12 Reviewing Accounts Payable Balances (090212)

2.12.1. The accounting office must review and reconcile all accounts payable balances to the transaction detail level in supporting accounting systems each quarter. As part of the accounts payable quarterly reviews, the budgetary accounts associated with the accounts payable balances (e.g., delivered order unpaid, obligations unpaid) must be reconciled to proprietary accounts payable balances. The accounting office must research any differences, fully document the rationale for necessary adjustments, and obtain approval from the DoD Component's Comptroller or their designated representative before making the adjustments. All adjustments made and associated documentation must be retained by the accounting office to support future financial statement related audits.

2.12.2. The accounts payable recorded to reflect the liability for acceptable final performance on a contract or order must remain on the account until liquidated through proper payment, or until receipt of contractual or legal documents that remove the remaining liability. DoD Components must assign financial management personnel to work through the cognizant contracting officer to request an invoice from the contractor for any accounts payable amount remaining unliquidated due to non-receipt of an invoice or billing within 180 days from the date of acceptable final contract performance. Component personnel must continue to pursue receipt of overdue invoices through the contract administration and funds holders as necessary to avoid canceled appropriations and to improve accounts payable reporting. Refer to Volume 3, Chapter 8 for policy associated with dormant commitments and unliquidated obligations eligible for closeout on physically complete contracts.

2.12.2.1. Continued non-receipt of an invoice on firm fixed-price contracts may extinguish the contractor's right to payment and relieve DoD's obligation to pay for the uninvoiced goods or services.

2.12.2.2. When a contractor has failed to invoice for the received and accepted goods or services after more than six years since the date of acceptance by DoD, the relevant accounts payable may be considered for write-off after coordination with the contracting activity and/or legal counsel, and if applicable, the Defense Contract Audit Agency and the Defense Contract Management Agency. Documentation in support of this write-off must clearly represent that the over-aged accounts payable no longer continues to represent a legal liability of DoD after giving due consideration to whether or not the Government has acted to toll or suspend the Contract Disputes Act's six-year limitation period on assertion of claims codified at 41 U.S.C. § 7103. The documentation must also include the contracting officer's determination that the legal liability to pay on the contract no longer exists. DoD Components must ensure the accounts payable amounts written-off contain sufficient documentation to allow an independent third party, such as an external auditor, to verify the basis, value, and rationale for the write-off.

2.12.3. The accounting office must investigate accounts payable debit balances over $100. These debit (abnormal) balances may result from any number of circumstances (e.g., duplicate payments and unrecorded accounts payable), and must be corrected after a thorough research of the underlying documentation associated with the business events and transactions impacting the particular accounts payable account.

2.12.3.1. DoD Components must ensure subsequent adjustments to correct the abnormal balance are fully documented. This documentation must include a description of the circumstances that caused the initial abnormal balance and support the valuation of the revised amount. It also must include the names and signatures (or electronic equivalent) of the management official(s) approving the adjustment and should also identify the correcting steps being taken to prevent reoccurrence. All of this documentation must be available for review by the independent auditors if necessary. The accounting office should also identify and report to management any recommendations for changes to internal controls or business processes to preclude incurring abnormal accounts payable balances in the future.

2.12.3.2. If the investigation of a debit balance discloses an overpayment or under-recouped funds related to a contract or vendor payment, the accounting office must coordinate with the responsible entitlement and disbursing offices to pursue collection or recoupment in accordance with the policies in Chapter 14 and Volume 10, Chapter 22.

2.12.4. The inability to match a performance report or invoice with a corresponding obligation may indicate a breakdown of fund control processes and a material weakness in internal controls. When posting a transaction to accounts payable does not disclose a corresponding obligation, this may be evidence that either a contract has not been awarded or a posting error has occurred. The accounting office must request the necessary documentation to support the required accounting entry and notify appropriate officials that receiving reports or invoices are being received without a corresponding recorded obligation. Refer to Volume 3, Chapter 11 for policy on recording an obligation for an unresolved negative unliquidated obligation.

2.12.5. There also may be instances in which disbursements have been reported by a disbursing office, through a paying center, to the Treasury and charged against the Department's fund balances, but have not yet been received or processed by the applicable accounting office for recordation against the applicable corresponding obligation. These transactions are defined as disbursements in-transit, and based on the USSGL Crosswalk, map to the accounts payable line of the balance sheet. Refer to Volume 3, Chapter 11 for disbursements in-transit policy.

2.13 Accounts Payable Document Retention (090213)

All documentation in support of accounts payable entries and adjustments must be readily available for review by auditors, management, and other DoD Component financial management personnel. Documentation retention policy is contained in Volume 1, Chapter 9.