MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL MANAGEMENT AND COMPTROLLER) DEFENSE AGENCY AND DOD FIELD ACTIVITY CHIEF FINANCIAL EXECUTIVES

SUBJECT: Imputed Cost for Real Property Related to Defense Working Capital Fund Activities (FPM 21-08)

The Office of the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer, in collaboration with the Office of the Deputy Comptroller for Program and Budget, revised policy for reporting imputed cost for real property associated with the Defense Working Capital Fund (DWCF) and other DoD revolving fund accounts.

The DWCF Accounting Report (Monthly) 1307 was revised to include new and modified line items and their corresponding definitions as identified in Attachment 1. Additionally, detailed procedures are provided in the “Imputed Costs for Real Property Related to DoD Revolving Fund Activities Implementation Guide,” at Attachment 2.

The revisions to the DWCF Accounting Report will be incorporated in the next update to the DoD Financial Management Regulation Volume 6A, Chapter 15.

My point of contact for the FMR policy is Ms. Maribel Langas Miller, (703) 614-1019 or maribel.l.miller2.civ@mail.mil. The Program/Budget point of contact for the Implementation Guide is Mr. Shawn Lennon, (703) 473-9290 or shawn.c.lennon.civ@mail.mil.

Douglas A. Glenn
Deputy Chief Financial Officer

Attachments:
As stated
Defense Working Capital Fund Accounting Report  
(Updates in Blue Text)

DEFENSE WORKING CAPITAL FUND  
STATEMENT OF OPERATIONS: PART I – STATEMENT OF OPERATIONS  
(DoD COMPONENT/DWCF ACTIVITY)  
MONTH ENDING ___, 20XX  
($ in thousands)

**REVENUES AND FINANCING SOURCES**

1. Appropriated Capital Used  
   $ XXX

2. Revenue from Sales of Goods and Services  
   a. Gross Revenue from Sales  
      $ XXX
   b. Minus: Credits Allowed on Sales  
      XXX

3. Other Revenue and Financing Sources  
   a. Other Revenue and Financing Sources  
      XXX
   b. Imputed Financing Sources  
      XXX
   c. Gains  
      XXX

4. Total Revenue and Financing Sources  
   XXX

**EXPENSES:**

5. Program or Operating Expenses (Supply and Service Activities)  
   XXX

6. Cost of Goods and Services Sold  
   XXX

7. Other Losses  
   XXX

8. Total Expenses  
   XXX

**NET OPERATING RESULTS:**

9. Revenue Less Cost Incurred Before Extraordinary Items  
   XXX

10. Plus (Minus) Extraordinary Items  
    XXX

11. Net Operating Results (NOR)  
    XXX

**NET OPERATING RESULTS FOR RATE PURPOSES:**

12. Adjustments to NOR (from Part V)  
    XXX
    a. Deferred Operating Results  
       XXX
    b. Depreciation, Non-Recoverable PP&E  
       XXX
    c. (Minus) Imputed Financing Sources – Real Property Executed  
       Under Working Capital Fund Budget Authority  
       XXX

13. Recoverable Net Operating Results  
    XXX

Attachment 1
Instructions Statement of Operations, Part I – Statement of Operations:

A. **Section Heading – REVENUES AND FINANCING SOURCES.** The “Revenues and Financing Sources” section presents inflows of or other increases in assets, decreases in liabilities, or a combination of both resulting in an increase in the government's net position during the reporting period.

B. **Line 1 – Appropriated Capital Used.** Appropriations, primarily for War Reserve Material and Commissary Operations, may be provided directly to the DWCF. Use USSGL account 570000, “Expended Appropriations,” to record an amount equal to accrued expenses (versus outlays) of appropriated funds provided directly to the Fund. The purpose of the account is to match current period expenses to the appropriated funds used to finance those expenses. Record amounts in account 570000 equal to the amount of program expenses but do not include any expenses applicable to revenue accounts other than account 570000. In other words, record expenses incurred against an appropriation made directly available to the DWCF separately from expenses incurred against ordinary DWCF reimbursable financing. Report the balance of the following account:

570000 Expended Appropriations

C. **Line 2 – Revenue from Sales of Goods and Services.** Line 2 is a summary line for Lines 2.a, “Gross Revenue from Sales,” and 2.b, “Minus: Credits Allowed on Sales.”

D. **Line 2.a – Gross Revenue from Sales.** Report the balances in the following accounts:

510000 Revenue From Goods Sold
520000 Revenue From Services Provided

E. **Line 2.b – Minus: Credits Allowed on Sales.** Reporting activities within the Supply Management Activity will report the dollar amount of credits allowed on amounts due (accounts receivable) from sales or Depot Level Repairable (DLR) exchanges. Report the balances in the following accounts:

510900 Contra Revenue for Goods Sold
520900 Contra Revenue from Services Provided


G. **Line 3.a – Other Revenue and Financing Sources.** Include the total amount of revenues and financing sources not reported on Lines 1, “Appropriated Capital Used,” or 2, “Revenue from Sales of Goods and Services,” or 3.b, “Imputed Financing Sources,” or 3.c, “Gains.” Do not include revenues reported on this line in customer rates. Include cash donations. Identify the nature of each miscellaneous gain in the footnotes. Do not include other gains related to inventory on this line. Report other gains related to inventory on Line K.4, “Net Other Inventory (Gains) Losses” of Part IV, “Expenses,” of the Statement of Operations. Report the
portion of the balance of the following accounts as they relate to Other Revenues and Financing Sources:

531000 Interest Revenue – Other
531900 Contra Revenue for Interest Revenue – Other
532000 Penalties and Fines Revenue
532900 Contra Revenue for Administrative Fees
560000 Donated Revenue – Financial Resources
560900 Contra Revenue for Donations – Financial Resources
561000 Donated Revenue – Nonfinancial Resources
561900 Contra Donated Revenue – Nonfinancial Resources
575500 Nonexpenditure Financing Sources – Transfers–In – Other
576500 Nonexpenditure Financing Sources – Transfers–Out – Other
577500 Nonbudgetary Financing Sources Transferred In
579000 Other Financing Sources
590000 Other Revenue
590900 Contra Revenue for Other Revenue
599300 Offset to Non–Entity Collections – SCNP
599400 Offset to Non–Entity Accrued Collections - SCNP

H. **Line 3.b – Imputed Financing Sources.** Report imputed financing sources from the following account:

578000 Imputed Financing Sources

I. **Line 3.c – Gains.** Report gains from the following accounts:

711000 Gains in Disposition of Assets
719000 Other Gains

J. **Line 4 – Total Revenue and Financing Sources.** Line 4 is a summary line for Lines 1, “Appropriated Capital Used,” through 3, “Other Revenue and Financing Sources.” Revenue will equal net sales plus any other reimbursable revenue and financing source.

K. **Section Heading – EXPENSES.** The “Expenses” section presents outflows of or other decreases in assets, increases in liabilities, or a combination of both resulting in a decrease in the government's net position during the reporting period.


O. **Line 8 – Total Expenses.** Report the sum of Lines 5, “Program or Operating Expenses (Supply and Service Activities),” through 7, “Other Losses.”

P. **Section Heading – NET OPERATING RESULTS.** The “Net Operating Results” section identifies the reporting lines used to calculate the NOR for the reporting period.


R. **Line 10 – Plus (Minus) Extraordinary Items.** Extraordinary items are both unusual in nature and infrequent in occurrence. Identify the nature of each extraordinary gain or loss in a footnote. Report the balance of the following account:

```
730000   Extraordinary Items
```

S. **Line 11 – Net Operating Results (NOR).** Line 11 is a summary line for Lines 9, “Revenue Less Cost Incurred Before Extraordinary Items” and 10, “Plus (Minus) Extraordinary Items.”

T. **Section Heading – NET OPERATING RESULTS FOR RATE PURPOSES.** The “Net Operating Results for Rate Purposes” section identifies the reporting line items used to calculate the NOR used for rate purposes for the reporting period.


Y.  Line 13 – Recoverable Net Operating Results. Line 13 is a summary line for Lines 11, “Net Operating Results (NOR),” and 12, “Plus (Minus) Deferred Operating Results and Depreciation (Part V).”

Statement of Operations, Part II – Changes in Net Position
DEFENSE WORKING CAPITAL FUND
STATEMENT OF OPERATIONS: PART II-CHANGES IN NET POSITION
(DWCF ACTIVITY)
MONTH ENDING __, 20XX
($ in thousands)

<table>
<thead>
<tr>
<th>1. CHANGES IN NET POSITION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. UNEXPENDED APPROPRIATIONS</td>
<td></td>
</tr>
<tr>
<td>(1) Appropriations Available – Beginning of Year</td>
<td>$ XXX</td>
</tr>
<tr>
<td>(2) Plus or Minus: Changes in Appropriation Balance</td>
<td>XXX</td>
</tr>
<tr>
<td>(3) Equals: Unexpended Appropriations – End of Period</td>
<td>XXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. ACCUMULATED OPERATING RESULTS (AOR)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) RECOVERABLE AOR</td>
<td></td>
</tr>
<tr>
<td>a. Recoverable AOR Beginning of Year (Unadjusted)</td>
<td>XXX</td>
</tr>
<tr>
<td>b. Plus or Minus: Prior Period Adjustments</td>
<td>XXX</td>
</tr>
<tr>
<td>c. Equals: Recoverable AOR Beginning of Year (Adjusted)</td>
<td>XXX</td>
</tr>
<tr>
<td>d. Plus or Minus: Net Operating Results</td>
<td>XXX</td>
</tr>
<tr>
<td>e. Equals: Recoverable AOR End of Period</td>
<td>XXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(2) DEFERRED AOR</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Deferred AOR Beginning of Year (Unadjusted)</td>
<td>XXX</td>
</tr>
<tr>
<td>b. Plus or Minus: Prior Period Adjustments</td>
<td>XXX</td>
</tr>
<tr>
<td>c. Equals: Deferred AOR Beginning of Year (Adjusted)</td>
<td>XXX</td>
</tr>
<tr>
<td>d. Plus or Minus: Net Operating Results</td>
<td>XXX</td>
</tr>
<tr>
<td>e. Equals: Deferred AOR End of Period</td>
<td>XXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(3) OTHER ADJUSTMENTS TO AOR</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Non-Recoverable AOR Beginning of Year (Unadjusted)</td>
<td>$ XXX</td>
</tr>
<tr>
<td>b. Plus or Minus: Prior Period Adjustments</td>
<td>XXX</td>
</tr>
<tr>
<td>c. Equals: Non-Recoverable AOR Beginning of Year (Adjusted)</td>
<td>XXX</td>
</tr>
<tr>
<td>d. Plus or Minus: Non-Recoverable Net Operative Results</td>
<td>XXX</td>
</tr>
<tr>
<td>e. Equals: Non-Recoverable AOR End of Period</td>
<td>XXX</td>
</tr>
</tbody>
</table>

| (4) Total AOR End of Period | XXX |
Statement of Operations, Part II – Changes in Net Position (Continued)

C. Operational Equity Position – End of Period

D. INVESTED CAPITAL

(1) ASSETS CAPITALIZED

a. Assets Capitalized – Beginning of Period
b. Plus: Transfers In of Property
c. Minus: Transfers Out of Property
d. Minus: Depreciation, Non-Recoverable PP&E
e. Equals: Assets Capitalized – End of Period

(2) FUND (CASH) ASSETS

a. Fund (Cash) Assets – Beginning of Period
b. Plus: Transfers In of Cash
c. Minus: Transfers Out of Cash
d. Equals: Fund (Cash) Assets – End of Period

(3) LIABILITIES ASSUMED

a. Liabilities Assumed – Beginning of Period
b. Plus: Transfers In of Liabilities
c. Minus: Transfers Out of Liabilities
d. Equals: Liabilities Assumed – End of Period

(4) Equals: Invested Capital – End of Period

2. Net Position – End of Period

Instructions Statement of Operations, Part II – Changes in Net Position:

A. Section Heading – CHANGES IN NET POSITION. The “Changes in Net Position” section identifies the reporting line items used to report the change in net position during the reporting period.

B. Section Heading – UNEXPENDED APPROPRIATIONS. The “Unexpended Appropriations” section identifies appropriations that have not yet been used to acquire goods and services or provide benefits.

September 30, Statement of Operations, Part II, “Changes in Net Position.” The amount reported will not change during the FY. Report the balance of the following account:

310000 Unexpended Appropriations – Cumulative

D. Line 1.A.(2) – Plus or Minus: Changes in Appropriation Balance. Line 1.A.(2) represents the difference between the beginning FY balance and the balance as of the end of the reporting period. Report the balance of the following accounts:

310100 Unexpended Appropriations – Appropriations Received
310200 Unexpended Appropriations – Transfers–In
310300 Unexpended Appropriations – Transfers–Out
310500 Unexpended Appropriations – Prior Period Adjustments Due to Corrections of Errors – Years Preceding the Prior Year
310600 Unexpended Appropriations – Adjustments
310700 Unexpended Appropriations – Used
310800 Unexpended Appropriations – Prior–Period Adjustments Due to Corrections of Errors
310900 Unexpended Appropriations – Prior–Period Adjustments Due to Changes in Accounting Principles


F. Section Heading – ACCUMULATED OPERATING RESULTS (AOR). The “Accumulated Operating Results” section reflects the cumulative summation of NOR.

G. Section Heading – RECOVERABLE AOR. The “Recoverable AOR” section identifies the reporting line items used to calculate the ending balance of recoverable AOR for the reporting period.


331000 Cumulative Results of Operations

I. Line 1.B.(1).b – Plus or Minus: Prior Period Adjustments. Report the portion of the balance in the following accounts related to prior period adjustments to recoverable AOR. Point accounts need to be used to differentiate. Report a credit balance as a positive and a debit balance as a negative.


M. Section Heading – DEFERRED AOR. The “Deferred AOR” section identifies the reporting line items used to calculate the ending balance of deferred AOR for the reporting period.


331000 Cumulative Results of Operations

O. Line 1.B.(2).b – Plus or Minus: Prior Period Adjustments. Report the portion of the balance in the following accounts related to prior period adjustments to deferred AOR. Point accounts need to be used to differentiate. Report a credit balance as a positive and a debit balance as a negative.

740000 Prior–Period Adjustments Due to Corrections of Errors
740100 Prior–Period Adjustments Due to Changes in Accounting Principles
740500 Prior–Period Adjustments Due to Corrections of Errors – Years Preceding the Prior Year


Q. Line 1.B.(2).d – Plus or Minus: Net Operating Results. The amount reported on
this line will be the opposite of the amount shown on Line 2, “Deferred Operating Results (Gains/Losses) Net,” of Part V, “Recoverable Operating Results,” of the Statement of Operations.


S. Section Heading – OTHER ADJUSTMENTS TO AOR. The “Other Adjustments to AOR” section identifies the reporting line items used to calculate the ending balance of Non-Recoverable AOR for the reporting period.


U. Line 1.B.(3).b – Plus or Minus: Prior Period Adjustments. Report the portion of the balance in the following accounts related to prior period adjustments to deferred AOR. Point accounts need to be used to differentiate. Report a credit balance as a positive and a debit balance as a negative.

740000 Prior–Period Adjustments Due to Corrections of Errors
740100 Prior–Period Adjustments Due to Changes in Accounting Principles
740500 Prior–Period Adjustments Due to Corrections of Errors – Years Preceding the Prior Year


W. Line 1.B.(3).d – Plus or Minus: Non-Recoverable Net Operating Results. The amount reported on this line will be the opposite of the amount shown on Line 3, “Other adjustments to NOR,” of Part V, “Recoverable Operating Results,” of the Statement of Operations.


“Total AOR End of Period.”

AA. **Section Heading – INVESTED CAPITAL.** The “Invested Capital” section identifies the reporting line items used to calculate the ending balance of invested capital for the reporting period.

AB. **Section Heading – ASSETS CAPITALIZED.** The “Assets Capitalized” section identifies the reporting line items used to calculate the ending balance of capitalized assets for the reporting period.


\[
331000 \quad \text{Cumulative Results of Operations}
\]

AD. **Line 1.D.(1).b – Plus: Transfers In of Property.** Report the value of non-cash capital assets transferred in without reimbursement. Report the portion of the balance in the following account as it relates to non-cash capital transfers:

\[
572000 \quad \text{Financing Sources Transferred In Without Reimbursement}
\]

AE. **Line 1.D.(1).c – Minus: Transfers Out of Property.** Report the value of non-cash capital assets transferred out without reimbursement. Report the portion of the balance in the following account as it relates to non-cash capital transfers:

\[
573000 \quad \text{Financing Sources Transferred Out Without Reimbursement}
\]


\[
719000 \quad \text{Other Gains}
\]
\[
729000 \quad \text{Other Losses}
\]


AH. **Section Heading – FUND (CASH) ASSETS.** The “Fund (Cash) Assets” section identifies the reporting line items used to calculate the ending balance of fund (cash) assets for the reporting period.

331000  Cumulative Results of Operations

AJ.  Line 1.D.(2).b – Plus: Transfers In of Cash. Report the amount of financing sources of a reporting entity representing cash transferred in without reimbursement. Report the portion of the balance in the following account as it relates to transfers in of cash:

575500  Nonexpenditure Financing Sources – Transfers–In

AK.  Line 1.D.(2).c – Minus: Transfers Out of Cash. Report the amount of financing sources of a reporting entity representing cash transferred out without reimbursement. Report the portion of the balance in the following accounts as they relate to transfers out of cash:

576500  Nonexpenditure Financing Sources – Transfers–Out


AM.  Section Heading – LIABILITIES ASSUMED. The “Liabilities Assumed” section identifies the reporting line items used to calculate the ending balance of liabilities assumed for the reporting period.


331000  Cumulative Results of Operations

AO.  Line 1.D.(3).b – Plus: Transfers In of Liabilities. Report the portion of the balance in the following account as it relates to the value of liabilities transferred in:

572000  Financing Sources Transferred In Without Reimbursement

AP.  Line 1.D.(3).c – Minus: Transfers Out of Liabilities. Report the portion of the balance in the following account as it relates to the value of liabilities transferred out:

573000  Financing Sources Transferred Out Without Reimbursement


Statement of Operations, Part III – Cost of Goods Sold
DEFENSE WORKING CAPITAL FUND
STATEMENT OF OPERATIONS: PART III-COST OF GOODS SOLD
(DoD COMPONENT/DWCF ACTIVITY)
MONTH ENDING , 20XX
($ in thousands)

1. COST OF GOODS AND SERVICES SOLD:
   a. Beginning Work-in-Process $ XXX
   b. Plus/Minus: Prior Period Adjustments to Work-in-Process XXX
   c. Equals: Adjusted Beginning Work-in-Process XXX
   d. Minus: Transfers Out of Work-in-Process XXX
   e. Plus: Transfers In of Work-in-Process XXX
   f. Plus: Operating Expenses XXX
   g. Minus: Ending Work-in-Process XXX
   h. Minus: Work for Activity Retention XXX
   i. Equals: Cost of Goods and Services Sold XXX

2. COST OF GOODS SOLD FROM INVENTORY:
   a. Beginning Inventory-LAC XXX
   b. Plus/Minus: Prior Period Adjustments to LAC Inventory XXX
   c. Equals: Adjusted Beginning Inventory-LAC XXX
   d. Minus: Beginning Allowance for Unrealized Holding Gains (Losses) XXX
   e. Plus: Purchases at Cost XXX
   f. Plus: Customer Returns-Credit Given XXX
   g. Plus: DLR Exchange Credits XXX
   h. Minus: Inventory Losses (Gains) Realized XXX
   i. Minus: Ending Inventory-LAC XXX
   j. Plus: Ending Allowance for Unrealized Holding Gains (Losses) XXX
   k. Minus: Transfers Out of Inventory at LAC XXX
   l. Plus: Transfers In of Inventory at LAC XXX
   m. Equals: Cost of Goods Sold at LAC XXX
   n. Plus: Cost of Goods Sold at MAC XXX
   o. Equals: Cost of Goods Sold from Inventory XXX
Instructions Statement of Operations, Part III – Cost of Goods Sold:


<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>152600</td>
<td>Inventory – Work-in- Process</td>
</tr>
<tr>
<td>152900</td>
<td>Inventory – Allowance</td>
</tr>
</tbody>
</table>

C. Line 1.b – Plus/Minus: Prior Period Adjustments to Work-in-Process. Report the current year change for Inventory Work-in-Process related to a prior period adjustment included in the following accounts:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>740000</td>
<td>Prior–Period Adjustments Due to Corrections of Errors</td>
</tr>
<tr>
<td>740100</td>
<td>Prior–Period Adjustments Due to Changes in Accounting Principles</td>
</tr>
<tr>
<td>740500</td>
<td>Prior–Period Adjustments Due to Corrections of Errors – Years Preceding the Prior Year</td>
</tr>
</tbody>
</table>


E. Line 1.d – Minus: Transfers Out of Work-in-Process. Report the portion of the balance in the following account as it relates to work-in-process transferred out to another activity without reimbursement:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>573000</td>
<td>Financing Sources Transferred Out Without Reimbursement</td>
</tr>
</tbody>
</table>

F. Line 1.e – Plus: Transfers In of Work-in-Process. Report the portion of the balance in the following account as it relates to work-in-process transferred in from another activity without reimbursement:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>572000</td>
<td>Financing Sources Transferred In Without Reimbursement</td>
</tr>
</tbody>
</table>

H. Line 1.g – Minus: Ending Work-in-Process. Report the portion of the balance in the following accounts as of the end of the current reporting period:

- 152600 Inventory – Work-in-Process
- 152900 Inventory – Allowance

I. Line 1.h – Minus: Work for Activity Retention. Report the value of assets developed or manufactured for use and retention by the performing DWCF activity. Report the portion of the balance of the following account as it relates to assets retained by a business activity:

- 650000 Cost of Goods Sold


K. Section Heading – COST OF GOODS SOLD FROM INVENTORY. Report in the “Cost of Goods Sold from Inventory” section only the costs for Supply Management and Commissary Resale DWCF activities. Supply activities must record any incremental amount billed for manufactured inventory as work-in-process on Line 1. The Supply Activity will adjust the inventory work-in-process account as appropriate based on the subsequent progress bills received.

1. Refer to the DoD USSGL Transaction Library for detailed debit and credit transactions related to the recording and transfer out of work-in-process inventory accounts to the appropriate Inventory Held for Sale account(s). Once the Supply Activity receives the completed manufactured end item(s), they will transfer the corresponding value in the inventory work-in-process account to the appropriate inventory account. Accounting transactions related to this policy need to comply with the DoD Standard Chart of Accounts and the DoD USSGL Transaction Library.

2. SFFAS 3 sets the accounting principles for Federal Government entities to follow when accounting for and reporting inventory and related property. Volume 4, Chapter 4 provides instructions for DoD Components recording inventory at its last invoice price. Volume 4, Chapter 4 also provides the application of inventory-related accounts and provides clarification for the reporting requirements contained in section 2, “Cost of Goods Sold from Inventory,” of Part III, “Cost of Goods Sold,” of the Statement of Operations.

L. Line 2.a – Beginning Inventory – LAC. Report the balance of Line 2.i, “Minus: Ending Inventory – LAC,” from the preceding September 30, Statement of Operations, Part III, “Cost of Goods Sold.” The LAC valuation method is available to DeCA and is not approved for use by other DoD Components. The amount reported will not change during the FY.

- 152100 Inventory Purchased for Resale
- 152200 Inventory Held in Reserve for Future Sale
- 152300 Inventory Held for Repair
M. Line 2.b – Plus/Minus: Prior Period Adjustments to LAC Inventory. Report the current year change for inventory reported at LAC related to prior period adjustments included in the following accounts:

- 740000 Prior–Period Adjustments Due to Corrections of Errors
- 740100 Prior–Period Adjustments Due to Changes in Accounting Principles
- 740500 Prior–Period Adjustments Due to Corrections of Errors – Years Preceding the Prior Year

N. Line 2.c – Equals: Adjusted Beginning Inventory-LAC. Line 2.c is a summary line for Lines 2.a, “Beginning Inventory – LAC,” and 2.b, “Plus/Minus: Prior Period Adjustments to LAC Inventory.”

O. Line 2.d – Minus: Beginning Allowance for Unrealized Holding Gains (Losses). Report the balance of Line 2.j, “Plus: Ending Allowance for Unrealized Holding Gains (Losses),” from the preceding September 30, Statement of Operations, Part III, “Cost of Goods Sold.” The amount will not change during the FY. Recognize holding gains (or losses) in the valuation of inventory. Holding gains (or losses) may be unrealized or realized. “Unrealized” refers to any gain (or loss) associated with inventory still held by the entity. “Realization” of the holding gain (or loss) occurs when an item of inventory is sold or otherwise leaves the Supply Management stocking point.

P. Line 2.e – Plus: Purchases at Cost. Report the portion of the balance in the following account as it relates to amounts paid or payable for all inventory purchases during the reporting period:

- 152900 Inventory – Allowance

Q. Line 2.f – Plus: Customer Returns–Credit Given. Report the portion of the balance in the following account as it relates to amounts of credit given on materiel returns:

- 152900 Inventory – Allowance

R. Line 2.g – Plus: DLR Exchange Credits. Report the portion of the balance in the following account as it relates to amounts of credits given on DLR exchanges:

- 152900 Inventory – Allowance

S. Line 2.h – Minus: Inventory Losses (Gains) Realized. The realization of most inventory gains (and losses) are recognized through reduction of the unrealized holding gains (and losses) accounts as a result of sales; that is, those gains (and losses) are realized when inventory
items are sold and recognized in the cost of goods sold.

1. However, increases (or decreases) in inventory occurring because of disposal and events other than sales also result in an adjustment (increase or decrease) of the unrealized holding gains (or losses) accounts. As those inventory increases (or decreases) are not the result of sales, they should not affect the cost of goods sold. (Immaterial losses are charged to cost of goods sold.)

2. Therefore, remove the value of those gains (or losses) from the cost of goods sold and report on Line K.4, “Net Other Inventory (Gains) Losses,” of Part IV “Expenses,” of the Statement of Operations. Report the portion of the balance of the following accounts related to (gains) losses on inventory identified in the following breakdown:

a. Non-Recoverable Gains or Losses on Disposal of Excess Inventory, Supply Management:

   711000 Gains on Disposition of Assets – Other
   719000 Other Gains
   721000 Losses on Disposition of Assets – Other
   729000 Other Losses

b. Other Inventory Losses, Non-Supply Management:

   729000 Other Losses

T. Line 2.i – Minus: Ending Inventory – LAC. Report the end of period inventory value of the following accounts:

   152100 Inventory Purchased for Resale
   152200 Inventory Held in Reserve for Future Sale
   152300 Inventory Held for Repair
   152400 Inventory – Excess, Obsolete, and Unserviceable
   152500 Inventory – Raw Materials
   152700 Inventory – Finished Goods

U. Line 2.j – Plus: Ending Allowance for Unrealized Holding Gains (Losses). Report the portion of the balance in the following account as it relates to allowance for unrealized holding gains (losses):

   152900 Inventory – Allowance

V. Line 2.k – Minus: Transfers Out of Inventory at LAC. Report the portion of the balance in the following account as it relates to inventory maintained at LAC transferred out of the activity:

   573000 Financing Sources Transferred Out Without Reimbursement
W. Line 2.l – Plus: Transfers In of Inventory at LAC. Report the portion of the balance in the following account as it relates to inventory maintained at LAC transferred into the activity:

572000 Financing Sources Transferred In Without Reimbursement

X. Line 2.m – Equals: Cost of Goods Sold at LAC. Line 2.m is a summary line for Lines 2.c, “Equals: Adjusted Beginning Inventory–LAC,” through Line 2.l, “Plus: Transfers In of Inventory at LAC.”

Y. Line 2.n – Plus: Cost of Goods Sold at MAC. Report the portion of the balance of the following account reported from activities maintaining inventory at MAC value:

650000 Cost of Goods Sold


Statement of Operations, Part IV – Expenses

DEFENSE WORKING CAPITAL FUND
STATEMENT OF OPERATIONS: PART IV-EXPENSES
(DWCF ACTIVITY)
MONTH ENDING __, 20XX
($ in thousands)

<table>
<thead>
<tr>
<th>A. Personnel Services and Benefits-Civilian</th>
<th>XXX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Personal Compensation</td>
<td>XXX</td>
</tr>
<tr>
<td>2. Annual Leave</td>
<td>XXX</td>
</tr>
<tr>
<td>3. Personnel Benefits</td>
<td>XXX</td>
</tr>
<tr>
<td>4. Benefits for Former Personnel</td>
<td>XXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Travel and Transportation</th>
<th>XXX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Travel and Transportation of People</td>
<td>XXX</td>
</tr>
<tr>
<td>2. Transportation of Things</td>
<td>XXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C. Rents, Communications and Utilities</th>
<th>XXX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rents, Communications and Utilities</td>
<td>XXX</td>
</tr>
<tr>
<td>2. Printing and Reproduction</td>
<td>XXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>D. Contractual Services</th>
<th>XXX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Military Personnel Services</td>
<td>XXX</td>
</tr>
<tr>
<td>2. Purchased Services</td>
<td>XXX</td>
</tr>
</tbody>
</table>
Statement of Operations, Part IV – Expenses (Continued)

E. Supplies, Materials, and Other Non-Capitalized Assets
   1. Supplies and Materials XXX
   2. Equipment XXX

F. Grants and Fixed Charges XXX
   1. Grants and Contributions XXX
   2. Insurance Claims and Indemnifications XXX
   3. Other Interest Expenses XXX

G. Other Expenses XXX
   1. Imputed Costs XXX
      b. Imputed Costs – Real Property Not Executed Under Working Capital Fund Budget Authority XXX
      c. Other Imputed Costs XXX
   2. Future Funded Expenses and Employer Contribution to Employee Benefit Program XXX
   3. Other XXX

H. Depreciation XXX
   1. Depreciation of Equipment XXX
   2. Depreciation of Real Property XXX
   3. Amortization of Leasehold Improvements and Other Intangible Assets XXX

I. Depreciation – Non-Recoverable PP&E XXX
   1. Non-Recoverable Depreciation of Equipment XXX
   2. Non-Recoverable Real Property XXX
   3. Non-Recoverable Amortization XXX

J. Bad Debts XXX

K. Other Losses and Gains XXX
   1. Losses on Disposition of Assets XXX
   2. Net (Gains) Losses on Inventory Shrinkage/Deterioration XXX
   3. Net (Gains) Losses on Inventory Excess/Obsolescence/Spoilage XXX
   4. Net Other Inventory (Gains) Losses XXX
   5. Other Miscellaneous (Gains) Losses XXX

Expended Appropriation XXX
Direct Labor Hours – Regular XXX
Direct Labor Hours – Overtime XXX
Direct Labor Hours – Total XXX
Instructions Statement of Operations, Part IV – Expenses:


B. **Line A.1 – Personnel Compensation.** Report the portion of the balance of the following accounts related to personnel compensation:

   610000 Operating Expenses/Program Costs

C. **Line A.2 – Annual Leave.** Report the portion of the balance of the following accounts related to annual leave:

   610000 Operating Expenses/Program Costs

D. **Line A.3 – Personnel Benefits.** Report the portion of the balance of the following accounts related to personnel benefits:

   610000 Operating Expenses/Program Costs
   640000 Benefits Expense
   680000 Future Funded Expenses
   685000 Employer Contributions to Employee Benefit Programs Not Requiring Current Budget Authority (Unobligated)
   760000 Changes in Actuarial Liability

E. **Line A.4 – Benefits for Former Personnel.** Report the portion of the balance of the following accounts related to benefits for former personnel:

   610000 Operating Expenses/Program Costs
   640000 Benefits Expense

F. **Line B – Travel and Transportation.** Line B is a summary line for Lines B.1, “Travel and Transportation of People,” and B.2, “Transportation of Things.” Report the amount of expense related to travel and transportation.

G. **Line B.1 – Travel and Transportation of People.** Report the portion of the balance of the following account related to travel and transportation of persons:

   610000 Operating Expenses/Program Costs

H. **Line B.2 – Transportation of Things.** Report the portion of the balance of the following account related to travel and transportation of things:

   610000 Operating Expenses/Program Costs

I. **Line C – Rents, Communications, and Utilities.** Line C is a summary line for

J. Line C.1 – Rents, Communications, and Utilities. Report the portion of the balance of the following account related to rents, communications, and utilities:

610000 Operating Expenses/Program Costs

K. Line C.2 – Printing and Reproduction. Report the portion of the balance of the following account related to printing and reproduction:

610000 Operating Expenses/Program Costs


M. Line D.1 – Military Personnel Services. Report the portion of the balance of the following account related to military personnel services:

610000 Operating Expenses/Program Costs

N. Line D.2 – Purchased Services. Report the portion of the balance of the following account related to purchased services:

610000 Operating Expenses/Program Costs


P. Line E.1 – Supplies and Materials. Report the portion of the balance of the following account related to supplies and materials:

610000 Operating Expenses/Program Costs

Q. Line E.2 – Equipment. Report the portion of the balance of the following account related to equipment (not capitalized):

610000 Operating Expenses/Program Costs

S. **Line F.1 – Grants and Contributions.** Report the portion of the balance of the following account related to grants and contributions:

610000 Operating Expenses/Program Costs

T. **Line F.2 – Insurance Claims and Indemnifications.** Report the portion of the balance of the following account related to insurance claims and indemnifications:

610000 Operating Expenses/Program Costs

U. **Line F.3 – Other Interest Expenses.** Report the portion of the balances of the following accounts related to interest expenses not captured in other lines:

631000 Interest Expense on Borrowings from Bureau of the Fiscal Service or Federal Financing Bank
633000 Other Interest Expenses

V. **Line G – Other Expenses.** This is a summary line for Line G.1, “Imputed Costs,” Line G.2, “Future Funded Expenses and Employer Contributions to Employee Benefits Program,” and Line G.3, “Other.”


X. **Line G.1.a – Imputed Costs – Real Property Executed Under Working Capital Fund Budget Authority.** Report the portion of the balance in the following account as it relates to Imputed Costs for real property purchased with working capital funds and transferred to another entity for financial reporting/depreciation.

673000 Imputed Costs (673000.0800)

Y. **Line G.1.b – Imputed Costs – Real Property Not Executed Under Working Capital Fund Budget Authority.** Report the portion of the balance in the following account as it relates to imputed costs for real property not purchased working capital funds (e.g. General Funds) in the following account:

673000 Imputed Costs (673000.0900)

Z. **Line G.1.c – Other Imputed Costs.** Report the portion of the balance in the following account for imputed costs other than those associated with real property. Execution transactions should be posted directly to a 673000 point account and not to account 673000.9000. Refer to the posting guidance for this account in the DoD Standard Chart of Accounts posted on the SFIS Resources Page.

673000 Imputed Costs (673000.0100, 673000.0200, 673000.0300)
AA. **Line G.2 – Future Funded Expenses and Employer Contributions to Employee Benefits Program.** Report the balances in the following accounts:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>680000</td>
<td>Future Funded Expenses</td>
</tr>
<tr>
<td>685000</td>
<td>Employer Contributions to Employee Benefit Program Not Requiring Current-Year Budget Authority</td>
</tr>
</tbody>
</table>

AB. **Line G.3 – Other.** Report amounts not captured in other elements of expense not reported in another category from the following accounts:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>610000</td>
<td>Operating Expenses/Program Costs</td>
</tr>
<tr>
<td>615000</td>
<td>Expensed Asset</td>
</tr>
<tr>
<td>619900</td>
<td>Adjustment to Subsidy Expense</td>
</tr>
<tr>
<td>660000</td>
<td>Applied Overhead</td>
</tr>
<tr>
<td>661000</td>
<td>Cost Capitalization Offset</td>
</tr>
<tr>
<td>679000</td>
<td>Other Expenses Not Requiring Budgetary Resources</td>
</tr>
<tr>
<td>690000</td>
<td>Nonproduction Costs</td>
</tr>
</tbody>
</table>


AD. **Line H.1 – Depreciation of Equipment.** Report the portion of the balance of the following account related to depreciation of equipment:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>671000</td>
<td>Depreciation, Amortization, and Depletion</td>
</tr>
</tbody>
</table>

AE. **Line H.2 – Depreciation of Real Property.** Report the amount of the following account related to depreciation of real property:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>671000</td>
<td>Depreciation, Amortization, and Depletion</td>
</tr>
</tbody>
</table>

AF. **Line H.3 – Amortization of Leasehold Improvements and Other Intangible Assets.** Report the portion of the balance of the following account related to amortization of leasehold improvements and other intangible assets:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>671000</td>
<td>Depreciation, Amortization, and Depletion</td>
</tr>
</tbody>
</table>

AG. **Line I – Depreciation – Non-Recoverable PP&E.** Line I is a summary line for Lines I.1, “Non-Recoverable Depreciation of Equipment,” through I.2, “Non-Recoverable Amortization.” Report the amount of depreciation on PP&E acquired by the DWCF activity with funds other than DWCF Revolving Funds of the entity for which the report applies. Some assets may be acquired with DWCF funds from another DWCF Activity (e.g. Defense-wide Working
Capital Fund) and then transferred to another DWCF Activity (e.g. Army Working Capital Fund); these would still be considered Non-Recoverable PP&E because they were funded by a DWCF Activity other than the one for which this report applies.

AH. Line I.1 – Non-Recoverable Depreciation of Equipment. Report the portion of the balance of the following account related to depreciation of equipment acquired by the activity with funds other than DWCF Revolving Funds:

671000  Depreciation, Amortization, and Depletion

AI Line I.2. – Non-Recoverable Depreciation of Real Property. Report the portion of the balance of the following account related to depreciation of real property acquired by the activity with funds other than DWCF Revolving Funds:

671000  Depreciation, Amortization and Depletion

AJ. Line I.3 – Non-Recoverable Amortization. Report the portion of the balance of the following account related to amortization of leasehold improvements and other intangible assets acquired by the activity with funds other than DWCF Revolving Funds:

671000  Depreciation, Amortization, and Depletion

AK. Line J – Bad Debts. Report the balance in the following account:

672000  Bad Debt Expense


AM. Line K.1 – Losses on Disposition of Assets. Report the portion of the balance of the following account related to losses on disposition of assets identified for the following categories: Non-Supply Management Activities; Non-Recoverable Disposal of Equipment/Capital Assets, Non-Federal; Non-Recoverable Base Realignment and Closure (BRAC) Cost, Non-Federal; and Other Expense-Non-Supply Management, Non-Federal.

721000  Losses on Disposition of Assets – Other

AN. Line K.2 – Net (Gains) Losses on Inventory Shrinkage/Deterioration. Report the portion of the balance of the following accounts related to (gains) losses on inventory shrinkage/deterioration as reported by Non-Supply Management activities:

719000  Other Gains
729000  Other Losses

AO. Line K.3 – Net (Gains) Losses on Inventory Excess/Obsolescence/ Spoilage. Report the portion of the balance of the following accounts related to (gains) losses on inventory excess, obsolescence, and spoilage as reported by Non-Supply Management activities:
719000    Other Gains
729000    Other Losses

AP.    Line K.4 – Net Other Inventory (Gains) Losses. Report the portion of the balance of the following accounts related to (gains) losses on inventory identified in the following breakdown:

Non-Recoverable Gains or Losses on Disposal of Excess Inventory, Supply Management:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>711000</td>
<td>Gains on Disposition of Assets – Other</td>
</tr>
<tr>
<td>719000</td>
<td>Other Gains</td>
</tr>
<tr>
<td>721000</td>
<td>Losses on Disposition of Assets – Other</td>
</tr>
<tr>
<td>729000</td>
<td>Other Losses</td>
</tr>
</tbody>
</table>

Other Inventory Gains or Losses, Non-Supply Management:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>719000</td>
<td>Other Gains</td>
</tr>
<tr>
<td>729000</td>
<td>Other Losses</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>719000</td>
<td>Other Gains</td>
</tr>
<tr>
<td>729000</td>
<td>Other Losses</td>
</tr>
</tbody>
</table>

AR.    For Information Only. Report other miscellaneous information not defined.

AS.    Expended Appropriation. Report the amount of appropriations used during the FY for goods and services received or benefits provided.

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>570000</td>
<td>Expended Appropriations</td>
</tr>
</tbody>
</table>

AT.    Direct Labor Hours – Regular. Report the amount of year-to-date non-overtime direct labor hours for Industrial activities.

AU.    Direct Labor Hours – Overtime. Report the amount of year-to-date overtime direct labor hours for Industrial activities.

AV.    Direct Labor Hours – Total. Report the sum of “Direct Labor Hours – Regular” and “Direct Labor Hours – Overtime.”

**Statement of Operations, Part V – Recoverable Operating Results**
DEFENSE WORKING CAPITAL FUND
STATEMENT OF OPERATIONS: PART V-RECOVERABLE OPERATING RESULTS
(DoD COMPONENT/DWCF ACTIVITY)
MONTH ENDING _, 20XX
($ in thousands)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net Operating Results (NOR)</td>
<td>$ XXX</td>
</tr>
<tr>
<td>2. Deferred Operating Results (Gains/Losses) Net</td>
<td>XXX</td>
</tr>
<tr>
<td>a. Net (Gains) Losses on Disposal of Excess Inventory (+/-)</td>
<td>XXX</td>
</tr>
<tr>
<td>b. Disposal of Equipment/Capital Assets (-)</td>
<td>XXX</td>
</tr>
<tr>
<td>c. Non-Reimbursable Base Closure (BRAC) Costs (+/-)</td>
<td>XXX</td>
</tr>
<tr>
<td>d. Capital Asset Surcharge (-)</td>
<td>XXX</td>
</tr>
<tr>
<td>e. Cash Surcharge</td>
<td>XXX</td>
</tr>
<tr>
<td>f. Inventory Replenishment</td>
<td>XXX</td>
</tr>
<tr>
<td>g. Other Approved Gains and Losses (must be footnoted)</td>
<td>XXX</td>
</tr>
<tr>
<td>3. Other Adjustments to NOR</td>
<td>XXX</td>
</tr>
<tr>
<td>a. Depreciation, Non-Recoverable PP&amp;E</td>
<td>XXX</td>
</tr>
<tr>
<td>b. Imputed Financing Sources – Real Property Executed Under Working Capital Fund Budget Authority</td>
<td>XXX</td>
</tr>
<tr>
<td>4. Net Recoverable Operating Results from Current Year Operations</td>
<td>XXX</td>
</tr>
</tbody>
</table>

Instructions Statement of Operations, Part V – Recoverable Operating Results:


B. Line 2 – Deferred Operating Results (Gains/Losses) Net.

1. Data reported on this line, and its sub-lines, unless otherwise specified, are restricted to specific exclusions approved by OUSD(C)(P/B).

2. These exclusions include amounts determined to be adjustments for the difference between the historical and LAC inventory valuations. Attribute this difference to the value of inventory reflected in the cost of goods sold at historical cost versus the value of inventory at LAC. The LAC valuation method is available to DeCA and is not approved for use by other DoD Components. Use this difference on the AR(M) 1307 to adjust the NOR to Net Recoverable Operating Results based on replacement costs that preserve the Working Capital Funds ability to replenish stock.

3. Line 2 is a summary line for Lines 2.a, “Net (Gains) Losses on Disposal of Excess Inventory (+/-),” through 2.g, “Other Approved Gains and Losses (must be footnoted).” The activity, management command of the reporting DWCF activity, or the DoD Component...
departmental level will provide, or approve, amounts reported on monthly activity reports.

C. **Line 2.a – Net (Gains) Losses on Disposal of Excess Inventory (+/−).** Line 2.a applies only to Supply Management Activities. Report gains (or losses, if applicable) on potential excess/actual inventory for which OUSD(C)(P/B) has approved an exclusion. Report the portion of the balance in the following accounts related to net (gains) losses on the disposal of excess inventory:

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>711000</td>
<td>Gains on Disposition of Assets – Other</td>
</tr>
<tr>
<td>719000</td>
<td>Other Gains</td>
</tr>
<tr>
<td>721000</td>
<td>Losses on Disposition of Assets – Other</td>
</tr>
<tr>
<td>729000</td>
<td>Other Losses</td>
</tr>
</tbody>
</table>

D. **Line 2.b – Disposal of Equipment/Capital Assets (-).** Report losses (or gains, if applicable) realized upon the disposal of excess equipment and other capital assets when OUSD(C)(P/B) has approved the exclusion. Do not report losses (or gains) on excess equipment and other capital assets due to BRAC on this line. Report the losses (or gains) on excess equipment and other capital assets due to BRAC on Line 2.c, “Non-Reimbursable Base Closure (BRAC) Costs.” Report the amount of losses (or gains) related to the disposal of equipment and capital assets in the following accounts:

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>711000</td>
<td>Gains on Disposition of Assets – Other</td>
</tr>
<tr>
<td>721000</td>
<td>Losses on Disposition of Assets – Other</td>
</tr>
</tbody>
</table>

E. **Line 2.c – Non-Reimbursable Base Closure (BRAC) Costs (+/−).** Report losses (or gains, if applicable) in excess of reimbursement that are a result from a base closure when OUSD(C)(P/B) has approved the exclusion. Report the amount of losses (or gains) related to BRAC costs in the following accounts:

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>711000</td>
<td>Gains on Disposition of Assets – Other</td>
</tr>
<tr>
<td>719000</td>
<td>Other Gains</td>
</tr>
<tr>
<td>721000</td>
<td>Losses on Disposition of Assets – Other</td>
</tr>
<tr>
<td>729000</td>
<td>Other Losses</td>
</tr>
</tbody>
</table>

F. **Line 2.d – Capital Asset Surcharge (-).** Adjust capital asset surcharge amounts, positive or negative, included in revenue in order to avoid either the return of an apparent gain (or loss) in the development of the subsequent year rate structure. Leave this line blank when there is no capital surcharge revenue.

1. Include a capital asset surcharge in customer rates only if approved by OUSD(C)(P/B). A capital asset surcharge might be approved when the amount of depreciation expense of existing capital assets included in stabilized rates is either less (or greater) than the budgeted Capital Program.

2. As the capital asset surcharge does not have an offsetting expense, in isolation from other transactions, it is expected to result in a gain (or loss) to NOR. Deduct the gain (or loss) from NOR to prevent its return or charge to customers in subsequent years through
adjusted rates. Capital asset surcharge amounts may be reported without prior approval of OUSD(C)(P/B). Report the amount of revenue related to capital asset surcharges in the following accounts:

510000 Revenue From Goods Sold
520000 Revenue From Services Provided

G. **Line 2.e – Cash Surcharge.** Similar to capital asset surcharges, activities may include a cash surcharge in their rates. Report the amount of revenue related to cash surcharges in the following accounts:

510000 Revenue From Goods Sold
520000 Revenue From Services Provided

H. **Line 2.f – Inventory Replenishment.** Report the difference between the historical cost and LAC for inventory valuation. Report the amount of revenue related to inventory replenishment in the following accounts:

510000 Revenue From Goods Sold
719000 Other Gains
729000 Other Losses

I. **Line 2.g – Other Approved Gains and Losses (must be footnoted).** Report the approved gains (or losses) in the following accounts. Exclude amounts already listed in Lines 2.a, “Net (Gains) Losses on Disposal of Excess Inventory,” through 2.f, “Inventory Replenishment.”

510000 Revenue From Goods Sold
520000 Revenue From Services Provided
570000 Expended Appropriations
671000 Depreciation, Amortization, and Depletion
685000 Employer Contributions to Employee Benefit Programs Not Requiring Current Year Budget Authority (Unobligated)-FECA Civilian Personnel Benefits
711000 Gains on Disposition of Assets – Other
719000 Other Gains
721000 Losses on Disposition of Assets – Other
729000 Other Losses
760000 Changes in Actuarial Liability

J. **Line 3 – Other Adjustments to NOR.** Line 3 is a calculated line which takes the amount in Line 3.a, “Depreciation, Non-Recoverable PP&E” and subtracts from it the amount in Line 3.b, “Imputed Financing Sources – Real Property Executed Under Working Capital Fund Budget Authority.” This is done to adjust total Net Operating Results to arrive at Net Recoverable Operating Results similar to Part I. The imputed costs for real property executed
under working capital fund budget authority, but not the imputed financing sources, will be included in the recoverable net operating result.


M. Line 4 – Net Recoverable Operating Results from Current Year Operations. Line 4 is a summary line for Lines 1, “NET OPERATING RESULTS (NOR),” through 3, “Depreciation, Non-Recoverable PP&E.”
1. Introduction

Federal accounting standards and the DoD Financial Management Regulation (FMR) 7000.14 require business-type activities to recognize all significant inter-entity costs. The Defense Working Capital Fund (DWCF), established pursuant to the authority in 10 USC § 2208, “Working-capital funds,” and other DoD revolving funds, meet the definition of a business-type activity. Therefore, to ensure compliance, DoD Components with revolving funds are required to record imputed costs associated with real property. Implementation guidance is needed to prescribe how to properly record and report real property and associated imputed costs to comply with the accounting standards, OMB Circular A-136, and the DoD FMR.

2. Purpose

The purpose of this document is to provide a framework for complying with Federal accounting standards related to imputed costs associated with real property. This guidance is meant to assist DoD Components in the preparation of more accurate financial statements and also facilitate the creation and sustainment of accurate budgets and internal financial reports.

There are several known implementation challenges related to how revolving funds will comply with this guidance. One challenge is ensuring the general ledger accounts used to record imputed costs and imputed financing sources are mapped to the correct lines of the Accounting Report (AR) 1307 to enable visibility and proper financial management. This will be addressed through updates to the DoD FMR Volume 6A, Chapter 15, “Defense Working Capital Fund Accounting Report [Accounting Report (Monthly) 1307].”

Another challenge is ensuring the revolving funds remain capable of setting rates needed to recover costs while complying with laws and regulations. This is particularly challenging when it comes to real property assets financed by Defense Working Capital Funds and other DoD revolving Funds subsequently transferred to another DoD Component for financial reporting in accordance with DoD FMR Volume 4, Chapter 24, “Real Property.” This document includes guidance to address this second challenge.

3. Scope

This guide details requirements regarding the most common real property scenarios. The principles and concepts can be applied to other scenarios not explicitly referenced in this document. This guide is meant to be used to manage imputed costs for revolving funds that transfer real property to other DoD Components for financial reporting. This document does not address inter-entity costs other than those directly associated with real property.
4. Overview

Each revolving fund shall incorporate the full cost of goods and services that it receives from other entities in its reporting of full cost, whether those costs are reimbursed or not. The entity providing the goods or services is responsible for providing the revolving fund receiving benefit with information on the full cost of such goods or services either through billing or other means. When the revolving fund is not billed for the full cost of those goods or services, the associated costs must be imputed.

Imputed costs represent the unreimbursed portion of the full cost of goods and services received from another entity. Imputed costs are offset by imputed financing sources. To comply with Federal accounting standards and the DoD FMR, most real property is now reported by the General Funds of the Military Services and by Washington Headquarters Services (WHS). A Military Department Working Capital Fund (WCF) Activity can report real property on its financial statements if it has been given jurisdiction over a specific installation. In the case of the Army, that caveat applies to 10 Army WCF installations: Anniston Army Depot, Blue Grass Army Depot, Letterkenny Army Depot, McAlester Army Ammunition Activity, Pine Bluff Arsenal, Red River Army Depot, Sierra Army Depot, Tobyhanna Army Depot, Tooele Army Depot, & Watervliet Arsenal. The other Military Departments have determined their General Funds will report all the real property they have jurisdiction over.

To properly budget and account for real property and its associated costs, revolving funds must have documented procedures for the end-to-end process. There are several key elements of the end-to-end process that must be implemented to achieve the desired outcomes. The following sections provide additional information to properly implement this policy:

- Criteria
- Agreement
- Population
- Budgeting
- Accounting
- Internal Controls

5. Criteria for Intra-Entity Cost

To determine whether real property assets should be included in the population, DoD Components shall assess if real property assets associated with its WCF operations are material. In the context of accounting for intra-entity costs, Statement of Federal Financial Accounting Standards (SFFAS) 4 states that materiality should be considered in terms of the importance of the transaction to the entity receiving the goods or services. The importance of the transactions should be judged in light of three criteria: its significance to the entity, the directness of its relationship to the entity’s operations, and its identifiability. If the total costs are deemed
immaterial, revolving funds are not required to record imputed cost. The three criteria are described in detail in the following subsections.

A. Significance

This criterion is used to determine the significance of a transaction to the reporting entity. Real Property used by revolving funds to perform its mission shall be reviewed to determine whether this criterion is met. Significant amounts are those that are large enough that management should be aware of the cost when making a decision. For example, the powertrain building is used by the Corpus Christi Army Depot (CCAD) to repair rotary vehicles, which is a core mission of the CCAD. The costs associated with this critical building, such as depreciation expense or sustainment, are significant to the CCAD’s operations and to the Army WCF because they are large enough to impact management’s decision making. Every revolving fund will have at least one headquarters building and facilities used as an input to produce the revolving fund’s output (goods or services) for which associated costs will also likely be significant.

Buildings where employees of the revolving fund work are likely significant unless only a small percentage (e.g., 10 percent) of the space is used by them and the rest is used by another reporting entity (e.g., Missile Defense Agency). The agreement between the two agencies should define these types of relationships. For example, the Army Materiel Command Headquarters building is located on Redstone Arsenal. A small percentage (less than 5 percent) of the workforce occupying the building support Army WCF operations and have their salaries paid by the Army WCF; most of the workforce supports Army General Fund operations and is paid by the Army General Fund. Annual costs of the building, including depreciation and sustainment, total $400,000, of which only a fraction is supporting the Army WCF. Gross Costs for Army WCF are $15 billion, so the Army WCF’s portion of the $400,000 is not likely to factor largely into management’s decisions regarding its facilities. Therefore, the building is not significant to the Army WCF and neither the acquisition nor the sustainment costs should be imputed.

B. Directness

This criterion is used to determine whether a transaction forms an integral or necessary part of the receiving entity’s output. Real Property used by a revolving fund to perform its mission shall be reviewed to determine whether this criterion is met. Similar to the previous criterion, only facilities integral to or necessary for producing the entity’s output (goods or services) qualify. Integral means necessary to make a whole complete; essential or fundamental. Necessary means required. So, if a facility isn’t required to fulfill customer orders, it would not meet this criterion. If operations could continue essentially unchanged without the facility, it does not meet this criterion.

For example, the E-Street Gym provides a variety of services to Service members, military dependents, Federal civilians, and contractors working at Naval Air Station Corpus Christi (NAS CC). These are considered broad and general support services provided by Morale, Welfare, and Recreation, which is part of the Non-Appropriated Fund Instrumentality (NAFI). The NAFI provides these services to many entities who are tenants on NAS CC, including the
Navy General Fund, Army WCF, Defense Commissary Agency, Defense Health Program, and Department of Defense Education Activity. The services provided are not significant or integral to CCAD operations or output.

C. Identifiability

This criterion is used to determine whether a transaction can be identified or matched to the receiving entity with reasonable precision. Professional judgment shall be used to determine whether unreimbursed costs associated with real property meeting all other criteria can also be directly related to the revolving fund in a logical way with a high degree of accuracy. The depreciation expense associated with real property is considered to be reasonably precise as long as the acquisition cost and estimated useful life (EUL) of the asset is accurate. Buildings used exclusively or predominantly by a revolving fund can be readily matched to that entity. Therefore, the depreciation expense associated with those buildings could then be matched with a high degree of precision to the receiving entity. In the powertrain building example below, it can clearly be matched to the Army WCF because it was built for CCAD with the purpose of being used to repair rotary vehicles. This repair mission is a service provided by CCAD to its customers (Aviation and Missile Command and others) for a fee. The entire depreciation expense for that building shall be recorded as an imputed cost by the Army WCF across the same EUL.

The powertrain transmission assembly building is located at NAS CC and used by CCAD to repair rotary wing aircraft and components within the Army WCF. CCAD is an Army WCF tenant on a Navy installation. Military Construction appropriated funds were used to build the facility (building, structure, or linear structure). Because it is located on a Navy installation, the Navy is reporting the building as a real property asset in its General Fund financial statements and is also reporting the depreciation expenses. Since the facility meets the criteria in SFFAS 4, the Army WCF must record those imputed costs related to the facility. These imputed costs must, at a minimum, include the depreciation expense associated with the asset. If the sustainment costs are not paid by the Army WCF, then the intra-entity costs meeting the criteria shall also be recorded. All of these costs shall be recorded using general ledger account (GLAC) 673000.0900 (Imputed Costs – Real Property not executed under WCF budget authority).

On the other hand, there will be other facilities which cannot be matched to a specific receiving entity with reasonable precision. As previously stated, SFFAS 4 gives an exception for broad and general support services provided by an entity to all or most other entities. Those types of services generally should not be recognized as an intra-entity cost unless such services form a vital and integral part of the operations or output of the receiving entity.

For example, NAS CC is full of roads, fences, utilities, and other linear structures. These could be considered necessary for CCAD’s output because without them, the employees could not get to work (unless they were going to walk there on dirt paths) or see what they were doing (lights require electricity provided by power lines). It would be difficult to maintain a quality workforce if they had to walk to work and repair helicopters by candlelight. However, the services provided by these linear structures cannot be matched to Army WCF with reasonable
precision. Therefore, neither the acquisition nor the sustainment costs associated with linear structures paid by the Navy General Fund as installation host should be imputed.

6. Establish an Agreement

DoD Components must have an agreement related to the real property documented on a Fiscal Service Form 7600A, Interagency Agreement – Agreement Between Federal Agencies General Terms and Conditions in accordance with DoD Instruction (DoDI) 4000.19, “Support Agreements.” Refer to section 4.4.b, “Host-Tenant Support Agreement,” of DoDI 4000.19 for more specific information. The agreement shall contain the information necessary to implement the requirements in this guide. It is critical that Form 7600A defines the responsibilities of the installation host (Military Service or WHS) where the real property exists. At a minimum, the installation host must provide the revolving fund with the information required to establish a complete population of assets and the costs associated with those assets.

7. Establish a Complete Population

Revolving funds must establish a process and controls to produce and maintain a complete population of real property assets meeting the criteria in SFFAS 4 (significant, integral to/necessary for output, and can be attributed with reasonable precision). Generally, real property used to produce a product or service sold by a revolving fund to a customer should be a part of this population. Establishing and maintaining a complete population of assets is required to enable the ability to obtain reasonable assurance over the completeness of costs associated with those assets. Without establishing an accurate and complete asset population, it will not be possible to accurately determine and account for associated costs.

As a baseline, an initial population could be established based upon the reconciled real property population transferred out to another entity (installation host) for financial reporting. Taking this methodology into consideration, revolving funds should validate whether such a method will be sufficient in establishing a population or whether additional procedures are required to ensure completeness. For example, there may be certain assets transferred that are not relevant to revolving fund outputs. There may also have been assets that were not being reported by the revolving fund previously but meet the criteria from SFFAS 4 and must be included. An additional method available to establish the initial population is to review all revolving fund operations and determine which real property is being used to produce its products or services. Then, determine whether the costs (acquisition/depreciation or sustainment) associated with this population are significant, and can be attributed to the revolving fund with reasonable precision.

8. Establish Process for Budgeting

The DoD FMR Volume 4, Chapter 24, paragraph 240204.D. states:

WCF will continue to recover costs associated with the construction of real property that is purchased by the WCF regardless of financial reporting responsibility. In cases where a capital improvement is transferred to a different reporting entity, the WCF will record an
imputed cost in lieu of an actual depreciation expense for the improvement. Capital recovery rates will be set in accordance with Volume 2B, Chapter 9.

When setting rates/prices, revolving funds shall ensure compliance with 10 USC § 2208(o)(2), which states that charges for goods and services provided through a working-capital fund may not include the costs of military construction projects or base realignment and closure financed through appropriations outside the revolving funds.

When a revolving fund activity funds the construction of a real property asset or a capital improvement to a real property asset using WCF budget authority, the costs must be recovered in the rates. This is true regardless of whether the revolving fund financially reports the asset or transfers the asset to another entity (installation host) to financially report. Rates must incorporate a Capital Investment Recovery (CIR) factor. The CIR factor is the dollar value being recovered as part of the rate to enable investments in General Property, Plant & Equipment.

Revolving funds shall recover WCF costs to purchase capital assets by including the CIR factor in stabilized rates or prices billed to customers. Revenue earned and collected from customer orders will fund the outlays in the capital program. According to the DoD FMR Volume 11B, Chapter 3, offsetting collections credited to the DWCF are used to fund/liquidate contract authority. If the asset was purchased with contract authority, a portion of the revenue collected from customer orders will be used to fund/liquidate the contract authority (GLAC 413500). Further guidance on this process to liquidate contract authority will be provided separately.

The DoD FMR Volume 6a, Chapter 15, prescribes the reporting requirements for the DWCF Accounting Report (Monthly) 1307 (AR(M) 1307). Updates are being made to the AR(M) 1307 to appropriately capture and display imputed costs and financing sources. New lines will show the amount of imputed costs for real property executed under WCF budget authority, imputed costs for real property not executed under WCF budget authority, and other types of imputed costs. A new line will show the amount of imputed financing sources separate from the other Revenue and Financing Sources.

Ultimately, the amount of revenue collected over time should equal the amount of cash outlaid to purchase the capital assets, regardless of whether the real property is financially reported as an asset on the balance sheet.

The DoD FMR Volume 2b, Chapter 9, prescribes the policies and procedures for DWCF budget formulation and justification. The Exhibit Fund-1a (Details of Price and Program Changes – Costs) and Exhibit Fund-1 (Summary of Price and Program Changes – Costs) display DWCF costs by category. The Exhibit Fund-14 (Revenue and Expenses) displays revenue and costs by category. The Exhibit Fund-2 (Changes in Cost of Operations) displays the changes in cost from one fiscal year to the next. New lines are being added to these exhibits to capture and display imputed costs and imputed financing sources separately.
9. Establish Process for Accounting for Imputed Costs

A. Establish proper value of imputed costs

Revolving funds shall establish a process for accounting for imputed costs by first determining the value that will be recorded. The DoD FMR Volume 4, Chapter 19, “Managerial Cost Accounting,” provides guidance on the structure needed for accurate, consistent, and reliable managerial cost accounting. It describes three methods to assign costs: direct tracing, standard costing, and allocations. DoD Components shall select the most efficient and effective method for them.

For assets purchased with WCF budget authority and subsequently transferred to another entity for financial reporting, the value of the imputed costs will be based upon the acquisition cost incurred by the revolving fund. In this scenario, the imputed cost will equal what would have been recorded as a depreciation expense if the asset had not been transferred. When the Military Services and WHS update the real property values to deemed cost to establish opening balances, the imputed cost value shall not change. Revolving funds shall continue to record the imputed cost based on the original acquisition value (historical cost). The imputed cost values will change when there is a change to the value to correct an error or due to either a capital improvement or impairment/disposal. Imputed costs may also end if the asset no longer meets the criteria for recording intra-entity costs.

For example, if the Defense Logistics Agency (DLA) WCF purchased a warehouse for $725,000 funded through the DWCF Capital Investment Program, transferred the asset to the Air Force General Fund for financial reporting, and the Air Force revalued the asset to deemed cost using the Plant Replacement Value (PRV) of $1,050,000, the DLA would continue to record a $1,343 imputed cost monthly, calculated based on $725,000 acquisition value 45-year useful life rounded to the nearest dollar, as shown in Figure 1.

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**Figure 1. Imputed Cost**

After the revaluation to a deemed cost of $1,050,000, the Air Force would record a depreciation expense of $1,944 monthly, calculated based on 45-year useful life, rounded to the nearest dollar, as shown in Figure 2.

<table>
<thead>
<tr>
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**Figure 2. Depreciation Expense**
For assets not purchased with WCF budget authority (typically General Funds), the value of the imputed cost will equal the depreciation expense regardless of whether the real property is valued at acquisition cost or deemed cost. The reporting entity/installation host must provide all the necessary data and evidential matter required by the revolving fund to comply with this policy and implementation guide.

For example, the Air Force purchased a new office building with a Military Construction, Air Force appropriation for $2,500,000. The building is constructed at Scott Air Force Base, Illinois. Air Force General Fund has jurisdiction for that installation, and therefore has financial reporting responsibility for the asset. The Air Force provides U.S. Transportation Command (USTRANSCOM) J-8 with an evidential matter package including the DD Form 1354 plus original supporting documentation for acquisition value (e.g., contract). USTRANSCOM J-8 determines the real property meets all the relevant criteria and the intra-entity costs must be imputed to comply with Federal accounting standards. USTRANSCOM starts recording $4,630 imputed cost monthly based on the $2,500,000 value and 45-year useful life, as shown in Figure 3.

<table>
<thead>
<tr>
<th>Transportation Working Capital Fund</th>
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**Figure 3. Imputed Cost**

After a year, Air Force decides it will revalue the asset to $2,000,000 deemed cost using PRV. The Air Force will provide USTRANSCOM with this information prior to recording the adjustment in its general ledger. Prior to or immediately after revaluation, Air Force will provide USTRANSCOM with a package of evidential matter to support the deemed cost. The evidential matter will include support for each of the inputs to the PRV formula (e.g., square footage and Facility Analysis Categories code) and the Journal Voucher package at a minimum. USTRANSCOM will then start recording $3,704 imputed cost monthly, as shown in Figure 4.

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<tr>
<th>Transportation Working Capital Fund</th>
<th>DR</th>
<th>CR</th>
<th>TC</th>
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**Figure 4. Imputed Cost after Revaluation**

In all circumstances, the value used must be supported by sufficient, appropriate evidential matter. If the value cannot be supported and pass independent auditor testing, the reporting entity must either obtain sufficient evidential matter to support the original acquisition value or must revalue the asset to deemed cost using sufficient evidential matter.
For in-service assets, do not record any “catch-up” depreciation for depreciation expense incurred in prior years; only record imputed costs associated with current year depreciation expense. If a determination is made that a prior year financial statement must be restated to comply with regulations, follow the associated guidance related to that situation. These costs will be imputed over the EUL of that asset in accordance with Table 24-1 in DoD FMR Volume 4, Chapter 24 (buildings 45 years, structures 35 years, and linear structures 40 years).

For example, if a building with an EUL of 45 years cost $54,000,000 was placed into service in period 1 of fiscal year (FY) 2019, then 24 months of depreciation expense would have been recorded during FY 2019 and FY 2020, for a cumulative $2,400,000. If the revolving fund started recording imputed costs in period 1 of FY 2021, it would record $100,000 per month ($1,200,000 per year) for the next 43 years.

Operating costs to sustain the real property should be considered separately. Operating and sustainment costs not fully reimbursed by the revolving fund will be more difficult to calculate. Since these costs are not directly related to the acquisition cost of the asset, a method other than mirroring depreciation expense must be used. This is why it is important to first determine whether all of the other criteria are met. If these costs cannot be matched to the revolving fund with reasonable precision, are not significant, or do not form an integral part of the entity’s output, this requirement does not apply.

Each agreement between a revolving fund and an installation host shall explicitly describe which entity is responsible for funding operating and sustainment costs. If the revolving fund is responsible, then those costs will already be captured. If the installation host is responsible for funding the operating and sustainment costs and is not being reimbursed the full costs by the revolving fund, the agreement must contain details on how those costs will be captured and provided by the installation host to the revolving fund. The estimated costs shall be provided during the period of time the Budget Estimate Submission and President’s Budget is being developed for the three years in the budget exhibits. The actual costs shall be provided as they occur.

If only a portion of those costs meet the criteria in SFFAS 4, then the portion of costs that meet the criteria must be segregated from the portion of costs that do not meet the criteria. Information on both shall be provided to the revolving fund if it is readily available. However, at a minimum, the costs meeting the criteria must be provided to the revolving fund on a regular basis, at least annually, but preferably quarterly. Significant changes to the estimates from the budget shall also be provided when they are known. It is the responsibility of the management of the revolving fund to determine the cost information required, the frequency, and the method by which it will be provided and agree to these terms with the installation host.

If the use of a real property asset changes such that the criteria for recording intra-entity costs are no longer met, the revolving fund will stop recording imputed costs associated with that asset. For example, if Army WCF moves out of a building located on NAS CC and no longer uses the building for its mission, the asset will no longer be an integral part of its outputs. Therefore, imputed costs should no longer be recorded.
For new acquisitions after the effective date of this policy, imputed cost should be recorded from the placed-in-service date regardless of when the asset is transferred. Transfers should occur in the same period as the asset is placed into service and the financial balances are moved from USSGL account 172000, Construction-in-Progress to 173000, Buildings, Improvements, and Renovations or 174000, Other Structures and Facilities, using transaction code D510. However, if that does not occur, imputed costs should still be recorded for the periods the asset was placed in service and should have been depreciating. If the asset were being depreciated by the revolving fund for a period of time, and then transferred out, the net book value of the asset should be transferred-out from a revolving fund and transferred-in to installation host/reporting entity, and the imputed costs shall be recorded from that point forward.

The following non-exhaustive list provides examples of the types of intra-entity costs that may apply to a revolving fund:

- Non-reimbursable base support allocated to the real property asset
- Non-reimbursable operating costs allocated to the real property asset including any personnel costs that are assigned to the asset or perform operational services
- Unrealized depreciation of the real property asset
- Non-reimbursable improvements
- Non-reimbursable Sustainment, Restoration, and Modernization (SRM)
- Non-reimbursable environmental remediation of the real property asset

**B. Establish process for recording in the general ledger**

Revolving Funds must also establish a process to properly record imputed costs in the general ledger quarterly, at a minimum. Due to the timelines associated with adding new GLACs to the field-level accounting systems, interim processes may need to be put in place. If the new GLACs are not yet available in the accounting system, entities may start by adding a crosswalk from another GLAC to the new GLACs or by recording Journal Vouchers in the Defense Departmental Reporting System – Budgetary (DDRS-B).

New general ledger accounts have been added to the DoD Standard Reporting Chart of Accounts as follows:

- 673000.0800: Imputed Costs – Real Property executed under WCF budget authority
- 673000.0900: Imputed Costs – Real Property not executed under WCF budget authority
- 578000.0800: Imputed Financing Sources – Real Property executed under WCF budget authority
- 578000.0900: Imputed Financing Sources – Real Property not executed under WCF budget authority

New transaction codes have been added to the DoD Transaction Library as follows:

- E402-001-08: to record the imputed costs and related imputed financing sources – real property executed under WCF budget authority (Debit 673000.0800 Credit 578000.0800)
- E402-001-09: to record the imputed costs and related imputed financing sources – real property not executed under WCF budget authority (Debit 673000.0900 Credit 578000.0900)

Scenario 1: In the example of the powertrain facility at NAS CC used earlier, if the Army expends $54,000,000 of Military Construction, Army appropriations to build the facility, its useful life is 45 years, then the monthly depreciation will be $100,000 over 540 periods. If the asset is placed into service on October 1, 2020 (FY 2021 period 1), Army will transfer the accumulated balance from the Construction-in-Progress account to the capitalized asset account. Army General Fund will then record a transfer out and Navy General Fund will record a transfer in of the balance in the asset account. The Navy General Fund will then record depreciation expense and the Army WCF will record imputed costs and imputed financing sources of $100,000 per month ($1,200,000 per year) for 45 years, as shown in Figure 5.

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<thead>
<tr>
<th>Army Working Capital Fund</th>
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**Figure 5. Army Imputed Cost**

Scenario 2: CCAD obligates $540,000 of Army WCF contract authority as part of the Capital Investment Program to acquire an office building on NAS Corpus Christi. It has a useful life of 45 years. Monthly depreciation will be $1,000 over 540 periods. If the asset is placed into service on October 1, 2020 (FY 2021 period 1), Army WCF will transfer the accumulated balance from the Construction-in-Progress account to the capitalized asset account. Army WCF will then record a transfer out and Navy General Fund will record a transfer in of the balance in the asset account. The Navy General Fund will then record depreciation expense and the Army WCF will record imputed costs and imputed financing sources of $1,000 per month ($12,000 per year) for 45 years, as shown in Figures 6 and 7.

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**Figure 6. Navy Depreciation Expense**
Since Army WCF obligated contract authority, rates must include a CIR factor to recover those outlays. As orders are received and revenue is earned and collected, a portion of those collections will be used to liquidate (i.e., fund) the contract authority. For example, $2/hour may be added to the rate to recover the capital outlays. After 270,000 hours of work performed, the Army WCF will collect $540,000 to recover the cash outlaid to purchase the office building and fund/liquidate the contract authority.

Scenario 3: Air Force General Fund expends $21.6 million of Military Construction, Air Force appropriations to build a facility for the Warner Robins Air Logistics Complex, which is one of the Air Force WCF maintenance depots. The Air Force determined the costs associated with the facility were material, significant, necessary for Air Force WCF output, and can be attributed with reasonable precision. Its useful life is 45 years. Monthly depreciation will be $40,000 over 540 periods. If the asset is placed into service on October 1, 2020 (FY 2021 period 1), Air Force General Fund will transfer the accumulated balance from the Construction-in-Progress account to the capitalized asset account. Since the Air Force has established all of its installations as General Fund, the Air Force General Fund will record depreciation expense of $40,000 per month over 540 periods, as shown in Figure 8.

Since the facility meets the criteria for the Air Force WCF to record imputed costs, the Air Force WCF will record imputed costs and imputed financing sources of $40,000 per month ($480,000 per year) for 45 years, as shown in Figure 9.
10. Establish Internal Controls

DoD Components shall establish strong internal controls for go-forward processes for new acquisitions and changes. Military Services, WHS, and revolving funds shall establish all of the necessary policies and procedures to comply with DoD policy and this implementation guide. Establishing a sustainable process is integral to successful outcomes. Unsustainable, manual processes should be avoided to the greatest extent possible. This begins with management communicating this information to all stakeholders. Each DoD Component shall document its end-to-end processes and internal controls. When affordable, DoD Components should automate as much of the process as possible in its information systems. Evidential matter for all of these controls must be maintained and be readily available to provide upon request. The documents, data, and other evidential matter must be clear and understandable. Evidence shall include a form signed by an individual responsible for performing the control with the competency necessary to identify errors and determine accuracy with reasonable assurance. Signatures can be manual or electronic, with a preference toward a common access card digital signature on an electronic form. If an electronic signature is done in an information system, ensure that system has sufficient general and application controls to sufficiently mitigate any risk that the electronic signature is altered by an unauthorized user.

Examples of key internal controls include:

- Perform an annual review of the 7600A between the revolving fund and installation host, update when necessary, and either sign a form indicating the completion of the review and the determination no changes were required or have both parties sign the updated 7600 A.

- Perform an annual review of the population of real property assets, update when necessary, and sign a form indicating the completion of the review indicating the population is complete and accurate.

- Perform an annual review of end-to-end process documents, updated when necessary, and either sign a form indicating the completion of the review and the determination no changes were required OR update and sign the revised the document(s).

- Perform a quarterly review of the trial balance and financial statements to ensure both the imputed costs and imputed financing sources are recorded accurately, then evidence the review and approval by signing a form.

- Perform a biannual review of the budget, including the exhibits, to ensure the rates are set to recover the appropriate costs, then evidence the review and approval by signing a form.

- Review and approve, with a signature, every journal voucher or manual entry into the system to record these transactions.

Ideally, each revolving fund will establish the capability in its accounting system to load the annual costs and have them automatically recorded in the general ledger monthly. These costs
should be reviewed and approved as a key internal control prior to loading in the system. There should also be a review of the costs after they are loaded into the system to ensure they were entered accurately and completely. These controls must all be documented and the evidential matter retained and made readily available so it can be provided upon request.

When the process of recording imputed costs begins, all capital assets funded with WCFs and transferred to another entity for financial reporting should be used as the baseline. The depreciation schedules should be used as the basis for determining the value of imputed costs. All additional intra-entity costs meeting the criteria will be added. The go-forward process shall include a monitoring mechanism to identify when changes occur. The types of changes that could impact imputed costs include:

- Capital improvements (e.g., 4,000 square feet is added)
- Impairments (e.g., damage from a hurricane)
- Removal from service (e.g., building is condemned and no longer used)
- Disposal (e.g., building is torn down)
- Change in use by revolving fund (e.g., move out of office building and turn space back over to installation host for use by another entity)
- Significant changes to costs (e.g., increase in utility bills)

Revolving funds, in coordination with the Defense Finance and Accounting Service, must also establish financial reporting controls to ensure compliance with SFFAS 4, OMB Circular A-136, and DoD FMR Volume 6B related to the financial statement presentation, notes, and disclosures. Revolving funds must also establish budget formulation and execution controls to ensure compliance with this policy and implementation guide, as well as the other related policies. All of these internal controls shall be tested as part of the Risk Management and Internal Control Program established in accordance with OMB Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control.”
Appendix A
Evidential Matter and Further Guidance

1. Evidential Matter

- F.S. Form 7600A
- DD 1354 Transfer and Acceptance of Real Property
- DD Form 1390/1391: Military Construction Project Data
- DD Form 1155: Order for Supplies and Services (Purchase Order)
- Contract signature page or Standard Form 1442: Solicitation, Offer and Award
- DD Form 1594 Contract Completion Statement
- Journal Voucher Package

2. Further Guidance

Appendix B
Regulations and Policies

- 10 USC § 2208, “Working-capital funds”
- SFFAS 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting
- OMB Circular A-136, Financial Reporting Requirements
- OMB Circular A-11, Preparation, Submission, and Execution of the Budget
- Treasury Financial Manual Chapter 4700
- DoD FMR Volume 2B Chapter 9: Defense Working Capital Fund Budget Justification Analysis
- DoD FMR Volume 6B Chapter 5: Statement of Net Cost
- DoD FMR Volume 4, Chapter 24: Real Property