

**VOLUME 11B, CHAPTER 12: “WORKING CAPITAL FUND COSTS”**

**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [February 2018](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Title	Revised the title of the chapter from “Costs” to “Working Capital Fund Costs” to better reflect the nature of the chapter content.	Revision
All	Revised the chapter format to be consistent with the Department of Defense Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.1 (120101)	Updated the Overview paragraph to further define costs and to use a more commonly accepted language.	Revision
1.3 (120103)	Added relevant Statement of Federal Financial Accounting Standards guidance.	Addition
2.0 (1202)	Added clarifying language for Military Personnel Cost to paragraph 2.1. Deleted the original paragraphs <a href="#">120202</a> and <a href="#">120205</a> as they were obsolete; and renumbered the remaining paragraphs in this section to 2.2 and 2.3.	Revision / Deletion
3.0 (1203)	Updated definition of depreciation to align with Volume 4, Chapter 24, and added references to other chapters that contain “useful lives” information. Removed improper references to the capital investment recovery. Revised title from “Capital Equipment” to “Capital Assets” because it applies to more than just equipment. Added policy related to Imputed Costs Related to Real Property.	Revision

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## CHAPTER 12

WORKING CAPITAL FUND COSTS

## 1.0 GENERAL (1201)

## \*1.1 Overview (120101)

1.1.1. Working Capital Funds are designed to create a cost conscious environment and provide an efficient and effective means for controlling the cost of goods and services. Defense Working Capital Fund (DWCF) entities must have a cost accounting system capable of collecting and recording the costs of producing outputs in the financial reports, in compliance with the Statement of Federal Financial Accounting Standards (SFFAS Number 4, “Managerial Cost Accounting Standards and Concepts,” and the DoD United States Standard General Ledger (USSGL) Transaction Library.

1.1.2. Additional information relating to costs can be found in Volume 4, Chapter 17, “Expenses and Miscellaneous Items” and Chapter 19 “Managerial Cost Accounting”. For DWCF entities, all costs **must** be recovered, **unless specifically excluded by DoD policy**.

## 1.2 Purpose (120102)

This chapter describes costs associated with DWCF, and sets forth the criteria for allocating certain costs to **outputs (goods and services)** in accordance with Federal accounting standards. The full costs of resources that directly or indirectly contribute to the production of outputs (goods and services) should be assigned to outputs (goods and services) through costing methodologies that are most appropriate to the operating environment and should be followed consistently. Costs must be assigned using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable (e.g., direct costs), (b) assigning costs on a cause-and-effect basis (e.g., indirect costs), or (c) allocating costs on a reasonable and consistent basis (e.g., general and administrative (G&A) costs).

## \*1.3 Authoritative Guidance (120103)

This chapter is based on regulatory and statutory requirements cited throughout the chapter. The primary statutory source is Title 10, United States Code, section 2208 (10 U.S.C. § 2208), “Working-capital funds.” The primary accounting sources include SFFAS Number 3, “Accounting for Inventory and Related Property,” SFFAS Number 4, SFFAS Number 5, “Accounting for Liabilities of the Federal Government,” SFFAS Number 6, “Accounting for Property, Plant and Equipment,” and SFFAS Number 10, “Accounting for Internal Use Software.” Guidance related to budgeting for costs can be found in Volume 2B, Chapter 9 “Defense Working Capital Fund Budget Justification Analysis.”

## \*2.0 MILITARY PERSONNEL EXPENSE (1202)

### 2.1 Military Personnel Cost (120201)

The cost of military personnel may involve two separate processes. The first [process](#) involves the payment to military personnel appropriations for the budgeted amount of military personnel for an activity group – regardless of the actual number of military personnel assigned. The second [process](#) involves the [assignment of costs for](#) military personnel at the civilian equivalency rate for the number and grade of military personnel assigned to the DWCF activity. [In some circumstances, these costs are assigned to production orders or cost centers for services performed; other times they are assigned as overhead or G&A.](#) Rate guidance is provided in Volume 11A, Chapter 6, Appendix B. See Volume 2B, Chapter 9 for additional military personnel [reimbursement](#) policy.

### 2.2 Military Personnel Services (120202)

DWCF activities must price military personnel services reimbursement in support of DWCF operations using the civilian equivalency rate. The respective Military Departments and DWCF activities [must](#) reimburse the appropriate military appropriation [every](#) fiscal year.

### 2.3 Unresolved Disputes (120203)

In the event of an unresolved dispute between the military personnel appropriation manager and a DWCF activity on the budgeted amount of the deposit, the budgeted amount requested by the military personnel appropriation manager must be provided. Upon resolution of the dispute, the military personnel appropriation manager will provide a refund to the DWCF activity, if any is due, for the applicable amount.

## \*3.0 DEPRECIATION EXPENSE (1203)

Depreciation is the [systemic and rational allocation](#) of the [recorded](#) cost of an asset over its estimated useful life. [Refer to Volume 4, Chapter 24, “Real Property”; Chapter 25, “General Equipment”; Chapter 26, “Assets Under Capital Lease”; Chapter 27, “Internal Use Software,” and Chapter 28, “Heritage Assets, Multi-Use Heritage Assets and Stewardship Land” for guidance on useful lives.](#)

### 3.1 Capital [Assets](#) (120301)

DWCF activities will fully reflect the depreciation [expense](#) of capital [assets owned by the activity](#) in their operating costs, [whether they were purchased with DWCF budget authority or transferred to the DWCF activity without reimbursement.](#) DWCF activities will recover only those costs [incurred by the activity in the rates through the Capital Investment Recovery \(CIR\) factor.](#) If the depreciation expense is insufficient to cover the costs of capital investments, then an additional capital surcharge may be applied as stated in Volume 2B, Chapter 9.

### 3.2 Capital Assets Transferred In (120302)

DWCF activities will calculate the depreciation of capital assets that are transferred into a DWCF business entity without reimbursement based on its net value (original acquisition cost less calculated accumulated depreciation) plus any associated costs for transportation, installation and other related costs necessary to put the asset into operational use. Since the transfer of capital assets to the DWCF activity without reimbursement does not involve an outlay, the CIR factor is not applied.

### 3.3 Imputed Costs Related to Real Property (120303)

Volume 4, Chapter 24, directs DWCF activities to impute costs in accordance with [SFFAS Number 55](#), “Amending Inter-Entity Cost Provisions.” DWCF Activities that transferred out real property to comply with DoD policy must record imputed costs for those assets meeting the criteria defined in SFFAS 55.

### 4.0 MANAGEMENT IMPROVEMENT INITIATIVES (1204)

DWCF activities must expense any management improvement initiative that does not qualify for the Capital Investment Program and does not result in a capital asset subject to depreciation. See Volume 4, Chapter 24 for further policy on real property maintenance and repair.

### 5.0 REAL PROPERTY MAINTENANCE AND REPAIR (1205)

DWCF activities must expense real property maintenance and repairs in the period in which the maintenance and repair occurs. See Volume 4, Chapter 24 for further policy on real property maintenance and repair.

### 6.0 DoD HEADQUARTERS ACTIVITIES COSTS (1206)

Each DWCF activity is under the management control of a designated DoD Component. The DWCF headquarters activities costs are related to specific DWCF activity operations, and are separate from the general policy direction for the Department or a DoD Component. DWCF activities must identify management headquarters funded from the DWCF in the DWCF Charter (Management Command) for each applicable activity. See Chapter 2 for guidance on DWCF charter requirements. Refer to Volume 2B, Chapter 9, paragraph 090107 for the DoD guidance related to headquarters activities.

### 7.0 ACCOUNTING FOR COSTS (1207)

The [DoD USSGL Transaction Library](#) illustrates the accounting entries with related USSGL accounts.