

**\* VOLUME 11B, CHAPTER 12: “COSTS”**

**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

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

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

Hyperlinks are denoted by **bold, italic, blue and underlined font**.

The previous version dated **April 2010** is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Title	Revised title of the chapter from Expenses to Costs to better reflect the nature of the chapter content.	Revision
All	Revised the chapter format to be consistent with the Department of Defense (DoD) Financial Management Regulation (FMR) Revision Standard Operating Procedures (SOP).	Revision
1201	Added Purpose and Authoritative Guidance paragraphs in accordance with the DoD FMR SOP. Renumbered subsequent paragraphs following the addition.	Addition
120101	Revised the Overview paragraph to further define “costs”.	Revision
120301	Revised paragraph to include requirement to fully reflect the depreciation of capital equipment in their operating costs and rates in the form of the capital investment recovery and capital surcharge.	Revision
120302	Revised paragraph to include requirement to use a reasonably accurate useful life in calculating depreciation schedules for assets classified as capital investments and addressed the need to adjust the capital investment recovery rate for capital assets transferred in.	Revision

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
120602	Deleted guidance involving management headquarters that is duplicative of that already addressed in Volume 2B, Chapter 9.	Deletion

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## CHAPTER 12

COSTS

## \*1201 GENERAL

## 120101 Overview

A. As used in this chapter, costs are either defined as realized or unrealized. Unrealized costs are considered "obligations" whereas realized costs are considered "expenses." In accordance with the full cost approach defined in Statement of Federal Financial Accounting Standards (SFFAS Number 4, "Managerial Cost Accounting Standards and Concepts," all costs (unrealized and realized) must be allocated to projects.

B. The full costs of resources that directly or indirectly contribute to the completion of projects/services should be assigned to projects/services through costing methodologies or cost finding techniques that are most appropriate to the segment's operating environment and should be followed consistently. Costs should be assigned to projects/services using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable (Direct Production Costs), (b) assigning costs on a cause-and-effect basis (Indirect Production Costs), or (c) allocating costs on a reasonable and consistent basis (General and Administrative (overhead)).

C. Additional information relating to costs can be found in Volume 4, Chapter 17, "Expenses and Miscellaneous Items" and Chapter 19 "Managerial Cost Accounting". For Defense Working Capital Fund (DWCF) entities, all costs (realized or unrealized), unless specifically exempted by DWCF Policy or exception to policy, shall be recovered through billings to customers.

## 120102 Purpose

This chapter describes costs associated with DWCF, and sets forth the criteria for allocating certain costs to projects/services in accordance with Federal accounting standards.

## 120103 Authoritative Guidance

This chapter is based on regulatory and statutory requirements cited throughout the chapter. The primary statutory source is Title 10, United States Code (U.S.C.), section 2208. The primary accounting sources include SFFAS Number 4, and SFFAS Number 6, "Accounting for Property, Plant and Equipment".

## 1202 MILITARY PERSONNEL EXPENSE

## 120201. Military Personnel Cost

The cost of military personnel [may](#) involve two separate processes. The first 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 involves the costing of military personnel to jobs or cost centers for work performed at the civilian equivalency rate for the number and grade of military personnel assigned to the DWCF activity. Rate guidance is provided in Volume 11A, Chapter 6, Appendix B. See Volume 2B, Chapter 9 “[Defense Working Capital Fund Budget Justification Analysis](#)” or additional military personnel pricing policy.

## 120202. Military Leave or Other Absences

There will be no additional acceleration of the civilian equivalency rate charged to customer orders for military leave or other absences.

## 120203. Military Personnel Services

[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](#) may schedule reimbursement of the appropriate military appropriation at the beginning of each fiscal year, or in the last month of each fiscal year quarter.

## 120204. Unresolved Disputes

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.

## 120205. Variances

As a result, a variance may result between the amount paid to military personnel appropriations and the amount applied to work performed. That variance will result in a debit or credit amount in United States Standard General Ledger (USSGL) 2110 Accounts Payable. The amount of the variance shall be reduced to zero at the end of the fiscal year by adjusting USSGL 2110 Accounts Payable and USSGL 6100 Operating Expenses/Program Costs equal the amount budgeted paid to the military personnel appropriation. The purpose of this adjustment is to eliminate the variance between the costs applied to work performed and the budgeted amount.

## 1203 DEPRECIATION EXPENSE

Depreciation is the recognition of the acquisition cost of an asset over its useful life. In most cases, the depreciation expense represents the capital investment recovery (CIR) that is included in stabilized rates or prices to recover cash used by the activity to acquire or replace assets. Recovery of depreciation expense is the primary financing source for DWCF capital investments.

## \*120301. Capital Equipment

DWCF activities will fully reflect the depreciation of capital equipment in their operating costs and rates in the form of the CIR. 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.

## \*120302. Capital Assets Transferred In

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. DWCF activities must use reasonably accurate useful lives in calculating depreciation schedules for all assets classified as capital investments, in accordance with generally accepted accounting principles. Since the transfer of capital assets without reimbursement to the DWCF does not involve an outlay, the CIR must be adjusted accordingly. For further explanation regarding useful life see Volume 4, Chapter 6 “General Property, Plant, and Equipment”.

## 120303. Depreciation Budgeting

Guidance related to budgeting for depreciation can be found in Volume 2B, Chapter 9. For additional information relating to depreciation of Department of Defense (DoD) capital assets, refer to Volume 4, Chapter 6.

## 1204 MANAGEMENT IMPROVEMENT INITIATIVES

DWCF activities must expense any management improvement initiative that does not qualify for the Capital Investment Program and is not subject to depreciation. See Volume 4, Chapter 6 for further policy on real property maintenance and repair.

## 1205 REAL PROPERTY MAINTENANCE AND REPAIR

DWCF activities must expense major real property maintenance and repairs in the period in which the maintenance and repair occurs if the costs do not meet the DWCF Capital Investment Program criteria. See Volume 4, Chapter 6 for further policy on real property maintenance and repair.

## 1206 MAJOR DoD HEADQUARTERS ACTIVITIES COSTS

## 120601. General

Each DWCF activity is under the management control of a designated DoD Component. The DWCF headquarters [activities costs](#) is related to specific DWCF activity operations, and is 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.

\*120602. Identification and Payment for [Major DoD Headquarters Activities Costs](#)

Refer to [Volume 2B, Chapter 9, paragraph 090107](#) for the DoD guidance related to headquarters activities.

## 1207 ACCOUNTING FOR COSTS

The [DoD United States Standard General Ledger \(USSGL\) Transaction Library](#) illustrates the accounting entries [with related](#) USSGL accounts.