

**VOLUME 11B, CHAPTER 13: “COST ACCOUNTING REQUIREMENTS FOR  
DEPOT MAINTENANCE”**

**SUMMARY OF MAJOR CHANGES**

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

Substantive revisions are denoted by an \* 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>
Various	Updated the United States Standard General Ledger (USSGL) chart of account codes contained in the chapter to reflect the most recent six-digit codes published by the United States (U.S.) Treasury.	Revision
Various	Revised terminology referring to indirect costs to more clearly be termed indirect production costs. Also revised terminology referring to general and administrative (G&A) costs to more clearly be termed G&A (overhead) costs.	Revision
1.2 (130102)	Added the relevant overarching authoritative guidance supporting the policy contained in the chapter.	Addition
3.1.10. (130301.J)	Added the establishment of working capital fund rates used for customer program budgets as information that management should have available from the cost accounting and reporting module.	Addition
3.3.2.3. (130303.B.3)	Revised the guidance to reflect reference to the use of the Department of Defense (DoD) USSGL transaction library within the Standard Financial Information Structure (SFIS) for the accounting scenarios for making adjustments for inventory accounts.	Revision
3.5 (130305)	Added a definition for what is considered to be a “significant” accrued expense as defined in Statement of Federal Financial Accounting Standards (SFFAS) 4, “Managerial Cost Accounting Standards and Concepts.	Addition
3.6 (130306)	Added the USSGL account for recording immaterial adjustments that cannot be identified to the appropriate job order.	Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
4.0 (1304)	Revised the layout of previous policy from a paragraph format to a tabular format for ease of reading and understanding.	Revision
5.2.2. (130502.B)	Updated the paragraph to direct the reader to the DoD USSGL transaction library within SFIS for transactions for recording under/over absorbed overhead.	Revision
6.1 (130601)	Added guidance contained in SFFAS 4 regarding process costing.	Addition
6.3 (130603)	Added guidance that a thorough analysis of alternative cost accounting and assignment methods should be conducted before process cost procedures are adopted, and added the requirement to document the method used to accumulate and allocate process center costs.	Addition
7.1 (130701)	Added the requirement for periodic re-evaluations of work measurement standards.	Addition
130603 (deleted)	Deleted the paragraph since DoD Instruction (DoDI) 5010.34 was cancelled July 14, 2010 and DoDI 5010.37 was cancelled December 14, 2012, both of which were the basis for the policy in this paragraph.	Deletion
8.5 (130805)	Added guidance that Defense Working Capital Fund (DWCF) activities must not bill or accept reimbursement for certain military labor, or include their cost in the calculation of the net operating results used for developing future rates or prices.	Addition
8.6 (130806)	Revised guidance to reflect that a timekeeping system also collects labor hour data.	Revision
8.7 (130807)	Revised the guidance to better align with cost allocation verbiage contained in SFFAS 4.	Revision
8.12 (130812)	Clarified guidance that the cost of temporary employees that a DWCF activity does not pay for are nonrecoverable, and must not be included in the calculation of net operating results used for future rates or prices.	Revision
8.13 (130813)	Added reference to the DoD USSGL transaction library for the DoD general ledger accounts and related transaction posting detail for civilian leave and benefits.	Addition
9.3 (130903)	Revised the paragraph terminology to align with that used in SFFAS No. 3 "Accounting for Inventory and Related Property". Added reference to Volume 4, Chapter 4 for more detailed guidance on the calculation of moving average cost.	Revision/ Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
9.8 (130908)	Deleted specific posting entries and referred the reader to the USSGL/SFIS and Volume 4, Chapter 4 for specific transactional posting guidance.	Deletion/ Addition
9.9 (130909)	Revised the guidance involving the basis for the costs to be charged to a job order, and the handling of any resulting credits when reparable carcasses are exchanged with the Supply activity.	Revision
9.10 (130910)	Revised the paragraph title to “Items Beyond Repair” versus “Non-Reparable Carcasses” and clarified that the depot must order and pay for a replacement from the Supply activity.	Revision
10.4 (131004)	Revised account 151100, “Operating Materials and Supplies Held for Use”, to account 152500, “Inventory-Raw Materials” to align the USSGL chart of account code with the nomenclature used in the paragraph.	Revision
11.1 (131101)	Revised the paragraph title and guidance terminology to reflect that it is applicable to indirect production costs rather than overhead.	Revision
11.6 (131106)	Clarified the guidance terminology to ensure it is interpreted to consistently apply to both indirect production and G&A (overhead) rate variances.	Revision
11.7 (131107)	Clarified the guidance terminology to ensure it is interpreted to consistently apply to both indirect production and G&A (overhead) rate variances.	Revision
11.8 (131108)	Clarified the guidance terminology to ensure it applies to indirect production as well as G&A (overhead), and referred the reader to the DoD USSGL transaction library in SFIS for the specific accounting entries to account for under/over-applied overhead.	Revision
11.9 (131109)	Added the applicable object class codes for recording the specific type of transportation costs discussed in the paragraph.	Addition
12.10 (131210)	Added the applicable U.S. Code reference governing proceeds from sales of surplus property.	Addition
12.11 (131211)	Removed policy that is duplicative of that contained in Volume 11B, Chapter 14, and Volume 2B, Chapter 9.	Deletion
12.12.2. (131212.B)	Clarified the guidance to depict that indirect costs associated with a cancellation or reduction action could include both indirect production and G&A (overhead).	Revision
12.15.3. (131215.C)	Clarified the guidance to state that a completed order for items a DWCF manufactures for itself will either be charged to an asset account or to a job order.	Revision

## Table of Contents

**VOLUME 11B, CHAPTER 13: “COST ACCOUNTING REQUIREMENTS FOR DEPOT MAINTENANCE”**

1.0	GENERAL (1301) .....	7
1.1	Purpose (130101) .....	7
*1.2	Authoritative Guidance (130102) .....	7
2.0	OVERARCHING POLICY (1302).....	8
2.1	General. (130201) .....	8
2.2	Facilities Requirement. (130202).....	8
2.3	Managerial Cost Accounting. (130203).....	8
3.0	ESTABLISHING THE COST ACCOUNTING MODULE (1303).....	9
3.1	Job Order Cost Accounting Module (130301).....	9
3.2	Requisite Module (130302).....	10
3.3	Chart of Accounts (130303).....	10
3.4	Customer Funding (130304) .....	11
*3.5	Accruals (130305).....	11
*3.6	Missing or Erroneous Data (130306).....	11
*4.0	ESTABLISHING JOB ORDERS (1304).....	12
5.0	JOB ORDER REQUIREMENTS (1305).....	12
5.1	Job Order Cost Assignment Requirements (130501).....	12
5.2	Job Order Opening and Closing Requirements (130502).....	12
5.3	Segregation of Cost for Cancelled and Completed Job Orders (130503).....	13
5.4	Customer Order Support of Job Orders (130504).....	13
6.0	PROCESS COST CENTERS PROCEDURES (1306).....	13
*6.1	Process Cost Centers (130601) .....	13
6.2	Cost Allocation Basis (130602) .....	14
*6.3	Cost Allocation Consistency (130603) .....	14
7.0	USE OF WORK MEASUREMENT STANDARDS (1307).....	14
*7.1	Work Measurement Standards (130701) .....	14
7.2	Basis of Work Measurement Standards (130702) .....	14

## Table of Contents (Continued)

8.0	LABOR COSTS (1308)	15
8.1	Civilian Labor Hours (130801)	15
8.2	Use of Actual and Average Labor Rates (130802)	15
8.3	Labor Distribution System (130803)	15
8.4	Military Labor Hours (130804)	15
*8.5	Military Personnel Depot Maintenance Costs (130805)	15
*8.6	Timekeeping (130806)	16
*8.7	Allocation of Hours (130807)	16
8.8	Supervisor Responsibilities (130808)	16
8.9	Direct Labor (130809)	17
8.10	First Line Supervision (130810)	17
8.11	Loaned Labor (130811)	17
*8.12	Temporary Employees (130812)	17
*8.13	Civilian Leave and Benefits (130813)	17
8.14	Allocation Factors (130814)	18
8.15	Fringe Benefits (130815)	20
8.16	Overtime Premium (130816)	20
8.17	Other Premium Pay (130817)	20
9.0	MATERIAL COSTS (1309)	21
9.1	Raw Materials (130901)	21
9.2	Allocation of Direct and Indirect Material (130902)	21
*9.3	Moving Average Cost (MAC) (130903)	21
9.4	Acceptance and Use of Customer Furnished Material (130904)	21
9.5	Return of Customer Furnished Material (130905)	21
9.6	Direct Material (130906)	22
9.7	Indirect Material (130907)	22
9.8	Excess Materials (130908)	22
*9.9	Reparable Carcasses (130909)	23
*9.10	Items Beyond Repair (130910)	23
10.0	OTHER DIRECT COSTS (1310)	23
10.1	Purchased Services (131001)	23
10.2	Purchased Services Benefiting Indirect Cost Centers (131002)	23
10.3	Contracts Supplementing Capacity or Capability (131003)	23
*10.4	Material Costs (131004)	23
10.5	Travel and Per Diem Expenses (131005)	24

## Table of Contents (Continued)

11.0	INDIRECT COSTS (1311).....	24
*11.1	Indirect Production Rates and Standard Costs (131101) .....	24
11.2	Indirect Production Costs (131102) .....	24
11.3	Indirect Production Cost Pools (131103).....	24
11.4	Indirect Production Cost Allocation (131104).....	25
11.5	Operations Rate (131105) .....	25
*11.6	G&A (Overhead)Rate (131106).....	25
*11.7	Variances (131107) .....	26
*11.8	Completed Job Orders (131108) .....	26
*11.9	Permanent Change of Station (131109).....	27
12.0	COSTS REQUIRING SPECIAL ATTENTION (1312).....	27
12.1	Quality Assurance (131201) .....	27
12.2	Inspections and Tests (131202).....	27
12.3	Reparables (131203) .....	27
12.4	Borrowed Assemblies, Subassemblies, Components, or Parts (131204).....	27
12.5	Calibration (131205) .....	28
12.6	Modifications and Upgrades (131206).....	28
12.7	Information Technology (131207).....	29
12.8	Machine Set-Up Costs (131208).....	29
12.9	Defective Work and Spoilage Costs (131209).....	30
*12.10	Disposition (131210).....	30
*12.11	Mobilization Capability Costs (131211).....	31
12.12	Job Order Cancellations or Reductions in Scope (131212) .....	31
12.13	Employee Training Costs (131213) .....	31
12.14	Technical Assistance (131214) .....	32
12.15	Assets Manufactured by a DWCF Activity for Itself (131215).....	32
12.16	Special Non-DWCF Functions (131216).....	33
12.17	Concurrent Maintenance (131217) .....	33
12.18	Host/Tenant Support Services (131218) .....	33
12.19	Employee Bonuses and Awards (131219).....	33

## CHAPTER 13

**COST ACCOUNTING REQUIREMENTS FOR DEPOT MAINTENANCE**

## 1.0 GENERAL (1301)

## 1.1 Purpose (130101)

The purpose of this chapter is to prescribe depot maintenance cost accounting requirements for Defense Working Capital Fund (DWCF) activities to uniformly record, accumulate, and report the job order cost of performing DWCF functions. Depot maintenance reporting requirements and procedures are contained in Volume 6A, Chapter 14, “Depot Maintenance Reporting”.

**\*1.2 Authoritative Guidance (130102)**

1.2.1. Title 10, United States Code, section 2460 ([10 U.S.C. § 2460](#)) generally defines depot maintenance and repairs as:

1.2.1.1. Material maintenance or repair requiring the overhaul, upgrade, or rebuild of parts, assemblies, or subassemblies, and the testing and reclamation of equipment as necessary, regardless of the source of funds for the maintenance or repair, [or the location at which the maintenance or repair is being performed](#);

1.2.1.2. Including all aspects of software maintenance classified by the [Department](#) as depot level maintenance and repair, and interim contractor support or contractor logistics support (or any similar contractor support), to the extent that such support is for the performance of services;

1.2.1.3. Not including the procurement of major modifications or upgrades of weapon systems that are designed to improve program performance, the nuclear refueling [or defueling of an aircraft carrier and any concurrent complex overhaul](#), and the procurement of parts [for safety modifications](#); and

1.2.1.4. Including the installation of parts for safety modifications.

1.2.2. Statement of Federal Financial Accounting Standards ([SFFAS](#)) 4, “Managerial Cost Accounting Standards and Concepts” sets forth the fundamental elements for cost accounting in Federal agencies. [SFFAS 3](#) “Accounting for Inventory and Related Property” identifies the accounting standards that apply to several types of tangible property, other than long term fixed assets, held by federal government agencies.

1.2.3. Volume 4, Chapter 19 “Managerial Cost Accounting” provides guidance on implementing managerial cost accounting within the Department.

## 2.0 OVERARCHING POLICY (1302)

### 2.1 General. (130201)

2.1.1. DWCF depot maintenance activities that utilize a job order costing methodology must use formal cost accounting practices in compliance with the provisions of SFFAS 4.

2.1.2. DWCF activities must ensure compliance with the requirements of this chapter and Volume 4, Chapter 4 “Inventory and Related Property” for all material, whether owned by the Department of Defense (DoD), other federal agencies, state or local governments, foreign governments or private parties.

2.1.3. DWCF activities must uniformly record, accumulate, and report job order costs to assist management in measuring productivity and efficiency; developing and using performance measurement and cost standards; and highlighting areas that need increased management emphasis. This data also assists in the identification of total capability, duplication of capacity, and areas of interservice support of DWCF workload.

2.1.4. Depot maintenance serves to support Intermediate (I) and Organizational (O) level maintenance by providing technical assistance and performing maintenance that is beyond the capability/responsibility of the I and O levels.

### 2.2 Facilities Requirement. (130202)

Depot maintenance may be performed in Government-Owned, Government-Operated facilities; Government-Owned, Contractor-Operated facilities; or Contractor-Owned, Contractor-Operated facilities. The primary funding source for depot maintenance operations is DoD operation and maintenance appropriations made available to customers of depot maintenance. Centrally managed procurement appropriations may finance certain specific programs such as weapon system upgrades and similar modernization and/or modification programs. Activities funded by an appropriation or fund legally authorized for the purpose, as well as customers outside of the DoD such as the Coast Guard and Foreign Military Sales, may place an order for maintenance work.

### 2.3 Managerial Cost Accounting. (130203)

2.3.1. Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practical, should be integrated with other parts of the financial management system to provide consistent, cost-based information for reporting and management’s use.

2.3.2. DoD depot maintenance activities must, in accordance with SFFAS 4:

2.3.2.1. Accumulate and report the costs of activities on a regular basis for management information purposes;



2.3.2.2. Establish responsibility segments, and measure and report the costs of each segment's outputs and calculate the unit cost of each output;

2.3.2.3. Determine and report the full costs of government goods and services, including direct and indirect [production costs and general and administrative \(G&A\) \(overhead\)](#);

2.3.2.4. Recognize the [full costs](#) of goods and services provided by other federal entities; and

2.3.2.5. Use and consistently follow costing methodologies or cost finding techniques most appropriate to the segment's operating environment to accumulate and assign costs to outputs. ([Refer to Volume 4, Chapter 19 for additional guidance on managerial cost accounting](#)).

### 3.0 ESTABLISHING THE COST ACCOUNTING MODULE (1303)

#### 3.1 Job [Order](#) Cost Accounting Module (130301)

A job order cost accounting module should be subsidiary to, and integrated within, the financial system defined in Volume 1, Chapter 3 "[Federal Financial Management Improvement Act Compliance](#)". The cost module should be integrated with the depot payroll, fund control, and material control modules. Specifically, management should have information available from the cost accounting and reporting module to assist in the:

3.1.1. Comparison of historical unit cost trends with replacement cost trends to [include proper identification and categorization of costs](#);

3.1.2. Oversight in the utilization of resources;

3.1.3. Evaluation of program budgets;

3.1.4. Comparison of cost trends among DWCF entities or between DWCF and contract sources;

3.1.5. Managerial direction and guidance for DWCF programs;

3.1.6. Evaluation of DWCF activities for efficient use of resources;

3.1.7. Estimation of DWCF requirements;

3.1.8. Monitoring of DoD Component compliance with various congressionally mandated reporting requirements;

3.1.9. Examination of the behavior of cost drivers over time ([e.g. relationship between a given cost item and the quantity of its related cost driver\(s\) over time](#)); and

\* 3.1.10. Establishment of DWCF Rates used for customer program budgets based on historic models of cost of repair and applied overhead.

### 3.2 Requisite Module (130302)

The cost accounting module **must** be established for, but not limited to, all DWCF depot maintenance activities.

### 3.3 Chart of Accounts (130303)

3.3.1. The United States Standard General Ledger (USSGL) provides a uniform chart of accounts and technical guidance for standardizing federal government agency accounting. Guidance on the use of individual general ledger accounts and transactions applicable to the DoD is provided within the Standard Financial Information Structure (SFIS). The DoD Standard Chart of Accounts (SCOA) includes all the point accounts and other information related to the USSGL for DoD purposes.

3.3.2. The following guidance further explains the use of the USSGL chart of accounts by a DWCF activity. For detailed DoD general ledger account guidance and DWCF transaction posting refer to the DoD SCOA and the DoD USSGL Transaction Library.

3.3.2.1. Account 152500, “Inventory-Raw Materials,” **must** be used to record all materials held for the purpose of providing a good or service to a customer regardless of the method acquired, e.g., purchase, donation, or transfer without reimbursement. DWCF activities **must** not charge raw materials to the work-in-process account until the materials are issued for use. Raw material issues **must** then be charged to appropriate job orders or cost centers. Unneeded material and supplies **must** be returned to the Inventory-Raw Materials account when a determination is made that the material is available for other uses.

3.3.2.2. DWCF activities **must** verify raw materials records and adjust **them** to physical counts. Any adjustments needed to reconcile the physical count with the recorded (book) value of raw materials **must** be charged to the appropriate cost center or to a gain or loss account as described in paragraph 9.8.

\* 3.3.2.3. Account 152600, “Inventory-Work-in-Process,” is the control account for all unbilled job orders. (Refer to Volume 4, Chapter 4 for work-in-process accounting policy.) The amount of work-in-process consists of all costs applied to unbilled job orders including direct labor, direct materials, direct contractual costs (exclusive of contracts that are awarded that directly cite the funds issuer’s line of accounting), and applied overhead expenses. The balance in this account **must** be reconciled to the total charges on unbilled job orders as of the end of each quarter. In addition, the validity and reasonableness of the charges recorded on the unbilled job orders **must** be verified on a random sample basis at least annually. This validation **must** be performed by personnel not assigned to the accounting or maintenance function. For example, personnel from a DoD Component audit service or a local internal review staff may be assigned to perform this

function. Based on the results of the verification, DWCF activities must adjust accounts in accordance with the accounting scenarios contained in the DoD USSGL Transaction Library within SFIS.

3.3.2.4. DWCF activities must use account 141000, “Advances and Prepayments,” to record payment for expenses that properly apply to future accounting periods. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. This account must not be used solely to level out significant expenses but must, in fact, represent an equitable distribution to the appropriate time period commensurate with the benefits that will accrue to that future period from the current payment. Refer to Volume 4, Chapter 5 “Advances and Prepayments” for additional guidance and definitions regarding prepayments.

#### 3.4 Customer Funding (130304)

Depot maintenance workload performed by DWCF activities is considered nonseverable in nature and thus customers must fund the full price of the order, through completion of the effort, using a reimbursable order. The DWCF activity must recognize revenue and bill the customer funding an order or, when advance payments have been received, relieve those advance payments to the appropriate revenue account. Revenue billings to customers must reflect due credit for the advances received. In no case must the total amount of revenue recognized and billed exceed the amount of the order. Chapter 11 “Reimbursements and Revenue Recognition” contains requirements for reimbursements and revenue recognition for DWCF entities.

#### \*3.5 Accruals (130305)

DWCF activities must record accrued expenses that are significant (material) in relation to the recording of costs for a DWCF activity in the appropriate expense accounts, budgetary accounts, and applicable liability accounts during the accounting period that the benefit was received rather than at the time of the payment for the expense. For example, DWCF activities must record accruals for accrued salaries, annual and sick leave, employee benefits, estimates for utilities, major real property maintenance and repair, and other significant services received and not yet paid. SFFAS 4 states that the determination of whether an item is material (i.e., significant) depends on the degree to which omitting information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission.

#### \*3.6 Missing or Erroneous Data (130306)

Occasions may arise when, due to missing or erroneous data, costs incurred cannot be identified to charge to the appropriate job order. Such costs must be temporarily recorded in the applicable expense account under suspense control until the correct data is available to make the proper distribution to the correct job order. Any unadjusted amount at the end of a fiscal year, if immaterial, must be charged to the applicable cost center using Account 610000 “Operating Expenses/Program Costs”.

**\*4.0 ESTABLISHING JOB ORDERS (1304)**

The performing activity **must** establish job orders in accordance with the following **table**:

<b>Value of work to be performed</b>	<b>Units subject to “pre-shop analysis”<sup>1</sup> or “examination and evaluation”</b>	<b>Units NOT subject to “pre-shop analysis” or “examination and evaluation”</b>
>\$150,000/unit	Job order per item	Not applicable
\$25,000 to \$150,000/unit <sup>1</sup>	Job order per monthly induction	Job order per monthly induction
<\$25,000/unit <sup>2</sup>	Job order per quarterly induction	Job order per quarterly induction valued at \$500,000 or more
<\$25,000/unit <sup>3</sup> AND <\$500,000/TMS or NSN	Not applicable	Job order per quarterly induction, not to exceed \$1,000,000 per job order

<sup>1</sup> inspections and tests and other similar activities performed to determine work requirements

<sup>2</sup> for multiples of the same identification number (Type Model Series (TMS) or National Stock Number (NSN))

<sup>3</sup> homogenous group, by stock classification, subclassification, repair category, or other appropriate criteria

**5.0 JOB ORDER REQUIREMENTS (1305)****5.1 Job Order Cost Assignment Requirements (130501)**

DWCF activities **must assign costs** to individual job orders at the time the job order receives a benefit from the incurrence of an expenditure. The benefit may occur at any time but usually occurs subsequent to the time the obligation is incurred, and before the disbursement occurs. DWCF activities may charge costs to job orders based on standard costs when those costs are properly adjusted for variances to arrive at the actual cost. Costs, including standard costs, **must** be recorded based on accrual concepts. **DWCF activities must not charge** direct material, labor, or other direct costs to job orders based on planned, programmed, or reserved amounts. Refer to Volume 4, Chapter 19 for additional guidance on job order cost accounting.

**5.2 Job Order Opening and Closing Requirements (130502)**

5.2.1. DWCF activities **must** open a job order when a new job order is required under **section 4.0**.

\* 5.2.2. DWCF activities must close a job order as soon as all direct, indirect production, and G&A (overhead) are determined and assigned to the job order. Normally, all such costs must be determined and posted to the job order within 30 days of the completion of all direct labor chargeable to the job order. The job order must be closed with the use of predetermined indirect and G&A (overhead) rates when authorized. DWCF activities must apply such indirect and G&A (overhead) rates consistently to all job orders. At the end of the fiscal year, any under and/or over absorbed indirect and G&A (overhead) (variances) must be adjusted using the transactions contained in the DoD USSGL Transaction Library within SFIS.

### 5.3 Segregation of Cost for Cancelled and Completed Job Orders (130503)

DWCF activities must identify costs associated with the cancellation or reduction of partially completed maintenance work, and report these costs separately from the costs of normally completed work. Paragraph 2.2 provides additional guidance on cancelled or reduced scope orders.

### 5.4 Customer Order Support of Job Orders (130504)

Customer orders, either project orders or Economy Act orders, from the activity responsible for the financing appropriation, are required to support each job order. The customer must provide full and adequate funds to cover all requirements. A customer may, however, issue orders to cover multiple job orders when agreed to in writing with the depot maintenance activity.

## 6.0 PROCESS COST CENTERS PROCEDURES (1306)

### \*6.1 Process Cost Centers (130601)

A DWCF activity may perform certain unique operations that lend themselves to process cost center procedures. Process costing is a method of cost accounting that first collects costs by process and then allocates the total costs of each process equally to each unit of output flowing through it during an accounting period. For example, plating and painting operations are particular processes that may be uniformly and consistently performed to units that either are end items or will become part of end items. Rather than attempting to directly account for and assign each direct labor hour and material cost to an item that has undergone the particular plating or painting process, use of a process cost center allows the labor and material costs of the cost center to instead be accumulated and allocated to those items that were plated and/or painted during the respective accounting period. SFFAS 4 recognizes that process costing is appropriate when the production of goods or services involves a regular pattern of process, the output consists of homogeneous units, and all units are produced through the same process procedures. (Refer to Volume 4, Chapter 19 for additional guidance on process cost accounting).

## 6.2 Cost Allocation Basis (130602)

The DWCF activities must allocate process cost center costs to the job orders for the units processed through the cost center during the respective accounting period. The basis for the allocation of costs must be the number of equivalent units (e.g., number of units, linear feet, square feet, hours operating time) processed on-the-job orders through the cost center during the accounting period.

## \*6.3 Cost Allocation Consistency (130603)

The DWCF activity should conduct a thorough analysis of alternative cost accounting and assignment methods before it adopts process cost center procedures. The method used to accumulate and allocate the costs for such operations must be documented and consistently applied from accounting period to accounting period to ensure consistency in the assignment of costs.

## 7.0 USE OF WORK MEASUREMENT STANDARDS (1307)

### \*7.1 Work Measurement Standards (130701)

DWCF activities that establish work measurement standards for labor, material, and indirect production and G&A (overhead) costs must develop cost estimates for each job order using these standards. Incurred costs must be compared against estimated costs to determine if corrective actions are required to control significant variances. Established work measurement standards need to be periodically re-evaluated and updated as necessary to assure that they encourage improvements in efficiency and continue to be within an attainable range.

### 7.2 Basis of Work Measurement Standards (130702)

DWCF activities that establish work measurement standards must base the standards on generally accepted industrial engineering techniques where high value, high volume work is involved. The work measurement standards may be established by in-house or other DoD personnel or they may be established by original equipment manufacturer's specifications of maintenance tasks and frequencies (product reliability engineered standards). DWCF activities that establish work measurement standards for labor, material, indirect production, or G&A (overhead) costs must continuously review the standards to verify their accuracy in light of advanced processing equipment, and higher level of skills used. For low-value, low-volume work, the work measurement standards may involve less sophisticated engineering techniques, but the work measurement standards or estimated resources required must be developed for all work accepted.

## 8.0 LABOR COSTS (1308)

### 8.1 Civilian Labor Hours (130801)

DWCF activities must record all civilian labor hours worked in a cost center as either a direct cost on a job order or as an indirect production cost that will be allocated to a job order. Civilian labor hours must be charged at the current payroll rate to include DoD paid personnel benefits.

### 8.2 Use of Actual and Average Labor Rates (130802)

DWCF activities must use actual civilian payroll hourly rates as the basis to record labor costs. Average labor rates may only be used to record labor costs for cost centers when the range of actual hourly pay rates within that center is limited and significant distortions of recorded costs would not result from their use. DWCF activities must not use stabilized rates approved for billing purposes as the basis to record labor or other costs incurred. Stabilized rates are the result of budget estimates; actual costs incurred must be recorded in the cost accounting system independent of the rate setting process.

### 8.3 Labor Distribution System (130803)

DWCF activities must use a labor distribution system to charge all direct labor hours and costs to applicable job orders. Each pay period, DWCF activities must reconcile and correct differences between the labor hours recorded for payroll purposes, payroll costs incurred, and the labor hours and costs distributed to job orders and indirect production cost centers through the labor distribution system. For discrepancies that cannot be reconciled between job order records and payroll records without incurring a major expenditure of resources, DWCF activities must correct the job order records to equal the payroll records. Differences due to the use of average cost center labor rates must be charged to G&A expenses.

### 8.4 Military Labor Hours (130804)

DWCF activities must record all military hours worked as either a direct cost on a job order or as an indirect production cost of a cost center. DWCF activities must charge military labor hours to the job order at the current civilian equivalent rate applicable to the rank and military service of each military member. (Refer to Chapter 12 “Expenses” for the military personnel costing process.)

### \*8.5 Military Personnel Depot Maintenance Costs (130805)

DWCF activities must record as an unfunded depot maintenance cost all military labor performed by a “ship’s force” or other military personnel that are part of the operating forces or an intermediate level organization that are loaned, without reimbursement, to and working under the supervision or direction of the depot maintenance activity when weapons systems, platforms or components are undergoing depot maintenance in a DWCF depot. Military personnel “on loan” and not assigned to DWCF activities are funded under other appropriations. The DWCF activities

must not bill these labor costs to, or accept reimbursement from, the customer. These costs are nonrecoverable and DWCF activities must not include them in the calculation of the net operating results used for developing future rates or prices. When military personnel are not working under the supervision or direction of the depot maintenance activity (not assigned), any maintenance work they perform must not be considered depot maintenance.

#### \*8.6 Timekeeping (130806)

A DWCF activity must maintain a timekeeping system to collect and distribute both military and civilian labor to applicable job orders or cost centers. A timekeeping system must provide the following information:

##### 8.6.1. Source of Hours Available:

8.6.1.1. Normal duty hours available by cost center.

8.6.1.2. Premium time, overtime, and holiday time by cost center.

8.6.1.3. Loaned labor hours by gaining and losing cost center.

##### 8.6.2. Application of Hours Available:

8.6.2.1. Direct hours worked by cost center on each job order.

8.6.2.2. Indirect hours worked by cost center.

8.6.2.3. Nonproductive (e.g., annual, sick) hours by cost center.

#### \*8.7 Allocation of Hours (130807)

DWCF activities must apply the allocation of hours worked to benefiting job orders, activities, services, or products on a per unit basis, where applicable. The allocation of hours worked to benefiting job orders may also be based on industrially engineered earned hour (actual hour efficiency of a cost center if the employees in the cost center are of a homogeneous type and the allocation of labor hours are properly adjusted for variances to arrive at actual hours worked). The industrially engineered earned hour method of allocation is not appropriate for a cost center with a diverse workforce or different types of workload.

#### 8.8 Supervisor Responsibilities (130808)

Supervisors are responsible for the validity of timekeeping records. Supervisors are also responsible for establishing the job order(s) for each pertinent employee and notifying employees of the job orders. Employees are responsible for certifying that the time charged to job orders is correct. DWCF activities must reconcile the source documents used to record the hours worked by each employee on each job order to the total payroll hours.



### 8.9 Direct Labor (130809)

Direct labor is work that can be identified, without undue cost or difficulty, to a single, specific job order. Direct labor generally includes the hands-on maintenance, repair, overhaul, test, and related direct production effort that follow the established sequence and content of work necessary to accomplish the billable job. Direct labor does not include the support work identified as either indirect [production](#) or [G&A \(overhead\)](#) in nature.

### 8.10 First Line Supervision (130810)

First line supervision is that [position](#) level immediately over nonsupervisory workers. First line supervisors and above [occupy](#) an official supervisory [designated](#) position, and when acting in a supervisory capacity, [must have](#) their labor costs charged [by the DWCF activity](#) as an indirect [production](#) cost of the cost center supervised. First line supervisors may be borrowed and [when](#) used as direct labor, [DWCF activities must](#) classify the time of the first line supervisor as direct labor and charge [it](#) to the applicable job order rather than as an indirect [production](#) cost. “Crew chiefs,” “snappers,” “team leaders,” and other subordinate job leaders are not first line supervisors.

### 8.11 Loaned Labor (130811)

[DWCF activities must](#) place special emphasis on accurately recording the use of loaned labor, [which](#) occurs when an employee is temporarily transferred (loaned) from one cost center to another within a DWCF activity. When an employee is loaned, the gaining cost center [must](#) record the labor hours of the employee. Care must be exercised to assure that the costs of loaned employees are not charged by both, or by neither [of](#), the loaning and gaining cost centers. First line supervisors at both the loaning and gaining cost centers may be tasked to validate that such costs are accurately recorded. [Only personnel assigned to the DWCF are recoverable in the rate structure, while loaned labor is funded by other appropriations.](#)

### \*8.12 Temporary Employees (130812)

If employees are temporarily assigned to a DWCF activity from an organizational entity other than DWCF activity and the DWCF activity [neither pays](#) the individual directly nor makes payment or reimbursement to the activity loaning the employee, the labor costs [must](#) be recorded as unfunded. [These costs are nonrecoverable and DWCF activities must not include them in the calculation of net operating results used for developing future rates or prices.](#)

### \*8.13 Civilian Leave and Benefits (130813)

The following requirements apply to accounting for civilian leave and benefits. [For DoD general ledger accounts and related transaction posting detail, refer to the DoD SCOA and the DoD USSGL Transaction Library.](#)

### 8.13.1. Accruals.

8.13.1.1. Account 221000, “Accrued Funded Payroll and Leave,” **must** be used to account for accrued annual leave of DWCF civilian employees. **DWCF activities must** include a factor for annual leave accruals in stabilized rates or prices **in order to** provide funding for annual leave.

8.13.1.2. Account 221300, “Employer Contributions and Payroll Taxes Payable,” **must** be established to account for accrued sick leave, accrued holiday, and other miscellaneous leave in addition to other employee benefits such as life and health insurance, and retirement contributions. **The** accruals are **to be** based on estimates of leave to be taken, not the amount of leave earned.

8.13.2. Leave **must** be costed to job orders based on an allocation factor for all time worked except when a holiday is involved. When an employee works on a holiday, the regular pay for the holiday **must** be charged against the holiday leave accrual liability, the same as for employees who do not work on the holiday. **DWCF activities will only** cost the additional pay for working on the holiday, along with the leave accrual, at the prescribed allocation factor, to the job order as stated in paragraph 8.16.

8.13.3. Leave actually taken **must** be relieved from the appropriate accrued leave account **based** on payroll labor distributions, and **must** not be charged to current job orders.

### 8.13.4. Reconciliation.

8.13.4.1. **The amount of** annual leave accrued **must** be reconciled at the end of the fiscal year with individual employee leave records. Adjustments to reconcile the balance in the account to the individual leave records **must** be costed to USSGL Account 610000, “Operating Expenses/Program Costs” as a G&A (**overhead**) expense adjustment. After reconciliation, the balance of the accrued annual leave account **must** be carried forward into the following fiscal year.

8.13.4.2. At fiscal year-end, the estimates of sick leave, holiday leave, and other leave to be taken **may** not agree with the actual leave taken. Adjustments necessary to result in a \$0 balance in the sick leave, holiday leave, and other leave **accounts must** be costed to Account 640000, “Benefit Expense (Personnel Benefits – Civilian)” as a G&A (**overhead**) expense adjustment. Accrued sick, holiday, and other leave balances are not to be carried forward into the following fiscal year.

## 8.14 Allocation Factors (130814)

The use of allocation factors for calculating leave accruals and applying them to the proper cost centers on labor cost distributions is normally the simplest, most economical, and most accurate method of accruing and costing leave. **DWCF activities must** update the allocation factors periodically to limit the adjustments to the accrued leave accounts to a minor amount at the end of the fiscal year.

8.14.1. A DWCF activity may determine its own allocation leave accrual factors because of variances caused by average length of service, climate, turnover, and local leave usage experience.

8.14.2. When establishing the allocation factors, it is necessary to estimate the average annual work days for the activity to which the factor **must** be applied. The following is an illustration:

8.14.3. Total days in year	365.0
Less time off	
Average annual leave taken	20.0
Average sick leave taken	9.0
Holidays and other events	11.0
Saturdays and Sundays	<u>104.0</u>
Normal time off	<u>144.0</u>
Normal work days	221.0
Estimated overtime work	3.5
Estimated holiday time work	<u>.5</u>
Average work days	225.0

8.14.4. The annual leave accrual factor may be calculated as follows:

1. Average days net accrual of annual leave		21
2. Average work days (computed in para. 8.14.3)	+	225
3. Preliminary accrual factor (excluding pay adjustments) [(1) ÷ (2)]	=	.093
4. Estimated regular pay for regular time and overtime worked and premium pay for holiday time worked	x	\$10,000,000
5. Total amount accrued for annual leave using preliminary factor	=	\$ 930,000
6. Estimated increase in accrual of annual leave due to pay increase	+	\$ 30,000
7. Total leave accrual requirements	=	\$ 960,000
8. Amount to which leave accrual factor is to be applied (para. 8.14.4.4)		\$10,000,000
9. Annual leave accrual factor	=	.096

8.14.5. The composite leave accrual factor may be calculated as follows:

<u>Type of Leave</u>	<u>Average Days</u> <u>Annually</u>		<u>Average</u> <u>Work Days</u>		<u>Accrual</u> <u>Factor</u>
Annual	(refer to para. 8.14.4.9)			=	.096
Sick	9	÷	225	=	.040
Holiday and Other	11	÷	225	=	.049
Composite Accrual Factor					.185

#### 8.15 Fringe Benefits (130815)

In addition to the factor for leave, DWCF activities must add a factor to cover the employer's share of other employee fringe benefits such as retirement, life insurance, health, and other benefits. Each activity may develop its own factor. Standard accrual factors for leave, retirement, insurance, health, and other benefits must be applied against all payroll costs.

#### 8.16 Overtime Premium (130816)

The costs of overtime premium pay (that is, the amount paid for working overtime that is above the normal labor hour rate) must not be charged directly to the applicable job order except when the overtime is clearly caused by the unique conditions of the job order. A clear relationship for the incurrence of overtime costs may be established when a DWCF activity agrees with a customer to meet an expedited completion date or accepts additional work within the same time frame on the same order. Otherwise, the overtime premium must be recorded as an indirect production cost.

#### 8.17 Other Premium Pay (130817)

Other premium pay includes payments for extra shift, hazardous duty, and night duty. Consistent with the policy for overtime premium, DWCF activities must only classify other premium pay as a direct labor charge when the incurrence of the premium pay is clearly the result of unique conditions of the job order. Unless the peculiar conditions of the job order require the incurrence of the premium pay, premium pay must be charged as indirect labor costs.

## 9.0 MATERIAL COSTS (1309)

### 9.1 Raw Materials (130901)

All material purchased by DWCF depot maintenance activities, for the purpose of providing a good or service to a customer, **must** be accounted for in general ledger account 152500, "Inventory-Raw Materials". This account **must** be debited based upon receipt of materials and supplies. The **same** account **must** be credited with an offsetting debit (charge) to general ledger account 152600, "Inventory-Work-In-Process," upon issue of the material for use in the performance of DWCF work. **Inventory accounting policy and related requirements necessary to establish financial control over DoD inventory, operating materials and supplies, and stockpile materials is contained in Volume 4, Chapter 4.**

### 9.2 Allocation of Direct and Indirect Material (130902)

Direct material and supplies **must** be charged directly to the applicable job order. Indirect material **must** be charged to the using cost center upon issue.

### \*9.3 Moving Average Cost (MAC) (130903)

Materials and supplies **contained in the inventory account must** be valued at **historical cost** using the moving average cost flow assumptions in accordance with SFFAS 3 and Volume 4, Chapter 4. **More detailed guidance regarding the calculation of MAC is contained in Volume 4, Chapter 4.**

### 9.4 Acceptance and Use of Customer Furnished Material (130904)

**DWCF activities must** accept and use customer furnished material only **when** its use could be expected to result in a more economical, efficient, or timely output.

### 9.5 Return of Customer Furnished Material (130905)

9.5.1. **DWCF activities must** return customer furnished material **that** remains after job order completion to the customer within 60 days unless there is, or soon will be (generally within 90 days), a direct production requirement from the customer who furnished the material for which the material may be used.

9.5.2. If the customer abandons the material, it may be retained if needed for other work requirements. If **the inventory is** retained, no accounting entry is needed other than the original accepting entry.

## 9.6 Direct Material (130906)

Direct material is that material and supplies that can be identified, without undue cost or difficulty, to the performance of work specified by a work authorization document or job order. A small amount of material may be treated as indirect material even though the material is incorporated as part of the final product, if this practice is consistently applied to all job orders. Direct material may either be incorporated as a part of the final product or consumed in the process.

## 9.7 Indirect Material (130907)

Indirect material is that material that cannot be identified, without undue cost or difficulty, to the performance of work as specified by a work authorization document or job order. The determination of what constitutes “without undue cost or difficulty,” although not defined, is subject to reasonable interpretation. If questioned, it is the responsibility of the DWCF activity to demonstrate that identification of material (or labor) as direct would be unduly costly or difficult in relation to the benefit received.

## 9.8 Excess Materials (130908)

DWCF activities should review the material and supplies on hand in a cost center at least annually to determine if excesses exist. Those items that are excess and are not needed for a particular job order must be returned to the materials and supply stock account. The unused material returned to the materials and supplies stock account must be recorded as follows:

9.8.1. Credit must be granted to the job order originally charged for unused direct material and that material must be recorded as an increase to Account 152500, “Inventory-Raw Materials”. If the job order to which the material was originally charged has been closed, and a decision is made not to reopen the order to post the credit, the credit must be applied to Account 719000, “Other Gains.”

9.8.2. Credit must be granted for the return of usable indirect material to the materials and supplies stock account. The credit must be applied to the indirect material expense account of the applicable cost center.

9.8.3. Items in excess of the needs of a DWCF activity must be returned to the supply system. DWCF activities must record transactions for materials returned and credit received (if any) in accordance with the DoD USSGL/SFIS requirements and transaction library and Volume 4, Chapter 4.

#### \*9.9 Reparable Carcasses (130909)

When an item such as an assembly, subassembly, or an end item is designated as an “exchange” item, the depot can **order and pay for a replacement from the Supply activity to install on the customer’s equipment**. The job order must be charged the price the depot pays for the replacement. Further, the depot must return the damaged part or carcass to the Supply activity. If the depot receives credit from the Supply activity, the depot must credit the job order for the amount received. For non-DoD carcasses including those owned by foreign governments, refer to the requirements in Volume 15, “Security Assistance Policy and Procedures”.

#### \*9.10 Items Beyond Repair (130910)

If an exchange carcass is **beyond repair** or an exchange item is missing and the depot maintenance activity **must order and pay for a replacement from the Supply activity**, the cost of the new item **must** be charged to the job order as a direct material cost.

### 10.0 OTHER DIRECT COSTS (1310)

#### 10.1 Purchased Services (131001)

Purchased services **must** be charged as direct costs to the job order that benefits from the services. If only one job order benefits from a contract or purchase, the cost of the contract **must** be charged to that job order. If more than one job order benefits from a contract, the costs of the contract **must** be prorated to the benefiting job orders based **on** estimates or calculations of the benefits received by each job order.

#### 10.2 Purchased Services Benefiting Indirect Cost Centers (131002)

Purchased services that benefit indirect cost centers **must** be recorded as indirect **production** costs. If purchased services benefit the activity as a whole, they **must** be recorded as G&A (**overhead**) costs.

#### 10.3 Contracts Supplementing Capacity or Capability (131003)

The costs of contracts that supplement the capacity or capability of a DWCF activity **must** be charged to the job orders that use the additional services.

#### \*10.4 Material Costs (131004)

The costs of material procured from contractors **must** be recorded in account **152500**, “Inventory-Raw Materials” and charged to job orders under normal procedures. If, however, material is procured for a specific job order, the acquisition cost of the material **must** be a direct charge to the applicable job order.

## 10.5 Travel and Per Diem Expenses (131005)

Travel and per diem expenses (including regular labor hours spent in travel) **must** be charged as direct costs only if the labor hours worked while traveling are charged as direct labor. **If the traveler** works on more than a single job order, the travel and per diem expenses **must** be prorated based on the related direct labor **hours to each order**. **If the travel is not related to job orders**, all travel and per diem expenses **must** be charged as an indirect **production** expense of the employee's cost center.

## 11.0 INDIRECT COSTS (1311)

### \*11.1 Indirect Production Rates and Standard Costs (131101)

The **indirect production** rates and standard costs discussed in this chapter should not be confused with stabilized billing rates. Stabilized billing rates or stabilized prices are used solely to price work to DoD-funded customers and may only be changed upon approval of the Office of the **Under Secretary of Defense (Comptroller) (OUSD(C))**.

### 11.2 Indirect Production Costs (131102)

DWCF **activities must** record as indirect **production** costs, by object class as specified in Office of Management and Budget **(OMB) Circular A-11**, all costs incurred that are not chargeable as direct costs, unless specifically designated otherwise. Indirect **production** costs **must** be recorded by activity, department, cost center, or other organizational element responsible for incurring the cost. The number and type of indirect **production** cost centers to be established is a function of the diversity of the indirect activities at the depot and the level of management information required. The minimum number of cost centers required to separately identify and record homogeneous groupings of cost is a function of the number of different types of facilities, equipment, and/or skills required in the indirect area. The number of additional cost centers is a management prerogative in terms of the number and type of cost centers needed to ensure efficient and effective operations.

### 11.3 Indirect Production Cost Pools (131103)

Costs of departments, service, and processing centers that provide support directly to direct cost centers **must** be classified as operating support indirect **production** cost pools. The costs assigned to these cost pools **must** be allocated in full to the benefiting direct cost centers (**refer to** paragraph 11.5) and not included in the G&A expense rate described in paragraph 11.6. Costs assigned to operating support indirect **production** cost pools **must** be allocated to the benefiting direct cost centers using a base that results in the distribution of costs incurred in proportion to the benefits received.



#### 11.4 Indirect Production Cost Allocation (131104)

Indirect production costs must be allocated to job orders by the use of an operations rate and a G&A (overhead) rate as described in paragraphs 11.5 and 11.6, respectively. These rates are not the stabilized rates and prices to be used to price DoD customer bills. Refer to Volume 2B, Chapter 9 “Defense Working Capital Fund Budget Justification Analysis” for policy guidance on stabilized rates and prices.

#### 11.5 Operations Rate (131105)

DWCF activities must develop an operations rate for each direct cost center in which direct labor is utilized in the performance of DWCF activities. The operations cost pool must consist of all indirect production costs incurred by the cost center plus the allocated share of operating support costs of departments or service cost centers, if any (refer to paragraph 11.3). Use direct labor hours, including both military and civilian direct labor, as the basis for allocating the operations cost pool to the direct cost centers. This base is appropriate because operations in a DWCF activity is normally a function of direct labor hours. When the use of direct labor hours as an allocation base will not result in an equitable allocation of the operations cost pool costs (that is, charges are not commensurate with benefits received), a more appropriate alternate allocation base may be selected providing:

11.5.1. An organizational authority that is above the level of the local performing DWCF activity, including the OUSD(C), has not directed that particular DWCF activity to use a specific allocation base. If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing DWCF activity;

11.5.2. The alternate allocation base preferred for use is approved by the comptroller of the local performing DWCF activity; and

11.5.3. Justification for the decision is documented and retained in the office of the local comptroller for review.

#### \*11.6 G&A (Overhead)Rate (131106)

DWCF activities must allocate G&A expenses to job orders using an allocation rate separate from the operations rate. The G&A expense pool is comprised of all G&A expenses incurred by a DWCF activity. The base used to allocate G&A expenses to a job order is total incurred costs (both direct and indirect production costs). When the use of total incurred costs as an allocation base will not result in an equitable allocation of G&A expenses (that is, charges are not commensurate with benefits received), a more appropriate alternate allocation base may be selected providing:

11.6.1. An organizational authority that is above the level of the local performing depot maintenance activity, including the OUSD(C), has not directed that particular depot maintenance activity to use a specific allocation base. If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing DWCF activity;

11.6.2. The alternate allocation base preferred for use is approved by the comptroller of the local performing DWCF activity; and

11.6.3. Justification for the decision is documented and retained in the office of the local comptroller for review.

**\*11.7 Variances (131107)**

Indirect production costs and G&A (overhead) expenses must be allocated to job orders using, respectively, the indirect production rate and G&A rate. These rates are not the stabilized rates and prices to be used to price DoD customer bills. (Refer to Volume 2B, Chapter 9 for policy on stabilized rates and prices.) The indirect production and G&A rates must be developed based upon estimated costs with an anticipated level of activity (base). The applied overhead account must be used to record any over- and/or under- absorbed indirect production and G&A (overhead). A variance between actual indirect production and G&A (overhead) costs and applied indirect production and G&A (overhead) may require a change in the indirect production or G&A (overhead) rate as applicable. The development of a new indirect production and/or G&A (overhead) rate must include plans to absorb the amount of the realized variance during the time period the new rate is in effect. A change in the indirect production or G&A (overhead) rate must be approved by the comptroller of the performing DWCF activity when it is apparent that:

11.7.1. The variance is not due to seasonal fluctuations such as summer vacations;

11.7.2. The variance will continue to exist at fiscal year-end; and

11.7.3. The expected variance is significant. The determination of what is “significant” must be made by, or in consultation with, the local DWCF comptroller.

**\*11.8 Completed Job Orders (131108)**

When a job order is complete, it must be closed (moved from work-in-process to Account 650000, “Cost of Goods Sold”) including indirect production and G&A (overhead) costs allocated based upon the particular rates in effect during the life of the order. Adjustments in rates made after a job order is closed must not be posted to a completed job order unless the effect of the adjustment would have a significant impact on the total costs assigned to the job order. Adjustments applicable to the current fiscal year for under/over-applied indirect production and G&A (overhead) must be accounted for using the DoD USSGL Transaction Library within SFIS.

### \*11.9 Permanent Change of Station (131109)

The costs of Permanent Change of Station movements for transferred civilian employees that are the responsibility of a DWCF activity **must** not be charged as a direct cost but as an indirect **production** expense and recorded in accounts 610000, “Operating Expenses/Program Costs. Use object class 210 to record travel and transportation costs of persons and object class code 220, as identified in OMB Circular A-11, to record the transportation cost of items to make the proper distinction of expense type.

## 12.0 COSTS REQUIRING SPECIAL ATTENTION (1312)

### 12.1 Quality Assurance (131201)

DWCF activities **must** charge quality assurance **costs** (including test design and analysis); testing **conducted** to independently assure the quality of the work accomplished; and related supervision and support **incurred in direct support of a customer order**, directly to the order. DWCF activities **must** charge quality assurance costs that are not identifiable to specific job orders to an operating support indirect cost center as described in paragraph 11.3 and allocate **the costs** to the benefiting direct cost centers.

### 12.2 Inspections and Tests (131202)

Operational inspections and tests performed to determine the condition of the item and make adjustments (calibrate) are inherent **in performing maintenance** and **must** be recorded as “direct labor - production.” **Specifically, DWCF activities must** record inspections and tests made to determine work requirements, **such as** pre-shop analysis, initial evaluation and inspection, and pre-inspection or shakedown inspection, as “direct labor” on the applicable job order. **Likewise, DWCF activities must** record final inspection and tests performed after a process is complete to assure operational or functional adequacy as “direct labor - production.”

### 12.3 Repairables (131203)

The National Inventory Control Point item manager **directs** the reclamation of unserviceable depot level repairables. **Depots must** establish a separate job order for each reclamation project and return items produced as a by-product of the reclamation process to the DoD supply system.

### 12.4 Borrowed Assemblies, Subassemblies, Components, or Parts (131204)

#### 12.4.1. **Depots use two terms in reference to borrowed assemblies.**

12.4.1.1. “Backrobbing” (also called “rob-back”) is defined as the taking of an assembly, subassembly, component, or part from an item that has been inducted for maintenance for use on another item inducted for maintenance with the intention of replacement at a later time. It is the temporary borrowing of the required part.

12.4.1.2. “Cannibalization” is defined as the taking of an assembly, subassembly, component, or part from an item (serviceable or unserviceable) that has not been inducted for maintenance (without regard to its location or ownership) by a maintenance activity for use on an item **that** has been inducted for maintenance.

12.4.2. Generally, **borrowing** is authorized only to prevent a work stoppage. **Depots must charge** the current acquisition cost of the assembly, subassembly, component, or part that was **borrowed**, and the cost of installing it, to the benefiting job order. **Depots must** charge all costs incurred in removing the **borrowed** item and reinstalling the replacement item to the operations **cost pool** of the cost center requiring the part. These costs **must** not be separately identified for reporting purposes.

## 12.5 Calibration (131205)

**Depots must** charge **the cost** of calibration of an assembly, subassembly, component, part, or other equipment from an item that has been inducted for maintenance to the benefiting job order. Calibration of equipment used by a depot maintenance cost center in the performance of its work **must** be charged as an indirect **production** expense of the cost center that uses the item being calibrated.

## 12.6 Modifications and Upgrades (131206)

12.6.1. **Depots must** establish a separate job order for each modification or upgrade of a major end item such as an aircraft. Separate job orders **must** only be established for other than major end item modifications or upgrades when the work is easily identifiable; such as when the modification or upgrade is the primary purpose of inducting the item. **Depots must** charge the cost of material used in the modification or upgrade process, such as a modification kit, and the cost of direct labor incurred to install the modification, to the modification job order.

12.6.2. **Depots must also** charge to the modification or upgrade job order **the** modification or upgrade material (modification kits) used **for** the modification or upgrade job order when a modification or upgrade is performed concurrently with depot maintenance work on the same major end item. In addition, repair requirements that are the direct result of the modification/modernization installation work (also referred to as repair incident to mod) are also legitimate charges to the modification job order. However, direct labor **must** be charged as modification or upgrade work only when it is peculiar to the modification or upgrade process. For example, **depots must** charge labor costs incurred in disassembly, test, inspection, repair, rebuild, replacement and servicing that are performed as a normal part of the overhaul to depot maintenance overhaul when modification or upgrade is performed concurrently with overhaul; these costs must not be prorated between overhaul and modification or upgrade.

12.6.3. Depots may charge labor costs incurred installing a modification or upgrade concurrently with depot maintenance overhaul work to the depot maintenance overhaul job order if the amount of the modification or upgrade labor is so small that no significant or material distortion in either the modification or upgrade or the depot maintenance cost will occur. When this practice is followed, there **must** be no adjustments to the depot maintenance overhaul job order based on labor or material standards or other estimates of modification or upgrade labor in order to support reimbursement from fund citations for modification or upgrade work.

## 12.7 Information Technology (131207)

12.7.1. Depots **must** capitalize the costs of computer programming efforts for DWCF equipment (that is, the costs of software development efforts for use on DWCF activity assets) when they meet the DoD capitalization criteria. Programming efforts that do not meet prescribed capitalization criteria **must** be treated as operations overhead expense of the performing cost center. If the programming effort consumes significant amounts of resources, **the depot must** establish a separate indirect department or service center and allocate the service center's capitalized and other costs to the benefiting direct cost centers based on program use. Depots **must** charge the costs of programming effort for non-DWCF activities to those activities before allocating the remaining costs to the benefiting direct cost centers. When the programming costs are not appropriately chargeable as an **indirect production** cost, **depots must** charge the costs to a G&A (**overhead**) expense account. General cost guidance applicable to information technology can be found in Volume 4, **Chapter 6 "Property, Plant, and Equipment"**.

12.7.2. DWCF activities perform software support to ensure that fielded software systems, as updated by modification and improvement efforts, continue to support original missions. All DWCF costs for software support **must** be charged to specific job orders established for this purpose. **DWCF activities must** include all applicable direct labor, direct material, all other direct costs, **indirect production** and G&A (**overhead**) costs **in** costs charged to the orders.

## 12.8 Machine Set-Up Costs (131208)

12.8.1. Depots **must** charge the cost of programming efforts for automatic test and numerically controlled machines to the benefiting job order(s). However, if a **depot** expends significant effort for programming that benefits more than one job order, then the **depot must** allocate the programming cost to all benefiting job orders. **If new machinery or equipment is required, then these costs are part of the Capital Investment Program.** The nonproductive labor hours of employees waiting for programming to be completed is an indirect expense of the worker's cost center.

12.8.2. Depots **must** charge machine tool set-up time to the benefiting job order(s). Set-up time is normally recorded as direct labor on a job order and should not be separately recorded from the job order. However, if a significant effort is expended for a set-up that **must** benefit more than one job order, then the **depot** should allocate the set-up to all benefiting job orders. The nonproductive labor hours of employees waiting for a set-up to be completed **are** an indirect expense of the worker's cost center.

## 12.9 Defective Work and Spoilage Costs (131209)

12.9.1. **Depots must** charge the applicable job order for efforts undertaken to correct work defects and spoilage when quality control standards are not met. Examples of corrective work that should be directly charged to a job order include:

12.9.1.1. Reworking castings, welds, and brazing involving acceptable reject rates.

12.9.1.2. Minor realignment or refitting of units that are improperly finished or aligned.

12.9.1.3. Resoldering of connections broken in transit.

12.9.2. **Depots must** charge the responsible cost center's indirect material and labor costs with the costs of the corrective work when unusual defects or excessive spoilage occurs. When the responsible cost center cannot be determined, depots **must** charge the applicable material and labor cost as an indirect production cost. Defective work and spoilage that are chargeable to indirect production costs include the following:

12.9.2.1. Costs for additional material and labor necessary to remedy or rework end products when defects beyond acceptable levels are detected during the normal production and inspection processes. Such costs do not add value to the work performed but are necessary to bring the work up to stated specifications.

12.9.2.2. Costs related to work on items with defects so severe that the item must be removed from the production process and sold as scrap or returned in part to raw materials. When this happens, the depot **must** relieve the applicable job order of the costs and charge the indirect production costs of the responsible cost center. If a responsible cost center cannot be determined, the depot **must** charge a G&A (overhead) account for "Defective Work and Spoilage" for the costs of the rejected item.

## \*12.10 Disposition (131210)

12.10.1. **Depots must comply with 40 U.S.C. § 574** and Volume 11A, Chapter 5, "Disposition of Proceeds from Department of Defense Sales of Surplus Personal Property" regarding disposition of proceeds from DoD sales of surplus property. Proceeds from the sale of surplus property generated, collected, or otherwise obtained by DWCF activities as a part of normal operations **must** be credited to the DWCF and accounted for as follows:

12.10.2. Estimated proceeds from the sale of material removed during work on vessels, aircraft, vehicles, and weapons that can be feasibly and economically related to a specific job order may be credited to that job order. When actual proceeds are known, the job order amount **must** be adjusted if the job order is still open. Otherwise, the net difference between the estimated amount and the actual amount of proceeds **must** be adjusted to USSGL Account 711000, "Gains on Disposition of Assets - Other".

12.10.3. Carcasses received from customers that are later condemned or deemed unserviceable are considered a normal part of DWCF operations. Therefore, the proceeds from the sale of carcasses received from customers **must** be credited to USSGL Account 711000.

12.10.4. All other proceeds from the sale of DWCF items **must** be credited to USSGL Account 711000.

#### \*12.11 Mobilization Capability Costs (131211)

Mobilization capability costs include the costs to maintain a surge capacity and/or maintain other assets, functions, or capabilities required to meet an operational contingency as documented in [the Secretary's force planning guidance](#) or operational plans. Surge capacity most often manifests itself in facilities and equipment that are unutilized or underutilized during normal peacetime operations. [DoD policy and guidance associated with mobilization costs is contained in Chapter 14 "Mobilization Costs", and in Volume 2B, Chapter 9.](#)

#### 12.12 Job Order Cancellations or Reductions in Scope (131212)

12.12.1. **Depots must** charge the costs incurred plus the applied indirect [production and G&A \(overhead\)](#) costs, and costs associated with the cancellation or reduction, to the customer when a job order is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs on the order. Funds personnel **must** ensure the customer provides and/or does not reduce funding below amounts required to cover canceled/reduced orders. Examples of directly associated cancellation or reduction costs to be charged to customers are advance planning costs, noncreditable direct material, special test equipment, necessary preservation and/or shipment effort, and any additional effort necessitated by the cancellation and/or reduction; for example, salvaging of material. In addition, **depots must** charge the customer **for** the costs of salaries payable to employees hired specifically to work on the canceled order until the employees are, or could have been, separated through a reduction in force or other appropriate action (taking into account appropriate administrative lead time), or reassigned to other direct jobs.

\* 12.12.2. Costs **that** are indirectly associated with cancellation or reduction actions **must** not be charged to the customer. Although normally allocated indirect [production and G&A \(overhead\)](#) costs **must** be charged to canceled or reduced customer orders, **any** underapplied [indirect production and G&A \(overhead\)](#) costs that may **occur as a** result of a reduced workload base of the DWCF activity as a whole **must** not be charged to the customer canceling or reducing their order. [The underapplied costs must](#) be recorded against the net operating results of the performing DWCF activity.

#### 12.13 Employee Training Costs (131213)

12.3.1. **Depots must** record the cost of training performed for the DWCF activity's benefit as an indirect expense of the employees' cost center. General developmental training for WCF employees not required to support actual productive workload (i.e., training in the installation, operation, and maintenance of DoD weapons, equipment, and systems to develop organic expertise) may not be charged as a direct cost to customer orders.

12.3.2. Training costs **must** include all applicable elements of cost, **including** labor costs of trainees, travel, transportation, per diem costs, labor costs of instructors, tuition, books, and materials. Training costs **must** include the cost of planning the course of instruction, conducting the course, and any related support effort.

12.3.3. The development and qualification of employees requested by activities outside of the performing DWCF activity **must** be charged to a specific job order.

12.3.4. The hours of on-the-job training in the form of actual productive effort (as opposed to observation or other noncontributory effort) **are** chargeable as direct labor to the related job order. Noncontributory effort, including time spent observing others, should be charged to the indirect costs of the cost center of the employee.

#### 12.14 Technical Assistance (131214)

Depot maintenance technical assistance is a specialized service, provided by qualified depot maintenance technicians, that is performed in many different ways depending upon the requirement. Technical assistance may include instruction on maintenance repair or support processes for military equipment, special programs for military reserve units, training foreign nationals using uniquely qualified personnel to provide technical assistance, performing specific work requiring special skills for operational activities, other maintenance organizations, or foreign governments. All depot maintenance activity costs for technical assistance **must** be charged to specific job orders established for that purpose. The costs charged to these job orders **must** include direct labor, direct material, all other direct costs, and operations overhead and G&A costs including variances for applied overhead.

#### 12.15 Assets Manufactured by a DWCF Activity for Itself (131215)

Normally, the material requirements of a DWCF activity are met by the supply system or commercial procurement. However, in some cases, material requirements may be fulfilled by a manufacturing process at the DWCF activity. The manufacturing process includes several phases:

12.15.1. **Preparation of** a work authorization document (in-house job order) to replace the normal funded customer order;

12.15.2. The costing of direct labor, material, and applied overhead to the manufacturing job order as work-in-process; **and**

\* 12.15.3. The posting of the completed job order to an asset account, or, if the transaction is reimbursable, to **a job order**.



#### 12.16 Special Non-DWCF Functions (131216)

Occasionally, some uniquely qualified DWCF personnel are asked to perform various types of special functions that are not DWCF activities or functions. Such work is chargeable to other separately budgeted functions such as supply operations, property disposal, or family housing.

#### 12.17 Concurrent Maintenance (131217)

Concurrent maintenance occurs when the **depot** inducts component parts of an end item into the maintenance process at the same time as the end item is inducted for maintenance. This approach is used instead of an exchange. The approach selected is usually a function of the desired outcome and the availability of exchanges. Concurrent maintenance and exchange do not normally result in the same costs being incurred, and no attempts should be made to balance the costs incurred for work performed in the two separate modes. All concurrent maintenance costs **must** be charged to the weapon system order and not allocated to component repair job orders.

#### 12.18 Host/Tenant Support Services (131218)

The DWCF activities give and receive different types and levels of support services to and from the host installation depending upon location and mission assignments.

12.8.1. Uniform costing requires that support services that benefit the performance of the depot maintenance function be recognized as part of the indirect expenses of the benefiting cost center, or the entire DWCF activity as appropriate, regardless of the funding source for the support services.

12.8.2. The DWCF activities **must** not provide or receive goods or services on a nonreimbursable basis. In addition, offset or barter arrangements **must** not be made with other activities for goods or services. Special arrangements to avoid normal funding requirements may result in apparent violations of the Antideficiency Act.

#### 12.19 Employee Bonuses and Awards (131219)

**Depots must** charge monetary awards paid to employees for suggestions and one-time bonuses, such as special act awards performance bonuses, and productivity gain sharing program payouts, to indirect **production costs** of the cost center of the employee receiving the award. Annual pay increases resulting from the **employee** performance appraisal **process** are simply increases in base pay that affect regular payroll cost.