DOD 7000.14-R-Vol-4

DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

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VOLUME 4

ACCOUNTING POLICY AND PROCEDURES

Approved for public release
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JANUARY 1995

UNDER SECRETARY OF DEFENSE (COMPTROLLER)

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UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
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COMPTROLLER

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FOREWORD

This Volume of the DoD Financial Management Regulation is issued under the authority of DoD Instruction 7000.14, "DoD Financial Management Policy and Procedures." It governs financial management by establishing and enforcing requirements, principles, standards, systems, procedures, and practices necessary to comply with financial management statutory and regulatory requirements applicable to the Department of Defense. It directs financial management requirements, systems, and functions for all appropriated, nonappropriated, working capital, revolving, and trust fund activities. In addition, it directs statutory and regulatory financial reporting requirements.

This Volume of the Regulation applies to the Office of the Secretary of Defense; the Military Departments; the Chairman of the Joint Chiefs of Staff and the Joint Staff; the Unified and Specified Commands; the Inspector General of the DoD, the Defense Agencies, and the DoD Field Activities (hereafter referred to collectively as "DoD Components").

This Volume of the Regulation is effective immediately and is mandatory for use by all DoD Components. The Heads of the DoD Components shall ensure that it is adhered to in day-to-day operations and in the design, modification, and maintenance of their Component's financial management and reporting system or systems. The Heads of DoD Components shall not issue supplementary directives/regulations without prior written approval from the Office of the Under Secretary of Defense (Comptroller).

The reporting requirements contained in this regulation are exempt from licensing in accordance with paragraph E.4.f., of DoD 8910.1-M, "Procedures for Management of Information Requirements."

Forward recommended changes to this Volume of the Regulation through channels to the address below. Submit requests for deviations from or exceptions to specific standards, with justification, to

Office of the Under Secretary of Defense (Comptroller)
1100 Defense Pentagon
Washington, DC 20301-1100

DoD Components will be provided copies of this Volume of the Regulation through their normal publications channels. Other Federal Agencies and the public may obtain copies of this volume from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161; telephone (703) 487-4650.

John J. Hamre

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INTRODUCTION TO THE DoD FINANCIAL MANAGEMENT REGULATION

GENERAL

The DoD Financial Management Regulation provides all DoD components with the policy, regulation, and procedures within the area of responsibility of the Under Secretary of Defense (Comptroller) (USD(C)). The Regulation consists of the following 15 volumes:

1. General Financial Management Information, Systems, and Requirements
2. Budget Formulation and Presentation
3. Budget Execution - Availability and use of Budgetary Resources
4. Accounting Policy and Procedures
5. Disbursing Policy and Procedures
6. Reporting Policy and Procedures
7. Military Pay Policy and Procedures
8. Civilian Pay Policy and Procedures
9. Travel Policy and Procedures
10. Contract Payment Policy and Procedures
11. Reimbursable Operations, Policy and Procedures
12. Special Accounts, Funds and Programs
13. Nonappropriated Funds Policy and Procedures
14. Administrative Control of Appropriations
15. Security Assistance Policy and Procedures

AUTHORIZATION

This Regulation is issued by the USD(C) under authority of Department of Defense Instruction 7000.14 "DoD Financial Management Policy and Procedures," dated November 15, 1992.

PARAGRAPH NUMBERING SYSTEM

The paragraph numbering system of this Regulation is consistent for all 15 Volumes. The 6 digit paragraph number and its subparagraph designators are formulated as follows:

01	01	01	A. 1. a. (1) (a)
CHAPTER 1	SECTION 1	PARAGRAPH 1	SUBPARAGRAPHS

PUBLICATIONS SUPERSEDED

This Volume of the Regulation (Volume 4) will supersede the following:

DoD 7220.9-M "DoD Finance and Accounting Manual" (Chapters: 31, 32, 33, 34, 35, 36, 37, 41, 42, 43, 44, 45, 46, 51, 52, 61, 63, 64, 71, 72, 73, 74, 75,).

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2. U.S. General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies
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11. DoD Directive 1340.17, "Allotments for Child and Spousal Support," June 3, 1986.

12. Public Law 95-598, To establish a uniform law on the subject of bankruptcies.

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14. Title 26, United States Code, sections as follows:
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15. Title 24, United States Code, section as follows:
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16. Title 38, United States Code. section as follows:
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20. Title 10, United States Code, sections as follows:

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21. Public Law 99-500, "Making continuing appropriations for the Fiscal Year 1987, and for other purposes"

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    - 23 Orders on contracts for material placed with Government-owned establishments deemed obligations
    - 611 Interest

31. Title 22, United States Code, section 2762, Procurement for Cash Sales

32. DoD Directive 7220.8, "Policies and Procedures Governing the Use of the Authority of Section 3732, Revised Statutes," August 16, 1956

33. DoD 7420.13-R, "Stock Fund Operations," June 1986, authorized by DoD Directive 7420.13, January 27, 1983

34. DoD 7290.3-M, "Foreign Military Sales Financial Management Manual," September 1986, authorized by DoD Instruction 7290.3, June 29, 1981

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36. DoD Directive 1322.17, "Selected Reserve Educational Assistance Program," December 20, 1985

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    - 665 Allotments from pay for child and spousal support owed by members of uniformed services on active duty"
    - 3374 Acquisition of property at or near military bases which have been ordered to be closed
    - 4622 Moving and related expenses
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    - 4624 Replacement housing for tenants and certain others

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103. DoD Instruction 5010.37, "Efficiency Review, Position Management, and Resource Requirements Determination," November 17, 1987

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210 Defense access roads

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112. DoD 7600.7-M, "Internal Audit Manual," June 1986

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CHAPTER 1

FINANCIAL CONTROL OF ASSETS

0101 GENERAL

010101 Purpose. This chapter sets forth the standards to be followed in accounting for assets. One of the objectives of DoD accounting is establishing accounting control over all assets provided to, or acquired by the Department of Defense. Assets shall be under continuous accounting control from acquisition to disposition. This helps ensure proper and authorized use as well as adequate care and preservation, since no asset can be acquired, put into use, transferred, written down, written off, or disposed of without the proper authorization necessary to document and record the transaction. All tangible assets provided to the Department of Defense shall be accounted for, including assets in transit and assets in the hands of contractors, private parties, and other Government Agencies.

010102 Overview. A DoD asset is any item of economic value owned by the Department of Defense and under the control of a DoD Component. The item may be physical in nature (tangible) or a DoD Component may have a right to control the item (intangible) that is expressed in terms of acquisition cost. The control by a particular DoD Component is a result of past transactions or events.

0102 ACCOUNTING STANDARDS

010201 The specific accounting standards for each category of assets are discussed in the sections that concern those assets. The following general standards apply to all assets.

010202 An asset has three essential characteristics:

A. It has a capacity to contribute to the accomplishment of the DoD mission. This capacity is often called "service potential."

B. The DoD can use the asset or control access of others to the asset.

C. The transaction or event giving rise to the Department of Defense's right to, or control over, the asset has already occurred.

010203 Noncash assets shall be valued promptly and subjected to monetary accounting control. Such assets include seized property and property acquired through forfeiture. This does not apply to items of relatively small value for which the costs to establish financial accounting control might exceed the benefits to be obtained.

0103 CASH

010301 The principal DoD cash account is its fund balance with the Treasury. Detailed accounts are required to control disbursing officers' cash held outside the Treasury and disbursement and collection transactions. The fund balance decreases when disbursements are made, transfers are issued, and rescissions are authorized by Congress. The balances shall be reconciled to the Treasury Department Statement of Undisbursed Appropriation Accounts - Trial Balance. This section discusses standards for accounting for transactions affecting cash. The Treasury Financial Manual (TFM) and Title 7 of the GAO Policies and Procedures Manual for the Guidance of Federal Agencies contain specific processing requirements for disbursing officers' transactions.

A. Cash, including imprest funds, must be recognized as an asset. Cash consists of:

1. Coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit.

2. Amounts on demand deposit with banks or other financial institutions.

3. Foreign currencies, which, for

accounting purposes, should be translated into U.S. dollars at the exchange rate on the financial statement date.

B. **Entity cash**. Entity cash is the amount of cash that the reporting entity holds and is authorized by law to spend.

C. **Non-entity cash**. Non-entity cash is cash that a federal entity collects and holds on behalf of the U.S. government or other entities. In some circumstances, the entity deposits cash in its accounts in a fiduciary capacity for the U.S. Treasury or other entities. Non-entity cash should be reported separately from entity cash.

D. **Restricted cash**. Cash may be restricted. Restrictions are usually imposed on cash deposits by law, regulation, or agreement. Non-entity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons and nature of restrictions.

010302 The following standards apply to accounting for cash.

A. Cash accounting shall:

1. Be complete,accurate and timely.

2. Cover cash receipts, cash disbursements, and cash balances.

3. Comply with applicable laws and regulations.

4. Disclose errors, losses, and gains.

B. Cash receipts shall be recorded immediately upon collection, kept under control, and deposited intact as soon as practicable. Cash collections shall not be held by the disbursing officer to cover cash disbursements.

C. Disbursements shall be made only after evidence of performance has been received or an advance payment has been authorized. Disbursements shall be recorded promptly in the applicable DoD accounting system and reported in the Statement of Transactions.

D. Accounting records for cash shall be closed at the end of each accounting period so that all cash transactions and only those transactions completed during that accounting period are included.

E. Cash receipts and disbursements are to be reconciled with appropriate documents and accounting records, as applicable within each accounting period.

F. Foreign currencies shall be accounted for in subsidiary accounts separate from U.S. currency. Foreign currencies shall be reported at the U.S. dollar equivalent using the exchange rates prescribed by the Secretary of the Treasury. The fact that a foreign currency is not freely exchangeable shall be footnoted on reports. Accounting entities may prepare financial statements for their own use, which may or may not be in U.S. dollars. These lower level statements shall be translated into U.S. dollars when used to prepare departmental financial statements.

G. Guidance relating to cash management procedures prescribed by the Treasury are in Chapter 2 of this Volume.

0104 RECEIVABLES

010401 Amounts due the Department of Defense shall be recorded accurately in the appropriate receivable account in the accounting period during which the transaction or event giving rise to the receivable occurs. Accounts receivable arise from claims to cash or other assets. The accounting standard for accounts receivable is set forth below.

A. **Recognition of receivables**. A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., taxes not received by the due date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.

B. **Separate reporting.** Receivables from federal entities are intragovernmental receivables and should be reported separately from receivables from nonfederal entities.

C. **Entity vs. non-entity receivables.** Receivables should be distinguished between entity receivables and non-entity receivables. Entity receivables are amounts that a federal entity claims for payment from other federal or nonfederal entities and that the federal entity is authorized by law to include in its obligational authority or to offset its expenditures and liabilities upon collection. Non-entity receivables are amounts that the entity collects on behalf of the U.S. Government or other entities, and the entity is not authorized to spend. Receivables not available to an entity are non-entity assets and should be reported separately from receivables available to the entity.

D. **Recognition of losses due to uncollectible amounts.** Losses on receivables should be recognized when it is more likely than not that the receivable will not be totally collected. The phrase "more likely than not" means more than a 50 percent chance of loss occurrence.

010402 Receivables shall be maintained until amounts due are collected, converted into other assets, or determined to be uncollectible and written off. In the event a receivable is determined to have been established in error, the receivable and the applicable entries leading to establishment of the receivable shall be reversed. The correction of an error is not a writeoff.

010403 Estimates of uncollectible receivables shall be entered into the designated account and the related bad debt expense recognized for the accounting period.

010404 Receivables collectible only in a foreign currency not freely exchangeable shall be so footnoted on reports.

010405 Loans shall be accounted for as receivables when applicable amounts are disbursed.

010406 Accounting records for receivables shall be maintained so that all transactions, and only such transactions, affecting the receivable for each accounting period are included. Periodically, but at least monthly, the balances in the accounts receivable accounts shall be reconciled to the supporting documentation to ensure the propriety of accounts receivable balances.

010407 Guidance relating to receivables is in Chapter 3 of this Volume.

0105 PROPERTY

010501 Accounting for tangible and intangible property in which the government has an ownership interest is important because public funds are invested. Property is controlled by both the accounting system and property accountability records. The accounting system identifies the dollar value of property in summary terms. Property accounting records provide detailed information as to quantities and costs which underlay the summary figures reflected in the accounting system. The Department of Defense has an obligation to safeguard its property from theft, abuse, waste, and unauthorized use and otherwise manage the property efficiently and effectively. This obligation is imposed even though the property may not meet the capitalization criteria discussed in paragraph 010504.A, below, or may not be expendable or sensitive.

010502 The property accounting standards are presented in paragraphs 010503 through 010515, below. The property covered by these standards consists of inventories, work in process, real property, construction in progress, equipment, industrial plant equipment in layaway, property awaiting disposal, donated, and seized property.

010503 The following standards apply to accounting for DoD property:

A. Property accounting shall provide timely and reliable financial information on DoD's investment in property and DoD's liability to others for the use of its property. This information shall be obtained from a system of general ledger accounts designed in accordance

with the property accounting standards in this section.

B. Property accounting shall include procedures for:

1. Recording in the accounts that are specified in Chapters 4, 6, 7, and 18 of this Volume those transactions affecting DoD's investment in property. These transactions shall include all acquisitions of property, the utilization of property as an expense item or a capital asset, and all disposals and retirements of property that terminate DoD control.

2. Transferring the cost of work in process and construction in progress to an expense account or another asset account when the work or construction is either completed or terminated.

C. The primary basis of accounting for property is its acquisition cost.

1. For fixed assets, acquisition cost consists of the amount, net of authorized discounts paid or payable for the property, plus the transportation, installation, and other related costs of obtaining the property in the form and place to be put into use.

a. Fixed assets are those used in the production of other assets or services and that have a useful life of two years or more and an acquisition cost equal to the expense investment funding threshold used by Congress for appropriating DoD operating (expense) and procurement (investment) appropriations. This criteria applies at the time of acquisition. If the expense investment funding threshold used by Congress for appropriated funds is changed to a higher or lower amount, fixed assets previously acquired and capitalized at the prior amount shall continue to be capitalized (and depreciated, if applicable) at that prior amount. (That is assets capitalized or expensed under a different threshold will not be reclassified.) However, any existing asset that has not been capitalized previously shall be capitalized only if it meets the then-current capitalization criteria. The current expense/investment threshold is stated in Volume 1, Chapter 3 under, "Key Accounting Requirement Number 2: Property and Inventory Accounting."

b. Fixed assets have two major categories as follows:

(1) Real Property (land, buildings, and related structures).

(2) Personal property (weapons systems and other military equipment). All DoD personal property is defined as military equipment for financial accounting purposes.

2. For inventories, acquisition cost consists of the amount, net of economically viable discounts paid or payable for the items, and the transportation cost to the storage location. If the acquisition cost is not measurable or not known, estimated fair market value as of the day of acceptance shall be used.

D. The cost of property acquired as the result of a trade-in shall be the lesser of one of the following:

1. The amount, net of authorized discounts paid or payable for the property, plus the amount allowed by the seller on the trade-in.

2. The purchase price had there been no trade-in.

E. The acquisition cost of property shall be classified initially for accounting purposes as a fixed asset, inventory, work in process, construction in progress, or as an expense. The acquisition cost of fixed assets shall be capitalized in the accounting period the property is accepted, unless otherwise specified in Chapter 6 of this Volume. Inventories, work in process, and construction in progress shall be recorded in the accounting period when there is evidence title has passed to the Department of Defense. However, acquisition cost shall be charged to fixed assets (when capitalization standards are met) or expensed upon issuance for use as illustrated in Chapters 4 and 6 of this Volume.

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J. Property, which is acquired by foreclosure is recorded as discussed below. The term "foreclosed property" means any asset received in satisfaction of a loan receivable or as a result of payment of a claim under a guaranteed or insured loan (excluding commodities acquired under price support programs). All properties included in foreclosed property are assumed to be held for sale. However, assets not sold but placed into operation shall be removed from foreclosed property when such action is taken. If reimbursement for the transfer of assets from one program to another is made, the proceeds from the transfer shall be treated in the same manner as a sale to a third-party.

1. When property is transferred from borrowers to a federal credit program, through foreclosure or other means, in partial or full settlement of post-1991 direct loans or as a compensation for losses that the government sustained under post-1991 loan guarantees, the foreclosed property is recognized as an asset at the present value of its estimated future net cash inflows discounted at the original discount rate.

2. Pre-1992 foreclosed property is recorded at cost and adjusted to the lower of cost or its net realizable value; any difference is carried in a valuation allowance. "Pre-1992 foreclosed property" refers to property associated with direct loans or loan guarantees committed before October 1, 1991.

K. Property, which is transferred in to the Department of Defense on a reimbursable or nonreimbursable basis and meets the capitalization criteria, shall be recorded in DoD's accounting records. The amounts recorded in DoD's records shall be the amounts recorded on the transferor's books plus transportation, installation, and other costs of obtaining the property in the form and place to be put into use.

L. Property is transferred within the Department of Defense at the transferor's recorded acquisition cost and accumulated depreciation. The property is capitalized by the recipient at these transferred amounts.

M. Property that is excess to DoD's needs ordinarily shall be transferred to the Defense Reutilization and Marketing Service (DRMS) at acquisition cost and any related accumulated depreciation. The DRMS shall dispose of the property in accordance with applicable laws and regulations. Upon disposition, the acquisition cost and accumulated depreciation shall be removed from the applicable accounts. If depreciation has not been recorded, then the DRMS may use cost-finding techniques to estimate applicable depreciation. This estimate may be necessary to provide meaningful statistical reports on disposal operations.

N. Fixed asset and accumulated depreciation accounts shall be reduced by the capitalized amount and related depreciation amount for property withdrawn from use. Examples of withdrawals from use include dismantlement, and transfer, including transfers to disposal agencies for applicable sale, transfer, or donation.

O. Revisions to initial estimates of useful lives and residual values based on later information shall not modify previously recorded depreciation. Only changes to future period depreciation expense shall be recognized.

P. Computer software (programs, routines, and subroutines) systems that have a useful life of 2 years or more, and an acquisition cost equal to the expense/investment funding threshold used by Congress for appropriating DoD operating (expense) and procurement (investment) appropriations shall be capitalized. Special attention shall be given to useful life because of the rapid obsolescence associated with software. If there is a reasonable expectation that the software shall be obsolete within 2 years, then the cost shall be treated as a current period expense. Acquisition costs shall be capitalized in the "Automated Data Processing Software" asset account. For purchased software, acquisition costs shall include the salaries and benefits for DoD staff and compensation to others for development and modification of the software; computer operating costs for testing, developing, and parallel processing; and other direct and indirect costs incurred during

acquisition and development. During development, costs to be capitalized shall be accumulated in the "Inventory-Work in Process-In-House" account. Software obtained by a direct purchase, with no development costs, such as standard "off the shelf" programs for computers, shall be recorded at acquisition cost. Software obtained by other means (for example, donation) shall be recorded at its estimated fair market value if obtained from sources internal or external to the Federal Government. Software that has an expected useful life of less than 2 years is expensed in the period in which the applicable costs are incurred. Computer software that is integrated into hardware and is necessary to operate the hardware rather than perform an application is considered and capitalized as part of the hardware (if applicable) and is depreciated, when required, as hardware.

010505 The following guidance shall be followed when there is a need to compute and recognize depreciation and depletion in the accounting records.

A. DoD accounting systems shall establish accounts in which to record depreciation and depletion. However, activities not operating under the Defense Business Operations Fund shall not be required to establish a capability to compute depreciation on an item-by-item basis unless such a capability has been determined to be cost effective by the applicable DoD Component. Activities not operating under the Defense Business Operations Fund are authorized to use cost-finding techniques to estimate depreciation when required for billings to non-federal organizations or for presentation in financial reports. Defense Business Operations Fund activities shall establish the capability to compute depreciation.

B. Assets recorded in the accounts titled "Other Structures and Facilities," "Equipment in Use," "Equipment with Contractors, Testing Agencies, Defense Industrial Facilities and Others," "Buildings," "Equipment on Loan," and "Other Fixed Assets" are subject to depreciation. These accounts are described in Chapter 6 of this Volume. Land and rights to it recorded in the "Land" account are not subject to depreciation because they are nonwasting assets. Natural resources recorded in the "Other Natural Resources" account are subject to depletion.

C. The capitalized amount of an asset is reduced for depreciation purposes by the asset's estimated net residual value if the net residual value exceeds 10 percent of the capitalized amount. Chapter 6 of this Volume defines "residual value."

D. Depreciation and depletion shall be computed using the straight-line method. That is, the capitalized amount less estimated net residual value shall be divided equally among the accounting periods, units of issue, hours of use, or quantities of resources removed during the asset's useful life. Depreciation or depletion techniques other than the straight-line method may be used if approved in advance by the Office of the USD(C). When other than the straight-line method of depreciation is used, it must be disclosed in the financial statements.

E. The estimated useful life of an asset for depreciation purposes shall be based on DoD experience. However, in no case shall the initially estimated useful life exceed 40 years.

F. Group, as well as item-by-item, depreciation methods are appropriate provided such treatment is consistently applied over the useful life of the asset or group of similar assets. The group depreciation method may be applied to a group of similar assets acquired in the same fiscal year that have the same expected useful life. An aggregation of homogeneous depreciable assets that have been capitalized as a group shall be depreciated as a group and recorded in a single valuation account (accumulated depreciation). Upon the disposal of a unit within the group, the asset account will be credited with the cost of the unit, and the valuation account (accumulated depreciation) will be charged. As units in the group are disposed of, the depreciation is calculated on the remaining units only. The "group" must be selected with care. It is possible to use such large and all-inclusive groups that the distribution of depreciation charges is arbitrary. As an example, a grouping such as "Vehicles" or even "Utility Vehicles" would not be acceptable.

An example of an acceptable group would be all Passenger Vans or all trucks of a particular size or weight class that were purchased in the same fiscal year. Depreciable assets that have been capitalized as individual units shall be depreciated as such.

G. When an item-by-item calculation of depreciation is required, the initial useful life estimate of a capitalized asset in use shall be evaluated at its 50 percent point and adjusted as needed to correspond to a more realistic remaining useful life. Subsequent reevaluations are not required. If the asset remains in use longer than estimated, it shall be retained on accounting records as a fully depreciated asset until final disposition.

H. Accounting adjustment for changes in depreciation estimates (as opposed to errors) shall be reported as normal operating items, not as prior-period adjustments.

I. Depreciation shall be recorded in the accounting period in which benefits result from use of the asset.

010506 The procedures for periodically reconciling general ledger account balances with inventory and fixed asset accounts are outlined in Chapters 4 and 6 of this Volume.

010507 The following guidance shall be followed when conducting physical inventories.

A. Physical inventories of personal property shall be taken in accordance with the guidance contained in Chapter 6 of this Volume to verify the existence of property recorded in the general ledger accounts. Internal controls and related property accounting and property accountability processes shall be changed as necessary to prevent recurrences of the same discrepancies. Specific inventory procedures are in Chapters 4 and 6 of this Volume.

B. Physical inventories and inspections of real property shall be conducted to ensure that only property under DoD control is recorded in the applicable general ledger accounts. These inventories and inspections shall be taken periodically but no less frequently than every 3 years for personal property and 5 years for real property. The accounting records shall be adjusted to agree with the physical counts when any identified differences cannot be resolved. However, any adjustments to the accounting records shall be supported by applicable authorized documentation, including reports of survey prepared in accordance with DoD 7200.10-M. The Military Departments shall maintain inventory property records of all real property under their control and submit an annual summary in accordance with DoD Instruction 4165.14, "Inventory of Military Real Property."

010508 Furniture, fixtures, office equipment and "pilferable" material (including hand and portable power tools) costing $300 but less than the capitalization criteria (see 010504), and all material that is "classified" or "sensitive" regardless of cost shall be monitored through property control records in property management systems. Classified, pilferable, and sensitive material is defined in DoD 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP)." This criteria applies at the time of acquisition. At such time as the capitalization criteria (expense/investment funding threshold changes, see 010504) changes, items previously acquired under different thresholds will not be reclassified.

010509 Progress payments to contractors are recorded as a prepaid asset in the accounting period the authorizing contract administrator accepts the contractor's claim. Progress payments are liquidated as specified in the progress payment clause in the contract. Progress payments generally are liquidated by deducting them from payments made for goods accepted under the contract. Fixed assets for which progress payments are made are capitalized in the accounting period in which the assets are accepted by the Department of Defense.

010510 DoD accounting systems shall provide for recording in the general ledger accounts all issuances, receipts, and dispositions of property furnished to others such as contractors, testing agencies, and defense industrial facilities. This

provides not only a record of property furnished to the recipients but also a record of property reported by them as received and either on hand, returned, consumed, or determined as unfit to return.

010511 Property transferred to the DRMS shall be recorded in the accounting records in accordance with guidance in Chapter 7 of this Volume. Property in another's custody that is being disposed of by a disposal agency is subject to the consignment accounting requirements of the disposal agency. As a minimum, accounting records are maintained on a perpetual basis as specified in paragraph 010510, above.

010512 DoD 7200.10-M, "Accounting and Reporting for Government Property Lost, Damaged or Destroyed" provides guidance for determining the amount of financial liability of those found to be responsible for such financial losses, provides relief from accountability, and establishes debts resulting from the assessment of financial liability.

010513 A DoD Component that controls the access to real property at Fiscal Year end shall account for it. This shall preclude duplication in accounting and financial reporting and assure that property is under financial control.

010514 Government-provided property (GPP), whether Government-furnished or contractor-acquired, consists of nine mutually exclusive categories: land, other real property, other plant equipment, industrial plant equipment, special test equipment, special tooling, military property, government material (government-furnished) and government material (contractor-acquired). To maintain effective control, DoD accounting systems provide summary information on GPP while the property control systems of contractors provide the more detailed information as required in Part 45 of the Federal Acquisition Regulation. Also, information can be found in the "DoD Manual for the Performance of Contract Property Administration," (DoD 4161.2-M). These two publications provide detailed definitions of terminology associated with such property. DoD accounting systems shall contain government-furnished property (GFP) data by contractor. DoD accounting records shall contain the book value of GFP shipped, or otherwise furnished, to contractors as well as the GFP reported by contractors as used; returned; lost, damaged, or destroyed; sold; purchased; retained through nonreimbursable transfer of title; or shipped to a third party. Records in the property control systems of contractors shall indicate the location of GPP; those components which are permanently removed from GPP through, for example, modification; and residual salvage and scrap to which the Department of Defense has legal right.

A. Three asset accounts pertain to GFP:

1. "Work in Process-Government Furnished Material," account 1584, is used to record the value of Department of Defense personal property furnished to contractors to be used or consumed in fabricating supplies and other military personal property.

2. "Construction in Progress-Government-Furnished Material," account 1724, is used to record the value of Department of Defense personal property furnished to contractors to be used or consumed in constructing real property projects.

3. "Equipment with Contractors, Testing Agencies, Defense Industrial Facilities and Others," Account 1763, is used to record the value of special tooling, and special test equipment.

B. Accounting for contractor-acquired property shall be recorded in account 1582, "Work in Process-Contractor," when the property relates to personal property contracts. Account 1722, "Construction in Progress-Contractor," shall be used to record the value of contractor-acquired property that relates to real property contracts. The basis for recording amounts in the two accounts shall be approved progress payment requests submitted by contractors.

010515 Unless there is specific statutory authority, DoD Components are not authorized to enter into capital leases. In those situations

when such authority exists, the guidance contained in Chapter 7 of this Volume shall be followed.

0106 OTHER ASSETS

010601 Other assets are those assets that cannot be classified in a specific category identified in sections 0101 through 0104, above. Included in this category are acquired collateral, industrial property in layaway, investments, and miscellaneous assets.

010602 The accounting standards to be followed for these assets are included in Chapter 7 of this Volume. The basic purpose is to ensure financial control over these assets and the recording of expenses or dispositions in the appropriate accounting periods.

CHAPTER 2

ACCOUNTING FOR CASH AND FUND BALANCES WITH TREASURY

0201 GENERAL

020101 Purpose. This chapter prescribes the accounting policy and related management requirements necessary to establish financial control over fund balances with the U.S. Treasury and cash resources not part of the fund balance with the U.S. Treasury. The applicable general ledger accounts are included in the DoD Uniform Chart of Accounts in Chapter 7, Volume 1 of this Regulation and their use is illustrated in this chapter.

020102 Overview

A. Sections 0204 through 0206 below, prescribe procedures for DoD Components to follow to ensure proper accounting for cash.

B. The following definitions apply to fund balances with Treasury and cash:

1. Entity Cash. Entity cash is the amount of cash that the reporting entity holds and is authorized by law to spend.

2. Non-entity Cash. Non-entity cash is cash that a federal entity collects and holds on behalf of the U.S. Government or other entities. In some circumstances, the entity deposits cash in its accounts in a fiduciary capacity for the U.S. Treasury or other entities. Non-entity cash should be reported separately from entity cash.

3. Restricted Cash. Cash may be restricted. Restrictions are usually imposed on cash deposits by law, regulation, or agreement. Non-entity cash is always restricted cash. Entity cash may be restricted for specific purposes. Such cash may be in escrow or other special accounts. Financial reports should disclose the reasons and nature of restrictions.

C. Fund Balance with Treasury.

1. A federal entity's fund balance with the Treasury is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Fund balance with Treasury is an intra-governmental item. From the reporting entity's perspective, a fund balance with Treasury is an asset because it represents the entity's claim to the U.S. Government's resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability.

2. A federal entity's fund balance with Treasury includes clearing account balances and the dollar equivalent of foreign currency account balances. Foreign currency account balances should be translated into U.S. dollars at exchange rates determined by the Treasury and effective at the financial reporting date. A federal entity's fund balance with Treasury also includes balances for direct loan and loan guarantee activities held in the credit reform program, financing, and liquidating accounts.

3. Depending upon the level of the entity within the organization, a fund balance with Treasury may be increased by (a) receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, allocations, and allotments, and (b) receiving transfers and collections of reimbursements from other entities. An entity's fund balance with Treasury also may be increased by amounts borrowed from Treasury, Federal Financing Bank, or other entities, and amounts collected and credited to appropriation or fund accounts that the entity is authorized to spend or used to offset its expenditures.

4. An entity's fund balance with Treasury does not include contract authority or unused authority to borrow. Contract authority is a statutory authority under which contracts or obligations may be entered into prior to receiving an appropriation for the payment of obligations. The later enacted appropriation provides cash to liquidate obligations. Thus, contract authority merely permits a federal entity to incur certain obligations but does not, in itself, add funds to the agency's account with Treasury.

5. Authority to borrow is a statutory authority that permits a federal agency to incur obligations and make payments for specific purposes out of borrowed funds. Authority to borrow adds funds to an agency's accounts with Treasury only after the agency actually uses the authority to borrow a specific amount of funds. Thus, authority to borrow is included in an entity's fund balance with Treasury only to the extent that funds are actually borrowed under the authority.

6. An entity's fund balance with Treasury is reduced by (a) disbursements made to pay liabilities or to purchase assets, goods, and services, (b) investments in U.S. securities (securities issued by Treasury or other U.S. Government agencies), (c) cancellation of expired appropriations; (d) transfers and payments for reimbursements to other entities or to the Treasury, and (e) sequestration or rescission of appropriations, as applicable.

7. Disclosure should be made to distinguish two categories of funds within the entity's fund balance with Treasury: the obligated balance not yet disbursed and the unobligated balance. The obligated balance not yet disbursed is the amount of funds against which budgetary obligations have been incurred, but disbursements have not been made.

8. The unobligated balance is the amount of funds available to an entity against which no claims have been recorded. Unobligated balances are generally available to a federal entity for specific purposes stipulated by law. Unobligated balances may also include balances in expired accounts that are available only for approved adjustments to prior obligations. Certain unobligated balances may be restricted to future use and are not apportioned for current use. Disclosure should be provided on such restrictions.

9. Federal entities should explain any discrepancies between fund balance with Treasury in their general ledger accounts and the balance in the Treasury's accounts and explain the causes. (Discrepancies due to time lag should be reconciled and discrepancies due to error should be corrected.) Agencies also should provide information on unexpended balances in cancelled appropriations that are returned to Treasury at the end of a fiscal year.

0202 POLICY

The policy in Sections 0203. through 0206, below, of this chapter provide the basis for DoD Components' management of, accounting for, and reporting on collections and expenditures within the Department of Defense.

0203 FUND BALANCE WITH TREASURY STANDARD

020301 The Fund Balance with the U.S. Treasury is the amount available to the DoD Component through appropriations, transfers, collections, and disbursements. Standards for recording collections and disbursements are contained in other sections of this chapter. The following subsections provide guidance to be followed by DoD Components for recording appropriations and transfers.

020302 Fund Balance With Treasury (Account 1010). "Fund Balance With Treasury" represents the net funds available to a DoD entity and is increased due to appropriations, reappropriations, continuing resolutions, and collections of reimbursements or advances. The account is decreased due to rescissions, and disbursements. It is a summary control account for "Funds Collected" (Account 1011); "Funds Disbursed" (Account 1012); "Funds With Treasury" (Account 1013); "Undistributed Collections (Account 1014); and "Undistributed Disbursements" (Account 1015). The "Fund Balance With Treasury" account is for financial

reporting purposes. No entries are posted to this account.

020303 Funds With Treasury (Account 1013)

A. At the DoD Component level, "Funds With Treasury" is used to record funds made available by appropriation, reappropriation, continuing resolution, allocation, rescissions, and transfers with or without benefit to the transferring account.

B. Subsidiary accounts shall be established for each appropriation. Documentation supporting each subsidiary account shall be maintained.

C. Table 2-1 illustrates the most common entries used for this account.

D. Sources of entries to the "Funds With Treasury" account include Appropriation Warrants (TFS 6200), allocation documents, and Nonexpenditure Transfer Authorizations (SF-1151).

ACCOUNTING ENTRIES FOR ACCOUNT 1013 - FUNDS WITH TREASURY

Dr 1013 Funds With Treasury
Cr 3100 Appropriated Capital

To record the receipt of Appropriation Warrants (TFS 6200), nonexpenditure transfers (SF 1151), and other authority and fund transfers from current and prior year appropriations and funds.

Dr 3100 Appropriated Capital
Cr 1013 Funds With Treasury

To record nonexpenditure transfers and other authority and fund transfers to current and prior year appropriations and funds; and budgetary authority rescinded by legislative action.

Dr 1013 Funds With Treasury
Cr 1011 Funds Collected

To close funds collected at fiscal year end.

Dr 1012 Funds Disbursed
Cr 1013 Funds With Treasury

To close funds disbursed at fiscal year end.

TABLE 2-1

0204 BILLINGS AND COLLECTION POLICY

020401 Charges and fees computed for collection from private parties and agencies outside the Federal Government for goods or services furnished or the lease or sale of property shall be collected in advance, except as authorized by statute. When payment after performance is allowed, an accounts receivable shall be established to control collections. The following actions shall be taken to ensure proper collection:

020402 A discussion of the more significant accounting entries for fund collections is provided in paragraphs 020402.A through 020402.C, below.

A. Funds Collected (Account 1011)

1. "Funds Collected" is used to record funds received for advances from outside sources, performance of reimbursable work, collection of receivables, and sale of assets. This account is subsidiary to account 1010, "Fund Balance with Treasury." Subaccounts shall be maintained for each appropriation or fund. This account is to be used by all DoD Components.

2. Table 2-2 illustrates the most common entries used for this account.

3. Sources of entries to the "Funds Collected" account include journal vouchers, cash collection vouchers, sales records, and documented gains and losses that have been reported to Treasury.

ACCOUNTING ENTRIES FOR ACCOUNT 1011 - FUNDS COLLECTED

Dr 1011 Funds Collected
Cr 2311 Unearned Revenue-Advances from Government Agencies and Funds
Cr 2312 Unearned Revenue-Advances from the Public

To record funds received in advance of performance.

Dr 1011 Funds Collected
Cr 5100 Revenue from Goods Sold
Cr 5200 Revenue from Services Provided

To record funds received for performance of reimbursable agreements.

Dr 1011 Funds Collected
Cr 1310 Applicable "Accounts Receivable" subsidiary accounts

To record collection of receivables.

Dr 1011 Funds Collected
Cr 7210 Losses on Disposition of Assets
Cr 1700 Applicable"Fixed Assets" account

To record sale of assets at a loss.

Dr 1011 Funds Collected
Cr 1700 Applicable "Fixed Assets" account
Cr 7110 Gains on Disposition of Assets

To record sale of assets at a gain.

Dr 1013 Funds With Treasury
Cr 1011 Funds Collected

To close Funds Collected at fiscal year end.

TABLE 2-2

B. Undistributed Collections (Account 1014) (To be published)

C. Undeposited Collections (Account 1110)

1. "Undeposited Collections" is used to record amounts for which a deposit confirmation has not been issued by the U.S. Treasury. Subaccounts shall be maintained for each appropriation or fund. This account is to be used by all DoD Components.

2. Table 2-3 illustrates the most common entries used for this account.

3. Sources of entries to the "Undeposited Collections" account are collection records and certificates of deposit that have been reported to Treasury.

0205 DISBURSEMENT POLICY

020501 Disbursement Accounting Entries. A discussion of the more significant accounting entries for fund disbursements is provided in paragraphs 020501.A through 020501.C, below.

ACCOUNTING ENTRIES FOR ACCOUNT 1110 - UNDEPOSITED COLLECTIONS

Dr 1110 Undeposited Collections
Cr 1300 Applicable "Receivables" account

To record amounts received that have not yet been deposited.

Dr 1011 Funds Collected
Cr 1110 Undeposited Collections

To record amounts deposited.

TABLE 2-3

A. Funds Disbursed (Account 1012)

1. "Funds Disbursed" is used to record the amount of payments made (net of refunds, erroneous payments, and return of advances) from a DoD appropriation or fund account. This account is subsidiary to account 1010, "Fund Balance with Treasury." Subaccounts shall be maintained for each appropriation or fund. This account is to be used by all DoD Components.

2. Table 2-4 illustrates the most common entries used for this account.

3. Sources of entries to the "Funds Disbursed" account include journal vouchers and cash disbursement vouchers that have been reported to Treasury.

B. Undistributed Disbursements (Account 1015) (To be published)

C. Foreign Currency (Account 1200)

1. "Foreign Currency" is used to record in U.S. dollar equivalents the purchase or exchange of foreign government currency and other transactions occurring through use of the foreign currency. Transactions shall be recorded at the current exchange rate specified by the U.S. Treasury. Foreign currency fluctuation gains or losses resulting from the settlement of foreign currency receivables or payables shall be recorded when the settlement occurs. This account is to be used by all DoD Components when foreign currencies are involved.

ACCOUNTING ENTRIES FOR ACCOUNT 1012 - FUNDS DISBURSED

Dr 2100 Applicable "Accrued Liabilities-Other" subsidiary accounts
Cr 1012 Funds Disbursed

To record payment for goods or services received and previously accrued.

Dr 2900 Applicable "Other Liabilities" subsidiary accounts
Cr 1012 Funds Disbursed

To record payment for other accrued liabilities.

Dr 2200 Applicable "Accrued Liabilities-Payroll and Benefits" subsidiary accounts
Cr 1012 Funds Disbursed

To record payment for payroll liabilities.

Dr 1400 Applicable "Advances and Prepayments" subsidiary accounts
Cr 1012 Funds Disbursed

To record amounts advanced and prepaid to others.

Dr 1012 Funds Disbursed
Cr 1315 Refunds Receivable-Government
Cr 1316 Refunds Receivable-Public

To record refunds received as a result of overpayments and other erroneous payments.

Dr 1012 Funds Disbursed
Cr 1400 Applicable "Advances and Prepayments" subsidiary accounts

To record return of advances and prepayments.

Dr 1012 Funds Disbursed
Cr 1013 Funds With Treasury

To close Funds Disbursed at fiscal year end.

TABLE 2-4

2. Table 2-5 illustrates the most common entries used for this account.

3. Sources of entries to the "Foreign Currency" account are reimbursement and disbursement vouchers, sales records, and documented foreign exchange gains and losses that have been reported to Treasury.

ACCOUNTING ENTRIES FOR ACCOUNT 1200 - FOREIGN CURRENCY

Dr 1200 Foreign Currency
Cr 1012 Funds Disbursed

To record purchase of foreign currency funds.

Dr 1012 Funds Disbursed
Cr 1200 Foreign Currency

To record exchange of foreign currency funds.

Dr 1200 Foreign Currency
Dr 7293 Other Miscellaneous Losses
Cr 1300 Applicable "Receivables" subsidiary accounts

To record collection of receivables with a resulting exchange rate loss.

Dr 1200 Foreign Currency
Cr 1300 Applicable "Receivables" subsidiary accounts
Cr 7193 Other Miscellaneous Gains

To record collection of receivables with a resulting exchange rate gain.

Dr 2000 Applicable "Liabilities" subsidiary accounts
Dr 7293 Other Miscellaneous Losses
Cr 1200 Foreign Currency

To record payment of liabilities with a resulting exchange rate loss.

Dr 2000 Applicable "Liabilities" subsidiary accounts
Cr 1200 Foreign Currency
Cr 7193 Other Miscellaneous Gains

To record payment of liabilities with a resulting exchange rate gain.

Dr 1200 Foreign Currency
Cr 5000 Applicable "Revenue" subsidiary accounts

To record collection for goods or services provided.

TABLE 2-5

0206 CASH HELD OUTSIDE OF U.S. TREASURY POLICY

020601 Accounting Entries for Disbursing Officer's Cash (Account 1191)

A. "Disbursing Officer's Cash" is used to record the amount of U.S. Treasury cash held by disbursing officers at personal risk. The balance in this account is not considered an asset of a DoD Component for external statement purposes since it represents U.S. Treasury cash advanced to disbursing officers. A liability accounst for the total amount advanced by the U.S. Treasury shall be maintained.

B. Table 2-6 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1191 - DISBURSING OFFICER'S CASH

Dr 1191 Disbursing Officer's Cash
Cr 2410 Treasury Cash Advances to Disbursing Officers

To record amounts received from U.S. Treasury for disbursing officer's use.

Dr 1120 Imprest Funds
Cr 1191 Disbursing Officer's Cash

To record establishment or increase in imprest funds.

Dr 1191 Disbursing Officer's Cash
Cr 1120 Imprest Funds

To record reductions in imprest funds.

Dr 1191 Disbursing Officer's Cash
Cr 1310 Accounts Receivable

To record amounts received for reimbursement of disbursements. (Disbursing Officer's Cash is to be reimbursed by the appropriation or fund on whose behalf the disbursement was made.)

Dr 1310 Accounts Receivable
Cr 1191 Disbursing Officer's Cash

To record amounts disbursed. (Disbursing Officer's Cash is to be reimbursed by the appropriation or fund on whose behalf the disbursement was made.)

Dr 2410 Treasury Cash Advances to Disbursing Officers
Cr 1191 Disbursing Officer's Cash

To record amounts returned to U.S. Treasury due to reduction in authorized amount.

TABLE 2-6

C. Sources of entries to the "Disbursing Officer's Cash" account include requests for cash, invoices for transferred funds, reimbursement vouchers and disbursement records.

020602 Accounting Entries for Imprest Funds (Account 1120)

A. "Imprest Funds" is used to record the amount of cash advanced by disbursing officers and held by agency cashiers at personal risk. The balance in this account is not considered an asset of a DoD Component for external statement purposes, since it represents U.S. Treasury cash advanced by disbursing officers.

B. Table 2-7 illustrates the most common entries used for this account.

C. Sources of entries to the "Imprest Funds" account include requests for cash, reimbursement and disbursement vouchers, and invoices for transferred funds.

ACCOUNTING ENTRIES FOR ACCOUNT 1120 - IMPREST FUNDS

1. Dr 1120 Imprest Funds
   Cr 1191 Disbursing Officer's Cash

   To record establishment or increase in imprest funds.

2. Dr 1191 Disbursing Officer's Cash
   Cr 1120 Imprest Funds

   To record reductions in imprest funds.

TABLE 2-7

020603 Audit and Review

A. Managers who supervise personnel holding cash are responsible for maintaining appropriate accounting and internal controls for such assets. This responsibility includes insuring the legality, propriety, and correctness of disbursements and collections of public funds.

B. Audits, both announced and unannounced of each fund, shall determine whether:

1. All funds properly are accounted and reported.

2. The amount is not in excess of cash requirements.

3. Procedures are established and followed to protect the funds from loss or misuse.

The frequency of such audits shall be decided by management based on vulnerability assessments in DoD Directive 5010.38. Disbursing officers may make such inspection and reviews of imprest funds as they deem necessary to protect the interests of the U.S. Government.

C. Unannounced inspections, including cash counts, shall be made of each fund at least once each quarter by qualified individuals who are under the jurisdiction of the comptroller or the chief accounting officer of the installation (where such positions exist). These inspections may not be conducted by anyone subordinate to the fund custodian.

D. Any unauthorized use of, irregularity in, or improper accounting for a cash fund shall be investigated as prescribed in DoD Instruction 7200.10 and reported to the approving authority and to the disbursing officer involved. Reports should indicate if prescribed procedures were being followed and should recommend any actions considered necessary or desirable for preventing recurrence of the irregularity.

E. Each DoD Component shall delegate responsibility to a specific official for investigation of shortages or losses in imprest funds and instituting disciplinary actions. These matters shall be monitored centrally in each cognizant DoD Component.

ACCOUNT NO. 1010	
FUND BALANCE WITH TREASURY	
DESCRIPTION: Represents the net funds available to DoD from appropriations, reappropriations, continuing resolutions, advances, transfers-in, allocations, reimbursements less rescissions, transfers-out, and disbursements.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
SOURCE OF ENTRY:	
NORMAL BALANCE: DEBIT	

FIGURE 2-1

ACCOUNT NO. 1011	
FUNDS COLLECTED	
DESCRIPTION: Represents the funds received due to advances from outside sources, performance of reimbursable work, collection of receivables, sale of assets, etc. Account is subsidiary to Fund Balance with Treasury. Subaccounts shall be maintained for each appropriation for fund.	
DEBIT	CREDIT
1. Advances accepted from Federal Government activities. Contra: 2311 2. Advances accepted from non-Federal Government activities. Contra: 2312 3. Revenue received in advance. Contra: 2320 4. Sale to a non-Federal Government activity through reimbursable agreement. Contra: 5100, 5200 5. Sale from a working capital fund through reimbursable agreement. Contra: 5100, 5200 6. Collection of fees and penalties. Contra: 5300, 5500 7. Cash donations received and designated for special fund purposes. Contra: 5600	1. Amounts accepted as collections for others. Contra: 1014 2. Close Funds Collected. Contra: 1013
SOURCE OF ENTRY: Cash collection vouchers and journal vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 2-2

ACCOUNT NO. 1011	
FUNDS COLLECTED	
DESCRIPTION: Continued from previous page.	
DEBIT	CREDIT
8. Sale of miscellaneous goods for cash. Contra: 5900, 7300 9. Collection of receivables. Contra: 1310, 1350 10. Liability for deposit funds. Contra: 2411 11. Sale of assets. Loss. Contra: 1710, 1720, 1730, 1740, 1750, 1760, 1810, 1820, 1830, 1840, 1890, 7210 12. Sale of assets. Gain. Contra: 1710, 1720, 1730, 1740, 1750, 1760, 1810, 1820, 1830, 1840, 1890, 7110 13. Proceeds from sale of assets to be replaced. Contra: 2400 14. Reimbursement to operating an appropriation or fund charged for the purchase of new asset. Contra: 7210 15. Cash donations received. Contra: 5600	
SOURCE OF ENTRY: Cash collection from vouchers and journal vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 2-2 (Cont)

ACCOUNT NO. 1011	
FUNDS COLLECTED	
DESCRIPTION: Continued from the previous page.	
DEBIT	CREDIT
16. Amounts recorded as collections for others. Contra: 1014 17. Record sale of securities acquired at discount. Gain. Contra: 1610, 7192 18. Record sale of securities acquired at discount. Loss. Contra: 1610, 7292 19. Record sale of securities acquired at par or premium. Gain. Contra: 1610, 1611, 7192 20. Record the sale of securities acquired at par or premium. Loss. Contra: 1610, 1611, 7292 21. Record the sale of investment property and the liquidation of the mortgage under Homeowners Assistance Program - Mortgage Principal. Contra: 1691, 7192 22. Record the sale of investment property and the liquidation of the mortgage under Homeowners Assistance Program - Revenue Earned. Contra: 1691, 7192	
SOURCE OF ENTRY: Cash collection vouchers and journal vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 2-2 (Cont)

ACCOUNT NO. 1012	
FUNDS DISBURSED	
DESCRIPTION: Represents the amount of payments made (net of refunds, erroneous payments, and returns of advances) from a DoD appropriation or fund account. Account is subsidiary to Fund Balance with Treasury. Subaccounts shall be maintained for each appropriation or fund.	
DEBIT	CREDIT
1. Refunds received as a result of overpayments and other erroneous payments. Contra: 1500, 1510, 1530, 1580, 1560, 1570, 1580, 1710, 1720, 1730, 1740, 1750, 1760, 1810, 1820, 1830, 1840, 1890, 1990, 6100, 6320, 6330, 6500 2. Exchange of foreign currency funds. Contra: 1200 3. Amounts accepted as disbursements for others. Contra: 1014 4. Advances/Prepayments settled - repayment or offset. Contra: 1410, 1450 5. Close Funds Disbursed. Contra: 1013	1. Purchase of foreign currency funds. Contra: 1200 2. Payment for interest earned by previous investor in federal securities. Contra: 1310 3. Direct loan made. Contra: 1350 4. Amounts advances to others. Contra: 1410 5. Prepaid expenses and deferred charges. Contra: 1450 6. Acquisition of federal securities or other investments at par or discount. Contra: 1610 7. Acquisition of federal securities or other investments at a premium. Contra: 1610, 1611
SOURCE OF ENTRY: Cash disbursement vouchers, journal vouchers.	
NORMAL BALANCE: CREDIT	

FIGURE 2-3

ACCOUNT NO. 1012	
FUNDS DISBURSED	
DESCRIPTION: Continued from the previous page.	
DEBIT	CREDIT
	8. Payment for goods or services received and previously accrued. Contra: 2110, 2130, 2140, 2190 9. Disposition of deposit funds and suspense accounts to appropriate fund. Contra: 2400 10. Transfer the proceeds from the sale of an asset from Treasury clearing account when the decision is made to replace the item. Contra: 2400 11. Principal payments made on mortgages. Contra: 2591, 2592 12. Payment of other accrued liabilities. Contra: 2910, 2920, 2990 13. Payment of payroll liabilities. Contra: 2210 14. Payment for late payment penalty or discounts lost. Contra: 6122
SOURCE OF ENTRY: Cash disbursement vouchers, journal vouchers.	
NORMAL BALANCE: CREDIT	

FIGURE 2-3 (Cont)

ACCOUNT NO. 1012	
FUNDS DISBURSED	
DESCRIPTION: Continued from previous page.	
DEBIT	CREDIT
	15. Demand for payment by lender - Loan Guarantee Default. Contra: 6129 16. Amounts recorded as disbursements for others. Contra: 1015
SOURCE OF ENTRY: Cash disbursement vouchers, journal vouchers.	
NORMAL BALANCE: CREDIT	

FIGURE 2-3 (Cont)

ACCOUNT NO. 1013	
FUNDS WITH TREASURY	
DESCRIPTION: Represents the fund balances on the books of the U.S. Treasury. The account is increased for funds made available by appropriations, reappropriation, continuing resolution, transfers-in, and allocations. The account is decreased for rescissions and transfers-out. Subaccounts shall be maintained for each appropriation or fund.	
DEBIT	CREDIT
1. Nonexpenditure transfers from current year and prior year appropriations and funds. Contra: 3100 2. Warrant received. Contra: 3100 3. Capital appropriated for working capital funds. Contra: 3210 4. Funds transferred from other prior year appropriations and funds. Contra: 3100 5. Authority transferred from other current year appropriations and funds. Contra: 3100 6. Record appropriations not subject to apportionment. Contra: 3100 7. Record transfer of funds from other agencies. Contra: 3100	1. Nonexpenditure transfers to current year and prior year appropriations and funds. Contra: 3100 2. Funds transferred to other prior year appropriations and funds. Contra: 3100 3. Authority transferred to other current year appropriations and funds. Contra: 3100 4. Record decrease in trust fund equity - available receipts. Receipt of trust funds from state and local, public, and foreign governments for financing projects, programs, etc. Contra: 3100 5. Cash withdrawn per TFS-2108. Contra: 3100 6. Budgetary authority rescinded by legislative action. Contra: 3100
SOURCE OF ENTRY: Appropriation Warrant - TFS 6200, Nonexpenditure Transfer Authorizations - SF 1151, allocation documents, journal vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 2-4

ACCOUNT NO. 1013	
FUNDS WITH TREASURY	
DESCRIPTION: Continued from the previous page.	
DEBIT	CREDIT
8. Cash restored per TFS-2108. Contra: 3100 9. Fund allocation from other agency. Contra: 2311 10. Request for transfer of disbursing authority to expenditure account. Contra: 1920 11. Record transfer from trust fund to operating fund. Contra: 1310 12. Record increase in trust fund equity - available receipts. Receipt of trust funds from State and local, public, and foreign governments for financing projects, programs, etc. Contra: 3100 13. Close Funds Collected. Contra: 1011	7. Return of all or portion of allocation of funds to parent account. Contra: 3100 8. Close Funds Disbursed. Contra: 1012
SOURCE OF ENTRY: Appropriation Warrant - TFS 6200, Nonexpenditure Transfer Authorizations - SF 1151, allocation documents, journal vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 2-4 (Cont)

ACCOUNT NO. 1014	
UNDISTRIBUTED COLLECTIONS	
DESCRIPTION: Represents the amount of collections reported by the finance network which have not been accepted by the operating level accounting entity. Subaccounts shall be maintained for each appropriation or fund.	
DEBIT	CREDIT
SOURCE OF ENTRY: Journal vouchers.	
NORMAL BALANCE: CREDIT	

FIGURE 2-5

ACCOUNT NO. 1015	
UNDISTRIBUTED DISBURSEMENTS	
DESCRIPTION: Represents the amount of disbursements as reported by the finance network which have not been accepted by the operating level accounting entity. Subaccounts shall be maintained for each appropriation or fund.	
DEBIT	CREDIT
SOURCE OF ENTRY: Journal vouchers.	
NORMAL BALANCE: CREDIT	

FIGURE 2-6

ACCOUNT NO. 1100	
CASH	
DESCRIPTION: Represents the net funds available to DoD that are not yet deposited in the U.S. Treasury or are not considered as asset of a DoD Component.	
DEBIT	CREDIT
• This account is a summary account Do not post to this account	
SOURCE OF ENTRY:	
NORMAL BALANCE: DEBIT	

FIGURE 2-7

ACCOUNT NO. 1110	
UNDEPOSITED COLLECTIONS	
DESCRIPTION: Represents amounts received for which a deposit confirmation has not been issued by the U.S. Treasury. Account is supported by cashier's record of collection. Subaccounts shall be maintained for each appropriation, fund or receipt account.	
DEBIT	CREDIT
1. Amounts received. Contra: 1300	2. Deposits. Contra: 1011
SOURCE OF ENTRY: Collection records, certificates of deposit.	
NORMAL BALANCE: DEBIT	

FIGURE 2-8

ACCOUNT NO. 1120	
IMPREST FUNDS	
DESCRIPTION: Represents the authorized amount of cash advanced by disbursing officers and held by Agency cashiers at personal risk. The balance in this account is not considered an asset of a DoD Component for external statement purposes since it represents U.S. Treasury cash advanced by disbursing officers.	
DEBIT	CREDIT
1. Imprest fund established. Contra: 1191	1. Imprest fund reduced. Contra: 1191
SOURCE OF ENTRY: Requests for cash, invoices for transferred funds, reimbursement, and disbursement records.	
NORMAL BALANCE: DEBIT	

FIGURE 2-9

ACCOUNT NO. 1191	
DISBURSING OFFICERS' CASH	
DESCRIPTION: Represents the authorized amount of U.S. Treasury cash held by disbursing officers at personal risk. It includes U.S. Currency and coin on-hand, dollar equivalent of foreign currency and coin on-hand, cash in the hands of deputy disbursing officers, cashiers and agents, negotiable instruments on hand, military payments certificates, etc. The balance in this account is not considered an asset of a DoD Component for external statement purposes since it represents U.S. Treasury cash advanced to disbursing officers. A liability account for the total amount advanced by the U.S. Treasury shall be maintained.	
DEBIT	CREDIT
1. Amounts of checks for cash written by disbursing officers to establish authorized amount of cash required from Treasury. Contra: 2410 2. Transfer of cash from another Disbursing Officer Contra: 2410 3. Amounts received from appropriations/funds for reimbursement of disbursements. Contra: 1300 4. Cash collections. Contra: 2410 5. Amount received from Agency cashiers to reduce imprest funds. Contra: 1120	1. Cash disbursements. Contra: 1311 2. Transfer of cash to another disbursing officer. Contra: 2410 3. Confirmed deposits to an appropriation, fund or receipt account. Contra: 2410 4. Amount returned to Treasury due to reduction in amount of cash authorized. Contra: 2410 5. Amount transferred to Agency cashiers to establish imprest funds. Contra: 1120
SOURCE OF ENTRY: Requests for cash, invoices for transferred funds, and disbursement records.	
NORMAL BALANCE: DEBIT	

FIGURE 2-10

ACCOUNT NO. 1200	
FOREIGN CURRENCY	
DESCRIPTION: Represents the U.S. dollar equivalent of foreign government currency and other transactions occurring through use of the foreign currency.	
DEBIT	CREDIT
1. Purchase of foreign currency funds. Contra: 1012 2. Advances settled - repayment or offset. Contra: 1410 3. Sale through reimbursable agreement. Contra: 5100, 5200 4. Collection of receivables. Contra: 1310, 1350 5. Revenue received in advance. Contra: 2320 6. Collection of fees and penalties. Contra: 5300, 5500 7. Cash donations received and designated for special fund purposes. Contra: 5600	1. Exchange of foreign currency funds. Contra: 1012 2. Payment for goods or services received and previously accrued. Contra: 2110, 2130, 2140, 2190, 2990 3. Payment for late payment penalty or discounts lost. Contra: 6122 4. Amounts advanced to others. Contra: 1410 5. Disposition of foreign currency funds resulting from transactions other than direct foreign currency purchases. Contra: 1310, 1350 6. Exchange losses of monetary transactions occurring between time of agreement and payment. Contra: 7293
SOURCE OF ENTRY: Reimbursement and disbursement vouchers, sales records, and documented foreign exchange gains and losses.	
NORMAL BALANCE: DEBIT	

FIGURE 2-11

ACCOUNT NO. 1200	
FOREIGN CURRENCY	
DESCRIPTION: Continued from the previous page.	
DEBIT	CREDIT
8. Refunds received as a result of overpayments and other erroneous payments. Contra: 1500, 1510, 1530, 1560, 1570, 1580, 1710, 1720, 1730, 1740, 1750, 1760, 1810, 1820, 1830, 1840, 1890, 1990, 6100, 6320, 6330, 6500 9. Receipt of donated assets from public. Contra: 3400 10. Exchange gains of monetary transactions occurring between time of agreement and payment. Contra: 7193	
SOURCE OF ENTRY: Reimbursement and disbursement vouchers, sales records, and documented foreign exchange gains and losses.	
NORMAL BALANCE: DEBIT	

FIGURE 2-11 (Cont)

CHAPTER 3

RECEIVABLES

0301 GENERAL

The purpose of this chapter is to issue the policy that shall be followed in recording and accounting for receivables. A basic tenet of accounting is the establishment of accounting control over all receivables. Receivables shall be recorded when earned and collected when due. Procedures shall be established for the routine aging of all amounts overdue so that appropriated actions can be taken to effect their collection. The aggressive and efficient management of receivables in the Department of Defense is an important element of DoD stewardship over public funds.

0302 POLICY

Accounts receivable shall be recorded accurately and promptly on completion of the acts that entitle the Department of Defense to collect amounts owed it. Receivables include, but are not limited to, monies due for indebtedness determined as a result of travel and other overdue advances, dishonored checks, sale of goods and services, fines, penalties, interest, overpayment, fees, rent, claims, damages, and any other event resulting in a determination that a dept is owed the Department of Defense. Amounts receivable shall be reduced upon collection of the debt. Unless otherwise specified by law, all funds collected shall be deposited to the Treasury as miscellaneous receipts. Loans and other receivables shall be accorded similar accounting treatment to that given accounts receivable. The following subsections provide the specific standards to be followed in accounting for receivables:

030201 Receivables shall be recorded accurately and promptly so as to provide timely and reliable financial status on all debts owed the U.S. Government.

030202 Information on receivables shall be developed, maintained, and reported using the receivables accounts listed in Chapter 7, Volume 1 of this Regulation. Subsidiary accounts for major categories of receivables shall be maintained to facilitate clear and full disclosure, that is, the debtor, the amount, and the type of debt. Examples of account entries are provided later in this chapter.

030203 Subsidiary records shall be reconciled to the control accounts monthly.

030204 Accounting records for receivables shall be maintained so that all transactions affecting the receivables for each reporting period are included.

030205 The basic standards for internal control prescribed in DoD Directive 5010.38 must be adhered to in establishing and collecting receivables.

030206 Accounting for receivables shall include provisions for:

A. Credit management and debt collection. The DoD policy for credit management and debt collection programs is provided in Chapter 28, of Volume 5 of this Regulation.

B. The accurate and timely recording and aging of accounts, loans, and other receivables that result from normal activity, and all other debts including interest, penalty, and administrative charges applied to delinquent receivables. A delinquent receivable is defined as a receivable that remains unpaid after its due date. The due date is normally 30 days from the date of invoice or notice of payment due, unless a specific due date is established by statute, contract provision, or notice of indebtedness. Debts being liquidated by installment payments are not to be considered as delinquent, unless an installment is missed.

C. The accurate and timely recording of collections and liquidation of associated receivables. A receivable is recorded timely if recorded within the same month discovered.

D. The immediate recording of items not previously recorded due to error or oversight. Due dates for such items shall be established in the first notification to the debtor.

030207 All debts and accounts that result from the occurrence of any event for which a determination is made that money is owed to the U.S. Government shall be considered as receivables and recorded in a DoD Component's accounting system at the earliest opportunity.

030208 When management determines that resources should be recovered from a defense contractor and the contracting officer issues a demand for payment, a receivable shall be recorded and collection action initiated. The accounting and finance officer shall record the receivable upon receipt of a copy of the demand for payment. The date of demand for payment shall establish the point in time when the receivable must be recorded.

030209 Receivables from nonappropriated fund instrumentalities (NAFIs) shall be recorded as transactions with the public. They shall be included in the Schedule 220.9, "Report on Accounts and Loans Receivable Due From the Public." Accounts receivable from the FMS Trust Fund are to be recorded and reported as receivables due from other Government agencies.

030210 Gains or losses resulting from foreign currency receivables shall be recorded in the "Other Gains or Losses" account for the period when settlement occurs (see Chapter 19). This requirement does not supersede the accounting requirement concerning gains or losses in foreign currency transactions as set forth in 31 U.S.C. 3342.

030211 Interest receivable shall be recorded in the accounts when interest income is earned but not collected. Interest shall continue to be recorded, even when regular loan payments are not made, until the related debt is officially declared to be in default or a debt agreement modification action is taken.

030212 The Comptroller General and the Department of the Treasury require Federal Agencies to establish allowances for uncollectible accounts. In addition, agencies are required to age delinquent receivable accounts reflecting amounts owed to the Government. DoD Components operating under this Regulation shall ensure that their accounting systems provide for formal aging of delinquent receivables and the establishment of allowances for uncollectible accounts.

A. While other methods may be recognized and considered appropriate, the general reserve method is considered the most suitable for DoD Components in determining the amount of uncollectible accounts receivable. Under this method, a reserve is base on bad debt experience and changes in outstanding accounts receivable balances. In recognition of the principle that the more delinquent an account receivable becomes the greater the likelihood that it will not be collected in full, the analysis of receivables by age groups can be used in determining a reasonable amount to add to the allowance for loss on accounts and refunds receivable. To make this determination, it is desirable to estimate the percentage of probable expense for each age group of accounts receivable. This percentage, when applied to the dollar amount in each age group, gives a probable expense for each group. By adding together the probable expense for each age group, the required balance in the allowance for loss on accounts and refunds receivable is determined.

B. In preparing an aging schedule, amounts shall be considered as delinquent if not paid within 30 days from date of invoice or notice of payment due, unless different terms are specified by contract, other agreement or DoD Component procedures. Receivables shall be aged in the groups listed in Table 3-1.

AGED RECEIVABLE GROUPS

1-30 days delinquent
31-60 days delinquent
61-90 days delinquent
91-120 days delinquent
121-180 days delinquent
181-360 days delinquent
Over 360 days delinquent
> 1 year $\leq$ 2 years
> 2 years $\leq$ 3 years
over 3 years

Table 3-1

0303 EXTENT OF COLLECTION EFFORTS FOR DOMESTIC DEBTS

030301 General Policy. Except for debts from foreign countries, accounting and collection procedures shall be designed to provide information to assist in determining realistic points of diminishing returns beyond which collection efforts are not justified, and the minimum amount of a debt when no collection action at all should be undertaken. Procedures shall be designed to capture the total cost of the debt collection process (both direct and indirect costs), by dollar range of debt and the total number of cases processed. Until actual cost data are accumulated, cost analysis techniques shall be developed and used to determine the unit cost of processing first debt notices, follow-up actions, requests for waiver or remission, etc. When estimated costs are used, the estimates shall be updated periodically or when circumstances and conditions change significantly.

030302 Comparison Requirements. Each DoD Component shall make at least an annual comparison of costs incurred against amounts collected in its debt collection process to assist in the establishment of reasonable points at which costs of further collection efforts are likely to exceed recovery. This cost comparison, however, represents but one appraisal element to be considered in the analysis of when and where to terminate collection efforts. Other reviews concerning the type of debt, size, age statistical analysis, etc., also should be performed before a final point of termination of collection action is determined. The following definitions should be considered when making cost comparisons, reviews, and analysis:

A. The Debt Collection Process. Includes (1) the preparation of the first debt notice; (2) all follow-up actions such as answering rebuttals, processing requests for waiver or remission, holding hearing, negotiating compromises, handling installment contract and suspense, processing collections, and making referrals to credit reporting and collection agencies; and (3) the completion of the case, including maintaining the case file information until the appropriate statute of limitations expires.

B. Direct Cost. Includes any costs that can be identified specifically with handling cases or accounts during the debt collection process. These normally consist of personnel costs, computer equipment costs, supplies, postage and contract services.

C. Indirect Cost. Includes any costs that are identified with the debt collection process, but which benefit that process and at least one other activity. These costs shall be accumulated only when they are expected to exceed 20 percent of the direct costs.

D. Cases Processed. The number of cases completed or closed during the year either by collection or write-off. Collection includes compromises an offsets from other Federal Government payments.

030303 Break-Even Analysis. A break-even analysis is one method of determining realistic points at which further collection efforts are not justified. A break-even analysis format and instructions are provided as Table 3-2.

BREAK-EVEN ANALYSIS

(1) $ Range	(2) CASES # PROCESSED	(3) ORIGINAL $ AMOUNT	(4) COST TO $ COLLECT	(5) $ COLLECTIONS	(6) $ DIFFERENCE
$ 0-25					
26-50					
51-75					
76-100					
101-125					
126-575					
576-600					
SUBTOTAL					
OVER 600					
GRAND TOTAL					

Column (1) - Dollar range should be meaningful to the debt collection process. Subtotal can be placed anywhere within dollar range to relate to a particular debt collection need.

Column (2) - Total number of cases processed within this particular dollar range.

Column (3) - Original dollar amount of debts for this particular range.

Column (4) - Historical cost for this particular range or subtotal times number of cases in column (2).

Column (5) - Accumulate collections per range or subtotal.

Column (6) - Column (5) minus column (4). Break-even point is where the collections (5) are equal to the cost to collect (4).

Grand total of collections (column (5)) divided by grand total of original dollar amount (column (3)) = percent collection range for period.

Table 3-2

0304 EXTENT OF COLLECTION EFFORTS FOR DEBTS FROM FOREIGN COUNTRIES

General policy for collection of debts from foreign countries is contained in Chapter 12, Volume 6, of this Regulation.

0305 INTEREST, PENALTY, AND ADMINISTRATIVE CHARGES

030501 General

A. Accounting for receivables shall include provisions for accruing interest, penalty, and administrative charges on delinquent accounts from the public in accordance with 31 U.S.C. 3717. Accounting systems shall be designed to accumulate and record such charges for all debts owed the U.S. Government. Note, however, that debts owed by any Federal Agency (including NAFIs), or any State or local government are exempt from interest, penalty, and administrative charges.

B. Payments of amounts owed the Federal Government by organizations, businesses, and individuals are expected to be made in accordance with terms specified in contracts, agreements, or notifications of indebtedness. The Federal Acquisition Regulation is the authority for the collection of contractual indebtedness. For those debts owed the Federal Government that are not covered by contracts or agreements, the initial notification of indebtedness shall inform the debtor of the basis for the indebtedness, the date payment is to be made (due date), and the requirement for interest, penalty, and administrative charges, unless otherwise prohibited by law.

C. The intent of interest, penalty, and administrative charges is to stimulate prompt payment, to recover to the U.S. Treasury the cost of borrowing necessitated by a delinquent receivable, and to recover to the creditor agency the cost of processing and handling delinquent claims, including the referral of claims to credit bureaus or collection agencies.

030502 Application of Charges.

Guidance on assessing interest, penalty, and administrative charges is contained in the Federal Claims Collection Standards. Interest, penalty, and administrative charges, unless prohibited by law, shall be applied according to the following:

A. Interest charges shall be a assessed on all late payments whether the debt is to be paid in a lump sum or by installments. Interest shall also be charged on audit-related debt. The minimum rate shall be the average investment rate on Treasure's Tax and Loan Account for the 12-month period ending September 30 of each year, as prescribed by the Treasury Department.

B. Fixed or variable interest rates shall be established for each type of loan receivable and for overdue accounts receivables from the public. The factors that affect the variability of interest rates (e.g., legislation, type of contract, occurrence of an event, passage of time, debtor's income level, federal funds rate, etc.) shall be identified. In the absence of specific authority embodied in statute, regulation required by statute, contract, or other public notice, the interest rate shall be the current rate on funds to the Treasury.

C. DoD Components shall assess a penalty charge, not to exceed 6 percent per annum on any portion of a debt that is delinquent more than 90 days.

D. In addition to interest and penalty charges, a charge shall be determined and prorated over delinquent claims to cover the costs of processing and handling them.

E. Accrued interest, administrative, and penalty charges shall be recorded in appropriate accounts contained in Chapter 7 of Volume 1. Subaccounts may be established under existing accounts prescribed for interest and penalty charges.

F. A collection shall be applied first toward administrative and penalty charges; second, toward accrued interest; and third, toward the remaining balance due.

030503 Disposition of Charges

A. Interest charges collected shall be deposited directly into Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified."

B. Penalty charges shall be deposited directly into Treasure receipt account 1099, "Fines, Penalties, and Forfeitures, Not Otherwise Classified."

C. Administrative charges required to pay for contractor collection fees or claims collection litigation reports shall be paid directly to the GSA designated contractor. Any excess amounts shall be deposited monthly to Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not otherwise Classified."

030504 Computation of Amounts

A. Interest Charges shall be computed using the following formula:

$$I = DNF$$

Where: I = Interest charge
D = Amount of delinquent account receivable
N = Number of days delinquent
F = Interest rate per day

B. A penalty charge cannot exceed 6 percent per year of that portion of the debt that is delinquent more than 90 days. As described in paragraph 030206.B, a debt becomes delinquent if not paid by the established due date. Therefore, a penalty charge of up to 6 percent may be applied on a debt that has been delinquent for 91 days past the established due date. Penalty charges shall be applied to those accounts reported in the aging category 91-180 days delinquent and beyond. DoD Components may determine what percent up to the maximum 6 percent will be applied to delinquent accounts.

C. An administrative charge shall be assessed to cover the added costs incurred in handling a debt beyond the date on which payment was due. Unlike the interest charge, which begins to accrue on the date the delinquent notice actually is mailed, the administrative charge is applied only if payment is not made by the due date specified in the notice. DoD Components shall calculate administrative charges based upon actual costs incurred. If actual cost is not available, DoD Components may base administrative charges upon other historical costs or cost analyses so long as the method used supports determination of the charge. The administrative charge shall be applied to all delinquent debts with due regard given to the length of time the debts is delinquent, such as the age categories identified in paragraph 030212.B.

030505 Application to New Accounts. Rules for application of interest charges to newly established accounts are as follows:

A. The first interest rate used to determine charges on a delinquent account shall be applicable for the life of the delinquent account, unless the account is rescheduled or other events occur that justify an interest rate adjustment. The Department of the Treasury provides Federal Agencies with percentage rate to be used in applying interest by publishing the applicable rate in the Federal Register each quarter.

B. Payment terms specified in the notice of indebtedness shall be consistent with payment terms in the related contract or formal agreement.

C. Unless other provisions have been included in a contract or prior agreement, interest charges shall not be assessed until the debtor has been notified in writing that interest and penalty charges will accrue.

D. Interest and penalty charges shall continue to accrue after "date of death" when a claim is to be filed against an estate.

030506 Application to Existing Accounts. Rules for application of interest and penalty charges to accounts receivable on the effective date of this chapter are as follows:

A. On those debts for which payments are current and are being paid on a regular basis, an advisory notice shall be issued prescribing interest requirements with a stipulation that interest charges will not be imposed so long as payments remain current. This applies to in-service and out-of-service debts.

B. On those accounts for which payments are being made, but which are in arrears because some payments have been missed, the notice shall advise that federal regulations require interest and penalty charges to be assessed on the unpaid balance of the account if a regular payment schedule is not maintained.

C. Debtors with accounts that are over 90 days delinquent shall be notified of the requirement for assessing interest and penalty charges. If the debt is not liquidated by the due date prescribed in the notice, interest and penalty charges shall begin to accrue on the date of the notification.

030507 Payment Within 30 Days. Interest shall not be charged if payment is made within 30 days after the date from which interest begins to accrue (30 days after date notification was mailed). DoD Components may extend this period for an additional 30 days on a case-by-case basis.

030508 Waiver of Accrual of Interest, Penalty, and Administrative Charges. The head of a DoD Component, or designee, may promulgate regulations identifying circumstances appropriate to waive collection of interest and charges in conformity with the Federal Claims Collection Standards; otherwise, the policy regarding the waiver of the accrual of interest, penalty, and administrative charges is as follows:

A. The accrual of interest, penalty, and administrative charges may be waived when accounts are terminated or compromised, or when the additional charges would cause extreme hardship or would not be in the best interest of the Government.

B. Decisions to waive the accrual of interest, penalty, and administrative charges shall be considered on a case-by-case basis (no blanket waivers will be granted). Decisions on such waivers shall be documented, including an explanation as to the reasons for the waiver, and retained as a part of the official file.

C. Waiver of the accrual of interest, penalty, and administrative charges shall be approved at the same organizational level or by the same designee authorized to waive claims.

D. Once accrued, interest, penalty, and administrative charges shall be collected, reported, compromised, or written off in the same manner as the basic debt.

E. Debts that cannot be collected in full by a DoD Component's collection efforts shall be compromised, suspended, terminated, or reported to GAO or the Department of Justice in accordance with the Federal Claims Collection Standards. An inventory of cases referred including dollar amounts shall be maintained by each DoD Component for reporting purposes.

0306 REPORTING WRITE-OFF DEBT TO THE INTERNAL REVENUE SERVICE (IRS)

030601 Section V, paragraph 5, of Office of Management and Budget Circular A-129, requires that income from the discharge of indebtedness is to be included in the gross income of a taxpayer/debtor. Therefore, the outstanding balance, not including interest, of any defaulted obligation that meets the following criteria shall be reported on IRS Form 1099-G, "Statement for Recipients of Certain Government Payment."

A. The amount of the defaulted obligation not in dispute accrues to a total of $600 or more for a calendar year.

B. The obligation is not discharged in a Title II bankruptcy case.

C. The applicable federal statute for enforcing collection of the obligation expired during the tax year, or some form of formal

compromise agreement is reached during the year, or some form of formal compromise agreement is reached during the year in which the debtor is discharged legally of all or a portion of the obligation (in this case the portion discharged, less interest, is reportable).

0307 REPORTING OF RECEIVABLES

DoD Components are required to report all receivables that arise as a result of the completion of an act that entitles a Federal Agency to collect amounts owed to it. These receivables are to be reported on the TFS From 220, "Report on Financial Position," prescribed in Chapter 2-4100 of GAO and Chapter 5, Volume 6 of this Regulation. In addition to the TFS Form 220, DoD Components are required to submit Schedule 220.9, "Report on Accounts and Loans Receivable Due From the Public." Schedule 220.9 provides further visibility on public receivables as follows:

030701 Part I. Section A - Outstanding Receivables. Provides a total of current and nondelinquent receivables and an aging of delinquent receivables.

030702 Section B - Activity Fiscal Year to Date. Provides new receivables during the reporting period, total payments or collections against receivables, reclassified amounts, and amounts written off during the year. This information should be provided for accounts and loans receivable. These categories are identified specifically in exhibit number 5, Chapter 2-4100 of the TFM.

030703 Sections C and D. Provide for allowances and write-offs and a reconciliation.

030704 Part II. Provides administrative actionsand other supplemental information on delinquent and nondelinquent receivables such as cases referred to and resolved by the agency counsel and the Department of Justice; the aging of receivables reclassified; interest, penalties, and administrative charges; and a reconciliation with the TFS Form 220.

0308 RECEIVABLES AND RELATED CONTROL ACCOUNTS

030801 Accounts and Refunds Receivable

Figures 3-1 through 3-8 define the accounts that are used for accounts and refunds receivable and illustrate the entries for transactions that affect each account.

030802 Allowances for Loss

Figures 3-9 and 3-16 define the accounts that are used for allowances for loss and illustrate the entries for transactions that affect each account.

030803 Claims Receivable

Figure 3-11 defines this account and illustrates the entries for transactions that affect it.

030804 Loans Receivable

Figures 3-11 through 3-16 defines these accounts and illustrate the entries for transactions that affect them.

ACCOUNT NO. 1300	
RECEIVABLES - NET	
DESCRIPTION: Net receivables.	
DEBIT	CREDIT
This is a summary account. Do not post to this account.	
NORMAL BALANCE: DEBIT	

FIGURE 3-1

ACCOUNT NO. 1310	
ACCOUNTS RECEIVABLE	
DESCRIPTION: Amounts due from others when the right to receive funds accrues, which may result from the performance of services; delivery of goods; or, as in the case of interest income, the passage of time.	
DEBIT	CREDIT
This is a summary account. Do not post to this account.	
NORMAL BALANCE: DEBIT	

FIGURE 3-2

ACCOUNT NO. 1311	
ACCOUNTS RECEIVABLE - GOVERNMENT - CURRENT	
DESCRIPTION: Represents current amounts due from intrabudgetary U.S. Government organizations or funds. It also includes amounts due from U.S. Government sources that will be deposited into Treasury general fund receipt accounts when collected. Subaccounts will be maintained for each appropriation, fund, or receipt account.	
DEBIT	CREDIT
1. Amounts earned and billed for goods and services provided. Contra: Appropriate 5000 Accounts 2. Amounts previously recorded as noncurrent. Contra: 1312	1. Amount of collections received. Contra: 1011 2. Write-offs of accounts receivable. Contra: 1319 3. Amounts rescheduled to noncurrent. Contra: 1312
SOURCE OF ENTRY: Billing documents, interfund billings, job cost reports, receiving reports, payroll records, and cash collection vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 3-3

ACCOUNT NO. 1312	
ACCOUNTS RECEIVABLE - GOVERNMENT - NONCURRENT	
DESCRIPTION: Represents noncurrent amounts due from intrabudgetary U.S. Government organizations or funds. It also includes amounts due from U.S. Government sources that will be deposited into Treasury general fund receipt accounts when collected. Subaccounts will be maintained for each appropriation, fund, or receipt account.	
DEBIT	CREDIT
1. Amounts earned and not billed for goods and services provided. Contra: Appropriated 5000 Accounts 2. Amounts previously recorded as current but reclassified as noncurrent. Contra: 1311	1. Amount of collections received. Contra: 1011 2. Write-offs of accounts receivable. Contra: 1319 3. Amounts transferred to current account. Contra: 1311
SOURCE OF ENTRY: Billing documents, interfund billings, job cost reports, receiving reports, payroll records and cash collection vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 3-4

ACCOUNT NO. 1313	
ACCOUNTS RECEIVABLE - PUBLIC - CURRENT	
DESCRIPTION: Represents current amounts due from non-Federal Governmental organizations, commercial vendors, nonintrabudgetary transactions with NAFIs, and private parties. It also includes amounts from public sources that will be deposited into Treasury general fund receipt accounts when collected. Subaccounts will be maintained for each appropriation, fund, or receipt account.	
DEBIT	CREDIT
1. Amounts earned and billed for goods and services furnished. Contra: Appropriate 5000 Accounts 2. Amounts previously recorded as noncurrent. Contra: 1314	1. Amounts of collections received. Contra: 1011 2. Write-offs of accounts receivable. Contra: 1319 3. Amounts reclassified to noncurrent. Contra: 1314
SOURCE OF ENTRY: Billing documents, job cost reports, receiving reports, payroll records, and cash collection vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 3-5

ACCOUNT NO. 1314	
ACCOUNTS RECEIVABLE - PUBLIC - NONCURRENT	
DESCRIPTION: Represents noncurrent amounts due from non-Federal Governmental organizations, commercial vendors, nonintrabudgetary transactions with NAFIs, and private parties. It also includes amounts from public sources that will be deposited into Treasury general fund receipt accounts when collected. Subaccounts will be maintained for each appropriation, fund, or receipt account.	
DEBIT	CREDIT
1. Amounts not yet due for goods and services furnished. Contra: Appropriate 5000 Accounts 2. Amounts previously recorded as current but reclassified as noncurrent. Contra: 1313	1. Amounts of collections received. Contra: 1011 2. Write-offs of accounts receivable. Contra: 1319 3. Amounts transferred to current account. Contra: 1313
SOURCE OF ENTRY: Job cost reports, receiving reports, payroll records, and cash collection vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 3-6

ACCOUNT NO. 1315	
REFUNDS RECEIVABLE - GOVERNMENT	
DESCRIPTION: Represent amounts of refunds due from intrabudgetary U.S. Government organizations or funds resulting from erroneous payments. Subaccounts will be maintained for each appropriation or fund.	
DEBIT	CREDIT
1. Amounts of refunds due from other U.S. Government organizations or funds. Contra: Appropriated 1000 or 6000 Accounts	1. Amounts collected for refunds receivable. Contra: 1012 2. Adjustments or cancellations of refunds due. Contra: Appropriate 1000 or 6000 Accounts 3. Write-offs of refunds receivable. Contra: 1319
SOURCE OF ENTRY: Billing, collection, and disbursement documents.	
NORMAL BALANCE: DEBIT	

FIGURE 3-7

ACCOUNT NO. 1316	
REFUNDS - RECEIVABLE - PUBLIC	
DESCRIPTION: Represents amounts of refunds due from non-Federal Governmental organizations, commercial vendors, and private parties resulting from erroneous payments and unliquidated advances. Subaccounts will be maintained for each appropriation or fund.	
DEBIT	CREDIT
1. Amounts of refunds due from the public. Contra: Appropriate 1000 or 6000 Accounts.	1. Amounts collected for refunds receivable. Contra: 1012 2. Adjustments or cancellations of refunds due. Contra: Appropriated 1000 or 6000 Accounts 3. Write-offs of refunds receivable. Contra: 1319
SOURCE OF ENTRY: Billing, collection, and disbursement documents.	
NORMAL BALANCE: DEBIT	

FIGURE 3-8

ACCOUNT NO. 1319	
ALLOWANCE FOR LOSS ON ACCOUNTS RECEIVABLE	
DESCRIPTION: Represents the estimated amount of uncollectible accounts and refunds receivable. Subaccounts will be maintained for each appropriation or fund	
DEBIT	CREDIT
1. Write-offs of accounts and refunds receivable. Contra: Appropriate 1310 Accounts.	1. Amount estimated as uncollectible accounts and refunds receivable. Contra: 6129
SOURCE OF ENTRY: Analysis of accounts representing extensions of credit to estimate the uncollectible portion.	
NORMAL BALANCE: CREDIT	

FIGURE 3-9

ACCOUNT NO. 1320	
CLAIMS RECEIVABLE - PUBLIC	
DESCRIPTION: Represents amounts due from commercial carriers for damages to and losses in shipments occurring through the fault of the carrier; vendors as a result of shortages or damages to shipments occurring through the fault of the vendor; individuals held pecuniarily liable by report of survey for loss, damage, or destruction or property; and other claims. Subaccounts will be maintained for each appropriation and fund.	
DEBIT	CREDIT
1. Amounts due a DoD Component in settlement of claims. Contra: Appropriate 5000 or 6000 Accounts	1. Amounts collected. Contra: 1011 2. Write-offs of claims receivable. Contra: 1319
SOURCE OF ENTRY: Various claims documents and cash collection vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 3-10

ACCOUNT NO. 1350	
LOANS RECEIVABLE	
DESCRIPTION: Represents the outstanding principal amounts due under lending and other programs. Includes the principal value of loans. Subaccounts will be maintained for each appropriation or fund.	
DEBIT	CREDIT
This Account is a summary account. Do not post to this account.	
NORMAL BALANCE: DEBIT	

FIGURE 3-11

ACCOUNT NO. 1351	
LOANS RECEIVABLE - GOVERNMENT - CURRENT	
DESCRIPTION: Represents the current outstanding principal amounts due from other federal sources under lending and other programs. Subaccounts will be maintained for each appropriation or fund.	
DEBIT	CREDIT
1. Loans approved and issued. Contra: 1012 2. Amounts previously recorded as noncurrent. Contra: 1352	1. Cash collected to liquidate loan balances. Contra: 1011 2. Write-offs of loans receivable. Contra: 1359 3. Amounts reclassified to noncurrent. Contra: 1352
This account shall not be used without the specific approval of the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
SOURCE OF ENTRY: Loan instruments and cash collection vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 3-12

ACCOUNT NO. 1352	
LOANS RECEIVABLE - GOVERNMENT - NONCURRENT	
DESCRIPTION: Represents the noncurrent outstanding principal amounts due from other federal sources under lending and other programs. Subaccounts will be maintained for each appropriation or fund.	
DEBIT	CREDIT
1. Loans approved and issued. Contra: 1012 2. Amounts previously recorded as current but reclassified as noncurrent. Contra: 1351	1. Cash collected to liquidate loan balance. Contra: 1011 2. Write-offs of loans receivable Contra: 1359 3. Amounts transferred to current account. Contra: 1351
This account shall not be used without the specific approval of the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
SOURCE OF ENTRY: Loan instruments and cash collections vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 3-13

ACCOUNT NO. 1353	
LOANS RECEIVABLE - PUBLIC - CURRENT	
DESCRIPTION: Represents the current outstanding principal amounts due from public sources under lending and other programs. Includes the principal value of mortgages that FHA takes under the Homeowners Assistance Program and amounts of loans acquired under Defense Production Guarantees. Subaccounts will be maintained for each appropriation or fund.	
DEBIT	CREDIT
1. Amounts paid for acquired loans from public sources. Contra: 1012 2. Sale of home under Homeowners Assistance Program when FHA becomes mortgagee. Contra: 1691 3. Amounts previously recorded as noncurrent. Contra: 1354	1. Cash collected to liquidate loan balances. Contra: 1011 2. Write-offs of loans receivable. Contra: 1359 3. Repossession of property subject to a purchase money mortgage. Contra: 1691 4. Amounts reclassified to noncurrent. Contra: 1354
SOURCE OF ENTRY: Loan instruments and cash collection vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 3-14

ACCOUNT NO. 1354	
LOANS RECEIVABLE - PUBLIC - NONCURRENT	
DESCRIPTION: Represents the noncurrent outstanding principal amounts due from public sources under lending and other programs. Includes the principal value of mortgages that FHA takes under the Homeowners Assistance Program and amounts of loans acquired under Defense Production Guarantees. Subaccounts will be maintained for each appropriation or fund.	
DEBIT	CREDIT
1. Amounts paid for acquired loans from public sources. Contra: 1012 2. Sale of home under Homeowners Assistance Program when FHA becomes mortgagee. Contra: 1691 3. Amounts previously recorded as current but reclassified as noncurrent. Contra: 1353	1. Cash collected to liquidate loan balances. Contra: 1011 2. Write-offs of loans receivable. Contra: 1359 3. Repossession of property subject to a purchase money mortgage. Contra: 1691 4. Amounts transferred to current account. Contra: 1353
SOURCE OF ENTRY: Loan instruments and cash collection vouchers.	
NORMAL BALANCE: DEBIT	

FIGURE 3-15

ACCOUNT NO. 1359	
ALLOWANCE FOR LOSS ON LOANS RECEIVABLE	
DESCRIPTION: Represents the estimated amount of uncollectible loans receivable. Subaccounts will be maintained for each appropriation or fund.	
DEBIT	CREDIT
1. Write-offs of loans receivable. Contra: 1350, 1351, 1352	1. Amounts estimated as uncollectible loans receivable. Contra: 6129
SOURCE OF ENTRY: Analysis of accounts representing extensions of credit to estimate the uncollectible portion.	
NORMAL BALANCE: CREDIT	

FIGURE 3-16

CHAPTER 4

OPERATING MATERIALS AND SUPPLIES AND STOCKPILE MATERIALS

0401 GENERAL

040101 Purpose. This chapter prescribes the accounting policy and related requirements necessary to establish financial control over DoD materials and supplies including stockpile materials. The applicable general ledger accounts are included in the DoD Uniform Chart of Accounts in Chapter 7, Volume 1, of this Regulation, and the use of the operating materials and supplies and stockpile materials account is illustrated in this chapter.

040102 Operating Materials and Supplies Inventory. Operating materials and supplies consist of tangible personal property to be consumed in normal operations. Excluded are (a) goods that have been acquired for use in constructing real property, (b) stockpile materials, and (c) inventory.

040103 Distinction between Operating Materials and Supplies Inventory. The term "Inventory" is defined as tangible personal property, titled to the government, that is on hand or intransit (e.g., accepted at origin from a vendor, or moving between DoD activities) and is held for sale, future sale, repair, or pending transfer to disposal. Inventory excludes some other assets held for sale, such as (1) stockpile materials (including war reserve material), (2) seized and forfeited property, (3) foreclosed property, and (4) goods held under price support and stabilization programs. These goods may sold; the purpose, however, of acquiring them is not to provide a product or a service for a fee. Guidance relating to inventory held for sale in the course of normal operations will be included within Volume 11B of this Regulation.

040104 Stockpile Materials. Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business. The following items are specifically excluded from stockpile materials: (a) items that are held by an agency for sale for use in normal operations, (b) items that are held for use in the event of an agency's operating emergency or contingency, and (c) materials acquired to support market prices [that is, commodities specifically acquired, held, sold, or otherwise disposed of to satisfy or help satisfy economic goals].

040105 Recognition of Assets and Expenses. The consumption method of accounting for the recognition of expenses shall be applied for stockpile materials. The consumption method of accounting for the recognition of expenses shall ordinarily be applied for operating materials and supplies. However, in some instances, as noted below, the purchases method of accounting for the recognition of expenses may be used. Operating materials and supplies shall be recognized and reported as assets when produced or purchased. "Purchased" is defined as when title passes to the purchasing entity. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

A. Consumption Method of Accounting. The cost of goods shall be removed from the applicable operating materials and supplies asset account and reported as an operating expense in the period they are issued for consumption in normal operations.

B. Purchase Method of Accounting. The purchase method of accounting provides that operating materials and supplies be expensed when purchased. The purchase method may be used only for those operating materials and supplies that have a general use, are not significant in dollar amount, and are in the hands of the end user (e.g., performing cost center) for use in normal operations.

040106 Valuation of Stockpile Materials. Stockpile materials, except for war reserve material, shall be valued on the basis of historical cost. Historical cost shall include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period. The first-in, first-out (FIFO); weighted average; or moving average cost flow assumptions hall be applied in arriving at the historical cost of stockpile materials. The last-in, first-out (LIFO) is not permitted as an acceptable valuation method due to the stale values that would result. Stockpile materials, other than war reserve materials, are discussed in this chapter. War reserve materials are discussed in Volume 11B of this Regulation.

040107 Categorization and Valuation of Operating Materials and Supplies. Operating materials and supplies shall be categorized as (a) operating materials and supplies held for use, (b) operating materials and supplies held in reserve for future use, or (c) excess, obsolete and unserviceable operating materials and supplies. Each of the categories shall be valued as described below.

A. Operating Materials and Supplies Held for Use. Ordinarily, items carried in a supply management business area, procurement appropriation, or other appropriated account shall not be drawn from that source until the need for those operating materials and supplies, considering processing leadtime, arises. Similarly, operating materials and supplies procured from commercial sources should not ordinarily be procured for delivery prior to the need for those materials and supplies. Items classified as "Operating Materials and Supplies Held for Use," shall not exceed the amount expected to be used within 30 days unless justifying documentation supporting a supply in excess of 30 days is developed and maintained for review. Operating materials and supplies shall be valued on the basis of historical cost. Historical cost shall include all appropriate purchase and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period. Donated operating materials and supplies shall be valued at their fair value at the time of donation. The first-in, first-out (FIFO); weighted average; or moving average cost flow assumptions shall be applied in arriving at the historical cost of ending operating materials and supplies and cost of goods consumed. The last-in, first-out (LIFO) is not permitted as an acceptable valuation method due to the stale values that would result.

B. Operating Materials and Supplies Held in Reserve for Future Use. As a rule, operating materials and supplies shall not exceed the amount expected to be used within 30 days unless justifying documentation supporting a supply in excess of 30 days is developed and maintained for review. Within reason and normal prudence, items in excess of current needs shall be returned to the supplier and credit requested. Operating materials and supplies maintained because they are not readily available in the market or because it is likely they will be needed subsequently shall be classified as Operating Materials and Supplies Held in Reserve for Future Use. Operating materials and supplies held in reserve for future use shall be valued using the same basis as operating materials and supplies held for use in normal operations.

C. Excess, Obsolete, and Unserviceable Operating Materials and Supplies.

1. Excess operating materials and supplies are operating materials and supplies that exceed the amount on hand that can be used within one year.

2. Obsolete operating materials and supplies are operating materials and supplies that are no longer needed due to changes in technology, laws, customs, or operations.

3. Unserviceable operating materials and supplies are operating materials and supplies that are physically damaged and cannot be consumed in operations.

4. Excess, obsolete, or unserviceable materials and supplies shall be valued at their estimated net realizable value. The difference between their carrying amount before identification as excess, obsolete or unserviceable and their estimated net realizable value shall be recognized as a loss in GLA 7293, "Other Miscellaneous Losses," at the time the determination is made even though the disposition of the materials and supplies may not occur until a later period. Any subsequent adjustments to its net realizable value upon disposal shall also be recognized as a loss.

040108 Financial Statement Disclosure Requirements for Operating Materials and Supplies. Notes accompanying financial statements shall include:

A. General composition of operating materials and supplies.

B. Basis for determining operating materials and supplies values; including valuation method and any cost flow assumption.

C. Changes from prior year accounting methods, if any.

D. Balances for each of the categories of operating materials and supplies described above.

E. Restrictions on the use of materials.

F. Decision criteria for identifying the category to which operating materials and supplies are assigned.

G. Changes in the criteria for identifying the category to which operating materials and supplies are assigned.

0402 ACCOUNTING POLICY

040201 The acquisition cost of DoD supplies and material represents a substantial investment. It is important to bring this cost under financial control and to carry it forward until the inventory is issued for use or transferred out of the Department of Defense. Any item purchased by a DoD Component shall be brought under financial accounting control and recorded in the applicable general ledger account until issued to a user or consumer.

040202 Acquisition price means the price paid for the item net of any discounts determined to be economically feasible to take. Chapter 2 of this Volume provides guidance on determining when to take discounts.

040203 The general ledger accounts discussed in this chapter contain summary dollar amounts that shall be reported in the financial statements required by the Treasury and in other reporting requirements mandated by OMB and the Congress. Each account shall be updated based on applicable source documents.

0403 ACCOUNTING FOR OPERATING MATERIALS AND SUPPLIES

040301 A discussion of the operating materials and supplies accounts is provided in paragraphs 040302 through 040306, below.

040302 Operating Materials and Supplies (Account 1510)

A. "Operating Materials and Supplies" consist of tangible personal property to be consumed in normal operations. Operating materials and supplies shall be categorized as (1) operating materials and supplies held for use, (2) operating materials and supplies held for future use, or (3) excess, obsolete and unserviceable operating materials and supplies.

B. This account is a summary account used for financial statement purposes. No transactions are posted to this account.

040303 Operating Materials and Supplies Held for Use (Account 1511)

A. "Operating Materials and Supplies Held for Use" is used to record supplies and materials received and subsequently issued for use. As such this account is intended to be used by any DoD Component that maintains supplies and materials.

B. Table 4-1 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1511 - OPERATING MATERIALS AND SUPPLIES HELD FOR USE

1. Dr 1511 Operating Materials and Supplies Held for Use
   Cr 2111 Accounts Payable-Government-Current
   Cr 2113 Accounts Payable-Public-Current

   To record receipt of supplies and material recorded into inventory.

2. Dr 6121 Supplies and Materials
   Cr 1511 Operating Materials and Supplies Held for Use

   To record th issue of supplies and material from inventory

3. Dr 1511 Operating Materials and Supplies Held for Use
   Cr 1581 Inventory-Work in Process-In-House
   Cr 1721 Construction in Progress-In-House
   Cr 6121 Supplies and Materials

   To record the return of supplies and material to inventory.

4. Dr 1511 Operating Materials and Supplies Held for Use
   Cr 3220 Transfers In from Others-Without Reimbursement

   To record supplies and material received without reimbursement by the Department of Defense.

5. Dr 1511 Operating Materials and Supplies Held for Use
   Cr 7193 Other Miscellaneous Gains

   To record an increase in the inventory of supplies and material discovered by physical inventory.

6. Dr 3231 Transfers Out to Government Agencies-Without Reimbursement
   Dr 3232 Transfers Out to Others-Without Reimbursement
   Cr 1511 Operating Materials and Supplies Held for Use

   To record the transfer of supplies and material from inventory without reimbursement.

7. Dr 7293 Other Miscellaneous Losses
   Cr 1511 Operating Materials and Supplies Held for Use

   To record the following:

   (a) The nonreimbursable loss, damage, or destruction of supplies and material.
   (b) A decrease in supplies and material discovered by physical inventory.

8. Dr 1320 Claims Receivable-Public
   Cr 1511 Operating Materials and Supplies Held for Use

   To record the loss, damage, or destruction of supplies and material in inventory for which a legal right for a claim exists.

TABLE 4-1

C. Sources of entries to this account include contracts, invoices, receiving reports, payment vouchers, material-return documents, transfer documents, inventory documents, issue and shipping documents, sales records, and documented gains and losses.

040304 Operating Materials and Supplies Held in Reserve for Future Use (Account 1512)

A. "Operating Materials and Supplies Held in Reserve for Future Use" is used to record the value of stocks of materials and supplies maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations.

B. This account is intended for use by all DoD activities, including Defense Business Operations Fund activities.

C. Table 4-2 illustrates the most common entries used for this account.

D. Sources for entries to this account include receiving reports, inspection reports, material release orders, and reports of survey.

040305 Operating Materials and Supplies - Excess, Obsolete and Unserviceable (Account 1513)

A. "Operating Materials and Supplies - Excess, Obsolete and Unserviceable" is used to record the value of stocks of materials and supplies maintained because they are not readily available in the market or because there is more than a remote chance they will eventually be needed, although note necessarily in the normal course of operations.

B. This account is intended for use by all DoD activities, including Defense Business Operations Fund activities.

C. Table 4-3 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1512 -
OPERATING MATERIALS AND SUPPLIES HELD IN RESERVE FOR FUTURE USE

1. Dr 1512 Operating Materials and Supplies Held in Reserve for Future Use
   Cr 1511 Operating Materials and Supplies Held for Use

   To reclassify operating materials and supplies.

2. Dr 6121 Supplies and Materials
   Cr 1511 Operating Materials and Supplies Held for Use

   To record the use of operating materials and supplies.

3. Dr 1513 Operating Materials and Supplies-Excess, Obsolete and Unserviceable
   Cr Operating Materials and Supplies Held in Reserve for Future Use

   To reclassify operating materials and supplies.

TABLE 4-2

**ACCOUNTING ENTRIES FOR ACCOUNT 1513 -
OPERATING MATERIALS AND SUPPLIES - EXCESS, OBSOLETE AND UNSERVICEABLE**

1. Dr 1513 Operating Materials and Supplies - Excess, Obsolete and Unserviceable
   Dr 7293 Other Miscellaneous Losses
   Cr 1511 Operating Materials and Supplies Held for Use
   Cr 1512 Operating Materials and Supplies Held in Reserve for Future Use

   To record excess, obsolete, or unserviceable operating materials and supplies at its estimated net realizable value. The difference between the carrying amount before identification as excess, obsolete, or unserviceable and their estimated net realizable value shall be recognized at a loss in GLA 7291.2, "Excess/Obsolescence/Spoilage Loss," at the time the determination is made even thought the disposition of the materials and supplies may not occur until a later period. Any subsequent adjustments to net realizable value upon disposal shall also be recognized as a loss.

2. Dr 7293 Other Miscellaneous Losses
   Cr 1513 Operating Materials and Supplies-Excess, Obsolete and Unserviceable

   To record remaining loss upon final disposal of excess, obsolete or unserviceable items.

TABLE 4-3

040306 Operating Materials and Supplies In Transit (Account 1514)

A. "Operating Materials and Supplies In Transit" is used to record the value of supplies and materials in transit that have not been received.

B. This account shall be used to record the initial acceptance of items when title has passed but the items have not been received and accepted.

C. Items in transit between DoD accounting entities shall be kept under financial accounting control at all times. Entries to this account shall not be reversed at the beginning of the subsequent accounting period.

D. Table 4-4 illustrates the most common entries used for this account.

**ACCOUNTING ENTRIES FOR ACCOUNT 1514 -
OPERATING MATERIALS AND SUPPLIES IN TRANSIT**

1. Dr 1514 Operating Materials and Supplies In Transit
   Cr 2111 Accounts Payable-Government-Current
   Cr 2113 Accounts Payable-Public-Current

   To record the value of operating materials and supplies in transit.

2. Dr 1511 Operating Materials and Supplies Held for Use
   Dr 1512 Operating Materials and Supplies Held in Reserve for Future Use
   Cr 1514 Operating Materials and Supplies In Transit

   To record the receipt of operating materials and supplies in transit

TABLE 4-4

E. Sources of entries to this account include receiving reports, inspection reports, invoices, and documented estimates indicating source of estimates.

0404 ACCOUNTING FOR STOCKPILE MATERIALS

040401 Stockpile Materials (Account 1570)

A. "Stockpile Materials" are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business.

B. This account is a summary account used for financial statement purposes. No transactions are posted to this account.

040402 Stockpile Materials Held in Reserve (Account 1571)

A. "Stockpile Materials Held in Reserve" is the account commonly used to account for the value of stockpiled materials as stockpile materials are not held with the intent of selling in the ordinary course of business.

B. Table 4-5 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1571 - STOCKPILE MATERIALS HELD IN RESERVE

1. Dr 1571 Stockpile Materials Held in Reserve
   Cr 2111 Accounts Payable-Government-Current
   Cr 2113 Accounts Payable-Public-Current

   To record receipt of stockpile material.

2. Dr 6121 Supplies and Materials
   Cr 1571 Stockpile Materials Held in Reserve

   To record issue of stockpile material.

TABLE 4-5

040403 Stockpile Materials Held For Sale (Account 1572)

A. "Stockpile Materials Held For Sale" is used to account for stockpile materials that have been authorized for sale. The materials authorized for sale shall be valued using the same basis used before they were authorized for sale. Any gain (or loss) upon sale shall be recognized as a gain (or loss) at that time.

B. Table 4-6 illustrates the most common entries used for this account.

040404 Allowance for Loss on Stockpile Materials (Account 1579.1)

A. "Allowance for Loss on Stockpile Materials" is used to adjust for reasonably predictable and recurring events that although not known in advance can nevertheless be estimated with a fair degree of precision. Predictable and recurring events include losses due to causes such as deterioration, breakage, and theft.

B. Table 4-7 illustrates the most common entries used for this account:

ACCOUNTING ENTRIES FOR ACCOUNT 1572 - STOCKPILE MATERIALS HELD FOR SALE

1. Dr 1572 Stockpile Materials Held For Sale
   Cr 1571 Stockpile Materials Held in Reserve

   Entry to reclassify stockpiles from "Held in Reserve" to "Held for Sale"

2. Dr 6500 Cost of Goods Sold
   Dr 7293 Other Miscellaneous Losses
   Cr 1572 Stockpile Materials Held For Sale

   Entry to recognize sale of stockpile materials when a loss on its sale results.

3. Dr 6500 Cost of Goods Sold
   Cr 1572 Stockpile Materials Held For Sale
   Cr 7193 Other Miscellaneous Gains

   Entry to recognize sale of stockpile materials when a gain on its sale results.

TABLE 4-6

ACCOUNTING ENTRIES FOR ACCOUNT 1579.1 - ALLOWANCE FOR LOSS ON STOCKPILE MATERIALS

1. Dr 7293 Other Miscellaneous Losses
   Cr 1579.1 Allowance for Loss on Stockpile Materials

   To record the estimate of loss due to shrinkage or other causes. (The estimate of loss may be subsequently valued higher or lower if it becomes obvious that the original estimate was significantly different from currently expected events.)

2. Dr 1579.1 Allowance for Loss on Stockpile Materials
   Cr 1571 Stockpile Materials Held in Reserve
   Cr 1572 Stockpile Materials Held For Sale

   To record actual loss of stockpile materials. (If this entry would result in abnormal (debit) balance in account 1579.1, then the entry illustrated in (1.) above should be made for the abnormal portion.)

TABLE 4-7

C. Year-End Closing/Adjusting Entry. If the allowance amount established for the accounting period was exactly equal to the actual loss, then the balance in account 1579 would be zero ($-0-). However, estimates are seldom exactly equal to actual events. If the allowance estimate was too high, then a greater loss than actually incurred was recorded against current year operations. Conversely, if the allowance estimate was too low, then a smaller loss than actually incurred was recorded against current year operations. If those differences are not material, then no adjustment is necessary and the subsequent year allowance estimate can be modified to compensate for the difference. However, if those differences are material or if

management desires that the fiscal year-end allowance account be zero ($-0-), adjusting entries may be made. The entries are in Table 4-8.

0405 ACCOUNTING FOR WORK IN PROCESS

040501 Four "Work in Process" subsidiary accounts control applicable work, payments, and property that receive special attention. "Work in Process-In-House," "Work in Process-Contractor," and "Work in Process-Other Government Activities," identify the performing activity. "Work in Process-Government-Furnished Material," identifies that portion of Government property (including other Federal Agencies) furnished to contractors and subcontractors for the perfor

mance of DoD contracts for other than real property. Government property, in this case, includes all personal property acquired directly by the Department of Defense made available for incorporation into personal property and products to be delivered under DoD contracts or to be consumed or expended in the performance of those contracts.

040502 Work in Process general ledger accounts may be used by any DoD Component or activity within those Components. However, since activities within the Defense Business Operations Fund (predominantly those within the Depot Maintenance business area) more commonly use the work in process general ledger accounts, the description and use of the work in process accounts is contained in Volume 11B of this Regulation.

ACCOUNTING ENTRIES FOR YEAR-END CLOSING/ADJUSTING ENTRY

Dr 1579 Allowance for Loss on Stockpile Materials
Cr 7293 Other Miscellaneous Losses

To adjust loss estimates to actual loss at fiscal year end when the loss estimate is greater than the actual loss.

Dr 7293 Other Miscellaneous Losses
Cr 1579 Allowance for Loss on Stockpile Materials

To adjust loss estimates to actual loss at fiscal year-end when the loss estimate is less than the actual loss.

TABLE 4-8

ACCOUNT NO. 1510	
OPERATING MATERIALS AND SUPPLIES	
DESCRIPTION: The amount of tangible personal property to be consumed in normal operations. Operating materials and supplies shall be categorized as (1) operating materials and supplies held for use, (2) operating materials and supplies held for future use, or (3) excess, obsolete and unserviceable operating materials and supplies.	
DEBIT	CREDIT
This is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 4-1

ACCOUNT NO. 1511	
OPERATING MATERIALS AND SUPPLIES HELD FOR USE	
DESCRIPTION: The amount of tangible personal property to be consumed in normal operations within a reasonable period and which is ordinarily readily available in the marketplace or other source of supply or is not being held for other contingency reasons. Includes items acquired for use or consumption in the production of goods and services prior to the issue of those items to work in process.	
DEBIT	CREDIT
1. Receipt of operating supplies and materials. Contra: 2111 Accounts Payable-Government 2113 Accounts Payable-Public 3220 Transfers In from Others-Without Reimbursement	1. Issue of operating supplies and materials. Contra: 6121 Supplies and Materials
NORMAL BALANCE: DEBIT	

FIGURE 4-2

ACCOUNT NO. 1512	
OPERATING MATERIALS AND SUPPLIES HELD IN RESERVE FOR FUTURE USE	
DESCRIPTION: The amount of materials and supplies maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations.	
DEBIT	CREDIT
1. Receipt of operating materials and supplies. Contra: 2111 Accounts Payable-Government 2113 Accounts Payable-Public 3220 Transfers In from Others-Without Reimbursement 2. Reclassification of Materials and Supplies. Contra: 1511 Operating Materials and Supplies Held for Use	1. Issue of operating materials and supplies. Contra: 6121 Supplies and Materials. 2. Reclassification of Materials and Supplies. Contra: 1511 Operating Materials and Supplies Held for Use
NORMAL BALANCE: DEBIT	

FIGURE 4-3

ACCOUNT NO. 1513	
OPERATING MATERIALS AND SUPPLIES - EXCESS, OBSOLETE AND UNSERVICEABLE	
DESCRIPTION: Excess operating materials and supplies are operating materials and supplies that exceed the amount expected to be used in normal operations because the amount on hand is more than can be used in the foreseeable future and that do no meet the criteria to be held in reserve for future use. Obsolete operating materials and supplies are operating materials and supplies that are no longer needed due to changes in technology, laws, customs, or operations. Unserviceable operating materials and supplies are operating materials and supplies that are physically damaged and cannot be consumed in operations.	
DEBIT	CREDIT
1. Reclassification of operating materials and supplies as excess obsolete, or unserviceable. Contra: 1511 Operating Materials and Supplies Held for Use Contra: 1512 Operating Materials and Supplies Held in Reserve for Future Use	1. Sale or other disposal of excess, obsolete, or unserviceable operating materials and supplies. Contra: 1011 Funds Collected 7291.2 Excess/Obsolescence/Spoilage Loss
NORMAL BALANCE: DEBIT	

FIGURE 4-4

ACCOUNT NO. 1514	
OPERATING MATERIALS AND SUPPLIES IN TRANSIT	
DESCRIPTION: Represents the value of inventory which has not been received.	
DEBIT	CREDIT
1. Value of operating materials and supplies in transit. Contra: 2111 Accounts Payable-Government-Current 2113 Accounts Payable-Public-Current	1. Receipt of operating materials and supplies. Contra: 1511 Operating Materials and Supplies Held for Use 1512 Operating Materials and Supplies Held in Reserve for Future Use
NORMAL BALANCE: DEBIT	

FIGURE 4-5

ACCOUNT NO. 1570	
STOCKPILE MATERIALS	
DESCRIPTION: Strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies.	
DEBIT	CREDIT
This is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 4-6

ACCOUNT NO. 1571	
STOCKPILE MATERIALS HELD IN RESERVE	
DESCRIPTION: Strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies.	
DEBIT	CREDIT
1. Receipt of materials. Contra: 2111 Accounts Payable-Government-Current 2113 Accounts Payable-Public-Current	1. Issue of inventory. Contra: 6121 Supplies and Materials
NORMAL BALANCE: DEBIT	

FIGURE 4-7

ACCOUNT NO. 1572	
STOCKPILE MATERIALS HELD FOR SALE	
DESCRIPTION: Stockpile materials held that have been authorized for sale.	
DEBIT	CREDIT
1. Reclassification of stockpile materials. Contra: 1571 Stockpile Materials Held in Reserve	1. Sale of stockpile materials. Contra: 6500 Cost of Goods Sold 7293.1 Other Miscellaneous Losses
NORMAL BALANCE: DEBIT	

FIGURE 4-8

ACCOUNT NO. 1591.1	
ALLOWANCE FOR LOSS ON STOCKPILE MATERIALS	
DESCRIPTION: An allowance account used to adjust for reasonably predictable and recurring events such as losses due to causes such as deterioration, breakage, and theft that although not know in advance can nevertheless be estimated with a fair degree of precision.	
DEBIT	CREDIT
1. Incurrence of actual loss. Contra: 1571 Stockpile Materials Held in Reserve 1572 Stockpile Materials Held for Sale	1. Establish an estimate of losses. Contra: 7293.2 Shrinkage/Deterioration Losses
NORMAL BALANCE: DEBIT	

FIGURE 4-9

CHAPTER 5

ADVANCES AND PREPAYMENTS

0501 GENERAL

050101 Purpose. This chapter prescribes the principles and policy to be followed by DoD Components to account for advances and prepayments made to employees, other Federal Government agencies and to non-Federal Government organizations. Advances do not include payments for which performance has occurred.

050102 Overview

A. The legal authority to make advances is contained in 31 U.S.C. 3324:

"(a) Except as provided in this section, a payment under a contract to provide a service or deliver an article for the United States Government may not be more than the value of the service already provided or the article delivered."

"(b) An advance of public money may be made only if it is authorized by--

(1) a specific appropriation or other law; or

(2) the President to be made to--

(A) a disbursing official if the President decides the advance is necessary to carry out--

(i) the duties of the official promptly and faithfully; and

(ii) an obligation of the Government; or

(B) an individual serving in the armed forces at a distant station if the President decides the advance is necessary to disburse regularly pay and allowances."

B. Advances and prepayments are disbursements of money from Department of Treasury accounts before performance has been certified by an authorized DoD receiving official.

C. Advances are made in contemplation of the later receipt of goods, services, or other assets. Advances are made only to payees to whom a Component has an obligation and not in excess of the amount of the obligation. A common example is travel advances. Travel advances are amounts made available to employees before beginning a trip for costs to be incurred in accordance with the 5 U.S.C. 5705 and in accordance with standardized Government travel regulations.

1. Within the Department of Defense, the following categories of advances may exist: travel advances; advances to contractors and suppliers; advances to grantees; advances to the public, including foreign governments; and advances to Federal Agencies.

2. Advances to contractors and suppliers and to grantees shall be supported by the contracting officer's determination that all statutory requirements are met and that the provisions of the Federal Acquisition Regulation (FAR), Part 32, subpart 32-4 and the DoD FAR Supplement, Part 32, subpart 32-4 are met. These provisions require, among other things, that the contractor give adequate security, advance payments may not exceed the unpaid contract price, the advance payment shall not exceed the contractor's interim cash needs, the advance is necessary to supplement funds available to the contractor, and, the Department of Defense shall benefit from performance prospects, or there are other practical advantages.

3. Advances to foreign countries are authorized by 10 U.S.C. 2396 which provides that:

"(a) An advance under an appropriation to the Department of Defense may be made to pay for:

(1) compliance with laws and ministerial regulations of a foreign country;

(2) rent in a foreign country for periods of time determined by local custom; and

(3) tuition."

"(b)(1) Under regulations to be prescribed by the Secretary of Defense or by the Secretary of the Transportation with respect to the Coast Guard when it is not operating as a service of the Navy, an officer of an armed force of the United States accountable for public money may advance amounts to a disbursing official of a friendly foreign country or members of an armed force of a friendly foreign country for--

(A) pay and allowances to members of the armed force of that country; and

(B) necessary supplies and services.

(2) An advance may be made under this subsection only if the President has made an agreement with the foreign country--

(A) requiring reimbursement to the United States for amounts advanced;

(B) requiring the appropriate authority of the country to advance amounts reciprocally to members of the armed forces of the United States; and

(C) containing any other provision the President considers necessary to carry out this subsection and to safeguard the interests of the United States."

D. Advances to foreign governments shall be made as closely as possible to the time they actually disburse funds for costs incurred.

1. Normally, advances shall not be outstanding for more than 90 days. Statements of actual costs incurred in sufficient detail to allow certification of performance by an authorized DoD official shall be provided on a monthly basis. Advances to foreign countries may require consultation with the Treasury Department.

2. Advances made pursuant to 10 U.S.C. 2396 shall be recorded in account 1414, "Advances-All Others-Public." Subsidiary accounts shall be established for each country and each organization or person to whom the advance is made.

E. Prepayments are amounts paid for goods and services to be provided over a specified period in time. They apply only to those situations when it is a generally accepted industry practice to pay for items such as rents, subscriptions, and maintenance agreements in advance of the service being provided and the prepayment is authorized by law. When expenses are prepaid, DoD Components shall record the prepayment when it is made. At the end of the fiscal year, prepayments shall be reviewed and the expired portion expensed. As a general rule, DoD operation and maintenance appropriations are annual in nature and thus limited to obligations for goods and services required to meet current operating requirements. Progress payments to contractors also are recorded as prepayments.

F. Advances shall be made only to meet requirements authorized by law. When the conditions under which an advance was made are satisfied, the unused portions of the advance shall be collected immediately and returned to the fund from which originally made.

G. Except for DoD personnel receiving advances for travel purposes, all requesting organizations shall prove destitution; i.e., that they are financially unable to perform without DoD financial assistance. Failure to seek financial market assistance is not a valid basis

for requesting an advance. Organizations or individuals (other than DoD employees requesting travel advances) requesting advances shall demonstrate that all external financing sources have been exhausted before an advance is authorized.

H. Advances to civilian and military personnel for pay shall be made in accordance with the guidance contained in Chapters 28 and 29 of this Volume.

0502 ACCOUNTING POLICY

050201 DoD Components making advances or prepayments shall record them as assets until receipt of the goods or services involved or until contract terms are met. When goods or services have been received or contract terms met, the expense or acquired asset shall be recognized and the advances or prepayments reduced.

050202 Advance payments to grant award recipients (including amounts drawn against letters of credit) shall be accounted for as advances of the assisting DoD Component until the recipient has performed under the award or contract.

050203 Once the recipient has performed under the grant or agreement, the assisting agency shall record an expense in an amount equal to the cost of the services performed or costs incurred and reduce the advance account by a like amount.

050204 Advances and prepayments made shall be aggregated and not netted against each other and shown as separate line items on the financial statements and not included in accounts receivable or accounts payable.

050205 DoD Components shall report or disclose separately the amount of advances and prepayments associated with the following:

A. Non-federal entities.

B. Federal Agencies.

0503 ACCOUNTING FOR ADVANCES

050301 The primary purpose for advances is to provide funds to assist other organizations and individuals, who otherwise might be disadvantaged financially to carry out specified activities related to the U.S. national defense.

050302 Advances represent a current outlay of funds to meet a near- or long-term need. As such, they are a negative factor minimizing the Treasury's borrowing requirements. Accordingly, amounts advanced shall be kept to the minimum amounts necessary for the shortest possible time period.

050303 DoD Component financial management systems shall incorporate sufficient internal controls and information gathering techniques to monitor the use of advances made. Unneeded and unused balances shall be recovered as soon as information indicates they are excess to the purposes for which originally made.

050304 Recoveries of unused advances shall be recorded as a negative disbursement; i.e., as a debit to account 1012, Funds Disbursed. This permits the Funds Disbursed account to support the disbursements balances reported on the DD 1176, "Report on Budget Execution."

050305 Paragraphs 050306 through 050312, below, discuss the general ledger accounts to be used by DoD Components for advances. Accounts are established for the major categories of advances made by the Department of Defense.

050306 Advances and Prepayments (Account 1400)

A. "Advances and Prepayments" is used to record the outstanding balance of amounts advanced to Federal Agencies and non-federal entities by DoD Components and prepayments made for the later receipt of goods, services, or other assets.

B. This account is a summary control account for financial reporting purposes. No entries are posted to this account.

050307 Advances to Others (Account 1410)

A. "Advances to Others" represents the amount of payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or for other assets.

B. This account is a summary control account used for financial reporting purposes. No entries are posted to this account.

050308 Travel Advances (Account 1411)

A. "Travel Advances" represents the outstanding balance of advances made to DoD military personnel, civilian employees, and appointees for per diem, transportation, and related expenses incident to travel on authorized official business or change of official duty station.

B. Travel advances shall be minimal and allowed only when necessary. Generally, advances shall not exceed 80 percent of the estimated per diem. The use of credit cards by DoD employees as a result of General Services Administration contracts with major credit cards is to be encouraged in lieu of travel advances.

C. Travel advances shall be charged to the appropriations or funds from which reimbursements of travel expenses are to be made. An authorized travel order shall serve as the basis for issuing a travel advance.

D. When authorized travel carries over from one fiscal year to the next, the total balance of all travel advances shall be transferred from the expiring appropriation accounts to the next year's appropriation accounts. Such transfers are to be made at the beginning of the new fiscal year. The transfer documents shall be supported by detailed data on each outstanding advance included in the transfer.

E. Periodically, but at least semiannually, all outstanding advances shall be reviewed to determine if the original justification for the advances are still valid. Advances determined to be in excess of the travelers' immediate needs shall be collected from the traveler.

F. Recovery of travel advances may occur in the following ways: submission of a travel voucher upon completion of official travel; repayment by the employee to whom the advance was made; or, when necessary, deductions from the employee's pay. If the traveler is in a continuous travel status and periodic travel vouchers are submitted, the full amount of allowable travel expenses may be reimbursed to the traveler without deductions of advances until such time as the final vouchers are submitted.

G. If travel advances are not fully recoverable by deductions from travel vouchers or refunded by the travelers, prompt action shall be taken to recover the outstanding advances by deductions from any amounts due the traveler or by using any other legal means available. In such instances, the travel advance shall be re-classified and recorded in account 1316, "Refunds Receivable-Public."

H. Subsidiary travel advance accounts shall be established for each appropriation and for each employee. Information in the employee subsidiary account shall include sufficient information to establish an audit trail showing when the advance was made, the authority for the advance, and the date the advance was liquidated.

I. Employees shall be provided a reasonable period of time to repay their travel advances upon completion of travel. As a general rule, 15 calendar days shall be considered sufficient unless evidence is available to indicate a longer or shorter period is justifiable.

J. Table 5-1 illustrates the most common entries used for this account.

K. Sources for entries to this account include travel orders, travel vouchers, cash collection vouchers, disbursement vouchers, and journal vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 1411 - TRAVEL ADVANCES

1. Dr 1411 Travel Advances
   Cr 1012 Funds Disbursed

   To record travel advance issued to employee.

2. Dr 6116 Travel and Transportation of Persons
   Dr 1012 Funds Disbursed
   Cr 1411 Travel Advances

   To liquidate outstanding travel advances on completion of travel. (Debit to 1012 required for part of advance returned)

3. Dr 1316 Refunds Receivable-Public
   Cr 1411 Travel Advances

   To transfer an unliquidated travel advance to refunds receivable when an employee fails to repay an advance.

Table 5-1

050309 Advances to Contractors and Suppliers (Account 1412)

A. "Advances to Contractors and Suppliers" is used to record amounts advanced to non-federal organizations or individuals under contracts for goods and services.

B. This account shall be supported by subsidiary accounts for each appropriation and fund and for each advance made. Periodically, the account balance shall be reconciled with the detailed documentation supporting the advances recorded in this account. Such reconciliations shall be made no less frequently than semiannually.

C. Advances to non-federal organizations shall be made only when authorized by law.

D. Table 5-2 illustrates the most common entries used for this account.

E. Sources for entries to this account include contracts, receiving and inspection reports accepting goods and services received, and collection vouchers.

050310 Advances to Grantees (Account 1413)

A. "Advances to Grantees" is used to record amounts advanced to grantees pursuant to terms included in grant agreements.

B. This account shall be supported by subsidiary accounts for each applicable appropriation and grantee receiving an advance. Periodically, the account balance shall be reconciled with the detailed documentation supporting the advances recorded in this account. Such reconciliations shall be made no less frequently than semiannually.

C. Each account shall be reviewed periodically to determine whether amounts advanced are in excess of the grantee's current needs. Amounts determined to be excess shall be collected form the receipient. The timing of the review should be coordinated with DoD grantors so that the review occurs as each grant milestone or reporting requirement is reached.

D. Table 5-3 illustrates the most common entries used for this account:

ACCOUNTING ENTRIES FOR ACCOUNT
1412 - ADVANCES TO CONTRACTORS AND SUPPLIERS

1. Dr 1412 Advances to Contractors and Suppliers
   Cr 1012 Funds Disbursed

   To record advances issued.

2. Dr 6120 Other Services
   Dr 1510 Inventory for Agency Operations
   Dr 1766 Equipment Not in Use
   Dr 1012 Funds Disbursed
   Cr 1412 Advances to Contractors

   To liquidate an outstanding advance and collect unused balances.

Table 5-2

ACCOUNTING ENTRIES FOR ACCOUNT 1413 - ADVANCES TO GRANTEES

1. Dr 1413 Advances to Grantees
   Cr 1012 Funds Disbursed

   To record issue of an advance.

2. Dr 6123 Grants, Subsidies, and Contributions
   Cr 1413 Advances to Grantees

   To record application of an advance to execution of the grant.

3. Dr 1012 Funds Disbursed
   Cr 1413 Advances to Grantees

   To record recovery of advances made to grantees.

Table 5-3

E. Sources for entries to this account include grant agreements, disbursement vouchers, collection vouchers and reports on grant performance.

050311 Advances-All Other-Public (Account 1414)

A. "Advances-All Others-Public" is

used to record advances to the general public, pay advances to military personnel, and to foreign nations that may not be classified to a specific advance account.

B. This account shall be supported by subsidiary accounts for each applicable appropriation and recipient.

C. Advances in this category shall be made only when authorized by law or regulations as discussed in paragraph 050102.A.3 above.

D. Each account shall be reviewed periodically to determine whether the amounts advanced are in excess of the recipient's current needs. Amounts determined in excess shall be collected from the receipient. The required review shall be made at least semiannually.

E. Table 5-4 illustrates the most common entries used for this account:

F. Sources for entries to this account include contract documents, inspection and receiving reports, disbursing vouchers, and collection vouchers.

050312 Advances to Government Agencies and Funds (Account 1415)

A. "Advances to Government Agencies and Funds" is used to record advances made to other Federal Agencies and funds pursuant to law or agreements between DoD Components and other federal organizations.

B. This account shall be supported by subsidiary accounts for each appropriation and recipient.

C. Advances to other Government agencies shall be made only pursuant to law or when such interests are in U.S. national defense. Generally, work performed for the Department of Defense by other Federal Agencies is on a reimbursable or a direct cite arrangement, and funds are transferred to the performing agency using noncheck transfer mechanisms.

D. Table 5-5 illustrates the most common entries used for this account:

E. Sources for entries to this account include interagency agreements, disbursement vouchers, collection vouchers, and receiving and inspection reports.

ACCOUNTING ENTRIES FOR ACCOUNT 1414 - ADVANCES-ALL OTHERS-PUBLIC

1. Dr 1414 Advances-All Others-Public
   Cr 1012 Funds Disbursed

   To record advances made.

2. Dr 1012 Funds Disbursed
   Cr 1414 Advances-All Others-Public

   To record recovery of unused advances.

3. Dr 1510 Inventory for Agency Operations
   Dr 6120 Other Services
   Cr 1414 Advances-All Others-Public

   To liquidate the advance when services required are delivered.

Table 5-4

0504 ACCOUNTING FOR PREPAYMENTS

050401 Prepayments are expenditures in advance of accepted or delivered performance. They differ from advances in that prepayments relate to transactions that are recurrent in nature and do not provide financing as a precondition of performance.

050402 In the absence of specific legal authority, DoD Components are not authorized to incur obligations using operation and maintenance appropriations for goods and services to be provided in future years.

050403 Prepayments as they apply to the Defense Business Operations Fund are discussed in Volume 11B of this regulation.

050404 Prepayments (Account 1450)

A. "Prepayments" represent the account of expenditures which provide future benefits and include such items as subscriptions, rents, taxes, royalties, commissions, progress payments to contractors, insurance and supplies. This account is a summary account used for financial reporting and control purposes.

B. Table 5-6 illustrates the most common entries used for this account.

C. Sources for entries to these accounts include progress payment requests, vendor invoices, contracts, and disbursement vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 1415 -
ADVANCES TO GOVERNMENT AGENCIES AND FUNDS

1. Dr 1415 Advances to Government Agencies
   Cr 1012 Funds Disbursed

   To record advances issued.

2. Dr 1510 Inventory for Agency Operations
   Dr 6120 Other Services
   Dr 1012 Funds Disbursed
   Cr 1415 Advances to Other Government Agencies

   To record liquidation of the advance, recovery of unused balances and performance.

Table 5-5

ACCOUNTING ENTRIES FOR ACCOUNT 1450 - PREPAYMENTS

1. Account 1451, "Prepaid Expenses." The following entries illustrate the use of this account:

   a. Dr 1451 Prepaid Expenses
      Cr 1012 Funds Disbursed

      To record invoice and prepayment of an item item or service that will be an expense when received.

   b. Dr 6100 Operating/Program Expenses
      Cr 1451 Prepaid Expenses

      To amortize a prepaid expense over its prescribed period of usefulness.

   c. Dr 6100 Operating/Program Expenses
      Cr 1451 Prepaid Expenses
      Cr 1012 Funds Disbursed

      To record receipt of an item or service for which prepayments have been made (including any payment due upon receipt).

2. Account 1452, "Progress Payments Made To Others." The following entries illustrate the use of this account:

   a. Dr 1452 Progress Payments Made To Others
      Cr 1012 Funds Disbursed

      To record prepayment for an asset that has not been received.

   b. Dr 1700 Fixed Assets
      Cr 1452 Progress Payments Made To Others
      Cr 1012 Funds Disbursed

      To record receipt of an asset for which progress payments have been made (including any payment due upon receipt).

   c. Dr 1542 Inventory-Work in Process-Contractor
      Cr 1452 Progress Payments Made To Others
      Cr 1012 Funds Disbursed

      To record receipt of an asset for which progress payments have been made (including any payment due upon receipt).

Table 5-6

ACCOUNT NO. 1400	
ADVANCES AND PREPAYMENTS	
DESCRIPTION: The outstanding balance of amounts advanced to federal and non-federal entities by DoD and prepayments made for the later receipt of goods, services, or other assets.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 5-1

ACCOUNT NO. 1410	
ADVANCES TO OTHERS	
DESCRIPTION: Payments made in contemplation of the future performance of services, receipt of goods or other assets.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 5-2

ACCOUNT NO. 1411	
TRAVEL ADVANCES	
DESCRIPTION: Represents the outstanding balance of advances made to military personnel, civilian employees and appointees for per diem, transportation, and related expense incident to travel on official business or change of official duty station.	
DEBIT	CREDIT
1. Amounts paid to DoD travelers or others before incurring travel expenses. Contra: 1012 Funds Disbursed	1. Traveler transportation vouchers processed to liquidate outstanding travel advances. Contra: 6116 Travel and Transportation of Persons 2. Collections received to liquidate outstanding travel advances. Contra: 1012 Funds Disbursed 3. Unused travel advances not returned. Contra: 1316 Refunds Receivable - Public
NORMAL BALANCE: DEBIT	

FIGURE 5-3

ACCOUNT NO. 1412	
ADVANCES TO CONTRACTORS AND SUPPLIERS	
DESCRIPTION: Represents the outstanding balance of amounts advanced to organizations or individuals outside the U.S. Government under contracts for goods and services.	
DEBIT	CREDIT
1. Amounts paid in advance of work performed by contractors or suppliers. Contra: 1012	1. Liquidation of outstanding advances. Contra: 1012, 1510, 1530, 1560, 1570, 1710, 1730, 1762, 1763, 1766, and 6120
NORMAL BALANCE: DEBIT	

FIGURE 5-4

ACCOUNT NO. 1413	
ADVANCES TO GRANTEES	
DESCRIPTION: Represents the outstanding balance of advances issued to grantees.	
DEBIT	CREDIT
1. Amounts paid to grantees. Contra: 1012	1. Amounts applied to costs incurred under terms of grants. Contra: 6123 2. Cancellation of a grant. Contra: 1012 and 1313
NORMAL BALANCE: DEBIT	

FIGURE 5-5

ACCOUNT NO. 1414	
ADVANCES - ALL OTHERS - PUBLIC	
DESCRIPTION: Represents the outstanding balance of other amounts advanced to the public including personnel of foreign nations.	
DEBIT	CREDIT
1. Amounts paid to non-federal organizations or parties for goods which have not been delivered or for services which have not been performed. Contra: 1012	1. Collections received to liquidate outstanding advances. Contra: 1012 2. Amounts applied to costs incurred under terms of agreements. Contra: 1510, 1530, 1560, 1570, 1710, 1730, 1740, 1750, 1762, 1766, 1820, 1890, and 6120
NORMAL BALANCE: DEBIT	

FIGURE 5-6

ACCOUNT NO. 1415	
ADVANCES TO GOVERNMENT AGENCIES AND FUNDS	
DESCRIPTION: Represents the outstanding balance of other advances made to U.S. Government organizations and funds.	
DEBIT	CREDIT
1. Amounts paid to Federal Government organizations for goods which have not been delivered or for services which have not been performed. Contra: 1012	1. Collections received to liquidate outstanding advances. Contra: 1012 2. Amounts applied to costs incurred under terms of various agreement documents. Contra: 1510, 1530, 1560, 1570, 1710, 1730, 1740, 1762, 1766, 6116, 6117, 6118, 6119, and 6120
NORMAL BALANCE: DEBIT	

FIGURE 5-7

ACCOUNT NO. 1450	
PREPAYMENTS	
DESCRIPTION: Expenditures which provide future benefits. Prepayments cover items such as. rent, taxes, royalties, commissions, progress payments to contractors, insurance, and supplies.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 5-8

ACCOUNT NO. 1451	
PREPAID EXPENSES	
DESCRIPTION: Expenditures which provide future benefits. Prepayments are often recurrent in nature and cover items such as rent, taxes, royalties, commissions, insurance, and supplies.	
DEBIT	CREDIT
1. Prepayment of a service. Contra: 1012	1. Recognition of a prepayment as an expense. Contra: 6100
NORMAL BALANCE: DEBIT	

FIGURE 5-9

ACCOUNT NO. 1452	
PROGRESS PAYMENTS MADE TO OTHERS	
DESCRIPTION: Expenditures for assets in advance of their receipt.	
DEBIT	CREDIT
1. Progress payment request paid. Contra: 1012	1. Recordation of an asset to its proper account upon receipt. Contra: 1500, and 1700
NORMAL BALANCE: DEBIT	

FIGURE 5-10

CHAPTER 6

FIXED ASSETS

0601 GENERAL

060101 Purpose. This chapter prescribes the accounting policy to establish financial control over DoD fixed assets. The applicable general ledger accounts are listed in the DoD Uniform Chart of Accounts in Chapter 7, Volume 1 of this Regulation, and their use is illustrated in this chapter.

060102 Overview

A. The policy for recording fixed asset transactions implement the general property accounting policy prescribed in Chapter 1 of this Volume.

B. Fixed asset accounts are needed to bring the acquisition cost of DoD property under financial control and to provide a reliable basis for preparing reports to the President, the Congress, and the public on the value of DoD property.

0602 ACCOUNTING POLICY

060201 The acquisition cost of fixed assets consists of the amount, net of authorized discounts, paid or payable for the assets plus the transportation, installation, and other related costs of obtaining the assets in the form and place to be put into use.

060202 The term "costs" means costs paid to acquire the property. For example, another Federal Agency or another DoD Component may incur an identifiable cost related to the acquisition process of the acquiring DoD Component. Such a discretely identifiable cost is considered by the acquiring Component as part of the acquisition cost of property. An example of a cost that shall not be recorded is interest on the public debt that is paid by the Department of the Treasury, except as described in Chapter 1, paragraph 010504.C. of this Volume, and paragraph 060204, below.

060203 The guidance in paragraph 060202, above, on costs paid by other Federal Agencies applies to assets transferred in from another Federal Agency without reimbursement. Such transfers shall be recorded using the amounts recorded in the transferring Federal Agency's accounting system. Section 0605 of this chapter illustrates the accounting treatment for recording assets transferred in from other Federal Agencies.

060204 Only interest cost on loans obtained by the Department of Defense to finance capital expenditures by the Department of Defense are capitalized. However, imputed interest cost shall be included in the selling price of the property, plant, or equipment under certain circumstances. Volume 11 of this Regulation provides guidance to be followed in establishing selling prices.

060205 Property, plant, and equipment acquired or constructed for R&D testing activities normally shall be expensed when acquired. When the assets can be used for other purposes after the original R&D work is completed, the remaining value of the assets shall be capitalized by reducing the expense accounts to reflect the remaining acquisition cost of the assets to be capitalized.

060206 Assets shall have an estimated useful life to the Department of Defense of 2 years or more. Useful life refers to the period of economic usefulness of an asset to the Department of Defense as opposed to its physical life. Determination of an asset's useful life shall be based on actual or planned retirement or replacement practices, not "standard" tables of asset lives. When item-by-item calculations of depreciation are required, the estimated useful lives shall be reviewed at their 50 percent point and adjusted as needed to correspond to a more realistic remaining useful life. Subsequent reevaluations are not required.

060207 DoD Components shall capitalize all assets developed, manufactured, transferred, or acquired when the following criteria are met:

Acquisition cost, book value, or, when applicable, the estimated fair market value equals, or exceeds, the expense/investment funding threshold used by the Congress for appropriating DoD operating (expense) and procurement (investment) appropriations.

Estimated benefit period or useful life to the DoD of 2 years or more.

A. The dollar threshold for capitalizing an asset for accounting purposes is identical to, and automatically changes with, the expense/investment funding threshold used by the Congress for appropriating DoD operating (expense) and procurement (investment) appropriations. This criteria applies at the time of acquisition or capitalization. The acquisition cost of an asset is capitalized, regardless of the source of funding, when the capitalization criteria prescribed in this Volume are met.

B. Assets capitalized within any DoD appropriation or account at the previous threshold, which are not fully depreciated, shall continue to be capitalized (and depreciated if applicable) at the former capitalization threshold.

060208 Depreciation accounting is a technique that allocates the cost of depreciable property, plant, or equipment as an operating expense over the period in which removal is considered feasible. Depreciation recognizes the allocation of cost of depreciable physical plant, property, or equipment as an operating expense over the periods in which the assets are expected to provide benefits.

060209 Residual value is the estimated value remaining at the end of a fixed asset's useful life to the Department of Defense. Residual value is defined as being the amount that can be expected to be recovered from the asset's disposal when it is removed from service. As such, it is the estimated scrap value, trade-in value, or market value at the end of the asset's useful life to the using activity. Residual value is considered when it exceeds 10 percent of the capitalized amount of the fixed asset. The estimated residual value does not change, although during inflationary periods a used asset may be sold for more than its original acquisition cost. This gain from inflation is accounted for only when realized since "anticipated" gains are not recognized in generally accepted accounting practice.

060210 Depreciation and depletion are computed using the capitalized amount less residual value. This amount shall be divided equally among the accounting periods, units of issue, hours of use, or quantities of resources removed during the asset's useful life. The asset's useful life shall not exceed 40 years. Asset useful life for Business Fund activities, are prescribed in Volume 11B, of this regulation.

060211 DoD accounting systems need to establish accounts in which to record the results of any calculation of depreciation and depletion. Non-Defense Business Operations Fund activities are not required to establish a capability to compute depreciation on an item-by-item basis, unless such a capability has been determined to be cost effective by the applicable DoD Component. Non-Defense Business Operations Fund activities are authorized to use cost-finding techniques to estimate depreciation when required for billings to non-federal organizations or for presentation in financial reports. Volume 11 of this Regulation provides additional guidance on the depreciation calculation. Business Fund activities shall establish the capability to compute depreciation.

060212 Entries recording transactions in accounting system general ledger accounts and the supporting subsidiary property records must:

A. Be supported by source documents that capture all transactions affecting the Component's investment in property, including:

1. All acquisitions, whether by purchase, transfer from other agencies, donation, or other means, as of the date the Component takes custody of the property.

2. All disposals or retirements when the property leaves the custody of the Component.

B. Include sufficient information so the property records control physical quantities of DoD property, identify its location, and show unit costs. These property records shall be designed to be of maximum assistance in making procurement and utilization decisions, including those decisions related to identifying potential excess property that may be available for reuse, transfer to other DoD activities, or made available for disposal in accordance with current DoD regulations and regulatory requirements.

C. Enable periodic independent verification of the accuracy of the accounting records through periodic physical counts that provide the capability to reconcile the subsidiary property records with the general ledger accounts.

D. Identify and classify DoD property, plant, and equipment that were capitalized, recorded in the accounting system, and reported in financial statements. DoD property that does not meet the capitalization criteria in Chapter 1 of this Volume also shall be recorded in property records for control purposes. Such property includes those considered sensitive, subject to pilferage, etc.

E. Be based on the same source documents, so that the property records are integrated and subsidiary to the accounting system or can be reconciled with the accounting system.

F. Accumulate the costs of construction in progress or work in process in the related general ledger accounts for comparison with authorized amounts and postings to the applicable fixed asset or inventory accounts when the work is completed or to the appropriate expense accounts if the work is terminated.

G. Include all DoD-owned property (even if held by others) and property of others held by the Department of Defense through seizure, forfeiture, etc.

H. Provide information to identify and account for leased property (even if not capitalized).

I. Provide information to identify and account for capitalized additions and improvements.

060213 Physical Inventories. DoD fixed assets shall be subject to periodic physical inventories. Fixed assets other than real property shall be inventoried physically every 3 years following the guidance in Chapter 4 of this Volume. Real property shall be inventoried every 5 years.

A. These inventories shall be taken to ensure, among other things, that DoD fixed assets are as follows:

1. At the location identified in the property records.

2. As described in the property records.

3. In the condition described in the property records.

B. The results of the physical counts shall be reconciled to the property records, including property books. Differences shall be researched and any adjustments shall be documented fully. Adjustments include unrecorded physical changes such as removal, addition, or modification of the fixed asset that were not recorded previously.

C. Fixed assets not in use may be inventoried physically using statistical sampling as discussed in Chapter 4 of this Volume. Fixed assets in use and all real property shall be subject to a 100 percent physical inventory. The physical counts shall be scheduled so that all items are counted within the time frames established in this subsection.

D. Care must be taken to consider infloat assets; i.e., receipts, issues, and in-transit items before reaching any conclusions that property records are inaccurate.

E. Adjustments to property records and financial records shall be made only for those items where the physical counts disclose discrepancies. Such adjustments shall be supported by reports of survey prepared in accordance with Chapter 7, "Financial Liability for Government Property, Lost, Damaged, or Destroyed," of Volume 12 of this regulation. Adjustments resulting from previously unrecorded modification or alterations also shall be supported by documentation showing the costs of the changes.

F. If the results of the physical counts indicate differences, the process shall be expanded for fixed assets in use or real property. If the results of the increased count also disclose differences, the financial statements shall be qualified to disclose that amounts reported as fixed assets are inaccurate. Failure to conduct required physical inventories and reconcile material differences between physical counts and property records or between property records and the controlling financial accounts shall be disclosed as a material weakness in Section 4 of the "Federal Managers' Financial Integrity Act" statement.

G. Adjustments to the general ledger inventory accounts shall be recorded as a miscellaneous gain (Account 7193) or as a miscellaneous loss (Account 7293).

0603 ACCOUNTING FOR REAL PROPERTY

060301 The Department of Defense shall record in the financial accounts the dollar value of real property that is under DoD control, unless there is evidence that the property is recorded in the accounting system of another Federal Agency. It is important that the overall accounting records of the Federal Government are not duplicated. If doubt persists, the DoD Component shall contact the other Federal Agency to determine if the real property is recorded in its accounting system. In those situations when it has not been recorded, the DoD Component shall reach agreement with the Federal Agency as to who shall record the real property. If the DoD Component is to record the real property, it shall request the necessary source documents to establish the location, size, original acquisition cost, cost of improvements, estimated life of the building, the date the building was constructed, etc. This allows for identification of assets to the specific DoD Component, organization, program, etc., which is benefiting from the property. Subsidiary accounts shall be established, as necessary, to provide financial information on the various classifications of real property for reporting and internal management purposes.

060302 The DoD accounting entity that controls the access to real property at Fiscal Year end shall account for it. This shall preclude duplication in accounting and financial reporting and assure that the property is under financial control.

060303 A discussion of the real property accounts is provided in the following paragraphs 060304 through 060307, below.

060304 Fixed Assets, Net (Account 1700)

A. "Fixed Assets, Net" is used to record the value of all Department of Defense assets, including real property.

B. This account is a summary account. No individual transactions are posted to this account.

060305 Land (Account 1710)

A. "Land" is used to record the acquisition cost of DoD-controlled land. When the acquisition cost cannot be determined, the estimated fair market value shall be used.

B. Land includes not only the land but also the rights to it, such as easements.

C. Land is regarded for accounting purposes as a non-wasting asset. As such, land is not subject to depreciation.

D. The acquisition cost of land includes the purchase price; broker's commission; fees for examining and recording the title and surveying; and any razing and removal costs (less salvage proceeds) of structures on the land.

E. Periodic DoD payments for land rights are accounted for as a period operating expense.

F. DoD Components shall maintainsubsidiary accounts by type of natural resource, when such financial data are required to meet reporting requirements.

G. Table 6-1 illustrates the most common entries used for this account.

H. Sources of entries to this account include invoices, payment vouchers, documented estimates indicating source of estimates, sales records, and documented transfers and losses.

060306 Buildings (Account 1730)

A. "Buildings" is used to record the acquisition cost of DoD-controlled buildings. When the acquisition cost cannot be determined, the estimated fair market value of buildings and the cost of obtaining them in the form to be put into use by the Department of Defense shall be recorded. The account includes capitalizable additions, alterations, improvements, and rehabilitations.

B. Subsidiary accounts are maintained as prescribed in enclosure 1 of Department of Defense Facility Classes and Construction Categories, DoD Instruction 4165.3. Additionally, buildings are identified as government furnished property (GFP) when applicable, and DoD Components shall have the capability to report GFP buildings when required.

C. Buildings are classified according to their actual use. For example, if "Training Facilities - Other Than Buildings" are converted into "Administrative Structures - Other Than Buildings," they are reclassified as the latter upon conversion. If the conversion affects the facilities' useful lives, they must be revised accordingly for depreciation accounting purposes.

D. The following criteria must be met for an item to qualify as an asset and be reported as such in a DoD entity's financial statements:

1. The assett must embody a probable future benefit that will contribute to the entity's operations.

ACCOUNTING ENTRIES FOR ACCOUNT 1710 - LAND

1. Dr 1710 Land
   Cr 2113 Accounts Payable-Public-Current

   To record the acquisition cost incurred by the Department of Defense for land.

2. Dr 1710 Land
   Cr 2113 Accounts Payable-Public-Current
   Cr 3220 Transfers In From Others-Without Reimbursement

   To record both of the following:

   (a) The estimated fair market value or the specific amount established by authoritative sources for land for which the acquisition cost is not determined.

   (b) The costs of obtaining the property in the form to be put into use, and provided from other sources without reimbursement.

TABLE 6-1

2. The entity that reports the asset must be able to obtain the benefit and control access to the benefit inherent in the asset.

3. The transaction or event giving the entity a right to and control over the benefit must have already occurred.

E. DoD activities that meet the criteria in paragraph D. above shall record the capital asset in their property and financial records; record depreciation on the asset; and record improvements to the asset.

F. DoD activities who are sole occupants/tenants of Government owned facilities or hold capital leases (as opposed to operating leases) on entire buildings and sub-let portions of that building and meet the criteria in paragraph D. above shall record the asset in their property and financial records. DoD activities that are joint occupants/tenants of Government owned facilities shall determine which occupant/tenant will record the asset in their property and financial records by applying the following criteria in descending order of application:

1. Occupant/tenant that can substantiate preponderant use (via direct labor hours, actual hours, population, square footage, metered output, etc.) of an asset in the production of goods and services for their customers.

2. Occupant/tenant that have exclusive responsibility for the maintenance, repair, upkeep, and replacement (Military Construction) of the asset.

G. Table 6-2 illustrates the most common entries used for this account.

H. Sources of entries to this accountinclude contracts, invoices, payment vouchers, reports of completed construction projects, transfer documents, documented estimates indicating source of estimates, inventory documents, and documented gains and losses.

060307 Accumulated Depreciation on Buildings (Account 1739)

A. "Accumulated Depreciation on Buildings" is used to record the accumulated depreciation charged to expense for buildings.

B. Table 6-3 illustrates the most common entries used for this account

C. Sources for entries to this account include journal vouchers with work papers supporting depreciation calculations and transfer documents.

060308 Other Structures and Facilities (Account 1740)

A. "Other Structures and Facilities" is used to record the acquisition cost of DoD-controlled utilities and ground improvements and those facilities not classified as buildings. When the acquisition cost cannot be determined, the estimated fair market value and the costs of obtaining them in the form to be put into use by the Department of Defense shall be recorded. The account includes capitalizable additions, alterations, improvements, and rehabilitations to other structures and facilities.

B. Subsidiary accounts shall be maintained by category groups as prescribed in enclosure 1 of DoD Instruction 4165.3. Additionally, other structures and facilities are identified as Government Furnished Property (GFP) when applicable, and DoD Components shall have the capability to report such GFP assets when required.

C. The illustrative entries and the sources of these entries to this account correspond to those for the "Buildings" account in paragraph 060306, above.

060309 Accumulated Depreciation on Other and Facilities (Account 1749)

A. "Accumulated Depreciation on Other Structures and Facilities" is used to record the cumulative depreciation on such assets.

ACCOUNTING ENTRIES FOR ACCOUNT 1730 - BUILDINGS

1. Dr 1730 Buildings
   Cr 2113 Accounts Payable-Public-Current
   Cr 2591 Mortgages Payable-Family Housing
   Cr 2592 Mortgages Payable-Homeowners Assistance Program

   To record the acquisition cost incurred by the Department of Defense for buildings.

2. Dr 1730 Buildings
   Cr 1721 Construction in Progress-In-House
   Cr 1722 Construction in Progress-Contractor
   Cr 1723 Construction in Progress-Other Government Activities

   To record the value of completed buildings transferred from construction in progress accounts.

3. Dr 1730 Buildings
   Cr 2113 Accounts Payable-Public-Current

   To record the following the act of taking possession of a building constructed with Military Construction appropriation funds.

4. Dr 1730 Buildings
   Cr 1739 Accumulated Depreciation on Buildings
   Cr 3220 Transfers In from Others-Without Reimbursement

   To record the transferor's acquisition cost of facilities received without reimbursement.

5. Dr 1739 Accumulated Depreciation on Buildings
   Dr 3231 Transfers Out to Government Agencies-Without Reimbursement
   Cr 1730 Buildings
   Cr 1710 Land

   To record the value of facilities transferred without reimbursement to another Federal Agency or DoD accounting entity. This includes situations when GSA accepts accountability for disposal without a transfer of physical property to GSA.

6. Dr 1739 Accumulated Depreciation on Buildings
   Dr 7293 Other Miscellaneous Losses
   Cr 1730 Buildings

   To record the nonreimbursable loss, damage, or destruction of a building.

TABLE 6-2

ACCOUNTING ENTRIES FOR ACCOUNT 1739 - ACCUMULATED DEPRECIATION ON BUILDINGS

1. Dr 6126 Depreciation of Real Property
   Cr 1739 Accumulated Depreciation on Buildings

   To record depreciation expense for the current accounting period.

2. Dr 1739 Accumulated Depreciation on Buildings
   Dr 3231 Transfers Out to Government Agencies-Without Reimbursement
   Cr 1730 Buildings

   To record the value of facilities transferred without reimbursement to another Federal Agency or DoD accounting entity. This includes situations when GSA accepts accountability for disposal without a transfer of physical property to GSA.

3. Dr 1730 Buildings
   Cr 1739 Accumulated Depreciation on Buildings
   Cr 3220 Transfers In from Others-Without Reimbursement

   To record the transferor's acquisition cost of facilities received without reimbursement.

4. Dr 1739 Accumulated Depreciation on Buildings
   Dr 7293 Other Miscellaneous Losses
   Cr 1730 Buildings

   To record the nonreimbursable loss, damage, or destruction of a building.

TABLE 6-3

B. The illustrative entries and the sources of these entries correspond to those for the "Accumulated Depreciation on Buildings" account, paragraph 060307, above.

0604 ACCOUNTING FOR CONSTRUCTION IN PROGRESS

060401 The "Construction in Progress" accounts are used to accumulate costs of DoD real property construction projects. Included in this category is the equipment that is installed as an integral part of the real property and that normally could not be removed without dismantling the property. Examples of such equipment include heating and air conditioning systems, overhead cranes, elevators, etc. These costs, which are accumulated regardless of the source of funding, include direct labor, direct material, and overhead. All of these costs, including those financed as "minor construction," are recorded in "Construction in Progress" accounts as long as the construction project is expected to meet the capitalization criteria prescribed in Chapter 1 of this Volume. The recording of costs in "Construction in Progress" accounts brings the costs under financial control and segregates them from expenses.

060402 Construction overhead includes any cost of construction in progress that benefits more than a single construction project. Overhead may include costs for supervision and other indirect labor, supplies and materials, transportation, depreciation, insurance, etc. Construction overhead must be collected in cost

pools and allocated to specific construction projects in proportion to the benefits received. Chapter 22 of this Volume contains the accounting standards for determining overhead construction costs.

060403 There are four "Construction in Progress" subsidiary accounts to control applicable work and property that receive special attention. "Construction in Progress-In-House," "Construction in Progress-Contractor," and "Construction in Progress-Other Government Activities" identify who is performing the construction. "Construction in Progress-Government-Furnished Material" identifies that portion of Government property (as defined in paragraph 060410, below) furnished to contractors and subcontractors for the performance of DoD construction contracts.

060404 "Construction in Progress" is accounted for by the U.S. Army Corps of Engineers (ACE) or the Naval Facilities Engineering Command (NAVFACENGCOM), as applicable, when they are responsible for the construction. The DoD accounting entity that is to receive the constructed property does not account for the construction costs, that can only be obtained from ACE or NAVFACENGCOM, until it accepts accountability for a completed asset.

060405 When construction projects are terminated before completion, the circumstances must be examined carefully to determine suitable

write-offs and other applicable accounting adjustments.

060406 Construction in Progress (Account 1720)

A. "Construction in Progress" is used to record the costs of direct labor, direct material, and overhead incurred in the construction of property and plant. On completion, these costs shall be transferred to the proper capital asset account as the acquisition cost of the item.

B. This account is a summary account used for financial control and reporting purposes. No entries are posted to this account.

060407 Construction in Progress-In-House (Account 1721)

A. "Construction in Progress-In-House" is used to record the cost of construction performed by DoD personnel.

B. Subsidiary accounts shall be maintained for each construction project to facilitate the transfer of costs to the applicable real property or expense account.

C. Table 6-4 illustrates the most common entries used for this account.

D. Sources of entries to this account include billings under contracts for materials, supplies, and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed construction projects; and documented losses.

060408 Construction in Progress-Contractor (Account 1722)

A. "Construction in Progress-Contractor" is used to record the value of work performed by contractors other than other Government Agencies in accordance with the terms of the applicable construction contracts. Progress payments for such work are discussed in Sub-part 32.5 of the Federal Acquisition Regulation. Other types of payments such as cost reimbursements also are included in this account.

B. Subsidiary accounts shall be maintained for each construction project to facilitate the transfer of costs to the applicable real property or expense account.

C. Table 6-5 illustrates the most common entries used for this account.

D. Sources of entries to this account include contracts, contractor requests for progress payments, invoices, payment vouchers, construction acceptance documents, accounting records, and reports of survey.

ACCOUNTING ENTRIES FOR ACCOUNT 1721 - CONSTRUCTION IN PROGRESS-IN-HOUSE

1. Dr 1721 Construction in Progress-In-House
   Cr 1521 Inventory Held for Sale
   Cr 1766 Equipment Not in Use
   Cr 6000 Expense accounts series

   To record the costs incurred by the Department of Defense for construction in process.

2. Dr 1730 Buildings
   Dr 1740 Other Structures and Facilities
   Cr 1721 Construction in Progress-In-House

   To record the value of DoD in-house construction projects completed.

3. Dr 7293 Other Miscellaneous Losses
   Cr 1721 Construction in Progress-In-House

   To record the nonreimbursable loss, damage, or destruction of "Construction in Progress-In-House."

TABLE 6-4

ACCOUNTING ENTRIES FOR ACCOUNT 1722 - CONSTRUCTION IN PROGRESS-CONTRACTOR

1. Dr 1722 Construction in Progress-Contractor
   Cr 2113 Accounts Payable-Public-Current

   To record the allowable costs of construction in progress reported by contractors other than Federal Government Agencies.

2. Dr 1730 Buildings
   Dr 1740 Other Structures and Facilities
   Cr 1722 Construction in Progress-Contractor

   To transfer completed projects to the applicable real property accounts.

3. Dr 7293 Other Miscellaneous Losses
   Cr 1722 Construction in Progress-Contractor

   To record the loss of applicable construction in progress due to the nonreimbursable loss, damage, or destruction of related construction projects.

TABLE 6-5

060409 Construction in Progress-Other Government Activities (Account 1723)

A. "Construction in Progress - Other Government Activities" is used to record the value of work performed by other Federal Agencies for the construction of facilities, utilities, and ground improvements not yet accepted by the Department of Defense.

B. Subsidiary accounts shall be maintained for each construction project to facilitate the transfer of costs to the applicable real property or expense account.

C. Table 6-6 illustrates the most common entries used for this account.

D. Sources of entries to the "Construction in Progress - Other Government Activities" account include invoices, payment vouchers, construction acceptance documents, and reports of survey.

060410 Construction in Progress-Government-Furnished Material (Account 1724)

A. "Construction in Progress-Government-Furnished material" is the account for recording the value of that portion of Government property furnished to contractors and subcontractors (including other Federal Agencies) for the performance of DoD construction contracts. "Government property" in this case includes all personal property acquired directly by the Department of Defense as defined in Chapter 1 of this Volume and made available for incorporation into construction end products to be delivered under DoD construction contracts or to be consumed or expended in the performance of those construction contracts.

B. Subsidiary accounts shall be maintained for each contractor and contract that is furnished Government property.

C. Table 6-7 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1723 - CONSTRUCTION IN PROGRESS-OTHER GOVERNMENT ACTIVITIES

1. Dr 1723 Construction in Progress-Other Government Activities
   Cr 2111 Accounts Payable-Government-Current

   To record the allowable costs paid for construction being performed by another Federal Agency.

2. Dr 1730 Buildings
   Dr 1740 Other Structures and Facilities
   Cr 1723 Construction in Progress-Other Government Activities

   To transfer completed projects to the applicable real property accounts.

3. Dr 7293 Other Miscellaneous Losses
   Cr 1723 Construction in Progress-Other Government Activities

   To record the loss of construction in progress due to the nonreimbursable loss, damage, or destruction of related projects constructed by a federal agency other than the Department of Defense.

TABLE 6-6

D. Sources of entries to this account include shipping and issue documents, construction acceptance documents and property administrator reports, material-return documents, collection and deposit documents, settlement agreements, and documented losses.

060411 Construction in Progress - Capital - Defense Business Operations Fund (Account 1725). This account is used to accumulate the cost of all capital assets developed or manufactured for the use by the performing business area activity. (See Volume 6, Chapter 6 for additional information on the Defense Business Operations Fund.

0605 ACCOUNTING FOR EQUIPMENT

060501 Equipment consists of all personal property owned by the Department of Defense that is not an integral part of real property (see Section 0603 of this chapter) that is as follows:

A. Meets the capitalization criteria prescribed in Chapter 1 of this Volume.

060502 All personal property owned by the Department of Defense shall be classified as military equipment. This includes weapons systems and all equipment necessary to support the DoD mission.

060503 Personal property being constructed for the Department of Defense shall be brought under accounting control using the work in process accounts described in Chapter 4 of this Volume.

060504 The following subsections provide accounting guidance for equipment owned by the Department of Defense.

060505 Equipment (Account 1750)

A. "Equipment" is used to record the value of nonmilitary personal property of a durable nature.

B. DoD Components are not authorized to use this account. All DoD personal property shall be recorded in the applicable accounts for military equipment.

060506 Accumulated Depreciation on Equipment (Account 1759)

A. "Accumulated Depreciation on Equipment" is used to record the accumulated depreciation of nonmilitary personal property of a durable nature.

B. DoD Components are not authorized to use this account. All DoD personal property, including depreciation, shall be recorded in the applicable accounts for military equipment.

060507 Military Equipment (Account 1760)

A. "Military Equipment" is used to record the capitalized value of DoD military equipment that has been issued for use. It does not include combat-type equipment in inventory, layaway, or not in use. The account also includes the cost of capitalizable upgrades, rehabilitation, and modifications.

B. This account is a summary account used for financial control and reporting purposes. No entries are posted to this account.

060508 Equipment in Use (Account 1762)

A. "Equipment in Use" is used to record the acquisition cost of military equipment in use by the Department of Defense. When the acquisition cost cannot be determined, the estimated fair market value of such equipment and the costs of obtaining the equipment in the form and place to be put into use are recorded. "Equipment in Use" is exclusive of the following:

1. "Equipment on Loan."

2. "Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others."

3. Equipment being incorporated into work in process or construction in progress.

The account also includes the cost of capitalizable additions, alterations, improvements, and rehabilitations of equipment in use.

ACCOUNTING ENTRIES FOR ACCOUNT 1724 - CONSTRUCTION IN PROGRESS-GOVERNMENT-FURNISHED MATERIAL

1. Dr 1724 Construction in Progress-Government-Furnished Material
   Cr 1521 Inventory Held for Sale
   Cr 1766 Equipment Not in Use

To record the value of Government property furnished to contractors for the performance of DoD construction contracts.

2. Dr 1730 Buildings
   Dr 1740 Other Structures and Facilities
   Cr 1724 Construction in Progress-Government-Furnished Material

To record the value of Government property that is as follows:

(a) Incorporated into or attached to a construction end product accepted by the Department of Defense.

(b) Consumed or expended in the performance of DoD construction contracts.

3. Dr 1521 Inventory Held for Sale
   Dr 1766 Equipment Not in Use
   Cr 1724 Construction in Progress-Government-Furnished Material

To record the value of Government property returned by contractors.

4. Dr 1320 Accounts Receivable-Claims Receivable-Public
   Cr 1724 Construction in Progress-Government-Furnished Material

To record a claim against a contractor for the value of the loss, damage, or destruction of Government property furnished in connection with DoD construction contracts.

5. Dr 7293 Other Miscellaneous Losses
   Cr 1724 Construction in Progress-Government-Furnished Material

To record the nonrecoverable value of the loss, damage, or destruction of Government property furnished in connection with DoD construction contracts.

TABLE 6-7

B. Equipment is capitalized based upon the actual amount paid or payable for the equipment even when multi-year contracts are involved.

C. Capitalize computer software (programs, routines and subroutines) that is as follows:

1. Is integrated into hardware.

2. Loses its identity as software and is depreciated, when required, as hardware. Additional guidance for accounting for computer software can be found in GAO's Federal Government Accounting Pamphlet Number 4.

3. Meets the capitalization criteria prescribed in Chapter 1 of this Volume.

4. Additional guidance for capitalizing computer software can be found in Chapter 7 of this Volume, paragraph 070312.

D. Table 6-8 illustrates the most common entries used for this account.

E. Sources of entries to this account include contracts, invoices, receiving reports, payment vouchers, issue and shipping documents, transfer documents, documented estimates indicating source of estimates, inventory documents, and documented gains and losses.

060509 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others (Account 1763)

A. "Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others" is used to record the capitalized value of DoD equipment furnished to contractors (including other Federal Agencies), testing agencies, defense industrial facilities, and others for the primary benefit of the Department of Defense or the DoD Component that furnishes the equipment. The equipment to be recorded in this account is usually returned after use or testing rather than incorporated into an end product, consumed, or expended. This account does not include the following:

ACCOUNTING ENTRIES FOR ACCOUNT 1762 - EQUIPMENT IN USE

1. Dr 1762 Equipment in Use
   Cr 2113 Accounts Payable-Public-Current

   To record the acquisition cost incurred by the Department of Defense for military equipment.

2. Dr 1762 Equipment in Use
   Cr 1582 Work in Process-Contractor

   To record the capitalized value of completed equipment transferred from work in process accounts to equipment in use.

3. Dr 1762 Equipment in Use
   Cr 1766 Equipment Not in Use
   Cr 1763 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others
   Cr 1764 Equipment on Loan

   To record the transfer of equipment to "Equipment in Use."

4. Dr 1762 Equipment in Use
   Cr 7193 Other Miscellaneous Gains

   To record an increase in equipment in use that is discovered by physical inventory. The estimated fair market value of the discovered equipment shall be used when acquisition cost cannot be determined.

TABLE 6-8

ACCOUNTING ENTRIES FOR ACCOUNT 1762 - EQUIPMENT IN USE (CONT.)

5. Dr 1762 Equipment in Use
   Cr 2113 Accounts Payable-Public-Current
   Cr 3220 Transfers In from Others- Without Reimbursement
   Cr 1769 Accumulated Depreciation on Military Equipment

   To record the following:

   (a) The estimated fair market value or the acquisition cost plus any accumulated depreciation recorded in the transferor's accounts for equipment in use received without reimbursement by the Department of Defense from a non-DoD Federal Agency.

   (b) The costs of obtaining the property in the form and place to be put into use.

6. Dr 1762 Equipment in Use
   Cr 3220 Transfers In from Others-Without Reimbursement
   Cr 1769 Accumulated Depreciation on Military Equipment

   To record the transferor's value of military equipment in use that is received without reimbursement from another DoD Component.

7. Dr 1762 Equipment in Use
   Cr 2992 Liability for Property Furnished by Others

   To record the estimated fair market value of property loaned to the Department of Defense by others with the agreement that it will be returned.

8. Dr 1766 Equipment Not in Use
   Cr 1762 Equipment in Use

   To record the value of "Equipment in Use" that is transferred to "Equipment Not in Use." This includes "Equipment in Use" transferred to a depot maintenance facility.

9. Dr 1769 Accumulated Depreciation on Military Equipment
   Dr 3231 Transfers Out to Government Agencies-Without Reimbursement
   Cr 1762 Equipment in Use

   To record the value of equipment in use that is transferred without reimbursement by the following:

   (a) The Department of Defense to another federal agency.

   (b) One DoD accounting entity to another. This includes situations when DLA accepts accountability for disposal without a transfer of physical property to DLA.

TABLE 6-8 (CONT.)

ACCOUNTING ENTRIES FOR ACCOUNT 1762 - EQUIPMENT IN USE (CONT.)

10. Dr 1769 Accumulated Depreciation on Military Equipment
Dr 7293 Other Miscellaneous Fund Losses
Cr 1762 Equipment in Use

To record the following:

(a) The nonreimbursable loss, damage, or destruction of equipment in use.

(b) By physical inventory.

11. Dr 1769 Accumulated Depreciation on Military Equipment
Dr 1765 Property Awaiting Disposal
Cr 1762 Equipment in Use

To record the value of equipment in use transferred to disposal.

Dr 1762 Depreciation of Equipment
Dr 2992 Liability for Property Furnished by Others
Cr 1762 Equipment in Use
Cr 1769 Accumulated Depreciation on Military Equipment

To record the return of property loaned to the Department of Defense by others.

TABLE 6-8 (CONT.)

1. Equipment transferred to a depot maintenance facility for repairs.

2. Government equipment that is furnished to be consumed or expended in the performance of a contract or for incorporation into an end product. The former are recorded as "Equipment Not in Use;" the latter are recorded as either "Construction in Progress -Government-Furnished Material" or "Work in Process-Government-Furnished Material."

B. Those who receive this equipment have custodial responsibility, but they have no property accounting responsibility.

C. Government-provided property, as discussed in Chapter 1 of this Volume includes both contractor-acquired and Government-furnished property. This account shall not include contractor-acquired property; however, the account shall include Government-furnished special tooling, special test equipment, military property, and the plant equipment portion of facilities that is expected to be returned. Contractor-acquired property is accounted for in the "Work in Process-Contractor" and "Construction in Progress-Contractor" accounts.

D. The DoD accounting entity that controls the benefit from the use of the equipment shall account for the equipment. Depreciation, when applicable, is charged to the benefiting accounting entity(ies). Defense General Supply Center (DGSC) property is furnished to contractors. DGSC ensures that the controlling accounting entity receives the required information on the equipment to make the necessary accounting entries.

E. Table 6-9 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1763 - EQUIPMENT WITH CONTRACTORS, TESTING AGENCIES, DEFENSE INDUSTRIAL FACILITIES, AND OTHERS

1. Dr 1763 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others
   Cr 1766 Equipment Not in Use

   To record the capitalized value of equipment that is transferred to contractors.

2. Dr 1763 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others
   Cr 2113 Accounts Payable-Public-Current

   To record the acquisition cost of equipment incurred by the Department of Defense for which the cost is recorded initially in the "Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others" account.

3. Dr 1766 Equipment Not in Use
   Cr 1763 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others

   To record the value of "Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others" that is transferred to "Equipment Not in Use."

4. Dr 1762 Equipment in Use
   Cr 1763 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others

   To record the value of "Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others" that is transferred to "Equipment in Use."

5. Dr 1769 Accumulated Depreciation on Military Equipment
   Dr 7293 Other Miscellaneous Losses
   Cr 1763 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others

   To record the nonreimbursable loss, damage, or destruction of "Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others."

TABLE 6-9

F. Sources of entries to this account include invoices, receiving reports, payment vouchers, transfer documents, and reports of survey.

060510 Equipment on Loan (Account 1764)

A. "Equipment on Loan" is used to record the capitalized value of DoD equipment that is loaned for the primary benefit of the borrower. Normally, the account does not include bailments because they are of such short duration that they would be washed during the same accounting period.

B. Those who borrow the equipment have custodial responsibility, but they have no property accounting responsibility.

C. Table 6-10 illustrates the most common used entries for this account.

D. Sources for entries to this account include loan and lease agreements; documented receipts, issues, shipments, losses, and claims; and reports of survey.

060511 Equipment Not in Use (Account 1766)

A. "Equipment Not in Use" is used to record the acquisition cost or, when applicable, estimated fair market value of capitalizable equipment held for future use, sale, or transfer. The account includes the cost of capitalizable additions, alterations, improvements, and rehabilitations to equipment not in use.

B. Equipment not in use includes the following:

1. Inventory.

2. Capitalizable equipment that is not in the supply system. Examples of the latter include the following:

a. Equipment removed from use for depot maintenance.

b. Equipment that is no longer in use because the item manager has directed that it be placed in layaway. Subsidiary accounts shall be established as necessary to identify the cost of equipment in these categories.

C. "Equipment Not in Use" does not include equipment in use that is merely "down for maintenance" or "awaiting parts."

D. Table 6-11 illustrates the most common entries used for this account.

E. Sources of entries to this account include invoices, receiving reports, payment vouchers, sales records, issue and shipping documents, transfer documents, documented estimates indicating source of estimates, inventory documents, and documented gains and losses.

060512 Accumulated Depreciation on Military Equipment (Account 1769)

A. "Accumulated Depreciation on Military Equipment" is used to record the cumulative depreciation on military equipment.

B. Subsidiary accounts for "Accumulated Depreciation on Equipment" shall be maintained to correspond with the subsidiary accounts maintained for the military equipment accounts when such information is required for management and reporting purposes.

C. The standards for computing and recording depreciation are provided in Chapter 1 of this Volume.

D. Table 6-12 illustrates the most common entries used for this account.

E. Sources of entries to this account include official depreciation schedules; documented physical inventories, issues, shipments, transfers, and losses; and reports of survey.

060513 Equipment in Transit (Account 1770)

A. "Equipment in Transit" is used to record the acquisition cost of equipment in transit that has not been received.

ACCOUNTING ENTRIES FOR ACCOUNT 1764 - EQUIPMENT ON LOAN

1. Dr 1764 Equipment on Loan
   Cr 1766 Equipment Not in Use
   Cr 1762 Equipment in Use

   To record the capitalized value of loaned "Equipment Not in Use" and "Equipment in Use" that is transferred to "Equipment on Loan."

2. Dr 1766 Equipment Not in Use
   Dr 1762 Equipment in Use
   Cr 1764 Equipment on Loan

   To record the value of returned "Equipment on Loan" that is transferred to "Equipment Not in Use" or "Equipment in Use."

3. Dr 1769 Accumulated Depreciation on Military Equipment
   Dr 1320 Claims Receivable-Public
   Cr 1764 Equipment on Loan

   To record the loss, damage, or destruction of equipment on loan for which a legal right for a claim exists.

4. Dr 1769 Accumulated Depreciation on Military Equipment
   Dr 7293 Other Miscellaneous Losses
   Cr 1764 Equipment on Loan

   To record the loss, damage, or destruction of equipment on loan for which a legal right for a claim does not exist.

TABLE 6-10

B. The acquisition cost of equipment in transit shall be reversed only when the equipment is received.

C. A transferor is accountable for equipment until the transferee accepts accountability. Subsidiary accounts shall be established as necessary to ensure visibility of items in transit.

D. Table 6-13 illustrates the most common entries used for this account.

E. Sources for entries to this account include accounting records and documented estimates indicating source of estimates.

060514 Other Natural Resources (Account 1840)

A. "Other Natural Resources" is used to record the cost or appraised value of natural resources other than land.

B. Natural resources include resources such as oil, minerals, and timber. Minerals are not renewable, but timber is replenishable. When timber is replenished through planting and cultivation the costs are capitalized when the capitalization criteria prescribed in Chapter 1 of this Volume are met.

C. Table 6-14 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1766 - EQUIPMENT NOT IN USE

1. Dr 1766 Equipment Not in Use
   Cr 2111 Accounts Payable-Government-Current
   Cr 2113 Accounts Payable-Public-Current

   To record the acquisition cost incurred by the Department of Defense for equipment not in use for which the cost is recorded initially in the "Equipment Not in Use" account. This includes the cost of capitalizable depot maintenance.

2. Dr 1766 Equipment Not in Use
   Cr 1581 Work in Process-In-House
   Cr 1582 Work in Process-Contractor

   To record the acquisition cost of equipment transferred from work in process" accounts to "Equipment Not in Use."

3. Dr 1766 Equipment Not in Use
   Cr 1762 Equipment in Use
   Cr 1763 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities, and Others
   Cr 1764 Equipment on Loan

   To record the acquisition cost of equipment transferred to "Equipment Not in Use." This includes equipment transferred to a depot maintenance facility for repair.

4. Dr 1766 Equipment Not in Use
   Cr 7193 Other Miscellaneous Gains

   To record an increase in equipment not in use that is discovered by physical inventory. The estimated fair market value of the discovered equipment is used when acquisition cost cannot be determined.

5. Dr 1766 Equipment Not in Use
   Cr 1769 Accumulated Depreciation on Military Equipment
   Cr 3220 Transfers In from Others Without Reimbursement

   To record the estimated fair market value or the specific amount established by authoritative sources for equipment not in use that is received without reimbursement by the Department of Defense from another Federal Agency. Equipment not in use that is transferred from one DoD accounting entity to another shall be recorded at the transferor's acquisition cost plus any accumulated depreciation.

TABLE 6-11

ACCOUNTING ENTRIES FOR ACCOUNT 1766 - EQUIPMENT NOT IN USE (CONT.)

6. Dr 1581 Work in Process-In-House
   Cr 1766 Equipment Not in Use

   To record the acquisition cost of equipment not in use that is issued for work in process or construction in progress.

7. Dr 3231 Transfers Out to Government Agencies-Without Reimbursement
   Dr 1769 Accumulated Depreciation on Military Equipment
   Cr 1766 Equipment Not in Use

   To record the transfer without reimbursement by the Department of Defense to another Federal Agency or DoD accounting entity. This includes situations when the DLA accepts accountability for disposal without a transfer of physical property to DLA.

8. Dr 3232 Transfers Out to see Others-Without Reimbursement
   Dr 1769 Accumulated Depreciation on Military Equipment
   Cr 1766 Equipment Not in Use

   To record the value of equipment not in use that is transferred without reimbursement by the Department of Defense to other than a Federal Agency.

9. Dr 7293 Other Miscellaneous Losses
   Dr 1769 Accumulated Depreciation on Military Equipment
   Cr 1766 Equipment Not in Use

   To record the following:

   (a) The nonreimbursable loss, damage, or destruction of equipment not in use.

   (b) A decrease in equipment not in use that is discovered by physical inventory.

TABLE 6-11 (CONT.)

ACCOUNTING ENTRIES FOR ACCOUNT 1769 - ACCUMULATED DEPRECIATION ON MILITARY EQUIPMENT

1. Dr 6125 Depreciation of Equipment
   Cr 1769 Accumulated Depreciation on Military Equipment

   To record depreciation expense for equipment.

2. Dr 1769 Accumulated Depreciation on Military Equipment
   Dr 7293 Other Miscellaneous Losses
   Cr 1762 Equipment in Use

   To record the following:

   (a) The nonreimbursable loss, damage, or destruction of equipment.

   (b) A decrease in equipment discovered by physical inventory.

3. Dr 1769 Accumulated Depreciation on Military Equipment
   Dr 3231 Transfers Out to Government Agencies-Without Reimbursement
   Cr 1766 Equipment Not in Use

   To record the value of equipment that is transferred without reimbursement by one of the following:

   (a) The Department of Defense to another Federal Government Agency.

   (b) One DoD accounting entity to another. This includes situations when DLA accepts accountability for disposal without a transfer of physical property to DLA.

4. Dr 1769 Accumulated Depreciation on Military Equipment
   Dr 1320 Claims Receivable-Public
   Cr 1764 Equipment on Loan

   To record the loss, damage, or destruction of equipment on loan for which a legal right for a claim exists.

5. Dr 1769 Accumulated Depreciation on Military Equipment
   Dr 7293 Other Miscellaneous Losses
   Cr 1764 Equipment on Loan

   To record the loss, damage or destruction of equipment on loan for which a legal right for a claim does not exist.

TABLE 6-12

ACCOUNTING ENTRIES FOR ACCOUNT 1770 - EQUIPMENT IN TRANSIT

1. Dr 1770 Equipment in Transit
   Cr 2111 Accounts Payable-Government-Current
   Cr 2113 Accounts Payable-Public-Current

   To record the acquisition cost of equipment in transit.

2. Dr 1766 Equipment Not in Use
   Cr 1770 Equipment in Transit

   To record receipt of equipment in transit.

TABLE 6-13

D. Sources for entries to this account include sales contracts, real estate deeds, reports of survey and journal vouchers supporting estimates of depletion allowances.

060515 Allowance for Depletion (Account 1849)

A. "Allowance for Depletion" is the account for recording the cumulative depletion of depletable assets.

B. Subsidiary accounts for "Allowance for Depletion" shall be maintained for natural resources.

C. Table 6-15 illustrates the most common entries used for this account.

D. Sources for entries to this account include sales contracts, real estate deeds, reports of survey, and journal vouchers supporting estimates of depletion allowances.

ACCOUNTING ENTRIES FOR ACCOUNT 1840 - OTHER NATURAL RESOURCES

1. Dr 1840 Other Natural Resources
   Cr 2113 Accounts Payable-Public-Current

   To record the acquisition cost incurred by the Department of Defense for natural resources.

2. Dr 1840 Other Natural Resources
   Cr 2111 Accounts Payable-Government-Current
   Cr 3220 Transfers In from Others-Without Reimbursement

   To record the following:

   (a) The estimated fair market value or the amount established by authoritative sources for land and other natural resources when the acquisition cost cannot be determined.

   (b) The costs of obtaining the property in the form to be put into use and received from others without reimbursement.

3. Dr 1849 Allowance for Depletion
   Dr 3231 Transfers Out to Government Agencies-Without Reimbursement
   Cr 1840 Other Natural Resources

   To record the value of land and natural resources transferred to another Federal Agency.

4. Dr 1849 Allowance for Depletion
   Dr 7293 Other Miscellaneous Losses
   Cr 1840 Other Natural Resources

   To record the nonreimbursable loss, damage, or destruction of natural resources.

5. Dr 1849 Allowance for Depletion
   Dr 3620 Funds Returned to General Fund-Miscellaneous Receipts
   Cr 1840 Other Natural Resources

   To record the value of natural resources sold when the collection is returned to a miscellaneous receipts account.

TABLE 6-14

ACCOUNTING ENTRIES FOR ACCOUNT 1849 - ALLOWANCE FOR DEPLETION

1. Dr 6127 Depletion of Natural Resources
   Cr 1849 Allowance for Depletion

   To record depletion expense.

2. Dr 1849 Allowance for Depletion
   Dr 3231 Transfers Out to Government Agencies-Without Reimbursement
   Cr 1840 Other Natural Resources

   To record the value of natural resources transferred without reimbursement to another Federal Agency or DoD accounting entity. This includes situations when GSA accepts accountability for disposal without a transfer of physical property to GSA.

3. Dr 1849 Allowance for Depletion
   Dr 3620 Funds Returned to General Fund-Miscellaneous Receipts
   Cr 1840 Other Natural Resources

   To record the value of natural resources sold when the collection is returned to a miscellaneous receipts account.

4. Dr 1849 Allowance for Depletion
   Dr 7293 Other Miscellaneous Losses
   Cr 1840 Other Natural Resources

   To record the nonreimbursable loss, damage, or destruction of natural resources

TABLE 6-15

ACCOUNT NO. 1700	
FIXED ASSETS, NET	
DESCRIPTION: The current book value of real and personal property in accordance with DoD capitalization criteria.	
DEBIT	CREDIT
This account is a summary account Do not post individual transactions to this account	
NORMAL BALANCE: DEBIT	

FIGURE 6-1

ACCOUNT NO. 1710	
LAND	
DESCRIPTION: The cost or appraised value of land owned by DoD.	
DEBIT	CREDIT
1. Acquisition of land. Contra: 2113 and 3220	1. Disposal of real property. Contra: 3231
NORMAL BALANCE: DEBIT	

FIGURE 6-2

ACCOUNT NO. 1720	
CONSTRUCTION IN PROGRESS	
DESCRIPTION: The value of construction in progress on DoD real property facilities.	
DEBIT	CREDIT
This account is a summary account Do not post individual transactions to this account	
NORMAL BALANCE: DEBIT	

FIGURE 6-3

ACCOUNT NO. 1721	
CONSTRUCTION IN PROGRESS - IN-HOUSE	
DESCRIPTION: Represents the accumulated costs of real property construction in progress performed by DoD personnel.	
DEBIT	CREDIT
1. Costs incurred. Contra: 1760, and 6000 (expense accounts) 2. Costs incurred. Contra: 1750 (use of this account must be approved by the Office of the Deputy Under Secretary of Defense (Comptroller/FinancialManagement)/ Deputy Chief Financial Officer	1. Transfer completed buildings to the fixed asset accounts. Contra: 1730 and 1740 2. Nonreimbursable losses. Contra: 7293
NORMAL BALANCE: DEBIT	

FIGURE 6-4

ACCOUNT NO.1722	
CONSTRUCTION IN PROGRESS - CONTRACTOR	
DESCRIPTION: Represents value of progress payments to contractors.	
DEBIT	CREDIT
1. Record progress payments. Contra: 2113	1. Transfer completed projects to fixed asset accounts. Contra: 1730 and 1740
NORMAL BALANCE: DEBIT	

FIGURE 6-5

ACCOUNT NO.1723	
CONSTRUCTION IN PROGRESS - OTHER GOVERNMENT ACTIVITIES	
DESCRIPTION: Represents the value of construction undertaken for the Department of Defense by other government agencies.	
DEBIT	CREDIT
1. Record progress payments. Contra: 2111	1. Transfer completed projects to fixed asset accounts. Contra: 1730 and 1740 2. Nonreimbursable losses. Contra: 7293
NORMAL BALANCE: DEBIT	

FIGURE 6-6

ACCOUNT NO.1724	
CONSTRUCTION IN PROGRESS - GOVERNMENT FURNISHED MATERIAL	
DESCRIPTION: Represents the value of government furnished material provided contractors for inclusions in DoD construction projects.	
DEBIT	CREDIT
1. Value of property furnished to contractors. Contra: 1521 and 1766	1. Value of property incorporated into completed projects. Contra: 1730 and 1740 2. Value of property returned by contractors. Contra: 1521 and 1766 3. Claim for loss by contractor. Contra: 1320 4. Nonrecoverable losses. Contra: 7293
NORMAL BALANCE: DEBIT	

FIGURE 6-7

ACCOUNT NO. 1730	
BUILDINGS	
DESCRIPTION: Represents the acquisition costs of DoD-owned buildings.	
DEBIT	CREDIT
1. Acquisition/Transfer In of buildings. Contra: 2113, 2591, 2592, 3220, and 1739 2. Transfer completed buildings from construction in progress. Contra: 1721, 1722, and 1723	1. Disposal of building. Contra: 1739 and 3231 2. Destruction of building. Contra: 1739 and 7293
NORMAL BALANCE: DEBIT	

FIGURE 6-8

ACCOUNT NO. 1739	
ACCUMULATED DEPRECIATION ON BUILDINGS	
DESCRIPTION: Represents accumulated depreciation on buildings.	
DEBIT	CREDIT
1. Disposal of building. Contra: 1730 and 3231 2. Destruction of building. Contra: 1730	1. Depreciation expense. Contra: 6126 2. Transfer in of building from outside sources. Contra: 1730
NORMAL BALANCE: CREDIT	

FIGURE 6-9

ACCOUNT NO. 1740	
OTHER STRUCTURES AND FACILITIES	
DESCRIPTION: The acquisition cost of DoD-owned structure and facilities other than building, utilities and ground improvements. Includes runways, bridges, port facilities and railroad tracks, etc.	
DEBIT	CREDIT
1. Acquisition of structures and facilities. Contra: 1749, 2113, 2591, 2592, and 3220 2. Transfers in from construction in progress. Contra: 1721, 1722, and 1723	1. Disposal of structures and facilities. Contra: 1749 and 3231 2. Destruction of structures and facilities. Contra: 1749 and 7293
NORMAL BALANCE: DEBIT	

FIGURE 6-10

ACCOUNT NO. 1749	
ACCUMULATED DEPRECIATION ON OTHER STRUCTURES AND FACILITIES	
DESCRIPTION: Accumulated depreciation charged to expense for structures and facilities.	
DEBIT	CREDIT
1. Disposal of structures and facilities. Contra: 1740 and 3231 2. Destruction of structures and facilities. Contra: 1740	1. Depreciation expense. Contra: 6126 2. Transfer in of structures and facilities. Contra: 1740
NORMAL BALANCE: CREDIT	

FIGURE 6-11

ACCOUNT NO. 1750	
EQUIPMENT	
DESCRIPTION: Tangible items of a durable nature used in Department of Defense operations.	
DEBIT	CREDIT
Use of this account must be approved by the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: DEBIT	

FIGURE 6-12

ACCOUNT NO. 1759	
ACCUMULATED DEPRECIATION ON EQUIPMENT	
DESCRIPTION: Accumulated depreciation charged to expense for equipment.	
DEBIT	CREDIT
Use of this account must be approved by the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: CREDIT	

FIGURE 6-13

ACCOUNT NO. 1760	
MILITARY EQUIPMENT	
DESCRIPTION: All categories of DoD equipment including ships, aircraft and other military hardware (all Department of Defense personal property). Subsidiary accounts shall be established by major weapons classifications and to meet reporting requirements.	
DEBIT	CREDIT
This account is a summary account Do not post individual transactions to this account	
NORMAL BALANCE: DEBIT	

FIGURE 6-14

ACCOUNT NO. 1762	
EQUIPMENT IN USE	
DESCRIPTION: Represents the acquisition cost of DoD equipment placed in use.	
DEBIT	CREDIT
1. Equipment acquired and placed into use. Contra: 2113 2. Completed projects placed into use. Contra: 1582 3. Equipment placed into use from other categories. Contra: 1763, 1764, 1766, 1769, 2992, and 3220 4. Equipment loaned to the Department of Defense. Contra: 2992	1. Transfers to other organizations. Contra: 1765, 1769, and 3231 2. Loss of equipment. Contra: 1769 and 7193 3. Return of equipment loaned to the Department of Defense. Contra: 1762 and 2992
NORMAL BALANCE: DEBIT	

FIGURE 6-15

ACCOUNT NO. 1763	
EQUIPMENT WITH CONTRACTORS, TESTING AGENCIES, DEFENSE INDUSTRIAL FACILITIES, AND OTHERS	
DESCRIPTION: The value of DoD equipment furnished to contractors (including other federal agencies, testing agencies, defense industrial facilities and others) for use in providing services or items to the Department of Defense.	
DEBIT	CREDIT
1. Equipment placed with others. Contra: 1762, 1766 and 2113	1. Equipment returned to the Department of Defense. Contra: 1762 and 1766 2. Loss of equipment. Contra: 1769 and 7293
NORMAL BALANCE: DEBIT	

FIGURE 6-16

ACCOUNT NO. 1764	
EQUIPMENT ON LOAN	
DESCRIPTION: The value of DoD equipment loaned to others.	
DEBIT	CREDIT
1. Equipment loaned to others. Contra: 1762 and 1766	1. Return of loaned equipment. Contra: 1762 and 1766 2. Record loss of loaned equipment for which a recovery claim exists. Contra: 1320 and 1769 3. Record loss of loaned equipment for which recovery claim does not exist. Contra: 1769 and 7293
NORMAL BALANCE: DEBIT	

FIGURE 6-17

ACCOUNT NO. 1766	
EQUIPMENT NOT IN USE	
DESCRIPTION: Represents the acquisition value of DoD equipment not in use. Includes costs of any additions, modifications, improvements and rehabilitation.	
DEBIT	CREDIT
1. Acquisition of equipment. Contra: 2111, 2113, and 7193 2. Transfer of equipment from work in process. Contra: 1581 and 1582 3. Transfer equipment from active use status. Contra: 1762, 1763, and 1764 4. Transfer in from other organizations. Contra: 1769 and 3220 5. Receipt of equipment in transit. Contra: 1770	1. Transfer to a work in process account. Contra: 1581 2. Transfers to other organizations. Contra: 1763, 1769, 3231, and 3232 3. Record loss of equipment. Contra: 1769 and 7293
NORMAL BALANCE: DEBIT	

FIGURE 6-18

ACCOUNT NO. 1769	
ACCUMULATED DEPRECIATION ON MILITARY EQUIPMENT	
DESCRIPTION: Accumulated depreciation charged to expense for military equipment.	
DEBIT	CREDIT
1. Loss of equipment. Contra: 1762, 1763 and 1764 2. Transfer of equipment to other organizations. Contra: 1766	1. Depreciation expense for the period. Contra: 6125
NORMAL BALANCE: CREDIT	

FIGURE 6-19

ACCOUNT NO. 1770	
EQUIPMENT IN TRANSIT	
DESCRIPTION: The acquisition cost of equipment in transit.	
DEBIT	CREDIT
1. Equipment in transit. Contra: 2111 and 2113	1. Receipt of equipment in transit. Contra: 1766
NORMAL BALANCE: DEBIT	

FIGURE 6-20

ACCOUNT NO. 1840	
OTHER NATURAL RESOURCES	
DESCRIPTION: The cost or appraised value of natural resources on land owned by DoD.	
DEBIT	CREDIT
1. Acquisition of resources. Contra: 2111, 2113, and 3220	1. Transfer of resources to other organizations. Contra: 1849 and 3231 2. Nonrecoverable losses. Contra: 1849 3. Sale of resources. Contra: 1849
NORMAL BALANCE: DEBIT	

FIGURE 6-21

ACCOUNT NO. 1849	
ALLOWANCE FOR DEPLETION	
DESCRIPTION: Represents the accumulated charged to depletion expense.	
DEBIT	CREDIT
1. Transfer of resources to others. Contra: 1840 2. Sale of resources. Contra: 1840 3. Loss of resources Contra: 1840	1. Depletion expense for the period. Contra: 6127
NORMAL BALANCE: CREDIT	

FIGURE 6-22

CHAPTER 7

OTHER ASSETS

0701 GENERAL

070101 Purpose. This chapter prescribes the accounting requirements for recording transactions in those asset accounts not covered in Chapters 2 through 6 of this Volume. These requirements are consistent with and implement the general accounting policy for assets prescribed in Chapter 1 of this Volume.

070102 Overview. Other assets are those assets that are not used directly in performing the DoD mission. These assets consist of securities held in various trust funds, assets acquired through means other than appropriations and assets awaiting disposal or held in layaway.

0702 ACCOUNTING POLICY

The accounting policy applicable to other assets are covered in Chapter 1 of this Volume and in paragraphs 070301 through 070308, below, dealing with the assets discussed in this chapter.

0703 ACCOUNTING FOR OTHER ASSETS

070301 Paragraphs 070302 through 070308, below, describe the accounts and their use to record financial transactions related to other assets owned by the Department of Defense.

070302 Investments (Account 1600)

A. "Investments" represents the value of securities and other assets held for the production of revenues in the form of interest, dividends, rentals, or lease payments, net of premiums and discounts.

B. This account is used for financial accounting and control purposes. No entries are posted to this account.

070303 Securities (At Par) (Account 1610)

A. "Securities (At Par)" is used to record the par value of U.S. securities held by DoD Components.

B. DoD Components holding such securities shall maintain an investment subsidiary ledger that provides the name, type, amount, acquisition date, acquisition cost, yield or interest rate, discount or premium, maturity date, and other applicable information for each investment.

C. A subsidiary account shall be maintained for each trust fund used to invest in U.S. securities.

D. Table 7-1 illustrates the more common entries used for this account.

E. The timing associated with the disposition of a nonmarketable U.S. security shall determine whether there is a gain or loss on the disposition and whether any remaining unamortized premium or discount must be removed from the accounts. A comparison of principal proceeds and the book value of a U.S.security at time of disposition will determine whether there is a gain or loss on disposition. If there is any remaining unamortized premium or discount, it must be removed from the accounts. Table 7-2 entries illustrate the disposition of a U.S. security with unamortized bond premiums or discounts:

ACCOUNTING ENTRIES FOR ACCOUNT 1610 - SECURITIES (AT PAR)

1. Dr 1610 Securities (At Par)
   Cr 1012 Funds Disbursed

   To record the purchase of U.S. securities at par value.

2. Dr 1610 Securities (At Par)
   Cr 1611 Securities-Unamortized Premium or Discount
   Cr 1012 Funds Disbursed

   To record the purchase of U.S. securities at a discount.

3. Dr 1610 Securities (At Par)
   Dr 1611 Securities-Unamortized Premium or Discount
   Cr 1012 Funds Disbursed

   To record the purchase of U.S. securities at a premium.

4. Dr 1610 Securities (At Par)
   Dr 1611 Securities-Unamortized Premium or Discount
   Dr 1311 Accounts Receivable-Government-Current
   Cr 1012 Funds Disbursed

   To record the purchase of U.S. securities at a premium when the purchase price includes interest from the last date interest was paid.

5. Dr 1610 Securities (At Par)
   Dr 1311 Accounts Receivable-Government-Current
   Cr 1012 Funds Disbursed
   Cr 1611 Securities-Unamortized Premium or Discount

   To record the purchase of U.S. securities at a discount when the purchase price includes interest from the last date interest was paid.

6. Dr 1610 Securities (At Par)
   Dr 1311 Accounts Receivable-Government-Current
   Cr 1012 Funds Disbursed

   To record the purchase of U.S. securities at par when the purchase price includes interest from the last date interest was paid.

7. Dr 1011 Funds Collected
   Cr 1610 Securities (At Par)

   To record the following:
   (a) Redemption at maturity of U.S. securities purchased at par.
   (b) Sale of U.S. securities at par with no accrued interest earned. If interest has accrued it must be recognized in recording the sale.

TABLE 7-1

DISPOSITION OF A U.S. SECURITY WITH UNAMORTIZED BOND PREMIUMS OR DISCOUNTS

1. Dr 1011 Funds Collected
   Dr 7292 Investment Losses
   Cr 1611 Securities-Unamortized Premium or Discount
   Cr 1610 Securities (At Par)

   To record the redemption of U.S. securities at a loss after recognizing amortization of the premium.

2. Dr 1011 Funds Collected
   Dr 1611 Securities-Unamortized Premium or Discount
   Dr 7292 Investment Losses
   Cr 1610 Securities (At Par)

   To record the redemption of U.S. securities at a loss after recognizing amortization of the discount.

3. Dr 1011 Funds Collected
   Dr 1611 Securities-Unamortized Premium or Discount
   Cr 1610 Securities (At Par)
   Cr 7192 Investment Gains

   To record the redemption of U.S. securities at a gain after recognizing amortization of the discount.

4. Dr 1011 Funds Collected
   Cr 1611 Securities-Unamortized Premium or Discount
   Cr 1610 Securities (At Par)
   Cr 7192 Investment Gains

   To record the redemption of U.S. securities at a gain after recognizing amortization of the premium.

TABLE 7-2

F. Periodically, but at least annually, the balance in the Securities account is to be reconciled with the trust fund portfolios. Such reconciliations also should occur whenever there is a change in trust fund managers or other employees having access to the securities, or when there is a substantial addition, disposition, or replacement in the composition of the portfolio.

G. Unless otherwise provided for by the provisions governing a trust fund operation, securities held by DoD trust funds are U.S. securities. No certificates are issued by the Treasury. Instead, Treasury notifies trust fund managers of increases or decreases to the portfolios using the TFS 1081-1 "Investment Authorization."

H. DoD officials charged with administering trust funds are to be bonded in accordance with the laws and regulations governing the trust fund operations. Generally, the Federal Government acts as a self-insurer and does not require its employees to post bond or to be bonded.

I. Source documents for entries to the account include U.S. securities, the TFS 1081-1 "Investment Authorization," collection and disbursement vouchers, amortization schedules, and journal vouchers.

070304 Securities-Unamortized Premium or Discount (Account 1611)

A. "Securities-Unamortized Premium or Discount" is used to record the unamortized amount of premiums or discounts on securities.

B. A subsidiary account for unamortized premiums or discounts shall be maintained for each trust fund for determining the gain or loss on the disposition of securities held by each trust fund. This information also is needed for reporting on the financial status of the trust funds.

C. The entries in paragraph 070303, above, and Table 7-3 illustrate the use of this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1611 - SECURITIES-UNAMORTIZED PREMIUM OR DISCOUNT

1. Dr 1311 Accounts Receivable-Government-Current
   Dr 1611 Securities-Unamortized Premium or Discount
   Cr 5300 Interest and Penalties Revenue

   To record interest earned and amortize bond discount for the current period.

2. Dr 1311 Accounts Receivable-Government-Current
   Cr 1611 Securities-Unamortized Premium or Discount
   Cr 5300 Interest and Penalties Revenue

   To record interest earned and amortize bond premium for the current period.

TABLE 7-3

D. Security discounts and premiums shall be amortized over the life of an investment security.

E. The income derived from these securities other than Treasury bills shall be the interest stated on the face of the securities adjusted for the amortized premium or discount. A premium exists when securities are purchased for greater than their face value. For Treasury bills, the income is the difference between the price paid and the price received at the time of sale or maturity.

F. Premiums and discounts shall be amortized over the life of the securities using the effective interest method or other method if similar results are obtained. The computation of the effective interest rate (yield to maturity) and book value for notes and bonds uses a basic formula for book value. The formula is used to compute yield to maturity by a successive approximation process. This calculated yield to maturity is then used to compute book value at any specified date. The formula for the book value of a bond is found in Table 7-4.

G. To solve for the semiannual yield to maturity by successive approximation:

1. Set semiannual yield to maturity (Y) equal to the semiannual interest rate (IR), and compute book value (BV).

2. Compare BV to the purchase cost of the security.

3. If the purchase cost is greater, decrease the semiannual yield to maturity (Y) by .1 percent (.001).

FORMULA FOR THE BOOK VALUE OF A BOND

$$BV = \left(PV \times \frac{1}{(1+Y)^{NP}}\right) + \left(PV \times IR \times \frac{1 - \frac{1}{(1+Y)^{NP}}}{Y}\right)$$

where:

BV = Book value at a given date.
PV = Par value at maturity.
Y = Semiannual yield to maturity.
NP = Number of semiannual periods to maturity, including as a decimal any fractional part of 6 months from date selected to the next coupon payment date.
IR = Semiannual interest rate.
Y and IR (percents) are converted to full decimal ($0 < Y, IR < 1$).
Semiannual rates for Y and IR are computed by dividing the published annual rate by 2.

TABLE 7-4

4. If the purchase cost is lower, increase Y by .1 percent (.001).

5. When Y is found to .1 percent, repeat the above process using increments or decrements of .01 percent.

6. Iterate until Y is accurate to ten decimal places. The semiannual yield to maturity is the final value for Y.

7. To solve for book value at a given date, use the computed yield to maturity for Y, and an appropriate value for NP.

H. The value for amortized premium expense or amortized discount income is computed using differences in book values at selected dates. Unamortized premium or discount is computed using differences in par value and book value at selected dates.

I. Source documents for entries to this account include amortization schedules and journal vouchers.

070305 Other Investments (Account 1690)

A. "Other Investments" is used to record the value of securities issued by government sponsored enterprises and non-government entities.

B. DoD Components are not authorized to own such securities. Accordingly, this account shall not be used by DoD Components.

070306 Industrial Property in Layaway (Account 1761)

A. "Industrial Property in Layaway" is used to record the capitalized value of DoD property that is stored for future use in meeting mobilization purposes.

B. The determination of industrial equipment that is to be retained in storage to meet future mobilization requirements shall be made following the guidance in DoD Directive 4215.18 and DoD Directive 4275.5.

C. Subsidiary accounts shall be maintained by locations where the industrial

equipment is stored. Periodically, but at least annually, the equipment shall be inspected and a physical inventory taken in accordance with the guidance in Chapter 1 of this Volume.

D. Table 7-5 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1761 - INDUSTRIAL PROPERTY IN LAYAWAY

1. Dr 1761 Industrial Property in Layaway
   Cr 1763 Equipment with Contractors, Testing Agencies, Defense Industrial Facilities and Others

   To record the value of industrial plant equipment placed in storage.

2. Dr 1765 Property Awaiting Disposal
   Cr 1761 Industrial Property in Layaway

   To record the value of industrial plant equipment in storage that is sent to disposal.

TABLE 7-5

E. Sources for entries to this account include documentation from property administrators or other officials charged with determining the need to retain equipment and journal vouchers with supporting documentation (such as reports of survey) for adjustments to the account.

070307 Property Awaiting Disposal (Account 1765)

A. "Property Awaiting Disposal" is used to record the capitalized value of property officially designated for disposal, recovery, and/or utilization.

B. The Defense Reutilization and Management Service (DRMS) manages most of the property designated for recovery, utilization, and/or disposal. DRMS is an organization within the Defense Logistics Agency that administers the following:

1. The worldwide DoD Personal Property Utilization and Disposal Program governed by DoD Directive 4160.21.

2. The Precious Metals Recovery Program governed by DoD Directive 4160.22.

There are cases, however, when DRMS may not be involved. The disposition of surplus contractor-held inventory governed by the Federal Acquisition Regulation is one example.

C. When a DRMS activity has responsibility for the disposal of certain property, such as explosives, but lacks adequate resources to physically handle it, DRMS shall make suitable alternative arrangements for its care and custody. DRMS shall maintain financial accounting records for such property. The activity performing custodial services shall maintain such property and financial accounting records as necessary to provide an accounting to DRMS for such property.

D. DRMS shall not accept accountability for recovery, utilization, and/or disposal until the property is physically received unless the DRMS activity involved is prohibited from physically receiving the property. In such cases, DRMS accountability begins when title passes to DRMS.

E. Property in-transit to disposal shall be recorded as "in transit" when such transfer begins. The accountable organization shall record the transaction in its accounting

system when the transfer action is initiated. It shall be removed from the in-transit account only when the property is received and accepted by the DRMS activity. Under no circumstance shall entries to the in-transit accounts be reversed at the beginning of the following accounting period without proper supporting documentation such as reports of survey or notice of receipt by the DRMS activity.

F. DoD policy is to record the difference between the value of an asset before identification as excess, obsolete, and unservicable (i.e., beyond repair) and its expected net realizable value after such identification as a loss in current period operations within the DoD Component activity from which the asset is to be disposed. The loss shall be recognized in general ledger account 7293, "Other Miscellaneous Losses," at the time the determination is made even though the disposition of the asset may not occur until a later period. Any subsequent adjustments to its net realizable value shall also be recognized as a loss in the period in which such adjustments occur. "Net realizable value" is the current salvage rate, expressed as a percentage of latest acquisition cost, as that rate is reported by the Defense Reutilization and Marketing Service (DRMS). Property awaiting disposal is not subject to further depreciation.

G. Subsidiary accounts shall be maintained in a manner that provides information necessary to manage and report on property awaiting disposal.

H. Property awaiting disposal that is not capitalized shall be monitored through property control records in the related property management system.

I. Costs associated with the transportation of property to DRMS are to be treated as current operating costs.

J. Costs associated with readying the property for disposal and with disposition shall be treated as current operating costs, since the primary purpose of DRMS is to dispose of unneeded DoD property.

K. Table 7-6 illustrates the most common entries used for this account.

L. Sources for entries to this account include receiving reports, transfer and shipping documents, sales records, collection and deposit documents, and journal vouchers.

070308 Assets Under Capital Lease (Account 1810)

A. "Assets Under Capital Lease" is used to record the amount of assets being leased under terms that essentially are equivalent to an installment purchase.

B. A lease agreement is an agreement to convey the use of an asset or part of an asset (such as part of a building) from one entity, the lessor, to another, the lessee, for a specified period of time in return for rent or other compensation. Lessees have either capital or operating leases while lessors have either sales-type, direct financing, or operating leases. Capital, sales-type, and direct financing leases transfer substantially all the benefits and risks of ownership from the lessor to the lessee. All other leases should be accounted for as operating leases, i.e., rental of property.

1. Agreements with foreign governments which permit the Department of Defense occupancy of facilities under agreements which require the Department of Defense to maintain the facilities shall be treated as a capital lease. The amount to be recorded as a capital lease shall be determined using the guidance in paragraph 070307.E, below.

C. When the lease agreement is essentially equivalent to an installment purchase of property, the DoD Component shall record the applicable asset and liability. In such cases, the substance of the arrangement, rather than its legal form, shall determine the accounting treatment.

D. Lessees shall classify a lease as a capital lease if the lease agreement is essentially equivalent to an installment purchase of property. If any of the following criteria is met, the

ACCOUNTING ENTRIES FOR ACCOUNT 1765 - PROPERTY AWAITING DISPOSAL

1. In the transferor's accounting system:

   Dr 3231 Transfers-Out to Government Agencies Without Reimbursement
   Dr 7293 Other Miscellaneous Losses
   Dr 1769 Accumulated Depreciation on Military Equipment (if any)
   Cr 1762 Equipment in Use
   To record transfer of equipment to DRMS for disposition.

2. In the transferor's system when transfer involves two accounting periods:

   Dr 1770 Equipment in Transit
   Dr 7293 Other Miscellaneous Losses
   Dr 1769 Accumulated Depreciation on Military Equipment (if any)
   Cr 1762 Equipment in Use
   To record equipment in transit to DRMS.

3. When transfer is completed the following accounting period:

   Dr 3231 Transfers-Out to Government Agencies Without Reimbursement
   Cr 1770 Equipment in Transit
   To record DRMS receipt of equipment in transit at end of prior accounting period.

4. In the DRMS accounting system:

   Dr 1765 Property Awaiting Disposal
   Cr 3220 Transfers-In from Others Without Reimbursement
   To record receipt of property and any accumulated depreciation for disposal.

5. Property returned to item managers by DRMS:

   Dr 3231 Transfers-Out to Government Agencies Without Reimbursement
   Cr 1765 Property Awaiting Disposal
   To record transfer of property to item managers.

6. Sale of property by DRMS:

   Dr 1011.1 Funds Collected-Operating Program-DBOF
   Dr 1769 Accumulated Depreciation on Military Equipment (if any)
   Dr 7210 Losses on Disposition of Assets
   Cr 1765 Property Awaiting Disposal
   Cr 5100 Revenue from Goods Sold
   To record disposition of property awaiting disposal.

TABLE 7-6

lease agreement is presumed to be equivalent to an installment purchase:

1. The lease transfers ownership of the property to the lessee by the end of the lease term.

2. The lease contains an option to purchase the leased property at a bargain price.

3. The noncancelable lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.

4. The present value of rental and other minimum lease payments, excluding that portion of the payments that represents executory costs, such as insurance, maintenance, and taxes to be paid by the lessor equals or exceeds 90 percent of the fair value of the leased property. The lessee shall compute the present value of minimum lease payments using the Treasury Average Interest Rate for Marketable Interest-Bearing Debt unless as follows:

a. It is practicable for the lessee to learn the interest rate implicit in the lease computed by the lessor.

b. The implicit rate computed by the lessor is less than the Treasury Average Interest Rate for Marketable Interest-Bearing Debt.

The last two criteria in paragraph 070307.D.4.a and 070307.D.4.b, above, do not apply if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. An agency's "rental" of space from GSA does not meet these criteria.

E. Components with capital leases shall treat capital leases as the acquisition of an asset and the incurrence of a liability. The asset shall be recorded at its fair market value, with a like amount shown in the liabilities section.

F. Interest shall be computed and recognized periodically. The effective interest method (see paragraph 070304.F, above) shall be used to produce a constant rate of interest on the remaining lease liability. A portion of each lease payment shall be allocated to interest expense, and the balance shall be applied to reduce the lease liability. The amount allocated to interest expense shall be computed based on the interest rate used to compare the present value of minimum lease payments.

G. In leases with a residual guarantee by the lessee or a penalty for failure to renew the lease at the end of the lease term, following the method in paragraph 070304.F, above, of amortization will result in a balance of the liability at the end of the lease term that will equal the amount of the guarantee or penalty at that date. If a renewal or other extension of the lease term or a new lease under which the lessee continues to lease the same property renders the guarantee or penalty inoperative, the asset and the liability under the lease shall be adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised agreement and the present balance of the liability. The present value of future minimum lease payments under the revised agreement shall be computed using the rate of interest used to record the lease initially. Other renewals and extensions of lease terms shall be considered new agreements.

H. Any lease that is not a capital, sales-type, or direct financing lease is an operating lease. Lessees shall treat the payments and accruals for operating leases as expenses; lessors shall treat the payments and accruals as current revenue and depreciate the asset in accordance with its depreciation policy. The asset shall be reported on the lessor's Statement of Financial Position as a component of Property, Plant, and Equipment.

I. Definitions.

1. Lease Term. For nonoperating leases, the lease term is the fixed noncancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease that can reasonably be expected to be taken.

2. Noncancelable. Means the lease is cancelable only on the occurrence of a

remote contingency. Funds not being appropriated by the Congress in future years to cover the lease is considered a remote contingency.

3. Bargain Purchase Option. A lessee's option to purchase the leased property at a bargain price that makes the exercise of the option almost certain.

4. Estimated Economic Life. The estimated remaining useful life of property for the purpose for which it was intended, regardless of the term of the lease.

5. Minimum Lease Payments. The payments that the lessee is obligated to make or can be required to make in connection with the leased property. (Contingent rentals are excluded from the minimum lease payments.)

6. Fair Value. The leased property is the price for which the property could be sold in an arm's-length transaction between unrelated parties.

7. Interest Rate Implicit in the Lease. The discount rate that, when applied to the minimum lease payments (less executory costs and the unguaranteed residual value), causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased property at the inception of the lease.

8. Renewal or Extension of a Lease. The continuation of a lease agreement beyond the original lease term, including a new lease under which a lessee continues to use the same property.

J. Table 7-7 illustrates the most common entries used for this account.

K. Sources for entries to these accounts include contracts, payment documents, amortization schedules, and journal vouchers.

070309 Accumulated Depreciation on Assets Under Capital Leases (Account 1819)

A. "Accumulated Depreciation on Assets Under Capital Leases" accumulates the depreciation charged to expense for assets under capital lease.

B. This account shall be used by those activities that are authorized to enter into capital lease agreements and are required to recover their operating costs through sales of goods and services.

C. Table 7-8 illustrates the most common entries used for this account.

D. Sources for entries to this account include journal vouchers showing the basis for the depreciation computation.

ACCOUNTING ENTRIES FOR ACCOUNT 1810 - ASSETS UNDER CAPITAL LEASE

1. Dr 1810 Assets Under Capital Lease
   Cr 2991 Capital Leases Payable

   To record the value of capital leases signed.

2. Dr 1819 Accumulated Depreciation on Assets Under Capital Lease
   Dr 2991 Capital Leases Payable
   Dr 7210 Losses on Disposition of Assets
   Cr 1810 Assets Under Capital Lease

   To record disposition of an asset held under a capital lease at a loss.

TABLE 7-7

ACCOUNTING ENTRIES FOR ACCOUNT 1819 - ACCUMULATED DEPRECIATION ON ASSETS UNDER CAPITAL LEASES

1. Dr 6125 Depreciation of Equipment
   Dr 6126 Depreciation of Real Property
   Cr 1819 Accumulated Depreciation on Assets Under Capital Leases

   To record depreciation of assets held under capital lease.

2. Dr 1819 Accumulated Depreciation on Assets Under Capital Lease
   Dr 2940 Capital Leases Liability
   Dr 7210 Losses on Disposition of Assets
   Cr 1810 Assets Under Capital Lease

   To record disposition of an asset held under a capital lease at a loss.

TABLE 7-8

070310 Leasehold Improvements (Account 1820)

A. "Leasehold Improvements" is used to record the value of improvements to leased property. Amounts recorded by DoD Components shall meet the capitalization criteria in Chapter 1 of this Volume.

B. As a general rule, most improvements to leased facilities shall be treated as a current operating expense. In a few instances, leases may cover more than 2 years, including renewals, and improvements may cost more than $25,000.

C. Table 7-9 illustrates the most common entries used for this account.

D. Sources for entries to this account include journal vouchers and documents transferring completed construction projects to this account.

070311 Accumulated Amortization on Leasehold Improvements (Account 1829)

A. "Accumulated Amortization on Leasehold Improvements" is used to accumulate the amortization charges to expense for leasehold improvements.

B. This account shall be used by those activities that are authorized to enter into capital lease agreements and are required to recover their operating costs through sales of goods and services.

C. Table 7-10 illustrates the most common entries used for this account.

D. Sources for entries to this account include journal vouchers with workpapers supporting the computation of the amounts to be amortized over the life of the lease.

070312 Automated Data Processing Software (Account 1830)

A. "Automated Data Processing Software" is used to record the value of ADP software owned by the Department of Defense that meets the capitalization criteria in Chapter 1 of this Volume.

B. As a general rule, most ADP software used by DoD Components has a life expectancy of less than 2 years. Most programs, including purchased software, are modified substantially or made obsolete within that period of time.

C. Table 7-11 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1820 - LEASEHOLD IMPROVEMENTS

1. Dr 1820 Leasehold Improvements
   Cr 1721 Construction in Progress-In House
   Cr 1722 Construction in Progress-Contractor

   To record the value of completed improvements to leased property.

2. Dr 1829 Accumulated Amortization on Leasehold Improvements
   Cr 1820 Leasehold Improvements

   To write off fully amortized leasehold improvements.

TABLE 7-9

ACCOUNTING ENTRIES FOR ACCOUNT 1829 -
ACCUMULATED AMORTIZATION ON LEASEHOLD IMPROVEMENTS

1. Dr 6128 Amortization of Leasehold Improvements and Other Intangible Assets
   Cr 1829 Accumulated Amortization on Leasehold Improvements

   To record the amortization expense for the accounting period.

2. Dr 1829 Accumulated Amortization on Leasehold Improvements
   Cr 1820 Leasehold Improvements

   To write off fully amortized leasehold improvements.

TABLE 7-10

D. Sources for entries to this account include payment vouchers, journal vouchers, and documents transferring completed software from work in process.

070313 Accumulated Amortization on Automated Data Processing Software (Account 1839)

A. "Accumulated Amortization on Automated Data Processing Software" accumulates the amortization charged to expense for automated data processing software.

B. This account shall be used by those activities that are required to recover their operating costs through sales of goods and services.

C. Table 7-12 illustrates the most common entries used for this account.

D. Sources for entries to this account include journal vouchers with workpapers supporting the computation of the amounts to be amortized.

070314 Other Fixed Assets (Account 1890). "Other Fixed Assets" is used to record the value of fixed assets, such as statues, monuments, and artwork, historical items and structures, etc.

ACCOUNTING ENTRIES FOR ACCOUNT 1830 - AUTOMATED DATA PROCESSING SOFTWARE

1. Dr 1830 Automated Data Processing Software
   Cr 2113 Accounts Payable-Public-Current
   Cr 1541 Inventory-Work in Process-In-House

   To record purchase of ADP software or to transfer in-house developed software to a completed status.

2. Dr 7210 Losses on Disposition of Assets
   Dr 1839 Accumulated Amortization on Automated Data Processing Software
   Cr 1830 Automated Data Processing Software

   To write off unusable ADP software.

3. Dr 1839 Accumulated Amortization on Automated Data Processing Software
   Cr 1830 Automated Data Processing Software

   To write off fully amortized ADP software.

TABLE 7-11

ACCOUNTING ENTRIES FOR ACCOUNT 1839 - ACCUMULATED AMORTIZATION ON AUTOMATED DATA PROCESSING SOFTWARE

1. Dr 6128 Amortization of Leasehold Improvements and Other Intangible Assets
   Cr 1839 Accumulated Amortization on Automated Data Processing Software

   To record the amortization expense for the accounting period.

2. Dr 1839 Accumulated Amortization on Automated Data Processing Software
   Cr 1830 Automated Data Processing Software

   To write off fully amortized ADP software.

TABLE 7-12

070315 Other Assets, Net (Account 1900)

A. "Other Assets, Net" represents the value of assets not specified in specific accounts discussed in Chapters 4 and 6 of this Volume or the preceding paragraphs 070302 through 070313, above, in this chapter.

B. This account is a summary account used for financial accounting and control purposes. No entries are posted to this account.

070316 Acquired Collateral (Account 1910)

A. "Acquired Collateral" is used torecord the value of property obtained by the Department of Defense as collateral to defaulted

loans. Such situations may arise when DoD Components enter into secured loan agreements with contractors.

B. The amounts to be recorded in this account shall recognize the same cost elements that apply to acquired assets as prescribed in Chapter 1 of this Volume.

C. Table 7-13 illustrates the most common entries used for this account.

D. Source documents for entries to this account include contracts, default notifications to contractors, sales and collection documents, and journal vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 1910 - ACQUIRED COLLATERAL

1. Dr 1910 Acquired Collateral
   Cr 1353 Loans Receivable-Public-Current
   Cr 2910 Prior Liens Outstanding on Acquired Collateral

   To record collateral received on defaulted loans.

2. Dr 1320 Claims Receivable-Public
   Dr 1919 Allowance for Loss on Acquired Collateral
   Dr 2910 Prior Liens Outstanding on Acquired Collateral
   Dr 1011 Funds Collected
   Cr 1910 Acquired Collateral

   To record sale of acquired collateral and to recognize an additional claim for amounts not recovered in disposing the collateral.

TABLE 7-13

070317 Allowance for Loss on Acquired Collateral (Account 1919)

A. "Allowance for Loss on Acquired Collateral" is used to record the estimated future losses pertaining to the net investment of property acquired through loan default.

B. This account shall be used by those activities that are required to recover their operating costs through sales of goods and services. Otherwise, such allowance loss entries shall be made at the departmental level in accordance with the guidance in Chapter 1 of this Volume.

C. Table 7-14 illustrates the most common entries used for this account.

D. Sources for entries to this account include journal vouchers with supporting work sheets showing the computation of the estimated write-off and documents supporting the decision to write off acquired collateral.

070318 Unrequisitioned Authorized Appropriations (Account 1920)

A. "Unrequisitioned Authorized Appropriations" is used to record the unrequisitioned disbursing authority as provided for in liquidating cash authority granted by Congress.

B. Entries to this account require a corresponding entry to budgetary accounts dealing with contract authority.

C. Table 7-15 illustrates the most common entries used for this account.

D. Sources for entries to this account include budget documents and legislation authorizing contract authority.

ACCOUNTING ENTRIES FOR ACCOUNT 1919 - ALLOWANCE FOR LOSS ON ACQUIRED COLLATERAL

1. Dr 7210 Losses on Disposition of Assets
   Cr 1919 Allowance for Loss on Acquired Collateral

   To record estimated loss on acquired collateral.

2. Dr 1919 Allowance for Loss on Acquired Collateral
   Cr 1910 Acquired Collateral

   To write off acquired collateral.

TABLE 7-14

ACCOUNTING ENTRIES FOR ACCOUNT 1920 - UNREQUISITIONED AUTHORIZED APPROPRIATIONS

1. Dr 1920 Unrequisitioned Authorized Appropriations
   Dr 4132 Contract Authority-With Liquidating Appropriation
   Cr 3100 Appropriated Capital
   Cr 4131 Contract Authority-Without Liquidating Appropriation

   To record enactment of public law for liquidating cash authority.

2. Dr 1011 Funds Collected
   Cr 1920 Unrequisitioned Authorized Appropriations

   To record request for transfer of disbursing Authority to the expenditure account.

3. Dr 3500 Deferred Liquidating Cash Authority
   Dr 4450 Authority Available for Apportionment
   Cr 1920 Unrequisitioned Authorized Appropriation
   Cr 4132 Contract Authority-With Liquidating Appropriation

   To adjust liquidating cash authority to the amount of disbursing authority actually transferred to the expenditure account.

   NOTE: This entry is reversed at the beginning of the next fiscal year.

TABLE 7-15

070319 Other Assets (Account 1990)

A. "Other Assets" is used to record the value of assets not otherwise classifiable to a specific asset account. Applicable subsidiary accounts shall be established as necessary to meet management and reporting needs.

B. Table 7-16 illustrates the most common entries used of this account.

C. Source documents for entries to this account include receiving reports and journal vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 1990 - OTHER ASSETS

1. Dr 1990 Other Assets
   Cr 2113 Accounts Payable-Public-Current

   To record the value of assets purchased from commercial vendors that may not be classified to a specific asset account.

2. Dr 6000 Expense accounts series
   Cr 1990 Other Assets

   To record use of these assets in operations.

TABLE 7-16

ACCOUNT NO. 1600	
INVESTMENTS, NET	
DESCRIPTION: Securities and other assets held for the production of revenues in the form of interest, dividends, rentals, or lease payments, net of premiums and discounts.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 7-1

ACCOUNT NO. 1610	
SECURITIES (AT PAR)	
DESCRIPTION: The par value of U.S. securities held by DoD Components.	
DEBIT	CREDIT
1. Purchase of securities at a discount. Contra: 1012 and 1611	1. Sale of securities at a loss with unamortized discount. Contra: 1011, 1611, and 7292
NORMAL BALANCE: DEBIT	

FIGURE 7-2

ACCOUNT NO. 1611	
SECURITIES - UNAMORTIZED PREMIUM OR DISCOUNT	
DESCRIPTION: The unamortized amount of premiums or discounts on securities.	
DEBIT	CREDIT
1. Purchase of securities at a discount. Contra: 1011 2. Amortization of a discount. Contra: 5300	1. Purchase of securities at a premium. Contra: 1610 2. Amortization of a premium. Contra: 5300
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 7-3

ACCOUNT NO. 1690	
OTHER INVESTMENTS	
DESCRIPTION: Securities issued by Government-sponsored enterprises and non-government entities.	
DEBIT	CREDIT
Use of this account is not authorized.	
NORMAL BALANCE:	

FIGURE 7-4

ACCOUNT NO. 1761	
INDUSTRIAL PROPERTY IN LAYAWAY	
DESCRIPTION: The capitalized value of DoD property that is stored for future use in meeting mobilization purposes.	
DEBIT	CREDIT
1. Value of industrial plant equipment placed in storage. Contra: 1763	1. Industrial equipment in storage sent to disposal. Contra: 1765
NORMAL BALANCE: DEBIT	

FIGURE 7-5

ACCOUNT NO. 1765	
PROPERTY AWAITING DISPOSAL	
DESCRIPTION: The capitalized value of property designated for disposal, recovery or utilization.	
DEBIT	CREDIT
1. Property transferred to disposal. Contra: 1762 and 1766	1. Sale of property. Contra: 3620, 1769, and 7210
NORMAL BALANCE: DEBIT	

FIGURE 7-6

ACCOUNT NO. 1810	
ASSETS UNDER CAPITAL LEASE	
DESCRIPTION: The capitalized value of assets being leased under terms which are essentially equivalent to an installment purchase.	
DEBIT	CREDIT
1. Capital leases signed. Contra: 2991	1. Disposition of an asset held under a capital lease. Contra: 1819, 2991, and 7210
NORMAL BALANCE: DEBIT	

FIGURE 7-7

ACCOUNT NO. 1819	
ACCUMULATED DEPRECIATION ON ASSETS UNDER CAPITAL LEASES	
DESCRIPTION: Accumulates the depreciation charged to expense for assets under capital leases.	
DEBIT	CREDIT
1. Disposition of an asset held under capital leases. Contra: 1810	1. Depreciation for the accounting period. Contra: 6125 and 6126
NORMAL BALANCE: CREDIT	

FIGURE 7-8

ACCOUNT NO. 1820	
LEASEHOLD IMPROVEMENTS	
DESCRIPTION: Represents the capitalized value of improvements made to leased property.	
DEBIT	CREDIT
1. Value of completed improvements. Contra: 1721 and 1722	1. Write off fully amortized improvements. Contra: 1829
NORMAL BALANCE: DEBIT	

FIGURE 7-9

ACCOUNT NO. 1829	
ACCUMULATED AMORTIZATION ON LEASEHOLD IMPROVEMENTS	
DESCRIPTION: Accumulated amortization charges to expense for leasehold improvements.	
DEBIT	CREDIT
1. Write off fully amortized leasehold improvements. Contra: 1820	1. Amortization expense for the accounting period. Contra: 6128
NORMAL BALANCE: CREDIT	

FIGURE 7-10

ACCOUNT NO. 1830	
AUTOMATED DATA PROCESSING SOFTWARE	
DESCRIPTION: Represents the capitalized value of ADP software owned by DoD.	
DEBIT	CREDIT
1. Purchase or in-house developed software. Contra: 1541 and 2113	1. Write off unusable ADP software. Contra: 1839 and 7210
NORMAL BALANCE: DEBIT	

FIGURE 7-11

ACCOUNT NO. 1839	
ACCUMULATED AMORTIZATION ON AUTOMATED DATA PROCESSING SOFTWARE	
DESCRIPTION: Accumulates the amortization charged to expense for automated data processing software.	
DEBIT	CREDIT
1. Write off fully amortized ADP software. Contra: 1830	1. Record the amortization expense for the accounting period. Contra: 6128
NORMAL BALANCE: CREDIT	

FIGURE 7-12

ACCOUNT NO. 1890	
OTHER FIXED ASSETS	
DESCRIPTION: The value of fixed assets such as statues, monuments, and artwork, historical items and structures, etc. that do not depreciate (excludes land).	
DEBIT	CREDIT
1. Value of non-depreciable assets (excluding land), such as statues, monuments, artwork and historical items and structures.	2. Disposition of items.
NORMAL BALANCE: DEBIT	

FIGURE 7-13

ACCOUNT NO. 1900	
OTHER ASSETS, NET	
DESCRIPTION: Value of assets not specified in specific fixed accounts.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 7-14

ACCOUNT NO. 1910	
ACQUIRED COLLATERAL	
DESCRIPTION: Represents the value of property obtained by DoD as collateral to defaulted loans.	
DEBIT	CREDIT
1. Collateral received on defaulted loans. Contra: 1353 and 2910	1. Sale of acquired collateral. Contra: 1320, 1919, 2910, and 3620
NORMAL BALANCE: DEBIT	

FIGURE 7-15

ACCOUNT NO. 1919	
ALLOWANCE FOR LOSS ON ACQUIRED COLLATERAL	
DESCRIPTION: Accumulates the estimated future losses pertaining to the net investment of property acquired through loan default.	
DEBIT	CREDIT
1. Write off acquired collateral. Contra: 1910	1. Estimated loss on acquired collateral. Contra: 7210
NORMAL BALANCE: CREDIT	

FIGURE 7-16

ACCOUNT NO. 1920	
UNREQUISITIONED AUTHORIZED APPROPRIATIONS	
DESCRIPTION: The amount of unrequisitioned disbursing authority as provided for in liquidating cash authority granted by the Congress.	
DEBIT	CREDIT
1. Record enactment of public law for liquidating cash authority. Contra: 3100	1. Record request for transfer of disbursing authority to the expenditure account. Contra: 1011 2. Adjust liquidating cash authority to the amount of disbursing authority actually transferred to the expenditure account. (Reverse at beginning of next fiscal year.) Contra: 3100
NORMAL BALANCE: DEBIT	

FIGURE 7-17

ACCOUNT NO. 1990	
OTHER ASSETS	
DESCRIPTION: The value of assets not otherwise classifiable to a specific asset account.	
DEBIT	CREDIT
1. Purchase of miscellaneous assets from commercial sources. Contra: 2113	1. Use of assets in operations. Contra: 6000 series of accounts.
NORMAL BALANCE: DEBIT	

FIGURE 7-18

CHAPTER 8

FINANCIAL CONTROL OF LIABILITIES

0801 GENERAL

080101 Purpose. This chapter sets forth the policy to be followed in accounting for liabilities.

080102 Overview

A. A DoD liability is an amount owed by the DoD for items received, services received, expenses incurred, assets acquired, construction performed (regardless of whether invoices have been received), and cash advances received but as yet unearned. Included are amounts owed for goods and services in the hands of prime contractors but which are owned by the DoD under the terms of the contract, and amounts owed under grants, pensions, awards, and other indebtedness not involving the furnishing of goods and services.

B. A contingent liability occurs when a condition, situation, or set of circumstances exists that may confirm the loss or impairment of an asset or the incurrence of a liability. Accrual and disclosure of contingencies varies depending on their probability of occurrence. Estimated losses shall be recorded in DoD financial systems and reported in Component financial statements if:

1. Information available before the financial statements are issued indicates that an asset probably has been impaired or a liability probably has been incurred as of the date of the financial statements.

2. The amount can be reasonably estimated.

C. For the purpose of federal credit programs, a contingent liability is a conditional commitment that may become an obligation because of a future event beyond the control of the DoD. Contingent liabilities include Defense Production Loan Guarantees.

0802 ACCOUNTING POLICY FOR LIABILITIES

080201 A liability has three essential characteristics.

A. It embodies a present obligation to others which will be settled by the probable future transfer or use of assets at one of the following:

1. A specified or determinable date.

2. At the time of a specific event.

3. On demand.

B. Because of equitable or legal responsibility, the DoD has little or no discretion to avoid future sacrifice.

C. The transaction or event giving rise to the duty and responsibility has already happened.

080202 Although liabilities rest generally on legal rights and duties, a legal claim is not a prerequisite for qualification as a liability if future cash or other transfer of assets in settlement is otherwise probable and estimable.

080203 Amounts recorded as liabilities shall be supported by sufficient documentation that establishes the basis for the claim against the DoD. Such documentation includes receiving reports, court decisions, and estimates of accrued liabilities for personnel services provided but for which payment is not made until the next scheduled payday.

080204 Liabilities shall be recorded initially in the designated accounts for the accounting period during which the transactions giving rise

to them occurred and removed in the period during which they are liquidated.

080205 Liabilities shall be recorded at amounts that reasonably represent the cost of the economic benefit to be used in settlement.

080206 Liabilities shall be recorded regardless of the availability of funds to be used in their liquidation.

080207 When liabilities are incurred as work is performed rather than when deliveries are made, appropriate accruals shall be made from performance reports for the affected accounting periods.

080208 When property is acquired under a lease-purchase agreement, the liability shall be recorded when the property is accepted.

080209 Amounts received from other accounting entities as unearned revenue shall be recorded as liabilities until performance occurs.

080210 Goods and services purchased under long-term contracts shall be recorded as a liability in the period in which the goods or services are received and accepted by the agency. The related asset or expense, as appropriate, shall be recorded at the same time as the liability. When goods and services are to be received over a period of time covering 2 or more accounting periods and payment is to be made upon completion of delivery, the liability shall be recorded as a noncurrent liability until completion of delivery. A noncurrent liability is one that will not be paid within 1 year of its incurrence.

080211 For financial reporting purposes, DoD Components shall compute the liability for property, plant, and equipment manufactured or constructed for them under long-term contracts on the basis of verified estimates of work completed (percentage-of-completion method) per contractor reports or invoices received during each account period, rather than on disbursements made. DoD Components shall use the contractor's requests for progress payments, certified by an authorized contact administrator, as the basis for recording the liability. Appropriate liabilities for contract retainages, if any, shall be recorded as contract holdbacks. The appropriate work in process or construction in progress accounts shall be adjusted to reflect the value of work completed, as represented by approved progress payments accepted by the DoD Component.

080212 The annual leave liability shall be accrued.

080213 The liability for the DoD contribution to civilian retirement benefits earned shall be accrued. The amounts recorded in the applicable general ledger accounts shall be that portion of the liability that is to be paid by the appropriation current at the time the liability was incurred.

0803 UNBILLED LIABILITIES

080301 Open accounts payables require constant review to assure that they are valid liabilities. If an invoice has not been received for a liability that represents acceptable final performance on a contract or order, the procedures in paragraph 080302, below, may be implemented unless the contract or order is in litigation. When litigation is in effect, the liability shall remain on the accounts.

080302 When the invoice has not been received within 180 days from the date of acceptable final performance the following guidance shall be followed:

A. If the amount of the payable is less than $100 and 90 days have lapsed since the initial documented request, the liability shall be written off and the related obligation cancelled and returned to the unobligated balance of the appropriation fund account.

B. If the amount of the payable is more than $100 and there is documentation on file that at least 2 written requests have been made for an invoice, the liability shall be written off and the related obligation cancelled and returned to the unobligated balance of the appropriation fund account. To qualify for the write off and deobligation, the second request

for an invoice shall be dated at least 60 days before the date of the write off.

080303 Late invoices received must be matched against documentation of liabilities previously written off to determine their validity before payment. If a late billing is determined to be valid, the liability shall be reestablished and funds obligated and paid from an appropriate account (current appropriation or expired account). For expired accounts, the payment of a valid late bill shall be treated as an obligation adjustment. For cancelled accounts, the payment of a valid late bill should be from a current account (available for the same purpose as a canceled account), in an amount not to exceed the lesser of any remaining unobligated balance of the cancelled account or 1% of the current account. A portion of funds available for funding activity cost center will be reserved within each appropriation or fund for invoices received subsequent to writeoff.

080304 The funded amount maintained in the reserve for late bills shall be established at a level sufficient to preclude a violation of 31 U.S.C. 1341 or 1517(a) or both from receipt of valid late bills. The amount of the reserve for late bills shall be reviewed and approved by the comptroller of the activity annually, to determine if adjustment based upon experience is appropriate.

0804 ADJUSTING JOURNAL VOUCHERS

080401 The source documents used for accounts payable postings include receiving reports, invoices, and contractor reports, etc. As a general rule, all entries to the accounting system must be based upon routinely prepared source documents, which have been processed under prescribed internal control procedures. If source documents are not received, necessary follow up actions are taken to obtain the required documents. The unrecorded source document condition may have been caused by the failure to record a receiving report, or a particular transaction may have failed to post in an automated accounting system. Such events will be recorded on research listings as an unmatched item or a required document that has not been received. When the listings are received, required research effort normally begins by first stratifying transaction by dollar values. Those in the highest category (over $1 million, for example) will be researched first. When the first category is completed the next category (from $100,000 to $1 million, for example) will be researched until that group is completed. This operational review continues until all items have been resolved. Then the process is restarted when the next listing is received. Management is expected to monitor constantly the volume and dollar values of transactions requiring research and to authorize overtime, details of personnel, etc., when necessary, to assure required research is completed. However, there are competing requirements that can result in a significant value of low dollar transactions which have not been researched for long periods of time. Further, as a practical matter, it is not always cost effective or realistic to expend the effort necessary to obtain each and every source document. When this occurs, management may decide to process adjusting journal vouchers using the process described in this section.

080402 The need for an accounting adjustment is properly a decision to be made at the level at which an account is maintained. The decision, however, must be supported by documentation that shows reasonable and prudent research was conducted to support the adjustment. This document then must be retained for audit.

080403 Normally, the first step in the adjustment process is to group unmatched items into homogeneous lots. Each of these lots is then subjected to acceptance sampling. The sampling plan should follow normal statistical sampling procedures. If analysis of the sampled items confirms that there are unposted source documents for the entire lot, then applicable journal vouchers should be processed. If the sample discloses that some payables are invalid, or that some invoices have not been received, then estimation statistical sampling procedures should be applied to determine if research will cost more than likely recoveries. If statistical sampling procedures do not support either of the above actions, then each item in the lot must be subjected to normal research.

CHAPTER 9

ACCOUNTS PAYABLE

0901 GENERAL

090101. Purpose. This chapter provides guidance to be followed in recording and liquidating amounts payable by DoD Components. The processes described in this chapter implement the accounting principles and policy contained in Chapter 8 of this Volume and complement the processes contained in Chapter 1 of this Volume as they relate to disbursements for goods and services received by DoD Components.

090102 Overview

A. The payables discussed in this chapter deal with all payables except those due federal employees, both civilian and military, for personal services.

B. Recording of an accounts payable generally is the first transaction level entry in the proprietary accounts. Until goods and services are received by a DoD Component, the transaction is recorded in the budgetary accounts as an undelivered order. When an accounting station receives evidence that performance has occurred, the transaction is recorded simultaneously in the budgetary accounts as an accrued expenditure unpaid and in the proprietary accounts as an accounts payable. This compound entry provides an internal check and balance in the accounting system by assuring that amounts recorded as accrued expenditures unpaid are equal to the amounts recorded as accounts payable. Figure 2-1 in chapter 2, of Volume 1, of this regulation illustrates the relationships between the budgetary accounts and the proprietary accounts.

C. Accounts payable are amounts owed for goods and services received (i.e., actual or constructive delivery).

D. Accounts payable include amounts for the following:

1. Goods and other property purchased and received.

2. Services performed by employees, contractors, grantees, and lessors supported by contractor invoices and other documentation that acknowledges receipt of service.

3. Amounts owed at the end of the accounting period under programs for which no further performance of services by payees is required (such as annuities, insurance premiums, and some cash grants).

0902 ACCOUNTING POLICY FOR PAYABLES

090201 Amounts recorded as payables shall be supported by documentation that clearly shows the basis for the amount recorded as a payable and the terms upon which payment is to be made.

A. The basis for recording an accounts payable shall be a receiving report that clearly shows the quantities received and accepted or services performed and accepted by the DoD. Such quantities shall be based on actual counts of the items delivered by the vendor. When applicable, accompanying inspection reports for the goods or services shall be attached to the receiving report. In such instances, the inspection report, together with the receiving report, serves as the basis for recording the liability.

B. Periodically, but at least annually, the balances in the accounts payable accounts shall be reconciled to the supporting documentation. Differences shall be researched and any necessary adjustments shall be fully documented.

090202 Amounts recorded as payables shall be net of all discounts offered by vendors, which

are economically justified. The decision as to whether the discount shall be taken is to be made using the guidance contained in chapter 2 of this Volume.

090203 An accounts payable for goods and services shall be recorded when supported by a receiving report and an inspection report or when other evidence of performance is received by the accounting station. When an obligation has not been recorded in the accounting system prior to receipt of the goods and services, the procedures outlined in paragraph 090204, below, shall be followed.

090204 For items manufactured to DoD specifications, the DoD Component shall record the appropriate payable, including contract retentions, based on requests for progress payments. Such amounts shall be supported by contract administrator certification as provided in the Defense/Federal Acquisition Regulations (DFAR). The offsetting entry for such payable shall be made to the appropriate prepayment account or construction in progress accounts described in chapters 4 and 6 of this Volume.

090205 The inability to match a performance report or invoice to the applicable undelivered order may indicate a breakdown of fund control processes and a material weakness in internal controls. When the process of posting a transaction to accounts payable does not disclose a matching transaction in the undelivered order account, there may be evidence that a contract either has not been awarded or a posting error has occurred. In this circumstance, the accounting office shall request the necessary documentation to support the required accounting entry. Appropriate officials shall be notified when it appears that performance reports or invoices are being received without a corresponding undelivered order having been previously recorded.

090206 When authorized under 10 U.S.C. 2326, an accrued expenditure unpaid may be established skipping the undelivered order phase. (These actions are known as Undefinitized Contract Actions (UCAs). Limitations on UCAs are discussed in the DFAR. When this situation occurs the posting in the budgetary account shall be made simultaneously with the corresponding entry in the proprietary inventory and/or expense accounts and accounts payable.

090207 Transactions representing the value of goods and services accepted by DoD Components under "fast pay" procedures requires special attention. These payments create an abnormal balance in both the budgetary account accrued expenditures-unpaid and the proprietary accounts payable, since the transaction is recorded as a debit entry in both of these accounts without a matching previously recorded credit entry.

A. Under fast pay procedures, the contractor certifies that delivery has been made at the time the invoice is presented for payment and this certification is considered a sufficient basis for disbursement. Since payment is made based on the contractor's certification, accounting stations shall establish sufficient controls to assure that receiving reports necessary to support the necessary credit entries are received within a reasonable period of time. Under no circumstances shall a journal voucher be processed to correct the abnormal balance in accrued expenditures-unpaid or accounts payable. When the required receiving report evidencing actual receipt of the items is not received within a reasonable period of time, accounting stations shall take action to determine whether the goods and services have been received. For those cases in which the items have not been received, the accounts shall be brought back in balance by the following entry:

Dr Accounts Receivable (Government or Public)-Current

Cr Accounts Payable (Government or Public)-Current

Offsets against current payments shall be supported by documentation signed by the appropriate official so that a clear audit trail is maintained until the transaction is completed. Guidance pertaining to the use and application of the fast pay process in the DoD is contained in chapter 2 of this Volume.

B. A special situation exists with Defense Business Operations Fund activities. When a Defense Business Operations Fund activity orders material and supplies to be delivered to a location, the recipient's payment of the billing constitutes evidence of receipt. This procedure is acceptable because the recipient has established an accounts payable to the Defense Business Operations Fund and, therefore, the payment provides assurance that the payee will be required to validate that the material has been received.

090208 DoD Components issuing monetary credits as compensation for property or services received from non-Federal Agencies shall record a liability equal to the value of the monetary credit. The use of such credits, however, shall be limited to those instances supported by specific statutory authority authorizing them. Such a credit would arise in a situation where a DoD Component enters into a barter agreement in which the services provided by the Component have a market value less than the services received by the Component. The cross servicing agreements for refueling NATO ships are examples.

0903 ACCOUNTING FOR PAYABLES

090301 This section provides guidance for recording payables and illustrates the use of the applicable accounts. The accounts discussed are categorized as other accrued liabilities.

090302 Liabilities (Account 2000)

A. "Liabilities" is a summary general ledger account used for financial reporting purposes. As such, no entries are posted to this account.

B. These accounts represent amounts owed by DoD Components for items or services received, expenses incurred, assets acquired, construction performed, and amounts received but as yet unearned.

090303 Accrued Liabilities-Other (Account 2100)

A. "Accrued Liabilities-Other" is a summary general ledger account used for financial reporting purposes. As such, no entries are posted to this account.

B. These accounts represent the amounts DoD Components owe for goods and other property ordered and received and for services rendered by other than employees.

090304 Accounts Payable (Account 2110)

A. "Accounts Payable" is a summary general ledger account used for financial reporting purposes. As such, no entries are posted to this account.

B. These accounts represent amounts owed to federal or nonfederal entities for goods and property ordered and received, and for services rendered by organizations and people other than employees.

C. Subsidiary accounts shall be established as needed to meet external reporting requirements and to provide internal control over amounts owed to others.

090305 Accounts Payable-Government-Current (Account 2111)

A. "Accounts Payable-Government-Current" represents amounts owed to U.S. Government Agencies for goods and services received but for which payment will be made in the current fiscal year.

B. Periodically, but at least annually, the balances recorded in this account and the related subsidiary accounts shall be reconciled with the voucher documentation files. Differences shall be researched and, if necessary, the accounts adjusted.

C. Table 9-1 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 2111 - ACCOUNTS PAYABLE-GOVERNMENT-CURRENT

1. Dr 1510 Inventory forAgency Operations
   Dr 1710 Land
   Dr 1762 Equipment in Use
   Dr 1766 Equipment Not in Use
   Dr 1830 Automated Data Processing Software
   Dr 6116 Travel and Transportation of Persons
   Dr 6117 Transportation of Things
   Dr 6118 Rent, Communications and Utilities
   Dr 6119 Printing and Reproduction
   Dr 6120 Other Services
   Dr 6121 Supplies and Materials
   Cr 2111 Accounts Payable-Government-Current

   To record receipt of goods and services for which payment has not been made.

2. Dr 2111 Accounts PayableGovernment-Current
   Cr 1012 Funds Disbursed

   To record payment.

TABLE 9-1

D. Sources for entries to this account include invoices, inspection and receiving reports, and disbursement vouchers.

090306 Accounts Payable-Government - Noncurrent (Account 2112)

A. "Accounts Payable-Government-Noncurrent" is used to record those accounts payable that will not be paid within 1 year because delivery has not been completed or the documentation required for payment will not be received until a future date.

B. Periodically, but at least annually, the balances recorded in this account and the related subsidiary accounts shall be reconciled with the vendor files. Differences shall be researched and, if necessary, the accounts adjusted.

C. Table 9-2 illustrates the most common entries used for this account.

D. Sources for entries to this account include invoices, inspection reports, receiving reports, and journal vouchers.

090307 Accounts Payable-Public-Current (Account 2113)

A. "Accounts Payable-Public-Current" is used to record amounts owed to non-Federal Government organizations for goods and services received but for which payment has not been made.

B. Periodically, but at least annually, the balances recorded in this account and the related subsidiary accounts shall be reconciled with the vendor files. Differences shall be researched and, if necessary, the accounts adjusted.

C. Table 9-3 illustrates the most common entries used for this account

**ACCOUNTING ENTRIES FOR ACCOUNT 2112 -
ACCOUNTS PAYABLE-GOVERNMENT-NONCURRENT**

1. Dr 1710 Land
   Dr 1730 Buildings
   Dr 1740 Other Structures and Facilities
   Cr 2112 Accounts Payable-Government-Noncurrent

   To record receipt of assets for which payment will not be made within 1 year.

2. Dr 2112 Accounts PayableGovernment-Noncurrent
   Cr 2111 Accounts Payable-Government-Current

   To transfer noncurrent liabilities to a current status.

TABLE 9-2

**ACCOUNTING ENTRIES FOR ACCOUNT 2113 -
ACCOUNTS PAYABLE-PUBLIC-CURRENT**

1. Dr 1510 Inventory for Agency Operations
   Dr 1710 Land
   Dr 1762 Equipment in Use
   Dr 1766 Equipment Not in Use
   Dr 1830 Automated Data Processing Software
   Dr 6116 Travel and Transportation of Persons
   Dr 6117 Transportation of Things
   Dr 6118 Rent, Communications and Utilities
   Dr 6119 Printing and Reproduction
   Dr 6120 Other Services
   Dr 6121 Supplies and Materials
   Cr 2113 Accounts Payable-Public-Current

   To record receipt of goods and services for which payment has not been made.

2. Dr 2113 Accounts Payable Public-Current
   Cr 1012 Funds Disbursed

   To record payment.

3. Dr 2113 Accounts Payable Public-Current
   Cr 1012 Funds Disbursed
   Cr 2130 Contract Holdbacks

   To record liquidation of progress payments with a percentage withheld to assure satisfactory completion of the contract.

TABLE 9-3

D. Sources for entries to this account include disbursing vouchers, contract documents, and journal vouchers with supporting documentation showing the computation of the amounts to be withheld.

090308 Accounts Payable-Public-Noncurrent (Account 2114)

A. "Accounts Payable-Public-Noncurrent" is used to record those accounts payable that will not be paid within 1 year because delivery has not been completed or the documentation required for payment will not be received until a future date. Included in this account are amounts set aside for foreign national separation pay and retirement when such paymentsare required pursuant to agreements negotiated with the respective foreign countries.

B. Periodically, but at least annually, the balances recorded in this account and the related subsidiary accounts shall be reconciled with the voucher documentation files. Differences shall be researched and, if necessary, the accounts adjusted.

C. Table 9-4 illustrates the most common entries used for this account.

D. Sources for entries to this account include invoices, inspection reports, receiving reports, and journal vouchers.

090309 Claims Payable (Account 2115)

A. "Claims Payable" is used to record adjudicated claims against the DoD which have not been paid.

B. Table 9-5 illustrates the most common entries used for this account.

C. Sources for entries to this account include legal documents and supporting opinions from counsel and payment vouchers.

090310 Disbursements in Transit (Account 2120)

A. "Disbursements in Transit" is used to record those outlays transmitted to a designated disbursing office by an accounting activity but that have not been processed by the disbursing office.

B. This account shall not be used without the prior approval of the Office of the Deputy Under Secretary of Defense (Comptroller /Financial Management)/Deputy Chief Financial Officer.

090311 Contract Holdbacks (Account 2130)

A. "Contract Holdbacks" is used to record amounts withheld from grantees or contractors pending completion of contracts.

ACCOUNTING ENTRIES FOR ACCOUNT 2114 - ACCOUNTS PAYABLE-PUBLIC-NONCURRENT

1. Dr 1710 Land
   Dr 1730 Buildings
   Dr 1740 Other Structures and Facilities
   Cr 2114 Accounts Payable-Public-Noncurrent

   To record receipt of assets for which payment will not be made within 1 year.

2. Dr 2114 Accounts Payable-Public-Noncurrent
   Cr 2113 Accounts Payable-Public-Current

   To transfer noncurrent liabilities to a current status.

TABLE 9-4

B. This account shall be supported by subsidiary accounts established for each vendor for which the contract holdback clause has been inserted in the contract.

C. Table 9-6 illustrates the most common entries used for this account.

D. Sources for entries to this account include contract documents, progress payment invoices from contractors or grantees, and contracting officer certifications authorizing release of funds.

ACCOUNTING ENTRIES FOR ACCOUNT 2115 - CLAIMS PAYABLE

1. Dr 6124 Insurance Claims and Indemnities
   Cr 2115 Claims Payable

   To record adjudicated claims that have not been processed for payment.

2. Dr 2115 Claims Payable
   Cr 1012 Funds Disbursed

   To record payment of claims.

TABLE 9-5

ACCOUNTING ENTRIES FOR ACCOUNT 2130 - CONTRACT HOLDBACKS

1. Dr 1542 Inventory-Work in Process-Contractor
   Dr 1722 Construction in Progress-Contractor
   Cr 2113 Accounts Payable-Public-Current
   Cr 2130 Contract Holdbacks
   Cr 1012 Funds Disbursed

   To record amounts withheld from progress payments pending successful completion of contracts.

2. Dr 2113 Accounts Payable-Public-Current
   Dr 2130 Contract Holdbacks
   Cr 1012 Funds Disbursed

   To record final payment on a contract and release of amounts withheld when the contract is certified as completed and accepted by the contracting officer.

TABLE 9-6

090312 Accrued Interest Payable (Account 2140)

A. "Accrued Interest Payable" is used to record interest that accrues on borrowings andoverdue accounts with the passage of time and is not due until a later date.

B. DoD policy is to pay its liabilities when they become due and payable. Accordingly, interest expense incurred by DoD Components shall be considered incurred when the liability is processed for payment. Interest expense is to be considered a current period operating expense and DoD Components shall not use this account.

090313 Other Accrued Liabilities (Account 2190)

A. "Other Accrued Liabilities" is used to record those accounts payable that cannot be classified or assigned to a specific account described in this section.

B. Use of this account by DoD Components should be infrequent. Accordingly, DoD Components shall not use this account without specific guidance from the Office of the Deputy Under Secretary of Defense (Comptroller /Financial Management)/Deputy Chief Financial Officer.

ACCOUNT NO. 2000	
LIABILITIES	
DESCRIPTION: Represents amounts owed by DoD Components for items received, services received, expense incurred, assets acquired, construction performed and amounts received but as yet unearned.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 9-1

ACCOUNT NO. 2100	
ACCRUED LIABILITIES - OTHER	
DESCRIPTION: Represents the amounts DoD Components owe for goods and other property ordered and received and for services received by other than employees.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 9-2

ACCOUNT NO. 2110	
ACCOUNTS PAYABLE	
DESCRIPTION: Represents amounts owed to federal or nonfederal entities for goods and property ordered and received, and for services rendered by organizations and people other than employees.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 9-3

ACCOUNT NO. 2111	
ACCOUNTS PAYABLE - GOVERNMENT - CURRENT	
DESCRIPTION: Represents amounts owed to U.S. Government agencies based on actual receipt of goods and services.	
DEBIT	CREDIT
1. Payments liquidating amounts owed. Contra: 1012	1. Receipt of goods and services. Contra: 1510, 1710, 1762, 1766, 1830, 1840, 6116, 6117, 6118, 6119, 6120, and 6121
NORMAL BALANCE: CREDIT	

FIGURE 9-4

ACCOUNT NO. 2112	
ACCOUNTS PAYABLE - GOVERNMENT - NONCURRENT	
DESCRIPTION: Represents amounts owed the U.S. Government agencies or funds that will not be paid with 1 year.	
DEBIT	CREDIT
1. Change to a current payable. Contra: 2111	1. Evidence of actual receipt of goods and services. Contra: 1710, 1730, and 1740
NORMAL BALANCE: CREDIT	

FIGURE 9-5

ACCOUNT NO. 2113	
ACCOUNTS PAYABLE - PUBLIC - CURRENT	
DESCRIPTION: Represents amounts owed to non-U.S. Government agencies for receipt of goods or services.	
DEBIT	CREDIT
1. Payments liquidating amounts owed. Contra: 1012 and 2130	1. Receipt of goods and services. Contra: 1510, 1710, 1762, 1766, 6116, 6117, 6118, 6119, 6120, and 6121
NORMAL BALANCE: CREDIT	

FIGURE 9-6

ACCOUNT NO. 2114	
ACCOUNTS PAYABLE - PUBLIC - NONCURRENT	
DESCRIPTION: Represents amounts owed to non-U.S. Government agencies that will not be paid within 1 year.	
DEBIT	CREDIT
1. Change to a current payable. Contra: 2113	1. Receipt of goods and services for which payment will not be made this accounting period. Contra: 1710, 1730, and 1740
NORMAL BALANCE: CREDIT	

FIGURE 9-7

ACCOUNT NO. 2115	
CLAIMS PAYABLE	
DESCRIPTION: Represents amounts owed based on adjudicated claims.	
DEBIT	CREDIT
1. Payments liquidating amounts owed for adjudicated claims. Contra: 1012	1. Amount of adjudicated claims. Contra: 6124
NORMAL BALANCE: CREDIT	

FIGURE 9-8

ACCOUNT NO. 2120	
DISBURSEMENTS IN TRANSIT	
DESCRIPTION: Represents payments transmitted to a disbursing office by an accounting activity, which have not been processed by the disbursing office.	
DEBIT	CREDIT
Do not use this account without prior approval of the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: CREDIT	

FIGURE 9-9

ACCOUNT NO. 2130	
CONTRACT HOLDBACK	
DESCRIPTION: Represents amounts withheld from contractors and grantees in accordance with contract provisions.	
DEBIT	CREDIT
1. Payments to contractors and grantees at completion of contract. Contra: 1012	1. Funds due to contractors but withheld pending satisfactory completion of contracts. Contra: 1542, and 1722
NORMAL BALANCE: CREDIT	

FIGURE 9-10

ACCOUNT NO. 2140	
ACCRUED INTEREST PAYABLE	
DESCRIPTION: Represents unpaid accrued interest on borrowings and overdue accounts.	
DEBIT	CREDIT
Do not use this account without prior approval of the Office of the Deputy Under Secretary of Defense (Comptroller Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: CREDIT	

FIGURE 9-11

ACCOUNT NO. 2190	
OTHER ACCRUED LIABILITIES	
DESCRIPTION: Represents those amounts owed that cannot be classified to a specific account payable account.	
DEBIT	CREDIT
Do not use this account without prior approval of the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)	
NORMAL BALANCE: CREDIT	

FIGURE 9-12

CHAPTER 10

ACCRUALS FOR PERSONNEL RELATED LIABILITIES

1001 GENERAL

100101 Purpose. This chapter prescribes the accounting policy and related requirements for recording DoD liabilities for accrued payroll and benefits, actuarial liabilities, and civilian severance pay.

100102 Overview. The accounts discussed in this chapter provide financial data on accrued liabilities to be reported in the financial statements required by Treasury and to meet other reporting requirements mandated by OMB and the Congress.

1002 ACCOUNTING POLICY FOR ACCRUALS

100201 In addition to the accounting principles and policy in chapter 8 of this Volume, the following additional standards shall be recognized.

100202 The accounts shall be updated based on appropriate source documents and reflect the latest pay adjustments, leave balances, levels of benefits, and changes in benefit rules.

100203 Reasonable estimates (accruals) of the costs of services performed by DoD military and civilian employees shall be made when a pay period does not coincide with the end of an accounting period. Such accruals shall be recorded in the applicable accounting period based on journal vouchers with supporting documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount of the liability. The journal vouchers shall be signed by the appropriate authorized accounting official. These accruals shall be removed from the accounts only when the related pay is disbursed.

100204 Amounts due for annuities, adjudicated claims, and benefit payments as of the end of the period shall be recorded in the applicable accounting period based on available information, provided that the payment is probable and the amount estimable. Such amounts shall be recorded based on journal vouchers and supporting documentation clearly showing the basis for the amounts recorded. The journal vouchers shall be signed by the appropriate authorized accounting official. Except for the DoD Component's share of fringe benefits computed as a part of the pay computation process, applicable accruals shall be reversed at the start of the next accounting period and actual costs accumulated.

100205 Awards made to employees such as those for suggestions, performance bonuses, special act awards, and productivity gain affect payroll cost. The DoD productivity gain sharing (PGS) program permits up to a maximum of 50 percent of achieved PGS savings to be paid to eligible employees. Subject to the 50 percent ceiling, the PGS program allows considerable flexibility in determination of the amount and form of payment--monetary or compensated absence (administrative leave). DoD activities develop their individual organization-wide PGS plans based on their mission functions. PGS plans should include a specified period of time that an employee must contribute to the work effort or be onboard to be eligible to receive a share of the PGS payout. PGS plans should also provide specifics as to whether an employee remains eligible or froefeits his/her share if the employee leaves the organization prior to the payout. If the plan and conditions permit, employees may elect to receive administrative leave, or cash payment, or a combination of administrative leave and pay. The administrative leave option may be granted at the discretion of the activity commander based upon workload requirements at the time. The period of time for which administrative leave may be granted to an employee will be derived by dividing the value of the employee's gain share award by his/her hourly rate plus an average factor for benefits. A liability shall be

recorded for that portion of a payout which is due but not yet paid.

100206 A compensated absence is an employee absence (ordinarily for vacation or illness) for which the employee will be paid. When DoD employees accrue rights to take leave with pay, DoD Components incur an expense and liability measured by the salary cost of the time that may be taken.

100206 The accrual of annual leave within the DoD is material and shall be recognized annually in DoD Component accounting records and financial statements. DoD Components, therefore, shall recognize the expense and related liability for annual leave (including home leave) as it accrues.

100207 Sick leave need not be accrued unless there is a need to recover full operating costs or a management requirement.

100208 The expense and related liability for annual leave shall be recorded at the wage rates at which the leave is earned. Use of a fringe benefit rate is also acceptable for calculating accrued annual leave.

100209 The liabilities for annual leave shall be adjusted to reflect all pay increases and unused leave balances at least annually for financial statement purposes.

100210 DoD Components responsible for accounting for programs that provide annuity benefits shall recognize a liability for the actuarial present value of accumulated benefits. These are benefits earned or accrued as of the benefit information date (the date as of which benefit information is presented) but will not be paid until a later date.

100211 Accumulated benefits for annuity programs shall be comprised of benefits expected to be paid to the following:

A. Persons who have not met the program's conditions and who will receive benefits in the future.

B. Persons who have met enough of the program's conditions to be considered probable recipients of future benefits.

C. The survivors of both groups, as applicable.

100212 The amounts to be reflected in the general ledger accounts shall not be limited to the amounts actually funded.

100213 To the extent such liabilities are unfunded DoD Components shall maintain appropriate supporting records of the unfunded portions to provide appropriate footnote disclosure in the financial statements when necessary.

100214 The liability for claims incurred (both reported and unreported) shall be determined by use of accepted actuarial principles and reported in the program's financial statements. If existing legislation requires that amounts paid to participants be recovered from others (e.g., employing agencies), then the estimated amount to be recovered shall be reported as a receivable with the sources of expected repayments clearly indicated.

1003 ACCOUNTING FOR ACCRUALS. The following accounts shall be used by DoD Components to record accruals:

100301 Accrued Liabilities-Payroll and Benefits (Account 2200)

A. "Accrued Liabilities-Payroll and Benefits" account reflects accrued funded payroll and benefits and accrued unfunded annual leave.

B. This account is a summary account used for financial reporting purposes. No transactions shall be posted to this summary account.

100302 Accrued Funded Payroll and Benefits (Account 2210)

A. "Accrued Funded Payroll and Benefits" reflects the estimated liability for salaries and wages of civilians that have been earned

but are unpaid and amounts of funded annual leave, sick leave (when a decision is made to record a liability for sick leave), and other employee benefits that have been earned but unpaid.

B. This account is a summary account for financial reporting purposes. No transactions shall be posted to this summary account.

100303 Accrued Payroll-Civilian (Account 2211)

A. "Accrued Payroll-Civilian" is used to record the estimated liability at the end of the current accounting period for the earned but unpaid civilian salaries and wages.

B. Table 10-1 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 2211 - ACCRUED PAYROLL-CIVILIAN

1. Dr 6111 Personnel Compensation-Civilian
   Cr 2211 Accrued Payroll-Civilian

   To record civilian employee funded compensation earned.

2. Dr 2211 Accrued Payroll-Civilian
   Cr 1012 Funds Disbursed

   To record civilian compensation paid.

TABLE 10-1

C. Sources for entries to this account include payroll and leave records, documented estimates, and disbursement vouchers.

100304 Accrued Payroll-Military (Account 2212)

A. "Accrued Payroll-Military" is used to record the estimated liability at the end of the current accounting period for the earned but unpaid military personnel pay.

B. Table 10-2 illustrates the most common entries used for this account.

C. Sources for entries to this account include payroll and leave records, plus documented estimates, and disbursement vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 2212 - ACCRUED PAYROLL-MILITARY

1. Dr 6112 Personnel Compensation-Military
   Cr 2212 Accrued Payroll-Military

   To record military personnel compensation earned.

2. Dr 2212 Accrued Payroll-Military
   Cr 1012 Funds Disbursed

   To record military compensation paid.

TABLE 10-2

100305 Accrued Payroll-Civilian-Employer Share of Personnel Benefits (Account 2213)

A. "Accrued Payroll-Civilian-Employer Share of Personnel Benefits" is used to record the estimated liability at the end of the current accounting period for earned but unpaid civilian personnel benefits.

B. Table 10-3 illustrates the most common entries used for this account.

C. Sources for entries to this account include payroll records, journal vouchers supported by documented estimates, and disbursement vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 2213 - ACCRUED PAYROLL-CIVILIAN-EMPLOYER SHARE OF PERSONNEL BENEFITS

1. Dr 6113 Personnel Benefits Civilian
   Cr 2213 Accrued Payroll-Civilian-Employer Share of Personnel Benefits

   To record civilian employee funded benefits earned.

2. Dr 2213 Accrued Payroll-Civilian-Employer Share of Personnel Benefits
   Cr 1012 Funds Disbursed

   To record payment of benefits.

TABLE 10-3

100306 Accrued Payroll-Military-Employer Share of Personnel Benefits (Account 2214)

A. "Accrued Payroll-Military-Employer Share of Personnel Benefits" is used to record the estimated liability at the end of the current accounting period for the earned but unpaid personnel benefits.

B. Table 10-4 illustrates the most common entries used for this account.

C. Sources for entries to this account include payroll records, journal vouchers supported by documented estimates, and disbursement vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 2214 - ACCRUED PAYROLL-MILITARY-EMPLOYER SHARE OF PERSONNEL BENEFITS

1. Dr 6114 Personnel Benefits Military
   Cr 2214 Accrued Payroll-Military-Employer Share of Personnel Benefits

   To record military personnel funded benefits earned.

2. Dr 2214 Accrued Payroll-Military-Employer Share of Personnel Benefits
   Cr 1012 Funds Disbursed

   To record payment of benefits.

TABLE 10-4

100307 Accrued Payroll-Funded Annual Leave-Civilian (Account 2215

A. "Accrued Payroll-Funded Annual Leave-Civilian" is used to record the estimated liability at the end of the current accounting period for earned but unpaid civilian employee annual leave that has been funded through rates charged to customers when that rate includes a factor for funding of this expense. This account is applicable to the Defense Business Operations Fund and other DoD revolving funds that finance their full annual leave through reimbursable rates charged to customers.

B. Table 10-5 illustrates the most common entries used for this account.

C. Sources for entries to this account include payroll and leave records.

ACCOUNTING ENTRIES FOR ACCOUNT 2215 - ACCRUED PAYROLL-FUNDED ANNUAL LEAVE-CIVILIAN

1. Dr 6130 Annual Leave
   Cr 2215 Accrued Payroll-Funded Annual Leave-Civilian

   To record the amount of funded annual leave earned by civilian employees

2. Dr 2215 Accrued Payroll-Funded Annual Leave-Civilian
   Cr 2213 Accrued Payroll-Civilian-Employer Share of Fringe Benefits

   To record the amount of funded annual leave used by civilian employees.

TABLE 10-5

100308 Accrued Unfunded Annual Leave (Account 2220)

A. "Accrued Unfunded Annual Leave" reflects amounts of annual leave that have been earned and are payable, and will be paid from future years appropriations.

B. This account is a summary account used for financial reporting purposes. No transactions shall be posted to this account.

100309 Accrued Annual Leave-Civilian (Unfunded) (Account 2221)

A. "Accrued Annual Leave-Civilian" is used to record the estimated liability at the end of the current accounting period for earned but unpaid and unfunded civilian employee annual leave, including home leave.

B. Table 10-6 illustrates the most common entries used for this account.

C. Sources for entries to this account include the payroll and leave records.

100310 Accrued Annual Leave-Military (Unfunded) (Account 2222)

A. "Accrued Annual Leave-Military (Unfunded)" is used to record the amount of the estimated liability at the end of the current accounting period for earned but unpaid and unfunded military personnel annual leave.

B. This account is applicable to non Defense Business Operations Fund, departmental-level activities only.

C. Table 10-7 illustrates the most common entries used for this account.

D. Sources for entries to this account include the payroll and leave records.

ACCOUNTING ENTRIES FOR ACCOUNT 2221 - ACCRUED ANNUAL LEAVE-CIVILIAN (UNFUNDED)

1. Dr 6130 Annual Leave
   Cr 2221 Accrued Annual Leave-Civilian (Unfunded)

   To record the amount of unfunded annual leave earned by civilian employees.

2. Dr 2221 Accrued Annual Leave-Civilian (Unfunded)
   Cr 2213 Accrued Payroll-Civilian-Employer Share of Fringe Benefits

   To record the amount of unfunded annual leave used by civilian employees.

TABLE 10-6

ACCOUNTING ENTRIES FOR ACCOUNT 2222 - ACCRUED ANNUAL LEAVE-MILITARY (UNFUNDED)

1. Dr 6130 Annual Leave
   Cr 2222 Accrued Annual Leave-Military (Unfunded)

   To record the amount of unfunded annual leave earned by military personnel.

2. Dr 2222 Accrued Annual Leave-Military (Unfunded)
   Cr 2214 Accrued Payroll-Military-Employer Share of Fringe Benefits

   To record the amount of unfunded annual leave taken by military personnel.

TABLE 10-7

100311 Actuarial Liabilities (Account 2600)

A. Actuarial Liabilities" reflects the estimated present value of program benefits that will be made in the future that relate to services performed or entitlements due as of the balance sheet date. This account is not used to accrue liabilities for contributions to these programs.

B. This account is a summary account used for financial reporting purposes. No entries are posted to this account.

100312 Retirement Plans (Account 2610)

A. "Retirement Plans" is used to record the actuarial present value of the accumulated plan benefits of the DoD Military Retirement Fund.

B. In computing the liability, DoD personnel shall comply with the requirements in chapter 15 of this Volume.

C. Defense Finance and Accounting Service (DFAS) shall report DoD Military Retirement Fund financial information in financial statements in accordance with the guidance contained in chapters 1, 4, and 5, of Volume 6, of this regulation.

D. Table 10-8 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 2610 - RETIREMENT PLANS

1. Dr 7600 Changes in Actuarial Liability
   Cr 2610 Retirement Plans

   To record the increase in the actuarial present value of accumulated benefits payable from the DoD Military Retirement Fund.

2. Dr 2610 Retirement Plans
   Cr 7600 Changes in Actuarial Liability

   To record the decrease in the actuarial present value of accumulated benefits payable from the DoD Military Retirement Fund.

TABLE 10-8

E. Sources for entries to this account include documented actuarial determinations.

100313 Insurance Plans (Account 2620)

A. "Insurance Plans" is used to record the actuarial liability for future policy benefits of any insurance plan that DoD may be asked to administer.

B. At the present time, DoD does not administer any insurance plans. Accordingly, use of this account is not authorized.

100314 Other Actuarial Liabilities (Account 2690)

A. "Other Actuarial Liabilities" is used to record the actuarial present value of other plans not classified above.

B. At the present time, DoD does notadminister any such plans. Accordingly, use of this account is not authorized.

100315 Accrued Civilian Severance Pay (Unfunded) (Account 2993)

A. "Accrued Civilian Severance Pay (Unfunded)" is used to record the unfunded liability for accrued payments due to former civilian employees who were involuntarily separated or to their survivors. Amounts recorded in this account do not include foreign national separation pay required pursuant to agreements negotiated with the respective foreign countries. Such amounts are treated as a noncurrent public account payable and recorded in account 2114, "Accounts Payable-Public-Noncurrent."

B. Table 10-9 illustrates the most common entries used for this account.

C. Sources for entries to this account include personnel office computations of the severance pay and disbursement vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 2993 -
ACCRUED CIVILIAN SEVERANCE PAY (UNFUNDED)

1. Dr 6115 Benefits to Former Personnel
   Cr 2993 Accrued Civilian Severance Pay (Unfunded)

   To record the increase in the amount of civilian employee severance pay accrued as of the end of the accounting period.

2. Dr 2993 Accrued Civilian Severance Pay (Unfunded)
   Cr 2213 Accrued Payroll-Civilian-Employer Share of Fringe Benefits

   To transfer amounts to be paid for severance pay to the funded liability account

TABLE 10-9

ACCOUNT NO. 2200	
ACCRUED LIABILITIES - PAYROLL AND BENEFITS	
DESCRIPTION: Reflects accrued funded payroll and benefits and accrued unfunded annual leave.	
DEBIT	CREDIT
This is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 10-1

ACCOUNT NO. 2210	
ACCRUED FUNDED PAYROLL AND BENEFITS	
DESCRIPTION: Reflects the estimated liability for salaries and wages of civilians that have been earned but are unpaid and amounts of funded annual leave, sick leave, and other employee benefits that have been earned but unpaid.	
DEBIT	CREDIT
This is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 10-2

ACCOUNT NO. 2211	
ACCRUED PAYROLL - CIVILIAN	
DESCRIPTION: Represents the amount of the estimated liability for civilian employee funded compensation earned but unpaid as of the end of the current accounting period.	
DEBIT	CREDIT
1. Compensation paid. Contra: 1012	1. Amount of civilian employee funded compensation accrued as of the end of the current accounting period. Contra: 6111
NORMAL BALANCE: CREDIT	

FIGURE 10-3

ACCOUNT NO. 2212	
ACCRUED PAYROLL - MILITARY	
DESCRIPTION: Represents the amount of the estimated liability for military personnel funded compensation earned but unpaid as of the end of the current accounting period.	
DEBIT	CREDIT
1. Compensation paid. Contra: 1012	1. Amount of military personnel funded compensation accrued as of the end of the current accounting period. Contra: 6112
NORMAL BALANCE: CREDIT	

FIGURE 10-4

ACCOUNT NO. 2213	
ACCRUED PAYROLL - CIVILIAN - EMPLOYER SHARE OF PERSONNEL BENEFITS	
DESCRIPTION: Represents the amount of the estimated liability for currently employed civilian employee benefits earned and funded but unpaid as of the end of the current accounting period.	
DEBIT	CREDIT
1. Payments made. Contra: 1012, and 2221	1. Amount of civilian employee funded benefits accrued as of the end of the current accounting period. Contra: 6113
NORMAL BALANCE: CREDIT	

FIGURE 10-5

ACCOUNT NO. 2214	
ACCRUED PAYROLL - MILITARY - EMPLOYER SHARE OF PERSONNEL BENEFITS	
DESCRIPTION: Represents the amount of the estimated liability for currently employed military personnel benefits earned and funded but unpaid as of the end of the current accounting period.	
DEBIT	CREDIT
1. Benefit payments made. Contra: 1012, and 2214	1. Amount of military personnel funded benefits accrued as of the end of the current accounting period. Contra: 6114
NORMAL BALANCE: CREDIT	

FIGURE 10-6

ACCOUNT NO. 2215	
ACCRUED PAYROLL-FUNDED ANNUAL LEAVE-CIVILIAN	
DESCRIPTION: Represents the amount of the funded liability for annual leave erned by civilian employees but not used as of the end of the current accounting period.	
DEBIT	CREDIT
1. Funded annual leave used by civilian employees. Contra: 2213 Accrued Payroll-Civilian-Employer Share of Fringe Benefits	1. Amount of funded annual leave earned by civilian empoyees but not used as of the end of the current accounting period. Contra: 6130 Annual Leave
NORMAL BALANCE: CREDIT	

FIGURE 10-7

ACCOUNT NO. 2220	
ACCRUED UNFUNDED ANNUAL LEAVE	
DESCRIPTION: Reflects amounts of annual leave which have been earned and are payable, and are expected to be paid from future years appropriations.	
DEBIT	CREDIT
This is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 10-8

ACCOUNT NO. 2221	
ACCRUED ANNUAL LEAVE - CIVILIAN (UNFUNDED)	
DESCRIPTION: Represents the amount of the unfunded liability for annual leave earned by civilian employees but not used as of the end of the current accounting period.	
DEBIT	CREDIT
1. Leave used. Contra: 2213 Accrued Payroll - Civilian - Employer Share of Fringe Benefits.	1. Amount of annual leave earned by civilian employees but not used as of the end of the current accounting period. Contra: 6130 Annual Leave
NORMAL BALANCE: CREDIT	

FIGURE 10-9

ACCOUNT NO. 2222	
ACCRUED ANNUAL LEAVE - MILITARY (UNFUNDED)	
DESCRIPTION: Represents the amount of the unfunded liability for annual leave earned by military personnel but not used as of the end of the current accounting period.	
DEBIT	CREDIT
1. Leave used. Contra: 2214 Accrued Payroll - Military - Employer Share of Fringe Benefits	1. Amount of annual leave earned by military personnel but not used as of the end of the current accounting period. Contra: 6130 Annual Leave
NORMAL BALANCE: CREDIT	

FIGURE 10-10

ACCOUNT NO. 2600	
ACTUARIAL LIABILITIES	
DESCRIPTION: Reflects the estimated present value of program benefits that will be made in the future that relate to services performed or entitlements due as of the balance sheet date.	
DEBIT	CREDIT
This is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 10-11

ACCOUNT NO. 2610	
RETIREMENT PLANS	
DESCRIPTION: Reflects the actuarial present value of the accumulated plan benefits of the DoD Military Retirement Fund.	
DEBIT	CREDIT
1. Decrease in actuarial present value of accumulated benefits payable from the DoD Military Retirement Fund to military personnel or their survivors. Contra: 7600	1. Increase in actuarial present value of accumulated benefits payable from the DoD Military Retirement Fund to military personnel or their survivors. Contra: 7600
NORMAL BALANCE: CREDIT	

FIGURE 10-12

ACCOUNT NO. 2620	
INSURANCE PLANS	
DESCRIPTION: Reflects the actuarial liability for future policy benefits of insurance plans.	
DEBIT	CREDIT
This account is currently not in use	
NORMAL BALANCE: CREDIT	

FIGURE 10-13

ACCOUNT NO. 2690	
OTHER ACTUARIAL LIABILITIES	
DESCRIPTION: Reflects the actuarial present value of other actuarial plans not classified to other accounts.	
DEBIT	CREDIT
This account is not authorized for use by DoD Components at this time	
NORMAL BALANCE: CREDIT	

FIGURE 10-14

ACCOUNT NO. 2993	
ACCRUED CIVILIAN SEVERANCE PAY (UNFUNDED)	
DESCRIPTION: Represents the amount of the estimated liability for civilian employee unfunded severance pay accrued as of the end of the current accounting period.	
DEBIT	CREDIT
1. Payments that liquidate the accrual. Contra: 1012	1. Increase in the amount of civilian employee severance pay accrued as of the end of the current accounting period. Contra: 6115
NORMAL BALANCE: CREDIT	

FIGURE 10-15

CHAPTER 11

COMPONENT DEBT

1101 GENERAL

110101 Purpose. This chapter prescribes the accounting principles and policy to be followed by DoD Components to account for debt incurred in accordance with statutory authority.

110102 Overview. Debt incurred by DoD Components is generally associated with housing programs determined to be necessary to carry out the Department of Defense's mission. Included are mortgage agreements accepted pursuant to the Family Housing Program and the Homeowners Assistance Fund. This chapter includes guidance to account for debt incurred to finance mortgages and illustrates the entries necessary to record transactions in these accounts.

A. FAMILY HOUSING PROGRAM

1. The Defense Family Housing Program provides housing for military families and for civilian families where circumstances requires the Department of Defense support this program by providing housing referral services, including administration of private rental housing for DoD personnel overseas; by leasing private housing for DoD personnel; or by guaranteeing service members' rental, mortgage and mortgage insurance payments on privately owned housing.

2. Guidance for financing the Family Housing Program is contained in Volume 2 of this Regulation, while guidance for accounting for funds made available for this program are contained in Volume 3.

B. HOMEOWNERS ASSISTANCE FUND

1. Under 42 U.S.C. 3374, the Secretary of Defense is authorized to provide assistance to owners of one or two family dwellings located at or near military installations ordered to be closed in whole or in part. In certain instances, this assistance is rendered by acquiring negotiated title to the properties from such owners. Section d of the statute established the Homeowners Assistance Fund. Section g authorized the Secretary of Defense to enter into an agreement with the Secretary of Housing and Urban Development (HUD) with respect to the administration of the program. That agreement provided that, on the Department of Defense's behalf, HUD shall maintain, manage, and dispose of such properties acquired by the DoD and be reimbursed for all costs incurred in its administration. That agreement was terminated as of January 1, 1993. Since that date, all properties acquired are managed and disposed of by the Army Corps of Engineers.

2. The Chief of Engineers, Department of the Army Corps of Engineers, is responsible for obtaining title to the properties and for administration. The Chief of Engineers also is responsible for negotiating the Department of Defense's acquisition price with the property owner.

3. Funding for this program is through annual appropriations made available by the Congress.

4. DoD Directive 4165.50, "Home-owners Assistance Program," provides overall policy guidance and information on the program.

1102 ACCOUNTING POLICY FOR DEBT

110201 The accounting policy for properties acquired under both the Family Housing Assistance Program and the Homeowners Assistance Program are the same as those for real property discussed in Chapter 6 of this Volume. The accounting policy for the liabilities incurred under both programs are discussed in the following paragraphs.

110202 The liability for amounts owed on housing acquired under the two programs shall be equal to (1) borrowings from other Federal Agencies and the public to construct or acquire the properties, or (2) the mortgages assumed when title passes to the Department of Defense.

110203 The balance of the mortgages payable shall be reduced by that portion of the periodic payments made which represent the mortgage principal.

110204 Liabilities for borrowings from other Federal Agencies and non-federal organizations shall be recorded at the amounts actually obtained. Amounts paid to financial organizations to obtain the borrowings shall be treated as a current period operating expense.

1103 ACCOUNTING FOR DEBT

110301 The accounts used to account for Department of Defense debt are described in the following paragraphs.

110302 Debt (Account 2500)

A. This is a summary account used to record DoD's liability in the form of notes payable and other borrowing agreements.

B. This account is a summary account used for financial reporting and control purposes. Do not post entries to this account.

110303 Borrowing From Treasury (Account 2510)

A. "Borrowing From Treasury" is used to record amounts borrowed from the Treasury.

B. At the current time, no DoD Component is authorized to enter into borrowing agreements with the Treasury. Accordingly, this account shall not be used by DoD Components.

110304 Borrowing From Federal Financing Bank (Account 2520)

A. "Borrowing From Federal Financing Bank" is used to record amounts borrowed from Federal Financing Banks.

B. Since no DoD Component is authorized to borrow from a Federal Financing Bank, use of this account is not authorized.

110305 Securities Issued by Federal Agencies Under Special Financing Authority (Account 2530)

A. "Securities Issued by Federal Agencies Under Special Financing Authority" is used to record the liability arising from issuing new borrowings authorized under special financing authorities.

B. Since no DoD Component is authorized special financing authority to conduct programs, use of this account is not authorized.

110306 Participation Certificates (Account 2540)

A. "Participation Certificates" is used to record a DoD Component's liability for its share of participation certificates issued pursuant to legislative authority.

B. Since no DoD Component is authorized to issue such certificates or to participate in the issuance of such certificates, use of this account is not authorized.

110307 Other Debt (Account 2590)

A. "Other Debt" is used to account for all other forms of Department of Defense liabilities, secured and unsecured, not otherwise classified above.

B. This account is a summary account used for financial accounting and control purposes. No transactions are posted to this account.

110308 Mortgages Payable-Family Housing (Account 2591)

A. "Mortgages Payable-Family Housing" represents the liability for outstanding mortgage balances on family housing properties owned by the DoD. The account is supported by subsidiary records for each outstanding mortgage.

B. Table 11-1 illustrates the most common entries used for this account.

C. Sources for entries to this account include titles, mortgage agreements, and disbursement vouchers.

110309 Mortgages Payable-Homeowners Assistance Program (Account 2592)

A. "Mortgages Payable-Homeowners Assistance Program" is used to record the out standing balances of mortgages acquired by the Department of Defense on homes purchased under the provisions of the Homeowners Assistance Program.

B. This account shall be used by the Corps of Engineers to account for home mortgages acquired by the Chief of Engineer.

C. The account shall be increased for major repairs incurred to maintain the properties and put them in condition for resale. Costs not considered major shall be treated as a current period operating expense.

D. Table 11-2 illustrates the most common entries used for this account.

E. Sources for entries to this account include titles, purchase agreements, sales agreements, collection vouchers, and journal vouchers with supporting documentation computing the amount of the loss or gain on disposition.

ACCOUNTING ENTRIES FOR ACCOUNT 2591 - MORTGAGES PAYABLE-FAMILY HOUSING

1. Dr 1591 Other Related Property
   Cr 2591 Mortgages Payable-Family Housing

   To record the mortgage liability assumed by the Department of Defense.

2. Dr 2591 Mortgages Payable-Family Housing
   Cr 1012 Funds Disbursed

   To record periodic mortgage payments.

TABLE 11-1

ACCOUNTING ENTRIES FOR ACCOUNT 2592 - MORTGAGES PAYABLE-HOMEOWNERS ASSISTANCE PROGRAM

1. Dr 1591 Other Related Property
   Cr 2592 Mortgages Payable-Homeowners Assistance Program

   To record mortgages acquired under the Homeowners Assistance Program.

2. Dr 2592 Mortgages Payable-Homeowners Assistance Program
   Cr 1012 Funds Disbursed

   To record principal payments on mortgages.

3. Dr 1011 Funds Collected
   Dr 2592 Mortgages Payable-Homeowners Assistance Program
   Dr 7210 Losses on Disposition of Assets
   Cr 1591 Other Related Property

   To record sale of home at a loss.

4. Dr 1011 Funds Collected
   Dr 2592 Mortgages Payable-Homeowners Assistance Program
   Cr 1591 Other Related Property
   Cr 7110 Gains on Disposition of Assets

   To record sale of home at a gain.

TABLE 11-2

ACCOUNT NO. 2500	
DEBT	
DESCRIPTION: Represents the DoD liability in the form of notes payable and other borrowing agreements.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 11-1

ACCOUNT NO. 2510	
BORROWING FROM TREASURY	
DESCRIPTION: Represents amounts borrowed from the Treasury by DoD Components.	
DEBIT	CREDIT
Do not use this account without prior approval of the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: CREDIT	

FIGURE 11-2

ACCOUNT NO. 2520	
BORROWING FROM FEDERAL FINANCING BANK	
DESCRIPTION: Represents amounts borrowed from Federal Financing Banks.	
DEBIT	CREDIT
DoD Components do not have authority to borrow funds from Federal Financing Banks Use of this account is not authorized	
NORMAL BALANCE: CREDIT	

FIGURE 11-3

ACCOUNT NO. 2530	
SECURITIES ISSUED BY FEDERAL AGENCIES UNDER SPECIAL FINANCING AUTHORITY	
DESCRIPTION: Represents the liability arising from issuing new borrowing authorized under special financing authorities.	
DEBIT	CREDIT
DoD Components do not have authority to issue new borrowings authorized under special financing authorities Use of this account is not authorized	
NORMAL BALANCE: CREDIT	

FIGURE 11-4

ACCOUNT NO. 2540	
PARTICIPATION CERTIFICATES	
DESCRIPTION: Represents the Department of Defense's share of participation certificates issued pursuant to legislative authority.	
DEBIT	CREDIT
DoD Components do not have authority to issue new borrowings authorized under special financing authorities Use of this account is not authorized	
NORMAL BALANCE: CREDIT	

FIGURE 11-5

ACCOUNT NO. 2590	
OTHER DEBT	
DESCRIPTION: Represents all other forms of DoD obligations, secured and unsecured, not otherwise classified to another liability account.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 11-6

ACCOUNT NO. 2591	
MORTGAGES PAYABLE - FAMILY HOUSING	
DESCRIPTION: Represents the liability for outstanding mortgage balances on family housing properties owned by the Department of Defense.	
DEBIT	CREDIT
1. Periodic mortgage payments. Contra: 1012	1. Record the mortgage liability assumed by the Department of Defense. Contra: 1591
NORMAL BALANCE: CREDIT	

FIGURE 11-7

ACCOUNT NO. 2592	
MORTGAGES PAYABLE - HOMEOWNERS ASSISTANCE PROGRAM	
DESCRIPTION: Represents the outstanding balances of mortgages assumed by the Department of Defense on homes acquired under the provisions of the Homeowners Assistance Program.	
DEBIT	CREDIT
1. Record periodic payments of principal. Contra: 1012 2. Record sale of a home at a loss. Contra: 1591 3. Record sale of a home at a gain Contra: 1591, and 7110	1. Record mortgage assumption. Contra: 1591
NORMAL BALANCE: CREDIT	

FIGURE 11-8

CHAPTER 12

CAPITAL LEASES PAYABLE

1201 GENERAL

120101 Purpose. This chapter prescribes the accounting principles and policy to be followed by DoD Components to account for liabilities associated with capital leases.

120102 Overview. Unless otherwise provided by legislation, DoD Components are not authorized to enter into capital leases. Accordingly, agreements to lease real estate and personal property are limited to current year operating requirements.

1202 ACCOUNTING POLICY FOR CAPITAL LEASE LIABILITIES

120201 DoD Components authorized to enter into capital lease agreements shall treat the transaction as the acquisition of an asset and the incurrence of a liability. The asset shall be recorded at its fair market value, with a like amount shown in the liabilities section of the general ledger.

120202 Chapter 7 of this Volume provides guidance for determining whether a lease is a capital lease or an operating lease and for determining the amounts to be recorded as a capital lease liability.

1203 ACCOUNTING FOR CAPITAL LEASE LIABILITIES

120301 The following account shall be used to record the DoD Component's liability for capital leases.

120302 Capital Lease Liability (Account 2940)

A. "Capital Lease Liability" is used to record the liability incurred for capital leases entered into pursuant to legislative authority.

B. Table 12-1 illustrates the most common entries used for this account.

C. Sources for entries to this account include lease agreements and disbursing vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 2940 - CAPITAL LEASE LIABILITY

1. Dr 1730 Buildings
   Dr 1740 Other Structures and Facilities
   Dr 1762 Equipment in Use
   Cr 2940 Capital Lease Liability

   To record the value of leased property.

2. Dr 2940 Capital Lease Liability
   Dr 6330 Other Interest Expenses
   Cr 1012 Funds Disbursed

   To record payments on capital leases.

TABLE 12-1

ACCOUNT NO. 2940	
CAPITAL LEASE LIABILITY	
DESCRIPTION: Represents the liability for capital leases which have not expired.	
DEBIT	CREDIT
1. Record lease payments. Contra: 1012	1. Record the value of leased property. Contra: 1730 1740 1762
NORMAL BALANCE: CREDIT	

FIGURE 12-1

CHAPTER 13

OTHER LIABILITIES

1301 GENERAL

130101 Purpose. This chapter prescribes the accounting principles and policy and related requirements necessary to establish financial control over DoD liabilities not discussed in chapters 9 through 12 of this Volume.

130102 Overview. Other liabilities consist of amounts paid in advance to DoD Components for goods and services to be delivered at a future date, liens outstanding or assets acquired through default, liability for property owned by others which is being used by DoD Components, liabilities for funds awaiting final disposition, and contingent liabilities that are based on the probable occurrence of a future event.

1302 ACCOUNTING POLICY FOR OTHER LIABILITIES

130201 DoD Components shall record liabilities for advances received from the public and other Government Agencies for goods and services to be provided. When the goods or services are provided, the liability shall be reduced and a revenue account posted.

A. Advances are transfers of assets to cover future expenses or acquisition of other assets. DoD Components receiving an advance (unearned revenue) or prepayment (deferred credit) shall record the amount received as a liability until payment is earned (goods or services have been delivered or contract terms met). After the payment is earned (performance has occurred), DoD Components shall record the appropriate amount as revenue and reduce the liability accordingly. All advances shall be recorded as unearned revenue.

B. Advances received by DoD Components from purchasers under any long-term contract in excess of revenue earned as of the end of an accounting period shall be recorded as a liability. The liability amount shall be decreased as the revenue is earned and recognized.

130202 Receipts by a DoD Component from purchases under any long-term contract in excess of revenues earned as of the end of an accounting period shall be reported as unearned revenues (advances). The liability account shall be decreased as the revenues are earned and recognized.

130203 Deposit funds and suspense accounts are used to account for receipts held in suspense temporarily and later refunded or paid into some other Treasury fund or other entity or held by the DoD as banker or agent for others and paid out at the direction of the owner. Such funds are not available for paying salaries, grants, or other expenses of the Government.

130204 Loan guarantees and other guarantees are forms of contingent liabilities. Records should be maintained of the amounts and other significant information pertaining to the guarantees outstanding even though the contingency may not require financial recording.

130205 Contingencies are existing conditions, situations, or circumstances involving uncertainty about possible future liabilities. These uncertainties will be resolved in the future when one or more event occurs or fails to occur, e.g., a contractor claim for additional costs is received.

A. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. The terms probable, reasonably possible, and remote, identify three areas within that range as follows:

1. Probable. The future event or events are likely to occur.

2. Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

3. Remote. The chance of the future event or events occurring is slight.

B. Accrual and disclosure of contingencies varies depending on their probability of occurrence. Estimated losses shall be recorded in DoD financial systems and reported in financial statements as follows:

1. Information available before financial statements are issued indicates that a liability probably has been incurred as of the date of the financial statements.

2. The amount can be reasonably estimated and documented.

C. Events that could cause an asset to be impaired or a liability incurred may occur after the date of the financial statements but before the statements are issued. Such events may require disclosure. Disclosure of the nature of an accrual is necessary if the financial statements would be misleading if the disclosure is not made. The decision to disclose shall be based on materiality of the loss contingency and its possible impact on the financial statements and DoD operations.

D. The estimated loss associated with probable contingencies may be a specific amount or a range of amounts. If a reasonable estimate can be determined or if the reasonable estimate or the loss is a range, an amount shall be recorded for the loss. If some amount within the range appears, at the time, to be a better estimate that any other amount within the range, that amount shall be recorded. If no amount within the range appears to be a better estimate than any other amount, the minimum amount in the range shall be recorded. Even though the minimum amount in the range is not necessarily the exact amount of the loss that will ultimately exist, it is not likely that the ultimate loss will be less than the minimum amount.

E. DoD Components shall consult with their respective legal counsels in determining whether a contingency exists and the amount to be recorded as a contingent liability.

F. When claims against a DoD Component are settled by another Government Agency based on governing statutes or regulations, the Component against whom the claim is filed shall maintain accountability until settlement occurs.

G. Contingencies shall be recorded in accordance with guidance contained in Volume 3 of this regulation. When recording a current period liability will result in a violation of fund availability, the appropriate reports to the President and the Congress shall be prepared.

130206 Funds related to contingencies shall be committed. When a commitment has been established to meet contractual contingencies as discussed in Volume 3 and not moved to an obligation status by the close of the fiscal year when the appropriation is cancelled, the commitment shall be cancelled. Amounts recorded as contingent liabilities on a cancelled appropriation shall be maintained as a memorandum account until liquidated from the current, open appropriation under procedures found in Chapter 5 of this Volume.

130207 A liability shall be established as an offset to the asset account for property seized by DoD Components. The liability shall remain in the financial accounts until final disposition of the property is made. Such property shall be recorded in the asset account 1765, "Property Awaiting Disposal," until final disposition is made.

1303 ACCOUNTING FOR OTHER LIABILITIES. The following subsections provide guidance to be followed by DoD Components for using the accounts contained within the "Other Liabilities" classification.

130301 Unearned Revenues (Advances) (Account 2300)

A. "Unearned Revenues (Advances)" is used to record the outstanding balance of

amounts advanced to DoD Components by Federal Agencies and nonfederal entities for future delivery of goods, services, or other assets.

B. This account is a summary control account for financial reporting purposes. No entries are posted to this account.

130302 Advances from Others (Account 2310)

A. "Advances from Others" is used to record funds received in contemplation of the future delivery of services, goods, incurrence of expenditures, or other assets.

B. This account is a summary control account for financial reporting purposes. No entries are posted to this account.

130303 Unearned Revenue-Advances from Government (Account 2311)

A. "Unearned Revenue-Advances from Government" represents the outstanding balance of advances received from federal entities for the future delivery of goods, services, or other assets.

B. Subsidiary accounts shall be established for each advancing organization. Documentation supporting each subsidiary account shall be maintained.

C. Table 13-1 illustrates the most common entries used for this account.

D. Sources for entries to this account include cash collection vouchers, journal vouchers, and documents showing the amounts advanced.

130304 Unearned Revenue-Advances from the Public (Account 2312)

A. "Unearned Revenue-Advances from the Public" represents the outstanding balance of advances received from nonfederal entities for the future delivery of goods, services, or other assets.

B. Subsidiary accounts shall be established for each advancing organization. Documentation supporting each subsidiary account shall be maintained.

C. Table 13-2 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 2310
ADVANCES FROM OTHERS

Dr 1011 Funds Collected
Cr 2311 Unearned Revenue-Advances from Government

To record cash advances received.

Dr 2311 Unearned Revenue-Advances from Government
Cr 5100 Revenue From Goods Sold
Cr 5200 Revenue From Services Provided

To record revenue earned from work, services, or material provided.

Dr 2312 Unearned Revenue-Advances from Government
Cr 1011 Funds Collected

To record return of unearned cash advances previously received.

TABLE 13-1

ACCOUNTING ENTRIES FOR ACCOUNT 2312 - UNEARNED REVENUE-ADVANCES FROM THE PUBLIC

Dr 1011 Funds Collected
Cr 2312 Unearned Revenue-Advances from the Public

To record cash advances received.

Dr 2312 Unearned Revenue-Advances from the Public
Cr 5100 Revenue From Goods Sold
Cr 5200 Revenue From Services Provided

To record revenue earned from work, services, or material provided.

Dr 2312 Unearned Revenue-Advances from the Public
Cr 1011 Funds Collected

To record return of unearned cash advances previously received.

TABLE 13-2

D. Sources for entries to this account include cash collection vouchers, journal vouchers, and documents showing the amounts advanced.

130305 Deferred Credits (Account 2320)

A. "Deferred Credits" represents revenue received but not yet earned.

B. This account shall not be used by DoD Components without the prior approval of the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management). Such amounts shall be recorded in account 2311, "Unearned Revenue-Advances from Government," or account 2312, "Unearned Revenue-Advances from the Public," as appropriate.

130306 Liability for Deposit Funds and Suspense Accounts (Account 2400)

A. "Liability for Deposit Funds and Suspense Accounts" represents amounts in deposit funds, suspense accounts (e.g., X6875), and budget clearing accounts (e.g., F3875), awaiting disposition, or reclassification.

B. This account is a summary control account for financial reporting purposes. No entries are posted to this account.

130307 Treasury Cash Advances to Disbursing Officers (Account 2410)

A. "Treasury Cash Advances to Disbursing Officers" represents the amount of disbursing officers' personal liability for cash advanced by the U.S. Treasury. The liability includes U.S. currency and coin on hand, cash on deposit at designated depositories, cash in the hands of deputy disbursing officers, cashiers and agents, negotiable instruments on hand, military payment certificates, etc. This account is the contra to account 1191, "Disbursing Officers' Cash." DoD Components shall use this account in support of disbursing officers assigned to their activities.

B. Subsidiary accounts shall be established for each disbursing officer.

C. Table 13-3 illustrates the most common entries used for this account.

**ACCOUNTING ENTRIES FOR ACCOUNT 2410 -
TREASURY CASH ADVANCES TO DISBURSING OFFICERS**

1. Dr 1191 Disbursing Officer's Cash
   Cr 2410 Treasury Cash Advances to Disbursing Officers

   To record amounts received from U.S. Treasury for disbursing officer's use.

2. Dr 2410 Treasury Cash Advances to Disbursing Officers
   Cr 1191 Disbursing Officer's Cash

   To record amounts returned to U.S. Treasury due to reduction in a disbursing officer's authorized amount.

TABLE 13-3

D. Sources for entries to this account include requests for cash, cash collection vouchers, deposit tickets, and invoices for transferred funds.

130308 Deposit Fund Liabilities (Account 2411)

A. "Deposit Fund Liabilities" represents the amounts in deposit fund accounts awaiting disposition.

B. Table 13-4 illustrates the most common entries used for this account.

C. Sources for entries to this account include cash collection and disbursement vouchers and miscellaneous documents.

130309 Other Liabilities (Account 2900)

A. "Other Liabilities" is used to record amounts of liabilities not otherwise classified to a specific liability account.

B. This account is a summary general ledger account used for financial reporting purposes. No entries are posted to this account.

**ACCOUNTING ENTRIES FOR ACCOUNT 2411 -
DEPOSIT FUND LIABILITIES**

Dr 1011 Funds Collected
Cr 2411 Deposit Fund Liabilities

To record deposit fund amounts received.

Dr 2411 Deposit Fund Liabilities
Cr 1011 Funds Collected

To record disposition of deposit fund amounts.

TABLE 13-4

130310 Prior Liens Outstanding on Acquired Collateral (Account 2910)

A. "Prior Liens Outstanding on Acquired Collateral" represents the value of liens approved and accepted as being claims against assets acquired through loan defaults.

B. Subsidiary accounts shall be established for each appropriation or fund. Documentation supporting each subsidiary account shall be maintained.

C. Table 13-5 illustrates the most common entries used for this account.

D. Sources for entries to this account include loan guarantee documents and default documents.

130311 Contingent Liabilities (Account 2920)

A. "Contingent Liabilities" represent the probable occurrence of one or more related future events that result in the loss or impair ment of an asset and/or the incurrence of a liability. The criteria for recording contingent liabilities are in section 1302 of this chapter.

B. Subsidiary accounts shall be established for each appropriation or fund. Documentation supporting each subsidiary account shall be maintained.

C. Table 13-6 illustrates the most common entries used for this account.

D. Sources for entries to this account include estimates of the amount of a probable loss and actual loss documentation.

130312 Other Liabilities (Account 2990)

A. "Other Liabilities" represents amounts of liabilities not otherwise classified to specific liability accounts discussed in this chapter.

B. This account is a summary control account for financial reporting purposes. No entries are posted to this account.

ACCOUNTING ENTRIES FOR ACCOUNT 2910 - PRIOR LIENS OUTSTANDING ON ACQUIRED COLLATERAL

Dr 1910 Acquired Collateral
Cr 2910 Prior Liens Outstanding on Acquired Collateral

To record acquired collateral as a result of default loan guarantee.

Dr 2910 Prior Liens Outstanding on Acquired Collateral
Cr 1910 Acquired Collateral

To record sale of acquired collateral.

TABLE 13-5

ACCOUNTING ENTRIES FOR 2920 - CONTINGENT LIABILITIES

Dr 6124 Insurance Claims and Indemnities
Cr 2920 Contingent Liabilities

To record a contingent liability.

Dr 2920 Contingent Liabilities
Cr 1012 Funds Disbursed

To record settlement of the actual amount of a previously estimated contingent liability.

Dr 2920 Contingent Liabilities
Cr 1012 Funds Disbursed
Cr 6124 Insurance Claims and Indemnities

To record settlement of the actual amount of a contingent liability that is less than the previously estimated contingency.

TABLE 13-6

130313 Liability for Property Furnished by Others (Account 2992)

A. "Liability for Property Furnished by Others" represents the estimated fair market value of property on hand originally intended to be returned to the furnishing entity, acquired by seizure, forfeiture, confiscation, etc., or is held in trust or escrow.

B. Subsidiary accounts shall be established for such property in a DoD Component's possession. Documentation supporting each subsidiary account shall be maintained.

C. Table 13-7 illustrates the most common entries used for this account.

D. Sources for entries to this account include written agreements, statutory or judicial determinations, receipt documents, shipping documents, invoices, and transfer documents.

130314. Progress Billings to Others (Account 2994)

A. "Progress billings to Others" is to recognize the liability resulting from progress payments billed to and/or received from federal and non-federal entities for goods or services that have been ordered by those activities but that have not been completed or delivered.

B. Table 13-8 illustrates the most common entries used for this account.

C. Sources for entries to this account include progress billings, and for liquidation of the account, revenue billings.

ACCOUNTING ENTRIES FOR ACCOUNT 2992 -
LIABILITY FOR PROPERTY FURNISHED BY OTHERS

Dr 1765 Property Awaiting Disposal
Dr 1766 Equipment Not in Use
Cr 2992 Liability for Property Furnished by Others

To record acceptance of property furnished by others or assumption of custody (seizure or confiscation) of property.

Dr 2992 Liability for Property Furnished by Others
Cr 1765 Property Awaiting Disposal
Cr 1766 Equipment Not in Use

To record return of property furnished by others.

Dr 2992 Liability for Property Furnished by Others
Cr 1012 Funds Disbursed

To record purchase of property previously received on loan from others.

Dr 2992 Liability for Property Furnished by Others
Cr 3220 Transfers-In from Others Without Reimbursement

To record transfer of title of property previously received without payment for the transferred property.

Dr 1762 Equipment in Use
Cr 2992 Liability for Property Furnished by Others

To record the value of equipment received on loan from another DoD Component.

TABLE 13-7

ACCOUNTING ENTRIES FOR ACCOUNT 2994 - PROGRESS BILLINGS TO OTHERS

Dr 1011 Funds Collected
Dr 1311 Accounts Receivable-Government-Current
Dr 1313 Accounts Receivable-Public-Current
Cr 2994 Progress Billings to Others

To record liability resulting from progress payments billed to and/or received from federal and non-federal entities.

Dr 2994 Progress Billings to Others
Cr 5100 Revenue from Goods Sold
Cr 5200 Revenue From Services

To eliminate the liability from progress billings to others and recognize revenue upon delivery of goods or services ordered.

TABLE 13-8

ACCOUNT NO. 2300	
UNEARNED REVENUES (ADVANCES)	
DESCRIPTION: The outstanding balance of amounts advanced or prepaid by federal and non-federal entities to the DoD and prepayments received for the delivery of goods, services, or other assets.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 13-1

ACCOUNT NO. 2310	
ADVANCES FROM OTHERS	
DESCRIPTION: Payments received in contemplation of the future delivery of services, goods, incurrence of expenditures, or other assets.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 13-2

ACCOUNT NO. 2311	
UNEARNED REVENUE - ADVANCES FROM GOVERNMENT	
DESCRIPTION: Represents the outstanding balance of advances received from U.S. Government organizations and funds for goods and services to be furnished under the Economy Act, Project Order Law, or other legal authority.	
DEBIT	CREDIT
1. Deliveries made to liquidate outstanding advances. Contra: 5100, and 5200 2. Return of unused advances. Contra: 1011	1. Amounts received from Federal Government organizations for goods that have not been delivered or services not yet performed. Contra: 1011
NORMAL BALANCE: CREDIT	

FIGURE 13-3

ACCOUNT NO. 2312	
UNEARNED REVENUE - ADVANCES FROM THE PUBLIC	
DESCRIPTION: Represents the outstanding balance of advances received from sources outside the U.S. Government. Account is supported by subsidiary records giving the details of each advance.	
DEBIT	CREDIT
1. Deliveries made to liquidate outstanding advances. Contra: 5100, and 5200 2. Return of unused advances. Contra: 1011	1. Amounts received from non-Federal Government organizations for goods that have not been delivered or for services that have not been performed. Contra: 1011
NORMAL BALANCE: CREDIT	

FIGURE 13-4

ACCOUNT NO. 2320	
DEFERRED CREDITS	
DESCRIPTION: Represents revenue received but not earned.	
DEBIT	CREDIT
Do not use this account without prior approval from the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: CREDIT	

FIGURE 13-5

ACCOUNT NO. 2400	
LIABILITY FOR DEPOSIT FUNDS AND SUSPENSE ACCOUNTS	
DESCRIPTION: Represents amounts in deposit funds, Treasury cash advances to disbursing officers, suspense accounts and budget clearing accounts, awaiting disposition, or reclassification.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 13-6

ACCOUNT NO. 2410	
TREASURY CASH ADVANCES TO DISBURSING OFFICERS	
DESCRIPTION: Represents the amount of disbursing officers' personal liability for cash advanced by the U.S. Treasury.	
DEBIT	CREDIT
1. Amount returned to Treasury due to reduction in amount of cash authorized. Contra: 1191	1. Amounts of checks for cash written by disbursing officers to establish authorized amount of cash required from Treasury. Contra: 1191
NORMAL BALANCE: CREDIT	

FIGURE 13-7

ACCOUNT NO. 2411	
DEPOSIT FUND LIABILITIES	
DESCRIPTION: Represents the amounts in deposit funds awaiting disposition.	
DEBIT	CREDIT
1. Disposition of funds. Contra: 1011	1. Amounts deposited. Contra: 1011
NORMAL BALANCE: CREDIT	

FIGURE 13-8

ACCOUNT NO. 2900	
OTHER LIABILITIES	
DESCRIPTION: Represents amounts not otherwise classified to specific liability accounts.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 13-9

ACCOUNT NO. 2910	
PRIOR LIENS OUTSTANDING ON ACQUIRED COLLATERAL	
DESCRIPTION: Represents the value of liens approved and accepted as being claims against assets acquired through loan defaults.	
DEBIT	CREDIT
1. Sale of acquired collateral at recorded value. Contra: 1910	1. Acquisition of collateral as a result of default loan guarantee. Contra: 1910
NORMAL BALANCE: CREDIT	

FIGURE 13-10

ACCOUNT NO. 2920	
CONTINGENT LIABILITIES	
DESCRIPTION: Represents the estimated value of a probable loss.	
DEBIT	CREDIT
1. Settlement of a previously recorded contingent liability. Contra: 1012 2. Settlement of a previously recorded contingent liability for less than the amount originally estimated. Contra: 6124 and 1012	1. Estimated amount of a contingent liability. Contra: 6124
NORMAL BALANCE: CREDIT	

FIGURE 13-11

ACCOUNT NO. 2990	
OTHER LIABILITIES	
DESCRIPTION: Represents liabilities not classified to another 2900 series account.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 13-12

ACCOUNT NO. 2992	
LIABILITY FOR PROPERTY FURNISHED BY OTHERS	
DESCRIPTION: Represents the estimated fair market value of property on hand, which was originally intended to be returned to the entity that furnished it to the DoD, was acquired by seizure, or held in trust or escrow.	
DEBIT	CREDIT
1. Return of property furnished by others. Contra: 1765, and 1766 2. Acquisition of property previously furnished for DoD's use or consumption. Contra: 1012, and 3220	1. Assumption of custody (e.g., seizure or confiscation) of property. Contra: 1765, and 1766 2. Value of equipment received on loan from another DoD Component. Contra: 1762
NORMAL BALANCE: CREDIT	

FIGURE 13-13

ACCOUNT NO. 2994	
PROGRESS BILLINGS TO OTHERS	
DESCRIPTION: Recognizes the liability resulting from progress payments billed to and/or received from federal and non-federal entities for goods and services that have been ordered by those activities but have not been completed or delivered.	
DEBIT	CREDIT
1. Deliveries made to liquidate outstanding progress payments. Contra: 5100, and 5200	1. Amounts received from federal and non-federal entities for goods and services that have been ordered by those activities but have not been completed or delivered. Contra: 1011, 1311, and 1313
NORMAL BALANCE: CREDIT	

FIGURE 13-14

CHAPTER 14

INVESTMENT OF THE U.S. GOVERNMENT

1401 GENERAL

140101 This chapter prescribes the accounting principles and policy that shall be followed in accounting for the equity of the U.S. Government in the Department of Defense.

140102 The equity of the U.S. Government in the Department of Defense is the difference between its assets and liabilities and consists of five major components as follows:

A. Net amounts appropriated by the Congress.

B. The net investment of the U.S. Government in the Department of Defense.

C. Results of operations.

D. Donations and other items.

E. Deferred liquidating cash authority.

140103 The accounting processes for each of these major components and their respective general ledger accounts are discussed in Chapter 15 of this Volume.

1402 ACCOUNTING POLICY FOR INVESTMENT OF THE U.S. GOVERNMENT

140201 The net investment of the U.S. Government (also called Invested Capital) appears in both appropriated and nonappropriated activities. It represents amounts invested in certain property and the investments to commence operations or new activities of business fund activities, where periodic revenue and/or cost determination is essential. Property includes inventory, property, plant, equipment, and other capitalized assets such as leasehold improvements and books and materials purchased for permanent retention in libraries.

140202 Additions to net investment occur in activities financed from appropriations when:

A. Property, plant, and equipment purchased are received and accepted.

B. Other property meeting the capitalization criteria in Chapter 1 of this Volume is acquired.

C. Property, plant, and equipment are transferred in from other Federal Agencies without reimbursement.

140203 In revolving funds, additions to net investment occur when:

A. Property, plant, and equipment are transferred in from other Federal Agencies without reimbursement.

B. Initial investments are made to commence operations or begin a new activity.

C. Appropriations subsequent to initial investments are expended for property, plant, and equipment.

140204 The amount of the additions to net investment for property acquisitions shall equal the amount recorded for the property acquired.

140205 Decreases in net investment occur when:

A. Property is sold, exchanged, permanently transferred without reimbursement, donated, or otherwise disposed of.

B. Property purchased in activities financed by appropriations (or otherwise purchased with appropriations that are not an initial investment in revolving funds or

business-like activities) is sold, exchanged, transferred out without reimbursement, donated, or otherwise disposed of.

C. Amounts representing initial investments to commence operations or begin a new activity in revolving funds or business-like activities are returned to the investor (an agency or entity other than the reporting agency) or otherwise transferred to another agency or revolving fund, as is the case when a major function or activity is assumed by another agency.

140206 The reductions in net investment for related asset costs or losses charged to expense during the period are credited to Financing Sources in the Report of Operations when required by the Treasury.

140207 Amounts of net investment in which a transferor agency retains a reversionary interest-such as property reverting back to the transferor if certain conditions occur--shall be disclosed in the notes to the financial statements.

140208 Cumulative results of operations is the net difference between the following:

A. Expenses, losses, and transfers out from the inception of an agency or activity.

B. Financing sources (i.e., appropriations and revenues) and gains from the inception of an agency or activity (whether financed from appropriations, transfers in, revenues, reimbursements, or any combination of the four) to the reporting date (when the annual financial statements are prepared). Cumulative results of operations is sometimes referred to as "retained earnings" in business operations fund activities.

140209 Cumulative results of operations is adjusted annually by the results of operations (reported in the Statement of Operations) and by other items. Increases occur when the result of operations show an excess of financing sources and gains over expenses, losses, and transfers out. Decreases occur when an excess of expenses, losses, and transfers out exist. In business operations funds, the excess is sometimes referred to as "net income" or "loss." Adjustments to cumulative results of operations may also arise from such events as prior period adjustments and distributions of the excess financing sources and gains, in accordance with law, regulation, or administrative designation.

140210 Unexpended appropriations represent amounts of authority at the reporting date that are either:

A. Unobligated and have not lapsed, have been rescinded or withdrawn.

B. Obligated, but not yet expended (e.g., undelivered orders). Unexpended appropriations include, but are not limited to, combinations of the unobligated allotment and unliquidated obligation accounts.

140211 Decreases in unexpended appropriations occur when unobligated amounts lapse, are withdrawn, or are rescinded; obligations representing undelivered orders are canceled (deobligated) after the related appropriation has lapsed, been withdrawn, or rescinded; and undelivered orders are received and accepted.

140212 Increases in unexpended appropriations occur when funding (or obligation) authority is made available and when funds are made available from withdrawn unobligated amounts.

140213 Donations are nonreciprocal transfers of assets or services from state, local, or foreign governments; individuals; or others not considered a related party to the Department of Defense. Other items include assets acquired by discovery, adverse possession, exercised right of eminent domain, results of war, or receipt of escheat property (property for which title is vested in or reverted to the Government because it was not claimed by the owner or heirs to a deceased owner).

140214 Donations shall be recorded at the fair market value plus any costs incurred to place the donated item(s) in use. Chapters 1 and 6 of this Volume provide guidance for determining amounts to be capitalized.

140215 Increases in the donations account occur when assets or services are received that meet the Component's capitalization criteria. Decreases in the donations account occur when the donated assets or services are either:

A. Sold, transferred out, donated, or otherwise disposed of.

B. Used or consumed in operations.

The dollar amount of donated assets or services used or consumed, including recognition of depreciation on donated assets in operations, shall be reflected as part of the cost of operations.

140216 The fund balance in trust funds represents the net difference between trust fund assets and liabilities. Since the nature of trust funds is to account for assets and liabilities held or serviced in a trust capacity, the equity of the fund is shown as a single item in the Report of Financial Position.

140217 Assets and liabilities transferred without a monetary exchange between DoD Components shall generally be accounted for at the amount recorded on the transferor's books. No gains or losses shall be recognized on such transactions. This standard does not apply to sales and other transactions that occur in the normal operation of business funds. However, it does apply to transfers of property that are not part of the normal operation of these type activities.

A. When a DoD Component transfers assets and/or liabilities to another Component without any offsetting transfer from the other Component, the transferor's asset, liability, and equity accounts shall be reduced for the items transferred and the transferee's asset, liability, and equity accounts increased accordingly. The transferee shall record the items received at the acquisition cost together with any accumulated depreciation recorded on the transferor's books.

B. When two or more DoD Components exchange assets and/or liabilities (offsetting transfers), each transferee Component shall record the assets and/or liabilities received at the amount the asset and/or liability was carried at in the transferor's records together with any accumulated depreciation. Even though a change in equity occurs when net book values are not identical, no gains or losses shall be recognized by either Component.

CHAPTER 15

EQUITY

1501 GENERAL

150101 Purpose. This chapter provides guidance to be followed in recording the investment of the U.S. Government. The procedures in this chapter are related to the policy contained in Chapter 15 of this Volume.

150102 Overview

A. The equity accounts represent the net investment of the U.S. Government in the Department of Defense. As such it includes all operations of DoD activities, including appropriated activities, business operations fund, and trust funds. The balances in the equity accounts represent the difference between assets and liabilities.

B. The use of the equity accounts for each type of DoD activities depends on the nature of their operations. Paragraphs 150202 and 150203, below provide basic guidance on the use of the equity accounts. Addendum 1 to this chapter summarizes the use of the equity accounts by activity type (appropriations, Defense Business Operations Fund, trust funds).

C. The accounts described in this chapter are those required to complete the equity section of the Report on Financial Condition, as prescribed in Chapter 5, of Volume 6, of this Regulation.

1502 ACCOUNTING POLICY FOR EQUITY

150201 The general accounting policy to account for the equity of the U.S. Government in the Department of Defense are contained in this Chapter.

150202 Activities financed by appropriations shall show the results of their operations as a reduction to the appropriated capital account. The ending balance in this account shall reflect the value of the assets less cumulative depreciation or amortization, and less any outstanding liabilities. The account represents the cumulative results of operations over time.

150203 All other DoD activities shall show the results of their operations as increases and decreases to the cumulative results of operations accounts. The original capitalized amounts to begin operations, together with increases to the capital base resulting from appropriations or transfers-in, also shall be recorded in the appropriate invested capital account.

1503 ACCOUNTING FOR EQUITY

150301 This section contains the procedures for recording the equity of the U.S. Government. The accounts are discussed in the following paragraphs.

150302 Mandatory subsidiary accounts for all direct appropriations, and those trust and revolving funds having a capital investment of $1 billion or more are required. The use of these mandatory subsidiary accounts is discussed in the appropriate groups identified in paragraph 150303, below.

150303 The use of the equity series of accounts depends on the type of activity, i.e., appropriated fund, Defense Business Operations Fund, or a trust fund activity. Accordingly, the use of the accounts discussed in the following paragraphs is based on this distinction. The following groupings are used in this chapter:

A. Group A: Common Accounts

B. Group B: Appropriated Fund Activities

C. Group C: Defense Business Operations Fund Activities

D. Group D: Group D: Special Defense Acquisition Fund

E. Group E: Foreign Military Sales Trust Fund

F. Group F: Military Retirement Trust Fund

G. Group G: DoD Educational Benefit Trust Fund

H. Group H: Other Trust Funds

150304 Closing entries are illustrated for each type of activity. The entries are general in nature and may not reflect the various combinations that can be experienced during operations.

150305 Group A: Common Accounts

A. The following accounts are common to all activities or to several of the groups identified in subsection 150303, above.

B. Equity (Account 3000)

1. "Equity" is used to account for the difference between assets and liabilities of the U.S. Government in the Department of Defense.

2. This account is a summary account used for financial accounting and reporting purposes. Do not post transactions to this account.

C. Invested Capital (Account 3200)

1. "Invested Capital" is used to record the net investment of the Department of defense in Business Operations Fund and Trust Funds.

2. This account is a summary account used for financial control purposes only. No transactions are posted to this account.

D. Capital Investments (Account 3210)

1. "Capital Investments" is used to record the initial investment to commence operations, subsequent increases to the account through additional funding and transfers of assets into business operations fund and trust funds.

2. This account is a summary account used for financial control purposes only. No transactions are posted to this account.

E. Transfers-In From Others Without Reimbursement (Account 3220)

1. "Transfers-In From Others Without Reimbursement" is used to record the net book value, or fair market value if net book value is unknown, of property transferred in from another Federal or DoD activity without reimbursement. The valuation of assets is discussed in Chapter 1 of this Volume.

2. When assets transferred in have been subject to depreciation or amortization, the accumulated depreciation or amortization shall be transferred together with the acquisition value of the assets.

3. This account is used by appropriated fund, business operations fund and trust fund activities.

4. Table 15-1 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR YEAR-END CLOSING/ADJUSTING ENTRY TRANSFERS-IN FROM OTHERS WITHOUT REIMBURSEMENT

Dr 1511 Operating Materials and Supplies Held for Use
Dr 1521 Inventory, Held for Sale
Dr 1570 Stockpile Materials
Dr 1730 Buildings
Dr 1740 Other Structures and Facilities
Dr 1762 Equipment in Use
Dr 1810 Assets Under Capital Lease
Dr 1820 Leasehold Improvements
Dr 1830 Automated Data Processing Software
Cr 1529 Inventory - Allowance
Cr 1579 Stockpiled Materials - Allowance
Cr 1739 Accumulated Depreciation on Buildings
Cr 1749 Accumulated Depreciation on Other Structures and Facilities
Cr 1769 Accumulated Depreciation on Military Equipment
Cr 1819 Accumulated Depreciation on Assets Under Capital Lease
Cr 1829 Accumulated Amortization on Leasehold Improvements
Cr 1839 Accumulated Amortization on Automated Data Processing Software
Cr 3220 Transfers-In From Others Without Reimbursement

To record the acquisition value of assets transferred in without reimbursement.

Dr 3220 Transfers-In From Others Without Reimbursement
Cr 3211 Capital Investment-Defense Business Operations Fund
Cr 3213 Capital Investment-Special Defense Acquisition Fund
Cr 3217 Capital Investment-Other Trust Funds

To close the account to the capital accounts at the end of the fiscal year.

TABLE 15-1

F. Transfers-Out to Others Without Reimbursement (Account 3230)

1. "Transfers-Out to Others Without Reimbursement" is used to record the net book value of property transferred out to another Federal or DoD activity without reimbursement.

2. This account is a summary account used for financial control purposes only. No transactions are posted to this account.

G. Transfers-Out to Other Government Agencies Without Reimbursement (Account 3231)

1. "Transfers-Out to Other Government Agencies Without Reimbursement" is used to record the net book value of property transferred out to another Federal or DoD activity without reimbursement.

2. When assets transferred out have been subject to depreciation or amortization, the accumulated depreciation or amortization shall be transferred together with the acquisition value of the assets.

3. This account is used by appropriated fund, business operations fund, and trust fund activities.

4. Table 15-2 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3231
TRANSFERS-OUT TO OTHER GOVERNMENT AGENCIES WITHOUT REIMBURSEMENT

Dr 3231 Transfers-Out to Other Government Agencies Without Reimbursement
Dr 1529 Inventory - Allowance
Dr 1579 Stockpiled Materials - Allowance
Dr 1739 Accumulated Depreciation on Buildings
Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Dr 1769 Accumulated Depreciation on Military Equipment
Dr 1819 Accumulated Depreciation on Assets Under Capital Lease
Dr 1829 Accumulated Amortization on Leasehold Improvements
Dr 1839 Accumulated Amortization on Automated Data Processing Software
Cr 1510 Operating Materials and Supplies
Cr 1521 Inventory Held for Sale
Cr 1570 Stockpile Materials and Supplies
Cr 1730 Buildings
Cr 1740 Other Structures and Facilities
Cr 1762 Equipment in Use
Cr 1810 Assets Under Capital Lease
Cr 1820 Leasehold Improvements
Cr 1830 Automated Data Processing Software

To record the acquisition value of assets transferred out without reimbursement.

Dr 3211 Capital Investment-Defense Business Operations Fund
Dr 3213 Capital Investment-Special Defense Acquisition Fund
Dr 3217 Capital Investment-Other Trust Funds
Cr 3231 Transfers-Out to Other Government Agencies Without Reimbursement

To close the account to the capital accounts at the end of the fiscal year.

TABLE 15-2

5. Sources for entries to this account include journal vouchers and transfer documents.

H. Transfers-Out to All Others Without Reimbursement (Account 3232)

1. "Transfers-Out to All Others Without Reimbursement" is used to record the net book value of property transferred out to other than a Federal or DoD activity without reimbursement.

2. When assets transferred out have been subject to depreciation or amortization, the accumulated depreciation or amortization shall be transferred together with the acquisition value of the assets.

3. This account is used by appropriated, business operations and trust fund activities.

4. The entries illustrated in paragraph 150305.G, above, also apply to this account.

I. Results of Operations (Account 3300)

1. "Results of Operations" reflects the cumulative and net results of operations.

2. This account is a summary account used for financial control and reporting purposes. No transactions are posted to this account.

3. This account shall be used by the business operations fund activities, and by trust fund activities, when appropriate.

J. Cumulative Results of Operations (Account 3310)

1. "Cumulative Results of Operations" represents the difference between expenses and losses and revenues and gains from inception through the beginning of the current fiscal year.

2. This account is a summary account used for financial control and reporting purposes. No transactions are posted to this account.

3. This account shall be used by the business operations fund activities, and by trust fund activities, when appropriate.

K. Net Results of Operations (Account 3320)

1. "Net Results of Operations" represents the net difference between expenses and losses and revenues and gains for the current accounting period.

2. This account is a summary account used for financial control and reporting purposes. No transactions are posted to this account.

3. This account shall be used by the business operations activities, and by trust fund activities, when appropriate.

L. Donations and Other Items (Account 3400)

1. "Donations and Other Items" is used to record the value of assets donated to the Department of Defense.

2. This account shall be used to record the value of donations received by the Department of Defense for trust funds only. The financial value of all property furnished the Department of Defense without charge for use by appropriated, and business operations fund activities shall be recorded in the accounting records through account 3220, "Transfers-In from Others Without Reimbursement."

3. Table 15-3 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3400 - DONATIONS AND OTHER ITEMS

Dr 1011 Funds Collected
Dr 1766 Equipment Not in Use
Cr 3400 Donations and Other Items

To record the bequests to the DoD for trust fund corpus.

Dr 3400 Donations and Other Items
Cr 3217 Capital Investment-Other Trust Funds

To close the account at the end of the fiscal year.

TABLE 15-3

4. Supporting documentation for entries to this account include documents accepting bequests and establishing the value of donated assets, cash collection vouchers, and journal vouchers.

M. General Fund Receipts (Account 3600)

1. "General Fund Receipts" shall not be used without approval of the Deputy Under Secretary of Defense (Comptroller /Financial Management)/Deputy Chief Financial Officer.

150306 Group B: Appropriated Fund Activities

A. Appropriated fund activities are those financed by appropriations authorized by the Congress. The appropriations made available to such activities include operations and maintenance, military personnel, construction, procurement, research and development, etc.

B. The following equity accounts are generally used to record appropriated fund activity transactions regardless of the type of appropriation.

C. Appropriated Capital (Account 3100)

1. "Appropriated Capital" is the proprietary equity account used to record the use of funds made available by the Congress. The amounts recorded in this account include appropriations, withdrawals, and operating expenses incurred during the year.

2. Table 15-4 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3100 - APPROPRIATED CAPITAL

Dr 1013 Funds with Treasury
Cr 3100 Appropriated Capital

To record appropriations realized.

(NOTE: An accounting entry in the budgetary accounts is required at the same time this entry is made to reflect the amount realized. Volume 3 of this Regulation provides guidance on the required budgetary entries.)

Dr 3100 Appropriated Capital
Cr 1013 Funds With Treasury

To record budgetary authority rescinded or withdrawn.

(NOTE: An accounting entry in the budgetary accounts is required at the same time this entry is made to reflect the amount rescinded or withdrawn. Chapter 5 of this Volume provides guidance on the required budgetary entries.)

Dr 3100 Appropriated Capital
Cr 6--- Appropriate expense accounts

To close the expense accounts at the end of the fiscal year.

Dr 5700 Appropriated Capital Used
Dr 5910 Miscellaneous Reimbursements
Dr 7110 Gains on Disposition of Assets
Dr 7193 Other Miscellaneous Gains
Cr 6500 Cost of Goods Sold
Cr 3100 Appropriated Capital

To close the revenue, cost of goods sold and gains accounts at the end of the fiscal year.

Dr 3100 Appropriated Capital
Cr 7210 Losses on Disposition of Assets
Cr 7293 Other Miscellaneous Losses
Cr 7300 Extraordinary Items

To close the losses and extraordinary items accounts at the end of the fiscal year.

Dr 3100 Appropriated Capital
Cr 7400 Prior Period Adjustments

To close prior period adjustments at the end of the fiscal year.

Dr 3220 Transfers-In from Others Without Reimbursement
Cr 3100 Appropriated Capital

TABLE 15-4

3. Sources for entries to this account include appropriation warrants and journal vouchers with worksheets supporting the computation of the amounts to be closed to this account.

D. Deferred Liquidating Cash Authority (Account 3500)

1. "Deferred Liquidating Cash Authority" is used to record the amount of liquidating cash disbursing authority that has not been transferred by the U.S. Treasury to the expenditure account by year end. This account is used for a single year-end closing entry and shall be reversed to open new general ledger accounts in the succeeding fiscal year.

2. Table 15-5 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3500 - DEFERRED LIQUIDATING CASH AUTHORITY

Dr 3500 Deferred Liquidating Cash Authority
Cr 1920 Unrequisitioned Authorized Appropriations

To adjust liquidating cash authority to amount of disbursing authority actually transferred to expenditure account. Reverse entry at the beginning of the next fiscal year.

TABLE 15-5

3. Sources for the entry to this account include journal vouchers.

150307 Group C: Business Operations Fund Activities

A. Business operations fund activities are those operated in a manner similar to commercial activities, and provide common supplies and services to multiple DoD Component organizations.

B. The following equity accounts are generally applicable to Defense Business Operations activities.

C. Capital Investments-Defense Business Operations Fund (Account 3211)

1. "Capital Investments-Defense Business Operations Fund" is used to record the investment to commence operations, subsequent increases or decreases to the account, and transfers of assets either to or from business operations fund activities.

2. Table 15-6 illustrates the most common entries used for this account.

3. Sources for entries to this account include documentation authorizing transfers of cash and other assets and journal vouchers with worksheets supporting the computation of the amounts to be closed to this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3211 -
CAPITAL INVESTMENTS-DEFENSE BUSINESS OPERATIONS FUND

Dr 1011 Funds Collected
Cr 3211.4 Net Treasury Balance - DBOF

To record initial or subsequent cash investments by DoD in business operations funds.

Dr 3211.4 Net Treasury Balance - DBOF
Cr 1011 Funds Collected

To record cash withdrawals by DoD from business operations fund

Dr 3220 Transfers-In from Others Without Reimbursement
Cr 3211.2 Assets Capitalized

To close the transfer account at the end of the fiscal year.

(NOTE: The transfer-in account is closed to Capital Investments-Defense Business Operations Fund because assets transferred in are merged with all other DoD assets. Since separate accounting is not maintained for such assets it would be impractical to identify them when consumed in operation or sent to disposal at a future date.)

Dr 3211.2 Assets Capitalized
Cr 3231 Transfers-Out to Government Agencies Without Reimbursement
Cr 3232 Transfers-Out to Others Without Reimbursement

To close the transfer account at the end of the fiscal year.

(NOTE: The transfer-out account is closed to Capital Investments-Defense Business Operations Fund because assets transferred out are from the universal pool of all DoD assets. No useful purpose is served by maintaining a continuous record of the value of assets transferred to other organizations.)

TABLE 15-6

D. Cumulative Results of OperationsDBOF (Account 3311)

1. "Cumulative Results of Operations-DBOF" represents the difference between losses and revenues from inception through the beginning of the current fiscal year. It is the retained earnings for business fund operations.

2. The general theory for DoD business fund operations is that all costs shall be recouped from sales of goods and services and that no profit or loss shall be incurred over the long run. Consequently, there should be no balance in this account, or the balance should be minimal.

3. Table 15-7 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3311
CUMULATIVE RESULTS OF OPERATIONS-DBOF

Dr 3321 Net Results of Operations-DBOF
Cr 3311 Cumulative Results of Operations-DBOF

To transfer current period results of operations to the cumulative account at the close of the fiscal year when current period operations reported a profit.

Dr 3311 Cumulative Results of Operations-Business Fund
Cr 3321 Net Results of Operations-Business Fund

To transfer current period results of operations to the cumulative account at the close of the fiscal year when current period operations reported a loss.

TABLE 15-7

4. Sources for entries to this account included journal vouchers.

E. Net Results of Operations-DBOF (Account 3321)

1. "Net Results of Operations-DBOF" represents the net operating loss or gain resulting from operations during the current fiscal year.

2. The entries to this account are those necessary to close the revenue and cost of sales accounts and to transfer the balance of the account to the cumulative results of operations account:

3. Table 15-8 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3321
NET RESULTS OF OPERATIONS-DBOF

Dr 5100 Revenue From Goods Sold
Dr 5200 Revenue From Services Provided
Cr 3321 Net Results of Operations-DBOF

To close the revenue accounts at the end of the fiscal year.

Dr 3321 Net Results of Operations-DBOF
Cr 6500 Cost of Goods Sold
To close the cost of sales account at the end of the fiscal year.

TABLE 15-8

4. Sources for entries to this account include journal vouchers.

150308 Group D: Special Defense Acquisition Fund

A. The Special Defense Acquisition Fund was established to acquire defense articles in anticipation of future Foreign Military Sales requirements.

B. Funds are made available to the Department of Defense by appropriation transfer from the Office of the President. The Department of Defense assumes responsibility for financial accounting and reporting on the status of funds made available.

C. The following entries illustrate the use of the equity accounts for this fund. Related budgetary accounting guidance is contained in Volume 3 of this Regulation. Accounting for fund assets, liabilities, revenues, and expenses is contained in chapters 1 through 19 of this Volume.

1. Capital Investment-Special Defense Acquisition Fund (Account 3213)

a. "Capital Investment-Special Defense Acquisition Fund" is used to record the initial investment and subsequent appropriations made available to finance the Fund's program.

b. Table 15-9 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3213 -
CAPITAL INVESTMENT-SPECIAL DEFENSE ACQUISITION FUND

Dr 1011 Funds Collected
Cr 3213 Capital Investment-Special Defense Acquisition Fund

To record collections made available for use by the fund.

TABLE 15-9

c. Sources for entries to this account include journal vouchers and appropriation transfer documents.

2. Cumulative Results of Operations-Special Defense Acquisition Fund (Account 3313)

a. "Cumulative Results of Operations-Special Defense Acquisition Fund" represents the difference between losses and revenues from inception through the beginning of the current fiscal year. In essence, it is the retained earnings for Fund operations.

b. The general theory for Fund operations is that no profit or loss shall be incurred over the long run. Consequently, there should be no balance in this account or the balance should be minimal.

c. Table 15-10 illustrates the most common entries used for this account.

**ACCOUNTING ENTRIES FOR ACCOUNT 3313 -
CUMULATIVE RESULTS OF OPERATIONS-SPECIAL DEFENSE ACQUISITION FUND**

Dr 3323 Net Results of Operations-Special Defense Acquisition Fund
Cr 3313 Cumulative Results of Operations-Special Defense Acquisition Fund

To transfer current period results of operations to the cumulative account after the close of the fiscal year when current period operations reported a profit.

Dr 3313 Cumulative Results of Operations-Special Defense Acquisition Fund
Cr 3323 Net Results of Operations-Special Defense Acquisition Fund

To transfer current period results of operations to the cumulative account after the close of the fiscal year when current period operations reported a loss.

TABLE 15-10

d. Sources for entries to this account are journal vouchers.

3. Net Results of Operations-Special Defense Acquisition Fund (Account 3323)

a. "Net Results of Operations-Special Defense Acquisition Fund" represents the net operating loss or gain resulting from operations during the current fiscal year.

b. The entries to this account should be those necessary to close the revenue, cost of sales, inventory gains, and inventory loss accounts and to transfer the balance of this account to the cumulative results of operations account.

c. Table 15-11 illustrates the most common entries used for this account.

**ACCOUNTING ENTRIES FOR ACCOUNT 3323 -
NET RESULTS OF OPERATIONS-SPECIAL DEFENSE FUND**

Dr 5100 Revenue From Goods Sold
Dr 7193 Other Miscellaneous Gains
Cr 3323 Net Results of Operations-Special Defense Acquisition Fund

To close the revenue and inventory gains accounts at the end of the fiscal year.

Dr 3323 Net Results of Operations-Special Defense Acquisition Fund
Cr 6500 Cost of Goods Sold
Cr 7293 Other Miscellaneous Losses

To close the cost of sales and miscellaneous gain and loss loss accounts at the end of the fiscal year.

TABLE 15-11

d. Sources for entries to this account are journal vouchers.

150309 Group E: Foreign Military Sales Trust Fund

A. The Foreign Military Sales Trust Fund was established to provide for the sale of DoD articles and services to U.S. allies. The Fund is comprised of amounts advanced by foreign governments and international organizations to cover two elements: (1) the purchase of DoD articles and services and (2) the accessorial and administrative costs incurred by the DoD in managing the program.

B. Accounting for the fund is contained in Volume 15 of Regulation.

150310 Group F: Military Retirement Trust Fund

A. The Military Retirement Trust Fund, established by Public Law 98-94, changed the method of funding from a pay-as-you-go concept to a pay-for-current-services-provided concept. Previously, retired pay requirements for the current fiscal year were appropriated by the Congress. Under the current method, payments are made into the trust fund from which future payments are made for current services. Chapter 14 of this Volume provides guidance on accounting for trust fund operations.

B. The amounts paid into the fund do not cover administrative costs. These are funded by annual operating and personnel appropriations provided to the Department of Defense.

C. The following equity accounts are applicable to the Military Retirement Trust Fund:

1. Capital Investment-Military Retirement Trust Fund (Account 3215)

a. "Capital Investment-Military Retirement Trust Fund" is used to record the initial investment and appropriations made available to finance the Fund's program.

b. The implementing legislation did not provide for initial capitalization of the trust fund. Accordingly, the balance in this account remains at zero for the present time.

2. Cumulative Results of Operations-Military Retirement Trust Fund (Account 3315)

a. "Cumulative Results of Operations-Military Retirement Trust Fund" represents the net difference between revenues, expenses, gains, and losses from inception through the beginning of the current fiscal year.. In essence, it is the retained earnings for Fund operations.

b. Table 15-12 illustrates the most common entries used for this account.

**ACCOUNTING ENTRIES FOR ACCOUNT 3315 -
CUMULATIVE RESULTS OF OPERATIONS-MILIARY RETIREMENT TRUST FUND**

Dr 3325 Net Results of Operations-Military Retirement Trust Fund
Cr 3315 Cumulative Results of Operations-Military Retirement Trust Fund

To transfer current period results of operations to the cumulative account after the close of the fiscal year when the Fund shows an operating gain.

Dr 3315 Cumulative Results of Operations-Military Retirement Trust Fund
Cr 3325 Net Results of Operations-Military Retirement Trust Fund

To transfer current period results of operations to the cumulative account after the close of the fiscal year when the Fund shows an operating loss.

TABLE 15-12

c. Sources for entries to this account are journal vouchers.

3. Net Results of Operations-Military Retirement Trust Fund (Account 3325)

a. "Net Results of Operations-Military Retirement Trust Fund" represents the net difference between revenues, expenses, gains, and losses resulting from operations during the current fiscal year.

b. The entries to this account are those necessary to close the revenue, benefit program expenses, and investment gains and losses accounts and to transfer the balance of this account to the cumulative results of operations account.

c. Table 15-13 illustrates the most common entries used for this account.

**ACCOUNTING ENTRIES FOR ACCOUNT 3325 -
NET RESULTS OF OPERATIONS-MILITARY RETIREMENT TRUST FUND**

Dr 5300 Interest and Penalties Revenue
Dr 5400 Benefit Program Revenue
Dr 7192 Investment Gains
Cr 3325 Net Results of Operations-Military Retirement Trust Fund

To close the revenue and gains accounts at the end of the fiscal year.

Dr 3325 Net Results of Operations-Military Retirement Trust Fund
Cr 6400 Benefit Program Expenses
Cr 7292 Investment Losses

To close the expense and loss accounts at the end of the fiscal year.

TABLE 15-13

d. Sources for entries to these accounts include journal vouchers.

150311 Group G: DoD Education Benefits Trust Fund

A. Public Law 98-525 provides for an educational assistance program for military service personnel. Generally, the law provides that transfers from military pay appropriations will be the basic source of revenues to the fund. The law also permits the Department of Defense to make contributions to the trust fund at the discretion of the Secretary of Defense when the criteria established by law are met. Chapter 14 of this Volume provides guidance on accounting for the trust fund operations.

B. The amounts paid into the fund do not cover administrative costs. These are funded by annual operating and personnel appropriations provided to the Department of Defense.

C. The following equity accounts are applicable to the Education Benefits Trust Fund:

1. Capital Investment-DoD Education Benefits Trust Fund (Account 3216)

a. "Capital Investment-DoD Education Benefits Trust Fund" is used to record the initial investment and appropriations made available to finance the Fund's program.

b. The implementing legislation did not provide for initial capitalization of the trust fund. Accordingly, the balance in this account remains at zero for the present time. Any amounts transferred to this Fund are considered contributions and are accounted for as program revenues.

2. Cumulative Results of Operations-DoD Education Benefits Trust Fund (Account 3316)

a. "Cumulative Results of Operations-Education Benefits Trust Fund" represents the difference between net revenues and expenses since inception through the beginning of the current fiscal year. In essence, it is the retained earnings for Fund operations.

b. Table 15-14 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3316 - CUMULATIVE RESULTS OF OPERATIONS-DoD EDUCATION BENEFITS TRUST FUND

Dr 3326 Net Results of Operations-DoD Education Benefits Trust Fund
Cr 3316 Cumulative Results of Operations-DoD Education Benefits Trust Fund

To transfer current period results of operations to the cumulative account at the close of the fiscal year when the Fund shows an operating gain.

Dr 3316 Cumulative Results of Operations-DoD Education Benefits Trust Fund
Cr 3326 Net Results of Operations-DoD Education Benefits Trust Fund

To transfer current period results of operations to the cumulative account at the close of the fiscal year when the Fund shows an operating loss.

TABLE 15-14

c. Sources for entries to this account include journal vouchers.

3. Net Results of Operations-DoD Education Benefits Trust Fund (Account 3326)

a. "Net Results of Operations-DoD Education Benefits Trust Fund" represents the net operating loss or gain resulting from operations during the current fiscal year.

b. The entries to this account should be those necessary to close the operating expenses and revenue accounts and to transfer the balance of this account to the cumulative results of operations account.

c. Table 15-15 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3326 -
NET RESULTS OF OPERATIONS-DoD EDUCATION BENEFITS TRUST FUND

Dr 5300 Interest and Penalties Revenue
Dr 5400 Benefit Program Revenue
Dr 7192 Investment Gains
Cr 3326 Net Results of Operations-DoD Education Benefits Trust Fund

To close the revenue and gains accounts at the end of the fiscal year.

Dr 3326 Net Results of Operations-DoD Education Benefits Trust Fund
Cr 6400 Benefit Program Expenses
Cr 6900 Other Expenses
Cr 7292 Investment Losses

To close the expense and loss accounts at the end of the fiscal year.

TABLE 15-15

d. Sources for entries to this account includes journal vouchers.

150312 Group H: Other Trust Funds

A. Other Trust Funds is a generic category covering all trust funds which do not meet the criteria for establishing mandatory equity subsidiary accounts.

B. The following entries illustrate the use of the equity accounts for this fund. Accounting for fund assets, liabilities, revenues, and expenses is contained in chapters 1 through 14, and 18 and 20 of this Volume.

C. The following equity accounts are applicable to this Fund. The composition of the accounting entries will vary depending on the nature of the trust fund and its purpose.

1. Capital Investment-Other Trust Funds (Account 3217)

a. "Capital Investment-Other Trust Funds" is used to record the initial investment and appropriations made available to finance the specific fund's program.

b. Table 15-16 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3217 - CAPITAL INVESTMENT-OTHER TRUST FUNDS

Dr 1011 Funds Collected
Cr 3217 Capital Investment-Other Trust Funds

To record funds made available for initial and subsequent capitalization.

TABLE 15-16

c. Sources for entries to this account include journal vouchers, collection vouchers, and appropriation transfer documents.

2. Cumulative Results of Operations-Other Trust Funds (Account 3317)

a. "Cumulative Results of Operations-Other Trust Funds" represents the difference between losses and revenues from inception through the beginning of the current fiscal year. In essence, it is the retained earnings for fund operations.

b. The general theory for the fund operations is that each fund is to be self-sustaining unless otherwise provided for by law.

3. Table 15-17 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3317 - CUMULATIVE RESULTS OF OPERATIONS

Dr 3327 Net Results of Operations-Other Trust Funds
Cr 3317 Cumulative Results of Operations-Other Trust Funds

To transfer current period results of operations to the cumulative account at the close of the fiscal year when current period operations reported a profit.

Dr 3317 Cumulative Results of Operations-Other Trust Funds
Cr 3327 Net Results of Operations-Other Trust Funds

To transfer current period results of operations to the cumulative account at the close of the fiscal year when current period operations reported a loss.

TABLE 15-17

Sources for entries to this account are journal vouchers.

4. Net Results of Operations-Other Trust Funds (Account 3327)

a. "Net Results of Operations-Other Trust Funds" represents the net operating loss or gain resulting from operations during the current fiscal year.

b. The entries to this account should be those necessary to close the operating expenses, revenue, cost of sales, inventory gains, and inventory loss accounts and to transfer the balance of this account to the cumulative results of operations account.

c. Table 15-18 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 3327 -
NET RESULTS OF OPERATIONS-OTHER TRUST FUNDS

Dr 5100 Revenue From Goods Sold
Dr 5200 Revenue from Services Provided
Dr 5300 Interest and Penalties Revenue
Dr 5600 Donated Revenue
Dr 7110 Gains on Disposition of Assets
Dr 7192 Investment Gains
Dr 7193 Other Miscellaneous Gains
Cr 3327 Net Results of Operations-Other Trust Funds

To close the revenue and gains accounts at the end of the fiscal year.

Dr 3327 Net Results of Operations-Other Trust Funds
Cr 6--- Appropriate expense accounts
Cr 6500 Cost of Goods Sold
Cr 7291 Investment Losses
Cr 7293 Other Miscellaneous Losses

To close the expense, cost of sales, and loss accounts at the end of the fiscal year.

TABLE 15-18

d. Sources for entries to these accounts include journal vouchers, apportionment and reapportionment schedules, and collection vouchers.

ACCOUNT NO. 3000	
EQUITY	
DESCRIPTION: Represents the difference between the assets and liabilities of the Department of Defense.	
DEBIT	CREDIT
This is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 15-1

ACCOUNT NO. 3100	
APPROPRIATED CAPITAL	
DESCRIPTION: Represents net amounts appropriated by Congress.	
DEBIT	CREDIT
1. Budgetary authority withdrawn or rescinded. Contra: 1013 Funds with Treasury 2. Close expense accounts. Contra: 6--- Expense accounts 3. Close loss accounts. Contra: 7210 Losses on Disposition of Assets 7293 Other Miscellaneous Losses 7300 Extraordinary Items 4. Close prior period adjustments. Contra: 7400 Prior Period Adjustments 5. Close transfers-out accounts. Contra: 3231 Transfers-Out to Government Agencies Without Reimbursement 3232 Transfers-Out to All Others Without Reimbursement	1. Appropriations realized. Contra: 1013 Funds With Treasury 2. Close revenue and gains accounts. Contra: 5910 Miscellaneous Reimbursements 7110 Gains on Disposition of Assets 7193 Other Miscellaneous Gains 3. Close Transfers-In account. Contra: 3220 Transfers-In from Others Without Reimbursement
NORMAL BALANCE: CREDIT	

FIGURE 15-2

ACCOUNT NO. 3200	
INVESTED CAPITAL	
DESCRIPTION: Represents the net investment of the Government in DoD revolving and trust funds.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 15-3

ACCOUNT NO. 3210	
CAPITAL INVESTMENTS	
DESCRIPTION: Represents the initial investment to commence operations, revenues, and expenses transferred to this account.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 15-4

ACCOUNT NO. 3211	
CAPITAL INVESTMENT - DEFENSE BUSINESS OPERATIONS FUND	
DESCRIPTION: Represents the initial investment to commence operations, subsequent increases through additional funding, and transfers of assets either to or from industrial fund activities.	
DEBIT	CREDIT
1. Record a decrease capitalization. Contra: 1011 2. Close transfers-out accounts. Contra: 3231 and 3232	1. Record initial capitalization and subsequent appropriations. Contra: 1011 2. Close the transfers-in account. Contra: 3220
NORMAL BALANCE: CREDIT	

FIGURE 15-5

ACCOUNT NO. 3211.1	
APPROPRIATIONS AVAILABLE	
DESCRIPTION: This account is used to record amounts appropriated or reappropriated to establish or increase the working capital of the Defense Business Operations Fund.	
DEBIT	CREDIT
1. Amount of appropriation used by the Defense Business Operations Fund. Contra: 5700 Appropriated Capital Used	1. Amount of appropriations made available to the Defense Business Operations Fund. Contra: 1013 Funds With Treasury
NORMAL BALANCE: CREDIT	

FIGURE 15-6

ACCOUNT NO. 3211.2	
ASSETS CAPITALIZED	
DESCRIPTION: This account represents the net book value (acquisition cost less accumulated depreciation) of assets such as equipment, materials and supplies, work in process at contractor plants, work in process at other government plants, and other contributed assets that are provided to the Defense business Operations Fund without charge. As a rule, entries are not made directly to this account. Generally, increases occur only upon closing of account 3220, "Transfers In from Others Without Reimbursement," account 3232, "Transfers Out to Government Agencies Without Reimbursement," and (when applicable) current year contributed asset unfunded depreciation accounts.	
DEBIT	CREDIT
1. Decreases, other than cash or appropriations, to Defense Business Operations Fund capitalization as a result of year-end closing. Contra: 3231 Transfers Out to Government Agencies Without Reimbursement 3232 Transfers Out to All Others Without Reimbursement 6125 Depreciation of Equipment	1. Increases, other than cash or appropriations, to Defense Business Operations Fund capitalization as a result of year-end closing of account 3220. Contra: 3220 Transfers In from Others Without Reimbursement
NORMAL BALANCE: CREDIT	

FIGURE 15-7

ACCOUNT NO. 3211.3	
LIABILITIES ASSUMED	
DESCRIPTION: This account is used to record (1) the sum of the amounts assumed without accompanying payment for accrued annual leave and other liabilities transferred in, and (2) holdbacks on progress billings from contractors at the time of initial capitalization.	
DEBIT	CREDIT
1. Liabilities assumed. Contra: 2000 Applicable liability account.	
NORMAL BALANCE: DEBIT	

FIGURE 15-8

ACCOUNT NO. 3211.4	
NET TREASURY BALANCE - DBOF	
DESCRIPTION: This account is used to record the amount of cash transferred between DBOF activities. The amount transferred is not a disbursement (outlay). Therefore, the transfer out is a negative collection. The transfer in is a positive collection.	
DEBIT	CREDIT
1. Cash balance transferred to another DBOF installation. Contra: 1011.1 Funds Collected-Operating-DBOF 1011.2 Funds Collected-Capital Program-DBOF	1. Cash balance transferred from another DBOF installation. Contra: 1011.1 Funds Collected-Operating-DBOF 1011.2 Funds Collected-Capital Program-DBOF
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-9

ACCOUNT NO. 3212	
CAPITAL INVESTMENT-OTHER REVOLVING FUNDS	
DESCRIPTION: This is a summary account to accumulate the total value of capital investments recorded in sub-accounts to this account. No transactions should be posted to this account.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 15-10

ACCOUNT NO. 3212.1	
CAPITAL INVESTMENT - CONVENTIONAL AMMUNITION WORKING CAPITAL FUND	
DESCRIPTION: Represents the initial investment and subsequent appropriations to finance program activities.	
DEBIT	CREDIT
	1. Record initial capitalization and appropriations. Contra: 1013 Funds With Treasury
NORMAL BALANCE: CREDIT	

FIGURE 15-11

ACCOUNT NO. 3212.2	
CAPITAL INVESTMENT - PENTAGON RESERVATION MAINTENANCE FUND	
DESCRIPTION: Represents the initial investment and subsequent appropriations to finance program activities.	
DEBIT	CREDIT
	1. Record initial capitalization and appropriations. Contra: 1013 Funds With Treasury
NORMAL BALANCE: CREDIT	

FIGURE 15-12

ACCOUNT NO. 3213	
CAPITAL INVESTMENT - SPECIAL DEFENSE ACQUISITION FUND	
DESCRIPTION: Represents the initial investment and subsequent appropriations to finance program activities.	
DEBIT	CREDIT
	1. Record initial capitalization and appropriations. Contra: 1013
NORMAL BALANCE: CREDIT	

FIGURE 15-13

ACCOUNT NO. 3214	
CAPITAL INVESTMENT - FOREIGN MILITARY SALES TRUST FUND	
DESCRIPTION: Represents the initial investment and subsequent appropriations made available to finance program activities.	
DEBIT	CREDIT
No initial capitalization	
NORMAL BALANCE: CREDIT	

FIGURE 15-14

ACCOUNT NO. 3215	
CAPITAL INVESTMENT - MILITARY RETIREMENT TRUST FUND	
DESCRIPTION: Represents amounts appropriated by the Congress to establish the program	
DEBIT	CREDIT
No initial capitalization	
NORMAL BALANCE: CREDIT	

FIGURE 15-15

ACCOUNT NO. 3216	
CAPITAL INVESTMENT - DOD EDUCATION BENEFITS TRUST FUND	
DESCRIPTION: Represents amounts appropriated by the Congress to establish the program.	
DEBIT	CREDIT
No initial capitalization	
NORMAL BALANCE: CREDIT	

FIGURE 15-16

ACCOUNT NO. 3217	
CAPITAL INVESTMENT - OTHER TRUST FUNDS	
DESCRIPTION: Represents the initial investment and any subsequent appropriations made available to finance the Fund's programs.	
DEBIT	CREDIT
	1. Record initial capitalization and subsequent appropriations. Contra: 1013
NORMAL BALANCE: CREDIT	

FIGURE 15-17

ACCOUNT NO. 3220	
TRANSFERS-IN FROM OTHERS WITHOUT REIMBURSEMENT	
DESCRIPTION: Represents amounts recorded on the transferor's books for an asset or a liability transferred to a DoD Component or other U.S. Government Agency without reimbursement.	
DEBIT	CREDIT
1. Close the account at the end of the fiscal year. Contra: 3100, 3211, 3213, and 3217	1. Record transfer-in of assets from other agency without reimbursement. Contra: 1510, 1520, 1570, 1730, 1740, 1762, 1810, 1820, and 1830
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-18

ACCOUNT NO. 3230	
TRANSFERS-OUT TO OTHERS WITHOUT REIMBURSEMENT	
DESCRIPTION: Represents the total transfers-out to Government Agencies and to others without reimbursement.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 15-19

ACCOUNT NO. 3231	
TRANSFERS-OUT TO GOVERNMENT AGENCIES WITHOUT REIMBURSEMENT	
DESCRIPTION: Represents the net book value of property transferred out to another Federal Agency without reimbursement.	
DEBIT	CREDIT
1. Record transfer-out of assets to another Federal Agency without reimbursement. Contra: 1510, 1520, 1570, 1730, 1740, 1762, 1810, 1820, and 1830	1. Close the account at the end of the fiscal year. Contra: 3100, 3211, 3213, and 3217
NORMAL BALANCE: DEBIT	

FIGURE 15-20

ACCOUNT NO. 3232	
TRANSFERS-OUT TO ALL OTHERS WITHOUT REIMBURSEMENT	
DESCRIPTION: Represents the net book value of property transferred out to other than a Federal Agency without reimbursement.	
DEBIT	CREDIT
1. Record transfer-out of assets to Government Agencies without reimbursement. Contra: 1510, 1520, 1570, 1730, 1740, 1762, 1810, 1820, and 1830	1. Close the account at the end of the fiscal year. Contra: 3100, 3211, 3213, and 3217
NORMAL BALANCE: DEBIT	

FIGURE 15-21

ACCOUNT NO. 3300	
RESULTS OF OPERATIONS	
DESCRIPTION: Represents the cumulative and net results of operations from inception to the beginning of the current fiscal year.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-22

ACCOUNT NO. 3310	
CUMULATIVE RESULTS OF OPERATIONS	
DESCRIPTION: Represents the cumulative results of operations. This account is normally a credit balance account.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-23

ACCOUNT NO. 3311	
CUMULATIVE RESULTS OF OPERATIONS - DEFENSE BUSINESS OPERATIONS FUND	
DESCRIPTION: This is a summary account to accumulate the net difference between revenues and expenses from inception of the activity through the beginning of the current fiscal year.	
DEBIT	CREDIT
This account is a summary account Do not post to his account.	
NORMAL BALANCE: DEBIT or CREDIT	

FIGURE 15-24

ACCOUNT NO. 3311.1	
CUMULATIVE RESULTS OF OPERATIONS - DEFENSE BUSINESS OPERATIONS FUND	
DESCRIPTION: Represents the net difference between revenues and expenses from inception of the activity through the beginning of the current fiscal year that are to be used in the development of future year stabilized rates and prices	
DEBIT	CREDIT
1. Close net results of operations when an operating loss is realized. Contra: 3321 2. Transfer out, with OUSD(C) approval, of nonrecoverable credit balance. Contra: 3311.2	1. Close net results of operations when profit is realized. Contra: 3321 2. Transfer out, with OUSD(C) approval, of nonrecoverable debit balance. Contra: 3311.2
NORMAL BALANCE: CREDIT	

FIGURE 15-25

ACCOUNT NO. 3311.2	
CUMULATIVE RESULTS OF OPERATIONS - DEFENSE BUSINESS OPERATIONS FUND - DEFERRED	
DESCRIPTION: Represents the net difference between revenues and expenses from inception of the activity through the beginning of the current fiscal year that are to be used in the development of future year stabilized rates and prices	
DEBIT	CREDIT
2. Transfer in, with OUSD(C) approval, of nonrecoverable negative balance. Contra: 3311.1	1. Transfer in, with OUSD(C) approval, of nonrecoverable positive balance. Contra: 3311.1
NORMAL BALANCE: CREDIT	

FIGURE 15-26

ACCOUNT NO. 3312	
CUMULATIVE RESULTS OF OPERATIONS - OTHER REVOLVING FUNDS	
DESCRIPTION: This is a summary account to accumulate the total value of capital investments recorded in sub-accounts to this account. No transactions should be posted to this account.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-27

ACCOUNT NO. 3312.1	
CUMULATIVE RESULTS OF OPERATIONS- CONVENTIONAL AMMUNITION WORKING CAPITAL FUND	
DESCRIPTION: Represents the net difference between revenues and expenses from inception of the activity through the beginning of the current fiscal year.	
DEBIT	CREDIT
1. Close net results of operations when a loss is realized. Contra: 3323.1 Net Results of Operations-Conventional Ammunition Working Capital Fund	1. Close net results of operations when a profit is realized. Contra: 3323.1 Net Results of Operations-Conventional Ammunition Working Capital Fund
NORMAL BALANCE: DEBIT or CREDIT	

FIGURE 15-28

ACCOUNT NO. 3312.2	
CUMULATIVE RESULTS OF OPERATIONS- PENTAGON RESERVATION MAINTENANCE FUND	
DESCRIPTION: Represents the net difference between revenues and expenses from inception of the activity through the beginning of the current fiscal year.	
DEBIT	CREDIT
1. Close net results of operations when a loss is realized. Contra: 3323.1 Net Results of Operations- Conventional Ammunition Working Capital Fund	1. Close net results of operations when a profit is realized. Contra: 3323.1 Net Results of Operations- Conventional Ammunition Working Capital Fund
NORMAL BALANCE: DEBIT or CREDIT	

FIGURE 15-29

ACCOUNT NO. 3313	
CUMULATIVE RESULTS OF OPERATIONS - SPECIAL DEFENSE ACQUISITION FUND	
DESCRIPTION: Represents the net difference between revenues and expenses from inception of the activity through the beginning of the current fiscal year.	
DEBIT	CREDIT
1. Close net results of operations when a loss is realized. Contra: 3323	1. Close net results of operations when a profit is realized. Contra: 3323
NORMAL BALANCE: DEBIT or CREDIT	

FIGURE 15-30

ACCOUNT NO. 3314	
CUMULATIVE RESULTS OF OPERATIONS - FOREIGN MILITARY SALES TRUST FUND	
DESCRIPTION: Represents the net difference between revenues and expenses, gains and losses from inception of the activity through the beginning of the current fiscal year.	
DEBIT	CREDIT
1. Close net results of operations when a loss is realized for the fiscal year. Contra: 3324	1. Close net results of operations when profit is realized. Contra: 3324
NORMAL BALANCE: DEBIT or CREDIT	

FIGURE 15-31

ACCOUNT NO. 3315	
CUMULATIVE RESULTS OF OPERATIONS - MILITARY RETIREMENT TRUST FUND	
DESCRIPTION: Represents the net difference revenues and expenses, gains and losses from inception of the activity through the beginning of the current fiscal year since.	
DEBIT	CREDIT
1. Close net results of operations when an operating loss is realized for the fiscal year. Contra: 3325	1. Close net results of operations when profit is realized. Contra: 3325
NORMAL BALANCE: DEBIT or CREDIT	

FIGURE 15-32

ACCOUNT NO. 3316	
CUMULATIVE RESULTS OF OPERATIONS - DOD EDUCATION BENEFITS TRUST FUND	
DESCRIPTION: Represents the net difference between revenues and expenses and gains and losses from inception through the beginning of the current fiscal year.	
DEBIT	CREDIT
1. Close net results of operations when an operating loss is realized for the fiscal year. Contra: 3326	1. Close net results of operations when profit is realized. Contra: 3326
NORMAL BALANCE: DEBIT or CREDIT	

FIGURE 15-33

ACCOUNT NO. 3317	
CUMULATIVE RESULTS OF OPERATIONS - OTHER TRUST FUNDS	
DESCRIPTION: Represents the net difference between revenues and expenses from inception through the beginning of the current fiscal year.	
DEBIT	CREDIT
1. Close net results of operations when an operating loss is realized for the fiscal year. Contra: 3327	1. Close net results of operations when profit is realized. Contra: 3327
NORMAL BALANCE: DEBIT or CREDIT	

FIGURE 15-34

ACCOUNT NO. 3320	
NET RESULTS OF OPERATIONS	
DESCRIPTION: Represents the net results of operations for the fiscal year.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-35

ACCOUNT NO. 3321	
NET RESULTS OF OPERATIONS - DEFENSE BUSINESS OPERATIONS FUND	
DESCRIPTION: Reflects the fiscal year's results of operations.	
DEBIT	CREDIT
1. Close cost of sales. Contra: 6500	1. Close revenue accounts. Contra: 5101 and 5201
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-36

ACCOUNT NO. 3322	
NET RESULTS OF OPERATIONS-OTHER REVOLVING FUNDS	
DESCRIPTION: This is a summary account to accumulate the total value of net operating results recorded in sub-accounts to this account. No transactions should be posted to this account.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-37

ACCOUNT NO. 3322.1	
NET RESULTS OF OPERATIONS - CONVENTIONAL AMMUNITION WORKING CAPITAL FUND	
DESCRIPTION: Reflects the fiscal year's results of operations.	
DEBIT	CREDIT
1. Close expense accounts. Contra: 6100 Operating/Program Expense Series 2. Close loss accounts. Contra: 7200 Loss Series	1. Close revenue accounts. Contra: 5000 Revenue Series 2. Close gain accounts. Contra: 7100 Gain Series
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-38

ACCOUNT NO. 3322.2	
NET RESULTS OF OPERATIONS - PENTAGON RESERVATION MAINTENANCE FUND	
DESCRIPTION: Reflects the fiscal year's results of operations.	
DEBIT	CREDIT
1. Close expense accounts. Contra: 6100 Operating/Program Expense Series 2. Close loss accounts. Contra: 7200 Loss Series	1. Close revenue accounts. Contra: 5000 Revenue Series 2. Close gain accounts. Contra: 7100 Gain Series
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-39

ACCOUNT NO. 3323	
NET RESULTS OF OPERATIONS - SPECIAL DEFENSE ACQUISITION FUND	
DESCRIPTION: Reflects at year end the fiscal year's results of operations.	
DEBIT	CREDIT
1. Close cost of sales. Contra: 6500 2. Close inventory loss accounts. Contra: 7291	1. Close revenue account. Contra: 5100 2. Close gains accounts. Contra: 7191
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-40

ACCOUNT NO. 3324	
NET RESULTS OF OPERATIONS - FOREIGN MILITARY SALES TRUST FUND	
DESCRIPTION: Reflects at year end the fiscal year's results of operations.	
DEBIT	CREDIT
1. Close cost of sales. Contra: 6500 2. Close loss accounts. Contra: 7291, and 7293	1. Close revenue accounts. Contra: 5100 and 5200 2. Close gain accounts. Contra: 7110, 7191, and 7193
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-41

ACCOUNT NO. 3325	
NET RESULTS OF OPERATIONS - MILITARY RETIREMENT TRUST FUND	
DESCRIPTION: Reflects at year end the fiscal year's results of operations.	
DEBIT	CREDIT
1. Close expense accounts. Contra: 6400 2. Close loss accounts. Contra: 7292	1. Close revenue accounts. Contra: 5400, and 5300
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-42

ACCOUNT NO. 3326	
NET RESULTS OF OPERATIONS - DOD EDUCATION BENEFITS TRUST FUND	
DESCRIPTION: Reflects at year end the fiscal year's results of operations.	
DEBIT	CREDIT
1. Close expense accounts. Contra: 6400 2. Close loss accounts. Contra: 7292	1. Close revenue accounts. Contra: 5300 and 5400 2. Close gains accounts. Contra: 7192
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-43

ACCOUNT NO. 3327	
NET RESULTS OF OPERATIONS - OTHER TRUST FUNDS	
DESCRIPTION: Reflects at year end the fiscal year's results of operations.	
DEBIT	CREDIT
1. Close expense accounts. Contra: 6--- 2. Close cost of sales account. Contra: 6500 3. Close loss accounts. Contra: 7291 and 7293	1. Close revenue accounts. Contra: 5100, 5200, 5300, and 5600 2. Close gain accounts. Contra: 7110, 7192, and 7193
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 15-44

ACCOUNT NO. 3400	
DONATIONS AND OTHER ITEMS	
DESCRIPTION: Represents the total fair market value of donations received by the reporting entity. This accounts available for use only by trust funds.	
DEBIT	CREDIT
1. Close account at end of year. Contra: 3217	1. Donations received. Contra: 1011 and 1766
NORMAL BALANCE: CREDIT	

FIGURE 15-45

ACCOUNT NO. 3500	
DEFERRED LIQUIDATING CASH AUTHORITY	
DESCRIPTION: Represents the amount of liquidating cash disbursing authority that has not been transferred by the U.S. Treasury to the expenditure account by year end.	
DEBIT	CREDIT
1. Adjust liquidating cash authority to amount of disbursing authority actually transferred to expenditures account. Contra: 1920	
NORMAL BALANCE: DEBIT	

FIGURE 15-46

ACCOUNT NO. 3600	
GENERAL FUND RECEIPTS	
DESCRIPTION: Represents the amount of funds uncollected and returned to the General Fund.	
DEBIT	CREDIT
Do not use this account without prior approval of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: CREDIT	

FIGURE 15-47

ADDENDUM
APPLICATION OF EQUITY ACCOUNTS BY FUNDS

ACCOUNT	TITLE	APPRO. FUNDS	DEFENSE BUSINESS OPERATION FUND	SPECIAL DEF ACQ FUND	FOREIGN MIL. TRUST FUND	RET. TRUST FUND	MIL. EDU. TRUST FUND	MIL. OTHER TRUST FUND
3000	Equity	X	X	X		X	X	X
3100	Appropriated Capital	X	X					
3200	Invested Capital		X	X		X	X	X
3210	Capital Investments		X	X		X	X	X
3211	Capital Investment-Defense Business Operations Fund		X					
3213	Capital Investment-Special Defense Acquisition Fund			X				
3214	Capital Investment-Foreign Military Sales Trust Fund							
3215	Capital Investment-Military Retirement Trust Fund					X		
3216	Capital Investment-DoD Education Benefits Trust Fund						X	
3217	Capital Investment-Other Trust Funds							X
3220	Transfers-In from Others Without Reimbursement	X	X	X		X	X	X
3230	Transfers-Out to Others Without Reimbursement	X	X	X		X	X	X
3231	Transfers-Out to Government Agencies Without Reimbursement	X	X	X		X	X	X
3232	Transfers-Out to All Others Without Reimbursement	X	X	X		X	X	X
3300	Results of Operations		X	X		X	X	X

ADDENDUM
APPLICATION OF EQUITY ACCOUNTS BY FUNDS

ACCOUNT	TITLE	APPRO. FUNDS	DEFENSE BUSINESS OPERATION FUND	SPECIAL DEF ACQ FUND	FOREIGN MIL. TRUST FUND	RET. TRUST FUND	MIL. EDU. TRUST FUND	MIL. OTHER TRUST FUND
3310	Cumulative Results of Operations							
3311	Cumulative Results of Operations-Business Fund		X					
3313	Cumulative Results of Operations-Special Defense Acquisition Fund			X				
3314	Cumulative Results of Operations-Foreign Military Sales Trust Fund							
3315	Cumulative Results of Operations-Military Retirement Trust Fund					X		
3316	Cumulative Results of Operations-DoD Education Benefits Trust Fund						X	
3317	Cumulative Results of Operations-Other Trust Funds							X
3320	Net Results of Operations		X	X		X	X	X
3321	Net Results of Operations-Business Fund		X					
3323	Net Results of Operations-Special Defense Acquisition Trust Fund			X				
3324	Net Results of Operations-Foreign Military Sales Trust Fund							
3325	Net Results of Operations-Military Retirement Trust Fund					X		
3326	Net Results of Operations-DoD Education Benefits Trust Fund						X	

ADDENDUM
APPLICATION OF EQUITY ACCOUNTS BY FUNDS

ACCOUNT	TITLE	APPRO. FUNDS	DEFENSE BUSINESS OPERATION FUND	SPECIAL DEF ACQ FUND	FOREIGN MIL. TRUST FUND	RET. TRUST FUND	MIL. EDU. TRUST FUND	MIL. OTHER TRUST FUND
3327	Net Results of Operations-Other Trust Funds							X
3400	Donations and Other Items			X		X	X	X
3500	Deferred Liquidating Cash Authority	X						
3600	General Fund Receipts	X	X	X		X	X	X

ACCOUNT	TITLE	CONVENT. AMMO. WORKING CAPITAL	PENTAGON RESERVATION MAINT. FUND
3212	Capital Investment - Other Revolving Funds	X	X
3220	Transfers - In From Others Without Reimbursement	X	X
3230	Transfers - Out To Others Without Reimbursement	X	X
3231	Transfers - Out to Government Agencies Without Reimbursement	X	X
3232	Transfers - Out To All Others Without Reimbursement	X	X
3300	Results of Operations	X	X
3312	Cumulative Results of Operations - Other Revolving Funds	X	X
3322	Net Results of Operations - Other Revolving Funds	X	X

CHAPTER 16

REVENUES, EXPENSES, GAINS, AND LOSSES

1601 GENERAL

160101 This chapter outlines the accounting principles and policy DoD activities shall follow to account for revenues, expenses, gains, and losses. Revenues are discussed in detail in Chapter 18 of this Volume; expenses and losses are discussed in detail in Chapter 17 of this Volume.

160102 The guidance in this chapter implements the accounting principles and policy that shall be followed by DoD Components.

1602 ACCOUNTING POLICY FOR REVENUES, EXPENSES, GAINS, AND LOSSES

160201 Revenues are amounts earned as a result of normal operations while gains generally relate to all other transactions resulting in a net gain. They normally result from the sale of, or reimbursement for, goods and services provided to DoD activities, other Federal Government Agencies and to non-Federal Government organizations. However, in some limited cases they may consist of interest income and profits from the sales of securities.

160202 Revenues shall be recorded at their gross amount while gains are shown net of related costs.

160203 The basis for recording an amount as a revenue shall be the delivery of goods and services as evidenced by documentation of performance, a billing to the ordering activity, or the establishment of an accrual evidenced by constructive delivery or percentage of completion.

160204 In certain situations, delivery to customers may be spread over several accounting periods and a billing does not occur until final delivery is made. In such cases, revenue shall be recognized each time a partial delivery is made with a corresponding debit entry to the appropriate noncurrent accounts receivable account.

160205 Collections resulting from the sale of assets such as equipment shall not be treated as revenues by DoD Components that are not established to sell goods and services to other Federal Government Agencies or to non-Federal Government organizations. Such collections are a partial recovery of the asset and shall be treated as such. Asset disposals, after considering any accumulated depreciation and cash collections, result in a gain or loss on disposal.

160206 Refunds are recoveries of over payments and, as such, are not revenue. Refunds result from errors in paying invoices or returned items to vendor.

160207 Expenses and losses are the use of resources during an accounting period in carrying out DoD's mission. These can result from rendering services, delivering or producing goods, or carrying out other activities. Expenses relate to normal operating activities, while losses generally relate to all other transactions resulting in a net loss.

160208 The distinction between expenses and losses is a matter of classification in the general ledger accounts and their presentation in financial statements. Expenses are commonly reported at their gross amount while losses are shown net of related proceeds.

CHAPTER 17

EXPENSES AND MISCELLANEOUS ITEMS

1701 GENERAL

170101 Purpose. This chapter prescribes guidance to account for expenses incurred in carrying out Department of Defense operations.

170102 Overview. An expense is a recognition of the portion of an outlay applicable to the current accounting period, or other use of a resource, or the incurring of a liability (or a combination of these events) as a result of the DoD's efforts to perform its missions.

170103 Expenses are the natural culmination of any DoD Component's operations. They occur as a part of normal, routine operations, and not an extraordinary or an unexpected event such as destruction through natural disasters or war. They are an application of budgetary resources made available to DoD Components without regard to the period of availability of the account. Goods and services ordered and received are recorded in the budgetary accounts as accrued expenditures and in the proprietary accounts as an expense or an asset, such as a capital item, or an inventory item. The proprietary accounts maintain financial control over the resources provided to the Department of Defense and assure full accountability once the budget execution process has been completed. Full financial control over all material, labor, supplies, etc., shall be maintained until consumed (expensed), sold or transferred to another Federal Agency in accordance with statutory authority. For Defense business operations fund activities, expenses are incurred in providing goods and services to customers. Figure 17-1 on the following page illustrates the relationship between the budgetary accounts and the expense accounts.

170104 Expenses are classified as to specific categories, such as accounts to record depreciation, amortization, bad debt and interest expenses.

170105 A miscellaneous item is a gain or loss not expected to be incurred during a normal operating cycle. As such, they are not reflected in reports as a current expense but are classified and reported as nonrecurring items, extraordinary items, or unusual items. An example of a miscellaneous item would be a gain or loss resulting from the disposal of unusable equipment. A gain could be a miscellaneous gain whereas a loss on disposal would be a miscellaneous loss.

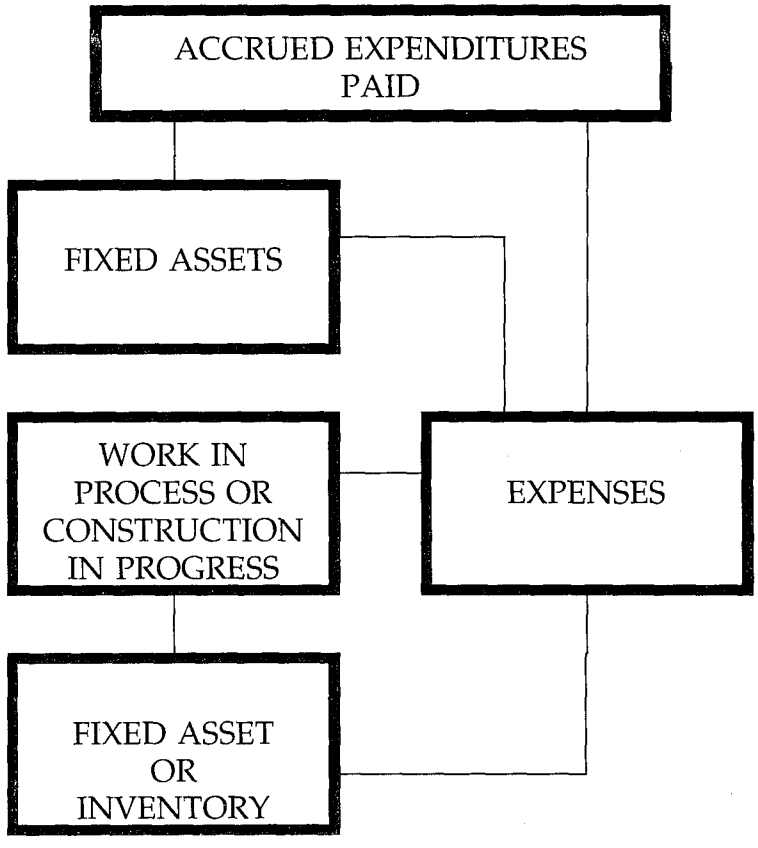
170106 The treatment of expense items by Defense Business Operations Fund activities is different from the treatment accorded to expenses related to appropriation funded activities. For Defense Business Operations Fund activities expenses flow through the "Work in Process" Account to the "Cost of Goods" Account.

1702 ACCOUNTING POLICY FOR EXPENSES AND MISCELLANEOUS ITEMS

170201 The Department of Defense is accountable for its stewartship in expending resources necessary in carrying out its missions. Examples of operating expenses include those for personnel, contractual services, and material. Also included is an allocation of prior capital outlays (depreciation/amortization) when such information is necessary for management decision-making purposes, to meet external reporting requirements, or to recover costs of operations.

170202 Particular attention is to be given to expenses incurred by research and development programs, or related to the search for knowledge and the conversion of knowledge into use for DoD missions.

ACCRUED EXPENDITURES PAID AND EXPENSE ACCOUNTS RELATIONSHIPS



When goods or services purchased are paid for they are recorded as an Accrued Expenditure-Paid in budgetary accounts. In proprietary accounts, they are recorded either in an account such as fixed assets (if capitalized) or inventory, or as an expense. Those items recorded as an asset are ultimately consumed in the DoD Component's operation. Items initially recorded as an expense may, especially at DBOF depot maintenance activities, be transferred to work in process until such time as an item is completed.

Figure 17-1

A. Expenses incurred for research and development shall be recorded and reported as an expense in the period incurred.

B. Costs for property, plant, or equipment acquired or constructed for a particular research and development project are to be capitalized if the acquisition cost is over $50,000 and the items have a life expectancy of more than 2 years. When the project is completed, these items shall be disposed of in accordance with the guidance contained in Chapter 7 of this Volume. Chapters 1 and 6 of this Volume provide accounting guidance for capitalizing and depreciating or amortizing assets.

1703 ACCOUNTING FOR EXPENSES

170301 The following sections discuss each type of expense. The sections are categorized as to operating/program expenses, interest expenses, benefit program expenses, cost of goods sold, applied overhead, and other expenses. Unless otherwise stated, these accounts shall be applicable to all DoD Components. Closing entries are not illustrated; these entries are contained in Chapter 16 of this Volume.

170302 The accounting entries for operating/program expenses are, for the most part, the same. Accordingly, each of the expense accounts is first discussed in a logical grouping and the accounting entries associated with those groupings are then presented. These groupings are:

A. Accounts 6111-6115 -- payroll expenses
B. Accounts 6116-6124 -- general expenses
C. Accounts 6125-6126 -- depreciation expenses
D. Account 6127 -- depletion expense
E. Account 6128 -- amortization expense
F. Account 6129 -- bad debt expense
G. Account 6130 -- annual leave

170303 The use of the accounts discussed in this Chapter by appropriated, business operations fund and trust fund activities is summarized as follows:

A. Appropriated Fund Activities. All accounts are available for use except the following:

1. 6310 Interest Expenses on Borrowing From Treasury
2. 6600 Applied Overhead
3. 6900 Other Expenses
4. 7191 Inventory Gains
5. 7192 Investment Gains
6. 7291 Inventory Losses or Adjustments
7. 7292 Investment Losses
8. 7500 Distribution of Income-Dividend
9. 7600 Changes in Actuarial Liability

B. Defense Business Operations Fund activities. The 6100 series accounts may be used to systematically accumulate costs. All other accounts are available for use as necessary depending upon the specific business area, except the following:

1. 6310 Interest Expense on Borrowing from Treasury
2. 6320 Interest Expenses on Federal Securities
3. 6400 Benefit Program Expenses
4. 7500 Distribution of Income-Dividend
5. 7600 Changes in Actuarial Liability

C. Trust Fund activities. All accounts are available for use as necessary depending on the specific trust fund, except the following:

1. 6310 Interest Expenses on Borrowing From Treasury
2. 6320 Interest Expenses on Federal Securities
3. 6600 Applied Overhead
4. 7500 Distribution of Income-Dividend
5. 7191 Inventory Gains
6. 7291 Inventory Losses

170304 For expense transactions that pass through an accounts payable or accrued payroll account, the budget account entry to be made is provided in Table 17-1.

170305 In some instances, an immediate cash outlay is made at the time the expense is incurred. This is the situation when the expense is incurred through the use of an imprest fund. To ensure that the budgetary and the proprietary accounts are posted in the same accounting period, imprest funds shall be reimbursed at

least once during each accounting period. The budgetary account entry to be made for immediate cash outlay situations is provided in Table 17-2.

170306 Expenses (Account 6000) "Expenses" is the control account for all expenses. As such, it is a summary general ledger account intended for general financial statement purposes. No transactions are posted to this account.

170307 Operating/Program Expenses (Account 6100)

A. "Operating/Program Expenses" is a summary account to control subsidiary accounts established to accumulate operating expenses for personnel, travel, communications, contractual services, etc. As such, no transactions are posed to this account.

B. Expenses shall be identified to the programs to which they relate. Accordingly, accounting systems shall have the ability, at a minimum, to report expenses by budget program line, the Future Years Defense Plan, the force structure, and organizational unit.

170308 Group A: Accounts 6111-6115 - - Payroll Expenses

A. Personnel Compensation-Civilian (Account 6111)

1. "Personnel Compensation-Civilian" is used to record the gross compensation for personal services rendered by federal civilian employees and non-federal personnel. Compensation expenses included in this account are those for full time permanent; other than full time permanent; special personal services payments (which includes payments for reimbursable work performed for other agencies for services of civilian and military personnel; payments to the Civil Service retirement and disability fund for reemployed annuitants); and other personnel compensation.

BUDGETARY ENTRIES - ACCRUED EXPENSES

Dr 4810 Undelivered Orders-Direct Program
or, as appropriate,
Dr 4820 Undelivered Orders-Reimbursable Program
Cr 4910 Accrued Expenditures-Unpaid-Direct Program
or, as appropriate,
Cr 4920 Accrued Expenditures-Unpaid-Reimbursable Program

TABLE 17-1

BUDGETARY ENTRIES - IMPREST FUND

Dr 4810 Undelivered Orders-Direct Program
or, as appropriate,
Dr 4820 Undelivered Orders-Reimbursable Program
Cr 4930 Accrued Expenditures-Paid-Direct Program
or, as appropriate,
Cr 4940 Accrued Expenditures-Paid-Reimbursable Program

TABLE 17-2

2. Awards made to employees such as those for suggestions, performance bonuses, special act awards, and productivity gain sharing programs are increases in payroll compensation. the DoD productivity gain sharing (PGS) program permits up to a maximum of 50 percent of achieved PGS savings to be paid to eligible employees. Subject to the 50 percent ceiling, the PGS program allows considerable flexibility in determination of the amount and form of payment--monetary or compensated absence (administrative leave). DoD activities develop their individual organization-wide PGS plans based on their mission functions. PGS plans should include a specified effort to be on board to be eligible to receive a share of the PGS payout. PGS plans should also provide specifics as to whether an employee remains eligible or forfeits his/her share if the employee leaves the organization prior to the payout. If the plan and conditions permit, employees may elect to receive administrative leave, or cash payment, or a combination of administrative leave and pay. The administrative leave option may be granted at the discretion of the activity commander based upon workload requirements at the time. The period of time for which administrative leave may be granted to an employee will be derived by dividing the value of the employee's gain share award by his/her hourly rate plus and average factor for benefits.

3. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate civilian personnel costs for work in process or construction in progress. Trust fund activities that need to account for personnel related expenses also may use this account.

4. Table 17-3 illustrates the use of this account.

B. Personnel Compensation-Military (Account 6112)

1. "Personnel Compensation-Military" is used to record the earned basic, incentive and special pays of military personnel. Included are extra pay based on environmental conditions and basic allowances for subsistence and quarters. Excluded are cost of living allowances for locations outside the contiguous 48 states and the District of Columbia, which is recorded in account 6114, Personnel Benefits-Military. Also excluded are payments made to other Agencies for services of military personnel on reimbursable detail, that are posted to account 6120, "Other Services."

2. This account shall be used by those DoD activities which account for the cost of military personnel appropriations.

3. Table 17-3 illustrates the use of this account

C. Personnel Benefits-Civilian (Account 6113)

1. "Personnel Benefits-Civilian" is used to record the benefits paid directly to DoD civilian personnel and payments to other funds for the benefit of the employees. It excludes DoD reimbursements for reemployed annuitants, i.e., payments by an agency employing an annuitant that reimburses the Civil Service retirement and disability fund for the annuity paid to that employee as required by P.L. 94-397 (5 U.S.C. 8339, 8344). These are recorded in account 6111, "Personnel Compensation-Civilian."

2. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate civilian personnel costs for work in process or construction in progress. Trust fund activities that need to account for personnel related expenses also may use this account.

3. Table 17-4 illustrates the use of this account.

D. Personnel Benefits-Military (Account 6114)

1. "Personnel Benefits-Military" is used to record the benefits paid directly to military personnel. Included are allowances for uniforms, reenlistment bonuses, cost of living allowances paid to personnel on duty outside the

contiguous 48 States and the District of Columbia, dislocation and family separation allowances and personal allowances. Allowances for items such as hazardous duty, flight pay and environmental conditions are excluded; these are considered part of gross pay. DoD Component contributions to the military retirement, social security, the Serviceman's Group Life Insurance and educational benefits programs are charged to this account.

2. This account shall be used only in those accounting systems that are used to record obligations for military pay.

3. Table 17-4 illustrates the use of this account.

E. Benefits for "Former Personnel" (Account 6115)

1. "Benefits for "Former Personnel" is used to record amounts paid to former DoD personnel or their survivors during the current period. Included in the account are retirement benefits (excluding foreign nationals that is recorded in account 2114, Accounts Payable-Public-Non-current), severance pay, unem-ployment compensation, and the DoD's payment to the Employees Health Benefits Fund for annuitants.

2. This account shall be used by all DoD activities that account for benefit payments to former DoD civilian employees and their survivors. Revolving fund activities may use this account to accumulate civilian personnel costs for work in process or construction in progress. Trust fund activities that need to account for personnel related expenses also may use this account. Benefit payments to retired military personnel and their survivors are recorded in Account 6400, "Benefit Program Expenses."

F. Table 17-5 illustrates the use of this account.

G. Sources of entries to this account include payroll vouchers and journal vouchers.

170309 Group B: Accounts 6116-6124 - General Expenses

A. Travel and Transportation of Persons (Account 6116)

1. "Travel and Transportation of Persons" is used to record the expenses related to transporting employees and others, including public transportation fares, per diem allowances, and other related expenses that are paid directly by the Department of Defense to the traveler or the organization providing the travel transportation.

2. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

ACCOUNTING ENTRIES FOR ACCOUNTS 6111 & 6112
"PERSONNEL COMPENSATION-MILITARY" & "PERSONNEL COMPENSATION-CIVILIAN"

Dr 6111 Personnel Compensation-Civilian
Dr 6112 Personnel Compensation-Military
Cr 2211 Accrued Payroll-Civilian
Cr 2212 Accrued Payroll-Military

To record employee compensation earned during the period.

TABLE 17-3

ACCOUNTING ENTRIES FOR ACCOUNTS 6113 & 6114
"PERSONNEL BENEFITS-MILITARY" & "PERSONNEL BENEFITS-CIVILIAN"

Dr 6113 Personnel Benefits-Civilian
Dr 6114 Personnel Benefits-Military
Cr 2213 Accrued Payroll-Civilian-Employer Share of Personnel Benefits
Cr 2214 Accrued Payroll-Military-Employer Share of Personnel Benefits

To record benefits earned by DoD personnel not recorded in civilian and military personnel compensation accounts.

TABLE 17-4

ACCOUNTING ENTRIES FOR ACCOUNT 6115 -
BENEFITS FOR "FORMER PERSONNEL"

Dr 6115 Benefits for Former Personnel
Cr 6400 Benefit Program Expenses
Cr 2113 Accounts Payable-Public-Current

To record benefits earned by former personnel, based on prior employment.

TABLE 17-5

B. Transportation of Things (Account 6117)

1. "Transportation of Things" is used to record the expenses incurred to transport equipment, material, animals, deceased employees and for the care of such items while being transported. Vendor transportation charges associated with purchased items are excluded; these are charged to the general ledger accounts associated with the purchased items. Included are freight and express charges by common carrier and contract carrier; trucking and other local transportation charges for hauling, handling, and other services incident to local transportation, including contractual transfers of supplies and equipment; mail transportation, including parcel post postage; and, transportation of household goods related to permanent change of station.

2. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

C. Rents, Communications, and Utilities (Account 6118)

1. "Rents, Communications, and Utilities" is used to record the expenses incurred for possession and use of land, structures or equipment owned by others and charges for communication and utility services. It includes direct charges for rental of space and rent related services assessed by the General Services Administration as rent, formerly known as standard level user charges (but excludes payments for services such as extra protection, extra cleaning or extra alterations, which are charged to account 6120, "Other Services); rental charges to others for leased space, land, and structures; communication expenses for telephone and other wire services, and microwave and satellite communications; utility service charges for heat, light, power, water, gas,

electricity, and other utility services; and, miscellaneous charges under purchase rental agreements for equipment (but excludes payments under lease-purchase contracts for constructing buildings). Rental charges for transportation equipment are recorded as a "Transportation of Things" expense, Account 6117.

2. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

D. Printing and Reproduction (Account 6119)

1. "Printing and Reproduction" is used to record expenses incurred for printing, reproduction, composition and binding operations provided by U.S. Government and commercial printers and photographers.

2. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

3. When necessary to meet management or external reporting requirements, subsidiary accounts shall be established to accumulate expenses by type (i.e., printing, reproduction, etc.).

E. Other Services (Account 6120)

1. "Other Services" is used to record expenses incurred for contracts that are not appropriately charged to another expense account. Excluded from this account are rental expenses paid to GSA, travel and transportation services and lease contracts that are properly capital leases as explained in Chapter 7 of this Volume and contracts for the delivery of personal property. Included are repair and alteration expenses that are not capitalizable in accordance with the guidance of chapter 1 of this Volume; expenses incurred for storage and care of vehicles and storage of household goods, including those associated with a permanent change of station; contractual expenses for board, lodging, and care of persons, including hospital care (except for travel items that are recorded in account 6116); ADP custom software contract expenses covering development of software in accordance with current budget criteria.

2. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

F. Supplies and Materials (Account 6121)

1. "Supplies and Materials" is used to record the cost of supplies and material, including chemicals, fuel, clothing, food, ammunition and explosives, office supplies, publications, and ADP supplies and materials consumed in operations. Amounts recorded in this account exclude supplies and materials that are either incorporated into or consumed in producing an end product that is capitalized as an inventory item or as a fixed asset. Supplies and materials consumed in producing an end product are recorded as work in process or construction in progress as a direct material charge or as overhead.

2. This account shall be used by all DoD activities which receive materials and supplies for consumption in operations. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

G. Equipment (not capitalized) (Account 6122)

1. "Equipment (not capitalized)" is used to record the acquisition costs of equipment purchased that do not meet the capitalization criteria in Chapter 1 of this Volume.

2. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

H. Grants, Subsidies, and Contributions (Account 6123)

1. "Grants, Subsidies, and Contributions" is used to record grants and subsidies such as those authorized by law for National Guard training facilities and contributions made to further or enhance the interest of national defense. Charges to this account also include taxes paid by the Department of Defense as a result of agreements with taxing authorities and payments in lieu of taxes.

2. In those instances involving the contribution of DoD-owned assets, care must be taken to remove from the accounts not only the capitalized cost of the contributed asset, but also any accumulated depreciation related to the assets before recording the donation. In such cases, the donated value shall be the book value and no gain or loss shall be recognized on the transaction.

3. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

I. Insurance Claims and Indemnities (Account 6124)

1. "Insurance Claims and Indemnities" is used to record payments to veterans and their survivors for death or disability; claims and judgments arising from court decisions, and abrogations of contracts; claims arising from military operations; and personal injury or death claims.

2. This account shall be used by all DoD activities that support the processing and payment of claims and indemnities. fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

J. Table 17-6 illustrates the most common entries used for this account.

2. Sources for entries to this account include completed travel orders, passenger tickets and transportation requests issued; travel claims approved, billings from common carriers, invoices, receiving reports, lease/use providers of personnel transportation services, documents authorizing grants, subsidies and contributions, adjudicated claims, journal vouchers, and disbursement vouchers.

170310 Group C: Accounts 6125-6126 - Depreciation Expenses

A. Depreciation of Equipment (Account 6125)

1. "Depreciation of Equipment" is used to record the allocation of the cost of equipment, including ADP equipment and assets acquired under capital leases used during an accounting period. The amounts to be recorded as depreciation shall be determined in accordance with the guidance contained in Chapters 1, 6, and 7 of this Volume.

2. This account shall be used by appropriated fund activities when a management decision is made that depreciation accounting is necessary. Revolving fund activities shall account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

B. Depreciation of Real Property (Account 6126)

1. "Depreciation of Real Property" is used to record the allocation of the cost of real property (buildings, structures, and other depreciable facilities) used during an accounting period. The amounts to be recorded as depreciation shall be determined in

ACCOUNTING ENTRIES FOR ACCOUNT 6124 - INSURANCE CLAIMS AND INDEMNITIES

Dr 6116 Travel and Transportation of Persons
Dr 6117 Travel and Transportation of Things
Dr 6118 Rents, Communications, and Utilities
Dr 6119 Printing and Reproduction
Dr 6120 Other Services
Dr 6121 Supplies and Materials
Dr 6122 Equipment (not capitalized)
Dr 6123 Grants, Subsidies, and Contributions
Dr 6124 Insurance Claims and Indemnities
Cr 1411 Travel Advances
Cr 1510 Operating Material and Supplies
Cr 2111 Accounts Payable-Government-Current
Cr 2113 Accounts Payable-Public-Current
Cr 2115 Claims Payable
Cr 2920 Contingent Liabilities

To record operating expenses for the period.

(NOTE: Separate entries may be necessary in those situations when travel tickets are issued and payable before the traveler completes travel and prepares the required travel expense claim for per diem and other related expenses.)

TABLE 17-6

accordance with the guidance contained in Chapters 1 and 6 of this Volume.

2. This account shall be used by appropriated fund activities when a management decision is made that depreciation accounting is necessary. Where depreciation is required to meet the requirements for cost recovery, the asset use charge shall be applied in accordance with the provisions of Volume 11.

3. Defense Business Operations Fund activities shall use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

C. Table 17-7 illustrates the common entries used for this account.

D. Sources for entries to this account are journal vouchers supported by worksheets showing the basis for depreciation computations.

170311 Group D: Account 6127 -- Depletion Expense

A. Depletion of Natural Resources (Account 6127)

1. "Depletion of Natural Resources" is used to record the estimated value of natural resources extracted or consumed during the current accounting period.

2. This account shall be used by DoD fund activities when a management decision is made that depletion accounting is necessary. DoD Components shall consult with the DFAS, when the decision to record depletion expenses is made for DoD assets. Where depletion is required to meet the requirements

ACCOUNTING ENTRIES FOR ACCOUNT 6126 - DEPRECIATION OF REAL PROPERTY

Dr 6125 Depreciation of Equipment
Dr 6126 Depreciation of Real Property
Cr 1739 Accumulated Depreciation on Buildings
Cr 1749 Accumulated Depreciation on Other Structures and Facilities
Cr 1759 Accumulated Depreciation on Equipment
Cr 1769 Accumulated Depreciation on Military Equipment
Cr 1719 Accumulated Depreciation on Assets Under Capital Lease

To record depreciation expense for the accounting period.

TABLE 17-7

for cost recovery, the asset use charge shall be applied in accordance with the provisions of Volume 11.

3. Table 17-8 illustrates the most common entries used for this account.

4. Sources for entries to this account are journal vouchers supported by worksheets showing the basis for depletion computations.

170312 Group E: Account 6128 - Amortization Expense

A. Amortization of Leasehold Improvements and Other Intangible Assets (Account 6128)

1. "Amortization of Leasehold Improvements and Other Intangible Assets" is used to record the allocation of improvements made to properties held under lease as well as the allocation of the value of other assets to the current accounting period. The amounts to be recorded as an amortization expense shall be determined in accordance with the guidance contained in Chapter 7 of this Volume. This account also shall be used to record the estimated loss on acquired collateral.

2. This account shall be used by appropriated and revolving fund activities when a management decision is made that amortization accounting is necessary. Where amortization is required to meet the requirements for cost recovery, the asset use charge shall be applied in accordance with the provisions of Volume 11.

3. Table 17-9 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 6127 - DEPLETION OF NATURAL RESOURCES

Dr 6127 Depletion of Natural Resources
Cr 1849 Allowance for Depletion

To record depletion expense incurred.

TABLE 17-8

**ACCOUNTING ENTRIES FOR ACCOUNT 6128 -
AMORTIZATION OF LEASEHOLD IMPROVEMENT AND OTHER INTANGIBLE ASSETS**

Dr 6128 Amortization of Leasehold Improvements and Other Intangible Assets
Cr 1829 Accumulated Amortization on Leasehold Improvements
Cr 1839 Accumulated Amortization on Automated Data Processing Software
Cr 1919 Allowance for Loss on Acquired Collateral

To record amortization expense.

TABLE 17-9

4. Sources for entries to this account are journal vouchers supported by worksheets showing the basis for amortization computations.

170313 Group F: Account 6129 - Bad Debt Expense

A. Bad Debts (Account 6129)

1. "Bad Debts" is used to record estimated amounts of uncollectible receivables during the accounting period.

2. This account also shall be used to record bad debts that are in excess of estimated uncollectible receivables.

3. Normally, estimates of uncollectible accounts receivable shall be limited to those collectible from the public. When experience does not indicates otherwise, Components shall record a bad debt expense using an annual percentage rate of .001 of the current outstanding receivables balances from the public.

4. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

5. Guidance contained in Volume 3 of this Regulation shall be followed when recording obligations to cover dishonored receivables.

6. Table 17-10 illustrates the most common entries used for this account.

**ACCOUNTING ENTRIES FOR ACCOUNT 6129 -
BAD DEBTS**

Dr 6129 Bad Debts
Cr 1319 Allowances for Loss on Accounts Receivable
Cr 1359 Allowances for Loss on Loans Receivable

To record estimated bad debt expense for the period.

Dr 6129 Bad Debts
Cr 1314 Accounts Receivable Public-Non Current

To record actual bad debt expense in excess of estimated uncollectible receivables.

TABLE 17-10

7. Sources for entries to this account include journal vouchers supported by worksheets showing computations of estimated bad debts.

170314 Group G: Account 6130 - Annual Leave

A. Annual Leave (Account 6130)

1. "Annual Leave" is used to record the expense incurred by DoD Components for annual leave earned by civilian and military employees.

2. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress, except that business operations funds shall not record the annual leave expense for military personnel. Trust fund activities that need to account for such expenses also may use this account.

3. Table 17-11 illustrates the most common entries used for this account.

170315 Interest Expenses (Account 6300)

A. "Interest Expenses" is a summary control account used to record interest expenses incurred by DoD Components as a result of late payments of accounts and loans payable, and the current interest accruing on amounts owed to others.

B. This account is used for financial reporting purposes only. No entries are posted to this account.

C. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

170316 Interest Expenses on Borrowing From Treasury (Account 6310)

A. "Interest Expenses on Borrowing From Treasury" is used to record interest payments on borrowings from the Treasury.

B. The Department of Defense does not have current borrowing authority. Accordingly, this account shall not be used by DoD Components.

170317 Interest Expenses on Securities (Account 6320)

A. "Interest Expenses on Securities" is used to record the interest expense incurred by DoD Components authorized to issue securities.

B. No DoD activity is authorized to issue federal securities. Accordingly, no entries shall be posted to this account.

ACCOUNTING ENTRIES FOR ACCOUNT 6130 - ANNUAL LEAVE

Dr 6130 Annual Leave
Cr 2215 Accrued Payroll-Funded Annual Leave-Civilian
Cr 2221 Accrued Annual Leave-Civilian (Unfunded)
Cr 2222 Accrued Annual Leave-Military (Unfunded)

To record annual leave expense for the period.

TABLE 17-11

170318 Other Interest Expenses (Account 6330)

A. "Other Interest Expenses" is used to record all interest expenses incurred by DoD activities as a result of late payments of accounts payables, loans, mortgages and other liabilities.

B. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Trust fund activities that need to account for such expenses also may use this account.

C. The account shall be supported by subsidiary accounts to show the types of transactions (i.e., accounts payables, loans, mortgages, etc.) for which interest expenses were incurred.

D. Table 17-12 illustrates the most common entries used for this account.

E. Sources for entries to this account include journal vouchers with supporting documentation showing the computation of interest expenses and disbursement vouchers.

170319 Benefit Program Expenses (Account 6400)

A. "Benefit Program Expenses" is used to record payments made to retired military personnel and their survivors. As a general rule, these payments are made from the military retirement fund. Chapter 14 of this Volume provides guidance on accounting for military retirement.

B. This account shall be used only to account for benefit payment made by the Military Retirement Trust Fund and the DoD Education Benefits Trust Fund.

C. Table 17-13 illustrates the most common entries used for this account.

170320 Cost of Goods Sold (Account 6500)

A. "Cost of Goods Sold" is used to record the cost of goods or services sold from stock, by Defense Business Operations Fund activities, or by other DoD activities authorized to provide services or material to other Federal Government Agencies, including other Components, or non-Federal Government organizations.

ACCOUNTING ENTRIES FOR ACCOUNT 6330 - OTHER INTEREST EXPENSES

Dr 6330 Other Interest Expenses
Cr 2140 Accrued Interest Payable

To record interest expenses for the current accounting period.

TABLE 17-12

ACCOUNTING ENTRIES FOR ACCOUNT 6400 - BENEFIT PROGRAM EXPENSES

Dr 6400 Benefit Program Expenses
Cr 2113 Accounts Payable-Public-Current

To record amounts payable to military retirees or their survivors.

TABLE 17-13

B. This account shall be used by Defense Business Operations Fund activities. Appropriated fund activities shall also use this account to support reimbursable programs when necessary. Trust fund activities that need to account for products delivered to other organizations also may use this account.

C. Work-in-process or construction-in-progress accounts shall be used to accumulate the costs of goods or services in accordance with guidance contained in Chapters 4 and 6 of this Volume. The amounts recorded in these account series, as well as amounts recorded in applicable inventory accounts, shall be the basis for determining the amounts to be recorded as cost of goods sold.

D. Table 17-14 illustrates the most common entries used for this account.

E. Sources for entries to this account are journal vouchers with supporting worksheets or schedules showing the computation of cost of goods sold, shipping documents, and billing documents.

170321 Applied Overhead (Account 6600)

A. "Applied Overhead" is used to record the amount of overhead distributed to work-in-process or construction-in-progress accounts. As such, this account shall be used by DoD revolving fund activities, and other activities operating a substantial reimbursable program.

B. For guidance on the use of this account see Chapters 20 and 21 of this Volume.

170322 Other Expenses (Account 6900)

A. "Other Expenses" is used to record those expenses that cannot be classified to a specific expense account. DoD Components shall not use this account without the approval of the DFAS.

1704 ACCOUNTING FOR MISCELLANEOUS ITEMS

170401 "Miscellaneous Items" consists of those items that are not a normal part of day-to-day operations of DoD Components. The categories under this heading, with the exception of prior-period adjustments, are adjustments to current period operations.

170402 Seven broad categories are included in this grouping: ordinary gains and losses, extraordinary items, prior-period adjustments, distributions of income, dividends, and changes in actuarial liabilities. The following paragraphs discuss the accounts within each of these categories.

ACCOUNTING ENTRIES FOR ACCOUNT 6500 - COST OF GOODS SOLD

Dr 6500 Cost of Goods Sold
Cr 1521 Inventory Held for Sale
Cr 1581 Work in Process-In-House
Cr 1721 Construction in Process-In-House

To record the cost of goods sold.

TABLE 17-14

170403 Gains (Account 7100)

A. "Gains" is a control account to report gains on the disposal of DoD assets. The account is a summary account used for financial reporting purposes. No entries are made to this account.

1. This account shall be used by all DoD activities.

B. There are two subsidiary accounts under this control account; "Gains on Disposition of Assets," and "Other Gains." "Other Gains" consists of inventory, investment, and other miscellaneous gains.

170404 Gains on Disposition of Assets (Account 7110)

A. "Gains on Disposition of Assets" is used to record the gains resulting from the sale of DoD property. This gain is determined after considering acquisition cost, any accumulated depreciation, and any costs associated with the disposition.

B. This account shall be used by all DoD activities authorized to dispose of DoD property.

C. Table 17-15 illustrates the most common entries used for this account.

D. Sources for entries to this account include property disposal reports and cash receipt documents.

170405 Other Gains (Account 7190)

A. "Other Gains" is a control account used for financial reporting purposes. No entries are posted to this account.

170406 Inventory Gains (Account 7191)

A. "Inventory Gains" is used to record gains in inventory resulting from identifying assets not previously recorded. Such gains are generally identified as a result of taking physical inventories. They may also result from price adjustments.

B. Identification of such gains indicates a need to review existing internal controls over the receipt and recording of inventory transactions.

C. This account shall be used only by Defense Business Operations Fund activities within the Supply Management business area and the Defense Commissary Agency.

D. Volume 11B of this Regulation provides a fuller description of this account.

ACCOUNTING ENTRIES FOR ACCOUNT 7100 - GAINS

Dr 1749 Accumulated Depreciation on Buildings
Dr 1759 Accumulated Depreciation on Equipment
Dr 1769 Accumulated Depreciation on Military Equipment
Dr 1011 Funds Collected
  Cr 1710 Land
  Cr 1730 Buildings
  Cr 1765 Property Awaiting Disposal
  Cr 7110 Gains on Disposition of Assets

To record the disposition of property at a gain.

TABLE 17-15

E. Sources for entries to this account include journal vouchers supported by documentation computing the increased value of inventory and results of physical inventories.

170407 Investment Gains (Account 7192)

A. "Investment Gains" is used to record the gains realized by DoD Components on the sale or redemption of investments (including securities).

B. This account shall be used by DoD activities responsible for administering trust funds. Other DoD activities shall consult with the DFAS, before posting gains to this account.

C. Table 17-16 illustrates the most common entries used for this account.

D. Sources for entries to this account include collection vouchers and authorizations to dispose of DoD-held securities.

170408 Other Miscellaneous Gains (Account 7193)

A. "Other Miscellaneous Gains" is used to record those gains that are not classifiable to specific gain accounts.

B. This account shall be used by all DoD activities.

C. Table 17-17 illustrates the most common entries used for this account.

D. Sources for entries to this account include collection vouchers and authorizations to dispose of DoD-owned assets.

ACCOUNTING ENTRIES FOR ACCOUNT 7192 - INVESTMENT GAINS

Dr 1011 Funds Collected
Dr 1611 Federal Securities-Unamortized Premium or Discounts
Cr 1610 Federal Securities (At Par)
Cr 7192 Investment Gains

To record gain on sale of investments.

(NOTE: Any remaining unamortized discount or premium relating to the investment at the time of disposition shall be recognized in the above entry.)

TABLE 17-16

ACCOUNTING ENTRIES FOR ACCOUNT 7193 - OTHER MISCELLANEOUS GAINS

Dr 1011 Funds Collected
Cr 1200 Foreign Currency
Cr 7193 Other Miscellaneous Gains

To record a gain resulting from converting foreign currency holdings to U.S. dollars.

TABLE 17-17

170409 Losses (Account 7200)

A. "Losses" is a summary control account used for financial reporting purposes only.

B. This account shall be used by all DoD activities. Revolving fund activities may use this account to accumulate losses. Trust fund activities that need to account for such losses also may use this account.

C. No transactions are posted to this account.

170410 Losses on Disposition of Assets (Account 7210)

A. "Losses on Disposition of Assets" is used to record the loss incurred on the disposition of DoD-owned assets. Such losses can result from the sale or destruction of assets.

B. This account ordinarily shall be used only by DoD activities authorized to dispose of DoD property. However, any DoD Component having control over personal and real property may incur such losses due to events beyond their control. This account shall be used to record such losses.

C. Table 17-18 illustrates the most common entries used for this account.

D. Sources for entries to this account include collection documents, authorizations to dispose of assets, journal vouchers with supporting worksheets showing the loss computation, and reports of survey.

170411 Other Losses (Account 7290)

A. "Other Losses" is a summary account used for financial reporting purposes. No transactions shall be posted to this account.

B. This account shall be used by all DoD activities.

170412 Inventory Losses or Adjustments (Account 7291)

A. "Inventory Losses or Adjustments" is used to record losses in inventory resulting from physical inventories or discrepancies. Losses from physical inventories are those that result from shortages discovered when physical inventories are taken and reconciled with the inventory accounts. Discrepancies are inventory losses occurring during operations through shrinkage, spoilage and deterioration, etc. Price adjustments reflecting a lower standard price also are recorded in this account.

B. This account shall be used only by Defense Business Operations Fund activities within the Supply Management business area and the Defense Commissary Agency.

ACCOUNTING ENTRIES FOR ACCOUNT 7210 - LOSSES ON DISPOSITION OF ASSETS

Dr 1749 Accumulated Depreciation on Buildings
Dr 1759 Accumulated Depreciation on Equipment
Dr 1769 Accumulated Depreciation on Military Equipment
Dr 7210 Losses on Disposition of Assets
  Cr 1710 Land
  Cr 1730 Buildings
  Cr 1765 Property Awaiting Disposal

To record the disposition of property at a loss.

TABLE 17-18

C. Identification of such losses, particularly those identified as a result of physical inventories and theft, indicate a need to review internal controls over inventory. See Chapter 4 of this Volume for additional guidance on conducting physical inventories and conducting reports of survey.

D. Volume 11B of this Regulation provides a fuller discussion of this account.

E. Sources for entries to this account include journal vouchers with supporting documentation showing the basis of adjustments, and reports of survey.

170413 Investment Losses (Account 7292)

A. "Investment Losses" is used to record losses realized by DoD Components on the sale or redemption of investments (including securities).

B. This account shall be used by those DoD activities responsible for administering trust and retirement funds.

C. Table 17-19 illustrates the most common entries used for this account.

D. Sources for entries to this account include journal vouchers with worksheets computing the loss realized, and collection vouchers.

170414 Other Miscellaneous Losses (Account 7293)

A. "Other Miscellaneous Losses" is used to record those losses that are not classifiable to specific loss accounts.

B. This account shall be used by all DoD activities.

C. Table 17-20 illustrates the most common entries used for this account.

D. Sources for entries to this account include journal vouchers with worksheets computing the loss realized, and reports of survey.

170415 Extraordinary Items (Account 7300)

A. "Extraordinary Items" is used to record costs or income so unusual in type or amount as to be accorded special treatment in the accounts or to be accorded separate disclosure in financial statements. Examples include earthquakes, hurricanes, fires and other natural disasters.

B. This account shall be used with the approval of the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/Deputy Chief Financial Officer.

C. Table 17-21 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 7292 - INVESTMENT LOSSES

Dr 7292 Investment Losses
Dr 1011 Funds Collected
Cr 1610 Securities (At Par)
Cr 1611 Securities-Unamortized Premium or Discount

To record a loss on disposition of investments.

(NOTE: Any remaining unamortized discount or premium relating to the investment at the time of disposition shall be recognized in the above entry.)

TABLE 17-19

ACCOUNTING ENTRIES FOR ACCOUNT 7293 - OTHER MISCELLANEOUS LOSSES

Dr 7293 Other Miscellaneous Losses
Dr 1011 Funds Collected
Cr 1200 Foreign Currency

To record loss on conversion of a foreign currency to U.S. dollars.

TABLE 17-20

D. Sources for entries to this account include journal vouchers with worksheets showing the basis for the amounts recorded, and reports of survey.

170416 Prior Period Adjustments (Account 7400)

A. "Prior Period Adjustments" is used to record those transactions that relate to prior periods. The transactions may be either gains or losses; income or expenses.

B. This account shall be used by all DoD activities.

C. Table 17-22 illustrates the most common entries used for this account.

D. Sources for entries to this account include journal vouchers with worksheets supporting the computation of the adjustment amount.

170417 Distribution of Income - Dividend (Account 7500)

A. "Distribution of Income - Dividend" is used to record income distributions resulting from operations or interest on investments.

B. This account normally shall not be used by DoD Components. Should the situation arise requiring such distributions, authorization to use this account should be obtained from the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/Deputy Chief Financial Officer.

170418 Changes in Actuarial Liability (Account 7600)

A. "Changes in Actuarial Liability" is used to record increases or decreases in liabilities determined on an actuarial basis. For the Department of Defense, this applies primarily to the military retirement fund.

ACCOUNTING ENTRIES FOR ACCOUNT 7300 - EXTRAORDINARY ITEMS

Dr 7300 Extraordinary Items
Dr 1739 Accumulated Depreciation on Buildings
Dr 1749 Accumulated Depreciation on Structures and Facilities
Dr 1769 Accumulated Depreciation on Equipment
Cr 1730 Buildings
Cr 1740 Other Structures and Facilities

To record a loss of a capital asset due to unusual events.

TABLE 17-21

ACCOUNTING ENTRIES FOR ACCOUNT 7400 - PRIOR PERIOD ADJUSTMENTS

Dr 1510 Inventory for Agency Operations
Cr 7400 Prior Period Adjustments

To record an increase in inventory valuation resulting from correction of errors made prior to the last physical inventory in a prior year.

Dr 7400 Prior Period Adjustments
Cr 2115 Claims Payable

To record an adjustment to increase a claim payable that had been recorded in a prior year.

TABLE 17-22

B. This account shall be used only by those DoD Components responsible for accounting for benefit programs established using actuarial techniques.

C. Table 17-23 illustrates the most common entries used for this account.

D. Sources for entries to this account include journal vouchers with documentation defining the adjustments recommended by the program actuary.

ACCOUNTING ENTRIES FOR ACCOUNT 7600 - CHANGES IN ACTUARIAL LIABILITY

Dr 7600 Changes in Actuarial Liability
Cr 2610 Retirement Plans

To record an increase in accumulated program benefits for the military retirement fund.

Dr 2610 Retirement Plans
Cr 7600 Changes in Actuarial Liability

To record an decrease in accumulated program benefits for the military retirement fund.

TABLE 17-23

ACCOUNT NO. 6000	
EXPENSES	
DESCRIPTION: The outflows of resources or incurrence of liabilities during a period resulting from the rendering of services, delivering or producing goods, or carrying out other normal operating activities.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 17-2

ACCOUNT NO. 6100	
OPERATING/PROGRAM EXPENSES	
DESCRIPTION: Operational and program costs incurred throughout the year. Operating program/expenses are (1) the recognition of the portion of an outlay applied in carrying out a specific program or function during the current accounting period, (2) the total cost of goods sold plus all selling, administrative and general expenses applicable thereto; or (3) the total cost assignable against current period operating revenues.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 17-3

ACCOUNT NO. 6111	
PERSONNEL COMPENSATION - CIVILIAN	
DESCRIPTION: Represents the gross compensation for personal services rendered by federal civilian employees and non-federal employees.	
DEBIT	CREDIT
1. Charges from payroll and accrued expense records. Contra: 2211	
NORMAL BALANCE: DEBIT	

FIGURE 17-4

ACCOUNT NO. 6112	
PERSONNEL COMPENSATION - MILITARY	
DESCRIPTION: Represents the earned basic, incentive and special pays for military personnel.	
DEBIT	CREDIT
1. Compensation charges from payroll records and accrued expense records. Contra: 2212	
NORMAL BALANCE: DEBIT	

FIGURE 17-5

ACCOUNT NO. 6113	
PERSONNEL BENEFITS - CIVILIAN	
DESCRIPTION: Represents the benefits paid directly to DoD civilian personnel and payments to other funds for the benefit of the employees.	
DEBIT	CREDIT
1. Compensation charges from payroll records and accrued expense data for personal services. Contra: 2213	
NORMAL BALANCE: DEBIT	

FIGURE 17-6

ACCOUNT NO. 6114	
PERSONNEL BENEFITS - MILITARY	
DESCRIPTION: Represents benefits paid directly to military personnel or to other funds for military personnel.	
DEBIT	CREDIT
1. Compensation charges from payroll records. Contra: 2114	
NORMAL BALANCE: DEBIT	

FIGURE 17-7

ACCOUNT NO. 6115	
BENEFITS FOR FORMER PERSONNEL	
DESCRIPTION: Represents the benefits due to former personnel or their survivors.	
DEBIT	CREDIT
1. Benefit payments to former personnel. Contra: 2113 and 6400	
NORMAL BALANCE: DEBIT	

FIGURE 17-8

ACCOUNT NO. 6116	
TRAVEL AND TRANSPORTATION OF PERSONS	
DESCRIPTION: Represents the expense of transporting employees and others, their per diem allowance while in an authorized travel status, and other expenses incident to travel that are to be paid by the U. S. Government either directly or by reimbursing the traveler.	
DEBIT	CREDIT
1. Travel and transportation expenses incurred Contra: 1411, 2111, and 2113	
NORMAL BALANCE: CREDIT	

FIGURE 17-9

ACCOUNT NO. 6117	
TRANSPORTATION OF THINGS	
DESCRIPTION: Represents the expense of transporting things (including animals) and for the care of such things while in the process of being transported. Excludes vendor transportation expenses for fixed assets and inventory items, which shall be charged to the same account as the purchased item.	
DEBIT	CREDIT
1. Transportation expenses incurred Contra: 2111, and 2113	
NORMAL BALANCE: DEBIT	

FIGURE 17-10

ACCOUNT NO. 6118	
RENTS, COMMUNICATIONS, AND UTILITIES	
DESCRIPTION: Represents the expense incurred for rents, communications, and utilities purchased from commercial or U.S. Government sources.	
DEBIT	CREDIT
1. Services purchased. Contra: 2111 and 2113	
NORMAL BALANCE: DEBIT	

FIGURE 17-11

ACCOUNT NO. 6119	
PRINTING AND REPRODUCTION	
DESCRIPTION: Represents the expense incurred for printing and reproduction, and the related composition and binding operations purchases from the U.S. Government or commercial printers.	
DEBIT	CREDIT
1. Printing and reproduction services incurred. Contra: 2111 and 2113	
NORMAL BALANCE: DEBIT	

FIGURE 17-12

ACCOUNT NO. 6120	
OTHER SERVICES	
DESCRIPTION: Represents the expense incurred for services received not otherwise classified.	
DEBIT	CREDIT
1. Other services purchases. Contra: 2111 and 2113	
NORMAL BALANCE: DEBIT	

FIGURE 17-13

ACCOUNT NO. 6121	
SUPPLIES AND MATERIALS	
DESCRIPTION: Represents the expense incurred for supplies and materials, including ammunition, petroleum, oil and lubricants. Includes all supplies and materials consumed or utilized that do not meet the capitalization criteria.	
DEBIT	CREDIT
1. Supplies and materials used. Contra: 1510, 2111, and 2113	
NORMAL BALANCE: DEBIT	

FIGURE 17-14

ACCOUNT NO. 6122	
EQUIPMENT (NOT CAPITALIZED)	
DESCRIPTION: Represents the acquisition costs of equipment that does not meet capitalization requirements.	
DEBIT	CREDIT
1. Acquisition of non capitalized equipment. Contra: 2111 and 2113	
NORMAL BALANCE: DEBIT	

FIGURE 17-15

ACCOUNT NO. 6123	
GRANTS, SUBSIDIES, AND CONTRIBUTIONS	
DESCRIPTION: Represents the value of grants, subsidies, and contributions made to further or enhance the interest of national defense.	
DEBIT	CREDIT
1. Record issuance of a grant, subsidy or contribution. Contra: 2111 and 2113	
NORMAL BALANCE: DEBIT	

FIGURE 17-16

ACCOUNT NO. 6124	
INSURANCE CLAIMS AND INDEMNITIES	
DESCRIPTION: Represents payments to veterans and their survivors for death or disability, claims and judgments arising from court decisions, abrogations of contracts, claims arising from military operations and personal injury or death, etc.	
DEBIT	CREDIT
1. Claims accepted for settlement. Contra: 2115 and 2920	
NORMAL BALANCE: DEBIT	

FIGURE 17-17

ACCOUNT NO. 6125	
DEPRECIATION OF EQUIPMENT	
DESCRIPTION: Represents a reasonable measure of the expiration of service potential of military equipment in use during the accounting period.	
DEBIT	CREDIT
1. Depreciation charges. Contra: 1759, 1769, and 1819	
NORMAL BALANCE: DEBIT	

FIGURE 17-18

ACCOUNT NO. 6126	
DEPRECIATION OF REAL PROPERTY	
DESCRIPTION: Represents a reasonable estimate of the expiration of service potential of depreciable real property in use during the accounting period.	
DEBIT	CREDIT
1. Depreciation charges. Contra: 1739 and 1749	
NORMAL BALANCE: DEBIT	

FIGURE 17-19

ACCOUNT NO. 6127	
DEPLETION OF NATURAL RESOURCES	
DESCRIPTION: Represents the quantitative exhaustion of the physical units of the resources removed from its natural state that is a proration of the capitalized asset amount to the units removed during the accounting period.	
DEBIT	CREDIT
1. Depletion charges. Contra: 1849	
NORMAL BALANCE: DEBIT	

FIGURE 17-20

ACCOUNT NO. 6128	
AMORTIZATION OF LEASEHOLD IMPROVEMENTS AND OTHER INTANGIBLE ASSETS	
DESCRIPTION: Represents a reasonable measure of the expiration during the accounting period of the service potential of leasehold improvements and other intangible capital assets subject to amortization.	
DEBIT	CREDIT
1. Leasehold improvements or other assets amortized. Contra: 1829, 1839, and 1919	
NORMAL BALANCE: DEBIT	

FIGURE 17-21

ACCOUNT NO. 6129	
BAD DEBTS	
DESCRIPTION: Represents the expense for bad debts. It is the estimated uncollectible portion of all receivables. If the direct write off method is used, this account is used to record receivables written off during the accounting period.	
DEBIT	CREDIT
1. Bad debt expenses. Contra: 1319 and 1359	
NORMAL BALANCE: DEBIT	

FIGURE 17-22

ACCOUNT NO. 6130	
ANNUAL LEAVE	
DESCRIPTION: Represents the expense for annual leave earned by employees, military and civilian, during the accounting period.	
DEBIT	CREDIT
1. Annual leave expenses. Contra: 2221, 2222, and 2215	
NORMAL BALANCE: DEBIT	

FIGURE 17-23

ACCOUNT NO. 6300	
INTEREST EXPENSES	
DESCRIPTION: The interest incurred by DoD Components from late payment of accounts and loans payable and the current interest accruing on amounts owed to others.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 17-24

ACCOUNT NO. 6310	
INTEREST EXPENSES ON BORROWING FROM TREASURY	
DESCRIPTION: Represents interest payments on borrowings from Treasury.	
DEBIT	CREDIT
Do not use this account without the prior approval of the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: DEBIT	

FIGURE 17-25

ACCOUNT NO. 6320	
INTEREST EXPENSES ON SECURITIES	
DESCRIPTION: Represents interest payments on borrowings from Treasury.	
DEBIT	CREDIT
Do not use this account without the prior approval from the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: DEBIT	

FIGURE 17-26

ACCOUNT NO. 6330	
OTHER INTEREST EXPENSES	
DESCRIPTION: Represents the interest expense incurred for amounts due creditors for the use of moneys loaned, deposited, overpaid, or otherwise made available. When a contract provides for interest to be paid to a contractor if payment of claims under a contract has been delayed by the Department of Defense, the accrued interest payable shall be recorded in this account.	
DEBIT	CREDIT
1. Accrued interest expense. Contra: 2140	
NORMAL BALANCE: DEBIT	

FIGURE 17-27

ACCOUNT NO. 6400	
BENEFIT PROGRAM EXPENSES	
DESCRIPTION: Represents amounts paid by the Military Retirement Trust Fund and the DoD Education Benefits Trust Fund.	
DEBIT	CREDIT
DoD Components shall not use this account This account shall be used only by those DoD Components that administer the Military Retirement Trust Fund and the DoD Education Benefits Trust Fund	
NORMAL BALANCE: DEBIT	

FIGURE 17-28

ACCOUNT NO. 6500	
COST OF GOODS SOLD	
DESCRIPTION: The cost of goods or services sold from stock, by business operations fund activities, or by other DoD Components authorized to provide services or material to other Federal Government Agencies, including other DoD Components, or non-Federal Government Agencies.	
DEBIT	CREDIT
1. Cost of goods sold. Contra: 1520, 1581 and 1721	
NORMAL BALANCE: DEBIT	

FIGURE 17-29

ACCOUNT NO. 6600	
APPLIED OVERHEAD	
DESCRIPTION: The amount of overhead distributed to work in process or construction in progress.	
DEBIT	CREDIT
1. Reduce operating/program expense accounts for overhead applied to work in process and construction in progress. Contra: 6000 series of accounts.	1. Apply overhead to work in process and construction in progress. Contra: 1581 and 1721
NORMAL BALANCE: DEBIT	

FIGURE 17-30

ACCOUNT NO. 6900	
OTHER EXPENSES	
DESCRIPTION: Expenses not otherwise classified.	
DEBIT	CREDIT
Do not use this account without the approval from the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: DEBIT	

FIGURE 17-31

ACCOUNT NO. 7100	
GAINS	
DESCRIPTION: Gains on assets.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 17-32

ACCOUNT NO. 7110	
GAINS ON THE DISPOSITION OF ASSETS	
DESCRIPTION: Represents the gain on the disposition of assets and personal property.	
DEBIT	CREDIT
	1. Gain realized on asset transactions. Contra: 1011, 1749, 1759, and 1769
NORMAL BALANCE: CREDIT	

FIGURE 17-33

ACCOUNT NO. 7190	
OTHER GAINS	
DESCRIPTION: Gains from the disposition of assets other than capital assets.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 17-34

ACCOUNT NO. 7191	
INVENTORY GAINS	
DESCRIPTION: Represents inventory gains resulting from physical inventories or discovered during operations or price increases.	
DEBIT	CREDIT
This account is to be used only by activities within the Supply Management Business Area of the Defense Business Operations Fund and the Defense Commissary Agency.	
NORMAL BALANCE: CREDIT	

FIGURE 17-35

ACCOUNT NO. 7192	
INVESTMENT GAINS	
DESCRIPTION: Represents the gain on the sale, exchange, or redemption of investments held by the Department of Defense.	
DEBIT	CREDIT
	1. Gain realized investments. Contra: 1011 and 1611
NORMAL BALANCE: CREDIT	

FIGURE 17-36

ACCOUNT NO. 7193	
OTHER MISCELLANEOUS GAINS	
DESCRIPTION: Represents the gain resulting from currency fluctuations or other transactions not classifiable in specific other gain accounts.	
DEBIT	CREDIT
	1. Gain realized on conversion of foreign currencies. Contra: 1011
NORMAL BALANCE: CREDIT	

FIGURE 17-37

ACCOUNT NO. 7200	
LOSSES	
DESCRIPTION: Losses on assets.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 17-38

ACCOUNT NO. 7210	
LOSSES ON THE DISPOSITION OF ASSETS	
DESCRIPTION: Represents the loss on the disposition of assets and personal property.	
DEBIT	CREDIT
1. The loss realized on capital asset transactions. Contra: 1710, 1730	
NORMAL BALANCE: DEBIT	

FIGURE 17-39

ACCOUNT NO. 7290	
OTHER LOSSES	
DESCRIPTION: Losses of assets other than from the disposition.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: DEBIT	

FIGURE 17-40

ACCOUNT NO. 7291	
INVENTORY LOSSES OR ADJUSTMENTS	
DESCRIPTION: Represents losses discovered during a physical inventory or during operations. Also includes reductions in inventory value as a result of price decreases.	
DEBIT	CREDIT
This account is to be used only by activities within the Supply Management Business Area of the Defense Business Operations Fund and the Defense Commissary Agency.	
NORMAL BALANCE: DEBIT	

FIGURE 17-41

ACCOUNT NO. 7292	
INVESTMENT LOSSES	
DESCRIPTION: Represents the loss on the sale, exchange or redemption of investments held by the Department of Defense.	
DEBIT	CREDIT
1. The loss realized on investments. Contra: 1610 and 1611	
NORMAL BALANCE: DEBIT	

FIGURE 17-42

ACCOUNT NO. 7293	
OTHER MISCELLANEOUS LOSSES	
DESCRIPTION: Those losses which are not classifiable to specific loss accounts.	
DEBIT	CREDIT
1. To record loss on conversion of foreign currencies to U.S. dollars. Contra: 1200	
NORMAL BALANCE: DEBIT	

FIGURE 17-43

ACCOUNT NO. 7300	
EXTRAORDINARY ITEMS	
DESCRIPTION: Costs or income so unusual in type as to be accorded special treatment in the accounts or to be accorded separate disclosure in financial statements.	
DEBIT	CREDIT
1. Loss of a capital asset. Contra: 1730 and 1740	
NORMAL BALANCE: DEBIT	

FIGURE 17-44

ACCOUNT NO. 7400	
PRIOR PERIOD ADJUSTMENTS	
DESCRIPTION: Represents significant adjustments to expense or revenue transactions recorded in prior fiscal years.	
DEBIT	CREDIT
1. Increase in a prior year claim. Contra: 2115	1. Increase in inventory evaluation related to a prior year. Contra: 1510
NORMAL BALANCE: DEBIT	

FIGURE 17-45

ACCOUNT NO. 7500	
DISTRIBUTION OF INCOME - DIVIDEND	
DESCRIPTION: Distributions of income or dividends.	
DEBIT	CREDIT
Do not use this account without prior approval from the Director, Defense Finance and Accounting Service	
NORMAL BALANCE: DEBIT	

FIGURE 17-46

ACCOUNT NO. 7600	
CHANGES IN ACTUARIAL LIABILITY	
DESCRIPTION: The amount of increase or decrease in actuarial liability.	
DEBIT	CREDIT
1. Record increase in accumulated plan benefits. Contra: 2610	1. Record decrease in accumulated plan benefits. Contra: 2610
NORMAL BALANCE: DEBIT OR CREDIT	

FIGURE 17-47

CHAPTER 18

REVENUES

1801 GENERAL

180101 Purpose. This chapter sets forth the accounting policy to be used to account for revenues.

180102 Overview. For the purposes of this chapter, revenues are defined as gross income resulting from the sale of goods and services, interest and penalties, and trust fund receipts. For those activities authorized to generate income as a normal part of their activities (e.g., Defense Business Operations Fund), revenue is the income resulting from completing customer orders. For general appropriation-financed activities, revenues are the use, through expense recognition of appropriations used as well as the collections earned for goods and services provided under reimbursable orders. For all activities, income includes interest and dividends earned that are credited to the account financing current operations.

1802 ACCOUNTING POLICY FOR REVENUES

180201 Revenues shall be recognized when they become realizable with reasonable practical certainty; that is, when the customers accounting entity acknowledges a claim against its resources, or the performing accounting entity has an enforceable claim.

180202 Revenues shall be recorded in the financial records, collected promptly, and deposited in the appropriate Treasury account. Amounts received in advance of performance, however, shall be accounted for as unearned revenues until performance is accomplished in accordance with Chapter 14 of this Volume.

180203 Revenues shall be classified according to the type of revenues earned.

180204 Revenues from Foreign Military Sales (FMS) transactions shall be handled in accordance with FMS accounting procedures in Volume 15 of this Regulation.

180205 When revenues are generated by providing goods and services, the cost of the goods and services provided shall be recorded as a cost of goods sold. Use of the cost of goods sold account is discussed in Chapter 18 of this Volume.

180206 When appropriated funds furnish goods and services on a reimbursable basis and the amounts collected are returned to miscellaneous receipts accounts (unless specific legal authority exists to retain such collections), the collections shall be treated as a transfer out to other Government Agencies. The expenses incurred in providing the good or service shall be recorded in the appropriate expense accounts and shall not be reduced even though the collection is deposited to miscellaneous receipts.

1803 ACCOUNTING FOR REVENUES

180301 This section contains the procedures for recording revenues realized by DoD Components.

180302 The use of the revenue series of accounts depends upon the type of business activity, i.e., appropriated fund, business operations fund, or trust fund. Accordingly, the use of the accounts is discussed in the following paragraphs based upon this distinction. Closing entries are not illustrated. They are discussed in Chapter 15 of this Volume.

180303 Addendum 1 to this chapter illustrates the applicability of the revenue accounts to the activity groupings discussed in Chapter 15 of this Volume.

180304 The following account is common to all three of the above activities.

A. Revenue (Account 5000)

1. "Revenue" represents the amount of offsetting collections resulting from services performed and goods and tangible property delivered to customers.

2. This account is a summary account used for financial reporting and control purposes. No transactions are posted to this account

180305 The following accounts are not authorized to be used by DoD Components.

A. Insurance and Guarantee Premiums Revenue (Account 5500)

1. "Insurance and Guarantee Premiums Revenue" is used to record revenue earned by DoD Components that administer insurance plans, and guarantee programs.

2. The Department of Defense does not operate insurance and guarantee programs. Accordingly, use of this account is not authorized without the approval of the Office of the Deputy Under Secretary of Defense (Comptroller Financial Management)/Deputy Chief Financial Officer.

B. General Fund Sales of Property (Account 5911)

1. "General Fund Sales of Property" is used to record the amount of receivables from the sale of property for credit to Treasury general fund receipt accounts.

2. DoD Components are not normally engaged in the sale of property to the public. As such, any amounts realized from the sale of DoD fixed assets represent the recovery of prior investment in the fixed asset and not income. Guidance pertaining to the disposition of DoD-owned assets is contained in Chapter 7 of this Volume.

C. Miscellaneous General Fund Income (Account 5912)

1. "Miscellaneous General Fund Income" is used to record the amount of miscellaneous receivables for credit to Treasury general fund receipt accounts.

2. DoD Components are not normally engaged in selling assets to the public. Therefore, Components shall not use this account without specific approval from the Office of the Deputy Under Secretary of Defense (Comptroller Financial Management)/Deputy Chief Financial Officer.

180306 The following accounts relate to DoD business operations fund activities:

A. Revenue from Goods Sold (Account 5100)

1. "Revenue from Goods Sold" is used to record the value of completed projects, completed work, the selling price of inventory, and percentage of physical completion that have been billed to DoD Components.

2. The following are types of projects and work that are applicable to the "Revenue from Goods Sold" category. (Subsidiary accounts need not be established for the types designated below. These are simply a description of applicable projects and work that should be recorded to this account):

a. Manufacture and Assembly. Includes furnishing customers with new end-items and components, manufacture of prototypes or items furnished to the customer for test. Includes assembly and test of missile and missile components, load, assembly and pack of ammunition and unit and set assembly.

b. Construction and Conversion of property and equipment.

c. Alteration and Modification of property and equipment.

d. Production of items for service testing or engineer-user testing.

e. Inventory

3. Table 18-1 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 5100 - REVENUE FOR GOODS SOLD

a. Dr 1311 Accounts Receivable-Government-Current
Dr 6500 Cost of Good Sold
Cr 5100 Revenue from Goods Sold
Cr 1581 Work-In-Process-In-House
or
Cr 1521 Inventory Held for Sale

To record delivery of completed projects or supplies sold to and activity.

TABLE 18-1

4. Sources for entries to this account include journal vouchers and SF 1080s.

B. Revenue from Services Provided (Account 5200)

1. "Revenue from Services Provided" is used to record revenue earned by business operations activities from the sale of services including sale of power, transportation, etc.

2. The following are types of projects and work that are applicable to the "Revenue from Services Provided" category. (Subsidiary accounts need not be established for the types designated below. These are simply a description of applicable projects and work that should be recorded to this account):

a. Research and Development. Includes the conduct and support of research and development, including basic research, theoretical studies, scientific experiments, applied research, feasibility studies, system engineering, design studies, weapon systems analysis and operations research, in connection with procurement, production and modification) and fabrication of experimental models and prototypes.

b. Transportation Services. Includes traffic management and transportation (air, land, and sea) services. Also includes operation of ports, port facilities and related sub-installations, including holding and reconsignment points engaged in cargo and passenger transshipment activities. Also includes the operation of docks, piers, terminals or similar facilities, and wharfage, ferrying, lighterage and stevedoring.

c. Communication and Information Services. Includes communication services and data processing services rendered.

d. Financial Operations. Includes provision of finance and accounting procedures, systems and operations by the Defense Finance and Accounting Service.

e. Technical Information. Includes central collection and dissemination for DoD technology base information. Includes provision of access to , and transfer of, scientific and technical information. Also includes provision for solutions to technological problems of the Military Departments.

f. Printing Services. Includes revenues of activities whose primary mission is printing and reproduction services as well as printing performed by other activities for tenants, satellites or other off-post activities.

g. Supply Management. Includes operation of supply management offices and procurement operations.

h. Distribution Depots. Includes operation of supply depots and receipt, reclamation, storage, and issue of ammunition, aircraft, and other equipment.

i. Contract Management. Includes expediting the products and services delivered by industry and assuring that the specifications of the contract are met. Also includes surveillance of contractor operations to assure compliance with contractual requirements and determining the effectiveness of contractor quality control systems and inspection procedures, and officially accepting material on behalf of the Government after certifying its conformance to contract provisions. Also such as representation and participation in meetings and informal program/contract reviews.

j. Base Support. Includes facilities maintenance, family housing services, laundry and dry cleaning services, other housekeeping services, and administrative functions, provided to tenants and others. Also includes provision of utility services (steam, electricity, water, sewage disposal, and gas).

k. Engineering Services. includes providing technical and engineering assistance in matters relating to various weapon systems and industrial plant equipment and associate system when they do not relate to research and development projects. Also includes repair service and quality evaluation; that is inspecting, calibrating, testing, evaluating, trimming and re-engineering of items.

l. Support of Reserve (Under and Unutilized) Capacity. Includes maintenance of unutilized capacity and support of underutilized capacity.

m. Commissary Services. Includes operation of Defense commissaries. Also includes providing troop issue subsistence and programming of the replacement of War Reserve Material rotation rations.

n. Reutilization and Marketing Services. Includes the reuse of excess and surplus property within the government and other authorized agencies, donation to local governments, the sale of the remaining property to the public on a competitive basis, and other disposition of excess and surplus property.

o. Other Services. Includes services not otherwise classified.

3. Table 18-2 illustrates the most common entries used for this account.

4. Sources for entries to this account include journal vouchers and SF 1080s.

180307 The following revenue accounts relate to DoD trust fund activities:

A. Interest and Penalties Revenue (Account 5300)

1. "Interest and Penalties Revenue" is used to record revenue earned on investments, delinquencies, and loans.

2. Table 18-3 illustrates the most common entries used for this account.

3. Sources of entries to this account include cash collection vouchers and journal vouchers supported by worksheets showing the net effect of unamortized premium and discount on interest income.

B. Benefit Program Revenue (Account 5400)

1. "Benefit Program Revenue" is used to record revenue earned by DoD activities that administer retirement and education benefit plans, insurance plans, and other annuity programs. Included as revenue are contributions received by administrators from contributing DoD Components.

2. Table 18-4 illustrates the most common entries used for this account.

3. Sources of entries to this account include SF 1081s from the Treasury Department and records from plan/program administrators.

ACCOUNTING ENTRIES FOR ACCOUNT 5200 - REVENUE FROM SERVICES PROVIDED

a. Dr 1311 Accounts Receivable-Government-Current
Dr 6100 Operating/Program Expense Series
Dr 6500 Cost of Goods Sold
Cr 1581 Work-In-Process-In-House
Cr 5200 Revenue from Services Provided

To record sale of services.

TABLE 18-2

ACCOUNTING ENTRIES FOR ACCOUNT 5300 - INTEREST AND PENALTIES REVENUE

a. Dr 1011 Funds Collected
Dr 1311 Accounts Receivable-Government-Current
Cr 5300 Interest and Penalties Revenue
Cr 1611 Securities-Unamortized Premium or Discount

To record interest earned on securities held at a premium.

b. Dr 1011 Funds Collected
Cr 1610 Securities (at par)
Cr 1611 Securities-Unamortized Premium or Discount
Cr 5300 Interest and Penalties Revenue
Cr 7192 Investment Gains

To record a gain on the sale of securities at held at a premium.

TABLE 18-3

ACCOUNTING ENTRIES FOR ACCOUNT 5400 - BENEFIT PROGRAM REVENUE

a. Dr 1011 Funds Collected
Cr 5400 Benefit Program Revenue

To record contributions to retirement fund.

TABLE 18-4

C. Donated Revenue (Account 5600)

1. "Donated Revenue" is used to record revenue earned by trust funds from authorized acceptance of cash or "in kind" payments from non-federal sources and other authorized donations.

2. Amounts recorded in this account represent income accruing to the trust funds from investments and services provided to others under the terms governing the use of the trust fund corpus. Amounts collected that represent increases in the corpus of the fund are not revenues.

3. Table 18-5 illustrates the most common entries used for this account.

4. Sources of entries to this account include cash collection vouchers.

180308 The following accounts relate to appropriated funds:

A. Appropriated Capital Used (Account 5700)

1. "Appropriated Capital Used" is used to record accrued expenses (versus outlays) of appropriated funds. The purpose of the account is to match current period expenses against the use of appropriated funds used to finance those expenses.

2. The amounts to be recorded in this account shall be equal to the amount of operating and program expenses recorded in the 6100 series of accounts but shall not include any expenses applicable to other revenue accounts.

3. Table 18-6 illustrates the most common entries used for this account.

B. Other Revenue (Account 5900)

1. "Other Revenue" is used to record revenue earned from miscellaneous sources not specifically provided for in other revenue accounts.

2. This account is a summary account used for financial reporting purposes. As such, no transactions are posted to this account.

C. Miscellaneous Reimbursements (Account 5910)

1. "Miscellaneous Reimbursements" is used to record the amount of revenue earned from miscellaneous sources not specifically provided for in other revenue accounts as reimbursable to DoD appropriations.

2. The costs to be recovered as a reimbursement shall be accumulated in a work in process account in accordance with guidance contained in Chapter 4 of this Volume. The determination of the costs to be recovered shall be in accordance with the guidance contained in Volume 11 of this Regulation.

3. Table 18-7 illustrates the use of this account together with the transfer of work in process to the cost of goods sold account.

4. Sources for entries to this account include journal vouchers and SF 1080s.

D. Contra Revenue-Collected for Others (Account 5990)

1. "Contra Revenue-Collected for Others," is used in conjunction with revenue accrued when amounts collected must be deposited to Treasury. It is used to establish a corresponding liability to Treasury and is reported as a deduction from revenue on the reporting entity's operating statement.

2. The treatment of collections by appropriated funds depends on whether the collections are to be credited to the funding appropriation or whether they are to be returned to a miscellaneous receipts account in the Treasury.

3. When the amount is to be credited to the appropriation account, the transaction is treated as a reimbursable transaction as illustrated in Table 18-7.

4. When the amount received for reimbursable work is to be deposited to a miscellaneous receipts account rather than to a DoD appropriation, the transaction shall first be recorded as a normal revenue transaction andsecond as a contra-revenue (i.e., negative revenue) with a corresponding liability to Treasury. Table 18-8 illustrates this process.

ACCOUNTING ENTRIES FOR ACCOUNT 5600 - DONATED REVENUE

a. Dr 1011 Funds Collected
Cr 5600 Donated Revenue

To record a cash donation.

TABLE 18-5

ACCOUNTING ENTRIES FOR ACCOUNT 5700 - APPROPRIATED CAPITAL USED

a. Dr 3100 Appropriated Capital
Cr 5700 Appropriated Capital Used

To record appropriated funds used to finance accrued expenses.
(The amount recorded shall be equal exactly to the expenses recorded against the financing appropriation)

TABLE 18-6

ACCOUNTING ENTRIES FOR MISCELLANEOUS REIMBURSEMENTS

a. Dr 1311 Accounts Receivable-Government-Current
Dr 6500 Cost of Goods Sold
Cr 5910 Miscellaneous Reimbursements
Cr 1581 Work in Process-In-House

To record miscellaneous reimbursements earned.

b. Dr 1011 Funds Collected
Cr 1311 Accounts Receivable-Government-Current

To record collection of reimbursement earned.

TABLE 18-7

ACCOUNTING ENTRIES FOR CONTRA REVENUE - COLLECTED FOR OTHERS

a. Dr 1311 Accounts Receivable-Government-Current
Dr 6500 Cost of Goods Sold
Cr 5910 Miscellaneous Reimbursements
Cr 1581 Work in Process-In-House

To record miscellaneous reimbursements earned (This entry is the standard entry made regardless of whether the collection is to be retained within the financing appropriation or deposited with Treasury as miscellaneous receipts.)

b. Dr 5990 Contra Revenue-Collected for Others
Cr 2190 Other Liabilities

To record the amount of revenues earned that, when collected, will not be retained for use by a DoD appropriation but shall, instead, be deposited with Treasury as miscellaneous receipts.

c. Dr 2190 Other Liabilities
Cr 1011 Funds Collected

To record the amount of funds collected that were deposited with Treasury as miscellaneous receipts.

d. Dr 5910 Miscellaneous Reimbursements
Cr 5990 Contra Revenue-Collected for Others

To close account 5990 at fiscal year end.

TABLE 18-8

ACCOUNT NO. 5000	
REVENUE	
DESCRIPTION: Represents the amount of offsetting collections resulting from: (a) service performed, (b) goods and tangible property delivered to purchasers, (c) interest and penalties, and (d) trust fund receipts.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 18-1

ACCOUNT NO. 5100	
REVENUE FROM GOODS SOLD	
DESCRIPTION: Represents the value of inventory and completed projects for which revenue is billed to customers.	
DEBIT	CREDIT
	1. Delivery of completed projects or sale of supplies. Contra: 1311 and 6500
NORMAL BALANCE: CREDIT	

FIGURE 18-2

ACCOUNT NO. 5200	
REVENUE FROM SERVICES PROVIDED	
DESCRIPTION: Represents revenue earned from the sale of services provided, including sale of power, transportation, etc.	
DEBIT	CREDIT
	1. Sale of services Contra: 1311 and 6500
NORMAL BALANCE: CREDIT	

FIGURE 18-3

ACCOUNT NO. 5300	
INTEREST AND PENALTIES REVENUE	
DESCRIPTION: Represents the revenue earned on investments, delinquencies, and loans.	
DEBIT	CREDIT
	1. Record accrual of interest income and amortization of discounts on federal securities or other investments and sale of securities at a gain. Contra: 1011, 1311 and 7192
ORMAL BALANCE: CREDIT	

FIGURE 18-4

ACCOUNT NO. 5400	
BENEFIT PROGRAM REVENUE	
DESCRIPTION: Represents revenue received by DoD Components that administer retirement plans, education benefit plans, insurance plans, and other annuity programs.	
DEBIT	CREDIT
	1. Record contribution to Benefit Program.
NORMAL BALANCE: CREDIT	

FIGURE 18-5

ACCOUNT NO. 5500	
INSURANCE AND GUARANTEE PREMIUM REVENUE	
DESCRIPTION: Revenue earned by DoD Components that administer insurance plans and guarantee programs.	
DEBIT	CREDIT
Do not use this account without prior approval from the Office of the Deputy Under Secretary of Defense (Comptroller/Financial Management)/ Deputy Chief Financial Officer	
NORMAL BALANCE: CREDIT	

FIGURE 18-6

ACCOUNT NO. 5600	
DONATED REVENUE	
DESCRIPTION: Revenue to donation trust funds from authorized acceptance from non-federal sources of payments in cash or kind to cover travel and/or subsistence expenses of employees and other authorized donations.	
DEBIT	CREDIT
	1. Record income received. Contra: 1011
NORMAL BALANCE: CREDIT	

FIGURE 18-7

ACCOUNT NO. 5700	
APPROPRIATED CAPITAL USED	
DESCRIPTION: This account is a financing source to be matched against current period expenses funded by appropriations. This includes expenses funded by prior years appropriations such as (1) depreciation of fixed assets and consumption of inventory related to prior year purchases of fixed assets and inventory, (2) accrued and actual losses on inventory writedowns, and (3) bad debt expense related to capitalized long term loans receivable and related interest.	
DEBIT	CREDIT
1. Closing entry Contra: 3210	1. Record use of appropriated capital. Contra: 3100
NORMAL BALANCE: CREDIT	

FIGURE 18-8

ACCOUNT NO. 5900	
OTHER REVENUE	
DESCRIPTION: Represents amounts of revenue earned by DoD Components from miscellaneous sources not specifically provided for in other revenue accounts.	
DEBIT	CREDIT
This account is a summary account Do not post to this account	
NORMAL BALANCE: CREDIT	

FIGURE 18-9

ACCOUNT NO. 5910	
MISCELLANEOUS REIMBURSEMENTS	
DESCRIPTION: Represents the amount of revenue earned by DoD Components from miscellaneous sources not specifically provided for in other revenue accounts and reimbursable to DoD appropriations or funds.	
DEBIT	CREDIT
	1. Miscellaneous reimbursements earned. Contra: 1011 and 6500
NORMAL BALANCE: CREDIT	

FIGURE 18-10

ADDENDUM
APPLICATION OF REVENUE ACCOUNTS BY FUNDS

ACCOUNT	TITLE	APPRO. FUNDS	BUSINESS OPERATION FUND	SPECIAL DEF ACQ FUND	FOREIGN MIL. TRUST FUND	RET. TRUST FUND	MIL. EDU. TRUST FUND	MIL. OTHER TRUST FUND
5000	Revenue	X	X	X	X	X	X	X
5100	Revenue from Goods Sold	X	X	X	X			X
5200	Revenue from Services Provided	X	X					X
5300	Interest and Penalties Revenue	X				X	X	X
5400	Benefit Program Revenue					X	X	
5500	Insurance and Guarantee Premiums Revenue	N/A						
5600	Donated Revenue							X
5700	Appropriated Capital Used	X						
5900	Other Revenue	X						
5910	Miscellaneous Reimbursements	X						
5990	Contra Revenue-Collected from Others	X						

CHAPTER 19

COST IDENTIFICATION

1901 GENERAL

190101 Purpose

A. The 6000 series of the DoD Uniform Chart of Accounts provides for the identification of the annual cost to operate the Department of Defense. This chapter prescribes the basic standards for identifying costs incurred to accomplish a specific cost objective. Title 2 of the General Accounting Office (GAO) Policy and Procedures Manual For Guidance of Federal Agencies requires Federal Agencies to implement policy established by the Cost Accounting Standards Board (CASB) when a policy is not specifically covered in Title 2 and is applicable to agency operations. The next section identifies cost accounting policy governing the allocation of cost that are applicable to the Department of Defense. Policies that are applicable to cost accounting modules but that are contained in other chapters of this Regulation are identified in section 1903. of this chapter.

B. The objective of cost accounting is to accumulate and record all the elements of cost incurred to accomplish a cost objective; i.e., to carry on an activity or operations, or to complete a unit of work of a specific job. The cost objective must be discrete enough and described in writing to such a level of detail to form a basis to establish cost centers and output products. The bottom line is that the cost accountant must be able to translate the measurement requirements into terms of source documents, allocation techniques, and such other cost accounting techniques as may be required to meet the management requirement. Establishing a cost objective is necessarily a management decision and is essential to the accumulation or allocation of costs to a cost objective. There may be a series of intermediate cost objectives which, when combined, equal the final cost objective. For example, the final cost objective may be the cost to manufacture a truck; intermediate cost objectives might be the cost of the motor, body, etc. Certain costs are classified and assigned directly as a direct cost to the cost objective being costed, while others are grouped as indirect costs for the subsequent allocation to the unit. The cost objective may vary from a large program or activity to a smaller specific cost objective, such as a work order, a manufactured product, or a part of a construction cost objective project. Management decides the cost objective for which cost is to be accumulated.

C. The cost identification techniques described in this chapter have a utility whenever management wants to measure productivity, determine the cost of a particular management objective, determine the cost to be billed to a customer, etc.

D. The cost of a product or service may be obtained either through establishing a formal cost accounting module or through the use of cost finding procedures. A formal cost accounting module should be established when management decides that such information must be continuously accumulated, recorded, and controlled by a formal cost accounting module. Cost finding procedures shall be designed to accomplish an end result that would approximate the results that would have been obtained if a formal cost accounting system was in operation. Therefore, the policy in this chapter shall be taken into consideration when cost finding procedures are established.

190102 Overview

A. A critical step in the cost identification process is establishment of the purpose for the cost accumulation. If the purpose is billing a customer, then reference should be made to Volume 11 for guidance on the cost elements that are reimbursable. If the purpose is to accumulate the total cost of performing an operation for the purpose of cost comparisons with industry, then all cost elements, including military labor, and other

unfunded costs should be accumulated. This means that when the full cost to the Federal Government is needed it may be necessary to add in costing rates prescribed by higher authority. For example, OMB uses an unfunded retirement rate for cost comparison purposes in OMB Circular No. A-76.

B. In any given year, the obligations and outlays incurred may be less than, equal to, or greater than the costs recognized for that period. The differences are due to such things as increases or decreases in inventories, undelivered orders, depreciation, amortization, or other changes in certain resources. The difference in concept lies in the distribution of these different measures (costs and obligations) over a period of time. Table 19-1, using the purchase of inventory materials, illustrates these timing differences. These stages can occur in a different sequence.

C. Cost accounting modules must be integrated with the overall accounting system, and this is accomplished by having multiple cost elements related to one or more accounts in the general ledger. An organization operating a formal cost accounting module shall use Account 1581, "Work in Process-In-House," (WIP) or Account 1721, Construction in ProgressIn-House, to control the cost accounting module. Accordingly, increases to the WIP accounts shall be offset by decreases to asset accounts (e.g., inventory held for sale) or increases to liability accounts (e.g., Accounts Payable). Upon completion of a customer's requirements, the decrease to or relief of the WIP account shall be offset by increasing some other Inventory (e.g., inventory held for sale) or the Cost of Goods Sold account. Cost accounting systems constitute a module of the general accounting system. An activity may subdivide the WIP control account in any manner that management decides is necessary to control the costs. Accordingly, the subdivisions could be by cost center or cost element.

TRANSACTION STAGES				
TRANSACTION	WHEN ORDER IS PLACED	WHEN MATERIALS ARE RECEIVED	WHEN MATERIALS ARE USED	WHEN BILL IS PAID
	OBLIGATION	ACCRUED EXPENDITURE	COST OR EXPENSE	OUTLAY
Order for materials is placed.	Obligation is recorded as an undelivered order and a decrease to the uncommitted/ unobligated budgetary resources (see Volume 3).			

TRANSACTION STAGES				
TRANSACTION	WHEN ORDER IS PLACED	WHEN MATERIALS ARE RECEIVED	WHEN MATERIALS ARE USED	WHEN BILL IS PAID
	OBLIGATION	ACCRUED EXPENDITURE	COST OR EXPENSE	OUTLAY
Materials are received or constructively received.		This is recorded in the proprietary accounts as an account payable, and as an increase in the inventory accounts. It is recorded in the budgetary accounts as a decrease to undelivered orders and a increase to accrued expenditures unpaid. (see Volume 3 and Chapter 19 of this Volume).		
Materials are used or consumed.			Cost is recorded in the proprietary accounts as a decrease in inventory and a charge to the applicable expense account or work in process account (see Chapters 4 and 18 of this Volume).	

TRANSACTION STAGES				
TRANSACTION	WHEN ORDER IS PLACED	WHEN MATERIALS ARE RECEIVED	WHEN MATERIALS ARE USED	WHEN BILL IS PAID
	OBLIGATION	ACCRUED EXPENDITURE	COST OR EXPENSE	OUTLAY
Payment is made for the materials.				Outlay is recorded in the proprietary accounts as a reduction of accounts payable and a reduction to cash. In the budgetary accounts it is recorded as a decrease to accrued expenditures unpaid and an increase to accrued expenditures paid. (see Volume 3 and Chapter 2 of this Volume).

TABLE 19-1

1902 COST ACCOUNTING STANDARDS

Public Law 100-679 (41 U.S.C. 422) requires certain contractors and subcontractors to comply with Cost Accounting Standards. Appendix B, "Cost Accounting Preambles and regulations," to the Federal Acquisition Regulation contains a statement of the Cost Accounting standards. Additionally, the Cost Accounting Standards are codified in 48 Code of Federal Regulation (CFR), Chapter 99. Following is a brief explanation of the published Cost Accounting standards and is not intended to be used as a reference source.

190201 Consistency in Estimating, Accumulating and Reporting Costs (CASB Standard 401)

A. A DoD Component's practices used in estimating costs for proposed reimbursable orders shall be consistent with cost accounting practices used in accumulating and reporting actual costs. Consistency in applying cost accounting practices is necessary to assure that reimbursable orders are executed within the amounts obligated in the records of the ordering activity and to assure that comparable transactions are treated alike. With respect to individual jobs, the consistent application of cost

accounting practices facilitates the preparation of reliable cost estimates used in pricing work and their comparison with the costs of performance of the resulting job. Such comparisons provide one important basis for financial control over costs during job performance and aid in establishing accountability for performance in the manner agreed to by both parties. The comparisons also provide an improved basis for evaluating estimating capabilities.

B. The grouping of homogeneous costs and estimates prepared for proposed work purposes shall not be deemed an inconsistent application of the standard when actual costs are accumulated and reported in greater detail by the cost accounting module during job performance.

190202 Consistency in Allocating Costs In curred for the Same Purpose (CASB Standard 402)

A. Each type of cost shall be allocated only once and on only one basis to any job or other cost objective. The criteria for determining the allocation of costs to a product, job, or other cost objective shall be the same for all similar objectives. Adherence to this standard is necessary to guard against the over charging of some cost objectives and to prevent double counting. Double counting occurs most commonly when cost items are allocated directly to a cost objective without eliminating like cost items from indirect cost pools that are allocated to that cost objective.

B. All costs incurred for the same purpose in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective.

190203 Allocation of Home Office (Headquarter's General and Administrative Expenses to Segments (CASB Standard 403))

A. General. The Department of Defense is organized into three primary organizational levels - Departmental, Intermediate, and Installation. This standard applies to general and administrative (G&A) expenses, not otherwise accumulated by the formal cost accounting module, that benefit or were incurred on behalf of an operation whose cost is being measured by a formal cost accounting module. For cost identification purposes, management shall identify the functional areas and related expenses incurred on behalf of, or for the benefit of another segment, that are necessary for allocation. These expenses shall be allocated to the benefiting or causing segments pursuant to consistently followed accounting practices.

1. Headquarters G&A expenses shall be allocated on the basis of the beneficial or causal relationship between supporting and receiving activities. Such expenses shall be allocated directly to segments to the maximum extent practical. Expenses not directly allocated, if significant in amount and in relation to total headquarters management expenses, shall be grouped in logical and homogeneous expense pools and allocated pursuant to paragraph 190203.C, below. Such allocations shall minimize to the extent practical the amount of expenses that may be categorized as residual (those of managing the organization as a whole). Residual expenses shall be allocated pursuant to paragraph 190203.D, below.

2. No segment shall have allocated to it as an indirect cost, either through a homogeneous expense pool or the residual expense pool, any cost, if other costs incurred for the same purpose have been allocated directly to that or any other segment.

B. Expense Grouping Requirements. Separate expense groupings shall ordinarily be required to implement this standard. The number of groupings shall depend primarily on the variety and significance of service and management functions performed. Ordinarily,

each service or management function shall be separately identified for allocation by means of an appropriate allocation technique. However, it is not necessary to identify and allocate different functions separately, if allocation in accordance with the relevant requirements of paragraph 190203.C, below, can be made using a common allocation base. For example, if the personnel department provides personnel services for some or all of the segments (a centralized service function), and also establishes personnel policies for the same segments (a staff management function), the expenses of both functions could be allocated over the same base, such as the number of personnel, and the separate functions do not have to be identified. Where the expense of a given function is to be allocated by means of a particular allocation base, all segments shall be included in the base unless:

1. Any excluded segment did not receive significant benefits from, or contribute significantly to, the cause of the expense to be allocated.

2. Any included segment did receive significant benefits from, or contribute significantly to, the cause of the expenses in question.

C. Homogeneous Expenses. The following paragraphs provide criteria for allocation of homogeneous groups of management expenses:

1. Centralized Service Functions. Centralized service functions performed by a staff office for its segments consist of specific functions which, but for the existence of a staff office, would be performed or acquired by some or all of the segments individually. Expenses of centralized service functions performed by a staff office for its segments shall be allocated to segments on the basis of the service furnished to or received by each segment. Examples include centrally performed personnel administration and centralized data processing.

a. The allocation of centralized service functions shall be governed by a hierarchy of preferable allocation techniques that represent beneficial or causal relationships. The preferred representation of such relationships is a measure of the activity of the organization performing the function. Service functions are usually labor oriented, machine oriented, or space oriented. Measures of the activities of such functions can be expressed in terms of labor hours, machine hours, or square footage. Accordingly, costs of these functions shall be allocated by use of a rate, such as a rate per labor hour, rate per machine hour or cost per square foot, unless such measures are unavailable or impractical to ascertain. In these latter cases, the basis for allocation shall be a measurement of the output of the service function. Output is measured in terms of units of end product produced by the service function, for example, number of printed pages for a print shop, number of purchase orders processed by a purchasing department, number of hires by an employment office.

b. Where neither activity nor output of the supporting function can be practically measured, a surrogate for the beneficial or causal relationship must be selected. Surrogates used to represent the relationship are generally measures of the activity of the segments receiving the service; for example, for personnel services reasonable surrogates would be number of personnel, labor hours, or labor dollars of the segments receiving the service. Any surrogate used should be a reasonable measure of the services received, and logically, should vary in proportion to the services received.

c. Some typical centralized service function pools, together with illustrative allocation bases that could be used in appropriate circumstances are listed below. The selection of a base shall be governed by the beneficial or causal relationship criteria established in subparagraphs 190203.C.1.a and b, above.

CENTRALIZED SERVICE FUNCTIONS	ILLUSTRATIVE ALLOCATION BASIS
1. Personnel administration	1. Number of personnel, labor hours, payroll, number of personnel actions.
2. Data processing services	2. Machine usage or time, number of reports.
3. Centralized purchasing	3. Number of purchase orders, contracting value of purchases, number of items.
4. Centralized warehousing	4. Square footage, value of material, volume.
5. Transportation service	5. Actual or standard rate per hour, mile, passenger mile, or similar unit.
6. Central telephone service	6. Usage costs, number of instruments.

2. Staff Management of Certain Specific Activities of Segments. Staff management or policy guidance to segments is commonly provided in the overall direction or support of the performance of discrete segment activities such as personnel, production, and engineering (see paragraph 190206.D, below). The expenses incurred by a headquarters office for staff management or policy guidance functions that are significant in amount, and in relation to total staff management expenses, shall be allocated to segments receiving more than a minimal benefit over a base, or bases, representative of the total specific activity being managed. Some typical pools, together with illustrative allocation bases, which could be used in appropriate circumstances are listed below. Other bases for allocating headquarters expenses to segments may be used if they are substantially in accordance with beneficial or causal relationships specified in subparagraph 190203.A.1, above, and the criteria in this paragraph.

STAFF MANAGEMENT OF SPECIFIC ACTIVITIES	ILLUSTRATIVE ALLOCATION BASIS
1. Personnel management	1. Number of personnel, labor hours, payroll, number of personnel actions.
2. Production policies (quality control, industrial engineering, production, scheduling, tooling, etc.)	2. Production cost input, production direct labor.
3. Engineering policies	3. Total engineering costs, engineering direct labor, number of drawings.
4. Material purchasing policies	4. Number of purchase orders, value of purchases.

3. Line Management of Particular Segments or Groups of Segments. Line management is considered to consist of management or supervision of a segment or group of segments as a whole. The expense of line management shall be allocated only to the particular segment or group of segments that are being managed or supervised. If more than one segment is managed or supervised, the expense shall be allocated using a base or bases

representative of the total activity of such segments.

4. Central Payments or Accruals. Central payments or accruals are those that, but for the existence of a number of segments, would be accrued or paid by the individual segments. Common examples include centrally paid or accrued pension costs, group insurance costs and payrolls paid by a headquarters on behalf of its segments. Central payments or accruals that are made by a support office on behalf of its segments shall be allocated directly to segments to the extent that all such payments or accruals of a given type or class can be identified specifically with individual segments. Any such types of payment or accruals that cannot be identified specifically with individual segments shall be allocated to benefited segments using an allocation base representative of the factors on which the total payment is based. Some typical pools, together with illustrative allocation bases that could be used in appropriate circumstances, are listed below. Other bases may be used if they are substantially in accordance with beneficial or causal relationships specified in subparagraph, 190203.A.1, above, and the criteria in this paragraph.

CENTRAL PAYMENTS OR ACCRUALS	ILLUSTRATIVE ALLOCATION BASIS
1. Pension expenses	1. Payroll or other factor on which total payment is based.
2. Group insurance expenses	2. Payroll or other factor on which total payment is based.
3. Personnel unemployment and injury compensation expenses	3. State agency and Department of Labor notices of payment, billing, or other factor on which total payment is based.

D. Residual Expenses.

1. Residual expenses are expenses that are the result of managing the organization as a whole and are not identifiable with specific activities or segments. Residual expenses include functions such as exercising oversight, direction, and control of organizations through policy, program, resource, or providing technical, administrative, or logistic support essential to an operation. Typical residual expenses are those commonly performed by management headquarters and headquarters support activities, and any staffs that are not identifiable with specific activities of segments.

2. Residual expenses which are not identifiable with specific activities or segments, shall be allocated to all segments by means of a base representative of the total activity of such segments using the two factor formula described below. This formula takes into account two broad areas of management concern, that is, the personnel of the organization and the capital invested in the organization. The percentage of the residual expenses to be allocated to any segment pursuant to the formula is the arithmetical average of the following two percentages for the same period:

a. The percentage of the segment's payroll dollars (Accounts 6111 and 6112) to the total payroll dollars of all segments.

b. The percentage of the average net book value of the sum of the segment's tangible capital assets (1700 and 1800 account series) plus inventories (1500 account series) to the total average net book value of such assets of all segments. Property held primarily for leasing to others shall be excluded from the computation. The average net book value shall be the average of the net book value at the beginning of the organization's fiscal year and the net book value at the end of the year.

190204 Accounting for Unallowable Costs (CASB Standard 405). An unallowable cost is a cost that should have been a direct charge to a customer. However, because of management error, a cost overrun occurred that the customer was unable to finance. Such costs cannot be included in billings to other activities, either as a direct charge or as part of an indirect charge. In the case of revolving funds the amount of such unallowable costs should be accumulated, and represents a reduction to the fund corpus. If the cost is material, a supplemental appropriation to replace working capital may be necessary.

190205 Cost Accounting Standard 405--Accounting for Unallowable Costs. An unallowable cost is any cost which, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost reimbursements or settlements. These costs, even though not normally charged as a reimbursable expense, shall nevertheless, if material and when directed by the Under Secretary of Defense (Comptroller), be accounted for as a cost of operations.

190206 Cost Accounting Period (CASB Standard 406)

A. DoD activities shall use the October 1 to September 30 fiscal year as the cost accounting period, except that:

1. The costs of an indirect function that exists for only a part of a cost accounting period may be allocated to cost objectives of that same part of the period if the cost is material in amount, accumulated in a separate indirect cost pool, and allocated on the basis of an appropriate direct measure of the activity or output of the function during that part of the period. For example, an organization whose cost accounting period is the fiscal year, installs a computer service center and begins operations on February 1. If the operating expense related to the new service center is expected to be material in amount, it shall be accumulated in a separate indirect cost pool, and shall be allocated to the benefiting cost objectives on the basis of measured usage. The total operating expenses of the computer service center for the 8-month part of the cost accounting period may be allocated to the benefiting cost objectives of that same 8-month period.

2. A transitional cost accounting period shall be used whenever a change of fiscal year occurs.

B. An organization shall follow consistent practices in selecting the cost accounting period or periods in which any types of expense and any types of adjustment to expense (including prior period adjustments) are accumulated and allocated. The consistent practices requirement shall include appropriate practices for deferrals, accruals, and other adjustments to be used in identifying the cost accounting periods among which any types of expenses and any types of adjustments to expenses are distributed. If an expense, such as insurance or employee leave, is identified with a fixed, recurring, annual period that is different from the organization's cost accounting period, this standard permits continued use of that different period. Such expenses shall be distributed to cost accounting periods in accordance with the organization's established practices for accruals, deferrals, and other adjustments.

C. The same cost accounting period shall be used for accumulating costs in an indirect cost pool as for establishing its allocation base. Indirect cost allocation rates, based on estimates, that are used for the purpose of expediting the closing of jobs that are terminated or completed prior to the end of a cost accounting period need not be those finally determined for that cost accounting period. They shall, however, be developed to represent a full cost accounting period, except as provided in paragraph 190204.A, above.

190207 Use of Standard Costs for Direct Material and Direct Labor (CASB Standard 407)

A. An organization operating a formal cost accounting system may use standard costs for estimating, accumulating, and reporting costs of direct material and direct labor only when all of the following criteria are met:

1. Both standard and actual costs are entered into the books of account.

2. Standard costs are compared to actual costs at the end of each accounting period and a variance calculated.

3. Standard costs and related variances are appropriately accounted for at the level of the production unit.

4. Practices with respect to the setting and revising of standards, use of standard costs, and disposition of variances are stated in writing and are consistently followed.

B. An organization's written statement of practices with respect to standards shall include the bases and criteria (such as engineering studies, experience, or other supporting data) used in setting and revising standards; the period during which standards are to remain effective; the level (such as ideal or realistic) at which material quantity standards and labor time standards are set; and the conditions (such as those expected to prevail at the beginning of a period) that material price standards and labor rate standards are designed to reflect.

1. Where only either the material price or material quantity is set at standard, with the other component stated at actual, the result of the multiplication shall be treated as material cost at standard. Similarly, where only either the labor rate or labor time is set at standard, with the other component stated at actual, the result of the multiplication shall be treated as labor cost at standard.

2. A labor rate standard may be set to cover a category of direct labor only if the functions performed within that category are not materially disparate and the employees involved are interchangeable with respect to the functions performed.

3. A labor rate standard may be set to cover a group of direct labor workers who perform disparate functions only under either one of the following conditions:

a. When the group of workers all work in a single production unit yielding homogenous outputs (in this case, the same labor rate standard shall be applied to each worker in that group), or

b. When that group of workers, while performing their respective functions, forms an integral team (in this case, a labor rate standard shall be set for each integral team).

C. Material shall be recorded at acquisition price in the applicable cost accounts at the time of acquisition. Material price standards in the cost accounting module may be used and their related variances recognized at the time the material cost is allocated to production units.

D. Labor cost variances shall be recognized at the time labor cost is introduced into production units. Labor rate variances and labor time variances may be combined into one labor cost variance account. A separate labor cost variance shall be accumulated for each production unit.

E. An organization's established practice with respect to the disposition of variances accumulated by production unit shall be in accordance with one of the following subparagraphs:

1. Variances are allocated to cost objectives (including ending in-process inventory) at least annually. Where a variance related to material is allocated, the allocation shall be on the basis of the material cost at standard, or where outputs are homogenous, on the basis of units of output. Similarly, where a variance related to labor is allocated, the allocation shall be on the basis of the labor cost at standard or labor hours at standard, or where outputs are homogenous, on the basis of units of output.

2. Variances that are immaterial may be included in appropriate indirect cost pools for allocation to applicable cost objectives.

3. When a standard costing system is used by an appropriation account for the purpose of billings, it shall apply the variance to all billings. This procedure ensures that actual costs are fully recouped on a current basis. The variance shall not be carried forward to the next accounting period.

4. When this standard is used in a Defense Business Operations Fund, and the standard is a stabilized rate, any over or under applied variance recovery may be carried forward for recovery in the next year.

190208 Cost Accounting Standard 408 -- Accounting for Costs of Compensated Personal Absence.

A. The costs of compensated personal absence (illness, vacation, holidays, jury duty, military training or other absence for which compensation is paid directly to an employee) shall be assigned to the cost accounting period or periods in which the entitlement was earned.

B. The costs of compensated personal absence for an entire cost accounting period shall be allocated pro-rata on an annual basis among the final cost objectives of that period.

190209 Cost Accounting Standard 409 -- Depreciation of tangible Capital Assets

A. The depreciable cost of tangible capital asset (or group of assets) shall be assigned to cost accounting periods in accordance with thee following criteria:

1. The depreciable cost of a tangible capital asset shall be its capitalized cost less its estimated residual value.

2. The estimated service life or a tangible capital asset (or group of assets) shall be used to determine the cost accounting periods to which the depreciable cost will be assigned.

B. The annual depreciation cost of a tangible capital asset (or group of assets) shall be allocated to cost objectives for which it provides service in accordance with the following criteria:

1. Depreciation costs may be charged as a direct cost only if depreciation costs of all like assets used for similar purposes are charged in the same manner.

2. Depreciation costs charged to service or general and administration cost centers shall be included in the allocated costs of those centers.

3. Depreciation costs of capital assets used within a production cost center but which are not charged directly to a cost objective shall be included as an indirect cost of that center.

190210 Allocation of Business Unit General and Administrative Expense to Final Cost Objectives (CASB Standard 410)

A. Business unit general and administrative (G&A) expenses shall be allocated to final cost objectives based on their beneficial or causal relationship. These expenses represent the cost of the management and administration of the business unit as a whole. The standard also provides criteria for the allocation of headquarters expenses received by a segment to the cost objectives of that segment. This standard shall increase the likelihood of achieving objectivity in the allocation of expenses to final cost objectives and comparability of cost data among business units in similar circumstances.

B. Business unit G&A expenses shall be grouped in a separate indirect cost pool that shall be allocated only to final cost objectives.

1. G&A expenses of a segment incurred by another segment shall be removed from the incurring segment's G&A expense pool. They shall be allocated to the segment for which the expenses were incurred on the basis of the beneficial or causal relationship between the expenses incurred and all benefiting or causing segments. If the expenses are incurred for two or more segments, they shall be allocated using an allocation base common to all such segments.

2. The G&A expense pool may be combined with other expenses for allocation to final cost objectives provided that:

a. The allocation base used for the combined pool is appropriate both for the allocation of the G&A expense pool under this standard and for the allocation of the other expenses.

b. Provision is made to identify the components and total of the G&A expense pool separately from the other expenses in the combined pool.

3. Expenses that are not G&A expenses and are insignificant in amount may be included in the G&A expense pool for allocation to final cost objectives.

C. The G&A expense pool of an business unit for a cost accounting period shall be allocated to final cost objectives of that cost accounting period by means of a cost input base representing the total activity of the business unit.

1. The base selected shall be the one that best represents the total activity of a typical cost accounting period and shall include all significant elements of that cost input that represent the total activity of the business unit. The base selected may be total cost input, value added cost input, or single element cost input. The determination of which cost input base best represents the total activity of an business unit must be judged on the basis of the circumstances of each organization unit.

a. A total cost input base is generally acceptable as an appropriate measure of the total activity of an business unit.

b. Value added cost input shall be used as an allocation base when inclusion of material and subcontract costs would significantly distort the allocation of the G&A expense pool in relation to the benefit received, and when costs other than direct labor are significant measures of total activity. A value added cost input base is total cost input less material and subcontract costs.

c. A single element cost input base, e.g., direct labor hours or direct labor dollars, that represent the total activity of an business unit may be used to allocate the G&A expense pool when it produces equitable results. A single element base may not produce equitable results when other measures of activity are also significant in relation to total activity. A single element base is inappropriate when it is an insignificant part of the total cost of some of the final cost objectives.

2. The cost input shall include those expenses that by operation of this standard are excluded from the G&A expense pool and are not part of a combined pool of G&A expenses and other expenses allocated using the same allocation base.

D. Headquarters expenses received by a segment shall be allocated to segment cost objectives as follows:

1. Expenses related to the management and administration of the receiving segment as a whole shall be included in the receiving segment's G&A expense pool.

2. Expenses related to the management and administration of specific activities of segments shall be allocated to the segment cost objectives in proportion to the beneficial or causal relationship between the cost objectives and the expenses, if such allocation is significant, in amount. When a beneficial or causal relationship for expenses is not identifiable with segment cost objectives, the expenses may be included in the G&A expense pool.

E. Any costs that do not satisfy the definition of G&A expense, but that have been classified by an business unit as G&A expenses, can remain in the G&A expense pool unless they can be allocated to business unit cost objectives on a beneficial or causal relationship that is best measured by a base other than a cost input base.

F. Where a segment performs headquarters functions and also performs as an operating segment having a responsibility for final cost objectives, the expense of the

headquarters functions shall be segregated. These expenses shall be allocated to all benefiting or causing segments, including the segment performing the headquarters functions, pursuant to written and consistently followed accounting practices for the allocation of headquarters expenses to segments.

G. For purposes of allocating the G&A expense pool, items produced or worked on for stock or product inventory shall be accounted for as final cost objectives as follows:

1. When items are produced or worked on for stock or product inventory in a given cost accounting period, the cost input to such items in that period shall be included only once in the computation of the G&A expense allocation base and in the computation of the G&A expense allocation rate for that period, and shall not be included in the computation of the base or rate for any other cost accounting period.

2. A portion of the G&A expense pool shall be allocated to items produced or worked on for stock or product inventory in the cost accounting period or periods in which such items are produced at the rates determined for such period.

190211 Accounting for Acquisition Costs of Material (CASB Standard 411)

A. An organization operating a formal cost accounting module shall have, and consistently apply, written statements of accounting procedures and practices for accumulating the costs of material and for allocating costs of material to cost objectives.

B. The cost of units of a category of material may be allocated directly to a cost objective provided the cost objective was specifically identified at the time of purchase or production of the units.

C. The cost of material that is used solely in performing indirect functions, or is not a significant element of production cost, whether or not incorporated in an end product, may be allocated to an indirect cost pool. When significant, the cost of such indirect material not consumed in a cost accounting period shall be established as an asset at the end of the period by reducing the indirect cost pool by a corresponding amount.

D. Except as provided in paragraphs 190207.B and 190207.C, above, the cost of a category of material shall be accounted for in material inventory records.

1. Material cost shall be the acquisition cost as specified in chapter 4 of this Volume of a category of material, whether or not a material inventory record is used.

2. The purchase price of material shall be adjusted by extra charges incurred or discounts and credits earned. Such adjustments shall be charged or credited to the same cost objective as the purchase price of the material, except that when it is not practical to do so, the organization's policy may provide for the consistent inclusion of such charges or credits in an appropriate indirect cost pool.

E. In allocating to cost objectives the costs of a category of material issued from a DoD-owned material inventory, the costing method used shall be selected in accordance with chapter 4 of this Volume, and shall be used in a manner that results in systematic and rational costing of issues of material to cost objectives. The same costing method shall, within the same business unit, be used for similar categories of materials.

190212 Cost Accounting Standard 412 -- Composition and Measurement of Pension Cost. This standard does not apply to the Defense Business Operations Fund as it is not responsible for accounting for the pension cost of its employees.

190213 Cost Accounting Standard 413 -- Adjustment and Allocation of Pension Cost. This standard does not apply to the Defense Business Operations Fund as it is not responsible for accounting for the pension cost of its employees.

190214 Cost Accounting Standard 414 -- Cost of Money as an Element of the Cost of Facilities Capital. The cost of capital committed to facilities shall be charged by the Defense Business Operations Fund to non-Federal Government customers when authorized by regulations pertaining to those sales. Volume 11 provides instructions on the computation and application of interest on investment in assets.

190215 Accounting for the Cost of Deferred Compensation (CASB Standard 415)

A. Deferred compensation is a payment to be made by a component to compensate an employee in a future cost accounting period or periods for services rendered in one or more cost accounting periods prior to the date of the receipt of compensation by the employee.

B. The cost of all deferred compensation, except for annual leave, sick leave, and pension cost for which specific guidance is provided in paragraph 190211.C, below, shall be assigned to the cost accounting period in which the obligation to compensate the employee occurs. In the event no obligation is incurred prior to payment, the cost of deferred compensation shall be the amount paid and shall be assigned to the cost accounting period in which the payment is made.

C. The obligation for the cost of deferred compensation is deemed to have occurred when all of the following conditions have been met. However, for awards that require that the employee perform future service in order to receive the benefits, the obligation is deemed to have been incurred as the future service is performed for that part of the award attributable to such future service.

1. There is a requirement to make the future payments that cannot be unilaterally avoided.

2. The deferred compensation award is to be satisfied by a future payment of money.

3. The amount of the future payment can be measured with reasonable accuracy.

4. The recipient of the award is known.

5. If the terms of the award require that certain events must occur before an employee is entitled to receive the benefits, there is a reasonable probability that such events shall occur.

D. If the cost of deferred compensation can be estimated with reasonable accuracy on a group basis, including consideration of probable forfeitures, such estimate may be used rather than separate computations for each employee. The present value, of the future benefits, shall be used as the measurement of the amount of the cost of deferred compensation.

190216 Accounting for Insurance Costs (CASB Standard 416). The United States Government is a self-insuring entity. Consequently, the Cost Accounting Standard, Part 416, is not applicable.

190217 Cost Accounting Standard 417 -- Cost of Money as an Element of the Cost of Capital Assets Under Construction. The cost of money used to construct a capital asset shall not be capitalized as part of the cost of that asset unless loans were obtained by the Department of Defense specifically for the construction of those assets.

190218 Allocation of Direct and Indirect Costs (CASB Standard 418)

A. An business unit operating a formal cost accounting module shall have a written statement of accounting policies and practices for classifying costs as direct or indirect that shall be consistently applied.

1. In accounting for direct costs, an business unit shall use actual costs, except that:

a. Standard costs for material and labor may be used as provided in paragraph 190205, above.

b. An average cost or pre-established rate for labor may be used provided that:

(1) The functions performed are not materially disparate and employees involved are interchangeable with respect to the functions performed.

(2) The functions performed are materially disparate but the employees involved either all work in a single production unit yielding homogeneous outputs, or perform their respective functions as an integral team. Whenever average cost or pre-established rates for labor are used, the variances, if material, shall by disposed of at least annually by allocation to cost objectives in proportion to the costs previously allocated to these cost objectives.

(3) The level of compensation for the employees involved does not vary considerably.

2. Labor or material costs specifically identified with one of the particular cost objectives listed in subparagraph 190208.C.1.b, below, shall be accounted for as direct labor or direct material costs.

B. Indirect costs shall be accumulated in indirect cost pools that are homogeneous.

1. An indirect cost pool is homogeneous if each significant activity whose costs are included therein has the same or a similar beneficial or casual relationship to cost objectives as the other activities whose costs are included in the cost pool. It is also homogeneous if the allocation of the costs of the activities included in the cost pool result in an allocation to cost objectives that is not materially different from the allocation that would result if the costs of the activities were allocated separately.

2. An indirect cost pool is not homogenous if the costs of all significant activities in the cost pool do not have the same or a similar beneficial or causal relationship to cost objectives and, if the costs were allocated separately, the resulting allocation would be materially different. In determining whether amounts of costs are material or immaterial, the following criteria shall be considered where appropriate; no one criterion is necessarily determinative:

a. The absolute dollar amount involved. The larger the dollar amount, the more likely that it shall be material. Whether or not a dollar amount is large, and therefore material, depends on its relative weight. A cost amount might be material for a contract for the production of bolts, but the same cost amount could be immaterial for a contract for the production of a rocket motor.

b. The amount of job cost compared with the amount under consideration. The larger the proportion of the amount under consideration to job cost the more likely it is to be material.

c. The relationship between a cost item and a cost objective. Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect cost, shall normally have more impact than the same amount of indirect costs.

d. The cumulative impact of individually immaterial items. It is appropriate to consider whether such impacts:

(1) Offset one another.

(2) Tend to be in the same direction and hence to accumulate into a material amount.

e. The cost of administrative processing of any adjustment modification. If the cost to process exceeds the amount to be adjusted, it is less likely the amount shall be material.

3. A homogeneous indirect cost pool shall include all indirect costs identified with the activity to which the pool relates.

C. Pooled costs shall be allocated to cost objectives in reasonable proportion to the beneficial or causal relationship of the pooled costs to cost objectives in accordance with the following criteria:

1. If a material amount of the costs included in a cost pool are costs of management or supervision of activities involving direct labor or direct material costs, resource consumption cannot be specifically identified with cost objectives. In that circumstance, a base shall be used that is representative of the activity being managed or supervised.

a. The base shall be determined by applying the following criteria. All significant elements of the selected base shall be included.

(1) A direct labor hour base or direct labor cost base shall be used, whichever in the aggregate is more likely to vary in proportion to the costs included in the cost pool being allocated, except that:

(2) A machine-hour base is appropriate if the costs in the cost pool are comprised predominately of facility-related costs, such as depreciation, maintenance, and utilities.

(3) A units-of-production base is appropriate if there is common production of comparable units.

(4) A material cost base is appropriate if the activity being managed or supervised is a material related activity.

b. Indirect cost pools that include material amounts of the costs of management or supervision of activities involving direct labor or direct material costs shall be allocated to:

(1) Final cost objectives.

(2) Goods produced for stock or product inventory.

(3) General research and development and bid and proposal projects when required to be specifically identified for cost accounting purposes.

(4) Cost centers used to accumulate costs identified with a process cost system (i.e., process cost centers).

(5) Goods or services produced or acquired for other segments of the organization and for other cost objectives of an business unit.

(6) Self-construction, fabrication, betterment, improvement, or installation of tangible capital assets.

2. If the cost pool does not contain a material amount of the costs of management or supervision of activities involving direct labor or direct material costs, resource consumption can be specifically identified with cost objectives. The pooled cost shall be allocated based on the specific identifiability of resource consumption with cost objectives by means of one of the following allocation bases: a resource consumption measure, an output measure, or a surrogate that is representative of resources consumed. The base shall be selected in accordance with the following criteria taking into consideration the individual circumstances:

a. The best representation of the beneficial or causal relationship between an indirect cost pool and the benefiting cost objectives is a measure of resource consumption of other activities of the indirect cost pool.

b. If consumption measures are unavailable or impractical to ascertain, the next best representation of the beneficial or causal relationship for allocation is a measure of the output of the activities of the indirect cost pool. Thus, the output is substituted for a direct measure of the consumption of resources. The use of the basic unit of output shall not reflect the proportional consumption of resources in

circumstances in which the level of resources consumption varies among the units of output produced. When a material difference results, either the output measure shall be modified or more than one output measure shall be used to reflect the resources consumed to perform the activity.

c. If neither resources consumed nor output of the activities can be measured practically, a surrogate that varies in proportion to the services received shall be used to measure the resources consumed. Generally, such surrogates measure the activity of the cost objectives receiving the service.

d. Allocation of indirect cost pools that benefit one another may be accomplished by use of the cross-allocation (reciprocal) method, the sequential method, or another method, the results of which approximate those achieved by either of the methods cited in this paragraph.

e. Where the activities represented by an indirect cost pool provide services to two or more cost objectives simultaneously, the cost of such services shall be prorated between or among the cost objectives in reasonable proportion to the beneficial or causal relationship between the services and the cost objectives.

D. Use of pre-established rates for indirect costs.

1. Pre-established rates, based on either forecasted actual or standard cost, may be used in allocating an indirect cost pool.

2. Pre-established rates shall reflect the costs and activities anticipated for the cost accounting period. Such pre-established rates shall be reviewed at least annually, and revised as necessary to reflect the anticipated conditions.

3. Where variances of a cost accounting period are material, these variances shall be disposed of by allocating them to cost objectives in proportion to the costs previously allocated to these cost objectives by use of the pre-established rates.

4. If pre-established rates are revised during a cost accounting period, and if the variances accumulated to the time of the revision are significant, the cost allocated to that time shall be adjusted to the amounts that would have been allocated using the revised pre-established rates.

E. To the extent that any cost allocations are required by the provisions of other Cost Accounting Standards, such allocations are not subject to the provisions of this standard.

F. This standard does not cover accounting for the costs of special facilities where such costs are accounted for in separate indirect cost pools.

190219 Cost Accounting Standard 419. There is no cost accounting standard 419.

190220 Cost Accounting Standard 420 -- Accounting for Independent Research and Development Costs and Bid and Proposal Costs

A. Independent research and development costs incurred in a cost accounting period shall not be assigned to any other cost accounting period except as may be permitted pursuant to other provisions of existing laws, regulations and other controlling factors.

B. Bid and proposal costs incurred in a cost accounting period shall not be assigned to any other cost accounting period.

CHAPTER 20

JOB ORDER COST ACCOUNTING

2001 GENERAL

200101 Purpose

A. The purpose of a job order cost accounting system is to assign and accumulate costs for each job, i.e., an order, a contract, a unit of production, or a batch. Job order costing should be used if the production or service is being performed to meet customer specifications or requirements, if different components are made for inventory, or projects are undertaken to construct real property. Job order costing allows more control, less estimation, and more direct and reliable allocation of costs.

B. The determination as to the need for a formal job order cost accounting module is necessarily a management decision. The decision to establish such a module should be based upon a recurring need for cost accounting information. This chapter discusses how to establish a job order cost accounting module, the type of source documents required, typical management reports produced by the module, and possible uses of the reports.

200102 Overview

A. A formal job order cost accounting module provides cost identification for determining the cost of accomplishing a specific task, such as the cost incurred to overhaul a truck, repair a roof, launch a test vehicle, perform an R&D project, or overhaul 100 generators. The decision to assign a job number to single or multiple units, or single or multiple tasks, depends upon the dollar value of the costs to be incurred, the location at which the task is to be performed, and the commonality of effort to be performed. For example, when tanks are being overhauled, each tank may be assigned a job order number. However, when the job is to overhaul tank treads, hundreds of treads may be included in a single job order.

B. The management information provided by a job order cost accounting system is a tool that aids management in the guidance of activities and in the attainment of the objective of producing a maximum of goods and services at minimal costs. The formal cost accounting module is normally designed to accumulate those costs that are under the control of local management. Typically, management controls all costs that are funded by appropriations or funds provided to the accounting entity. These costs are referred to as funded costs. If a formal cost accounting module is to be used as a basis for billings to other Federal Agencies, or the public, provision must be made for the addition of unfunded costs such as military labor, items obtained from inventory on a free issue basis, and civilian retirement costs not financed by the employee or the Department of Defense.

2002 JOB ORDER COST ACCOUNTING SYSTEM

200201 The job order cost accounting system is subsidiary to, and must be integrated with, the general accounting system. For example, the system's subsidiary job cost ledger (job order cost sheets see paragraph 200404, below) is controlled by general ledger accounts.

200202 The principal general ledger control accounts are the Work in Process-In-House, Construction in Progress-In House, and Cost of Goods Sold accounts. Table 20-1 illustrate typical general ledger account entries.

JOB ORDER COST/ GENERAL ACCOUNTING INTERFACE

A. Dr 1581 Work in Process-In-House
Dr 1721 Construction in Progress-In House
Cr 2211 Accrued Payroll-Civilian

To record labor cost incurred for work in process.

B. Dr 1581 Work in Process-In-House
Dr 1721 Construction in Progress-In House
Cr 1521 Inventory Held for Sale

To record material and supplies issued to specific job orders.

C. Dr 1581 Work in Process-In-House
Dr 1721 Construction in Progress-In House
Cr 6600 Applied Overhead

To record applied overhead.

(NOTE: This entry normally would be used only by Defense Business Operations Fund activities which used standard overhead rates. Appropriation funded activities that find it desirable to implement a job order cost accounting system for reimbursable work would apply overhead at a predetermined rate with a corresponding reduction of appropriate expense accounts. See paragraph 200403, below, for treatment of overhead.)

D. Dr 6500 Cost of Goods Sold
Dr 1521 Inventory Held for Sale
Dr 1766 Equipment Not in Use
Dr 1730 Buildings
Dr 1740 Other Structures and Facilities
Cr 1581 Work in Process-In-House
Cr 1721 Construction in Progress-In House

To record completion and delivery to a customer.

TABLE 20-1

2003 ESTABLISHING THE JOB ORDER

200301 Job Orders Categories. Job orders are established in terms of the nature and type of work to be performed. Following are examples of the criteria that may be used to establish job order categories.

A. End Items. A separate job order should be established for work performed on stand alone end items such as airplanes or trucks.

B. Real Property Construction. A separate job order should be established for each real property construction project.

C. Real Property Maintenance. A separate job order should be established for each real property maintenance project.

D. Low Dollar Like Items. A job lot is normally used when low dollar like items are placed into the process at the same time. However, the estimated cost of any job lot order may not exceed $750,000. If the estimated cost is greater than $750,000, a separate job order should be established for each $750,000 increment.

200302 Identification of Job Order. Management determines the services or products to be costed, schedules work in the production departments, and forwards the order to cost accounting. The cost accounting department then assigns a job order number to each identified cost objective. The job order number is a control feature for identifying each job and is a means of accumulating departmental labor, material, and overhead cost by job order. As work progresses production departments report costs incurred by job order number. The information is forwarded to the cost accounting department where the costs are recorded on separate job order cost ledgers (subsidiary job cost ledger). A summary work in process cost schedule for all open job order numbers will be prepared and forwarded to the accounting department for posting to the general ledger control accounts Work in Process-In-House and Construction in Progress- In- House. The supporting detail for these accounts is identified and maintained by the job order number on individual job order cost ledgers. As production departments complete a job order, the cost accounting department calculates the total cost for the job and prepares a summary schedule for the accounting department. The accounting department prepares the general ledger control account entry transferring the appropriate amount from Work in Process-In-House and Construction in Progress accounts to the Cost of Goods Sold or applicable asset accounts. The detail support for these general ledger accounts is identified and maintained by job order numbers assigned to completed job order cost sheets.

230303 Identifying Productive Direct Labor Hours. Management identifies those employees whose work constitute labor hours within the production department. These hours are totaled and then estimated idle time hours and leave hours are deducted. The result is total departmental productive hours that are used as a denominator in the determination of the actual shop rate (see paragraph 200305, below). The standard and actual shop rates are discussed in the following paragraphs.

200304 Standard Shop Rate

A. Management uses cost accounting and engineering studies to develop an earned standard shop rate for each production department's labor hours. As an alternative to developing this rate, management can decide to use the prior period actual shop rate as the current period standard shop rate. The purpose of the standard shop rate is threefold. First, it permits a standard cost for work performed to be billed to customers. Second, it allows for the costing of products when manufactured rather than when actual costs are determined. Third, it functions as a performance measurement tool. Management uses the standard shop rate to measure a department's cost-effectiveness or to identify its inefficiencies. The measurement compares actual shop rate cost data to standard shop rate cost data (see paragraphs 200306 and 200307, below). The resulting variance identifies cost efficiency or inefficiency.

B. Defense Business Operations Fund activities develop an annual stabilized job order shop rate. The annual adjustment for Defense Business Operations Funds includes a factor to recoup unrecovered prior year costs, if any.

C. Appropriation funded activities should develop a shop rate for each accounting period. The standard shop rate consists of direct labor, indirect labor, and indirect material cost. In addition to the standard shop rate, general and administrative expenses should be allocated to customers in order to identify all costs associated with the job order. Typically the shop rate is calculated by taking last years shop rate and accelerating it for pay wage rates giving consideration to staff changes.

200305 Actual Shop Rate

A. As part of the management and accounting process, an actual shop rate is

prepared for each production department. The rate consists of direct labor, indirect labor, and indirect material costs obtained from the same data base used to prepare the general ledger control account entries. The sum of these costs is divided by the actual productive labor hours incurred (see paragraph 200303, above), and the result is the actual shop rate.

B. Unfunded cost (see paragraph 200311, below) financed by other organizations or by prior appropriations should be added to the shop rate charges and billed to non-DoD ordering activities or considered in making cost effectiveness comparisons. In addition, general and administrative expenses (see paragraph 200309, below) should be charged customers in order to recover all cost associated with the job order. Table 20-2 illustrates the determination of a typical actual shop rate for appropriation funded activities. Volume 11 of this Regulation provides guidance for determining types of costs to be recovered from customers, including indirect costs and general and administrative expenses.

DEPARTMENTAL ACTUAL SHOP RATE		
	AMOUNT	**SHOP RATE**
FUNDED COSTS:		
Direct Labor	$ 4250	
Direct Material	300	
Overhead:		
Indirect Labor	250	
Indirect Material	200	
Subtotal	$ 5000	
UNFUNDED COSTS:		
Military Labor	$ 500	
Civilian Retirement	900	
Free Issue Material	523	
Subtotal	$ 1923	
Subtotal Funded and Unfunded	$ 6923	
Depreciation @ 4%	$ 277	
TOTAL FUNDED AND UNFUNDED	$ 7200	
Department's Productive Labor Hours	180 hours	= $ 40

TABLE 20-2

200306 Variance Determination

A. As part of the management process, the cost accounting department compares the earned standard rate to the actual rate. The difference between standard and actual rates is a variance. A favorable variance shows that the production department is operating in an efficient manner. An unfavorable variance alerts management that corrective action may be required.

B. In the event an organization processes a job order at the standard rate and a variance occurs, action must be taken to either apply the variance to the various job orders that have been processed, and if necessary, to adjust the shop rate. When the decision to adjust the shop rate is made, the recalculation must provide for the amortization of any accumulated favorable or unfavorable variances. The variance percentage is determined by dividing the job order actual cost by the earned standard cost as illustrated in the following example:

DETERMINATION OF VARIANCE

The variance is determined by dividing the actual shop rate by the earned standard shop rate.

Actual Shop Rate / Earned Standard Shop Rate	=	Variance
$40 / $28.80	=	139%

EXAMPLE: The job order cost sheet for job #111 shows that 50 hours have been accumulated in the production department. The computation of the customer charge follows:

(50 hours X [$28.80 X 139%] = $2002)

200307 Variance Analysis

A. Activities using standard costs must analyze the variance account for each standard and determine the causes for a variance. The variances relate to direct costs, overhead, and general and administrative expenses. The variances associated with these categories are discussed in paragraphs 200307.B. through 200307.D, below. Table 20-7 provides a chart for identifying possible causes of variances.

B. Direct costs. Normally, there are four distinct reasons for a direct cost variance that must be analyzed. Labor rate variances, labor time variances, material price variance and material quantity variances may occur whenever labor or material resources are charged to a job on a standard cost basis. Careful analysis is necessary because of the interrelationships of the variances. For example, a lower labor rate might result in higher labor hour content, or it might result in excessive material usage because lower skilled workers spoil more material. Thus, it is important when conducting a variance review to identify all of the possible interrelationships.

C. Overhead. Overhead variances may be classified as to overhead spending and overhead volume. Careful analysis is necessary because of the interrelationships of the variances. An unfavorable overhead variance may result from using equipment that is technically obsolete or which has become worn out, and requires additional maintenance to keep it operating. This would result in an unfavorable overhead expense variance.

D. General and Administrative Expenses

1. These costs can be analyzed in a manner similar to overhead. The analysis would be directed toward determining whether general and administrative expenses are in line with budget.

2. General and administrative expenses occur at three levels--the installation, the intermediate command and the headquarters command. As a general rule, not recognizing intermediate and headquarters command level general and administrative expenses in determining the cost of an end product should not result in a material understatement of cost

since the amounts allocated would be comparatively insignificant (such expenses would be incurred even if the item or service were not produced). When it is necessary to recognize such expenses in developing the cost of an end item or service, the guidance contained in Volume 11 of this Regulation should be followed.

200308 Subsidiary Accounts. Each production and support department shall maintain the capability to array data in sufficient detail necessary to satisfy management information requirements. Subsidiary cost accounts may be established to assist in costing a product or service. For example, it may be necessary to accumulate direct labor, direct material and overhead in separate subsidiary accounts. Accounting information is posted to the subsidiary accounts as it becomes available via labor distribution reports, material reports, and overhead worksheets.

200309 General and Administrative Expenses. The general and administrative (G&A) expenses are accumulated in the activities indirect cost centers and charged to customers by equitably prorating the expense to job orders. A rate is established in order to prorate the expense to the customer job orders. Customers are billed for the general and administrative expense allocated to their job orders when required in accordance with the guidance contained in Volume 11 of this regulation. A typical allocation is illustrated in the following example:

EXAMPLE: The activities general and administrative expenses incurred by indirect cost centers during the period are:

INDIRECT COST CENTER	AMOUNT
A	$ 100
B	50
C	100
D	250
Total G & A Expenses:	$ 500

The job order costs incurred for the accounting period are:

JOB ORDER NUMBER	COST INCURRED
101	$ 500
102	1000
103	2500
104	1000
Total Job Order Cost:	$ 5000

FORMULA FOR GENERAL AND ADMINISTRATIVE RATE DETERMINATION

General & Administrative Expense / Total Job Order Cost Incurred	=	Rate
$ 500 / $ 5000	=	10%

The general and administrative rate is applied to the job order cost in order to distribute the expense to the customers as illustrated in the following example:.

JOB ORDER NUMBER	JOB ORDER COST	RATE	=	G & A EXPENSE ALLOCATED
101	$ 500	10%	=	$ 50
102	1000	10%	=	100
103	2500	10%	=	250
104	1000	10%	=	100
Total General & Administrative Expense				$ 500

SCHEDULE OF AMOUNTS BILLED TO CUSTOMERS

JOB ORDER NUMBER	JOB ORDER COST	G & A EXPENSE ALLOCATED	AMOUNT BILLED TO CUSTOMER
101	$ 500	$ 50	$ 550
102	1000	100	1100
103	2500	250	2750
104	1000	100	1100
TOTAL	$ 5000	$ 500	$ 5500

200310 Source Documents Required. The principle cost categories charged to the production departments include direct labor, direct material, contract, and overhead (includes indirect labor and material costs).

A. Labor Source Documents. Source documents for labor costs are job/labor distribution tickets. The job/labor distribution ticket is coded with the job order identification number. The ticket accumulates the total employee labor hours by job within a department. The employees' time by job and pay rate information is obtained from the job/labor distribution tickets and used to prepare the departmental shop rate. Job/labor distribution tickets can be prepared by a supervisor or by workers if initialed by a supervisor. In addition, employee hours may be recorded mechanically by a time clock on a time card as employees punch in and out as they start and stop on each job, or they may be recorded manually by a timekeeper. As an internal control procedure, job/labor distribution ticket hours are compared to total hours. At the end of each pay period, the civilian payroll system summarizes the hours worked as reported on approved time cards, obtains pay rate data from the personnel system, and calculates gross and net pay based on payroll and withholding

authorizations for each employee. A labor distribution report that identifies payroll cost by department based upon the job order identification number is prepared using the pay computed by the pay system. This distribution computation may be part of the pay system or it may be included in the cost accounting module. The responsibility for determining who shall perform the labor distribution is a management function.

B. Material Source Documents. There are many source documents that are used to identify material costs. This paragraph discusses some of the more common documents:

1. DD Form 1348, "DoD Single Line Item Requisition System Document (Manual)". This form is prepared by the department requesting material and coded with the job order/department identification number. The form is forwarded to the installation supply officer for approval and to determine the supply availability through the Military Standard Requisitioning and Issue Procedure (MILSTRIP). When the applicable material is dropped from inventory, it is charged to work in process. Chapter 4 of this Volume provides guidance to be followed in determining the price of material that is released from inventory.

2. Contract Source Documents. Included in this category are contracts and purchase orders used to purchase material from vendors. When material is received, an appropriate inventory and accounts payable accounts are posted. When inventory items are requisitioned and placed into production, the material is costed to a specific job and recorded to the Work in Process-In-House account (see paragraph 200402.C, below, for the accounting treatment).

C. Overhead Source Documents. Overhead costs pertain to the allocation of supporting department costs to producing departments. Overhead costs are allocated through use of worksheets that summarizes and allocates supporting department expenses to production departments. Various methods for allocating overhead include direct labor hours, direct labor cost, machine hours, or material cost. The method chosen must be used consistently from one period to the next in order to permit meaningful comparisons.

200311 Accumulation of Unfunded Cost. The formal cost accounting module captures the costs that are funded in the current operating installation budget. Costs that are financed by another organization's or activity's appropriations are referred to as unfunded costs. This paragraph provides guidance for identifying unfunded costs for DoD components operating under direct appropriation procedures.

A. Military Labor

1. DoD Components operating a formal cost accounting system that employ military personnel shall maintain a record of the grade and number of hours worked by military personnel for each job in the department. These hours are then extended at standard military composite rates in accordance with the guidance in Volume 11 of this Regulation. These costs shall be charged to non-DoD ordering activities or considered in making a cost comparison to organizations that have no assigned military personnel.

2. DoD Components performing work for non-DoD activities shall recoup military fringe benefits by applying a percentage surcharge to military pay/costs and billed as part of direct costs. The military labor costs and fringe benefit costs shall be charged to non-DoD customers in accordance with guidance contained in Volume 11 of this Regulation. Volume 11 also provides guidance to be followed by the Military Departments in determining the hourly rates. Guidance on the disposition of amounts collected are also contained in Volume 11.

B. Unfunded Civilian Retirement Costs. DoD Components operating a formal cost accounting system that employ civilian personnel shall apply the unfunded retirement percentage rate, specified in Volume 11, to the civilian labor cost when formulating the actual shop unfunded cost rate. The additional percentage rate is intended to recoup unfunded civilian retirement cost. These costs should be charged to non-DoD

ordering activities or considered in making cost comparisons. Guidance on the disposition of amounts collected are also contained in Volume 11.

C. Unfunded Material

1. In accordance with the guidance contained in Volume 11, material includes both inventory and equipment in use. The activity losing the material or equipment shall account for the transfer by reducing the appropriate asset and equity accounts in accordance with the guidance contained in chapters 4, 6, and 15 of this Volume. The accounting entry should reflect acquisition cost and any accumulated depreciation for equipment in use. If the activity receiving the material operates a production facility, it shall adhere to the following procedures and use the prescribed forms. A
DD Form 1348 is the source document for requesting unfunded material. The DoD Component should insert the appropriate department code identification number and quantities ordered when preparing the form. Logistic centers or supply activities should issue material cost information to the Components via a non-interfund or unfunded pricing document. The noninterfund or unfunded pricing document provides material price and quantity information.

2. DoD Components shall classify unfunded material, also known as free issue material, received as either consumable material or equipment. Consumable material shall be included in calculating the unfunded portion of the shop rate. DD Form 1348 is the source document for requesting unfunded material or equipment. The DoD Component shall insert the appropriate department code identification number and quantities ordered when preparing the form. Logistic centers should issue material or equipment cost information to the Components via a non-interfund or unfunded pricing document. The non-interfund or unfunded pricing document provides material or equipment cost and quantity information.

D. Unfunded Depreciation. DoD Components operating production facilities that do not have the capability to calculate depreciation on an item by item basis shall apply a 4 percent asset use charge to total costs to recoup depreciation on sales to non-federal customers in accordance with the guidance contained in Volume 11.

2004 PRODUCTION COST COMPONENTS

Production cost consists of direct labor, direct material, and overhead. Direct labor is labor used to transform various components into a finished product or service. The labor must be directly attributed to the job order. Direct material is that material specifically charged to the job. It has a sufficiently large value to be worth charging to the job and to be identified as a major cost element of the finished product or service. Normally, only the more significant items are classified as direct material. Production overhead consists of all indirect costs considered to be associated with the production or service processes other than general and administrative expenses. Typically, production overhead costs include, but are not limited to, indirect material or supplies, indirect labor, facility and equipment depreciation, repairs, maintenance, and occupancy costs.

200401 Direct Labor

A. Labor is used to produce products or services either directly or indirectly. Direct labor costs are those that can be identified specifically with a product or service (see paragraph 200403.B, below, for a discussion of indirect labor). Civilian and military personnel labor distribution rates shall be established in accordance with the guidance contained in Volume 11.

B. Job tickets and time cards are used as a means of ascertaining the labor cost and of distinguishing between direct labor and indirect labor. During each pay period, job tickets are summarized and direct labor costs are distributed to each job through use of the standard shop rate. The labor cost incurred in each department is accumulated on the job order cost ledger.

C. At the end of each pay period, the payroll is calculated, posted to general ledger accounts, and recorded in the appropriate job order cost ledgers (subsidiary job cost ledger).

Table 20-3 illustrates typical general ledger account payroll entries. Indirect labor is also illustrated since it is also a part of payroll expense:

PAYROLL ENTRIES

1. Dr 1581 Work in Process-In-House
   Dr 1721 Construction in Progress-In House
   Cr 2211 Accrued Payroll-Civilian
   Cr 2213 Accrued Payroll-Civilian Employer Share of Fringe Benefits

   To record the direct labor costs incurred.

2. Dr 6600 Applied Overhead
   Cr 2211 Accrued Payroll-Civilian
   Cr 2213 Accrued Payroll-Civilian Employer Share of Fringe Benefits

   To record the indirect labor costs incurred.

3. Dr 1581 Work in Process-In-House
   Dr 1721 Construction in Progress-In House
   Cr 6600 Applied Overhead

   To record the indirect labor applied at standard rates.

TABLE 20-3

200402 Direct Material

A. Direct material costs are those incurred for raw materials, parts, subassemblies, components, and supplies that can be identified specifically for use in producing the product or performing the service. Direct materials and supplies owned by the performing activity, acquired from a Defense Business Operations Fund, or from an inventory account financed by appropriated funds, shall be charged to a job order in accordance with applicable costing procedures. Purchased materials and supplies shall be charged to a job order at acquisition cost plus the cost of transportation. Customer furnished materials should be accounted for, and reported to customers separately, and should be related to specific end products or services in such a manner as may be required by customers.

B. Materials received are charged to a general ledger inventory control account. Individual material accounts are maintained for each class of materials in a subsidiary ledger. Materials requisitioned and transferred to production are the basis for debits to the proper job order cost sheets in the subsidiary job cost ledger and credits to the material accounts in the subsidiary ledger.

C. At the end of the accounting period, requisitions are summarized. The material requisitioned is classified as either direct material or indirect material. The direct material is debited to the control account for Work in Process-In-House or Construction in Progress-In House and credited to the general ledger inventory control account. The indirect material is debited to the applied overhead control account and credited to the general ledger

inventory control account. Table 20-4 illustrates the purchase of material and the posting to the accounts. Since the material expense is usually distributed to the accounts in a compound entry, the indirect material allocation is also shown.

DIRECT MATERIAL ENTRIES

1. Dr 1521 Inventory Held for Sale
   Cr 2114 Accounts Payable-Public-Current

   To record the purchase of inventory.

2. Dr 1581 Work in Process-In-House
   Dr 1721 Construction in Progress-In House
   Cr 1521 Inventory Held for Sale

   To record cost of direct material placed in production.

(NOTE: When material is requisitioned it is charged to the applicable job order. The value of material issued for all job orders should be equal to the costs recorded in the work in process account for materials issued to production.)

3. Dr 6600 Applied Overhead
   Cr 1521 Inventory Held for Sale

   To transfer actual indirect material costs.

4. Dr 1581 Work in Process-In-House
   Dr 1721 Construction in Progress-In House
   Cr 6600 Applied Overhead

   To record applied cost of indirect material.

TABLE 20-4

200403 Indirect Labor, Materials, and Overhead

A. Indirect labor is not directly identified with a single job order, but is identified with two or more job orders. Indirect labor includes all personnel costs of the department not charged as direct labor, including supervision and administration within the department, as well as nonproductive time. The indirect costs should be accounted for by whatever organizational units are supervising the cost control of operations and are responsible for allocating costs equitably to cost objectives, products, or services (see paragraph 200401.C, above, for the accounting entry).

B. Indirect materials are not directly identified with a single job order, but are identified with two or more job orders. Indirect material includes all material and supplies not charged as direct materials and supplies to the job order. The indirect material cost is distributed to job order cost ledgers through use of the standard shop rate. Supplies and small quantities of materials, put into the production process, that cannot be charged economically to a job order, should be charged to the department

as an indirect cost (see paragraph 200402.C, above, for the accounting entry).

C. Production overhead includes the cost of items such as equipment depreciation, maintenance of equipment, power, other service department charges, indirect labor, materials, or supplies not charged as direct cost to a department. Supervision costs allocable to several job orders are charged to a job order as indirect cost i.e. production overhead. Supplies and small quantities of materials that are consumed in the production process, but cannot be traced without undue difficulty directly to production, should be charged to a job order as indirect costs, i.e., production overhead.

D. Overhead is applied to work in process or construction in progress at established rates. During the accounting period actual overhead is accumulated in the Applied Overhead account. At the close of the accounting period there may be an over or under applied balance, depending on whether the rate established at the beginning of the accounting period was too high or too low. The balance is closed to the appropriate net results of operations account, and the applied overhead rate for the subsequent year is adjusted to reflect the need to recover underapplied overhead or to redistribute overapplied overhead. Table 20-5 illustrates the accumulation of actual overhead and to apply overhead to work in process or construction in progress:

INDIRECT LABOR AND OVERHEAD ENTRIES

1. Dr 6600 Applied Overhead
   Cr 1521 Inventory Held for Sale
   Cr 2211 Accrued Payroll-Civilian
   Cr 2213 Accrued Payroll-Civilian Employer Share of Fringe Benefits

   To record indirect costs.

2. Dr 1581 Work in Process-In-House
   Dr 1721 Construction in Progress-In House
   Cr 6600 Applied Overhead

   To record applied cost of indirect material.

TABLE 20-5

200404 Job Order Cost Sheets

A. The job order cost sheet is the key document for accumulating direct material, direct labor, and overhead cost in a job order cost module. As each job is accepted and scheduled, it is assigned an identification number and a separate job order cost sheet is prepared. When the work is completed, the cost accounting department calculates the job cost and transfers the appropriate cost to the Cost of Goods Sold account or to an appropriate asset account.

B. As production begins, materials are requested and a materials requisition form is prepared. The requisition form serves as the basis for posting material costs to the job order cost sheet. In addition, the various stores requisitions serves as the basis for posting entries to the materials inventory and work in process accounts (see paragraph 200402.C, above, for accounting entries).

C. Personnel working in production departments prepare job/labor distribution tickets that designate time spent on the various jobs. These tickets are the basis for recording labor costs on job order cost sheets through use

of the shop rate (see paragraphs 200304 and 200305, above). At the end of the pay period, the job/labor distribution tickets are summarized and show the jobs worked on by each employee. The job/labor distribution ticket provide the basis for posting direct and indirect labor cost entries to work in process and applied overhead accounts (see paragraph 200401.C, above, for accounting entries).

D. Applied overhead is allocated to individual jobs on the basis of predetermined shop rates. The cost accounting department calculates the amount of overhead to be recorded on the job order cost sheet through use of the shop rate (see paragraphs 200304 and 200305, above).

E. The job order cost sheet is totaled when the job is completed. The job's cost is then transferred from the Work in Process-In-House or Construction in Progress-In-House accounts to the Cost of Goods Sold or applicable asset account when the item is completed and delivered to a customer as illustrated in Table 20-6.

ENTRIES AT COMPLETION OF JOB ORDER

1. Dr 6500 Cost of Goods Sold
   Cr 1581 Work in Process-In-House

   To record completion of job order and delivery to customer.

2. Dr 1521 Inventory Held for Sale
   Dr 1766 Equipment Not in Use
   Cr 1581 Work in Process-In-House

   To record completion of job order and transfer to an inventory or asset account.

3. Dr 1730 Buildings
   Dr 1740 Other Structures and Facilities
   Cr 1721 Construction in Progress

   To record completion of job order and transfer to the appropriate asset accounts.

TABLE 20-6

2005 MONTH END REPORTS. A month end production department cost report produced by a job order cost accounting module in operation at a Defense Component with three jobs is illustrated in Table 20-8, operating under direct appropriation procedures. The illustration is presented to clarify the concepts and methodologies previously discussed in this chapter.

VARIANCE ANALYSIS POSSIBLE CAUSAL FACTORS	
TYPE OF VARIANCE	POSSIBLE CAUSES
Labor Rate	Clerical errors Skill mix changes Labor rate changes Production process changes Outdated standard
Labor Time	Clerical errors Skill mix changes Misclassifications of direct/indirect labor Production process changes Reorganization changes Outdated standard Uncontrollable fluctuations Acts of God (Fire, Flood, etc.) Critical plant or equipment breakdown Critical material delays
Material Price	Clerical errors Production process changes Price changes Outdated standard Uncontrollable fluctuations Economic conditions (Strike, inflation, etc.)
Material Quantity	Clerical errors Misclassifications of direct/indirect material Production process changes Outdated standard Uncontrollable fluctuations Acts of God
Overhead Spending	Clerical errors Labor skill mix changes Production process changes Material process changes Support service changes Outdated standard Uncontrollable fluctuations Acts of God Economic conditions

VARIANCE ANALYSIS POSSIBLE CAUSAL FACTORS	
TYPE OF VARIANCE	**POSSIBLE CAUSES**
Overhead Volume	Clerical errors Misclassifications of direct/indirect Labor skill mix changes Production process changes Reorganization changes Outdated standard Uncontrollable fluctuations Critical plant or equipment breakdown Critical material delays

TABLE 20-7

JOB ORDER COST ACCOUNTING REPORT ASSEMBLY DEPARTMENT FOR THE MONTH OF XXXX 19XX				
	JOB # 1 COSTS	**JOB # 2 COSTS**	**JOB # 3 COSTS**	**TOTAL COSTS**
FUNDED COSTS:				
Direct Labor	$ 6000	$ 5000	$ 5000	$ 16000
Direct Material	3500	2300	2500	8300
Overhead	2000	1500	1500	5000
Subtotal	$ 11500	$ 8800	$ 9000	$ 29300
UNFUNDED COSTS:				
Military Labor	$ 1600	$ 1400	$ 1500	$ 4500
Civilian Retirement	600	400	500	1500
Free Issue Material	1000	1000	1000	3000
Subtotal	$ 3200	$ 2800	$ 3000	$ 9000
Total Funded and Unfunded Costs	$ 14700	$ 11600	$ 12000	$ 38300
Depreciation @ 4%	$ 588	$ 464	$ 480	$ 1532
TOTAL COSTS	$ 15288	$ 12064	$ 12480	$ 39832

TABLE 20-8

CHAPTER 21

PROCESS COST ACCOUNTING

2101 GENERAL

210101 Purpose. The determination as to the need for a formal process cost accounting module in an accounting system is necessarily a management decision. The decision to establish such a module should be based upon a recurring need for cost accounting information. The cost accounting standards that shall be implemented when a decision has been made to establish a formal process cost accounting module are in Chapter 19 of this Volume. This chapter discusses how to establish a process cost accounting module, the type of source documents required, typical management reports produced by the module, and possible uses of these reports.

210102 Overview

A. A formal process cost accounting module provides a cost identification method for determining, reporting, analyzing, and controlling the cost of a particular process or series of processes. It classifies, records, presents, and interprets in a significant manner, the material, labor, and overhead expenses necessary to produce a product or service.

B. The management information provided by a process cost accounting module is a tool that aids management in the guidance of activities and in attaining the objective of producing a maximum of goods and services at the least amount of costs. The formal cost accounting module is normally designed to accumulate those costs that are under the control of local management. Typically the system manager controls all costs that are funded by appropriations for funds provided to the accounting entity. These costs are referred to as funded costs. Chapter 20, paragraph 200311, of this Volume provides guidance for accumulating unfunded cost. If a formal cost accounting module is to be used as a basis for billings to other organizations, other Federal Departments or the public, then provisions must be made for the addition of unfunded cost, such as military labor, items obtained from inventory on a free issue basis, and civilian retirement cost not financed by the employee or Department of Defense appropriations. Volume 11 of this Regulation provides guidance on the cost elements that are billed to various organizations.

2102 INTERFACE WITH GENERAL ACCOUNTING SYSTEM

210201 A formal process cost accounting module must be fully integrated with other modules of the general accounting system, i.e., it must interface with the payroll and fund control modules. Cost accounting module subsidiary accounts are controlled by general ledger accounts.

210202 The principal general ledger control accounts used with a process cost accounting module are the Inventory Held for Sale and the Work in Process-In-House accounts. Table 21-1 illustrates accounting entries for such accounts.

ACCOUNTING ENTRIES FOR INVENTORY FOR AGENCY OPERATIONS AND THE INVENTORY-WORK IN PROCESS-IN-HOUSE ACCOUNTS

Dr 1581 Work in Process-In-House
Cr 2211 Accrued Payroll-Civilian

To record labor cost entered into the process cost accounting system.

Dr 1581 Work in Process-In-House
Cr 1521 Inventory Held for Sale

To record material and supplies placed into the process cost accounting system.

Dr 1521 Inventory Held for Sale
Dr 6500 Cost of Goods Sold
Cr 1581 Work in Process-In-House

To record the relief of work-in-process of the completed products to inventory or customer.

TABLE 21-1

2103 ESTABLISHING THE PROCESS COST ACCOUNTING MODULE

210301 Identification of Cost Centers.

A. Normally, the first step in establishing the process cost accounting module is to request an industrial engineering evaluation of the production processes and flows. This step requires an analysis of the work to be accomplished and a determination of the most logical, efficient, and economical sequence of production and support operations. Production operations are then consolidated into logical cost centers to perform specific tasks that produce an identifiable and measurable output. Production operations are designated as direct cost centers and support operations are designated as indirect cost centers. For example, a chemical product may require three distinct operations: blending, distilling, and packaging. The blending of ingredients may be assigned to one production cost center while the distillation process is assigned to another production cost center. Finally, the product packaging is assigned to a third production cost center. As the chemical product is completed, it is transferred from the last production cost center to the customer and the associated cost is posted to the Cost of Goods Sold account.

B. The functions of personnel, recruitment, plant maintenance, and accounting may be grouped into indirect cost centers. Each cost center is assigned an identification number that is subsidiary to the general ledger control account, Work in Process-In-House. This identification number is entered on all contracts, inventory item requisitions, and labor distribution source documents to result in the accumulation of cost center incurred costs.

210302 Identification of Product to be Produced. The second step in establishing the process cost accounting system is to determine the specific products to be produced and the definition of what constitutes output in terms of a product for each cost center. For those products to be produced, an industrial engineer determines the direct labor and material requirements for each stage of the process and identifies the measurable unit of output for each cost center. For example, chemical products may be measured in terms of the number of gallons

blended, distilled, and packaged by the various production cost centers.

210303 Establishing Standard Cost per Unit.

A. Frequently there is a third step performed by the industrial engineers--the establishment of an standard cost for output units of production cost centers. The standard cost, when compared to the actual unit production cost, can be used by management to measure the cost efficiency of a cost center or to determine if various inefficiencies have entered into the system. The difference between actual cost and standard cost is termed a variance. Management should investigate both favorable and unfavorable variances to determine their cause. A favorable variance shows that the cost center is operating in an efficient manner. An unfavorable variance alerts management that attention is required. In the event an organization prices products at the standard cost and a variance occurs, the standard cost must be adjusted by the variance in order to recover actual cost. The variance is determined by dividing total actual cost of the cost center by the total standard cost. For example, if cost center A had actual cost of $20,000, and had produced 1000 items with a standard cost of $15.00 per unit for a total standard cost of $15,000, then the variance would be 33.3 percent. This variance indicates the cost center is not operating efficiently. Billings at standard cost would also have to be multiplied by 133.3 percent to recover actual cost (i.e., $15.00 x 133.3% = $20.00).

B. A different costing procedure may be followed by revolving fund organizations that use stabilized prices. These organizations may simply accumulate the variances and recover them as part of the following year's standard price.

210304 Source Documents Required. The principal categories of cost charged to the production cost centers are direct labor, direct material, contract, and overhead (includes indirect labor and indirect material costs).

A. Labor Source Documents. Source documents for labor costs are time cards. Time cards are coded with the cost center identification number and accumulate the total labor hours worked by employees assigned to the cost center. Hours may be recorded mechanically by a time clock as employees punch in and out daily, or they may be recorded manually by workers or a timekeeper. At the end of each pay period, the civilian payroll system summarizes the hours worked as reported on approved time cards, obtains pay rate data from the personnel system and calculates gross and net pay, based on payroll and withholding authorizations for each employee. A labor distribution report that identifies payroll cost by cost centers based upon the cost center identification number is prepared using the pay computed by the pay system. This distribution computation may be part of the pay system or it may be included in the cost accounting module. The responsibility for determining who shall perform the labor distribution is a management function.

B. Material Source Documents. There are many source documents that are used to identify material costs. This paragraph discusses some of the more common documents:

1. DD Form 1348, "DoD Single Line Item Requisition System Document (Manual)". This form is prepared by the activity requesting material and is coded with the cost center identification number. The form is forwarded to the installation supply officer for approval and to determine the supply availability through the Military Standard Requisitioning and Issue Procedure (MILSTRIP). When the applicable material is issued, it is charged to the account and recorded in the subsidiary account established for the cost center. Chapter 4 of this Volume provides guidance to be followed in determining the price of material that is released from inventory.

2. Contracts and Purchase Orders. Contracts and purchase orders are another major category of source documents used to purchase material from vendors. When the material is received, an accounts payable is established and applicable amounts are entered into the Work in Process-In-House subsidiary account for the cost center. Contract and purchase orders are entered directly into the

Work in Process-In-House account rather into the Inventory Held for Sale account because the materials are purchased expressly for a particular job. Direct application is preferable to commingling the materials with other materials in the Inventory Held for Sale Account.

3. Transfer Tickets. Transfer tickets are used when production units are transferred from one cost center to another cost center. The cost center transferring production units prepares the transfer ticket and the receiving cost center signs for receipt of the material. The transfer ticket contains the number of production units being transferred. A copy of this document is provided to the cost accounting office that records the movement of material.

C. Overhead Source Documents. Overhead costs pertains to the allocation of costs incurred by indirect cost centers to producing cost centers. This cost is allocated through use of a worksheet prepared by the accounting office. The worksheet summarizes and allocates indirect cost center expenses to direct cost centers. Various methods for allocating overhead include: direct labor hour basis, direct labor cost basis, machine hour basis, or the material cost basis. The method chosen must be used consistently from one period to the next in order to permit meaningful comparisons. The direct labor hour basis method for allocating indirect cost center expenses to direct cost centers is illustrated below:

ALLOCATION WORKSHEET

The total indirect cost center expenses for the period are $48,000 dollars. Cost center A used 1200 direct labor hours, cost center B used 900 direct labor hours, and cost center C used 300 direct labor hours during the period.

FORMULA:

$$\frac{\text{Indirect Cost Center Expenses}}{\text{Total Direct Labor Hours All Cost Centers}} = \text{Factor}$$

ILLUSTRATION:

$$\frac{\$48{,}000 \text{ dollars}}{2400 \text{ direct labor hours}} = \$20 \text{ per Hour}$$

Cost Center	Direct Labor Hours		Factor Per Hour		Amount Allocated
A	1200	X	$20	=	$24,000
B	900	X	20	=	18,000
C	300	X	20	=	6,000
Totals	2400				$48,000

Footnote: Material can be added at the beginning of the period, during the period, or during a certain point in the process, e.g., when 50% complete.

210305 Number of Units Produced

A. The number of units still in process within a process cost center are expressed in terms of equivalent production units. The calculation of equivalent production inventory is based upon a physical inventory to determine the production status. For example, if the cost center had 100 units that were 75% complete for material and labor, 50 units that were 50% complete for material and labor, and 30 units that were 10% complete for material and labor, the equivalent production units would be 103 ([100 x 75% = 75] + [50 x 50% = 25] + [30 x 10% = 3]).

B. The ending inventory of production units are added to the sum of production units transferred out, minus the beginning inventory of equivalent production units to determine the total number of units produced during the accounting period by the department. The calculation is illustrated below:

UNITS PRODUCED WORKSHEET

	NUMBER OF UNITS
Transferred Units	1100
Equivalent Units	103
Sub Total	1203
Less: Beginning Equivalent Units	(100)
Total Production This Month	1103

C. An illustration of the use of standard cost to evaluate production efficiency or problems follows:

	UNIT COST		NUMBER OF UNITS		COST
Standard Costs					
Labor	$ 50	x	1103	=	$ 55150
Material	35	x	1103	=	38605
Overhead	15	x	1103	=	16545
Total Standard Cost	$100	x	1103	=	$111300
Actual Costs					
Labor					$ 60000
Material					35000
Overhead					20000
Total Actual Cost					$115000
Variance					<$ 3700>

210306 Variance Analysis

Chapter 20, paragraph 200307 of this Volume provides guidance for various analyses. Table 20-7 in Chapter 20 of this Volume provides a chart for identifying possible causes of variances.

210307 Subsidiary Accounts. Each cost center should maintain the capability to array data in sufficient detail necessary to satisfy management information requirements. Cost center subsidiary accounts may be established within individual cost centers in order to cost a product or service. For example, it may be necessary to accumulate direct labor, direct material, and overhead in subsidiary accounts. Accounting information is posted to the cost center subsidiary accounts as it becomes available via labor distribution reports, material reports, and overhead worksheets.

2104 MONTH END REPORTS

Month-end production cost reports produced by a process cost accounting system in operation at a Defense Component operating under direct appropriation procedures with three production cost centers is illustrated in Table 21-2. The illustration is presented to clarify the concepts and methodologies previously discussed in this chapter.

PROCESS COST ACCOUNTING REPORT FOR THE MONTH OF XXXX, 19XX
UNITS PRODUCED

PART A: UNIT PRODUCTION

	COST CENTER A	COST CENTER B	COST CENTER C	TOTAL UNITS
Beginning Inventory	100	200	100	100
Transferred During Month	500	500	500	500
Units to be Accounted for	600	700	600	600
Ending Inventory	100	200	100	100
Production During Month	500	500	500	500

PART B: COST

	COST CENTER A		COST CENTER B		COST CENTER C		TOTAL COST	
	STD.	ACT.	STD.	ACT.	STD.	ACT.	STD.	ACT.
Funded Cost:								
Labor	$ 55150	$ 60000	$ 45000	$ 46000	$ 30000	$ 30000	$ 130150	$ 136000
Material	38605	35000	40000	38000	15000	16000	93605	89000
Overhead	16545	20000	15000	15000	10000	10000	41545	45000
Subtotal	$ 110300	$ 115000	$ 100000	$ 99000	$ 55000	$ 56000	$ 265300	$270000
Unfunded Cost:								
Military Labor	$ 5100	$ 5000	$ 4500	$ 4700	$ 2000	$ 2000	$ 11600	$ 11700
Civilian Retire	3800	3600	2500	2400	1500	1500	7800	7500
Free Issue Mat.	4000	4500	2500	2500	1000	1000	7500	8000
Subtotal	$ 12900	$ 13100	$ 9500	$ 9600	$ 4500	$ 4500	$ 26900	$ 27200
Subtotal Funded & Unfunded	$ 123200	$ 128100	$ 109500	$ 108600	$ 59500	$ 60500	$ 292200	$ 297200
Depreciation @ 4%	$ 4928	$ 5124	$ 4380	$ 4344	$ 2380	$ 2420	$ 11688	$ 11888
TOTAL COST	$ 128128	$ 133224	$ 113880	$ 112944	$ 61880	$ 62920	$ 303888	$ 309088

PART C: FINISHED UNIT STANDARD AND ACTUAL COST		
FUNDED COST	$ 530.60	$ 540.00
UNFUNDED COST	53.80	54.40
DEPRECIATION FUNDED AND UNFUNDED	23.38	23.78
TOTAL COST 1/	$ 607.78	$ 618.18

1/ General and administrative costs are to be added to the sales price when applicable

TABLE 21-2

CHAPTER 22

COST FINDING

2201 GENERAL

220101 Purpose. This chapter provides a cost determination method to be used when a job order or a process cost accounting system is not part of the DoD Component's formal accounting system. The guidance in this chapter is to be followed by DoD Components that find it is necessary to use cost-finding techniques to determine the costs related to performing a service, to be recovered for goods or services, or to obtain cost information for decision-making and information purposes, such as productivity measurement. Normally, an organization that operates a formal cost accounting system will only use cost finding techniques to identify unfunded costs. However, even these organizations, from time to time, and on special occasions, may have a requirement to use these techniques.

220102 Overview

A. Chapter 19 of this Volume prescribes the basic policy for measuring and allocating costs. This chapter applies that basic policy to cost finding, establishes cost-finding documentation policy, and describes generally recognized cost finding techniques and their potential application within the Department of Defense. The guidance contained in this chapter can be applied to situations when batch processed tasks or functions are involved as well as to specific document process functions.

B. Cost finding is an approach used in the absence of a formal cost accounting system to estimate the actual costs incurred to provide a service, produce a product, or to obtain cost information for periodic decision making and information purposes. It is available for use by those DoD activities that do not have a formal cost accounting module as part of their accounting system, but who periodically provide reimbursable services or products to other DoD Components, Federal Agencies, or to the public. Cost finding may also be necessary when the cost of an item has not been recorded in the accounting system and the item is being transferred, sold, or recorded in the accounting system for the first time or when measuring productivity.

C. The proper application of cost finding requires knowledge of cost accounting and of the organizational functions associated with the final and intermediate cost objectives. Accordingly, personnel assigned to cost- finding projects should have cost accounting experience as well as an understanding of the organizations involved.

2202 POLICY

220201 Documentation

A. The application of cost-finding techniques shall be preceded by a clear requirements statement that describes:

1. The cost objectives (both intermediate and final) to which cost finding techniques are to be applied.

2. The organizations involved in performing the cost objectives and the tasks performed by each organization.

3. The cost elements that are applicable.

4. A plan that includes the specific cost finding techniques to be utilized and the criteria to be followed in selecting the specific cost finding technique to be used.

5. A description of how those techniques will accomplish the cost objective.

B. The statement and the work papers accumulating applicable cost elements shall be retained for review for the same length

of time as documentation used in support of billings to the public.

C. A case study is presented as addendum 1 to illustrate the application of the material discussed in this chapter. Discussions in the chapter are at the micro level. When a different approach might be usable to develop necessary data to establish the costs associated with a different cost objective (at the macro level, for example), information will be presented on the alternative approaches.

220202 Identification of Cost Objectives

A. For the purpose of this chapter, cost objectives are defined as either functions or work units for which management decides to identify, measure, and accumulate costs. Cost objectives shall be sufficiently discrete and described in writing to such a level of detail to form a basis to identify the specific function or product to be costed.

B. Careful attention must be paid to identification of cost objectives. When the cost objective is identified as being at a macro (an organizational level, for example) level, the amount of effort required to determine the relevant costs and the associated quantitative data should be less refined than if the cost objective were identified as being at the micro (a specific function or operation) level. At the macro level, it is possible that the accounting system, through the use of coding structures and the general ledger operating program expense accounts listed in Chapter 7, of Volume 1, of this Regulation, can provide much of the required financial data to establish relevant cost information. At the micro level, it probably will be necessary to use one of the methods described in paragraph 2203, below, to determine the time required to perform the cost objective and develop relevant cost information.

C. In addition, the classification of organizations as either direct or indirect (actually involved in performing the cost objective or performing as a support organization, respectively) is dependent on identifying cost objectives. At the macro level, as a general rule, all staff organizations will be classified as indirect, and all line organizations will be classified as direct. At the micro level, it is conceivable that a staff organization, or element thereof, could be classified as a direct organization. The distinction between the macro and micro levels will be an important consideration in complying with OMB productivity requirements discussed in section 2204 of this chapter. The bottom line is that the cost accountant must be able to translate the measurement requirements into terms of source documents, allocation techniques, and other such analysis techniques as may be necessary to meet the management requirement. Establishing a cost objective is a management decision and is essential to the proper application of cost finding techniques to a cost objective.

D. For cost finding purposes, identifying and describing cost objectives take on special importance. Within the Department of Defense, cost finding techniques will probably be used to compare costs of different organizational units or operations performing the same cost objective, or in measuring productivity, and to measure the cost of performing a particular operation, among other things. For example, the costs to issue a check at an accounting station might be compared with the same costs at other accounting stations. In such situations, cost-finding techniques serve as a tool in identifying more efficient methods of performing a given task. Cost objectives may also be used to compare organizational efficiency, for example, the costs for an intermediate objective, such as processing a personnel action at a personnel office, might be compared with other personnel offices.

220203 Identification of Organizations Involved

A. Once the cost objectives have been identified, personnel assigned to identify the costs associated with the cost objective may proceed to the next step: identifying the organizational units contributing resources to the cost objective. Generally, the units will be within the activity itself (the installation level; and, within the installation, the supply unit, the transportation unit, administration, etc.).

B. The initial task is to classify the installation-level organizational units as direct or indirect. A unit that is responsible for actually performing the work is a direct unit. A unit that provides support or performs an administrative function is an indirect unit. Care must be taken to assure that organizational units are not classified as both direct and indirect for the same cost objective.

1. The process of classifying an organization as either direct or indirect may change as different cost objectives are identified and analyzed. Attempts to retain the same classification for different cost objectives may result in erroneous cost determinations, thus leading to misleading and faulty management decisions.

2. Indirect organizations shall be identified using the criteria cited in paragraph 190203 of chapter 19, of this Volume. An organization that is classified as indirect will not always be recognized in the computation of costs for a final cost objective. At the macro level, staff organizations generally will be recognized as an indirect organization and the related costs allocated among direct organizations. At the micro level, materiality and usefulness will be determining factors.

C. The organizational units can be classified through use of an iterative process or through the use of organizational charts or tables, depending on the final cost objective. The iterative process consists of a series of questions designed to establish the relationship that each organization unit has with the product or service for which cost-finding techniques are being developed (Figure 22-1 is a suggested list of such questions). First, the organizational units directly involved in the process are identified. Then the organizational units providing indirect functions to the direct organizational units are identified. This second category is also identified and arrayed through an iterative process consisting of a series of questions designed to establish the relationship of supporting activities to direct line organizations. The procedure is repeated until all organizational units are classified as direct or indirect for all identified cost objectives.

D. In order to determine which organizations are involved, it is necessary to identify the flow of actions related to the cost objective and the related intermediate cost objectives.

E. It is important to understand that the organizational activities involved in a particular cost objective or interim cost objective can cross organizational lines of responsibility.

220204 Identification of Cost Elements

A. An important aspect of any cost finding technique is identifying the direct and indirect cost elements applicable to the product or service. Both the direct and indirect activities may have the same cost elements. The difference is in the allocation of all applicable indirect costs (factory burden). Chapters 19 and 20 of this Volume provide guidance to determine factory burden.

B. Care must be taken to assure that all cost elements are identified. The first step is to identify all possible cost elements and then to determine which cost elements are significant. The operating program general ledger expense accounts 6111 through 6130, which are described in Chapter 18 of this Volume are used in this example. Figure 22-2 shows the potential application of each account to the direct and indirect activities. After the potential applications are identified, a decision must be made as to which cost elements are sufficiently significant as to warrant separate consideration.

C. After developing the statistical cost data, the individual or group responsible for applying cost finding to the cost objective can make a decision as to the significance of each cost element in the final determination. It is important to remember that the information is, at this point, only raw data. Decisions must be made as to the relevance and materiality of each cost element to the cost objective. Materiality is associated with whether excluding the data could distort the computed value for the final cost objective.

SUGGESTED LIST OF QUESTIONS TO BE USED WHEN IDENTIFYING AND CLASSIFYING PARTICIPATING ORGANIZATIONS

What organizations are involved in the final and intermediate cost objectives?

Which organization has primary responsibility for the final cost objective?

Which organizations perform intermediate cost objectives?

Which organization acts in a support role to the organization(s) performing the final or intermediate cost objectives.?

Which specific organization units will be involved either directly or as a support function?

What are the specific tasks performed by each of the identified organizations?

What is the order in which the organizations involved perform their delegated responsibilities?

FIGURE 22-1

GENERAL LEDGER EXPENSE ACCOUNTS

GEN. LEDGER ACCOUNT #	EXPENSE ACCOUNT	DIRECT ACTIVITY	INDIRECT ACTIVITY
6111	Personnel Compensation-Civilian	X	X
6112	Personnel Compensation-Military	X	X
6113	Personnel Benefits-Civilian	X	X
6114	Personnel Benefits-Military	X	X
6115	Benefits for Former Personnel		X
6116	Travel and Transportation of Persons	X	X
6117	Transportation of Things	X	X
6118	Rent, Communications and Utilities	X	X
6119	Printing and Reproduction	X	X
6120	Other Services	X	X
6121	Supplies and Materials	X	X
6122	Equipment (not capitalized)	X	X
6123	Grants, Subsidies, and Contributions	X	X

GENERAL LEDGER EXPENSE ACCOUNTS			
GEN. LEDGER ACCOUNT #	EXPENSE ACCOUNT	DIRECT ACTIVITY	INDIRECT ACTIVITY
6124	Insurance Claims and Indemnities		X
6125	Depreciation of Equipment	X	X
6126	Depreciation of Real Property	X	X
6127	Depletion of Natural Resources	X	X
6128	Amortization of Leasehold Improvements and Other Intangible Assets	X	X
6129	Bad Debts		X
6130	Annual Leave	X	X

FIGURE 22-2

220205 Application of Prescribed Rates

A. The purpose of using cost-finding techniques is to determine that all applicable cost elements are addressed in computing the final cost. When the purpose is the preparation of an internal report or an external report for another Federal Agency or non-federal organization, the guidance contained in Volume 11 of this Regulation shall be followed to assure that all applicable costs are considered. When the purpose is to establish the cost of an activity associated with the Security Assistance Program, the guidance contained in Volume 15 of this Regulation, shall be followed.

B. The following rules shall be applied when determining the individual costs of intermediate and final cost objectives:

1. Civilian direct labor costs are computed using step 5 of the applicable pay grade for GS- and GM-series personnel. For Wage Board employees, use step 4 of the applicable pay grade. Amounts included as direct labor costs shall recognize only productive time; that is, the time actually used to perform the function. All other time is indirect labor time, and is included in overhead (factory burden). Actual costs may be used, if known, provided appropriate documentation is available to support their substitution.

2. Civilian personnel benefits costs are computed using the rates contained in Volume 11 of this Regulation.

3. Military personnel costs are costed using the rates for each applicable military grade at standard military composite rates in accordance with guidance in Volume 11 of this Regulation.

4. Both military and civilian labor shall be analyzed as to productiveness. Productive labor (labor that is actually chargeable to jobs) shall be recorded as direct labor. Indirect labor (labor that cannot be charged to a specific job) shall be recognized in computing overhead (factory burden). Chapters 19 through 21 of this Volume provide guidance in computing overhead.

5. Direct material cost is determined using standard prices unless the actual cost of the material is known from vendor invoices.

6. Other costs that can be directly related to the cost objective are determined using documents such as vendor invoices, travel vouchers, etc.

7. Indirect costs are based on algorithms that are used to prorate the overhead costs to the cost objective based on factors such as the ratio of direct labor costs for the cost objective to total labor costs for the installation.

220206 Identification of Source Documents

A. Before the values for each cost can be determined, the source documents for the required data must be identified and copies obtained, together with the locations at which the documents are maintained. In addition, it will be necessary to determine the quantities of documents involved, especially if the cost objective is to determine average unit costs for a certain action.

B. When the final cost objective is to determine the cost of performing one single event, the specific documents involved must be identified. When the cost objective is much broader (for example, determining the average cost of issuing checks without regard to whom they are issued), identification of the specific documents involved may not be as significant as the operating costs (including the materials and supplies used) of the organizational units directly involved in the process.

220207 Selection of the Appropriate Cost-Finding Technique. The development of a final cost for the cost objective can be made using one of several different techniques or a combination thereof. The decision as to the method used will often depend on the purposes for which the cost objective has been established. Those cost objectives established to determine costs to meet a statutory or a recurring use need could require the use of cost-finding techniques with a higher degree of precision than those cost objectives established to meet an internal management need. Section 2203., below, describes various techniques that may be useful in cost finding.

2203 COST-FINDING TECHNIQUES

220301 Observation

A. The observation technique is normally used when the specific effort to be costed or a similar effort is currently in process. The first step is to complete the requirements statement required by paragraph 220201, above. The observer then physically follows the product or service through the various performing organizations, documenting the following:

1. Various events incident to performance.

2. The grade levels of personnel directly working on the effort.

3. The length of time spent on the activity.

4. Direct material used.

5. Indirect material used.

6. Types of support received from other organizational units.

7. Any other factors that have an impact on the cost of producing the product or performing the service.

A traditional flow chart of the entire process may be helpful in organizing, visualizing, and understanding the particular process under review. The process flow shown in addendum 1 of this chapter illustrates the data gathered through the use of this technique.

B. The observer then lists all of the identified cost elements and computes the cost of each element using the general ledger expense accounts shown in figure 22-1.

C. Any other assumptions shall be carefully and accurately documented so that users of the resulting information will have a better understanding of the process used.

220302 Statistical Sampling

A. This technique is normally used when there is a large volume of similar type work being performed on a continuous task basis. An example of the use of this technique is packing, crating, and handling costs incurred at the depot level. A random sample of items is selected and a special job order tag is attached to each item selected when it is initially placed into the performance cycle. All personnel who come into physical contact with the items are required to record their organization, pay grade, length of time involved, and type and quantity of material or supplies used. Completed tags are returned to the personnel conducting the study who ensure that all tags have been returned and properly completed.

B. All of the cost elements identified to the cost objective are assigned a cost.

C. Resulting cost estimates shall be annotated to disclose the confidence level of the resulting estimate within a specific range.

220303 Independent Appraisal. The independent appraisal technique is normally used when the cost determination is made after the cost objective has been completed, and there is no similar product being produced. Normally, the effort would be accomplished by an engineer or an individual who is an expert in the production process. Under this procedure, a list of all resources involved in fabricating the product or performing the service is made. Each resource is then analyzed to establish a reasonable input cost. The total cost of the applied resources represents a reasonable estimate of costs incurred in the cost objective.

220304 Commercial Cost. This technique is normally used in connection with incidental activities carried out during a DoD mission requirement. In these circumstances, the application of normal full cost to the production of a product or provision of service would not be representative of the incurred cost. An example would be a Navy carrier transporting a disabled foreign aircraft to a repair facility incident to the performance of its normal mission. In this case, a determination of the commercial charge to transport the disabled aircraft might be more representative of the allocable cost incurred by the Navy vessel.

220305 DELPHI Technique. This technique is useful in those instances when the more traditional cost estimation techniques cannot be applied to a cost objective. Accordingly, it is probably the least precise estimating technique, but one that is still useful if another technique is not available.

A. This technique uses a series of estimates made by a group of experts that is refined as subsequent estimates are made. For example, five construction experts might be given the task of estimating the costs associated with a new construction technique. These experts would be given the initial parameters of the project such as location; required specifications; geographical, environmental, time, and political constraints; and, any other known relevant data at the time of project initiation. Each group member would then develop an initial estimate of component costs and reconvene to discuss their individual analyses. After discussion, each expert would be asked to refine their estimate based on what was learned at the meeting. The evaluation process would be repeated by each participant to arrive at a revised estimate. The process would be repeated as often as necessary, until the group achieved consensus that the estimate at hand was the best available, given the uncertainty of the nature of the project and dissimilarity with other efforts in their experience.

B. This technique is probably more useful in determining what some new product or service should cost rather than determining the actual cost of an existing product or service. However, some of the principles involved may be helpful.

220306 Memorandum Records. This technique is an informal method for gathering cost data and should only be used in those cases when the value of the cost data is of little significance. It involves the preparation of memoranda documenting estimates of costs for a specific product or service. It should not be used when significant decisions are to be based on the cost

estimates derived or when other more accurate methods are available. It is useful as a cost accumulating tool for those low priority, low value projects or products when it is known that some cost data may be required in the future. However, in this case, a traditional cost accounting system is too costly or too cumbersome relative to the underlying effort.

220307 Analysis of Responsibility Center/Cost Center. This technique can be helpful in those cases where good organizational costs are available through some responsibility center or cost center organizational structure. Costs associated with the center can be allocated to a product or service of the center as a way to estimate at least part of the cost of that product or service.

220308 Combination of Cost-Finding Techniques. Nothing in this chapter prevents the use of more than one of these techniques, if such a use results in a more cost-effective or more accurate estimate of the cost information requirement. The techniques can also be used to aug-ment data that is generated by a conventional cost accounting system. It is important to remember what the cost data requirement is and to generate or utilize the cost accumulation system or method that gives the highest quality cost data at the lowest information accumulation cost. A cost finding technique that is not described here can also be used, as long as it conforms with the general requirement for reliability in relation to the value of the cost data.

220309 Determination of Time and Cost

A. After the required time to perform each element of the final and intermediate cost objectives is determined, the costs associated with each element must be determined. In addition, since real and capitalized personal property is involved, the contribution of these assets must also be determined. The extent to which the computations are necessary will depend on the accuracy measured in performing each action. Figure 22-2 in paragraph 220204 of this chapter illustrates the form that can be used to determine the total costs associated with a final cost objective.

B. Personnel costs are obtained from the following sources:

1. Civilian Personnel. Pay scales issued by the Office of Personnel Management.

2. Military Personnel. Standard military composite pay rates issued by the Military Departments. These standard rates recognize fringe benefits.

3. Civilian Personnel Fringe Benefits. These are determined using the add-on factors in Volume 11 of this Regulation.

C. Depreciation and Amortization of Capitalized Personal Property. Refer to Chapters 1 and 6 of this Volume, and Volume 11, Part III, of this Regulation for the Defense Business Operations Fund.

D. Depreciation and Amortization of Real Property. Refer to Chapters 1 and 6 of this Volume, and Volume 11, Part III, of this Regulation for the Defense Business Operations Fund.

ADDENDUM 1
CASE STUDY
Determination of the Costs Associated With Paying A Contractor Invoice

This case study demonstrates the application of the various requirements contained in this chapter to determining the costs associated with paying a contractor invoice. The situation selected was chosen as being typical of the types of operations occurring within the Department of Defense for which comparisons between organizations can be made.

Paragraph 220201 of this chapter requires a clear statement that identifies the cost objectives to which cost-finding techniques are to be applied and the cost finding techniques to be applied, among other things. Such a statement is presented in Figure 22-3.

The intermediate cost objectives related to the final cost objective are listed in Figure 22-4. The list is at the summary level and serves as a basis for identifying the processes which must be examined in detail. The compilation is based on the guidance contained in paragraph 220202 of this chapter.

The organizational elements and their relationship to the intermediate and final cost objectives are identified in Figure 22-5. As described in paragraph 220203 of this chapter, it is developed using the organization chart and descriptions of organization functions. It also categorizes the installation's organizational units as direct (those that are involved in the final cost objective) and indirect. Those classified as indirect provide varying degrees of support to the organizational units that are identified as direct. It is not necessary for all direct activities to be a part of the same organizational activity.

The process flow associated with paying a contractor invoice, as described in paragraph 220203 of this chapter is illustrated in Figure 22-6. A comparison of this process flow chart with the organization chart in Figure 22-5 will identify organizations that may not be shown on the organization chart. For example, the contract administration activity is not shown on the organization chart and could be a part of supply operations. Similarly, the mail room might be part of base operations. These situations arise when the organization chart is at a higher level than the operation being costed.

The organizational activities realigned as direct and indirect for the purposes of this cost finding study are shown in Figure 22-7. This chart is provided as a basis for clearly identifying which activities are to be classified as direct activities, as described in paragraph 220203 of this chapter.

The cost elements to be considered in determining the relevant costs associated with this task are identified in Figure 22-8. They are based on figure 22-1 in paragraph 220204 of this chapter.

The personnel assigned to the direct activities associated with paying a contractor's invoice are listed in Figure 22-9. This information is necessary to support the determination of personnel costs as described in paragraph 220204 of this chapter.

Statistical information as to the equipment, real property, and supplies and materials used in performing the final and intermediate cost objectives is provided in Figure 22-10. In addition, the equipment is subdivided between capitalized and expensed equipment.

The personnel rates associated with the personnel assigned to the direct organization activities are summarized Figure 22-11. The costs associated with the final and intermediate cost objectives using the guidance in paragraph 220205 of this chapter concerning application of prescribed rates are computed and shown in Figure 22-12.

The source documents associated with the intermediate and final cost objectives are listed in Figure 22-13. Copies of each of these documents would be obtained and included as supporting documentation in the working papers associated with the cost finding task, as required in paragraph 220206 of this chapter.

A compilation of the time required to perform each of the various actions associated with processing a contractor invoice for payment is shown in Figure 22-14. The civilian or military grade for each person involved in the process, as well as the equipment used and the time each equipment was used also is identified. The requirements contained in paragraph 220207 of this chapter are addressed in Figure 22-14.

The costs associated with paying a contractor invoice are summarized in Figure 22-15.

ADDENDUM 1
STATEMENT OF PURPOSE
Determination of Costs
To Pay A Contractor's Invoice

A. PURPOSE

This effort is undertaken to determine the cost incurred by one DoD organization to pay a contractor's invoice. The information is required to identify the various types of activities involved and the related costs for comparison with similar costs incurred by other DoD organizations.

B. COST OBJECTIVES

The intermediate and final cost objectives associated with this effort include those required to administratively process contract documents, receiving reports and invoices and issue a check.

C. ORGANIZATIONS INVOLVED

Those organizational activities directly involved in processing the contract, processing invoices, mailing documents, and issuing checks will be classified as direct activities. All other activities are considered as indirect activities.

D. COST ELEMENTS

The cost elements in Volume 11 of this Regulation applicable to other Federal Agencies will be accumulated. The following cost elements to be identified for the purposes of this task include personnel (civilian and military), personnel benefits, communications, and supplies and materials.

E. APPROACH

Cost finding shall be used to establish the cost to pay a contractor invoice. Observation and questions shall be used to establish the sequence of observations. Time measurement shall be used to establish the time required to perform each action in the process. These techniques are considered the best approach because preliminary indications are that each action requires only a few minutes of any employees' time. In addition, the use of specific material, equipment and documents can be readily identified and measured. Personnel costs shall be based on hourly rates obtained from pay scales for civilian personnel, and standard military composite rates for military personnel.

FIGURE 22-3

ADDENDUM 1
FINAL AND INTERMEDIATE COST OBJECTIVES TO PAY A CONTRACTOR INVOICE

FINAL COST OBJECTIVE:	Pay a contractor invoice
INTERMEDIATE COST OBJECTIVES:	Establish voucher file
	Maintain voucher file
	Receive receiving reports
	Receive invoices
	Compare invoice to receiving reports and contracts
	Check to see whether proposed payment requires additional funding
	Check to see if right of offset exists against amounts due the Government by the contractor
	Prepare payment voucher
	Schedule voucher for payment
	Print check
	Mail check
	Record payment

Figure 22-4

ADDENDUM 1
ILLUSTRATIVE INSTALLATION ORGANIZATION CHART

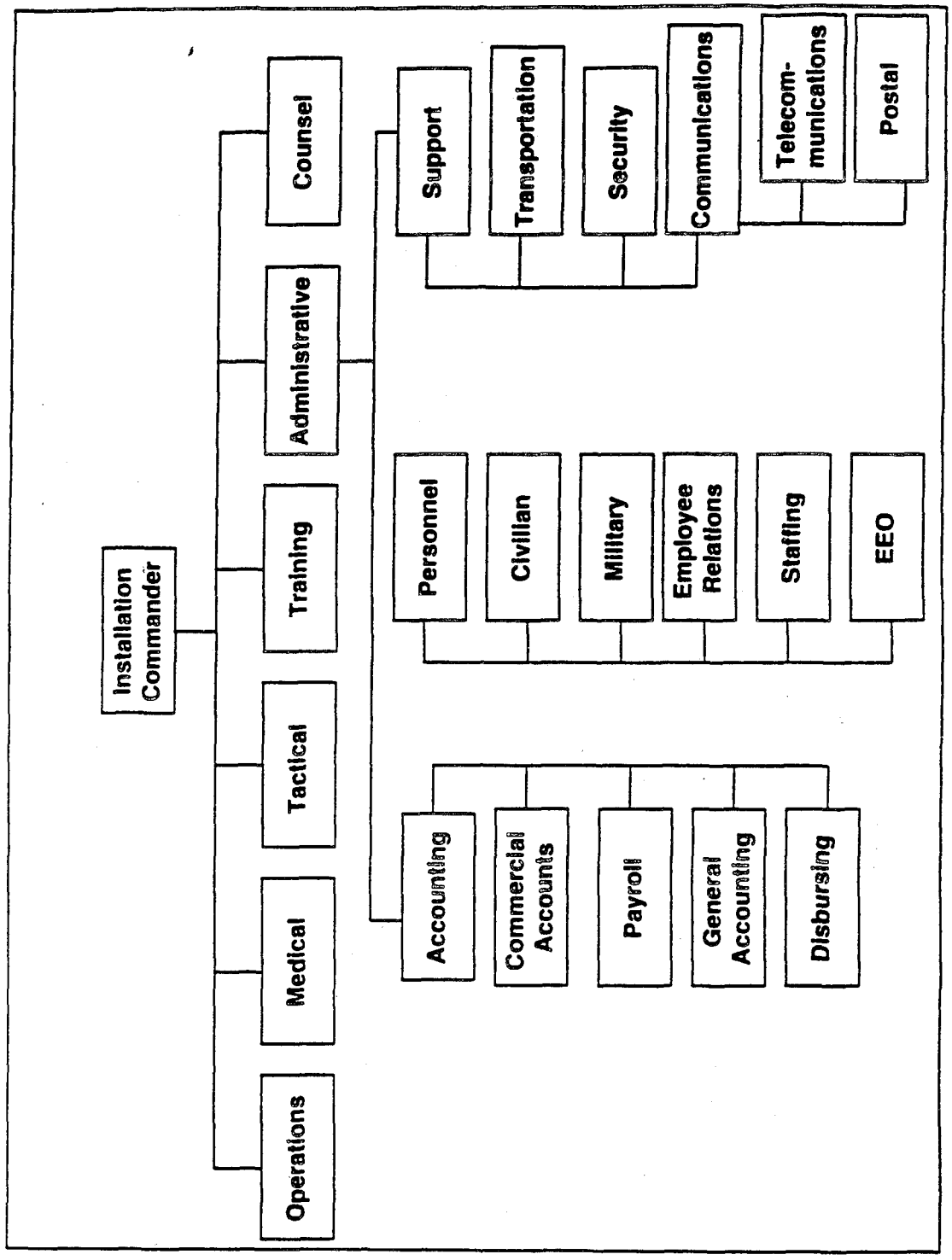


FIGURE 22-5

ADDENDUM 1
PROCESS FLOW FOR ISSUING CHECKS TO CONTRACTORS

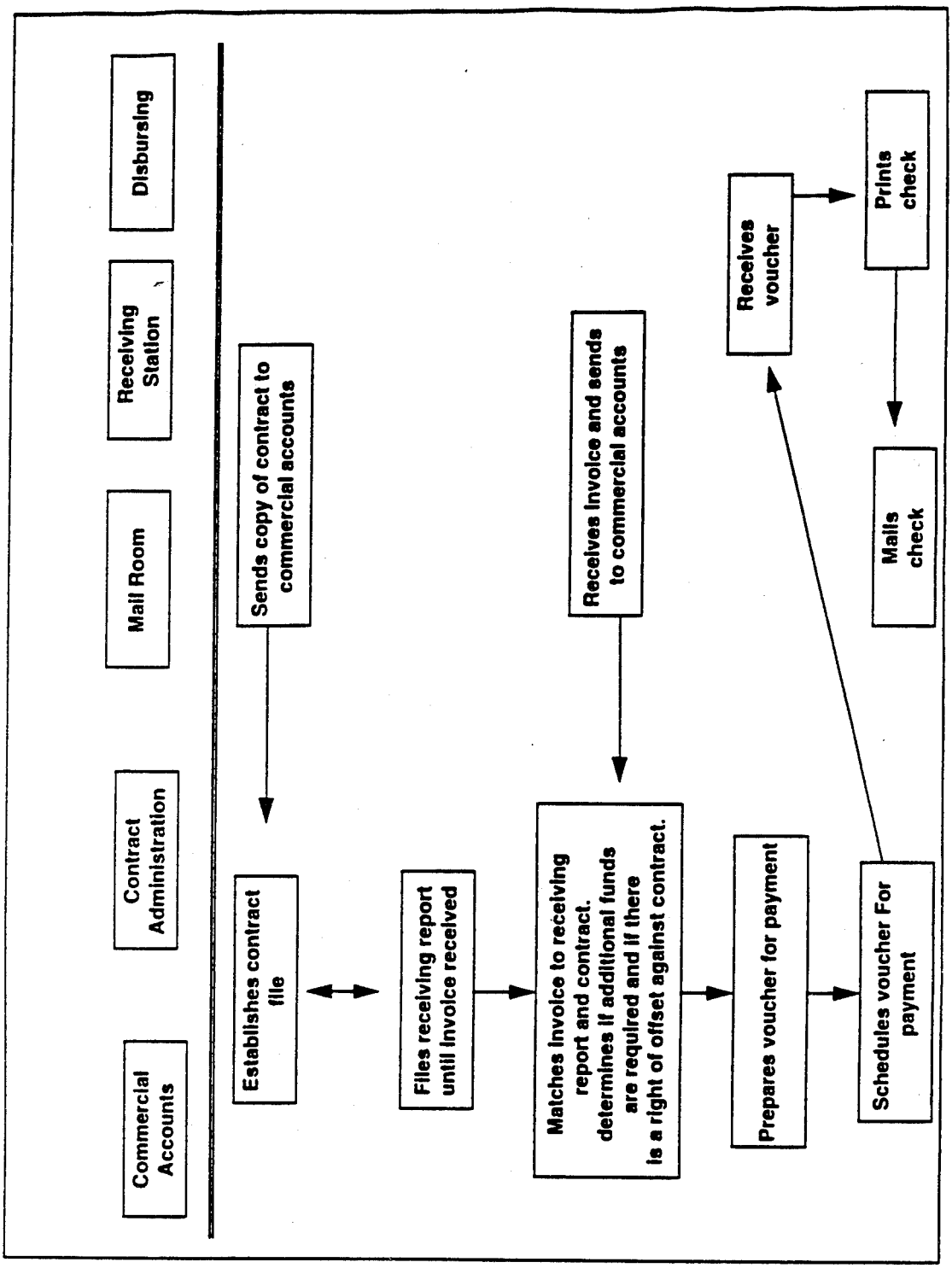


FIGURE 22-6

ADDENDUM 1
ORGANIZATION HIERARCHY ASSOCIATED WITH
FINAL AND INTERIM COST OBJECTIVE

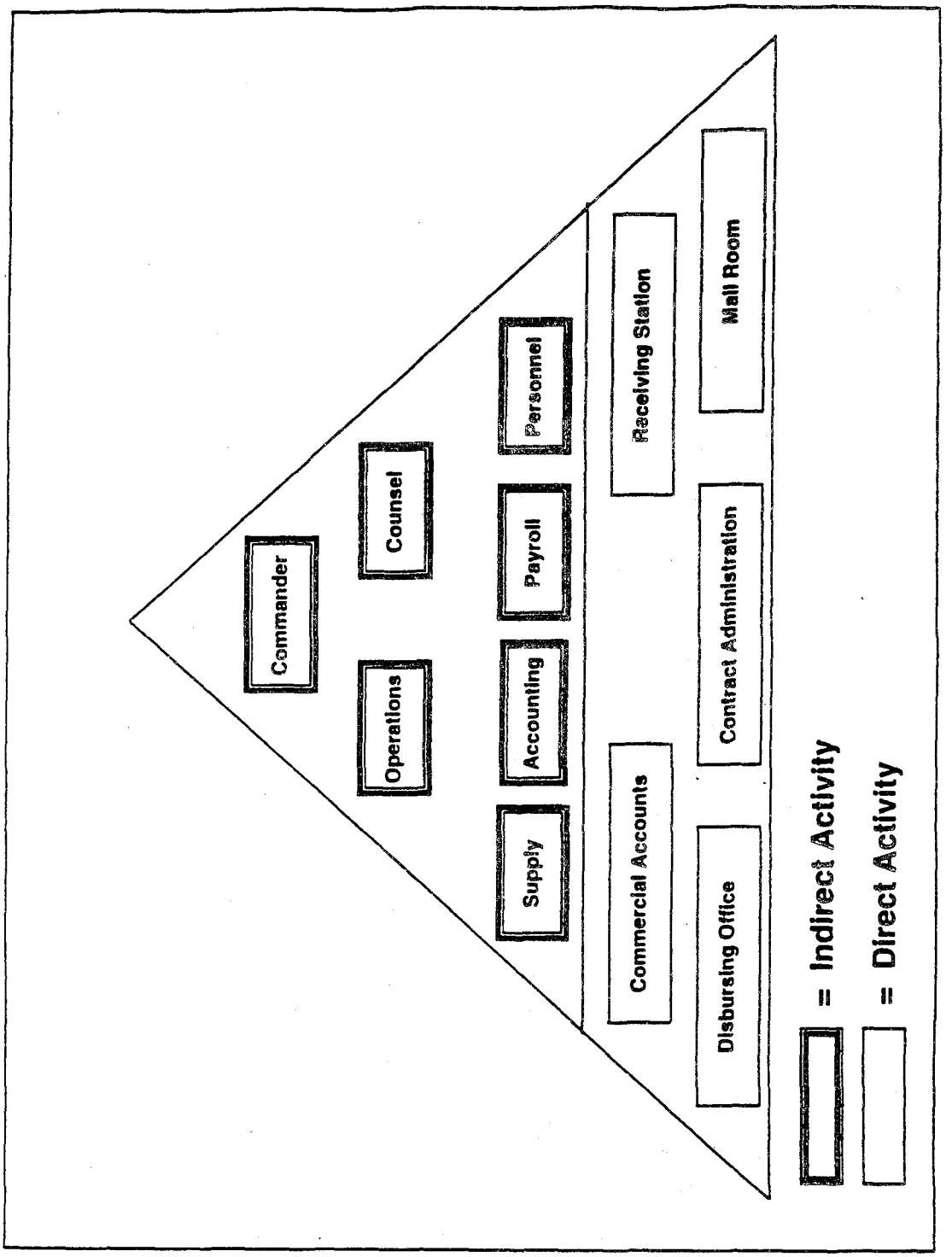


FIGURE 22-7

ADDENDUM 1
COST ELEMENTS

The cost elements potentially associated with the cost of issuing a check to a contractor are summarized as follows:

(1) Personnel costs, both military and civilian.

(2) Personnel benefits, both military and civilian.

(3) Communications (telephone).

(4) Supplies and materials.

(5) Postage.

(6) Utilities.

(7) Equipment (depreciation).

(8) Buildings (depreciation).

(9) Leasehold improvements (amortization)

(10) ADP Software (amortization)

Figure 22-8

ADDENDUM 1
NUMBER OF PERSONNEL ASSIGNED TO DIRECT ACTIVITIES ASSOCIATED WITH FINAL COST OBJECTIVE

	COMMERCIAL ACCOUNTS	RECEIVING STATION	DISBURSING OFFICE	CONTRACT ADMIN.	MAIL ROOM
Captain	1		1		
1st Lieutenant	2		3		
2nd Lieutenant	1	1	2	1	
Sergeant (E-5)		2	2		1
Corporal (E-3)	3	4			1
Civilian (GS-8)	2		2	2	
Civilian (GS-6)	2	1	4	2	1
Civilian (GS-5)	5	2	4	4	2
Civilian (GS-3)		2	2		5

Figure 22-9

ADDENDUM 1
EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES ASSOCIATED WITH FINAL COST OBJECTIVE

	COMMERCIAL ACCOUNTS	RECEIVING STATION	DISBURSING OFFICE	CONTRACT ADMIN.	MAIL ROOM
CAPITALIZED EQUIPMENT:					
Microfiching Machines			1	1	
Rotary Index Files	5		1	8	
EXPENSED EQUIPMENT:					
Typewriters	6		3	7	
Adding Machines	12	10	16	8	
Check Writers			2		
Envelope Stuffing Machines	1		3		
Desks	16	6	20	11	2
Chairs	25	7	24	15	11
REAL PROPERTY:					
Office Space (Sq. Ft.)	1,778	480	2,540	1,390	498
WAREHOUSE SPACE:					
(Sq. Ft.)		1,638			
ADDITIONAL INFORMATION: Microfiching Machines cost $22,000 each and have a life expectancy of 10 years for depreciation purposes. Rotary Index Files cost $14,000 and have a life expectancy of 10 years for depreciation purposes.					
Age of Micro-fiching Machines: 3 years old 4 years old			1	1	
Age of Rotary Index Files: 2 years old 3 years old 5 years old	 4 1		1	3 3 2	

ADDENDUM 1
EQUIPMENT AND REAL PROPERTY USED BY DIRECT ACTIVITIES ASSOCIATED WITH FINAL COST OBJECTIVE (CONTINUED)

Real Property:

1. Office space is converted warehousing constructed during 1956. Conversion was made in 1978 at a cost of $755,000. Total amount of warehousing space converted was 35,768 sq. ft.

2. The receiving station is located in another warehouse constructed in 1961 at a cost of $1,547,277.

3. Total warehouse space is 295,480 sq. ft. The office space occupied by the receiving stations was constructed at that time. No improvements have been made to the space since original construction.

Material and Supplies:

1. Standard price per 1,000 of any contract package (includes forms, instructions, and supporting addenda) is $250.

2. Standard price per 1,000 of receiving report forms (DD 250) is $35.

3. Standard price per 1,000 of legal size envelopes is $9.50.

4. Standard price per 1,000 blank check stock is $12.80.

5. Standard price of any accounting form, including voucher schedules is $15.50.

6. Standard monthly prorated cost of office supplies is $125. This includes adding machine tapes, correspondence paper, pencils, pens, etc.

Expensed Equipment:

1. When necessary, expensed equipment (desks, chairs, etc.) would have a prorated monthly charge of $50 per office. This is a composite rate for all expensed office equipment.

FIGURE 22-10

ADDENDUM 1
SUMMARY OF TIME SPENT BY PERSONNEL GRADE
TO ISSUE A CHECK TO A CONTRACTOR
(IN MINUTES)

	COMM. ACCTS.	RECEIV. STAT.	DISB. OFC.	CONT. ADMIN.	MAIL ROOM	TOTAL
Captain	6		7			13
Sergeant (E-5)			18			18
Corporal (E-3)			8			8
Civilian (GS-8)	4	8	2			14
Civilian (GS-6)	68		10			78
Civilian (GS-5)	23		6			29
Civilian (GS-3)		17	29		26	72

FIGURE 22-11

ADDENDUM 1
COMPUTATION OF COSTS ASSOCIATED WITH ISSUING A CHECK TO A CONTRACTOR

	ANNUAL RATE	HOURLY RATE	MINUTE RATE	TIME USED	COST
PERSONNEL COSTS:					
Captain	$ 37,860	$ 18.20	$ .30	13	$ 3.90
Sergeant (E-5)	21,900	10.53	.18	18	3.24
Corporal (E-3)	18,350	8.82	.15	8	1.20
Civilian (GS-8)	26,670	12.82	.21	14	2.94
Civilian (GS-6)	24,350	11.71	.20	78	15.60
Civilian (GS-5)	22,546	10.84	.18	29	5.22
Civilian (GS-3)	18,456	8.87	.15	72	10.80

Note: Hourly rates recognize all benefit costs.

FIGURE 22-12

SOURCE DOCUMENTS
1. DD Form 1155, "Order for Supplies or Services"
2 DD Form 250, "Material Inspection and Receiving Report"
3 DD Form 350, "Individual Contracting Action Report"
4 Payment Voucher Schedule
5. Blank check

Figure 22-13

ADDENDUM 1 TIME REQUIREMENTS TO PAY A CONTRACTOR INVOICE	
	TIME REQUIRED (IN MINUTES)
COMMERCIAL ACCOUNTS:	
1. Receives contract from Contract Administration. Date and time stamps and sends to voucher clerk. (Date and time stamp machine used: 10 seconds) (GS-5 Secretary)	4
2. Establish contract file and insert contract. (Typewriter used: 1 minute) (Rotary Index File used: 15 seconds) (GS-6 Voucher examiner clerk)	7
RECEIVING STATION:	
1. Receives material and counts. (GS-3 Receiving clerk)	10
2. Prepares DD 250. (GS-3 Receiving clerk)	5
3. Delivers to Receiving Station Supervisor. (GS-3 Receiving clerk)	2
4. Receiving Stations Supervisor approves and sends to Commercial Accounts. (GS-8 receiving Station Supervisor)	8
COMMERCIAL ACCOUNTS:	
1. Receives receiving report from Receiving Station Supervisor; date and time stamps; sends to voucher examiner clerk. Date and time stamp machine used: 10 seconds) (GS-5 Secretary)	6
2. Voucher examiner clerk pulls contract file; reviews receiving report to assure that material received is what was ordered; determines that coding is correct. (Adding machine used: 20 seconds) (Rotary Index File used: 15 seconds) (GS-6 Voucher examiner clerk)	12

ADDENDUM 1 TIME REQUIREMENTS TO PAY A CONTRACTOR INVOICE	
	TIME REQUIRED (IN MINUTES)
MAIL ROOM:	
1. Receives envelope from contractor; opens it; places in Commercial Accounts mail pouch (GS-3 Mail clerk)	4
2. Mail clerk delivers to Commercial Accounts. (GS-3 Mail clerk)	22
COMMERCIAL ACCOUNTS:	
1. Receives mail pouch from mail clerk; removes invoice from mail pouch; date and time stamps; sends to voucher examiner clerk. (Typewriter used: 2 minutes) (GS-5 Secretary)	7
2. Voucher examiner clerk pulls contract file; reviews invoice to assure that invoice agrees with contract and receiving report; determines that coding is correct. (Adding machine used: 22 seconds) (Rotary Index File used: 11 seconds) (GS-6 Voucher examiner clerk)	9
3. Audits voucher and prepares voucher for payment. (Adding machine used: 18 seconds) (GS-6 Voucher examiner clerk)	8
4. Schedules voucher for payment. (Typewriter used: 2 minutes, 35 seconds) (GS-6 Voucher examiner clerk)	5
5. Forwards voucher, together with supporting documents to supervisor for approval. (GS-6 Voucher examiner clerk)	3
6. Commercial Accounts supervisor approves voucher and gives to secretary for transmittal to the disbursing office. (GS-8 Supervisor)	4
7. Secretary gives voucher and supporting documents to Captain. (GS-5 Secretary)	2
8. Captain reviews, approves, and returns to secretary	6
9. Secretary inserts in disbursing office pouch. (GS-5 Secretary)	2
10. Voucher clerk delivers pouch to disbursing office. (GS-6 Voucher examiner clerk)	12
DISBURSING OFFICE:	
1. Receives pouch from voucher examiner clerk; opens pouch; delivers payment schedule to disbursing clerk. Date and times stamps documents. (Date and time stamp machine used: 10 seconds) (GS-3 Clerk)	3

ADDENDUM 1 TIME REQUIREMENTS TO PAY A CONTRACTOR INVOICE	
	TIME REQUIRED (IN MINUTES)
2. Disbursing clerk reviews and schedules for check writing; gives package to supervisor for approval. (Typewriter used: 3 minutes, 18 seconds) (GS-5 Disbursing clerk)	6
3. Disbursing supervisor reviews and approves; gives to Captain. (GS-6 Supervisor)	4
4. Captain reviews, approves, and returns to disbursing supervisor.	4
5. Disbursing supervisor gives to Sergeant (E-5). (GS-6 Supervisor)	2
6. Sergeant gets blank check from safe; prepares check writer; prints check; gives to disbursing supervisor (Check writer used: 54 seconds)	18
7. Disbursing supervisor gives to Captain (GS-6 Supervisor)	2
8. Captain signs check and returns to disbursing supervisor.	3
9. Disbursing supervisor gives to Corporal (E-3). (GS-6 Supervisor)	2
10. Corporal prepares envelope and puts check in envelope.	4
11. Clerk receives envelop from Corporal and delivers to Mail Room. (GS-3 Clerk)	13
12. Corporal gives supporting documentation to disbursing supervisor.	4
13. Disbursing supervisor gives documents to clerk. (GS-6 Supervisor)	2
14. Clerk returns documents to Commercial Accounts. (GS-3 Clerk)	13
COMMERCIAL ACCOUNTS:	
1. Secretary receives documents from clerk; date and time stamps. (Date and time stamp machine used: 8 seconds) (GS-5 Secretary)	2
2. Secretary gives to voucher examiner clerk who files documents in contract file. (Rotary Index File used: 17 seconds) (GS-6 Voucher examiner clerk)	12

Figure 22-14

ADDENDUM 1 SUMMARY OF THE COSTS ASSOCIATED WITH FINAL COST OBJECTIONS ISSUE CHECK TO CONTRACTOR		
PERSONNEL COSTS (INCLUDING BENEFITS):		
Military (6112,6114) Civilian (6111,6113)	$ 8.34 34.56	
Total Personnel Costs		$ 42.90
CAPITAL EXPENSES:		
Depreciation - Personal Property (6125) Depreciation - Real Property (6126) Amortization - Real Property Improvements (6128) Amortization - ADP Software (6128)	-0- -0- -0- -0-	
Total Capital Expenses		-0-
OTHER EXPENSES:		
Travel of Persons (6116) Transportation of Things (6117) Rent, Communications, Utilities (6118) Printing and Reproduction (6119) Contractual Services (6120) Supplies and Materials (6121) Equipment (not capitalized 6122) All other expenses(6129, 6130, 6300, 6900)	-0- -0- -0- -0- -0- -0- -0- -0-	
Total Other Expenses		-0-
TOTAL COSTS ASSOCIATED WITH FINAL COST OBJECTIVE		$ 42.90

Note: Capital expenses and other expenses were not computed because neither category contributed a value that would meaningfully affect the outcome. Microfiching machines are used periodically when the number of documents ready to microfiche total several hundred. The Rotary Index files are used constantly and the amount of time allocable to document retrieval associated with a particular check is measured in terms of less than one minute. Real property occupied represented approximately 2 percent of total space and if allocated to the cost objective based on time required to process a check would be substantially less than $1. Similarly the value of other expenses would be substantially less than $1 (the standard price of the blank check would be $.0128).

The general ledger accounts that are the source for the amounts reported are shown in parentheses.

Figure 22-15

CHAPTER 23

COST DISTRIBUTION FOR INFORMATION TECHNOLOGY FACILITIES

2301 PURPOSE

230101 The purpose of this chapter is to provide accounting requirements and guidance applicable to cost distribution for information technology facilities. The term "information technology facility" (ITF) is used in this chapter in lieu of data processing facility, data processing installation, central design activity, computer center, data center, etc. It encompasses all resources used to provide data or information processing and telecommunications services. The chapter provides instructions for accounting for the full costs of operating ITFs, as required by OMB Circular No. A-130, "Management of Federal Information Resources."

230102 The identification of obligation data or service costs related to ITF operations can provide important information to organizational managers, ITF managers, and users that may result in more efficient operation and use of the ITF. Such information can show trends by which the efficiency of the services may be measured. Also, the cost identification process can demonstrate utilization and cost trends, develop user profiles, isolate information technology costs, improve planning, and become an important element in management's overall evaluation of the ITF. Obligation or cost data can be used to support budget exhibits and provide the information needed to support management decisions related to ITFs.

2302 REQUIREMENTS

230201 DoD Component accounting systems shall provide sufficient accounting support to ITFs for them to identify obligations or operating costs applicable to their operations. ITFs shall identify costs applicable to services provided to users if (a) services are provided to more than one organizational or accounting entity, (b) it operates one or more general management computers, and (c) it has annual operating costs or obligations greater than $5 million. An ITF shall identify costs applicable to services provided to users if it has an annual reimbursable program of more than $500 thousand.

230202 The cost identification guidance in this chapter also can be used to support management needs to identify ITF costs related to the life cycle of an Automated Information System (AIS). For example, management must identify AIS program development and procurement costs to determine if the major AIS threshold, as defined in DoD Directive 8120.1, has been exceeded.

230203 Services provided under emergency conditions or reciprocal backup agreements are excluded from the service costing requirement. Defense Business Operations Fund activities that operate ITFs shall follow the guidance contained in this chapter for the ITF function and chapters 19 through 21 of this Volume, as applicable, for other functions.

2303 REIMBURSEMENTS

The specific policy applicable to the billing for ITF services is contained in Volume 11 of this Regulation. Volume 11 shall be followed to determine if an ITF should bill for its services and at what price. This chapter provides guidance to identify all costs associated with ITF services regardless of any billing requirements.

2304 DEFINITIONS

The following are definitions for certain terms used within this chapter:

230401 Cost Center. A logical or physical grouping of one or more similar services for the purpose of identifying obligations or developing the cost identification for the services. Services are grouped into cost centers in order to (a) normalize between services that use similar resources with different capabilities; (b) apply surcharges and discounts to services; (c) identify

costs for different classes of the same service; or (d) identify obligations. A software design team in a central design activity is an example of a cost center. One or more cost centers will make up an ITF. A cost center also can be referred to as a service center.

230402 Costs

A. Direct Costs. Any item of cost that is easily and readily identified to a specific unit of work or output within the ITF cost centers. Direct costs may include civilian and military personnel costs, supplies, materials, contract services, etc. (See Volume 11 of this Regulation.)

B. Indirect Costs. An item of cost that is incurred for more than one specific unit of work or output within the ITF, and, therefore, cannot easily and readily be identified to a single item and must be allocated. There are numerous allocation methods that can be used; however, indirect costs are normally allocated based on total direct costs or total direct labor costs. An example of indirect costs is the management personnel of a computer operations room that provides for the development, implementation and administration of all policy guidance and procedures for the computer operations room.

C. General and Administrative Costs (G&A). An item of cost that supports the total operation of the ITF not just selected cost centers. There are numerous allocation methods that can be used; however, G&A costs are normally allocated based on total direct costs or total direct labor costs. Examples of G&A costs are the front office of the ITF, administrative staffs, or general maintenance and repair expenses.

230403 General Management Computer. A general management computer is a digital computer that is used for any purpose other than as a part of a process control system, space system, mobile system, or equipment that is an integral part of a weapon or weapons system. Excludes equipment involved with intelligence activities and cryptologic national security activities.

230404 Information Technology Facility (ITF). An information technology facility is an organizationally defined set of personnel, hardware, software, and physical facilities, operated within or on behalf of the Department of Defense, a primary function of which is the operation of information technology. An ITF includes:

A. The personnel who operate computers or telecommunications systems; develop or maintain software; provide user liaison and training; schedule computers, prepare and control input data; control, reproduce, and distribute output data; maintain tape and disk libraries; provide security; and provide direct administrative support to personnel engaged in these activities.

B. The owned or leased computer and telecommunications hardware, including central processing units; associated peripheral equipment such as disk drives, tape drives, printers, and consoles; data entry equipment; telecommunications equipment including control units, terminals, modems, and dedicated telephone and satellite links provided by the facility to enable data transfer and access to users. Hardware acquired and maintained by users of the facility is excluded.

C. The software, including operating system software, utilities, sorts, language processors, access methods, data base processors, and similar multi-user software required by the facility for support of the facility and/or general use by users of the facility. All software acquired or maintained by users of the facility is excluded.

D. The physical facilities, including computer rooms, tape and disk libraries, stock-rooms and warehouse space, office space, and physical fixtures.

230405 Obligations. Amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Obligations are directly related to budget authority received for a given fiscal year, and the amounts of budget authority obligated

are reported monthly in budget execution reports. (See chapter 4 Volume 6 of this Regulation.)

230406 Service. A service is any work done by the ITF for a user or group of users.

230407 Unit of Service. A unit of service is the end product or unit used to measure the amount of service received by users. Examples of service units are central processing unit (CPU) time for a CPU service, pages printed for a printing service, direct labor hours expended to develop a software application or checks processed for a payroll service. The unit of service selected should be an accurate unit of the dominant type of work performed by the ITF. If a single unit cannot be determined, then the possibility of dividing the work into multiple services should be considered. For example, preparing a report by an ITF can require CPU time, data storage and retrieval, and printing. Total cost for the report may involve summing costs of each required service.

230408 User. A user is an individual, organizational or functional entity that receives ITF services. A user may be internal or external to the DoD Component.

2305 IDENTIFICATION OF OBLIGATION /COST DATA

The identification and recording of obligation or cost data for ITFs shall be in accordance with Volume 3 of this Regulation. Because detailed information on recording and reporting obligations and costs are contained throughout this Regulation, guidance will not be repeated here. Accounting support must be provided to ITFs so that they can identify obligation or cost data and report it when required.

2306 IDENTIFICATION AND ALLOCATION OF COSTS

230601 The identification and allocation of costs is a process by which the costs incurred by the ITF for providing its services are collected by function and related to the service unit being supported. The costs of direct functions are directly related to the service unit they support. However, an allocation process is used to properly relate indirect and G&A costs to the appropriate service units. A full description of the allocation process must be documented. A description (including a schematic) of the allocation process that shows the relationships of the various cost center indirect and G&A costs should be available for review by appropriate authority and for user understanding of the allocation process.

230602 All costs associated with the operation of an ITF shall be distributed to the appropriate service units. Charges must be equitable to resources consumed and priority requested. Dedicated services are to be identified to specific users. For multi-user services, workload measurement tools should be used to insure ITF costs are equitably charged to users for all service units consumed. Within the ITF, further breakdowns shall be made to specific cost centers. Costs within these centers should be determined within a documented cost element structure. See figure 23-1 for a breakdown of potential information technology cost elements associated with an ITF. The identification and allocation process should be established by knowledgeable and informed people who are familiar with the particular ITF operation.

230603 The identification and allocation process must be reviewed periodically to ensure that no service has been inadvertently omitted or unnecessarily included.

230604 Where appropriate, e.g., cost center or completion of a process, specific units of service shall be established to produce a rate for each type of service provided. Figure 23-2 is an example of the possible types of information technology services being performed and their related unit(s) of service and workload measurements.

230605 All direct costs associated with an ITF shall be identified to the applicable function, service and cost centers. (See paragraph 230402.A, above, figure 23-3, and Volume 11 of this Regulation.)

230606 Indirect cost pools shall be established for each cost center to identify the indirect costs associated with each product or service within the cost center. These costs shall be allocated periodically based on an acceptable allocation method such as total direct costs or total direct labor costs. The allocation method applied must be documented.

230607 A G&A cost pool shall be established for an ITF. Applicable costs shall be identified to the G&A cost pool and periodically allocated based on an acceptable allocation method such as total direct and indirect costs. The allocation method applied must be documented.

230608 Indirect and G&A costs shall be evaluated periodically to verify cost type (that is, indirect or overhead), and adjust allocations to the applicable service units as necessary.

230609 A record shall be maintained to identify the users of an ITF and the services provided to each user. The total output of an ITF should be reconcilable with the work accomplished or produced by the ITF for each customer. Statements of charges or identification of ITF services to users shall be derived from records kept by the ITF. These records are needed for billing, verification of cost allocations, and for future planning and budgeting.

230610 Management control procedures for implementing this chapter are to be established and documented.

2307 RATE COMPUTATION

230701 Figure 23-4, "Information Needed to Define the Current Environment," provides some suggested actions or questions to be answered that may be helpful before beginning to develop rate computations.

230702 When developing rates, these points should be understood:

A. Services and their unit(s) of service should be easily understood by the ITF users.

B. Services should represent a significant portion of the ITF's work, and the unit(s) of service should be a valid measure of the amount of work performed.

C. Services are not limited to equipment based units. Other services, especially personnel based services, are often costly and should be identified.

D. When possible, services that are transaction or output based should be selected so that the users can easily understand them.

E. Services and the cost collection/allocation process should be reviewed periodically to insure that rates are an acurate reflection of what it costs the ITF to provide each service. Policies and procedures need to be in place to facilitate this process.

230703 Rate development should follow a sequential procedure. Identified below are five basic steps that should be taken:

A. Step 1. Identify all costs associated with the ITF. The examples, Figures 23-5 and 23-5A provide sample cost data for two ITFs; one a central design activity (CDA) and the other a data processing installation (DPI). For ease in demonstration, only one productive cost center, along with the general and administrative cost center, was identified for each and is representative of an annual period. Additionally, the cost in each productive cost center is identified by the direct and indirect amounts.

B. Step 2.

1. For each productive cost center, identify the direct costs of each product and service by service unit. This is achieved by identifying the direct cost of all functions performed in support of products/ services produced and relating those costs to the service unit(s) supported. Note that the CDA has a service unit for customer direct pass through items. This includes travel, costs for testing, contractor support services, etc., performed for specific customers that should be reimbursed by the benefiting customers only.

2. Additionally, the units of work/workload should be identified since they are paramount in determining the level of resources required to support them. Initially, this may have to be estimated by informed personnel; however, after a given period of time, the information should be systematically gathered and documented from workload job accounting software packages and/or labor tracking systems as applicable. The total direct cost of each service unit and the associated units of work/workload for the DPI and CDA have now been determined. (See Figure 23-6)

C. Step 3. Indirect costs of each productive cost center must be allocated to the service units produced/supported in that cost center. Indirect rates for this allocation process are calculated by dividing the total indirect cost by the allocation base selected. In Figure 23-7, the allocation base selected is total direct costs for the DPI and direct labor costs for the CDA. Once the indirect rates have been calculated, they are used to allocate the indirect cost to each service unit supported within the cost centers. For the DPI, this is achieved by multiplying the total direct cost of each service unit by the indirect rate. For the CDA, this is achieved by multiplying the total direct labor costs of each service unit by the indirect rate. The example shows that the total indirect costs of $475,000 and $442,500 for the DPI and CDA respectively, have been fully allocated to all service units supported within each organization. The total indirect costs of each service unit/output for the DPI and CDA have now been determined.

D. Step 4. General and administrative (G&A) costs must be allocated to all services produced within the ITF. The G&A rate for this allocation process is calculated by dividing the G&A costs by the allocation base selected. In Figure 23-8, the allocation base selected for both the DPI and CDA is total direct plus indirect costs. Once the G&A rate is calculated, it is used to allocate the G&A costs to all service units provided by the ITF. This is achieved by multiplying the total direct plus indirect cost of each service unit by the G&A rate. The example shows that the total G&A costs of $495,600 and $403,200 for the DPI and CDA respectively, have been fully allocated to all service units supported within each organization. The total direct, indirect and G&A costs of each service unit for the DPI and CDA has now been determined.

E. Step 5. Establish the rate for each unit of service by dividing the total direct, indirect and G&A costs (Step 4) of each service unit by the associated units of customer work/workload required (Step 2). These rates incorporate the total costs of all cost centers in producing each product and service and the related service unit(s). Such rates should be verified periodically because they form the basis by which a customer is billed (in accordance with the reimbursement policy found in volume 11 of this Regulation) or by which costs can be identified and allocated for planning or budgeting (e.g., operating an automated information system (AIS) within a DPI or developing and/or modernizing an AIS within a CDA). (See Figure 23-9)

POTENTIAL COSTS ASSOCIATED WITH AN ITF

Personnel. Both civilian and military persons who manage and perform information technology (IT) functions. This includes work such as development and maintenance of computer software, operation and management of in-house data processing centers and departments, data preparation, electronic output reproduction and distribution, equipment maintenance, and contract management. It also includes persons performing IT related custodial services, security, and building maintenance. This also includes other personnel related costs for leave, holiday, fringe benefits, training, travel, and recruiting.

Equipment. Nonrecurring expenditures for acquisition and recurring costs for rental and leasing of computers, associated on-line and off-line IT equipment, and special purpose IT furniture. If the dollar value of equipment and its projected service life meet the capitalization criteria set forth in Chapter 1 and 6 of this Volume, or Volume 11B of this Regulation, depreciation may be applicable.

Computer Software. Nonrecurring expenditures for acquisition, development, and conversion and recurring expenses for rental and leasing of all types of software--operating, multipurpose, and application. If the dollar value of the software and its projected life meet the capitalization criteria in Chapter 1 and 6 of this Volume, or Volume 11B of this Regulation, depreciation may be applicable.

Space Occupancy. Funded and unfunded costs for (1) rental and lease of buildings and general office furniture, (2) building maintenance, (3) regular telephone service and utilities, and (4) custodial services and security.

Supplies. Expenditures for non-capital office supplies and general and special purpose data processing materials. Special purpose supplies are those prepared for one or a few applications. IT data storage media may be considered either supplies or items of equipment.

Contracted Services. Expenditures and contracting expenses for:

(1) Technical and consulting services for agency-operated computer facilities and equipment, including equipment maintenance; security and custodial services for computer facilities; finance and accounting; and advice on the acquisition, selection, and use of computer facilities or software.

(2) Computer system services and off-line equipment services such as key data entry, report reproduction, and testing.

(3) Analysis, design, programming, documentation, and testing for development, modification, conversion, and maintenance of computer software.

(4) Data communications network services, associated telecommunications line charges, channel lease and rental, equipment rental and maintenance, and telecommunications system analysis and design.

Services from Other Units or Agencies. The costs of other governmental agencies or organizational elements for those services cited under "Contracted Services," above.

Intra-agency Services and Overhead. The costs of normal agency support services and overhead, either billed or allocated, and the costs of central ADP management, policy, and procurement services.

FIGURE 23-1

EXAMPLES OF COST CENTERS, SERVICES AND UNITS OF SERVICE

COST CENTER A IBM PROCESSING:

PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	WORKLOAD MEASURE
IBM PROCESSING	CPU TIME	HOURS
	DASD	MEGABYTES PER DAY
	TAPE MAINT	PER MOUNT
	PAGES PRINTED	PER PAGE

COST CENTER #1 SOFTWARE DEVELOPMENT/MODERNIZATION:

PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	WORKLOAD MEASURE
SENIOR ANALYST	DIRECT LABOR HOURS	PER HOUR
ANALYST	DIRECT LABOR HOURS	PER HOUR
PROGRAMMER	DIRECT LABOR HOURS	PER HOUR
DIRECT CUSTOMER SUPPORT	DIRECT COSTS	DIRECT COST

FIGURE 23-2

TYPES OF COSTS ASSOCIATED WITH OPERATING AN ITF
(See Volume 11)

Direct civilian labor
- (1) Payroll costs
- (2) Leave or holiday costs
- (3) Funded fringe benefit costs
- (4) Unfunded fringe benefit costs

Indirect civilian labor
- (1) Payroll costs
- (2) Leave or holiday costs
- (3) Funded fringe benefit costs
- (4) Unfunded fringe benefit costs

Direct military labor
- (1) Payroll costs
- (2) Leave and holiday costs
- (3) Other support cost factors

Indirect military labor
- (1) Payroll costs
- (2) Leave and holiday costs
- (3) Other support cost factors

Use of DoD assets
- (1) asset use charge
- (2) depreciation on investments
- (3) interest on investment in assets

Contractor support services

Rental and leases

Equipment maintenance

Temporary duty costs

Software maintenance

Supplies and materials

Utilities

Building services

Telephone

Travel

Training

FIGURE 23-3

INFORMATION NEEDED TO DEFINE THE CURRENT ENVIRONMENT

1. Describe the ITF hardware and software configuration.
2. Provide an organization chart that identify the lowest organizational entity within the activity.
3. List of functions performed by organizational entity.
4. Describe the various types of processing done (local applications, batch, on-line, real-time, etc.).
5. What are the staffing levels for the ITF (number of management personnel, programmers, analysts, operators, etc.)?
6. Provide an inventory listing of the ITF's hardware and software.
7. Explain how the ITF supports the various components within the agency, and provide numbers for the various types of users within each component.
8. Identify the products and services provided.
9. Does the ITF provide services to any outside users? If so, how many outside users are there and what percentage of the ITF workload does each comprise?
10. Identify customers and whether the ITF is being reimbursed by them for services provided. If yes, identify the amount by customer.
11. Have IT/ITF costs been isolated within the budget? To what level of detail?
12. What type of capacity planning currently is done? What are workload estimates based on? How often are these estimates updated?
13. Identify the prior year actual operating cost and any approved programmed budget changes.
14. Ascertain whether hardware/software is owned or leased.
15. Identify the workload measurement tools to collect the applicable utilization data, e.g. labor distribution system for a design activity.

FIGURE 23-4

EXAMPLE: RATE COMPUTATION

STEP 1: IDENTIFY THE TOTAL COST OF THE ITF BY COST CENTER

CENTRAL DESIGN ACTIVITY:

COST ELEMENTS	TOTAL COSTS	COST CENTER #1 SOFTWARE DEV/MOD DIRECT	COST CENTER #1 SOFTWARE DEV/MOD INDIRECT	COST CENTER #2 GENERAL AND ADMIN OVERHEAD
LABOR	$2,153,800	$1,500,000	$350,000	$303,800
MATERIALS & SUPPLIES	101,700	75,000	15,000	11,700
TRAVEL	143,400	100,000	20,000	23,400
CONTRACTUAL SERVICES	358,400	250,000	50,000	58,400
DEPRECIATION	8,500	0	5,000	3,500
EQUIPMENT	14,900	10,000	2,500	2,400
TOTAL	$2,780,700	$1,935,000	$442,500	$403,200

FIGURE 23-5

DATA PROCESSING INSTALLATION:

COST ELEMENTS	TOTAL COSTS	COST CENTER A IBM PROCESSING DIRECT	COST CENTER A IBM PROCESSING INDIRECT	COST CENTER B GENERAL AND ADMIN OVERHEAD
LABOR	$1,821,500	$1,175,000	$300,000	$346,500
MATERIALS & SUPPLIES	288,300	250,000	25,000	13,300
TRAVEL	71,600	25,000	20,000	26,600
CONTRACTUAL SERVICES	746,600	580,000	100,000	66,600
DEPRECIATION	199,000	175,000	20,000	4,000
EQUIPMENT	42,600	30,000	10,000	2,600
TOTAL	$3,169,600	$2,235,000	$475,000	$459,600

FIGURE 23-5A

EXAMPLE: COMPUTATION OF SERVICE UNIT RATE
STEP 2: IDENTIFY DIRECT COST AND THE RELATED UNITS OF WORK BY BILLABLE SERVICE UNIT

ITF	PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	DIRECT LABOR COSTS	DIRECT NON-LABOR COSTS	TOTAL DIRECT COSTS	UNITS OF WORK/ WORKLOAD
DPI CC A	IBM PROCESSING	CPU TIME	$550,000	$475,000	$1,025,000	10,800
		DASD	350,000	290,000	640,000	610,000,000
		TAPE MOUNTS	150,000	125,000	275,000	157,016
		PAGES PRINTED	125,000	170,000	295,000	26,940,333
TOTAL DPI			$1,175,000	$1,060,000	$2,235,000	
CDA CC #1	SOFTWARE DEV/MOD-SR ANALYST	DIRECT LABOR HOURS	$770,000	$	$770,000	17,942
	SOFTWARE DEV/MOD-PROGRAMMER ANALYST	DIRECT LABOR HOURS	480,000		480,000	15,145
	SOFTWARE DEV/MOD-PROGRAMMER	DIRECT LABOR HOURS	250,000		250,000	10,518
	DIRECT PASS THROUGH ITEMS	DIRECT COST		435,000	435,000	435,000
TOTAL CDA			$1,500,000	$435,000	$1,935,000	

FIGURE 23-6

EXAMPLE: COMPUTATION OF SERVICE UNIT RATES
STEP 3: COMPUTE INDIDRECT RATES FOR EACH COST CENTER AND ALLOCATE INDIRECT COSTS

INDIRECT RATE:
DPI = INDIRECT COSTS/DIRECT LABOR COSTS
COST CENTER A = $475,000/$2,235,000
= 21.253%

CDA = INDIRECT COSTS/DIRECT LABOR COSTS
COST CENTER #1 = $442,500/$1,500,000
= 29.50%

ITF	PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	DIRECT COSTS/ LABOR	COST CENTER A @ 21.253%	COST CENTER #1 @ 29.500%
DPI	IBM PROCESSING	CPU TIME	$1,025,000	$217,841	
		DASD	640,000	136,018	
		TAPE MOUNTS	275,000	58,445	
		PAGES PRINTED	295,000	62,696	
TOTAL DPI			$2,235,000	$475,000	$0
CDA	SOFTWARE DEV/MOD SR ANALYST	DIRECT LABOR HOURS	$770,000		$227,150
	SOFTWARE DEV/MOD-PROGRAMMER ANALYST	DIRECT LABOR HOURS	480,000		141,600
	SOFTWARE DEV/MOD PROGRAMMER	DIRECT LABOR HOURS	250,000		73,750
TOTAL CDA			$1,500,000	$0	$442,500

FIGURE 23-7

EXAMPLE: COMPUTATION OF SERVICE UNIT RATE
STEP 4: COMPUTE GENERAL AND ADMINISTRATIVE (G&A) RATE AND ALLOCATE G&A COSTS

G&A RATE = G&A COSTS/TOTAL DIRECT + INDIRECT COST

DPI = $459,600/($2,235,000 + 475,000) CDA = $403,200/($1,935,000 + $442,500)

= $459,600/$2,710,000 = $403,200/$2,377,500

= 16.959% = 16.959%

ITF	PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	TOTAL DIRECT COSTS	INDIRECT COST	TOTAL DIRECT + INDIRECT	G&A @ 16.959%	TOTAL DIRECT, INDIRECT AND G&A
DPI	IBM PROCESSING	CPU TIME	$1,025,000	$217,841	$1,242,841	$210,779	$1,453,620
		DASD	640,000	136,018	776,018	131,608	907,626
		TAPE MOUNTS	275,000	58,445	333,445	56,550	389,995
		PAGES PRINTED	295,000	62,696	357,696	60,663	418,359
TOTAL DPI			$2,235,000	$475,000	$2,710,000	$459,600	$3,169,600
CDA	SR ANALYST	DIRECT LABOR HRS	$770,000	$227,150	$997,150	$169,106	$1,166,256
	PROGRAMMER ANALYST	DIRECT LABOR HRS	480,000	141,600	621,600	105,417	727,017
	PROGRAMMER	DIRECT LABOR HRS	250,000	73,750	323,750	54,905	378,655
	DIRECT CUST SUPPT	DIRECT COST	435,000	0	435,000	73,772	508,772
TOTAL			$1,935,000	$442,500	$2,377,500	$403,200	$2,780,700

FIGURE 23-8

EXAMPLE: COMPUTATION OF SERVICE UNIT RATE
STEP 5: COMPUTE THE SERVICE UNIT RATES

ITF	PRODUCTS/ SERVICES	BILLABLE SERVICE UNITS	WORKLOAD MEASURE	UNITS OF WORK/ WORKLOAD	TOTAL DIRECT, INDIRECT AND G&A COSTS	SERVICE UNIT RATE
DPI	IBM PROCESSING	CPU TIME	HOURS	10,800	$1,453,620	$134.5944
		DASD	MEGABYTES PER DAY	610,000,000	907,626	.0015
		TAPE MOUNTS	PER MOUNT	157,016	389,995	2.4838
		PAGES PRINTED	PER PAGE	26,940,333	418,359	.0155
TOTAL DPI					$3,169,600	
CDA	SENIOR ANALYST	DIRECT LABOR HOURS	PER HOUR	17,942	$1,166,256	$65.0014
	PROGRAMMER ANALYST	DIRECT LABOR HOURS	PER HOUR	15,145	727,017	48.0038
	PROGRAMMER	DIRECT LABOR HOURS	PER HOUR	10,518	378,655	36.0007
	DIRECT CUSTOMER SUPPORT	DIRECT COSTS	DIRECT COST	435,000	508,772	1.1696
TOTAL CDA					$2,780,700	

FIGURE 23-9

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