

**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**VOLUME 4: "ACCOUNTING POLICY"**

**UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)**

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**VOLUME 4, CHAPTER 1: “FINANCIAL CONTROL OF ASSETS”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [January 2016](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Administrative updates were completed in accordance with the Department of Defense Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.2	Updated the Authoritative Guidance section. Removed the reference to Statement of Federal Financial Accounting Standards (SFFAS) 8 which was rescinded by SFFAS 57. Also, added references to SFFAS 54 and 57 that were issued since the previous version.	Deletion/ Addition
2.4	Clarified Nonentity versus Entity Asset language.	Revision
3.0	Clarified Fund Balance with Treasury policy language.	Revision
7.0	Clarified Stewardship Land language and revised Financial Management Regulation references for General Property, Plant, and Equipment.	Revision

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## CHAPTER 1

FINANCIAL CONTROL OF ASSETS

## 1.0 GENERAL

## 1.1 Purpose

This chapter prescribes the Department of Defense (DoD) accounting policy for the financial control of assets. The DoD establishes financial control, from acquisition to disposal, over all DoD assets based on statutory or other legal authority and asset type. Properly documented authorizations record acquisitions, placed in service dates, transfers, write-downs or offs, and dispositions. The Department accounts for all DoD tangible assets, including assets in transit and the hands of contractors, private parties, and other government agencies.

## 1.2 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.2.1. Financial Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Concepts (SFFAC 6), “Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information;”

1.2.2. FASAB Statement of Federal Financial Accounting Standard (SFFAS 1), “Accounting for Selected Assets and Liabilities;”

1.2.3. FASAB SFFAS 3, “Accounting for Inventory and Related Property;”

1.2.4. FASAB SFFAS 6, “Accounting for Property, Plant, and Equipment;”

1.2.5. FASAB SFFAS 31, “Accounting for Fiduciary Activities;”

\* 1.2.6. FASAB SFFAS 54, “Leases;”

\* 1.2.7. FASAB SFFAS 57, “Omnibus Amendments 2019;”

1.2.8. Office of Management and Budget (OMB Circular A-136), “Financial Reporting Requirements;”

1.2.9. The United States Department of the Treasury (Treasury) Bureau of the Fiscal Service Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 3200, “Foreign Currency Accounting and Reporting;”

1.2.10. TFM Volume 1, Part 2, Chapter 3400, “Accounting for and Reporting on Cash and Investments Held Outside of the United States (U.S.) Treasury;”

1.2.11. TFM Volume 1, Part 2, [Chapter 5100](#), “Reconciling Fund Balance with Treasury Accounts;” and

1.2.12. Department of Defense Instruction [\(DoDI\) 5000.64](#), “Accountability and Management of DoD Equipment and Other Accountable Property.”

## 2.0 ACCOUNTING REQUIREMENTS

### 2.1 Accounting Requirements Overview

Sections [3.0](#) through [8.0](#) provide specific accounting policies for various categories of assets. The general requirements prescribed in this section apply to all assets.

### 2.2 Definition of Asset

An asset has two essential characteristics:

2.2.1. It embodies [probable \(more likely than not\)](#) economic benefits or services that can be used in the future; and

2.2.2. The DoD [owns or](#) controls access to the economic benefits or services and, therefore, can obtain them, deny, or regulate the access of other entities.

### 2.3 Noncash Assets

Noncash assets [are](#) valued promptly, once DoD [acquires](#), takes possession, or [exercises](#) accounting control. For purposes of this paragraph, promptly means [by](#) the entity’s fiscal year-end.

### \*2.4 Entity Versus Nonentity Assets

2.4.1. DoD Components report entity assets separately from nonentity assets in [the financial statements, Note 2](#).

2.4.2. [DoD Components use entity assets in their operations](#). The DoD Component [decides](#) how the asset is used or [must](#) use the asset to meet statutory obligations.

2.4.3. [DoD Components may hold, but not use](#) nonentity assets in its operations. A DoD Component may [be a fiduciary](#), maintaining nonentity assets for the Treasury, other government agencies, or non-federal entities. DoD Components must report both entity and [custodial or managed](#) nonentity assets in the financial statements. However, DoD Components [must not recognize fiduciary](#) nonentity assets on the Balance Sheet, [according to](#) SFFAS 31. [The Federal Government must uphold the non-Federal individuals’ or entities’ ownership interest in the fiduciary assets](#). Disclose in [the financial statement, Note 2](#), the nonentity assets [reported on an entity’s Balance Sheet](#) [according to](#) OMB Circular A-136, Assets section; see also Volume 6B, Chapter 10. Recognize [a liability](#) equal to nonentity assets (due to Treasury or other entities) on the Balance Sheet.

## 2.5 Intragovernmental Versus Public Transactions

2.5.1. DoD Components create intragovernmental assets from transactions with Non-DoD Federal Agencies and other DoD Components.

2.5.2. DoD Components create public assets from transactions with non-federal entities. Non-federal entities include domestic and foreign persons and organizations outside the U.S. Government. The term “public” can represent non-federal entities.

## 2.6 Accounting Events

The accounting events discussed in Chapters 2 through 7 require accounting entries simultaneously in both the proprietary accounts and the budgetary accounts. Additional information on budgetary accounts is in Volume 3.

## \*3.0 FUND BALANCE WITH TREASURY (FBWT) AND CASH

### 3.1 FBWT Policy

FBWT includes the available funds with Treasury authorizing the entity to make expenditures and pay liabilities. Collections and disbursements increase or decrease the account balance. All federal agencies must reconcile their FBWT accounts on a regular and recurring basis to ensure integrity and accuracy. Research and resolve differences identified during the reconciliation process. Reconciliation documentation (including support for any adjustments required) must be prepared and retained. Reconciliation, review, and approval of evidence must be documented. FBWT balances must be accurate for the Treasury, Department, and Government-wide financial position. Comprehensive guidance on FBWT and Cash is in Chapter 2.

### 3.2 Cash Held Outside of Treasury

DoD consolidation entities may hold cash outside of the Treasury to provide check-cashing services in accordance with Volume 5. Cash includes all monetary resources on hand or deposit with financial institutions, including coins, currency, and readily negotiable instruments (such as checks and money orders).

### 3.3 Restricted Cash

Laws, regulations, or agreements impose cash deposit restrictions. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes. Financial reports must disclose the restriction reasons and nature.

### 3.4 FBWT and Cash Accounting Requirements

#### 3.4.1. FBWT and cash accounting will:

3.4.1.1. Be complete, accurate, and timely.

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

3.4.1.3. Comply with applicable laws and regulations.

3.4.1.4. Disclose errors, losses, and gains. DoD Components must identify, resolve, and correct errors on a timely basis as detailed in Chapter 2.

3.4.2. Record cash receipts immediately upon collection, and control and deposit cash as soon as practicable. Disbursing Officers and their cash agents may hold cash collections for operating requirements within their authority.

3.4.3. Make cash disbursements only after receiving an approved voucher package containing performance evidence (i.e., receipt of goods and/or services via DD Form 250, Material Inspection and Receiving Report), a valid purchase order, and a valid invoice. Cash disbursements can also be made after receiving an authorized advance payment request. Record cash disbursements and collections promptly in the applicable DoD accounting system and report the same in the Statement of Transactions.

3.4.4. Reconcile cash receipts and disbursements with appropriate documents and accounting records, within each accounting period. Document the reconciliation and verify that all supporting documentation amounts agree with the postings to the U.S. Standard General Ledger account 101000, Fund Balance with Treasury, and 109000, Fund Balance with Treasury Under a Continuing Resolution. Research and resolve any differences identified during the reconciliation process. Prepare and retain reconciliation documentation (including support for any adjustments required). Review and approval of the reconciliations and adjustments must be documented.

3.4.5. Account for foreign currencies in subsidiary accounts separate from U.S. currency. Report foreign currencies at the U.S. dollar equivalent using the exchange rates prescribed by the Secretary of the Treasury. Disclose in the financial statement notes that foreign currency is not freely exchangeable. Accounting entities may prepare financial statements for their use. These entity-level statements will be translated into U.S. dollars when used to prepare departmental financial statements. See Volume 6A, Chapter 7 for additional foreign currency information.

3.4.6. Cash management requirements guidance is in Chapter 2.

## 4.0 RECEIVABLES

### 4.1 Receivables Overview

**Record** amounts due the DoD accurately in the appropriate receivable account **when** the transaction or event occurs. **Claims** to assets include accounts receivable, interest receivable, and loans receivable. **Detailed Receivables** guidance is in Chapter 3.

### 4.2 **Receivable** Recognition

SFFAS 1 requires receivable recognition **when** a federal entity establishes a claim to assets against other entities, either based on legal provisions, such as a payment not received by the invoice due date, or goods or services provided. **Unknown amounts must** be **estimated**.

## 5.0 INVENTORY AND RELATED PROPERTY

### 5.1 Definition of Inventory and Related Property

5.1.1. Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) consumed in producing goods or providing services for a fee. Inventory includes items for sale or transfer to **the federal** government or non-federal entities.

5.1.2. Inventory **is** recognized when **the** title passes or when the goods are **received by** the purchasing entity. **The terms of the contract dictate** delivery or constructive delivery.

5.1.3. Inventory **is** valued at historical cost, using the moving average cost assumption unless an exception is specifically authorized.

5.1.4. **Comprehensive Inventory** guidance is in Chapter 4.

### 5.2 Operating Materials and Supplies and Stockpile Materials

Related property includes operating materials and supplies and stockpile materials. **Additional guidance is in Chapter 4.**

## 6.0 ADVANCES AND PREPAYMENTS

### 6.1 Advances

**A DoD Component may** advance cash to its employees, contractors, grantees, or others to cover the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Common examples include travel advances disbursed to employees prior to business trips, and assets disbursed under a contract, grant, or cooperative agreement before **the contractor or grantee provides** services or goods. **Reduce** advances when related goods or services are received, contract terms are met, progress is made under a contract, or anticipated

expenses are realized. Advances are [the paying entity's assets](#). [Additional advance](#) guidance is [discussed](#) in Chapter 5.

## 6.2 Prepayments

A DoD Component may make [prepayments](#) to cover periodic expenses before those expenses are incurred. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. Reduce prepayments when [the DoD Component receives](#) goods or services, or [the prepaid expenses expire](#). Prepayments are [the paying entity assets](#). [Detailed prepayment](#) guidance is in Chapter 5.

## 6.3 Reporting Intragovernmental Transactions

Intragovernmental [advances](#) and prepayments [must](#) be accounted for and reported separately from those made to non-federal entities.

## \*7.0 PROPERTY, PLANT, AND EQUIPMENT (PP&E)

### 7.1 Definition of PP&E

7.1.1. PP&E [includes](#) General PP&E, Heritage Assets, [Multi-Use Heritage Assets](#), and Stewardship Land. SFFAS 6 defines PP&E as tangible assets, [with](#) estimated useful lives of two years or more, are not intended for sale in operations, and [are](#) acquired or constructed to be used. PP&E includes [Internal Use Software](#), [Lease assets](#), leasehold improvements, property owned in the hands of others (e.g., state governments, colleges and universities, or Federal contractors), and land rights.

7.1.2. Heritage Assets are of historical, natural, cultural, educational, artistic, or aesthetic significance, or with significant architectural characteristics. [Regardless of its use, all land from the public domain provided to the Department at no cost is classified as Stewardship Land](#).

7.1.3. [The government must](#) account for PP&E because public funds are invested. Account and control property in the accountable property systems of record. The DoD [must](#) safeguard its property from theft, abuse, waste, and unauthorized use and manage the property efficiently and effectively.

7.1.4. Consistent with the DoDI 5000.64, DoD is accountable for all property acquired, leased, or otherwise obtained: from initial acquisition and receipt; through accountability and custody; until formally relieved of accountability, including disposition; or through a completed evaluation and investigation for lost, damaged, destroyed, or stolen property. [Additional PP&E guidance is in Chapter 24 for Real Property, Chapter 25 for General Equipment, Chapter 26 for Leases, Chapter 27 for Internal Use Software and Chapter 28 for Heritage Assets, Multi-Use Heritage Assets and Stewardship Land](#).

## 7.2 Recording General PP&E Assets

Record all General PP&E assets in accounting records at cost. **Include** all costs incurred to bring the PP&E to a form and location suitable for its intended use. Stewardship **Land and Heritage Asset** PP&E (except for Multi-Use Heritage Assets) **costs are** expensed **when** incurred.

## 8.0 OTHER ASSETS

Other assets include investments, and other miscellaneous assets not otherwise classified in a specific category identified in sections 2.0 through 7.0. The basic purpose is to ensure financial control over these assets and the recording of expenses or dispositions in the appropriate accounting periods. **Other assets guidance** is in Chapter 7.

**VOLUME 4, CHAPTER 2: “ACCOUNTING FOR CASH AND FUND BALANCES  
WITH TREASURY”**

**SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [April 2020](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Policy Memo 2.2, 6.0	This revision incorporated and cancelled the Deputy Chief Financial Officer (DCFO) memorandum titled; “Department of Defense Accounting for Funds Held Outside of Treasury Implementation Guidance (FPM 25-01),” dated January 27, 2025.	Cancellation
Policy Memo Appendix A	This revision incorporated and cancelled the DCFO memorandum titled; “Treasury Index 97 Deposit Fund Liabilities Account Structure (FPM 22-04),” dated September 22, 2022.	Cancellation
Policy Memo 4.0, 5.0	This revision incorporated and cancelled the DCFO memorandum titled; “Reporting Department of Defense Deposit Fund Liabilities (FPM 20-10),” dated July 2, 2020, adding section 4.0 to define reporting requirements for Department of Defense Deposit Fund Liabilities and creating section 5.0 specific to the Treasury Index 97 Deposit Fund Liabilities Account.	Cancellation
1.2	Updated the Authoritative Guidance.	Revision
2.6	Incorporated Central Accounting Reporting System reconciliation requirement for undistributed amounts in accordance with Office of Management and Budget Circular A-136	Addition
8.4 (previous Version)	Deleted Record /Reconcile Fund Balance with Treasury Transactions for Defense Working Capital Funds (WCF).	Deletion
9.4	Added Current Balance of Funds with Treasury	Addition

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
10.2	Added the Enterprise Financial Transformation office to the reconciliation responsibilities.	Addition
10.7	Revised description of the Treasury clearing accounts.	Revision
10.8	Moved Undistributed Collections and Undistributed Disbursements out of Defense WCF because it is not WCF specific (previously paragraph 6.7).	Revision
Table 2-2	Added additional Treasury Assigned Accounts for the Revolving Funds	Addition

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## CHAPTER 2

**ACCOUNTING FOR CASH AND FUND BALANCES WITH TREASURY**

## 1.0 GENERAL

## 1.1 Purpose

This chapter prescribes Department of Defense (DoD) accounting policy and related management requirements establishing financial control over fund balances with the U.S. Department of the Treasury (Treasury) and cash resources that are not part of the Fund Balance with Treasury (FBWT). Unless otherwise stated, this chapter is applicable to the Military Departments and Defense Agencies, hereinafter referred to as DoD Components including the Revolving Fund activities. [Annex 1](#) “Supporting Fund Balance with Treasury Balances Brought Forward” provides the steps required for stating beginning balances for FBWT.

## \*1.2 Authoritative Guidance

1.2.1. Title 10, United States Code, section 2206 ([10 U.S.C. § 2206](#)) “Disbursement of funds of military department to cover obligation of another agency of Department of Defense;”

1.2.2. [10 U.S.C. § 2208](#), “Working-capital funds;”

1.2.3. [31 U.S.C. § 1341](#), “Limitations on expending and obligating amounts;”

1.2.4. [31 U.S.C. § 3324](#) “Advances;”

1.2.5. [Title 31, Code of Federal Regulations, § 240.12\(a\)](#), “Processing of checks. Federal Reserve Banks;”

1.2.6. The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ([SFFAS](#)) [1](#), “Accounting for Selected Assets and Liabilities;”

1.2.7. FASAB [SFFAS 31](#), “Accounting for Fiduciary Activities;”

1.2.8. [Treasury Financial Manual \(TFM\) Volume I, Part 2, Chapter 3400](#), “Accounting For and Reporting on Cash and Investments Held Outside of Treasury (CIHO);”

1.2.9. [TFM Volume I, Part 2, Chapter 5100](#), “Fund Balance with Treasury Accounts;”

1.2.10. Office of Management and Budget ([OMB](#)) [Circular No. A-11](#), subsection 20.4(j);

1.2.11. OMB [“Financial Reporting Requirements;”](#)

1.2.11. FASAB [Interpretation of Federal Financial Accounting Standards 10](#): “Clarification of Non-federal Non-entity FBWT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31;”

1.2.12. [DoD Instruction \(DoDI\) 4000.19](#), “Support Agreements;”

1.2.13. [DoDI 5010.40](#), “DoD Enterprise Risk Management and Risk Management and Internal Control Program ;”

1.2.14. Treasury Federal Account Symbols and Titles ([FAST Book](#)), I TFM 2, “Supplement;” and

1.2.15. The Government Accountability Office (GAO) and the Council of the Inspectors General on Integrity and Efficiency (CIGIE), [Financial Audit Manual, Volume 2](#), (GAO-24-107279).

## 2.0 DEFINITIONS

### 2.1 Cash

Recognize cash, including imprest funds, as an asset in accordance with SFFAS 1, Paragraph 27: “Cash consists of: (a) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in-transit for deposit; (b) amounts on demand deposit with banks or other financial institutions; and (c) foreign currencies, which, for accounting purposes, must be translated into U.S. dollars at the exchange rate on the financial statement date.”

### \*2.2 Funds Held Outside of Treasury (FHOT)

The TFM glossary defines Cash and Investments Held Outside of the Treasury (CIHO), also known as Funds Held Outside of Treasury (FHOT). FHOT is more than physical cash held by a DoD Disbursing Officer (DO), Deputy DO, or paying agent in a vault or in a Limited Depository Account under the responsibility of the DO. Cash like Items including, U.S. Debit Card Program stock, Navy Cash stock, Dishonored Checks in Transit, Undeposited NIs, etc. also fall into this category. Report entity and non-entity cash in accordance with SFFAS 1, paragraphs 28 through 30. Deposit funds from non-federal sources in anticipation of an order (that is, an advance) should be classified in accordance with SFFAS 31, Accounting for Fiduciary Activities.

### 2.3 FBWT

2.3.1. A federal entity’s FBWT is the aggregate funds in the entity’s Treasury account for which the entity is authorized to make expenditures and pay liabilities.

2.3.2. According to SFFAS 1, paragraph 32, a federal entity's FBWT includes budget clearing account balances or suspense accounts and the dollar equivalent of foreign currency account balances (e.g., foreign burden-sharing payments). Components must translate foreign currency account balances into U.S. dollars at Treasury exchange rates and effective at the financial reporting date in accordance with the [Treasury Reporting Rates of Exchange](#) unless the exceptions stated in TFM Chapter [3200](#) apply. A federal entity’s FBWT also includes balances for direct loan and loan guarantee activities held in the credit reform program and financing accounts.

2.3.3. TFM Chapter 5100 describes FBWT as an asset account **containing** the future economic benefits of monies that agencies can spend for future authorized transactions. Transactions **include** appropriation warrants, non-expenditure transfers, collections, disbursements, and related adjustments reported to Treasury's Bureau of the Fiscal Service (BFS); and classified to a Treasury Account Symbol (TAS) increase or decrease to the FBWT account balance. **The TFM defines the TAS as being reported in eight components (fields): sub-level prefix (SP), allocation transfer identifier (ATA), agency identifier (AID), beginning period of availability (BPOA), ending period of availability (EPOA), availability type (A), main account (main), and sub-account code (SUB).** See Table 2-1 for examples of financial events that impact a Component's FBWT on the Balance Sheet and Statement of Budgetary Resources (SBR).

## 2.4 FBWT Reconciliation

2.4.1. Reconciliation compares two sets of records (usually the balances of two accounts) **and** identifies and explains the differences between the records or account balances. The timing of transactions, an invalid Line of Accounting (LOA), insufficient detail, and other reasons may cause differences. Reconciliation is complete **when** all differences are identified, accountability is assigned, and **any** differences are explained. Once reconciliations are complete, **document** appropriate actions and **record** any necessary adjustments. The corrective action, **if any**, must address the **underlying cause of the discrepancy to ensure prevention.**

2.4.2. **Reconcile** FBWT **with** the actual accounting transactions (including funding, disbursements, collections, and transfers) back to the detailed amounts posted to both entity general ledgers and entity Treasury accounts, **United States Standard General Ledger (USSGL)** accounts 101000 (FBWT) and 109000 (FBWT While Awaiting a Warrant or Non-Expenditure Transfer). **Identify and compare** accounting events or transactions to determine whether transactions are recorded properly and can be cleared, have not yet been recorded (in transit), or were recorded improperly and require correction either in the general ledger or at Treasury.

2.4.3. Reconcile FBWT **with the** available funds recorded on the **Central Accounting Reporting System (CARS)** Account Statement. **All disbursements, collections, and intragovernmental transactions in CARS must have supporting Agency Location Code (ALC)/Disbursing Station Symbol Number (DSSN) details.** **Include** DO's cash reconciliation (cash and monetary assets and the Statement of Accountability) to the cash activity (checks issued, deposits, electronic funds transfer). Refer to **Volume 5** for information and requirements of the DO's cash reconciliation.

## 2.5 FBWT Universe of Transactions

The FBWT universe of transactions includes all valid funding, disbursements, collections, or transfers of funds (including warrants) to or from an entity over a given time period. The transactions affect the amounts and balances in appropriation accounts reported to or by **the** Treasury, recorded in an entity's general ledger, or presented in an entity's financial reports. **Reconcile** transactions from the entity disbursing systems, general ledgers, and financial statements to Treasury's records. **Voucher level detail must support all identified differences.** There are two universes of transactions for FBWT: Treasury detail and accounting detail.

Transaction-level detail begins with the LOA and must have the following data elements (at a minimum): TAS, Sub-Allocation Holder Identifier (SAHI) (formerly limit) for Treasury Index (TI)-97, reimbursable flag indicator, accounting station identifier code, agency disbursing identifier code (ALC/DSSN), voucher number, and voucher amount. Non-Treasury Disbursing Offices (NTDO) must include the Agency Location Type Code (AGCY LOC TYP CD), NTDOAUD (also called “child level”), and DSSN to support FBWT reconciliations and undistributed processes. For steps required to bring FBWT balances forward, see Annex 1: Supporting Fund Balance with Treasury Balances Brought Forward.

## \*2.6 Undistributed Amounts

2.6.1. Undistributed amounts are amounts reported to the Treasury that have not been posted to the appropriate obligation in a Component’s general ledger or vice versa. Undistributed amounts can result from timing, invalid LOA, or invalid TAS information, among other reasons. Unsupported undistributed amounts are not yet researched/reconciled to supporting documentation.

2.6.2. A “forced balance entry” is any amount posted, usually at a summary level in a suspense account, to eliminate differences between the Component’s general ledger balance (USSGL accounts 101000 and 109000) and the Treasury’s control total. Typically, these adjustments appear as “undistributed” amounts when there are differences. Although the Treasury requires the Components to match the Treasury’s balance, a forced balance entry is not an adequate reconciliation of the USSGL accounts 101000 and 109000. When reconciling FBWT USSGL accounts 101000 or 109000, Components must research the causes of the differences at the detail-voucher level, identify undistributed amounts, and clear the aged undistributed amounts in accordance with TFM Chapter 5100, Section 5130. All differences must be cleared within 60 business days (see Table 2-4).

2.6.3. The Financial Audit Manual, Volume 2, section 921, Paragraph 17, requires entities to avoid arbitrarily adjusting accounts to the Treasury amounts and/or clearing account recorded differences without adequately researching the causes of the differences. OMB Circular No. A- 136 states: “The FBWT should match the sum of the balances reflected on the CARS Account Statement for the entity’s Treasury Account Symbols. An adjustment will need to be made for available receipts appropriated/credited to the related expenditure accounts since the balances will appear in both the receipt ledger and the expenditure account.” Unreconciled differences may represent transactions that have not been properly recorded by the entity to the appropriate accounts. For more detailed instructions on the various reconciliation tools, refer to TFM Chapter 5100.

## 3.0 STANDARD GENERAL LEDGER ACCOUNTS

Use the appropriate accounts to record transactions for FBWT or foreign currency transactions. The general ledger accounts and accounting entries for these accounts are specified in the USSGL TFM Supplement and the [DoD USSGL Transaction Library](#).

## \*4.0 REPORTING DoD DEPOSIT FUND LIABILITIES

### 4.1 Deposit Fund Collections

Deposit fund activity is external to the budget process but is reviewed by auditors as part of the DoD's reconciliation of Funds Balance with Treasury. Collections into deposit funds are monies from the public and are not connected to any previous rights and obligations of the U.S. Government. The DoD Treasury Index, where funds are collected, defined in the FAST Book, represents the entity responsible for reporting the deposit fund liability regardless of the source of the funds.

### 4.2 Payroll Tax Example

To illustrate the DoD's position based on the State and local income tax (SALT) example from the OMB Circular No. A-11, the outlay transaction for Federal employee payroll may be divided into two parts: the outlay from the budget to pay payroll and the collection into the deposit fund from the employee for funds due to the State and other local entities. The outlay for the gross payroll amount is the end of the U.S. Government's rights and obligations to the funds' lifecycle. The collection into the deposit fund is from the public and is not connected to any previous U.S. Government rights and obligations.

### 4.3 Payment to Employee and State Tax Authority

4.3.1. Expanding the OMB example: Joe Sailor is a Navy accountant. Joe's gross pay is \$1,000 which includes \$100 due to the state of Ohio. The \$1,000 gross pay disbursement fully liquidates the Navy liability for Salaries and Wages Expense related to Joe and is recorded in the Navy payroll appropriated LOA (budget) for \$1,000. This is the end of the U.S. Government's rights and obligations to the funds as they have been paid to Joe as documented on his Leave and Earnings Statement. The \$100 that goes into the SALT deposit fund on Joe's behalf to pay the state of Ohio is sourced from Joe and his pay, not from the Navy-appropriated dollars.

4.3.2. This concept is the same as any other payment to a non-federal entity, except in the case of SALT payroll withholdings, the U.S. Government retains possession of the cash until remitting/paying it to the State and local jurisdiction (if applicable). With other non-federal payments that do not involve deposit funds, the U.S. Government retains neither possession nor rights and obligations.

### 4.4 Liability Reporting

The Treasury component possessing the funds must report the liability. DoD decides which deposit fund (TI) to hold the cash. If Joe's state withholdings were collected into TI-97, the liability should be reported on the TI-97 consolidated financial statements. If Joe's State withholdings were collected into TI-17, the liability should be reported on the TI-17 Department of the Navy financial statements. So long as the Treasury component that possesses the public funds reports the liability, the DoD financial statements are accurate, and no rights or obligations have been commingled.

## \*5.0 TREASURY INDEX 97 DEPOSIT FUND LIABILITIES ACCOUNT

DoD Components should review deposit fund accounts, at least quarterly, and take necessary corrective action to determine whether monies held in a deposit fund account are consistent with the title of and the legal authority for the account and whether the account has a positive balance. An Anti-Deficiency Act violation must be reported to OMB promptly if a federal disbursing officer over-disburses a deposit fund.

### 5.1 Collaboration with Treasury

5.1.1. When the activity meets Treasury criteria for the establishment of a deposit fund, the DoD entity collaborates with the Treasury to establish the deposit accounts. The entity is required to track, reconcile, and report deposit fund activity on the standalone financial statements of TI-97 Components and all the following:

5.1.2. The activity is related to a DoD Component that must prepare standalone financial statements as required by the OMB Bulletin 24-01, “Audit Requirements for Federal Financial Statements”, or successor issuance (issued annually) or as otherwise required by statute,

5.1.3. The collection and disbursement activities are supported by a unique statutory authorization for the TI-97 Component,

5.1.4. The activity is material (as determined by the Component’s management assessment) to the standalone financial statements of the TI-97 Component reporting entity.

### 5.2 Audit Requirements

Deposit fund activity that does not meet the preceding criteria will be tracked, reconciled, reported, and audited as part of the DoD consolidated audit performed by the DoD Office of Inspector General (OIG).

### 5.3 Standalone Deposit Accounts

In the event deposit fund activity for a TI-97 Component is neither OMB nor otherwise statutorily required to report, but the Component identifies the need for a standalone deposit account, the Office of the Undersecretary of Defense (Comptroller) OUSD(C) and Defense Finance and Accounting Service (DFAS) collaborates with the DoD OIG and Treasury to identify the proper solution. Detailed information and procedures are provided in Appendix A.

## \*6.0 ACCOUNTING FOR CASH AND INVESTMENTS HELD OUTSIDE OF TREASURY (CIHO)

TFM Chapter 3400, “Accounting For and Reporting on CIHO of Treasury”, also known as FHOT, provides guidance on accounting for CIHO and the requirements for accountable officers responsible for funds received, certified, disbursed, and held in their custody (e.g., DOs). DoD Components record all cash drawn on the Treasury General Account (TGA) to a DoD Treasury

Appropriation Fund Symbol (TAFS). FHOT transactions are recorded in accordance with USSGL transaction code B150 and are reported on the financial statements in accordance with [Volume 6B, Chapter 4](#).

#### 6.1 Temporary Cash Holding

The DoD Components can temporarily hold cash using any DoD TAFS, whether current or expired, without restrictions, except for those specifically stated in TFM Chapter 3400 and [Volume 5, Chapter 3](#). The CARS is the electronic system of record for the government's financial data which provides streamlined agency reporting and supports government-wide standardization. Agencies must follow the CARS guidance to request approval for the Business Event Type Code (BETC) and must add the code to a specific TAFS to process transactions in CARS.

#### 6.2 Business Event Type Code (BETC) and Sub-Class Code

The BETC and Sub-Class code must be used to post FHOT balances in CARS on DoD TAFS per the TFM Chapter 3400. The OUSD(C) Financial Management and Policy Reporting Directorate coordinates and submits the BETC request forms to OUSD(C) P/B for review, approval, and submission to Treasury for final approval.

#### 6.3 Burden Sharing Funds

Burden Sharing funds held outside of the Treasury will be reported with the FHOT BETC in accordance with the TFM Chapter 3400.

#### 6.4 Oversight and Monitoring

The Components are responsible for FHOT oversight and monitoring. Each Component confirms the TAFS used for FHOT, retains supporting documents such as Cash Holding Authority memorandum(s), and provides information to the appropriate accounting point of contact. All monthly CARS reporters must charge FHOT to a proper DoD TAFS. All daily CARS reporters must charge FHOT to a proper DoD TAFS by Q3 FY 2025.

#### 6.5 Service Providers

Components may establish service provider roles and responsibilities, as applicable, depending on the FHOT reporting actions. These roles and responsibilities must be detailed within the component-level Standard Operating Procedures (SOPs).

#### 6.6 Reconciling Cash Held Outside of Treasury

The DoD Components must reconcile all cash transactions on a periodic basis, but no less frequently than monthly. Reconcile cash reported on the Statement of Accountability with the CARS Account Statement and the agency's accounting records and related financial statements in accordance with TFM Chapter 3400, Section 3400. Treasury's BFS reports all discrepancies from

periodic reviews and analyses of agencies' reported cash and investment outside of the Treasury to the Office of the Fiscal Assistant Secretary of Treasury.

## 7.0 CASH AUDITS AND REVIEWS

### 7.1 Responsibility for Accounting and Internal Controls

Managers who supervise personnel holding cash **must maintain appropriate accounting and internal controls**. Managers **must ensure** the legality, propriety, and correctness of disbursements and collections of public funds. See Volume 5, Chapter 3; and Appendix A for more information on requirements for securing cash and other assets.

### 7.2 Announced and Unannounced Audits

Audits, both announced and unannounced of each fund, must determine whether:

7.2.1. All funds are properly accounted for and reported;

7.2.2. The amount of funds **is not more than** requirements; and

7.2.3. Procedures to protect the funds from loss or misuse **are being followed**. Management **must assess vulnerability and** determine the frequency of audits, in accordance with DoD Instruction 5010.40.

### 7.3 Requirements for Investigation

**Investigate and report** any unauthorized use, irregularity, or improper accounting for a cash fund to the approving authority and to the DO involved. **The** report must state whether prescribed procedures were followed and recommend any actions necessary to prevent recurrence. **The physical loss of funds must be reported in accordance with Volume 5, Chapter 6**.

## 8.0 DEFENSE REVOLVING FUND

### 8.1 Defense Working Capital Fund (DWCF) Accounts

The DWCF FBWT, account symbol 097X4930, is **an intragovernmental revolving fund that is** subdivided at the Treasury into five sub-accounts. Each of the five entities **associated with the sub-accounts** reports an FBWT amount on its Balance Sheet. A DWCF activity below the Treasury sub-account reports an FBWT amount on the agency's Accounting Report (Monthly) (AR (M)) 1307, Statement of Operations, as well. However, this amount represents a clearing account for recording collection and disbursement activity that reflects a net of collections and disbursements. **Volume 6A, Chapter 15** describes how to prepare the AR (M) 1307, as well as other FBWT reporting requirements. Each individual activity must also report the balance of FBWT transactions on the Balance Sheet.

## 8.2 DWCF Sub-Account

Treasury-assigned DoD Components DWCF sub-account identifiers are shown in Table 2-2 and in the FAST Book. One of the DWCF sub-accounts is the Defense-wide DWCF (DWWCF) Treasury account (097X4930.005). Other revolving fund accounts that are not part of the DWCF include, but may not be limited to 097X4931, Building Maintenance Fund, and 097X4932, Defense Counterintelligence and Security Agency. The DWWCF account includes Defense Agencies operating under the DWCF. The Defense Agencies provide and use funds from the centralized FBWT account under the DWWCF Treasury account. If an entity's collections exceed its disbursements, it provides funds to the centralized pool for other entities' use. If an entity's disbursements exceed collections, the entity uses funds from the centralized pool to make disbursements. See [Volume 2B, Chapter 9](#) for additional information about cash management policy. All FBWT reconciliations and undistributed adjustments must include the Sub-Account Code.

## 8.3 DWCF Transfers

Program managers for each Treasury sub-account may realign (delegate) balances to the activity or installation level at their discretion. Program managers must document all realigned balances on Standard Form (SF) 1151, Nonexpenditure Transfer Authorization between Treasury Appropriation Fund Symbols (TAFS). TAFS combines the TAS and availability code (for example, annual, multi-year, or no-year). TAFS refers only to the appropriation and fund accounts and excludes the receipt accounts. Distributions between SAHIs, within the same TAFS, are not accounted for as transfers. The preparation of the SF 1151 is not required. See the OMB Circular A-11, subsection 20.4(j) for additional information on transfers. Program managers must not make a transfer that is more than the balance available at the DWCF SAHI making the transfer. See [Volume 11B, Chapter 3](#) for additional information on non-expenditure fund transfers.

## 8.4 DWCF Treasury Cash Balance

The cash on hand at the Treasury account level must always be sufficient to pay liabilities when due. The responsibility for revolving fund cash management is prescribed in Volume 2B, Chapter 9. Components must immediately investigate and report a transaction that causes a negative balance in the Treasury account as a possible violation of the Antideficiency Act as prescribed in [Volume 14, Chapter 2](#), "Antideficiency Act Violations," in accordance with 31 U.S.C. § 1341.

## 9.0 FBWT TRANSACTIONS

### 9.1 Collection or Disbursement

Record a collection or disbursement only when documentary evidence, such as a Treasury Financial Management Service (FMS) Statement of Differences (SOD) or a voucher, supports an increase or decrease to the Treasury account. For Revolving Fund activities, Components must segregate cash collections and cash disbursements between those for the operating program (i.e., noncapital outlays) and the capital program (i.e., acquisition of capital assets for the Capital

[Investment Program](#)) to comply with 10 U.S.C. § 2208(m). See Volume 2B, Chapter 9 for a description of the Capital Investment Program. Additionally, [record and report](#) undistributed cash collections and undistributed cash disbursements at the lowest organizational level. Per TFM 2-5100 to ensure proper downstream reporting, DoD Components must include the ALC/DSSN support for all FBWT reconciliations, undistributed calculations, and undistributed journal voucher (JV) packages. NTDOs must include the necessary minimum data elements defined within subparagraph 2.5 for all FBWT reconciliations and undistributed processes.

## 9.2 Advances Received

Record a customer advance or prepayment received as a liability in accordance with SFFAS 1, Paragraph 60. OMB Circular No. A-11, section 20.11 provides guidance on the treatment of advances received and deposit requirements, which vary depending on whether the advance is with or without orders.

## 9.3 Refunds and Prepayments

OMB Circular No. A-11, section 20.9 states, “Refunds are the repayments of excess payments.” Refunds [are](#) previous obligations incurred and outlays made. [Deposit refunds](#) credited to the appropriation or fund account charged with the original obligations in accordance with OMB Circular No. A-11, section 20.9. [Customer](#) returns to DWCF supply activities are a recovery (and not classified as a refund). Offsetting collections credited to expenditure accounts automatically offset outlays and budget authority at the expenditure account level. See [Volume 3, Chapter 15](#) for more information about refunds, and [Chapter 5](#) for more information about prepayments. Refer to the DoD USSGL Transaction Library for posting entry guidance.

## \*9.4 Current Balance of Funds with Treasury

The current balance of funds with Treasury equals the amount at the beginning of the fiscal year plus the cumulative fiscal-year-to-date collections, appropriations, and transfers-in of FBWT received minus the cumulative fiscal-year-to-date withdrawals, transfers-out, and disbursements.

## 10.0 FBWT RECONCILIATIONS

### 10.1 FBWT Reconciliation Overview

10.1.1. Reconciling FBWT [maintains](#) the accuracy and reliability of the entity FBWT records. Therefore, Components must perform timely, effective, and efficient reconciliation processes (see Table 2-4). Effective reconciliations [are](#) a detection control for identifying unauthorized and unrecorded transactions at the entities and at the Treasury. Effective reconciliations prevent entity disbursements from exceeding appropriated amounts and provide an accurate measurement of the status of available resources.

10.1.2. Reconciliation [helps](#) Components resolve differences in a timely manner. [Maintain](#) detailed reconciliation documentation (reviewed and approved by appropriate officials) that is readily available for review by management, auditors, and Treasury if requested. [Reconcile](#)

any [time lag](#) differences and correct [erroneous](#) differences. Explain any discrepancies between FBWT in the general ledger accounts and the balance in the Treasury's accounts and disclose them in the notes to the financial statements. Provide information on unused funds in expired appropriations that are returned to [the](#) Treasury at the end of a fiscal year in accordance with SFFAS 1, Paragraph 39.

10.1.3. [Research and trace](#) all adjustments to supporting documents as instructed in I TFM 2-5100, Section 5130. Supporting documentation, including reconciliations, transaction-level detail, journal vouchers and adjustments, SOPs, and Customer Service Provider agreements (i.e., Memorandums of Agreement (MOA)/Memorandums of Understanding (MOU)/Service Level Agreements (SLAs)), are necessary to provide an audit trail. Ensure [that](#) the supporting documentation is readily accessible to management for oversight and auditors to support auditability.

10.1.4. [Resolve](#) all reconciling differences [to](#) ensure that the FBWT universe of transactions (see definition [in](#) paragraph 2.8) is complete, and transactions included in the FBWT accounts are valid. Effective FBWT reconciliation also supports reporting accurate, valid, and timely FBWT account balances. [Reconciling differences](#) are expected and result [from](#) timing differences or errors. I TFM 2-5100, Section 5130 states that agencies must reconcile the FBWT USSGL account 101000 balances for each fund symbol with BFS' records (i.e., CARS Account Statement; Expenditure Transaction Report; SODs, and Available, Unavailable, and Unappropriated Receipt Account Reports) monthly.

## \*10.2 Reconciliation Roles and Responsibilities

10.2.1. [OUSD\(C\) Enterprise Financial Transformation \(EFT\)](#), DFAS, in their role as a service provider, and their Component customers are jointly responsible for performing FBWT reconciliations.

### 10.2.2. [OUSD\(C\) EFT is responsible for:](#)

10.2.2.1. [Performing the design, development, operation, and maintenance of the Advana FBWT application. Refer to \[Volume 1, Chapter 10\]\(#\);](#)

10.2.2.2. [Providing capabilities to age, assign, track, and report on the status of reconciled differences;](#)

10.2.2.3. [Reconciling FBWT appropriation accounts at the TI, main appropriation account level, and the ALC level, including ensuring the FBWT universe of transactions for each TAS recorded to USSGL accounts 101000 and 1090000 for all DoD funds is complete and fully reconciled to all the individual appropriation account balances recorded at Treasury; and](#)

10.2.2.4. [Reconciling the Components' FBWT USSGL accounts 101000 and 109000 at the SAHI level. SAHI is a unique account identifier code specific to DoD that represents the structural level below the sub-account level. These codes are typically four digits, and identify,](#)

manage, and report the financial activity of Defense Agencies, Component, and other operational units reported by the Treasury as the combined activities of TI- 097.

### 10.2.3. DFAS is responsible for:

10.2.3.1. Reporting transactions affecting FBWT accounts to Treasury (e.g., disbursements and collections) that are disbursed under DFAS DSSNs and non-DFAS DSSNs (e.g., Army DSSNs).

10.2.3.2. Ensuring that information submitted to Treasury on the SF 224, Statement of Transactions, or SF 1219, for those ALC/DSSN where DFAS is the Designated Agent, matches the information reported to Treasury.

10.2.3.3. Researching and resolving differences identified on the Treasury's FMS 6652, i.e., SOD for DFAS DSSNs (DFAS **must** report and assist with the resolution of differences for non-DFAS DSSNs). BFS provides FMS 6652 to federal agencies for both disbursements and deposits. An FMS 6652 is generated for each ALC by accounting month (**the** month the report is generated) and accomplished month (**the** month the difference occurred) if there is a discrepancy. **Deposit** differences indicate there is a discrepancy between the monthly totals submitted through the banking system via the SF 215, Credit Voucher, or the SF 5515, Debit Voucher, and the totals provided by the agency on the SF 224 or SF 1219. The **disbursement transaction** SOD reveals discrepancies between monthly totals reported in the agencies' accounting systems and the transactions reported to Treasury by the Regional Finance Centers and/or through the Intra-Governmental Payments and Collections (IPAC) system on the SF 224 or SF 1219. **Clear** FBWT reconciliation variances, including **undistributed**, suspense, and SOD balances, within **60 business days** from the date of the transaction (see Table 2-4).

10.2.3.4. Aging, assigning, and tracking the status of reconciled differences.

10.2.3.5. Researching and resolving differences originating from operations under the control of DFAS and clearing these transactions in the FBWT source system(s). **DFAS must maintain and provide key** supporting documentation upon request. **Document evidence** of reconciliation performed and confirmation that all differences were successfully reconciled.

10.2.3.6. Ensuring Cash Management Report (CMR) reconciling items and variances are cleared within **60 business days** from the date they were reported on the CMR unless deemed immaterial in total based on analytical procedures maintained by the Defense Finance and Accounting Service. According to SFFAS 1, the determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

### 10.2.4. DoD Components are responsible for:

10.2.4.1. Reporting transactions affecting FBWT accounts to Treasury (e.g., disbursements and collections) that utilize Treasury Disbursing.

10.2.4.2. Ensuring that information submitted to Treasury on the SF 224 or SF 1219, for those ALCs where the Component is the Designated Agent, matches what is reported to Treasury. Ensuring a valid and proper LOA is on the original obligating documents that will be used throughout the procure-to-pay process.

10.2.4.3. Researching, resolving, and reporting the status of reconciled differences originating from operations under their control.

10.2.4.4. Monitoring and approving the reconciliations performed by OUSD(C) EFT on their behalf. Ensuring all reconciling differences are supported by detail-voucher level transactions. Key supporting documents must be kept and provided as requested; including evidence of reconciliation performed and confirmation that all differences were successfully reconciled.

10.2.5. Coordination between OUSD(C) EFT, DFAS, and their Component customers is necessary to properly identify, assign, age, track, research, and resolve reconciled differences in a timely manner. DFAS' roles and responsibilities in Disbursing and Treasury Reporting Operations are described throughout Volume 5 and in Volume 6A, Chapter 3 which discusses SF 1220, "Statement of Transactions."

10.2.6. OUSD(C) EFT, DFAS, and their Component customers must formally establish and document their understanding and agreement of roles and responsibilities in accordance with DoD Instruction 4000.19, "Support Agreements." DFAS and their Component customers must have written MOAs, MOUs, or SLAs in place that define the roles and responsibilities between the Service Provider and the Customer(s).

### 10.3 Treasury Reconciliation Requirements

10.3.1. Treasury requires reconciling FBWT accounts to the Treasury reported amounts by Department, Period of Availability, and Main Account (i.e., TI, fiscal year, and fund symbol) monthly. Treasury sets forth the requirements for reconciling FBWT in I TFM 2-5100 and the I TFM 2-5100 Supplement. Audit issue guidance is provided in the Financial Audit Manual Substantive Procedures Section 921-Auditing Fund Balance with Treasury, jointly published by the GAO and the CIGIE.

10.3.2. During reconciliation, DFAS and their Component customers must:

10.3.2.1. Research and resolve the underlying causes of differences reported by the Treasury on the SOD each month and make corrections to monthly Treasury reports and agency accounting records.

10.3.2.2. Reconcile general ledger balances by Department, period of availability, and main account with the balances reported by Treasury.

10.3.2.3. Ensure that all adjustments are researched and traceable to supporting documents in accordance with I TFM 2-5100.

10.3.2.4. Document detailed reconciliations and make **them** available to auditors and Treasury if requested, as instructed in I TFM 2-5100.

10.3.2.5. Ensure differences recorded in Treasury budget clearing **or suspense** accounts are reconciled monthly as instructed in I TFM 2-5100 and moved to the appropriate LOA within **60 business** days from the date of transaction. In accordance with TFM Volume I, Bulletin 2024-05, the agency's Chief Financial Officer (CFO) must annually certify that the ages of the balances in the suspense accounts are no more than **60 business** days old with clear explanations of exceptions. See paragraph 10.5.

#### 10.4 Other Defense Organizations Reconciliation Requirement

10.4.1. Every DoD Component with FBWT accounts must perform detailed reconciliations of their FBWT accounts (USSGL accounts 101000 and 109000). DFAS and their Component customers must **reconcile** monthly to ensure the accuracy and reliability of the Component's FBWT records and the integrity of their financial statements.

10.4.2. In addition to the Treasury Main Account requirement, DoD Components must **reconcile** FBWT accounts to their sub-allocations as provided by OUSD(C).

10.4.3. For Treasury reporting purposes, DoD must add the balances in the TI-097 accounts together and reconcile **them** to the Treasury's control total at the TAS-level in CARS.

10.4.4. **Components' reconciliations** must include, and address amounts reported in:

10.4.4.1. Treasury's CARS Account Statement;

10.4.4.2. Trial balances (for both budgetary (outlays/collections) and proprietary (101000/109000 USSGL accounts) from the accounting system (including budgetary FBWT to proprietary FBWT Governmentwide Treasury Account Symbol Adjusted Trial Balance System edits and validations);

10.4.4.3. Financial statements (outlays and collections on the SBR; FBWT on the Balance Sheet);

10.4.4.4. FMS 6652 (for deposits and disbursement/IPAC transactions);

10.4.4.5. Check issue data processed in the Treasury Check Information System.

10.4.5. Additionally, Components must **reconcile** monthly at the individual voucher-level detail and include:

10.4.5.1. All budget fiscal years,

10.4.5.2. All appropriations/Treasury accounts (including **GFs**, working funds, revolving funds, special funds, deposit funds, and trust funds),

10.4.5.3. All SAHIs of the TI-097, and

10.4.5.4. All activity, including suspense accounts (also see “Treasury Budget Clearing Accounts” in paragraph 10.7). [Sensitive activity may undergo an equivalent reconciliation process in a separate environment if the balances can be matched with the summary reconciliation.](#)

10.4.6. DFAS and DoD Components must also demonstrate they have controls in place to ensure that [daily or monthly](#) amounts reported to Treasury reconcile to collections and disbursements processed through the disbursing systems and recorded accurately and timely in the accounting systems. Monthly Treasury reporting includes SF 224 or SF 1219 and SF 1220 by DFAS or other federal agencies (e.g., Department of State). Components who are the ALC Designated Agents and submit information to Treasury on the SF 224, SF 1219, or SF 1220 must ensure that the information matches [submissions](#) to DFAS. Any differences between what was submitted to Treasury and what was submitted to DFAS must be corrected by the ALC Designated Agent in 15 business days after identification by DFAS. See [Volume 5, Chapter 15](#) for information on the requirements for the SF 1219.

## 10.5 Treasury Budget Clearing (Suspense) Accounts

10.5.1. [Budget clearing accounts are a type of TAS that the BFS establishes to temporarily credit unidentified transactions from the public or another federal agency when there is a reasonable presumption that the amounts belong to their agencies. It is a subset of Clearing and Default TAS accounts.](#)

10.5.2. Effective FBWT reconciliations include clearing transactions recorded in Treasury budget clearing [or](#) suspense accounts in a timely manner. On behalf of the Components, DFAS must be able to provide:

10.5.2.1. A list of individual vouchers and dollar amounts that comprise the difference between Treasury, disbursing system activity, and accounting system trial balance amounts for monthly reconciliations;

10.5.2.2. Vouchers, records, reports, disposition, and supporting documentation for all transactions posted to the suspense accounts for auditor-selected [quarterly reconciliation](#) sample items. Components with key supporting documents must provide [them](#) as requested;

10.5.2.3. A monthly list of journal vouchers and dollar amounts (by Component) that comprise suspense account amounts at year-end; and

10.5.2.4. Journal vouchers and supporting voucher documentation demonstrating [that](#) the voucher was recorded to the appropriate Component. DoD Components must maintain records for transactions input into their general ledger.

## 10.6 Reconciliation of FBWT for Comparison of Transactions

10.6.1. Reconciling FBWT includes comparing transactions at a detailed level sufficient for specific identification of differences to establish that the entity's FBWT general ledger accounts and the Treasury totals are accurately stated. Detail sufficient for specific identification of differences are voucher numbers for cash disbursements and collections, summary bill numbers for interfund transactions, and authorizing document numbers for non-expenditure transfers and funding events.

10.6.2. Components must comply with operational requirements and deadlines when reconciling transactions. Components must:

10.6.2.1. Reconcile and identify differences at the voucher level (or equivalent). Components must adhere to a one-month (30 calendar days) reconciliation requirement following the end of the month being reconciled. See Table 2-3 for a list of data files used to perform reconciliations and data file monthly availability dates.

10.6.2.2. Ensure processes assign, track, age, research, and resolve differences between Treasury, disbursing system records, and accounting system records, as prescribed by Treasury, at the voucher-level detail monthly. Since the Treasury reports information at the summary level, Components must roll up voucher-level detail disbursing system and accounting system records and compare them to the summary-level Treasury reports. Analyze and reconcile monthly in the SF 224 to ensure all collected amounts are properly credited to the proper appropriation and applicable accounts receivable accounts. For any suspense account, items, or transactions more than 60 business days old, investigate and document the reason why the transaction cannot be reclassified to the correct appropriation. Undistributed, suspense, and SoD balance differences must be cleared within 60 business days from the date of the transaction. See Table 2-4 for a summary of the required deadlines.

10.6.2.3. Record journal vouchers in the system of record at the account level and/or SAHI level to resolve suspense accounts and SODs, if necessary, until the proper LOA can be identified. DFAS and their Component customers must maintain all journal vouchers and supporting documentation, including the list of journal vouchers that comprise the differences.

10.6.2.4. Complete both Service Provider supervisory and Component reviews and approvals within 10 business days after researching and resolving all identified differences from the monthly reconciliation. Refer to [Volume 6A, Chapter 2](#) for guidance on journal voucher adjustments and approvals.

10.6.3. Components must address all the critical areas and key control points in the FBWT end-to-end reconciliation, as shown in Figure 2-1. These key control points are:

10.6.3.1. When on daily reporting, reconcile the Component's general ledger system(s) to the Disbursing Systems daily;

10.6.3.2. Reconciling the Cash Management Report (CMR) to the Component's general ledger system(s) monthly (note: this key control point only applies to the TI-097 Components);

10.6.3.3. Researching and resolving: (a) expenditures and collections reported on the CMR with errors in SAHI-level detail, known as CMR reconciling items; (b) expenditures and collections reported on the CMR with differences between Treasury CARS and expenditure reporting systems, known as CMR variances. This key control point only applies to the TI-097 Components);

10.6.3.4. Reconciling the Treasury CARS Account Statement to the Component's general ledger system(s) (for the Military Departments' GFs) monthly. Refer to 10.7 for additional information on the CARS reconciliations;

10.6.3.5. Researching and resolving activity identified in the budget clearing accounts (suspense accounts) on the CARS Account Statement monthly. Refer to paragraph 10.5 for additional information on the budget-clearing accounts; and

10.6.3.6. Researching and resolving all differences identified on the FMS 6652 for all DoD ALCs reported to the Treasury by each of the DFAS Centers monthly.

10.6.4. Components must achieve a complete match rate of 99 percent each month over the transactions for each key control point.

#### \*10.7 FBWT – CARS Account Statement Reconciliation

10.7.1. The CARS Account Statement Module is an online, query-driven component that provides a daily refreshed view of a Federal Program Agency's (FPA's) FBWT. The Account Statement provides an up-to-date source of balance and transaction information to assist FPAs with their reconciliation process. More information about the Account Statement is available on the Treasury's CARS website.

10.7.2. Each DoD Component must reconcile its transactions to the beginning balance, net activity, and ending balance on the CARS Account Statements. Currently, this requirement does not apply to Defense Agencies and Field Activities that are part of shared Treasury Account Symbols. TI-97 components must reconcile their FBWT balances individually to internal TI-97 CMR with support from DFAS as their service provider. DFAS is responsible for reconciling the totals of all TI-97 to Treasury. The Account Statement consists of three sections: (1) Account Summary, (2) Expenditure Activity, and (3) the Transactions reports. Agency users can generate the Account Statement reports at either a TAS or ALC level. FMS 6652 arises from ALC-based SF 1219 and SF 1220 reporting submitted by each of the three DFAS centers. The Support Listings provide links to other FMS Accounting Systems that support the monthly SOD reconciliations.

10.7.3. Users can access CARS Account Statement information at the Department Level and can view both a daily Accounting View (Dynamic) and a monthly Published View (Static) of their account balances and supporting transactions. The SOD application receives a daily

transmission from CARS. This daily transmission allows BFS to provide more up-to-date information to FPAs. Deposit data and agency statements of transactions are updated daily in CARS; for these items, the FPAs receive daily reconciliation information from the GWA Module. This enables the FPAs to identify and correct differences earlier, sometimes before closing the monthly processing. More information about the SOD and detailed support listings is available at the Treasury's website.

10.7.4. Agencies report changes in the FBWT accounts to Treasury's BFS. "CARS Daily Reporters" submit the TAS/Business Event Type Codes and/or Classification-keys into the Classification Transactions and Accountability module within CARS daily for each payment via the Payment Information Repository or the Secure Payment System, and a collection via the Collection Information Repository.

10.7.5. Until agencies comply with being "CARS Daily Reporters," they must provide an explanation in a letter to the Fiscal Accounting Office of Fiscal Service via the email address: [CashAnalysisSection.FAO@fiscal.treasury.gov](mailto:CashAnalysisSection.FAO@fiscal.treasury.gov) and request a waiver to report payment disbursements on the Standard Form (SF) 1218: Statement of Accountability (Foreign Service Account), SF 1219, Statement of Accountability; SF 1220, Statement of Transactions According to Appropriations, Funds, and Receipt Accounts, or SF 1221: Statement of Transactions [According to Appropriations, Funds, and Receipt Accounts (Foreign Service Account)]. See Volume 6A, Chapter 3 for information on the requirements for the SF 1219 and SF 1220 and [1 TFM 4000, Section 4040](#).

#### \*10.8 Undistributed Collections and Undistributed Disbursements

10.8.1. Refer to [Volume 3, Chapter 11](#) for additional information relating to financial control over FBWT disbursements, collections, and adjustment transactions. Components must record and report undistributed collections and undistributed disbursements at the lowest organizational level.

10.8.2. DFAS must identify undistributed FBWT transactions at the sub-account Treasury account level, ALC/DSSN level, SAHI level, and Component level. [NTDOs must include the necessary minimum data elements defined within paragraph 2.5](#).

10.8.2.1. Sub-account TAFS Level Adjustments. Treasury Sub-accounts are shown in Table 2-2 [and the undistributed collections and disbursements must include Sub-Account details](#). Any transactions posted at this level must be researched and cleared, if necessary, within 60 business days from the date of the transaction to ensure proper reporting by DoD Components. At year-end, there must not be any remaining unidentified/un-researched balances in the sub-account.

10.8.2.2. Business Area Adjustments. These are business area undistributed collections and disbursements [for all funds](#) that are identifiable to the TAFS level but [missing sufficient information to identify them to a business area](#). Examples of business areas include Supply Maintenance, Depot Maintenance, and Research and Development. Undistributed

collections and undistributed disbursements are the differences between the Treasury reporting systems and the collections and disbursements reported through the general ledgers.

10.8.2.3. Component-Level Adjustments. These adjustments are Component-level undistributed (unmatched) collections and (unmatched) disbursements for all funds that are identifiable through the Treasury reporting systems to the Component-level but have not yet been matched to a specific obligation or receivable subsidiary ledgers. Support these adjustments through detailed transactions from the DOS' records including at a minimum the voucher number or other unique identifiers of the transactions. Limit Component-level adjustments at year-end and complete the required reconciliations (necessary research must be conducted and transactions must be posted to the proper LOA).

10.8.3. DFAS must identify collections or disbursements at the lowest identifiable level. This includes the ALC/DSSN support for all cited amounts and all undistributed JV packages. NTDOs must include the necessary minimum data elements defined within paragraph 2.5 for all and undistributed processes. Record the undistributed collection or undistributed disbursement and provide the documentation necessary to research the account for proper disposition at that level.

10.8.4. Undistributed collections and disbursements must reflect proper FBWT as contained in finance network reports. Components must research such collections and disbursements recorded in account 101000 for proper disposition by the lowest organizational level. DFAS must correct erroneous collections by making a payment to a vendor and erroneous disbursements by establishing a receivable pending receipt of the refund. Supporting documentation must include detailed transactions from the DOS' records including at a minimum the transaction voucher number or other unique identifier.

## 10.9 Requirement for Written Procedures

Components must have current written SOPs, narratives, and process maps in accordance with the Managers' Internal Control Program, to direct and document the proper reconciliation processes. SOPs must also include evidence of dated supervisory review and approval certifying that it is current and accurate. In the written procedures, Components must require segregating the journal entry for unsupported undistributed amounts from the journal entry for the undistributed amounts that can be supported. This practice is essential for efficient cash reconciliation management and for audit support and measurement. For example, if the total undistributed amount is 95 percent supported and 5 percent not supported, then record two journal voucher entries to segregate the amounts. See Volume 6A, Chapter 2 for information on proper preparation and documentation of a journal voucher.

## 10.10 Expenditure and Receipt Accounts Annual Review

DFAS must review and validate all expenditure and receipt accounts that the Treasury reports annually to determine if the TAS are valid. DFAS must work with Treasury to remove invalid and unused TAS from Treasury reports/systems on an annual, or as-needed basis.

## 10.11 FBWT Reconciliation Quarterly Scorecard

10.11.1. Treasury's BFS provides a Quarterly Scorecard to all CFOs of federal agencies (see [1 TFM Bulletin 2023-05](#)).

10.11.2. This scorecard focuses on FBWT reconciliation metrics from the disbursing operations perspective. This Quarterly Scorecard reflects agencies' performance by ALCs in compliance with the BFS Cash Accounting Branch financial reporting standards. Accuracy of Reporting, SOD Reconciliation, Suspense/Default Account Reconciliation (F3502, F3875, and F3885), and Timeliness of Reporting are the reporting standards. The Treasury uses a traffic light grading system. For example, agencies score "green" if they successfully met all standards, "yellow" if they met some, but not all standards, and "red" if they have not met any of the standards based on the criteria outlined in the scorecard.

10.11.3. OUSD(C) requires each ALC to explain the cause of each discrepancy no later than 30 calendar days after the Scorecard is issued, along with corrective action taken to address the discrepancy, when the discrepancy will be corrected, and what processes are in place to prevent similar discrepancies in the future.

Table 2-1: FBWT Relationship between the SBR and the Balance Sheet

Example Financial Event	SBR Impact	Balance Sheet – FBWT Impact	Transaction-Level Detail Required
Appropriation Received	Increase to Appropriation	Increase to FBWT	Funding document (e.g., Funding Authorization Document [FAD], warrant)
Rescissions	Increase to Permanently not Available	Decrease to FBWT	Funding document (e.g., FAD, warrant)
Unfilled Customer Orders Received with Advance	Increase to Unfilled Customer Orders Received with Advance	Increase to FBWT	Military Interdepartmental Purchase Request, 7600A/B, or electronic equivalent
Collection (IPAC collections)	Increase to Actual Offsetting Collections	Increase to FBWT	Voucher/ Summary Interfund Bill Number
Disbursement (IPAC disbursements)	Increase to Gross Outlays	Decrease to FBWT	Voucher/ Summary Interfund Bill Number
Clearing of Suspense Account Disbursement Transaction, undistributed and SODs (and posting to a valid appropriation account and obligation)	Increase to Gross Outlays	Decrease to FBWT	Voucher/ Summary Interfund Bill Number
Clearing of Suspense Account Collection Transaction, undistributed and SODs (and posting to a valid appropriation account and obligation)	Increase to Actual Offsetting Collections	Increase to FBWT	Voucher/ Summary Interfund Bill Number
Nonexpenditure Transfer- In	Increase	Increase to FBWT	Funding Document
Nonexpenditure Transfer-Out	Decrease	Decrease to FBWT	Funding Document

\*Table 2-2: DoD Component Treasury Assigned Account Number for [Revolving Funds](#)

DoD Component	Treasury Assigned Account Number
Army	097X4930.001
Navy	097X4930.002
Air Force	097X4930.003
Defense Commissary Agency	097X4930.004
Defense Agencies	097X4930.005
Building Maintenance Fund	097X4931
Defense Counterintelligence and Security Agency	097X4932
<a href="#">Pentagon Reservation Maintenance Revolving Fund</a>	<a href="#">097X4950</a>
<a href="#">National Defense Stockpile Transaction Fund</a>	<a href="#">097X4555</a>
<a href="#">Commissary Stores Surcharge Program, Defense</a>	<a href="#">097X8164</a>

Table 2-3: FBWT Reconciliation Data Files and Monthly Availability Dates

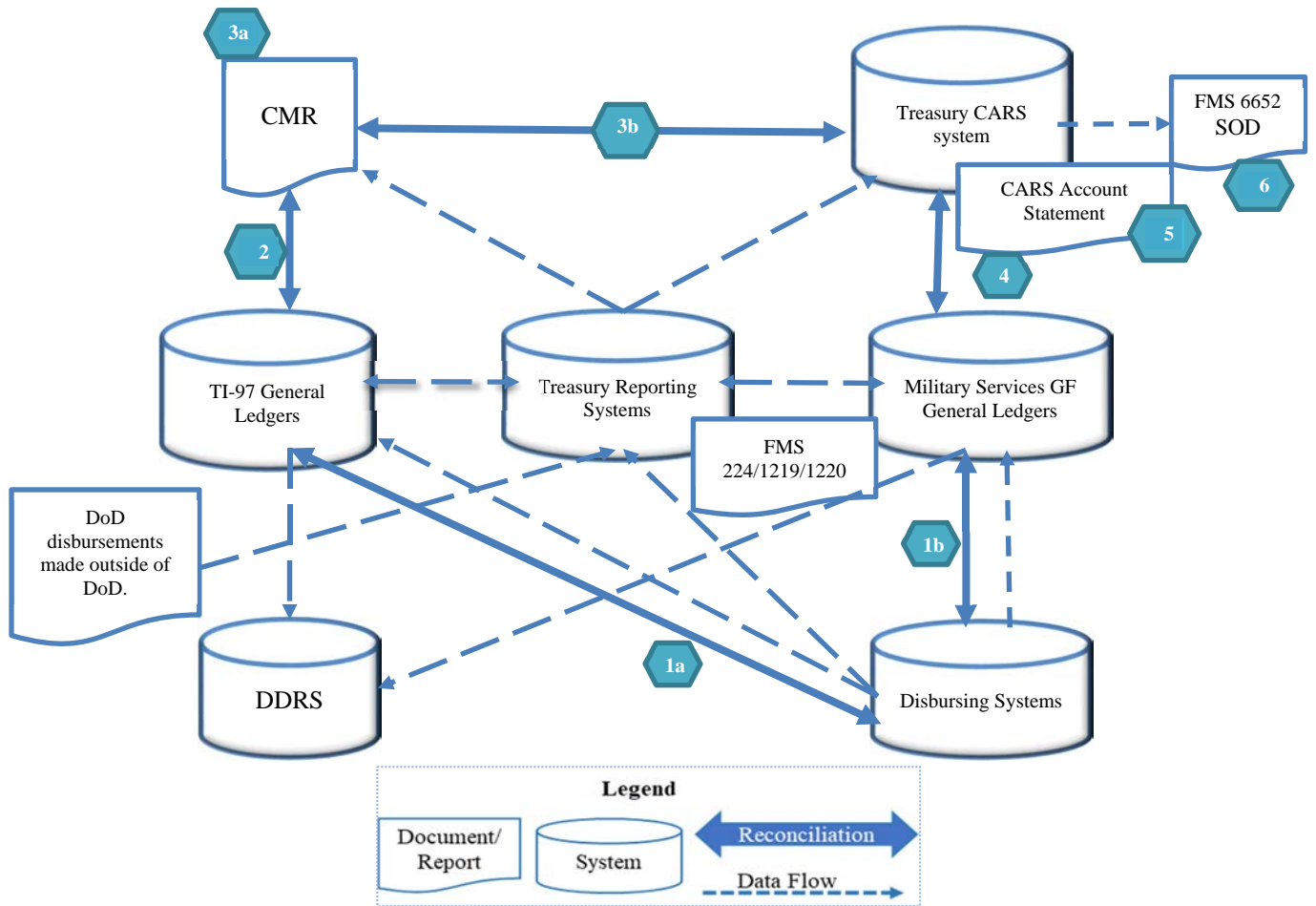
(See [section 10.0](#) for FBWT reconciliation information.)

Data File	Monthly Availability Date
DD Form 1329 – Statement of Transactions	3 <sup>rd</sup> business day
DD Form 1400 – Statement of Interfund Transactions	3 <sup>rd</sup> business day
Preliminary CMR	4 <sup>th</sup> business day ( <a href="#">calendar day at year end</a> )
<a href="#">Final CMR</a>	<a href="#">Approximately 20<sup>th</sup> calendar day</a>
Trial Balances	7 <sup>th</sup> business day
Treasury CARS Account Statement	8 <sup>th</sup> business day
FMS 6652 – Statement of Differences	10 <sup>th</sup> business day
Defense Departmental Reporting System (DDRS) Budget Execution Reports	15 <sup>th</sup> business day

Table 2-4: FBWT Reconciliation Deadlines

Requirement	Deadline
Complete FBWT reconciliation	30 calendar days following the end of the month.
Clear FBWT reconciliation variances: undistributed, suspense, and SOD balances	60 business days from the date of the transaction.
Service Provider Supervisory review and Component review and approvals	Complete both reviews within 10 business days following the completion of the monthly reconciliation.

Figure 2-1. Critical Focus Areas to Address FBWT Risks



Key Control Point	Is there a place to:		
	Reconcile and identify differences at the transaction-level?	Age, research, and resolve differences identified?	Record temporary journal voucher in DDRS?
1	a. Disbursing Systems to Accounting Systems: Reconcile 097 General ledgers to Disbursing Systems daily (for daily reporters) (TI-97 only). b. Disbursing Systems to Accounting Systems: Reconcile Military Services GF General Ledgers to Disbursing Systems daily.		
2	Differences between Accounting Systems and CMR: Reconcile CMR to General Ledgers monthly (TI-97 only).		
3	a. CMR Reconciling Items: Research and resolve expenditures and collections reported on the CMR with errors in SAHI level detail (TI-097 only).		
	b. CMR Variances: Research and resolve expenditures and collections reported on the CMR with differences between CARS and expenditure reporting systems (TI-97 only).		
4	Differences between Accounting Systems and Treasury: Reconcile Military Services GF General Ledgers to CARS Account Statement.		
5	Suspense Accounts: Research and resolve activity identified in budget clearing accounts (suspense) on Treasury CARS Account Statement monthly.		
6	SODs: Research and resolve differences identified on the FMS 6652s.		

\*APPENDIX A: Treasury Index 97 Deposit Fund Liabilities Account Structures

1.0 GENERAL

1.1 Deposit Fund Liabilities

The Office of the Secretary of Defense (OSD) and Department of Defense (DoD) Components report deposit fund liabilities on the financial statements corresponding to the U.S. Department of the Treasury (Treasury) Component (i.e., Treasury Index) Federal Account Symbols and Titles (FAST) Book. The Navy General Fund, Army General Fund, Air Force General Fund, and Other Defense Agency Accounts correspond to Treasury Index (TI) 17, TI-21, TI-57, and TI-97, respectively.

1.2 Facilitating Auditability Goals

The DoD does not have to delineate individual TI deposit funds. Generally accepted accounting principles (GAAP), regulations, and statutes do not require delineation. However, the DoD increases auditability and transparency and reduces taxpayer costs by doing so.

2.0 UNIQUE DEPOSIT ACCOUNTS

2.1 Treasury Collaboration

DoD and Treasury track, reconcile, and report deposit fund activity on the standalone TI-97 Component financial statements when the activity meets the following criteria:

2.1.1. The DoD Components prepare standalone financial statements if required by the annual OMB Audit Requirements for Federal Financial Statements Bulletin, or by statute (i.e., U.S. Code, National Defense Authorization Acts, and other legislation). Standalone financial statements facilitate the audit and internal funds management but are not required or submitted separately for external reporting to OMB, Congress, or other authoritative bodies.

2.1.2. Treasury requires separate deposit fund accounts for individual statutory authorities or programs. Treasury does not separately track or issue guidance for individual TI-97 reporting entities.

2.1.3. The TI-97 Component's management determines if the activity is material. The DoD does not delineate immaterial TI-97 deposit fund activity.

2.2 DoD Tracking in Shared OSD Level Deposit Accounts

DoD tracks, reconciles, and reports activity in the shared DoD-level deposit accounts. These shared deposit accounts are part of the DoD Consolidated Audit.

## 2.3 Alternative Solutions

If a TI-97 Component needs a standalone deposit account, the Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) and Defense Finance and Accounting Service (DFAS), the Component, Treasury, and the DoD Office of Inspector General identify the proper solution.

## 2.4 Stand Alone Accounts

2.4.1. OUSD(C) and DFAS ask Treasury to create a new, unique deposit account when appropriate.

2.4.2. When the account is created, the TI Component must:

2.4.2.1. Transfer previously recorded activity in a shared OSD level deposit fund account as soon as possible (i.e., collections without a corresponding disbursement, according to the TI-97 Component's detailed records and supporting documentation). Once a balance is established, the TI-97 Component uses the new account and reports the deposit fund activity and balances in its standalone financial statements. The TI-97 Component assesses whether prior year financial statements must be restated, or a prior period adjustment is necessary.

2.4.2.2. Use the new account and report the deposit fund activity and balances in its standalone financial statements if no deposit fund activity was previously recorded.

## 2.5 Payroll Reported by Military Departments

2.5.1. Military Departments report all military service payroll activity on their financial statements.

2.5.2. DoD tracks, reconciles, and reports civilian payroll-related deposit fund activity.

## 2.6 Transparency

The DoD maximizes transparency and mitigates complexity for the Federal Government and Government-wide information users by creating unique deposit fund accounts under the TI-97 entity.

**VOLUME 4, CHAPTER 2, ANNEX 1: “SUPPORTING FUND BALANCE WITH  
TREASURY BALANCES BROUGHT FORWARD”**

**SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [January 2016](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Simplified language for readability.	Revision
2.7, 2.8 (Previous Version), 2.9	Removed journal entries and added a paragraph to direct the reader to the Department of Defense United States Government Standard General Ledger Transaction Library	Deletion/ Addition

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## ANNEX 1

**SUPPORTING FUND BALANCE WITH TREASURY BALANCES BROUGHT FORWARD**

## 1.0 GENERAL

After complying with the Fund Balance with Treasury (FBWT) reconciliation requirements described in Chapter 2 (including fully reconciling accounting systems to the U.S. Department of Treasury (Treasury) and identifying, tracking, and resolving differences monthly), Department of Defense (DoD) Components must follow this annex to reconcile and support FBWT balances brought forward (i.e., beginning balances). As the Component's accounting Service Provider, the Defense Finance and Accounting Service (DFAS), performs the steps described on behalf of the DoD Components (DFAS' customers), unless the customer elects to perform the analysis. This approach and the resulting permanent adjustment may be used only once.

## 2.0 APPROACH TO SUPPORT FBWT BALANCES BROUGHT FORWARD

All DoD Components must follow Steps 1 through 4 described in this section. DoD Components that can reconcile FBWT at the voucher level and maintain related supporting documentation to support 99 percent of its Treasury's Government-wide Accounting (GWA) system account statement balances brought forward do not proceed past Step 4. DoD Components who are unable to fully reconcile and/or support its FBWT transaction level detail to obtain 99 percent coverage, must complete Steps 5 through 8.

## 2.1 Step 1

2.1.1. DoD Components must conduct an aging analysis over the total value of their open appropriations (i.e., unexpired and expired appropriations) each fiscal year end until they demonstrate compliance with FBWT reconciliation requirements described in Chapter 2 (see section 10.0). This allows the Component to identify the prior fiscal years (FYs) for which it must perform monthly FBWT reconciliations at the voucher level and provide supporting documentation to support 99 percent of its FBWT balances brought forward.

2.1.2. DoD Components must obtain the net detailed activity (authority, transfers, gross disbursements, and offsetting collections) of all open appropriations with balances in the FBWT account for the fiscal years of initial appropriation from the GWA system account statements and summarize the information into Table 2-1. Note that no-year (or "X-year") appropriations must be identified separately from the single- and multi-year appropriations for each FY.

Table 2-1. FBWT Aging Analysis Template

Initial Appropriation Fiscal Year	Balance @ 9/30/2025 of Open Appropriations	% of Total Appropriations Balance
2025		
2024		
2023		
2022		
2021		
2020		
2019		
2018		
2017		
2016		
No-Year		
<b>Total</b>		<b>100.0%</b>

2.1.3. DoD Components executing Treasury Index (TI) 097 funds are unable to obtain the detailed activity information at the Organization Unique Identifier Code (OUID or “limit”) level from the GWA system account statements since they are at the Treasury Account Symbol (TAS or appropriation) level. Instead, those DoD Components, supported by DFAS, must obtain that detailed activity information from the Defense Departmental Reporting System-Budgetary to perform the aging analysis. DFAS performs a DoD-wide consolidated aging analysis at the TAS level using the GWA system account statement for TI 097 funds.

2.1.4. Once DoD Components analyze aging and summarize their open appropriations, they must identify how many periods of availability for which they must perform monthly FBWT reconciliations and provide supporting documentation in order to support at least 99 percent of their FBWT balances brought forward.

2.1.5. If no-year appropriations must be included to reach the 99 percent coverage of total open appropriations, then DoD Components must provide five years of historical supporting documentation for that portion.

2.1.6. As a notional example, a completed aging analysis and summary of open appropriations is found in Table 2-2.

Table 2-2. Notional Example of Completed Aging Analysis

Initial Appropriation Fiscal Year	Balance @ 9/30/2025 of Open Appropriations	% of Total Appropriations Balance
2025	\$100,000,000,000	67%
2024	\$30,500,000,000	20%
2023	\$7,200,000,000	5%
2022	\$2,600,000,000	2%
2021	\$3,000,000,000	2%
2020	\$2,050,000,000	1%
2019	\$130,000,000	0%
2018	\$16,000,000	0%
2017	\$4,000,000	0%
2016	\$0	0%
No-Year	\$4,500,000,000	3%
<b>Total</b>	<b>\$150,000,000,000</b>	<b>100.0%</b>

2.1.7. To obtain coverage over at least 99 percent of its FBWT balances brought forward, the DoD Component **must** perform monthly FBWT reconciliations and provide supporting documentation going back to prior FYs for all activity, regardless of the initial appropriation year. The DoD Component **must** provide five years of historical supporting documentation for the no-year appropriations since that is necessary to obtain 99 percent coverage.

## 2.2 Step 2

2.2.1. Adhere to FBWT reconciliation requirements in Chapter 2.

2.2.2. DoD Components and DFAS must comply with the FBWT reconciliation requirements defined in Chapter 2 before proceeding with the additional steps in this annex. This includes **reconciling** monthly FBWT at the voucher level; identifying, aging, and resolving any reconciling differences; and **documenting** the voucher-level detail.

2.2.3. DoD Components and DFAS must ensure they address each FBWT risk, as shown in Chapter 2, Figure 2-1.

## 2.3 Step 3

2.3.1. Identify **the** initial audit period, perform monthly FBWT reconciliations, and test supporting documentation for prior fiscal years.

2.3.2. DoD Components must identify the year they first plan to undergo a financial statement audit and count back from that date using the number of years identified in the aging analysis in Step 1. This allows DoD Components to determine their period start date to establish auditable beginning balances for FBWT.

2.3.3. DoD Components and DFAS must reconcile monthly FBWT at the voucher level beginning with the date they have reached full compliance with Chapter 2, and work back progressively through each fiscal year needed to obtain 99 percent coverage of its FBWT balances brought forward.

2.3.4. See Chapter 2 for details on what must be included in the monthly reconciliations.

2.3.5. After reconciling monthly FBWT at the transaction level, DoD Components and DFAS must then test appropriations, transfers, disbursements, collections, and adjustments (including journal vouchers) to the FBWT accounts, to support the FBWT brought forward balance with documentation.

2.3.6. Supporting documentation must include, at a high level, third-party documentation, system reports, Treasury documentation, and reconciliations. See Section 5 of the Financial Improvement and Audit Remediation (FIAR) Guidance provided by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for specific examples of supporting documentation.

2.3.7. Supporting documentation must support all open FBWT account balances back to the year of initial appropriation. DoD Components are only required to demonstrate 99 percent coverage of beginning balances.

2.3.8. For the notional example presented in Step 1, the Component and DFAS must reconcile monthly FBWT at the transaction level and complete transaction-level detail testing for FYs 2025 through 2021.

## 2.4 Step 4

2.4.1. Assess the ability to reconcile monthly FBWT and provide documentation supporting 99 percent of FBWT balances brought forward.

2.4.2. After DoD Components and DFAS reconcile monthly FBWT at the transaction level, provide supporting documentation for all prior fiscal years, and obtain 99 percent coverage of its FBWT balances brought forward, they must continue to adhere to the FBWT requirements described in Chapter 2.

2.4.3. If DoD Components and DFAS determine that they are unable to reconcile monthly FBWT at the transaction level, they must provide supporting documentation. If it is not cost effective to provide supporting documentation, for all years and accounts required to obtain 99 percent coverage, they must proceed with the next steps in the approach.

## 2.5 Step 5

DoD Components and DFAS must perform a gap analysis to identify the unsupported portions of FBWT balances brought forward, by the appropriation year. An example of how DoD Components and DFAS may report on their gap analyses is depicted in Table 2-3.

Table 2-3. Notional Example of Completed Gap Analysis

Initial Appropriation Fiscal Year	Balance @ 9/30/2024 of Open Appropriations	Unsupportable Balance \$	Unsupportable Balance %
2024	\$100,000,000,000	\$4,500,000,000	4.50%
2023	\$30,500,000,000	\$1,000,000,000	3.28%
2022	\$7,200,000,000	\$200,000,000	2.78%
2021	\$2,600,000,000	\$0	0.00%
2020	\$3,000,000,000	\$1,000,000	0.03%
2019	\$2,050,000,000	N/A	N/A
2018	\$130,000,000	N/A	N/A
2017	\$16,000,000	N/A	N/A
2016	\$4,000,000	N/A	N/A
2015	\$0	N/A	N/A
No-Year	\$4,500,000,000	N/A	N/A
<b>Total</b>	<b>\$150,000,000,000</b>	<b>\$5,701,000,000</b>	<b>3.80%</b>

## 2.6 Step 6

2.6.1. Prepare the approval package for the OUSD(C) FIAR to justify the need to post a permanent adjustment to balance to Treasury.

2.6.2. Once DoD Components and DFAS have determined the total amount of their unsupported FBWT balances brought forward, they must correct the FBWT balances brought forward amount and balance to Treasury.

2.6.3. The package must demonstrate that DoD Components and DFAS have followed the approach described in Steps 1 through 5, and have exhausted measures to support their FBWT balances brought forward:

2.6.3.1. Aging analysis of open appropriation balances by appropriation fiscal years from Step 1.

2.6.3.2. Determination of the appropriation fiscal years that DoD Components intend to seek support for 99 percent coverage over their FBWT balances brought forward.

2.6.3.3. Results of monthly transaction level FBWT reconciliations performed in Step 3.

2.6.3.4. Results of transaction level detail testing performed in Step 3.

2.6.3.5. Balances identified as unsupportable and proposed adjusting journal vouchers from Step 5.

2.6.3.6. Description of process and controls in place demonstrating compliance with Chapter 2.

## 2.7 Step 7

2.7.1. Post permanent adjustment in accounting system.

2.7.2. After obtaining OUSD(C) FIAR's approval, the DoD Components and DFAS must post a permanent adjustment in the DoD Components' accounting system(s) to adjust for unreconciled differences with the Treasury. This permanent adjustment must bring the unsupported balance to zero.

2.7.3. The DoD Components and DFAS must ensure all negative unliquidated obligations and unmatched disbursements are resolved and in-transits are accounted for before posting the adjustment. See Volume 3, Chapter 11 for additional details.

2.7.4. The journal entry for this adjustment follows U.S. Government Standard General Ledger (USSGL) – [Treasury Bulletin 2024-04](#) accounts transactions A513 (Budgetary entry only), D304, and D306.

2.7.5. No guidance in this chapter must be construed as authorizing a delay in (1) the recording of an executed obligation or (2) the requirement to investigate a potential violation of the Antideficiency Act that results from any action other than the sole requirement to post this adjustment.

## 2.8 Step 8

2.8.1. Adhere to FBWT reconciliation requirements in Chapter 2.

2.8.2. DoD Components and DFAS must continue to adhere to the FBWT requirements described in Chapter 2.

2.8.3. If reconciling items are identified during the monthly FBWT reconciliations (after recording the adjustment in Step 7) that relate to appropriations and fiscal years included in the adjustment made in Step 7, then the DoD Components and DFAS must notify OUSD(C) FIAR and post a journal entry to offset the adjustment made in Step 7.

2.8.4. DoD Components and DFAS must ensure they have a process in place to address each of these critical areas to address FBWT risks to be compliant with supporting laws and regulations, as shown in Chapter 2, Figure 2-1.

**\*2.9 DoD USSGL Transaction Library**

Posting entries and account listings for the current fiscal year are provided in the “DoD USSGL Transaction Library” and “DoD Standard Chart of Accounts Implementation Guidance,” respectively, which are available on the Office of the Deputy Chief Financial Officer *Standard Financial Information Structure* webpage.

**VOLUME 4, CHAPTER 3: “RECEIVABLES”****SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by **blue font**.

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

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

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

The previous version dated **March 2021** is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
2.0	Revised existing definitions for clarification and accuracy. Moved a portion of the definition for the Write-off Receivable to paragraph 4.7 for clarification.	Revision
3.1	Added additional guidance to clarify the Accounts Receivable recognition.	Addition
3.3	Removed “Sales of Goods and Services” because the paragraph was repetitive.	Deletion
4.4	Added additional guidance for clarification.	Addition
4.6	Added calculation methodologies for intragovernmental and public allowance for uncollectible accounts. Clarified public allowance calculation methodology.	Revision
4.7	Revised Tax and Write-off guidance.	Revision
5.2	Revised information for clarification and accuracy.	Revision
5.3	Added additional guidance reference to clarify the reimbursable USSGL.	Addition
Table 3-1	Added a note defining the columns represented in the table.	Addition

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## CHAPTER 3

### RECEIVABLES

#### 1.0 GENERAL

#### 1.1 Purpose

This chapter prescribes policy for the recognition, recording, and reporting of public and federal (hereafter referred to as intragovernmental) accounts receivable.

#### 1.2 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.2.1. Title 10, United States Code, sections 1095, 2201, and 3863 ([10 U.S.C. §§ 1095, 2201, and 3863](#)).

1.2.2. [22 U.S.C. § 2767](#).

1.2.3. [31 U.S.C. §§ 1552\(a\)](#), 1555, 3321, 3351-3558, 3711, and 3717.

1.2.4. [41 U.S.C. § 7104\(a\)](#).

1.2.5. [42 U.S.C. § 2651](#).

1.2.6. Debt Collection Improvement Act of 1995 ([DCIA](#)).

1.2.7. Digital Accountability and Transparency Act of 2014 ([DATA Act](#)).

1.2.8. Title 31, Code of Federal Regulations, part 901.2 ([31 CFR 901.1](#)), “Aggressive agency collection activity.”

1.2.9. [31 CFR 901.9](#), “Interest, penalties, and administrative costs”

1.2.10. Office of Management and Budget ([OMB Circular A-11](#)), “Preparation, Submission, and Execution of the Budget.”

1.2.11. [OMB Circular A-129](#), “Policies for Federal Credit Programs and Non-Tax Receivables.”

1.2.12. Federal Accounting Standards Advisory Board (FASAB) *Statement* of Federal Financial Accounting Standards ([SFFAS](#)) *1*, “Accounting for Selected Assets and Liabilities.”

1.2.13. FASAB [SFFAS 7](#), “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.”

1.2.14. FASAB Technical Bulletin [\(TB\) 2020-1](#) “Loss Allowance for Intragovernmental Receivables.”

1.2.15. TFM Volume I Part 2 [\(ITFM 2-1500\)](#), “Description of Accounts Relating to Financial Operations.”

1.2.16. [ITFM 2-4700](#), “Federal Entity Reporting Requirements for the Financial Report of the United States Government.”

1.2.17. Treasury Report on Receivables [\(TROR\)](#).

1.2.18. Federal Acquisition Regulation [\(FAR\) subpart 32.6](#), “Contract Debts.”

1.2.19. DoD Instruction [\(DoDI\) 1015.15](#), “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources.”

1.2.20. [DoDI 5010.40](#), “Managers’ Internal Control Program Procedures.”

1.2.21. Government Accountability Office “Standards for Internal Control in the Federal Government” [\(Green Book\)](#).

1.2.22. Defense Logistics Manual [\(DLM\) 4000.25](#), “Defense Logistics Management Standards.”

## \*2.0 DEFINITIONS

### 2.1 Accounts Receivable

Receivables arise from claims to cash or other assets against another entity. At the time revenue is recognized and payment has not been received in advance, a receivable must be established. Receivables include, but are not limited to, monies due for the sale of goods and services and monies due for indebtedness. Examples of indebtedness to DoD include overdue travel advances, Federal Employee Health Benefits paid while an employee is in a leave without pay status, dishonored checks, fines, penalties, interest, overpayments, fees, rent, claims, damages, and any other event resulting in a determination that a debt is owed to DoD. See Volume 16, for comprehensive debt management policy and requirements to include administrative actions associated with the collection and disposition of debts owed to DoD. An accounts receivable is categorized as either an entity or non-entity accounts receivable in accordance with SFFAS 1:

2.1.1. Entity Accounts Receivable. Entity accounts receivable are amounts that a federal entity claims for payment from other federal or non-federal entities and that the federal entity is authorized by law to include in its obligation authority or to offset its expenditures and liabilities upon collection.

2.1.2. Non-Entity Accounts Receivables. Non-entity accounts receivable are amounts due to be collected by DoD on behalf of the U.S. Government or other entities, and DoD is not authorized to use. Non-entity accounts receivables are reported separately from receivables available to DoD (entity accounts receivables). Non-entity accounts receivable include governmental receipts and collections arising from the sovereign and regulatory powers unique to the Federal Government, (e.g., interest, penalties, income tax receipts, customs duties, court fines, and certain license fees). DoD accounts receivable in [canceled](#) accounts are also non-entity receivables because collections received after an appropriation cancels are deposited in the Treasury Account 3200, “Collections of Receivables from Canceled Accounts.” Non-entity receivables are recorded as a receivable and a custodial liability. In addition, federal entities should not recognize fiduciary assets, liabilities, and [future cash flows](#) in their financial statements, but only disclose them in a note disclosure.

## 2.2 Accounts Receivable Office

The Accounts Receivable Office (ARO) is the office responsible for the recording and reporting of receivables and may also be the office responsible for debt collection. In most but not all cases, the ARO is located at Defense Finance and Accounting Service (DFAS) centers.

## 2.3 Allowance for Loss on Accounts Receivable

DoD must recognize an allowance for loss on accounts receivable when it is more likely than not that DoD is not able to totally collect the receivables. The phrase “more likely than not” means more than a 50 percent chance of loss occurrence. [The allowance for loss on accounts receivable is recorded as allowance for uncollectible accounts in the DoD consolidated and components financial statements and notes.](#)

## 2.4 Current (Non-Delinquent) Receivables

Non-delinquent receivables, i.e., debts, are categorized as current and non-current assets. The portion of a non-delinquent debt that is scheduled to be collected in the next 12 months is recorded as current; the portion of a non-delinquent debt scheduled for collection after 12 months is recorded as non-current. The importance of these categories is to inform DoD and Treasury of the expected cash flow/liquidity of the asset (i.e., current versus non-current assets).

## 2.5 Close-Out (Applies to Public Debt Only)

Close-out is one of two accounting classifications for writing off debt that indicate whether or not an agency will continue debt collection efforts after write-off. The ARO, in conjunction with the DoD Component Fund Holder, closes out a debt when it is determined that further debt collection actions are prohibited (e.g., a debtor is released from liability in bankruptcy) or there are no plans to take any future active or passive actions to try to collect the debt. Close-out may occur concurrently with the write-off of an account receivable or at a later date, depending on the collection strategy and the ultimate determination that the debt has been discharged. At close-out, DoD may be required to report to the Internal Revenue Service (IRS) the amount of the debt as potential income to the debtor on IRS Form 1099C, Cancellation of Debt.

## 2.6 Currently Not Collectible

Currently Not Collectible (CNC) is one of two accounting classifications for writing off debt that indicate whether or not an agency will continue debt collection efforts after write-off. CNC is a category of debt that has been written off on the DoD Component's financial statements, but cost effective debt collection efforts will continue to be taken by the cognizant Debt Collection Management Office (DCMO), Debt Collection Office (DCO), or Debt Management Office (DMO).

## 2.7 Debt

Debt is defined in 31 U.S.C. § 3701(b)(1) as any amount of funds or property that has been determined by an appropriate official of DoD to be due to DoD by a person, organization, or entity other than another Federal agency. See Volume 16 for additional information on debt management.

## 2.8 Debt Collection Office

The DCO is responsible for initial debt collection actions and serving due process. The DCO refers to a general category of offices and includes, but is not limited to, the ARO, military and civilian payroll offices, and other organizational elements within the DoD Components that perform debt management/collection actions (e.g., personnel offices).

## 2.9 Delinquent Receivables

2.9.1. A receivable is delinquent if it has not been paid by the date specified in the DoD's initial written demand for payment or applicable agreement or instrument unless, other satisfactory payment arrangements have been made. If the contract or agreement provides for a "grace" period, DoD Components do not report the debt as delinquent until the grace period expires without payment. In such cases, however, the original due date is used for delinquency date.

2.9.1.1. Delinquent debts are aged from the date of delinquency.

2.9.1.2. If a debtor is making payments according to the terms of a repayment plan approved by the agency, the debt is not considered to be delinquent.

2.9.1.3. On the TROR:

2.9.1.3.1. Report each debt owed by a single debtor with multiple debts as a separate debt.

2.9.1.3.2. Report each delinquent debt once, even if DFAS or DoD Component tracks delinquent payments on that debt separately. For example, if the debtor has missed two payments, and the agency keeps track of those delinquencies separately, report them together as one debt. If any installment is delinquent more than 180 days, report the debt on the TROR as delinquent more than 180 days.

2.9.2. DoD Components must report the entire amount of each single debt as delinquent, if any part of it has been delinquent more than 180 days and the debt has been accelerated.

#### 2.10 Direct Cost

A direct cost includes any cost that can be identified specifically with handling cases or accounts during the debt collection process. These costs normally include the cost of personnel, computer equipment, supplies, postage, contract services, and administrative fees charged by the Treasury.

#### 2.11 Due Process

Due process is the notice of indebtedness and the opportunity provided the debtor to dispute the indebtedness. The Fifth Amendment of the U.S. Constitution provides that no person “shall be deprived of life, liberty, or property without due process of law...” The minimum due process required is generally established by the statutes that authorize the use of a specified debt collection tool or by implementing regulations. In the context of federal debt collection, see Volume 16, Chapter 2.

#### 2.12 Indirect Cost

Indirect cost includes costs associated with the debt collection process that benefits at least one other activity. These costs must be accumulated only when they are expected to exceed 20 percent of the direct costs.

#### 2.13 Intragovernmental Receivables

Intragovernmental receivables are claims of a federal entity against other federal entities. Intragovernmental receivables are either within DoD (e.g., a Military Service) or outside DoD (e.g., General Services Administration).

#### 2.14 Non-Current Non-Delinquent Receivables

Non-current non-delinquent receivables are non-delinquent accounts receivables that [the due date is not](#) within 12 months after [DoD claims the](#) receivable.

#### 2.15 Non- Delinquent Receivables

Non-delinquent receivables are accounts receivable that have not been billed or are not due under the contract or billing document pertaining to the receivable. This also includes rescheduled receivables and receivables under an installment agreement.

#### 2.16 Public/Non-Federal Receivables

Public/non-federal receivables are claims of DoD against non-federal entities. The term “public/non-federal entities” encompasses domestic and foreign persons and organizations outside

the U.S. Government, including Nonappropriated Fund Instrumentalities (NAFIs) for purposes of processing receivables. Examples are: salary/travel overpayments; overpayments to contractors/vendors due to duplicate and erroneous billings; incorrectly computed invoices; non-[Foreign Military Sales \(FMS\)](#) foreign government fuel purchases; contract default; amounts due for items rejected or returned; and amounts due on payments for contractual services such as rent, insurance, and transportation purchased, where such contracts are canceled and adjustments are made for the unused portion.

#### 2.17 Rescheduled Receivables

Rescheduled receivables are receivables that have been subject to rescheduling, forbearance, re-amortization, or any other form of extending the future of the original payment(s) or payment due dates.

#### 2.18 [DFAS Enterprise Solutions and Standards Vendor Pay](#) Tax Office

The [DFAS Enterprise Solutions and Standards \(ESS\) Vendor Pay](#) Tax Office is the office that prepares the IRS Form 1099C for reporting to [the IRS](#) on closed-out, uncollected, public vendor, contractor, and individual debt.

#### 2.19 Trading Partners

Trading Partners collectively refers to the requesting agency (buyer) and the providing agency (seller) involved in intragovernmental transactions.

#### 2.20 Treasury Report on Receivables

The TROR is a quarterly report of public receivables prepared in compliance with the Treasury guidance. It provides a means for collecting data on the status and condition of the total receivable portfolio from public sources. See section 6.0 for additional information.

#### 2.21 Terminate Collection Action

Terminate Collection Action is a decision to cease active collection action on a debt, in accordance with criteria set out in the Federal Claims Collection Standards, because such collection action is not economically worthwhile or is otherwise inappropriate. “Termination” of debt collection is a legal procedure, which is separate and distinct from the accounting procedure of “write-off”. See 31 U.S.C. § 3711 on additional guidance on termination collection action [for additional guidance](#).

#### 2.22 Write-off of Receivables

The write-off of a receivable is an accounting action that results in removing a public/non-federal receivable from the DoD Component’s financial accounting records/financial statements.

## 3.0 RECEIVABLES POLICY

### \*3.1 Recording

3.1.1. According to SFFAS 1, a receivable must 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, or goods or services provided. In the case that an exact amount is unknown, a reasonable estimate must be made by the collecting entities. Disputes or litigation do not affect the timing of receivable recognition. For additional information regarding receivable recognition, refer to SFFAS 1.

3.1.2. A receivable must be established when payment is not received in advance or at the time revenue is recognized. Receivables must be recorded when earned from the sale of goods and services or when an event results in the determination that a debt is owed to DoD, i.e., in the applicable accounting system during the month the receivable occurs. Accounting records for receivables must be maintained so that all transactions affecting the receivables are included in the reporting period of occurrence. There must be immediate recording of events not previously recorded due to error or oversight. The requirements for recording and reporting errors on the financial statements are detailed in Chapter 15.

3.1.3. DoD Components must recognize accounts receivable and unfilled orders without an advance as valid budgetary resources when such receivables or unfilled orders are from federal entities. Absent statutory authority, components must not recognize accounts receivable and unfilled orders without an advance as valid budgetary resources when such receivables or unfilled orders are from public/non-federal entities.

3.1.4. DCOs must ensure that the appropriate ARO is advised that a receivable is to be established in the applicable accounting system. DCOs will provide the ARO with signed copies of indebtedness notices and other appropriate documentation to support entries in the accounting system and will provide the status of the debt which includes: beginning debt balance, collections, adjustments, current ending balance and notice of discontinuance of collection efforts. DoD Components must maintain the supporting documentation in the applicable accounting system. See Volume 1, Chapter 9 for records retention.

### 3.2 Advance Payments

3.2.1. In general, an advance payment is required for orders from the public, including state and local governments, except for fuel, as the sale of petroleum products to the public is covered by fuel purchasing agreements. The order must be accompanied by an advance equivalent to the actual or estimated cost of goods and services. If amounts are sufficient, Military Departments may use their own appropriated fund budgetary resources to perform a reimbursable order for a NAFI without an advance. However, they must not recognize budgetary resources for the order until the account receivable is paid. An advance payment from foreign governments for FMS is held and recorded in the FMS Trust Fund or investment accounts that can be drawn on to meet the foreign government's FMS obligations.

3.2.2. The Department has statutory authority to record a budgetary resource for non-federal orders without an advance for work performed under the provisions of 22 U.S.C. § 2767. Components must request approval from the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) in advance of accepting the order(s) and recording the budgetary resource. The OUSD(C) will coordinate with OMB to ensure the resulting budgetary entries will be accepted within federal-wide accounting and reporting systems.

3.2.3. Additional information regarding budgetary resources may be found in Volume 3, Chapters 13, 14 and 15. See Volume 11B, Chapter 11 and Volume 4, Chapter 5 for Defense Working Capital Funds' policy on receipt of advances on orders from public/non-federal entities.

### 3.3. Collection of Receivables

3.3.1. The collection of receivables must be aggressively pursued for amounts due from DoD Components, federal agencies, and the public. The due date for a receivable normally is 30 days from the date of invoice, demand letter, or notice of payment due; unless a specific due date is established by statute, contract provision, or notice of indebtedness. Collection actions must be initiated when payment becomes due. See Volume 16, Chapter 2 for additional information on due process.

3.3.2. Funds must be collected in the appropriation that earned the funds, or in the case of a refund, into the appropriation from which the excess payment was made, unless otherwise specified by law. Examples of applicable legal provisions include, but are not limited to:

3.3.2.1. In accordance with 42 U.S.C. § 2651, amounts recovered from a liable third-party or insurer due to a service member's injury or disease must be credited to current operating funds as follows:

3.3.2.1.1. Amounts recovered for hospital, medical, surgical, or dental care and treatment will be credited to the current operating funds of the facility or activity that provided the care and treatment.

3.3.2.1.2. Amounts recovered for loss of the service member's duty will be credited to current operating funds of the command, activity, or unit to which the service member was assigned at the time of the injury or illness.

3.3.2.2. In accordance with 10 U.S.C. § 1095, collection from third parties for medical services provided must be recorded against the year in which the collection is received regardless of the year in which service was provided.

3.3.3. Any collections including refunds received after an appropriation cancels must be deposited in Treasury Account 3200, "Collections of Receivables from Canceled Accounts." See paragraph 3.11 for additional guidance on accounts receivable and canceled appropriations.

### 3.4 Allowance Account and Aging

3.4.1. An allowance for uncollectible accounts receivable due from the public and intragovernmental customers must be estimated and recorded.

3.4.2. No allowance for uncollectible accounts will be recorded for non-loan interest, penalties, and administrative charges.

3.4.3. The AROs (on behalf of the DoD Components) must age delinquent accounts receivable within the accounting system.

3.4.4. Aging of receivables (delinquency) starts one day after the due date for both public and intragovernmental (within and outside DoD) receivables. See Figure 3-1.

### 3.5 Interest Penalties, and Administrative Receivable

Interest, Penalties, and Administrative (IPA) receivables are DoD assessments added to delinquent debts. The full amount of a delinquent debt is the sum of the principal, accrued program interest, and any other penalties and/or administrative charges that are due and owed to the DoD. See Volume 16, Chapter 7 for detailed IPA information.

3.5.1. Interest accrues from the first day of delinquency and is added to the outstanding principal receivable balance within the accounting system when an amount due is not received by the due date or other agreed upon date. Interest also must be recognized on outstanding accounts receivable against persons and entities in accordance with provisions in 31 U.S.C. § 3717. Until the interest payment requirement is officially waived by the DoD or the related debt is closed-out, interest will accrue. Note that debts owed by any federal agency are exempt from interest, penalty, and administrative charges. Interest receivables are considered non-entity receivables.

3.5.2. An interest receivable must be recorded when the interest income is earned not when the income is received. An interest receivable must be recorded as it is earned on investments in interest-bearing securities.

### 3.6 Payment Application

When a debt is paid in partial or installment payments, amounts received will be applied first to contingency fees, second to outstanding penalties, third to administrative charges, and fourth to interest, and lastly to principal per Federal Claims Collection Standards, 31 CFR 901.9(f).

### 3.7 General Ledger Accounting

Information on receivables must be developed, maintained, and reported using the United States Standard General Ledger (USSGL) accounts depicted in Volume 1, Chapter 7. The first six digits of the accounts receivable general ledger account must conform to the USSGL chart of accounts. DoD requires the use of the DoD Standard Chart of Accounts (SCOA). The DoD SCOA

and accounting transactions for collections and receivables are outlined in the DoD USSGL Transaction Library, available on the Standard Financial Information Structure ([SFIS](#)) web page.

### 3.8 Internal Controls

The basic standards for internal controls prescribed in DoDI 5010.40, must be adhered to in establishing and collecting receivables.

3.8.1. Major categories of receivables must be maintained to facilitate clear and full disclosure of accounts receivable, e.g., disclose the debtor, the amount, the age, and the type of debt. Subsidiary records must be reconciled to the control accounts on at least a monthly basis.

3.8.2. Proper internal controls require the accurate and timely recording of transactions, appropriate documentation and retention appropriate authorization, (i.e., executed only by persons acting within the scope of their authority) and appropriate management.

3.8.3. Responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets must be separated so that no one individual controls all key aspects of a transaction or event (e.g., a technician responsible for creating cash or check due transactions cannot also be responsible for collecting cash or checks), must be maintained.

3.8.4. Each DoD Component must develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data. Internal operating procedures must include a dormant account review quarterly (DAR-Q) for accounts receivable as described in Volume 3, Chapter 8. Relevant records supporting financial statements must be maintained and made available during financial statement audits.

### 3.9 Erroneous, Invalid, and Unsubstantiated Accounts Receivables

During the DAR-Q process, [the reviewer must examine the](#) receivables for completeness, accuracy, and supportability. Abnormal or erroneous accounts receivable must be promptly researched and resolved. If at any time it is determined that a debt was never owed and should not have been classified as an accounts receivable, the accounting records must be adjusted. Return all funds collected to the debtor for an unsubstantiated account receivable.

3.9.1. For errors detected in the year the receivable was recorded, reverse the entry. For errors detected in subsequent fiscal years, record an entry in accordance with the requirements for recording and reporting errors in the financial statements [as detailed in](#) Chapter 15.

3.9.2. A billing DoD Component that cannot produce the evidence necessary to establish an accounts receivable and has not been able to obtain the voluntary repayment of the debt, the entries that established the accounts receivable must be reversed.

3.9.2.1. Evidence necessary to establish an account receivable includes, but is not limited to, a duplicate payment voucher, contract reconciliation document, Department of Justice litigation report, an unpaid U.S. payment voucher, or demand letter.

3.9.2.2. All erroneous, invalid, and unsubstantiated accounts receivable must be removed from the general ledger by reversing the existing entry if recorded in current year. See Chapter 15 if the receivable was recorded in prior years. The reversing journal entry must be supported with all known evidence.

3.9.3. The evidence obtained from research may identify internal control failures and/or process weakness with the recognition of accounts receivable. Any internal control failures and/or process weaknesses must be addressed and corrected.

### 3.10 Canceled Appropriations

AROs must retain all outstanding receivables in the residual records even though an appropriation cancels. When the appropriation cancels, the collection of a receivable is recorded in Treasury miscellaneous receipt account 3200, "Collections of Receivables From Canceled Accounts." Appropriation cancellation does not relieve DoD of the responsibility to pursue collection or recovery.

### 3.11 Nonappropriated Fund Instrumentalities Receivables

Receivables from NAFIs must be recorded as transactions from the public. They must be included in the quarterly TROR. With the exception of individual debt, NAFI delinquent debt will not be referred to the DMO or to Treasury for collection assistance. Refer to Volume 13, Chapter 3 for guidance on NAFI debts.

### 3.12 Foreign Military Sales Receivables

Receivables from the FMS Trust Fund (appropriation 97 11X8242) must be recorded as federal transactions. Other Security Assistance receivables, e.g., the Foreign Military Financing Program, Funds Appropriated to the President (appropriation 11(FY) 1082), must be recorded and reported as intragovernmental receivables. The FMS delinquent accounts receivable will not be referred to the DMO or to Treasury for collection assistance. See Volume 16, Chapter 6 for guidance on FMS receivables.

### 3.13 Non-FMS Foreign Government Receivables

The ARO will initiate initial billings for non-FMS foreign government accounts receivable. See Volume 16, Chapter 6 for additional information on non-FMS foreign government receivables.

### 3.14 Retention of Documentation

AROs and DCOs will maintain documentation to support actions taken on each accounts receivable. This includes but is not limited to documents supporting:

- 3.14.1. Establishing the receivable.
- 3.14.2. Due process requirements.
- 3.14.3. Research and resolution of abnormal or erroneous balances.
- 3.14.4. Reversal of entries establishing the receivable.
- 3.14.5. Termination, write-off, and close-out of receivable.
- 3.14.6. Bankruptcy.
- 3.14.7. Installment payment plan.

### 3.15 Undistributed Collection Balances

Undistributed collection balances placed in Treasury budget clearing (suspense) accounts F3875 and F3885 must be analyzed and reconciled monthly on the Financial Management System Form 224, "Statement of Transactions," to ensure all collected amounts are properly credited to the proper appropriation and applicable accounts receivable accounts. For any suspense account, items, or transactions more than 60 days old, investigate and document the reason why the transaction cannot be reclassified to the correct appropriation. All differences must be cleared within 60 days, with the exception of those suspense accounts that have been identified by Treasury as exempt from the 60-day requirement. Refer to Chapter 2 for the required investigatory procedures related to budget clearing account balances.

## 4.0 PUBLIC RECEIVABLES

### 4.1 General

Receivables due from the public are DoD claims (or another entity within the Federal Government) against non-federal entities, to include public entities, domestic and foreign persons and organizations outside the U.S. Government. Public receivables are also created from the sales of goods or services when an advance payment is not first received or from refunds due to the DoD. See paragraph [3.2](#) for more on an advance payment.

## 4.2 Debt Collection Policies

The DoD policies for credit management and debt collection delineated in other volumes are:

4.2.1. Policies and procedures for collection of debt from individuals are in [Volume 16, Chapter 3](#).

4.2.2. Policies and procedures for [physical](#) loss of funds are in Volume 5, Chapter 6. Accounts receivable that are the result of improper payments may require loss of funds investigations in accordance with Volume 5, Chapter 6 for improper payments.

4.2.3. Policies and procedures for salary offset to collect debts owed to the [DoD](#) by military members or civilian employees are in Volume 7B, Chapter 28; and Volume 8, Chapter 8. Volumes 7A, 7B, and 8 also address collection of child support, alimony, or commercial debts from the pay of military members or civilian employees through garnishment or involuntary offset.

4.2.4. Policies and procedures for collection of commercial or contractor debt are in Volume 16, Chapter 5. Additionally, the FAR Subpart 32.6, prescribes policies and procedures for ascertaining and collecting contract debts, charging interest on the debts, deferring collections, and compromising and terminating certain debts.

4.2.5. Policies for collection of debts from foreign [entities](#) are available in Volume 16, Chapter 6.

## 4.3 Receivables from the Sale of Goods and Services to the Public

4.3.1. Upon receipt of a collection voucher, the ARO must record the collection in the accounting system and include it in the monthly reports (Standard Forms 1218, 1219, [and 1220, and FMS Form 224](#)) to Treasury. If an abnormal balance results from recording the collection, the ARO must research and resolve the abnormal balance.

4.3.2. The ARO must refer delinquent accounts receivable for further collection action as required by debt collection policy in Volume 16, Chapter 3.

## \*4.4 Refunds Receivable

Refunds to appropriations represent amounts collected from outside sources for payments made in error, overpayments, or adjustments for previous amounts disbursed. They must be directly related to previously recorded expenditures and are reductions to those expenditures. There is not a separate account for refunds receivable in the USSGL. Refunds receivable are treated as accounts receivable [and DoD Components must recognize and report them in their financial statements](#).

4.4.1. Examples of refunds receivable include, but are not limited to the following:

4.4.1.1. Salary overpayments.

4.4.1.2. Overpayments to commercial concerns due to erroneous billings, incorrectly computed invoices, or contract default.

4.4.1.3. Amounts due for items rejected or returned.

4.4.1.4. Amounts of recovery due on payments for contractual services, such as rent, insurance, and transportation purchased, where such contracts are canceled and adjustments made for the unused portion.

4.4.1.5. Amounts for advance payment of travel when the travel was canceled.

4.4.1.6. Amounts payable for “due U.S.” travel vouchers.

4.4.1.7. Amounts due from advance payments for contractual purposes.

4.4.1.8. Amounts due from employees on leave without pay for employee share of benefits (i.e., health insurance).

4.4.2. Non-DCO activities (e.g., contracting offices, Fund Holders) must notify the DCO that a debt exists. For contracting offices, [the FAR, Part 32, Contract Financing provides the guidance](#). DCOs must ensure the appropriate ARO is advised to establish a receivable in the applicable accounting system. Such notification must be made in the same accounting cycle that the debt is recognized.

4.4.3. Upon receipt of a collection voucher, the ARO must ensure that the collection is recorded in the accounting system and reported to Treasury. See sections [6.0](#) and [7.0](#) for additional guidance on reporting requirements. If an abnormal balance results from recording the collection, then the ARO **must** research and resolve the abnormal balance.

4.4.4. The ARO or DCO must refer delinquent accounts receivable for further collection action as required in subparagraphs [4.6](#).

4.4.5. OMB Circular A-11 addresses the proper budgetary accounting for refunds in section 20.10. Since refunds are the repayments of excess payments, the amounts are directly related to previous obligations incurred and outlays made against the appropriation. Refunds received are deposited to the credit of the appropriation or fund account charged with the original obligations.

## 4.5 Collection Actions

Accounts receivable must be aged to allow for the management of collection actions.

4.5.1. The due date for a receivable is normally 30 days from the date of invoice, demand letter, or notice of payment due unless a specific due date is established by statute, contract provision, or notice of indebtedness. The initial demand for payment, invoice, or demand letter must include a complete explanation of the debtor's rights and responsibilities, the basis of the indebtedness, the agency's intention to use various collection tools to collect the debt, additional charges (i.e., interest, penalties, and administrative charges) that may be levied, and the name, work phone number, and address of an individual to contact within the agency to resolve the delinquency. See Volume 16, Chapter 2 for additional information on debt notification requirements.

4.5.2. AROs or DCOs will refer valid and legally enforceable delinquent individual out-of-service debt to the DCMO for further collection action. See Volume 16, Chapter 3 for additional information.

4.5.3. AROs or DCOs will refer valid and legally enforceable delinquent vendor debt of \$25 (\$100 if vendor does not have a Taxpayer Identification Number) or more, comprised of principal, interest, administrative charges, and penalty, to the DMO for further collection action no later than 60 days after the payment due date. Multiple debts to the same vendor totaling \$25 or \$100 or more must be consolidated and referred to the DMO as one debt package.

4.5.4. Uncollected public vendor debt of less than \$25 and individual out-of-service debt of less than \$25 must be collected or written off and closed-out within 1 year of delinquency in accordance with Volume 16, Chapter 3. These debts are not referred to DMO or DCMO for further collection action unless mandated by public law.

4.5.5. The DCMO or DMO must refer valid and legally enforceable delinquent public receivables over 120 days old to Treasury for further collection action in accordance with the DCIA and the DATA Act.

4.5.5.1. Exceptions to the requirement to refer debt to Treasury include debts or claims that: (a) are in litigation or foreclosure; (b) will be disposed of under an asset sales program within one year after becoming eligible for sale, or later than one year if consistent with an asset sales program (See OMB Circular A-129, section IV); (c) have been referred to a private collection contractor for collection for a period of time approved by the Secretary of the Treasury; (d) will be collected under internal offset, if such offset is sufficient to collect the claim within three years after the date the debt or claim is first delinquent; (e) are foreign government debts; or (g) are NAFI debts.

4.5.5.2. The Treasury, after due process, returns uncollected public receivables to the sender (length of time varies based upon collection actions taken by Treasury).

4.5.5.3. Debts less than \$100,000 that are referred to Treasury and later returned due to failure to collect may be terminated for further collection action by DCMO or DMO upon

coordination with the appropriate Fund Holder. Debts of \$100,000 to \$500,000 that are referred to Treasury and later returned due to failure to collect may be terminated with Treasury's approval. Debts of \$500,000 or more must be referred to the Department of Justice for approval to terminate collection action. See Volume 16, Chapter 2 for additional guidance regarding termination of collection action.

4.5.5.4. DCMO or the DMO will advise the ARO when the Treasury has returned a debt as uncollectible. The ARO will take appropriate actions to terminate collection action, write-off the receivable, and close-out the receivable, as applicable.

#### \*4.6 Establishment of Allowance for Loss on Accounts Receivable

4.6.1. The ARO must recognize and record its projected debt losses by setting up allowance for uncollectible accounts on public and intragovernmental accounts receivable in the general ledger. By accurately estimating the potential losses and putting that amount in its allowance accounts, a reporting entity is recognizing the accounts receivable at their net realizable value.

4.6.2. SFFAS 1 requires an allowance for estimated uncollectible receivable amounts be recognized when it is more likely than not that the receivables will not be totally collected; the phrase "more likely than not" means more than a 50 percent chance of loss. TB 2020-1 clarifies that the absence of explicit guidance distinguishing between intra-governmental and nonfederal/public entities receivables, both must be recognized in accordance with SFFAS 1 requirements. The allowance for loss on accounts receivable must be re-estimated annually and when information indicates that the latest estimate is no longer accurate.

4.6.3. Losses due to uncollectible receivables should be measured through a systematic methodology. The systematic methodology should be based on analysis of groups of receivables as a whole with the option to isolate individual receivables for a separate allowance calculation. The allowance amount calculated for individual receivables and groups of receivables will be added together and will be the total amount for allowance for loss on accounts receivable. A provision to increase or decrease the allowance will result in an adjustment of nonexchange revenue, rather than a bad debt expense.

4.6.3.1. Group of Receivables. To determine the loss allowance for receivables less than \$100,000, separate the receivables into groups having similar risk characteristics. Receivables may be grouped by each delinquent age category greater than 60 days old, by category of debtor, by reason that gave rise to the receivable, or by geographic regions. The methodology used to determine the percentages will be based on the history of bad debt expense from the last three years. The determined percentages will be applied to the total amount in each category. The OUSD(C) must approve exceptions when abnormal circumstance skews the three-year average.

4.6.3.2. Individual Receivables. Each receivable equal to or greater than \$100,000 must be analyzed to determine the loss allowance. Loss estimation for each receivable will be based on: (a) the debtor's ability to pay, (b) the debtor's payment record and willingness to pay, and (c) the probable recovery of amounts from secondary sources, including liens, garnishments,

cross collections, and other applicable collection tools. DoD Components with a low number of receivables or a large number of small dollar receivables may lower the threshold. However, consistent methodology must be used from year to year.

4.6.4. DoD must not recognize intragovernmental allowance for uncollectible accounts up to and including two years in delinquent age for intragovernmental receivables. After two years and older delinquent age, DoD must recognize 100 percent allowance for uncollectible accounts. The public allowance for uncollectible accounts is calculated:

4.6.4.1. No (0 percentage) allowance is calculated for aging categories less than 90 days.

4.6.4.2. 100 percentage allowance is calculated for public debt for aging categories greater than two years.

4.6.4.3. Allowance for public debt for aging categories greater than 90 days and less than 2 years are calculated by agency-specific Monthly Receivable Data (MRD) write-off amounts divided by total Account Receivable amounts to determine the write-off percentage. The most recent 36 months of write-off percentages are averaged to determine the allowance percentage for 91 days to 2 years aging categories.

4.6.5. In those instances, when one DoD Component sub-allots funds to another DoD Component, the office executing the funds will be responsible for establishing the allowance for loss on accounts receivable. The write-off of receivables must be processed through the allowance for uncollectible accounts.

#### \*4.7 Write-off and Close-Out of Public Accounts Receivable

OMB Circular A-129 provide general provisions for write-off and close-out of public accounts receivable. Write-off is mandatory for public delinquent debt that has not been collected within two years of delinquency unless documented and justified to OMB in consultation with Treasury. All write-offs of non-federal receivables must be made by debiting the allowance for uncollectible account and crediting the receivable account. A direct write-off to public receivable without recording an allowance for uncollectible is prohibited. Intergovernmental receivable write-off is prohibited. In accordance with OMB Circular A-129, when a receivable is written-off, it must be classified as currently not collectible (CNC) or closed-out. Receivables that are classified as CNC must be maintained in an inactive administrative file and reported on the TROR until the receivable is closed-out.

4.7.1. Write-off. The DCO must provide the ARO with documentation to support write-off of the receivable (regardless of amount) and also must provide the history of all research and debt collection efforts. When received, the ARO must immediately provide the documentation to the Fund Holder for concurrence for write-off and notify the DCO that the request for concurrence was sent. If the Fund Holder concurs, the ARO will write-off the debt. If the Fund Holder non-concurs or does not respond, then the following applies:

4.7.1.1. The Fund Holder must respond within 30 days of request for a write-off. If a response is not received within 30 days, the ARO will write-off the debt.

4.7.1.2. If non-concurring, the Fund Holder must provide the ARO with additional written evidence to enable the collection of the debt. The ARO will only make one additional attempt to collect (i.e., issue one additional demand letter).

4.7.1.3. If payment is not received after **making one additional attempt to collect**, the ARO will write-off the debt. The ARO will notify the Fund Holder and the DCO that the debt was written off.

4.7.2. Currently Not Collectible. Once the debt is written off, it must either be classified as CNC or closed-out. Debts in CNC status are reported on the TROR and are still eligible for the Treasury's cross-servicing and offset programs.

4.7.2.1. Public debt will be classified as CNC only if the following criteria are met:

4.7.2.1.1. The vendor debt or the individual out-of-service debt is \$25 or more.

4.7.2.1.2. All debt collection actions referenced in this chapter have been pursued.

4.7.2.1.3. It is cost effective to continue collection efforts.

4.7.2.2. CNC debt must be continuously reviewed and, as required, reclassified and closed-out.

4.7.2.3. When Treasury is able to collect on a receivable categorized as CNC and remits funds to DoD, the ARO will reverse the write-off, reestablish the receivable, and record the collection against the receivable.

4.7.3. Close-Out of Indebtedness. Debt write-off and close-out may occur at the same time, or close-out may follow write-off by a substantial period of time. When it has been determined that the debt is not collectible (e.g., returned from Treasury uncollected or further collection action would not be economically feasible), the DCO must notify the ARO. The ARO must notify the Fund Holder and request concurrence to close-out the debt. If the Fund Holder non-concurs or does not reply, the following applies.

4.7.3.1. The Fund Holder must respond within 30 days of request for close-out. If a response is not received within 30 days, then the debt must be closed-out.

4.7.3.2. If non-concurring, the Fund Holder must provide the ARO with additional written evidence to enable the collection of the debt. The ARO will only make one additional attempt to collect (i.e., issue one additional demand letter).

4.7.3.3. If payment is not received after procedures in subparagraphs 4.7, then the ARO must close-out the debt and notify the Fund Holder.

4.7.3.4. Once a debt has been closed-out, it cannot be reactivated, and the Federal Government cannot take any further administrative or legal action to collect the debt. The Federal Government, however, can accept voluntary repayment of the debt at any time. Once the Fund Holder has decided to close-out the debt, the ARO has primary responsibility for close-out actions. Volume 16, Chapter 6 provide guidance regarding the FMS arrearages write-off and close-out.

4.7.4. Tax Reporting: In most cases, when an agency closes out a debt or compromises a debt for less than the full amount owed, the debt is considered a canceled debt. DoD has a responsibility to issue tax forms and execute IRS reporting for canceled debts that meet the IRS's reporting criteria. The DFAS ESS Vendor Pay Tax Office is responsible for the tax form issuance and IRS reporting for vendor and contractor canceled debts managed in the DFAS Defense Contractor Debt System (DCDS).

## 5.0 INTRAGOVERNMENTAL RECEIVABLES

### 5.1 Receivables Due From Federal Entities

Receivables due from DoD Components or other federal entities are intragovernmental receivables and must be reported separately from receivables due from public entities in the financial statements.

### \*5.2 Sales of Goods and Services

5.2.1. Intragovernmental materials sold or services furnished must be authorized and documented in a support agreement between the provider (seller) and ordering entity (buyer). A providing entity (seller) must initiate the agreed upon activity by providing the cost of materials or performing the services to the ordering entity (buyer). The activity receiving the materials or services (buyer) pays the providing activity. Uncollected amounts earned from reimbursable sales are recorded as accounts receivable

5.2.2. In contrast with orders from the public/non-federal entities without an advance, under the Economy Act DoD organizations with reimbursable authority may recognize a budgetary resource upon acceptance of funded reimbursable orders from DoD and other federal agencies, because customer agencies obligate their own budgetary resources (e.g., appropriations) at the time of order placement and acceptance. DoD organizations may incur obligations to fill such orders without requiring the customer to provide an advance payment and without burdening their own budgetary resources.

### \*5.3 DoD Performing Entity Responsibilities

The performing entity (seller) must ensure that the costs incurred for completed performance are promptly recorded as revenue and receivable and must ensure the earned revenue amount is promptly charged and collected from the ordering entity. Refer to Chapter 9 for a

description of how titles are passed on a contractual agreement. Ensure that transactions are recorded on a timely basis, in order for Treasury to perform intragovernmental eliminations. The performing entity will:

5.3.1. Receive a customer's order, which will be verified against the agreement serving as the basis for the order, such as a DD Form 448, "Military Interdepartmental Purchase Request" (MIPR). The amount of the order must be recorded as an unfilled customer order.

5.3.2. Reverse the unfilled customer order and record a filled customer order (i.e., earnings) uncollected upon receiving documentation showing that goods or services were provided. Record the receivable and charge the customer. If an abnormal balance results from reversing the unfilled customer order, research the abnormal balance and promptly resolve the issue.

5.3.3. Reverse the filled customer order uncollected (i.e., earnings) and record a filled customer order collected upon receipt of a collection voucher. If an abnormal balance results from reversing the filled customer order uncollected, research the abnormal balance and promptly resolve the issue.

5.3.4. Ensure that collection vouchers are recorded in the accounting system and reported to the Treasury in the accounting month the collection was received.

5.3.5. Review unearned and earned orders and determine that recorded orders are supported with an order or contract.

5.3.6. Research any abnormal unfilled customer order balances; such balances indicate that an order may not be recorded. Research any abnormal filled customer order uncollected balances; such balances indicate that collections may have been incorrectly recorded. Promptly resolve these abnormal balances.

5.3.7. For orders not filled from inventory (e.g., supply issues from materiel systems); obtain the accounts payable transaction history. Review obligations and accrued expenditures recorded and determine whether the accruals are supported with a reimbursable agreement or a document evidencing that a payment is due. Unsupported obligations and accrued expenditures must be thoroughly researched, and the necessary corrective actions taken. Copies of all reimbursable orders must be available to ensure that all obligations and accrued expenditures are recorded correctly. Reconcile the receivables and collections relating to the reimbursable program of the performing activity with the accrued expenditures paid and unpaid of the same performing activity.

5.3.8. Obtain the billing transaction history from the ARO. Billing transaction histories must be provided within 30 days. Ensure that billings are against the correct order and, consequently, billed against the correct obligation. Request copies of documents supporting that a payment is due; reconcile these documents with the related accounts receivable. Any discrepancies must be resolved by adjusting the accounts receivable to the appropriate amounts.

5.3.9. Upon receiving a request for supporting documentation, provide a copy of an agreement, contract, and/or proof of performance or delivery within 30 days of request.

5.3.10. If a charge is disputed or rejected, review supporting files promptly. The intragovernmental dispute process is outlined in paragraph 5.5.

5.3.11. Research unmatched disbursements and negative unliquidated obligations as required by Volume 3, Chapter 11.

5.3.12. Unless authorized by law to perform non-reimbursable work, DoD performing activities will not perform reimbursable work for another federal agency that is 90 days or more in arrears in payment of previous reimbursable billings. This restriction can be waived by the OUSD(C) if in the national interest to do so.

5.3.13. Refer to TFM Volume 1: Federal Agencies, Supplements, USSGL for reimbursable USSGL transaction entries.

#### 5.4 DoD Ordering Agency Responsibilities

5.4.1. The ordering agency must review all charges from the performing activity to ensure that amounts due are in agreement with the reimbursable orders and are supported with a copy of the order or contract and evidence of performance.

5.4.2. Transportation charges that cannot be matched to an accounts payable transaction, or that cannot be charged back, must be researched and charged to the proper line of accounting (LOA) upon completion of research.

5.4.3. If the bill is supported, but the order or obligation is not recorded in accounting systems, then record the order or obligation immediately. Determine why the order or obligation was not recorded. The evidence obtained from research may identify internal control failures and/or process weaknesses. Any internal control failures and/or process weaknesses must be addressed and corrected. Evidence from the research should be documented and maintained by the organization.

#### 5.5 Management of Collection Actions

Aging Accounts Receivable qualify for the collection actions. Aging (delinquency date) starts one day after the initial due date.

5.5.1. Charges arising from transactions within the DoD and with other federal departments and agencies must be recorded as accounts receivable in the accounting month earned.

5.5.2. Bills arising from transactions which contain a National Stock Number within the DoD will be collected through the Military Standard Billing System interfund billing procedures when supported by the supply and accounting systems. The provider will not accept a MIPR if interfund can be used. Manual billing (i.e., the XP fund code) will not be used unless approved

by the Deputy Chief Financial Officer. For intragovernmental interfund disputes, follow the dispute process outlined in DLM 4000.25.

5.5.3. For non-interfund intragovernmental (within DoD) receivables, reimbursement will be via Defense Cash Accountability System or Intra-Government Payment and Collection (IPAC). The buyer cannot chargeback or reject the charge (other than IPAC) unless authorized by the dispute process as outlined in [paragraph 5.6](#). The buyer must perform an IPAC reject within 30 days. The only valid reasons for reject/adjustment are:

5.5.3.1. Billing for more than the agreed amount.

5.5.3.2. Duplicate/erroneous billing.

5.5.3.3. Lack of supporting documentation.

5.5.3.4. MIPR has expired and/or appropriation has expired.

5.5.4. For intragovernmental (outside DoD) receivables, IPAC is the preferred method of billing/collection.

5.5.4.1. Include the use of IPAC as the preferred method of billing/collection on the MIPR acceptance.

5.5.4.2. Follow the intragovernmental (outside DoD) dispute process as outlined in [the paragraph 5.6](#) if the IPAC transaction is rejected.

5.5.5. Rejected charges must require the reestablishment of a receivable and adjustments to an appropriation's Fund Balance with Treasury.

5.5.6. USSGL accounting transactions for reimbursable billings and collections, and accounts receivable corrections and adjustments are detailed in the SFIS library.

## 5.6 Non-Interfund Dispute Process

5.6.1. Intragovernmental Debt Within the DoD. The performer's ARO is responsible for managing intragovernmental debt. OUSD(C) oversees DoD dispute resolution processes to resolve balance discrepancies between DoD reporting entities. See Volume 6B, Chapter 13, [paragraph 5.4](#), [paragraph 5.6](#) for additional information on eliminations.

5.6.1.1. Intragovernmental debt cannot be referred to a debt collection activity.

5.6.1.2. The full settlement of intragovernmental accounts receivable disputed charges must take no longer than 180 days from the date of the charge.

5.6.1.3. For receivables of \$2,500 or less, the buyer may accept the charge without dispute. However, these charges may be disputed as long as the process can be justified as cost effective.

5.6.1.4. For disputed receivables greater than \$2,500:

5.6.1.4.1. The buyer will work with the seller during the first 60 days from the date of the charge to resolve the dispute. The buyer or seller may request assistance from [DFAS](#). If the dispute cannot be resolved, the buyer, along with assistance from DFAS, will assemble a dispute package and send it to the seller. At a minimum, the dispute package must include copies of: MIPR or equivalent, MIPR acceptance or equivalent, voucher payment, bill, correspondence, shipment or delivery evidence, and a narrative explaining the basis of the dispute.

5.6.1.4.2. During 61-90 days from the date of the charge, the seller will review the buyer's dispute package and will provide a written response of concurrence or non-concurrence.

5.6.1.4.2.1. If the seller concurs, the seller will reverse the charge.

5.6.1.4.2.2. If no response is received from the seller, the buyer may chargeback without recourse.

5.6.1.4.2.3. If the seller non-concurs, the buyer will elevate the dispute package to their Resource Manager/Comptroller.

5.6.1.4.3. During 91-120 days from the date of the charge, the buyer's Resource Manager/Comptroller will contact the seller's Resource Manager/Comptroller to resolve the dispute. If the dispute cannot be resolved, the buyer's Resource Manager/Comptroller will elevate the dispute package to their Service Secretary, Combatant Command Commander, or Defense Agency Director.

5.6.1.4.4. During 121-150 days from the date of the charge, the buyer's Service Secretary, Combatant Command Commander, or Defense Agency Director, will contact the seller's Service Secretary, Combatant Command Commander, or Defense Agency Director, to resolve the dispute. The dispute must be resolved within 180 days.

5.6.1.5. If the resolution to the dispute is that the buyer does not have to pay the bill, then the seller must [adjust their revenue](#) to liquidate the debt if the revision reflects current fiscal year activity. The seller will decrease revenue and increase direct obligations and expenses. For material receivables established in a prior year, revenue must not be decreased, rather a prior period adjustment must be used to properly account the adjustment. See Volume 6B, Chapter 6. For immaterial receivables established in the prior year, reduce current year revenues.

5.6.2. Intragovernmental Debt Outside DoD. Disputes between government agencies (e.g., between the DoD and the General Services Administration) will be resolved in accordance with [I-TFM-2-4700](#).

5.6.2.1. Dispute resolution will involve the program offices, the accounting offices, the contracting officer, and the agency's Chief Financial Officer (CFO), as appropriate. Disputes will be documented in writing with clear reasons for the dispute. A memorandum of agreement will be signed by the CFOs of each department and agency to acknowledge that department's or agency's active participation in the dispute resolution process.

5.6.2.2. Trading Partners will not chargeback or reject transactions that comply with 1-TFM-2-4700. Further, new transactions will not be created to circumvent the guidance contained therein.

5.6.2.3. Disputes are of two types:

5.6.2.3.1. Accounting treatment (e.g., advances and non-expenditure transfers).

5.6.2.3.2. Contractual (e.g., payment, collection, and interagency agreement).

5.6.2.4. If intragovernmental differences result from differing accounting treatment, then the trading partners have 60 calendar days from the date that the difference is identified in Treasury Government wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) or the date that a charge is disputed, whichever comes first, to agree on the treatment of an accounting entry. If agreement cannot be reached within 60 calendar days, then both trading partners' CFOs must request that a decision be rendered by the Treasury Bureau of Fiscal Service (BFS). After BFS has rendered a decision, the ARO must adjust their financial records as needed within five calendar days or the end of the quarter, whichever comes first.

5.6.2.5. If intragovernmental differences result from contractual disputes, then the trading partners have 60 calendar days from the date that the difference is identified or the date that a charge is disputed, whichever comes first, to agree on the contractual terms. If agreement cannot be reached, then both trading partners' CFOs must request that a binding decision be rendered by the CFOs Council's Committee established for this purpose. The Committee must render a decision within 90 calendar days of request. The trading partners will then coordinate to ensure any necessary IPAC transaction is needed.

5.6.2.5.1. Missing indicative data on an intragovernmental transaction is cause for a contractual dispute. Examples of indicative data include:

5.6.2.5.1.1. Order number.

5.6.2.5.1.2. Treasury Account Symbol (TAS) for both trading partners. If multiple TAS are included on one order, specify amounts for each TAS, as appropriate.

5.6.2.5.1.3. Business Event Type Code for both trading partners.

5.6.2.5.1.4. Amount to accrue, advance, or disburse.

5.6.2.5.1.5. Business Partner Network number for both trading partners.

5.6.2.5.2. The buyer may establish a monetary threshold before asking for contractual decisions; the threshold must not exceed \$100,000 per order. If an amount is under the buyer's threshold, and the buyer elects not to pursue a dispute, then the buyer must pay the amount.

5.6.3. NAFI Billing, Collection and Dispute Processes. DoDI 1015.15, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources," requires certain categories of NAFIs to reimburse appropriated funds (APF) for the provision of goods and services to the NAFI.

5.6.3.1. Reimbursement Agreements. The applicable APF office will prepare a reimbursement agreement with the NAFI. This could be in the form of a Memorandum of Understanding or Inter-Service Support Agreement. [The agreement must be signed by the authorized representatives from APF and NAFI.](#) At a minimum, this agreement must have:

5.6.3.1.1. Fixed price for goods and services or methodology for determining price, e.g., utilities, or both. The agreement can be for a specific sale or for a specified period of time.

5.6.3.1.2. Bill due date will be 30 days from date of the bill.

5.6.3.2. Due Process. If bill is not paid by due date, a demand letter will be sent to the NAFI. The NAFI has 30 days from the date of the demand letter to provide payment or provide reasons for non-payment. The validity of the dispute will be determined by the APF representative. If dispute is valid, the APF representative will immediately resolve. If dispute is determined not to be valid, or there is no response, the APF representative will elevate demand for payment as follows:

5.6.3.2.1. Within 31-60 days after the due date, the Installation Comptroller will send the demand for payment with supporting documentation to the NAFI Headquarters Comptroller (NHC).

5.6.3.2.2. Within 61-90 days after the due date, the NHC will make payment or dispute the bill. The validity of the dispute will be determined by the Installation APF Comptroller. If dispute is determined not to be valid, or there is no response, the Installation APF Comptroller will elevate the demand for payment with supporting documentation to the Installation Major Command.

5.6.3.2.3. Within 91-120 days after the due date, the Installation Major Command will instruct that payment be made or dispute the bill. If the Installation Major Command cannot resolve the dispute, or there is no response, the Installation APF Comptroller will elevate the demand for payment with supporting documentation to the Service Comptroller.

5.6.3.2.4. Within 121-150 days after the due date, the Service Comptroller will instruct payment or resolve the dispute.

5.6.3.3. Budgetary Resources. Military Departments may use their own appropriated fund budgetary resources to perform a reimbursable order for a NAFI without an advance. However, they may not recognize budgetary resources for the order until the account receivable is paid.

## 6.0 REPORTING RECEIVABLES DUE FROM THE PUBLIC

The DoD Components are required to submit the TROR [on a quarterly basis](#). The ARO, in conjunction with the DoD Component, must report public receivables in accordance with TROR located on the Treasury website.

## 7.0 REPORTING RECEIVABLES IN DOD FINANCIAL STATEMENTS

### 7.1 Reported Accounts Receivable Quarterly

Accounts receivable are reported on the quarterly financial statements. Instructions for the reporting of receivables in the quarterly financial statements are contained in Volume 6B, Chapters 4 and 10. Receivable amounts are depicted in the Balance Sheet and are disclosed in the Notes to the Financial Statements. Public accounts receivable balances reported on the financial statements must be reconciled with the GTAS accounts receivable from the public balances (attribute non-Federal).

### 7.2 Gross Accounts Receivable Balances

Gross accounts receivable balances due from the public reported on the quarterly financial statements also will be reconciled with receivables reported on TROR.

### 7.3 Eliminating Intragovernmental Consolidated Quarterly Financial Statements

The consolidated quarterly financial statements eliminate intragovernmental accounts receivable balances in accordance with Volume 6B, [Chapter 13](#).

## 8.0 CREDITING AND ACCOUNTING FOR DISPUTED COLLECTIONS UNDER THE CONTRACT DISPUTES ACT OF 1978

### 8.1 Crediting Collections

8.1.1. When an amount, including interest and administrative fees, is collected from a contractor and the contractor disputes the debt or indicates that they will dispute the debt, the collected amount will not be accounted for as settlement of the debt. Interest, penalties, and fees will cease to accrue and the disputed amounts will be credited to Treasury deposit account pending disposition of the contractor's dispute.

8.1.2. Collections normally are received by the disbursing or payment certifying office making or authorizing payments for the contract in dispute, but may be received by others, including ARO, supporting accounting offices, DMO, contracting officers, contract administration officers, and legal offices. Upon making a collection in a disputed situation, the collection will be documented as a disputed contract collection.

8.1.2.1. If DFAS-Columbus paid the contract or submitted the contract to the DMO for debt collection assistant, deposit the collection to Disbursing Station Symbol Number (DSSN) 6551. Offices, other than the DMO, making the collection and deposit of a disputed collection to DSSN 6551 must forward to the DMO all documentation related to the collection. If the office receiving the collection does not make deposits, then the office receiving the collection will promptly forward the contractor's check and related documentation to DSSN 6551. The collection voucher prepared for a disputed collection will serve as the basis for crediting the amount to Treasury deposit account X6501, Small Escrow Amounts, in a special subhead or limit with departmental prefix 097. If the disputed collection is related to a contractual obligation in an appropriation that has closed in accordance with 31 U.S.C. § 1552(a) or 31 U.S.C. § 1555, then annotate the collection as a "closed appropriation collection" and credit the collection to deposit fund account X6501 in a different subhead or limit. DSSN 6551 must maintain control of collections credited to this account and will prepare all vouchers for disbursement or transfer from the deposit account.

8.1.2.2. If a disputed collection is received on a contract that was not paid by DSSN 6551 and the debt was not submitted to the DMO for debt collection assistance, then deposit the collected amount to the DSSN which made the payment on the contract. The collection must be credited to deposit account X6501 with departmental prefix 017, 021, 057, 096, or 097, as appropriate.

8.1.2.3. The DMO and the responsible disbursing officer will notify the contracting officer, the contract administration officer, if applicable, and the Service or agency contract finance officer, and/or other authority for contract debt matters of any actions affecting the disputed collections. Conversely, these officers or offices must inform the responsible disbursing officer and the DMO of any actions taken that affect the disputed collection.

## 8.2 Accounting for Collections in Dispute

8.2.1. In accordance with 10 U.S.C. § 3863 and paragraph 8.1, disputed collections received and credited must be separately accounted for and remain available, regardless of the closing of an appropriation or fund account, for payment of:

8.2.1.1. Any settlement of the claim by the parties.

8.2.1.2. Any judgment rendered in the contractor's favor on an appeal of the decision on the claim to the Armed Services Board of Contract Appeals (ASBCA).

8.2.1.3. Any judgment rendered in the contractor's favor in an action on that claim in a court of the U.S.

8.2.2. Availability of the disputed collection expires 90 days after the expiration of the period for bringing an action on that claim in the U.S. Court of Federal Claims under section 41 U.S.C. § 7104(a), if within that 90-day period, no appeal on the claim is commenced at the ASBCA and no action on the claim is commenced in a court of the U.S.

8.2.3. If not expiring under [subparagraph 8.2.2](#), then availability of the disputed collected amounts expires:

8.2.3.1. In the case of a settlement of a claim, 90 days after the date of the settlement.

8.2.3.2. In the case of a judgment rendered on the claim in an appeal to the ASBCA or an action in a court of the U.S, 90 days after the date on which the judgment becomes final and rendered not appealable.

8.2.4. While an amount is being separately accounted for and available in accordance with [subparagraph 8.1.1](#), the amount may be obligated or expended in whole or in part only for the purpose.

8.2.5. When all or part of a disputed collection is determined to be repayable to the contractor, whether by settlement agreement or judgment, including payment or adjustment of interest or fees, that amount must be promptly disbursed to the contractor. Timely reimbursement must also be made to the Treasury Judgment Fund, if applicable. The foregoing disbursed amounts must be charged to the deposit account X6501. Any interest accruing since the collection and ordered to be paid in accordance with the settlement or judgment must be charged to the applicable, currently available, appropriation account.

8.2.6. Upon expiration of the period of availability of all or part of an amount credited to the deposit account in accordance with [paragraph 8.1](#), amounts not obligated and expended, must be withdrawn and credited as follows:

8.2.6.1. If an amount was credited to the deposit account for an appropriation or fund account that closed for reasons other than those described under 31 U.S.C. § 1552(a) or 31 U.S.C. § 1555, then the principal amount collected must be properly credited to that appropriation or fund account and an adjustment made of the amounts of the contract(s) for which the disputed collection arose. Any amounts for interest and fees must be credited to the appropriate Treasury Miscellaneous Receipts accounts.

8.2.6.2. Amounts credited to the deposit account for an appropriation or fund account that was canceled, or subsequently canceled after the collection in accordance with 31 U.S.C. § 1552(a) or 31 U.S.C. § 1555, must be withdrawn and credited to the appropriate Treasury Miscellaneous Receipts accounts. The principal amount must be credited to “Collection of Receivables from Canceled Accounts”, Treasury General Fund Receipt Account 3200 (and the memorandum account adjusted, as appropriate). Interest and fees must be credited to the “Miscellaneous Receipts-Defense” account. In the records maintained for the closed appropriation account and unclosed contracts associated with the collection, the unobligated and obligated

balances must be adjusted to reflect the results of settlement or judgment, including any amount retained and adjusted for the amounts of the contract or contracts for which the disputed collection arose.

\*Table 3-1. Aged Delinquent Accounts Receivable Groups

CATEGORY	INTRAGOVERNMENTAL	NON-FEDERAL
<b>Non-delinquent</b>		
Current		
Noncurrent		
<b>Delinquent</b>		
1 to 30 days		
31 to 60 days		
61 to 90 days		
91 to 120 days		
121 to 150 days		
151 to 180 days		
181 days to 1 year		
Greater than 1 year and less than or equal to 2 years		
Greater than 2 years and less than or equal to 6 years		
Greater than 6 years and less than or equal to 10 years		
Greater than 10 years		
<b>Subtotal</b>		
Less Supported Undistributed Collections		
Less Eliminations		
Less Other		
<b>Total</b>		

Note: The total of the columns must equal the gross amounts reported in the Accounts Receivable schedule in Note 6. This will require that the receivables due internally within each DoD Component and supported undistributed collections be eliminated from this schedule. Infrequently, other items may need to be deducted from the subtotal. These items require disclosure in the note narrative.

**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**CHAPTER 3 ANNEX 1: "ARCHIVED"**

**UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)**

**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**CHAPTER 3 ANNEX 2: "ARCHIVED"**

**UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)**

**VOLUME 4, CHAPTER 4: “INVENTORY AND RELATED PROPERTY”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [November 2017](#) has been archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Policy Memo	The Deputy Chief Financial Officer (DCFO) policy memorandum “Change in the Accounting Treatment for Long Range Ballistic Missiles (FPM24-02),” dated May 3, 2024, was incorporated into this chapter and canceled.	Cancellation
Policy Memo	The DCFO policy memorandum “Financial Reporting Guidance for Stockpile Materials (FPM 20-07),” dated October 22, 2020, was incorporated into this chapter and canceled.	Cancellation
Policy Memo	The DCFO policy memorandum “Accounting Treatment of Lateral Redistribution Activities (FPM 20-05),” dated June 29, 2020, was incorporated into this chapter and canceled.	Cancellation
1.1	Added overview. Moved General Ledger Accounting to this section because it applies to all items in this chapter.	Addition
2.0	Created “Valuation Concepts” section. Moved Historical Cost, Excess Obsolete and Unserviceable, Held for Repair, and Alternate Methods of Valuation to this section.	Revision
3.0	Revised Inventory section. Incorporated War Materiel Reserve and Work-In-Process into the Inventory section. Both are types of inventory. Revised the War Reserve Materiel section.	Revision
4.0	Revised the Supply Management Operations / Activities section to provide additional clarity.	Revision
5.0	Revised the Operating Materials and Supplies section to provide additional clarity.	Revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
5.4.6 (previous)	Removed Presidential Directed Drawdown section. This section will be incorporated into a new chapter within the Department of Defense Financial Management Regulation, Volume 15, Chapter 9, updated based on the contents of DCFO policy memoranda “Clarification of Presidential Drawdown Authority Valuation of Defense Articles,” dated March 31, 2023, and “Valuation and Reconciliation of Defense Articles Provided Under the Presidential Drawdown Authority (FPM24-11),” dated June 18, 2024.	Removal
6.0	Revised the Stockpile Materials section to provide additional clarity.	Revision

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## CHAPTER 4

## INVENTORY AND RELATED PROPERTY

## 1.0 GENERAL

## \*1.1 Overview

1.1.1. This chapter provides Department of Defense (DoD) accounting guidance for inventory, supply management activities, operating materials and supplies (OM&S), and stockpile materials. The DoD Components must record Inventory, OM&S and Stockpile Material transactions to general ledger accounts in the financial statements required by the Department of Treasury (Treasury) and other reporting requirements mandated by Congress and the Office of Management and Budget. The U.S. Standard General Ledger (USSGL) Transaction Library outlines detailed posting transactions, and the DoD Standard Chart of Accounts provides detailed account descriptions.

1.1.2. DoD Components may want to create subaccounts within their inventory or general ledger systems to track work-in-process at the detailed level; however, the internal subaccounts must summarize to one USSGL/DoD account.

1.1.3. Management must retain adequate supporting source documentation for entries such as contracts, invoices, receiving reports, payment vouchers, material-return documents, transfer documents, inventory documents, issue and shipping documents, sales records, and documented gains and losses.

1.1.4. Annex 2 provides the relationship between USSGL/DoD accounts and logistics supply condition codes and stratifications.

1.1.5. Tangible items with a useful life of two or more years that are not intended for physical consumption or sale in the ordinary course of operations and are intended to be used or are available for use (and reuse throughout their useful life) are general equipment. General equipment is discussed in Chapter 25, “General Equipment.”

## 1.2 Purpose

1.2.1. This chapter establishes the accounting policy and requirements for financial control over DoD inventory, OM&S, and stockpile materials. The Standard Financial Information Structure (SFIS) website hosts the DoD Standard Reporting Chart of Accounts, which provides account descriptions and posting guidance for the general ledger accounts referenced in this chapter. The DoD Standard Chart of Accounts was developed from the USSGL, published by the Treasury. Refer to Volume 6B, Chapter 10, “Notes to the Financial Statements” for detailed requirements on preparing and presenting notes to the financial statements for Inventory and Related Property.

1.2.2. With the exception of provisions related to the National Stockpile Fund (NSF), all of the provisions in this chapter apply to the Working Capital Fund (WCF). Some provisions in this

chapter apply to the **General Fund (GF)** as illustrated in Table 4-1 or as otherwise separately referenced within the chapter.

Table 4-1. Applicability of Chapter Sections/Annexes

Section/Annex	Title	GF	WCF	NSF
1.0	General	X	X	X
2.0	Valuation Concepts	X	X	X
3.0	Inventory	-	X	-
4.0	Supply Management Activities	-	X	-
5.0	OM&S	X	X	-
6.0	Stockpile Materials	-	-	X
Annex 1	Moving Average Cost (MAC) Example	X	X	-
Annex 2	Relationship of General Ledger Accounts to Logistic Supply Condition Codes and Stratifications	X	X	-
X = Section is Applicable to GF, WCF, and (or) NSF.				-

### 1.3 Authoritative Guidance

The GF, WCF, or NSF applicability in the list of authoritative guidance is specific to this chapter only. The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.3.1. Title 10, United States Code (U.S.C), [section 127](#), “Emergency and extraordinary expenses” – Applicable to GF and WCF.

1.3.2. [10 U.S.C. § 2208](#), “Working-capital funds”, – Applicable to WCF only.

1.3.3. [10 U.S.C. § 2551](#), “Equipment and barracks: national veterans’ organizations” – Applicable to WCF only.

1.3.4. [10 U.S.C. § 2552](#), “Equipment for instruction and practice: American National Red Cross” – Applicable to WCF only.

1.3.5. [10 U.S.C. § 2553](#), “Equipment and services: Presidential inaugural ceremonies” – Applicable to WCF only.

1.3.6. [10 U.S.C. § 2554](#), “Equipment and other services: Boy Scout Jamborees” – Applicable to WCF only.

1.3.7. [10 U.S.C. § 2556](#), “Shelter for homeless; incidental services”, – Applicable to WCF only.

1.3.8. [10 U.S.C. § 2557](#), “Excess nonlethal supplies, availability for humanitarian relief, domestic emergency assistance, and homeless veterans assistance” – Applicable to WCF only.

1.3.9. [10 U.S.C. § 2667](#), “Leases: non-excess property of military departments and Defense Agencies” – Applicable to WCF only.

1.3.10. [22 U.S.C. § 2318](#), “Special authority”, – Applicable to WCF only.

1.3.11. [22 U.S.C. § 2761](#), “Sales from stocks”, – Applicable to WCF only.

1.3.12. [40 U.S.C. § 503](#), “Exchange or sale of similar items” – Applicable to WCF only.

1.3.13. [50 U.S.C. Subchapter III](#), “Acquisition and development of Strategic Raw Materials” – Applicable to NSF only.

1.3.14. Federal Acquisition Regulation [Part 45](#) “Government Property” – Applicable to GF, WCF, and NSF.

1.3.15. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ([SFFAS](#)) [3](#), “Accounting for Inventory and Related Property” – Applicable to GF, WCF, and NSF.

1.3.16. FASAB [SFFAS 21](#), “Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources” – Applicable to GF, WCF, and NSF.

1.3.17. FASAB [SFFAS 48](#), “Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials” – Applicable to GF, WCF, and NSF.

1.3.18. FASAB Interpretation of Federal Financial Accounting Standards [Interpretation 7](#), “Items Held for Remanufacture” – Applicable to GF and WCF.

1.3.19. FASAB Statement of Federal Financial Accounting Concepts ([SFFAC](#)) [1](#), “Objectives of Federal Financial Reporting” – Applicable to GF, WCF, and NSF.

1.3.20. Federal Account Symbols and Titles ([FAST](#)) [Book](#) – Applicable to GF, WCF, and NSF.

1.3.21. DoD Directive ([DoDD](#)) [3025.18](#), “Defense Support of Civil Authorities (DSCA)” – Applicable to WCF only.

1.3.22. [DoDD 5100.46](#), “Foreign Disaster Relief (FDR)” – Applicable to WCF only.

1.3.23. [DoDD 5105.65](#), “Defense Security Cooperation Agency (DSCA)” – Applicable to both GF and WCF

1.3.24. DoD Instruction ([DoDI 1338.18](#)), “Armed Forces Clothing Monetary Allowance Procedures” – Applicable to WCF only.

1.3.25. [DoDI 3025.21](#), “Defense Support of Civilian Law Enforcement Agencies” – Applicable to WCF only.

1.3.26. [DoDI 3110.06](#), “War Reserve Materiel (WRM) Policy” – Applicable to WCF only.

1.3.27. [DoDI 4140.63](#), “Management of DoD Clothing and Textiles (Class II)” – Applicable to WCF only.

1.3.28. DoD Manual ([DoDM 4140.01, Volume 6](#)), “DoD Supply Chain Materiel Management Procedures: Materiel Returns, Retention, and Disposition” – Applicable to GF and WCF.

1.3.29. [DoDM 4140.26, Volume 4](#), “DoD Integrated Material Management for Consumable Items: Supply Support Requests (SSRs)” – Applicable to GF and WCF.

1.3.30. [DoDM 4160.21](#), “Defense Materiel Disposition Manual” – Applicable to GF and WCF.

## \*2.0 INVENTORY AND RELATED PROPERTY VALUATION CONCEPTS

### 2.1 Historical Cost and Cost of Goods Sold or Consumed

2.1.1. Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring items to their current condition and location and excludes abnormal costs. Abnormal costs refer to expenses that significantly exceed the standard cost to purchase and place a new item with similar features and useful life into service (e.g., excessive handling, expedited delivery, and costs associated with rework due to defects or errors). Expense abnormal costs in the period incurred. Donated, repaired, and remanufactured items are valued at their fair value at the time the item enters serviceable status. Recognize differences between fair value and any amounts surrendered in exchange for the item as a gain or loss

2.1.2. To determine ending balances and the cost of goods sold or consumed, apply the first-in, first-out (FIFO), Weighted Average Cost (WAC), or Moving Average Cost (MAC) flow assumptions. In addition, any other valuation method compliant with Generally Accepted Accounting Principles (GAAP) may be used if the results reasonably approximate those of one of the above historical cost methods.

2.1.2.1. FIFO assumes the oldest items (first-in) purchased or produced are the first items consumed (first-out).

2.1.2.2. WAC assumes an average cost of inventory items for multiple purchases at different prices by dividing the total cost by the number of items to provide an average weighted cost per item.

2.1.2.3. MAC assumes a revised value (weighted average) for inventory each time an item or items are placed into inventory. The MAC calculation requires dividing the cost of total units available at the time (inventory plus current purchases placed into inventory or remanufacturing costs incurred for items in inventory by the quantity of units available at that time). Annex 2 provides an example of the MAC cost assumption.

## 2.2 Net Realizable Value (NRV)

2.2.1. NRV represents the estimated amount you can recover from selling or disposing of an item after accounting for these costs.

2.2.2. DoD Components must write down the value of Excess, Obsolete, and Unserviceable (EOU) Inventory or OM&S to their expected NRV. Excess stock exceeds the demand or requirements that operations normally expect. Changes in technology, laws, customs, or operations render obsolete stock unusable. Damaged stock becomes unserviceable, and disposing of it is more economical than repairing it.

2.2.3. DoD Components must write down the value of Stockpile materials that suffer permanent decline, damage, or decay to their NRV.

2.2.4. DoD Components recognize the difference between the carrying amount of the item and its expected NRV as a loss (or gain), create a corresponding allowance for a WCF, and report or disclose it separately.

2.2.5. To estimate the NRV of the item, consider prior disposal proceeds for comparable items, obtain buyer quotes, or employ other reasonable methods for disposing of the item through a Qualified Recycling Program (QRP) or other means, rather than transferring it to Defense Logistics Agency (DLA) Disposition Services, if applicable.

2.2.5.1. Except for an item disposed of through a QRP, generally, the DoD Component will not receive any proceeds from the disposal of an item transferred to DLA Disposition Services, resulting in an NRV of zero.

2.2.5.2. See Defense Logistics Manual 4000.25, Defense Logistics Management Standards (DLMS) Volume 2 “Supply Standards and Procedures”, Chapter 16, “Disposition Services” for details on how to dispose of EOU using DLA Disposition services.

2.2.6. In all instances, prepare and retain documentation supporting the NRV calculations. Include the item in the respective line item on the face of the financial statements with separate disclosure in footnotes or shown within a separate line item on the face of the financial statements.

## 2.3 Held for Repair

2.3.1. Inventory or OM&S Held for Repair may be treated in one of two ways:

2.3.1.1. The Allowance Method. Components value items held for repair at the same amount as serviceable items. However, they establish a contra-asset allowance account for the estimated cost of repairs. As components make repairs, they charge the cost against the allowance account. Components must adjust the allowance account, at least annually, to reflect the current estimated cost of repairs.

2.3.1.2. The Direct Method. Components value items held for repair at the same amount as a serviceable item minus the estimated repair cost. As Components make repairs, they capitalize the repair costs up to the value of a serviceable item. Agencies debit or credit the repair expense account for any difference between the initial estimated repair cost and the actual repair cost.

2.3.2. Under both methods, management retains supporting documentation for the estimated repair costs initially recorded in accordance with Volume 1, Chapter 9, “Financial Records Retention.”

## 2.4 Alternative Valuation Methodologies for Establishing Opening Balances

2.4.1. The alternative valuation method for establishing opening balances for inventory, OM&S, and stockpile materials using the methodology described in the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) 48 “Opening Balances for Inventory, Operating Material & Supplies, and Stockpile Materials” and Technical Release 18 “Implementation Guidance for Establishing Opening Balances” is available only once per line item to each reporting entity. The valuation methodologies outlined in this section must be used only to establish and document opening balances. Therefore, prior to establishing opening balances DoD Component must validate that they are prepared to account for and comply with the recognition, measurement, presentation, and disclosure requirements identified in this chapter and FASAB pronouncements, including SFFAS 3, “Accounting for Inventory and Related Property”.

2.4.2. When a component cannot apply the initial amount measurement approach (historical cost) outlined in SFFAS 3, it is acceptable to use deemed cost as a substitute for initial amounts (historical cost) to establish the opening balances for inventory, OM&S, and stockpile materials. Deemed cost is an acceptable valuation method for the reporting period when the reporting entity makes an unreserved assertion that its financial statements, or one or more-line items within inventory, OM&S, and stockpile materials, is presently fairly in accordance with GAAP. An unreserved assertion is an unconditional statement. Deemed cost may be based on any one or a combination of the following allowable valuation methods:

2.4.2.1. Standard (Selling) Price. Standard price is the latest known representative acquisition cost plus authorized cost recovery rate for each item of inventory and related property. This price is established annually and is often referred to as selling price. Selling price and fair value may or may not be identical due to the intragovernmental nature of some sales.

2.4.2.2. Fair Value. Fair value is the amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

2.4.2.3. Latest Acquisition Cost (LAC). LAC assumes the latest acquisition inventory cost for all existing stock of the same product, regardless of older purchase prices. When applying the LAC valuation, management periodically revalues the inventory and establishes an allowance account for the unrealized holding gains and losses associated with ending inventory.

2.4.2.4. Replacement Cost. A replacement cost is an amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date, including the amount that the entity would receive from disposing of the asset at the end of its useful life.

2.4.2.5. Estimated Historical Cost (initial amounts). A reasonable estimate of historical cost may be based on cost of the same or similar assets at the time of acquisition, current cost of the same or similar assets discounted for inflation since the time of acquisition or other reasonable estimation methods, including methods based on information such as, but not limited to, budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended.

2.4.2.6. Actual Historical Cost (initial amounts). Actual Historical Cost (initial amounts) refers to the original cost of an asset or liability, typically recorded at the point of acquisition or initial recognition. It represents the price paid or other consideration given for the asset or liability at the time it was initially recognized in the financial records.

2.4.3. All methods used by a component must be identified and reported in its financial statement notes. In addition, components must perform the necessary sampling techniques to collect and retain documentation to support the valuation method while considering audit findings or other conclusions impacting the valuation method.

2.4.4. Any gains or losses in inventory, OM&S, and stockpile materials allowance accounts must be adjusted to zero when establishing an opening balance using deemed cost.

2.4.5. Once established, opening balances are to be considered consistent with SFFAS 3 requirements. Opening balances should be included in ongoing inventory balances and valuation calculations (e.g., the opening balance would be one component of a Moving Average Cost (MAC) calculation, along with any newly purchased inventory). No distinction of amounts arising from the opening balances is required.

2.4.6. Record the difference between the prior value adjusted for any related allowance account value and deemed cost as a prior period adjustment due to a change in accounting principles in accordance with the reporting requirements under paragraph 13 of FASAB SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources".

2.4.6.1. Report the cumulative effect of the change on prior periods as a “change in accounting principle”.

2.4.6.2. Make the adjustment to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made.

2.4.7. Disclose the nature of the changes in accounting principle and its effect on relevant balances in the current period. Describe the method used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items are presented fairly in accordance with GAAP. Financial statements of subsequent periods need not repeat this disclosure unless the statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of amount of deemed cost of inventory, OM&S, or stockpile materials included in the opening balance is required.

### \*3.0 INVENTORY - (Applicable to WCF Only)

Inventory is tangible personal property held for sale, currently being produced for sale, held to be consumed in the production of goods for sale, or held in the provisions of services for a fee.

#### 3.1 Inventory Types

3.1.1. Inventory Held for Sale. Supplies, and other items intended for sale to other DoD components, the Armed Forces, or other organizations.

3.1.2. Inventory Held In Reserve for Future Sale. Maintained because they are not readily available in the market or because there is a remote chance that they will eventually be needed.

3.1.3. EOU Inventory. Exceeds the expected demand in the normal course of operations because the amount on hand surpasses what can be sold in the foreseeable future and does not meet management’s criteria for holding in reserve for future sale. Changes in technology, laws, customs, or operations render obsolete inventory no longer needed. Damaged inventory becomes unserviceable, and it is more economical to dispose of it than to repair it.

3.1.4. Inventory Held for Repair. Purchased and held in stock for repair, including reparable components, subsystems, and assemblies, consumable repair parts, bulk items and material, subsistence, and expendable end items, such as clothing and other personal gear.

3.1.5. Inventory in Transit. In-transit from commercial and Government suppliers to the financial reporting entity; material that has not been received and accepted at the final designated destination but for which title has passed; or material in-transit between storage locations. For inventory in transit between different storage locations or from a supplier to the final recipient, the title of ownership for inventory passes to the buyer at the first location even though the goods are still physically moving. Inventory in-transit does not include material temporarily in use or on loan with contractors or schools.

### 3.2 Recognition of Inventory

DoD Components recognize inventory when they receive title or take delivery of the goods. The terms of the contract or agreement determine when the purchasing entity receives title. Under title transfer at origin, commonly associated with free-on-board (shipping point) terms, the entity receives title when the inventory ships. Under title transfer at destination, commonly associated with free-on-board (destination) terms, the entity receives title when the goods are delivered. Constructive delivery occurs when the contract terms regarding shipping and delivery indicate that the recipient has received title, even if the physical items have not yet been delivered.

### 3.3 Valuation of Inventory

3.3.1. DoD Components value inventory at historical cost or use a method that reasonably approximates historical cost. They must adjust valuations for EOU or expected repair. Additionally, DoD Components may use alternative valuation methodologies to establish beginning balances.

3.3.2. The specific identification method can be used for serially managed items, such as grocery and household product inventories. Specific identification directly links identifiable items with their associated costs.

### 3.4 Reconciliations

Activities must reconcile the inventory line item(s) in their general ledger with their detailed inventory accountability records at least quarterly. This reconciliation must include the multiple modules within Enterprise Resource Management systems when used (e.g., Warehouse Management module to Inventory Management module to Financial Management module). Reconciliations should also include inventory owned by the entity, not in the entity's custody, including inventory managed by contractors or DLA. Activities must research and resolve discrepancies in a timely manner and implement related system and business process controls to reduce future errors.

### 3.5 Adjustments for Physical Counts of Inventory

Activities must take physical counts of inventories at least annually (generally as of the fiscal year-end) in accordance with [DLMS Volume 2](#) "Supply Standards and Procedures." Note: In accordance with the Financial Statement Audit Completion Checklist contained in Section 1003 of the U.S. GAO [FAM Volume 2](#), auditors are likely to attend and observe physical counts of inventories that have been deemed as material. Activities must adjust the general ledger for differences between the general ledger balances and the physical count. Supporting audit documentation must be developed and maintained to support adjustments to inventory physical count. Documentation for inventory held by contractors, including contractor receipt, shipment, loss and disposal of assets is available in the Procurement Integrated Enterprise Environment Government Furnished Property (GFP) Module.

### 3.6 Incoming Shipment Gains and Losses

Invoices occasionally list fewer or more items ordered than the actual count of inventory items received. If it is not economical to resolve the difference, [record a loss or gain](#).

### 3.7 War Reserve Materiel (WRM)

3.7.1. WRM are mission essential secondary items, principal end items, and munitions sufficient to attain and sustain operational objectives in scenarios authorized in the Secretary of Defense (SecDef) [guidance for Employment of the Force, necessary to equip and support the increase in military requirements forecasts in anticipation of a war, in addition to the peacetime assets normally available on any given date](#). War reserves sustain operations until resupply occurs. WRM inventories include peacetime operating stocks, training stocks, stocks available through industrial base partnerships, and WRM. DoD components calculate war reserve requirements annually or as needed, based on duties.

3.7.2. WRM funding appropriations are made directly to the WCF. The appropriated amounts must be reflected as a separate goal within the annual operating budget letter of the applicable supply management or Commissary Resale activity. Components and Defense Agencies must fund items such as ammunition and major end items procured for war reserves through their procurement appropriations, not through the WCF.

3.7.3. Acquisition of WRM is indistinguishable from corresponding inventory items. WRM and inventory [may be purchased at the same time from the same vendor, received at the same time in the same shipping container, and stored together in the same warehouse/bin](#).

3.7.4. DoD Components hold the WRM in reserve and make it available for transfer without reimbursement to satisfy mobilization requirements of the U.S. Armed Forces. Additionally, DoD Components may sell WRM if authorized.

3.7.5. Accounting for purchases of WRM occurs at the same level as the accounting for items procured for peacetime requirements. The standard inventory accounts record the value of war reserve items.

### 3.8 Work-In-Process

3.8.1. WCF manufacturing activities routinely perform tasks that take more than a month and must record operating costs within a work-in-process account. Work-in-process accounts segregate these costs from current accounting period expenses, thus supporting accurate financial reporting in compliance with generally accepted accounting principles.

3.8.2. The inventory work-in-process account is used for the direct labor, direct materials, direct purchase services, indirect labor, indirect materials, and general and administrative (G&A) expenses required to produce and complete a job order/customer order.

3.8.3. G&A costs are the costs of operations such as rent, utilities, and managerial salaries.

3.8.4. Related costs, regardless of the source of funding, should be accumulated using a job order when a WCF activity incurs costs to produce a customer order. Related costs attributed to an order may include:

3.8.4.1. Costs of additions, alterations, improvements, rehabilitations, and replacements of DoD fixed assets.

3.8.4.2. Costs of maintaining DoD equipment and inventory;

3.8.4.3. Costs of manufacturing or fabricating an end item or product; and

3.8.4.4. Costs of producing an output.

3.8.5. The application of indirect expenses to inventory work-in-process may be based on a formula that reasonably approximates actual indirect expenses. The allocated indirect expense amount is adjusted to the actual indirect expense amount, at least annually, to apply indirect expenses to the overhead account. Adjustments of over and under overhead are applied prior to the final billing on a completed customer order. The variance between actual indirect expenses and applied indirect expenses is accounted for as cost of goods sold.

3.8.6. The work-in-process account is reduced for the amount invoiced when a progress billings invoice is issued to the DoD purchasing component. The DoD purchasing component records the amount invoiced as inventory work-in-process. These entries occur when a DoD purchasing component uses a DoD component manufacturer or a manufacturer outside of DoD to acquire inventory where progress billings reflect the incremental costs incurred, billed by the manufacturer. Additional information relating to revenue recognition, progress billings to customers, and disputed bills may be found within [Chapter 16](#), “Revenue, Other Financing Sources, Gains and Losses.”

3.8.7. Direct costs, indirect costs and G&A, recorded in inventory work-in-process accounts, transfer upon completion or termination of the customer order. No costs associated with the order must remain in the work-in-process account upon completion of a customer order. Billing occurs immediately regardless of customer acceptance of the finished work. WCF must transfer parts and supplies manufactured to the OM&S account upon completion.

3.8.7.1. Recognize a loss or a gain when costs incurred on a completed order differ from the funding provided by the customer. Probable losses (more likely than not) should be recognized in proportion to estimated total cost when goods and services are acquired to fulfill the contract. Thus, the loss should be recognized in proportion to total cost over the life of the contract/customer order.

3.8.7.2. Expense costs for a customer order terminated prior to completion.

3.8.8. WCF activities must review work-in-process account balances, at least annually, so appropriate actions may be taken to reduce significant balances in the work-in-process account. The review should focus on completed customer orders with costs incurred exceeding the funding

provided on the existing customer order where the costs have not been recognized as a loss. In addition, the review should evaluate the compliance with the accounts receivable policy and percentage of completion method for revenue recognition policy in accordance with Chapters 3 and 16.

#### \*4.0 SUPPLY MANAGEMENT ACTIVITIES - (Applicable to WCF Only)

Supply Management Activities manage inventory held for sale to other DoD Components or activities and items procured for sale to members of the Armed Forces and other individuals or organizations when authorized by legislation. Examples of items managed by supply management activities include food, military clothing, fuel, and preventive medicine. Supply Management Activities also cover Depot Maintenance or Industrial Operations activities that use items to produce goods or services for a fee.

#### 4.1 Roles, Responsibilities, and Applicability

4.1.1. The Under Secretary of Defense (Comptroller) (USD(C)) and the Under Secretary of Defense for Acquisition and Sustainment (USD(A&S)) may designate items for procurement by supply management and reassign management responsibility between DoD Components.

4.1.2. This section outlines the policy and accounting requirements for inventory in supply management activities, including the Army, Navy, Air Force, DLA, and the Defense Commissary Agency (DeCA) for commissary resale.

4.1.3. This section also applies to DLA Disposition Services, which handles redistribution or disposal of items, including sales to the public and other Federal customers.

#### 4.2 Supply Management Activity Types

4.2.1. Subsistence Items. Provide healthy, nutritious food items to Armed Forces members and other authorized persons. Subclasses of subsistence items include inflight and combat rations and refrigerated and nonrefrigerated subsistence. Supply management activities and the DeCA must plan, procure, manage, distribute, and ensure the wholesomeness of subsistence products.

4.2.2. Military Clothing Allowance. Sold by a military clothing resale activity, items sold in a ship's store, and personal items for health, comfort, and recreation. The Under Secretary of Defense for Personnel and Readiness oversees all matters concerning clothing monetary allowances for DoD Components. DoDI 1338.18 assigns management responsibility to the supply management activities for items procured primarily for sale to members of the Armed Forces and other individuals or organizations authorized by legislation. Allowance amounts are published in Volume 7A, Chapter 29 "Clothing Monetary Allowances."

4.2.3. Military Clothing and Textile Items and Individual Equipment. The Joint Clothing and Textiles Governance Board coordinates, advises, and recommends solutions for the development and fielding of DoD clothing and textile items, including Service-specific combat

and camouflage utility uniforms and families of uniforms. The USD(A&S) establishes DoD policy and develops implementing guidance on all matters relating to the DoD clothing and textiles supply chain. The Department authorizes military exchange systems to act as agents of the supply management activity to sell military clothing and textile items to members of the Armed Forces at standard prices. This supply activity also includes combat equipment, tentage, tool sets and kits, hand tools, and cleaning equipment and supplies.

4.2.3.1. The standard price is the price customers are charged which reflect DoD's stabilized price policy requiring item pricing that remains constant throughout a fiscal year for Inventory Control Point managed items. Exceptions to the requirement to maintain standard pricing throughout the fiscal year are outlined in Volume 11B, Chapter 15, "Supply Management Activities."

4.2.3.2. The standard price is calculated based the replenishment cost of the item plus charges to recover costs for transportation, inventory loss, obsolescence, maintenance, depreciation, and supply operations. See Volume 2B, Chapter 9 "Defense Working Capital Fund Budget Justification Analysis" for additional guidance on pricing.

4.2.4. Fuel. DoD Components must purchase fuel through DLA. The DLA bills DoD customers at standard prices and other Federal and Non-Federal government customers at cost plus the approved DLA surcharge. DLA may authorize DoD customers in remote locations to procure fuel on the local market, and DLA or the customer may pay for the fuel depending on the circumstances, in accordance with DoD 4140.25-M. If the DoD customer pays for the fuel, DLA will reimburse the customer for the actual cost of the fuel and bill for the fuel based on standard prices. The fuel supply class also includes preservatives, liquid and compressed gases, chemical products, coolants, deicing products, and antifreeze components.

4.2.5. Construction Materials. Supply management activities must manage installed equipment, and fortification and barrier materials, including construction materials such as wood, wire, cement, barrier materials, and sandbags.

4.2.6. Medical. The supply management activities must manage preventive medicine items, medical equipment, and other medical materials, including pharmaceutical, surgical, dental, laboratory, radiological, and optometric supplies.

4.2.7. Initial Spares. Initial spares are consumable or reparable spare and repair parts that support newly fielded weapons systems or equipment during its initial period of operation until the regular supply system can fully support the demand generated by the systems. Replenishment spares are spare and repair parts needed to maintain the system when it first enters service.

4.2.7.1. The component activity that owns the weapon system is responsible for funding the initial spares. Therefore, the program office or another acquisition office within the component Activity is responsible for acquiring initial spares and stock required to support a weapon system based on the material support date. Program managers must use their appropriated funds and may use supply management activities' contracting capabilities to acquire initial spares.

4.2.7.2. The component activity may purchase the initial spares and legally transfer ownership without reimbursement using DoD (DD) Form 1150, “Request For Issue/Transfer/Turn in.” The component activity must record the associated accounting budgetary and proprietary entries for the purchase of the initial spares as OM&S prior to their transfer to the supply management activity. The supply management activity will record the associated accounting budgetary and proprietary entries to add the initial spares to its WCF accounting records. The transfer of initial spares is fully documented, and the supporting audit documentation is retained.

4.2.8. Nonmilitary Programs. The supply management activities must manage materials used to support nonmilitary or civic action programs and sell these materials at standard prices. These programs aim to promote agricultural and economic development.

#### 4.3 Authorized Customers

A supply management activity is authorized to sell items to the following customers:

4.3.1. A Federal government funded activity or activity empowered to perform a Federal government legislative function;

4.3.2. A DoD sponsored nonappropriated funding program;

4.3.3. A State Department sponsored employee commissary located outside the United States;

4.3.4. A foreign government with an authorized and established contractual relationship;

4.3.5. A Federal government contractor with a contract to purchase items from the Government or using the Replenishment Parts Purchase or Borrow Program;

4.3.6. Members of the Armed Forces and other individuals authorized by law to purchase commissary and clothing items;

4.3.7. The private sector, state or local governments purchasing non-excess personal exchange/sale property as authorized by the Administrator for Federal Procurement Policy of 1974 as amended in 40 U.S.C. Chapter 5, Section 503; and

4.3.8. Other entities authorized by duly appointed officials.

#### 4.4 Issues Without Reimbursement

4.4.1. Issue or Transfer. DoD Components may not issue or transfer a supply management activity item without a funded customer order unless specifically authorized in the following section. DoD Components will not account for these events in the same manner as a normal sale, except when they need to establish an allowance for loss on accounts receivable. Refer to

[Chapter 3](#), “Receivables” for additional guidance on establishing allowances for loss on accounts receivable.

4.4.2. [Domestic Civil Emergency](#). A supply management activity item may be issued without immediate reimbursement when DoD officials provide an immediate response to save lives, prevent human suffering, or mitigate great property damage within the United States by temporarily employing the resources under their control in accordance with DoDD 3025.18. Funding is available to cover the costs of the relief effort; an accounts receivable is established for such amounts and the supply management activity is reimbursed for any outstanding accounts receivable.

4.4.3. [Civil Disturbances](#). Upon specific authorization by the President in accordance with applicable law, a supply management activity item may be issued without immediate reimbursement when action is being taken to control a civil disturbance in accordance with the policies and procedures provided in DoDD 3025.18. Federal military commanders have the authority to engage temporarily in activities that are necessary to quell large-scale, unexpected civil disturbances where prior authorization by the President is impossible and local authorities are unable to control the situation. A receivable account is established for such amounts and the supply management activities is reimbursed for any outstanding accounts receivable based upon the procedures provided in [Volume 11B, Chapter 11](#), “Reimbursements and Revenue Recognition - Defense Working Capital Funds.” [Volume 16](#), “Department of Defense Debt Management” also provides guidance on the write-off of uncollectible receivables from the public.

4.4.4. [Foreign Disaster Relief \(FDR\)](#). A supply management activity item may be issued, without immediate reimbursement, when the State Department is responsible for initiating and financing foreign disaster relief efforts pursuant to the Foreign Assistance Act of 1961. The Director, Defense Security Cooperation Agency (DSCA) serves as the DoD lead for FDR program management and budget issues and identifies funds or resources to support potential FDR operations. DSCA must identify and report the estimated costs associated with potential DoD FDR operations and the DoD costs and resources committed to each FDR operation to the Assistant Secretary of Defense for Special Operations and Low-Intensity Conflict and the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. The Commander, United States Transportation Command, must ensure that DoD activities support FDR transportation requirements and report estimated and actual costs to the appropriate geographic Combatant Command comptroller for inclusion in FDR cost reports. Procedures for issues of supply management activities materiel to assist with FDR are performed in accordance with DoDD 5100.46.

4.4.5. [North Atlantic Treaty Organization \(NATO\) Country](#). A supply management activity item may be issued to a NATO country, without reimbursement, under a replacement-in-kind arrangement. Nonreimbursable issues under this authority are changed to a reimbursable activity within 12 months if not replaced by the NATO country.

4.4.6. [Military Emergency](#). Under emergency provisions in 10 U.S.C. § 127, the SecDef, the Inspector General of the DoD, or the Secretary of a military department (within their department) may issue a supply management activity item without immediate reimbursement. The

issuing Secretary or the Inspector General may certify the amount of any advisable expenditure without specifying it, and this certificate suffices to cover the expenditure. Individual expenditures exceeding \$100,000 require a description of the purpose, amount, approving authority, and justification and a receivable account is established for these amounts. The SecDef may waive the description requirement due to extraordinary circumstances that affect the national security of the United States. When funding becomes available to cover the costs of the emergency, the supply management activity receives reimbursement for the outstanding accounts receivable.

4.4.7. War Reserve Assets (WRA). A supply management activity can issue an item designated as WRA, without a funded customer order, when it has approved the issuance to satisfy the requirements for mobilizing the U.S. Armed Forces.

4.4.8. Deficiencies in War Reserve Requirements. A supply management activity item may be issued, without reimbursement, when an item is issued to satisfy war reserve requirement deficiencies or between activities within the supply management activity. Items issued at any level to satisfy customer requisitions, wholesale, or retail, are reimbursable from war reserve reinvestment appropriations.

4.4.9. Items Nearing End of Shelf Life. If a supply management activity item is not a WRA, the item may be issued, at any price or without reimbursement, when the item has six months or less of remaining shelf life and the item manager grants approval for the item to be issued on a less than cost basis.

4.4.10. Logistical Management Transfers. Logistical management transfers or logistical reassignments occur when changes in the funding appropriation for an item take place. When the OUSD(C) and the USD(A&S) designate a logistical management transfer, the transferring entity records an increase to inventory at the value of the item being transferred from a GF appropriation entity to the supply management activity group. Typically, the transferring entity does not receive reimbursement for items transferred through a logistical management transfer. However, with prior approval from the OUSD(C), the transferring account may receive reimbursement for inventory transfers-in if the inventory was on order but undelivered at the time of the transfer, the transferring account is not financed by the WCF, and the transferring account ordered the inventory based on a reimbursable order from a customer.

4.4.11. Logistical Management Transfers Between Supply Management Activities. Volume 11B, Chapter 2, “Establishment of Defense Working Capital Fund Activities, Transfer of Fund Functions and Closure of Funds Activities,” outlines the procedures for transferring item management responsibility between WCF activities. The responsible parties handle the transfer of supply inventory as follows:

4.4.11.1. On Hand Inventory. Supply management activities transfer inventory on-hand without reimbursement. However, wholesale and retail supply activities are authorized to reimburse each other when on-hand retail inventory is transferred back to the wholesale item manager’s inventory control points based on DoD credit policies.

4.4.11.2. On Order Inventory. Wholesale item managers who send and receive must validate the inventory on order to ensure the supply pipeline is adequately filled. The receiving item manager is responsible for making payments to the vendors (through delivery order modification) or to the sending activity that funded the delivery order when the inventory is transferred, ensuring proper inventory and cash management.

#### 4.5 Loans and Leases

4.5.1. Supply management activities may only lend, or lease items specified in this section for the stated purpose. The recipient must sign a receipt for the item and must include a statement of the intended purpose of the loan or lease. The accountable office of the accountable activity, or the comptroller (or equivalent), must approve each loan or lease of an item. Accountability for inventory on loan remains with the activity lending the material and is valued in the same manner as inventory on-hand.

4.5.2. Approvals. The accountable office or the comptroller (or equivalent), of the activity responsible for accountability over the item approves each loan or lease of an item. The approval must include a description of the item, including the price, condition, anticipated return date, and a certification that the loan of the item will not jeopardize the capability to support national defense requirements.

4.5.3. Expenses. The recipient must cover all transportation, packing, crating, and handling costs associated with borrowing or leasing the item. Additionally, the recipient must pay for all costs necessary to restore the item to its original condition when returning it or pay for the item if it is not returned within the approved loan or lease period.

4.5.4. Property may be lent or leased to the following recipients:

4.5.4.1. DoD Funded Customers. Supply management activities may lend an item to a DoD funded customer for a maximum of 120 days to support an approved training exercise, a military emergency, or a natural disaster.

4.5.4.2. U.S. Secret Service. Supply management activities may lend an item to the U.S. Secret Service for a maximum of 120 days for purposes prescribed under the policies and procedures in DoDD 3025.13.

4.5.4.3. Civilian Law Enforcement Officials. DoDI 3025.21, Defense Support of Civilian Law Enforcement Agencies, prescribes the DoD regulations to support civilian law enforcement agencies consistent with the needs of military preparedness of the United States, while recognizing and conforming to the legal limitations on direct DoD involvement in civilian law enforcement activities. The Under Secretary of Defense for Policy governs the defense support of civilian law enforcement agencies and coordinates policy with Federal departments and agencies, State, local, and tribal agencies, and DoD Components. Supply management activities may lend equipment, base facilities, or research facilities to a civilian law enforcement activity for a maximum of 120 days for purposes prescribed under the policies and procedures in DoDI 3025.21. Requests for loan or lease or other use of equipment or facilities are subject to

approval by the DoD Components, unless approval by a higher official is required by statute or DoD issuance. Requests for arms, ammunition, combat vehicles, vessels, and aircraft must be submitted to the SecDef for approval.

4.5.4.4. State and Local Governments. Supply management activities may lend an item to a state or local Government for a maximum of 120 days for a specific purpose, under the policies and procedures prescribed in DoDI 3025.21.

4.5.4.5. National Veterans' Organizations. Supply management activities may lend items (e.g., cots, blankets, pillows, mattresses, bed sacks, and other supplies) to a recognized national veterans' organization to support a national or state convention or a regional youth athletic or recreational tournament sponsored by the veterans' organization under the authority of 10 U.S.C. § 2551. The organization must secure a bond before granting the loan. This bond serves as a security deposit, set at the item's current standard price, to ensure that the organization has a financial incentive to return the item in the same condition as it was loaned. The bond will cover damages or loss if the organization does not return the item in good condition.

4.5.4.6. American National Red Cross. Supply management activities may lend an item to an organization formed by the American National Red Cross for instruction and practice needed to aid the Army, Navy, or Air Force in time of war under the authority of 10 U.S.C. § 2552. Supply management activities require the immediate return of equipment loaned. A bond equal to twice the value of the property is required for care and safekeeping for the loaned property before the item is loaned or leased.

4.5.4.7. Inaugural Committee. Supply management activities may lend an item to the Presidential and the congressional Joint Inaugural Committee to support an inauguration of the President of the United States for a maximum period of nine days beyond the inauguration ceremony under the authority of 10 U.S.C. § 2553. The committee must agree to a sufficient bond to return the property in good condition, indemnify the United States for any loss of, or damage to, the property, and pay any expense incurred for the delivery, return, rehabilitation, replacement, or operation of the property.

4.5.4.8. Boy Scout Jamborees. Supply management activities may lend cots, blankets, commissary equipment, flags, refrigerators, and other equipment to the Boy Scouts of America for the use of Scouts and officials who attend any national or world Boy Scout Jamboree under the authority of 10 U.S.C. § 2554. Services and expendable medical supplies, to the extent items are in stock and available, may be furnished without reimbursement. Items are returned after the close of the jamboree. A sufficient bond for the safe return of such property in good order and condition and without expense to the United States, including transportation costs, is obtained before the items are loaned.

4.5.4.9. Shelter for the Homeless, Incidental Services. The Secretary of a Military Department can make military installations available to provide shelter to the homeless in cooperation with state, local, and charitable organizations under the authority of 10 U.S.C. § 2556. Incidental services such as utilities, bedding, security, transportation, facility renovations, minor

repairs, and property liability insurance can also be provided, if it does not interfere with military preparedness. Excess DoD items can only be issued to shelters.

4.5.4.10. Humanitarian Relief. Supply management activities may make nonlethal excess supplies available for transfer to the Secretary of Homeland Security for its distribution for humanitarian relief, domestic emergency assistance, and homeless veterans' assistance under the authority of 10 U.S.C. § 2557. The term “nonlethal excess supplies” means property, other than real property, that is defined as excess, and that is not a weapon, ammunition, or other equipment or materiel that is designed to inflict serious bodily harm or death.

4.5.4.11. Foreign Countries or International Organizations. Supply management activities may lease or loan an item to an eligible foreign country or international organization under the authority of the Arms Export Control Act. The Director, DSCA provides general oversight of DoD worldwide security cooperation efforts focusing on the timely transfer of defense articles and services in support of DoD strategic and regional objectives. The Director, DSCA has a fiduciary responsibility to exercise financial management for activities related to the Foreign Military Sales Trust Fund and reporting functions for security cooperation programs for which DSCA has responsibility. Procedures for leasing or loaning an item to another foreign country or international organization are contained within Volume 15, Chapter 7, “Pricing” and DoDD 5105.65.

4.5.4.12. Other Leases. Supply management activities may lease or loan a non-excess supply management activity item to an organization when the SecDef or the Secretary of a Military Department has determined that the item is under control of the Secretary, not needed for DoD use during the proposed lease period and the lease will promote the national defense or public interest under the authority of 10 U.S.C. § 2667. The lease may not be for more than five years, unless the Secretary concerned determines that a lease for a longer period will promote the national defense or be in the public interest. Additional lease conditions are covered within Chapter 26, “Accounting for Leases” and Volume 12, Chapter 14, “Transferring, Disposing, and Leasing of Real Property and Personal Property.”

## 4.6 Government Furnished Material (GFM)

4.6.1. GFM is a subset of GFP that may be consumed or expended during the performance of a contract, component parts of a higher assembly, or items that lose their individual identity through incorporation into an end-item. GFM does not include equipment, special tooling, special test equipment or real property. GFM may be issued by the item manager to a contractor, other DoD, or Federal government activity to be maintained as stock for issue, or for consumption or repair. When issued to a contractor GFM is subject to the requirements of the Federal Acquisition Regulations and Defense Federal Acquisition Regulation Supplement.

4.6.2. Maintained as stock for issue. When GFM is provided to a third party that fulfills an inventory control or warehousing function on behalf of the supply management activity:

4.6.2.1. Continue to value inventory in appropriate accounts;

4.6.2.2. Ensure arrangements include terms and conditions to report actions to the owning Component to satisfy financial reporting requirements (e.g. participate in quarterly reconciliations); and

4.6.2.3. Adjust inventory accounts as necessary as items are issued for use to reflect actual amounts.

4.6.3. Consumption. When GFM is provided for consumption,

4.6.3.1. Record the value of items issued for the consumption and benefit of another supply management activity, as an expense;

4.6.3.2. Record the value of items issued for fabrication, assembly, or disassembly for the benefit of another supply management activity, as work-in-process. Work-in-process is further described within section 6.0;

4.6.3.3. The return of GFM items by a contractor is accounted for as a customer return of material without credit; and

4.6.3.4. Include the cost of forgings and castings used as GFM in the production and acquisition cost of the item. Assign a stock number to each forging, casting, and mold, and record them as assets in an appropriate account. Record the cost of any broken or lost forgings, castings, and molds as a current period operating expense. Store these items for use as GFM in future procurements.

4.6.4. Repair. Supply activities issuing items for repair continue to value the item as inventory held for repair by the stockage point in accordance with the valuation criteria. Upon receipt of the repaired item, the item is transferred to inventory held for sale.

#### 4.7 Supply Management Activity Transfers

4.7.1. Assistant Secretary of Defense for Sustainment oversees procedures to optimize supply support resources between providers and customers, establishes integrated materiel management processes to reduce redundant items, and provides timely support to customers.

4.7.2. Transfers In Without Reimbursement. A supply activity may assume management responsibility and capitalize supply inventories that were financed by other appropriations and funds as permitted by 10 U.S.C. § 2208 and DoDM 4140.26. The activity that ordered the item must pay bills for inventories on order at the time of the transfer. A supply management activity may receive capital from the SecDef by capitalizing inventories but not make credits to an appropriation funded activity for capitalized inventories as provided in 10 U.S.C. § 2208. However, stock withdrawal authorizations may be approved as detailed within section 4.6.3. The receiving supply management activity will reimburse the sending activity for inventories on order as the deliveries are made for transfers from other WCFs.

4.7.3. Transfers of Reimbursable Procurements. The supply management activity may record a liability for an item transferred from a non-WCF account only if (1) the item is undelivered at the time of the transfer, and (2) the transferring organization's obligation for the item resulted from a reimbursable order from a customer. The customer must transfer appropriated funds to the supply management activity to liquidate the liability.

4.7.4. Stock Withdrawal Authorizations. A transferring activity may not have funds to purchase an item after transferring an item from an appropriation funded activity to a supply management activity. Therefore, the transferring activity may request that the USD(C) approve an authorization for issues without reimbursement, as part of the formal budget submission to the Congress. The supply management activity may issue items to the specified customer up to a fiscal year, without reimbursement, upon receipt of an approved stock withdrawal authorization.

4.7.4.1. The authorized limit is calculated as the lesser of one quarter of the quantity transferred to the supply management activity or one year's quantity based on the average amount consumed for the previous three years.

4.7.4.2. The supply management activity must issue items on a reimbursable basis when the fiscal year has passed. The supply management activity must record a stock withdrawal authorization as a transfer-out, a reduction of inventory held for sale and the difference is reported as a realization of holding gain/ loss.

4.7.5. Logistical Management Transfers. Logistical management transfers occur when changes are made to the funding appropriation for an item. When the approval for the logistical management transfer of an item(s) is granted, an increase or decrease to inventory for a nonreimbursable transfer is recorded at the value of the item(s) being transferred.

#### 4.8 Depot Level Repairables

4.8.1. Repairables are items that have reached the end of their lifecycle but can be restored or remanufactured. Repairables are considered when meeting computed inventory level requirements. The Department's depot-level repair program for inventory replenishment and resale acts as a remanufacturing process for financial management and accounting purposes.

4.8.2. Exchange Transaction. Many DoD Components obtain items for remanufacturing through an exchange transaction. In this transaction, they sell a serviceable item at the standard price in exchange for (1) cash and (2) an item that needs rebuilding or repair (carcass). The supply management team may record two separate transactions to represent the financial event or bill the customer at the exchange price, which is the standard price minus any credit if the requisitioning activity states that a repairable item will be returned. If the impaired item (carcass) has not been received at the time of the exchange, the organization records the item as "Inventory Held for Repair (Remanufacture Due In)."

4.8.2.1. Serviceable Depot Level Repairables (DLR) are recorded at historical cost.

4.8.2.2. If the customer does not return a reparable item within 90 days of the exchange sale for continental United States (CONUS) customers or within 120 days for customers outside the continental United States (OCONUS), the supply management team must reverse the credit they previously allowed and bill the customer. The seller may bill the customer for any costs that they would not have incurred if the item had been received.

4.8.2.3. A carcass may be received before an exchange sale. The supply management activity must record the carcass in inventory and establish a liability upon receipt. When a serviceable item becomes available for issue, the activity will reverse the liability, and the exchange sale will proceed normally.

4.8.3. Supply management activities may place orders and obligate funds for repair/remanufacture work placed with a contractor or a government repair facility. The carcass will remain in the Supply Management activity “Inventory Held for Repair (Remanufacturing)” account while the item is repaired/remanufactured.

#### 4.9 Return of Items to the Supply Management Activity

4.9.1. A customer within the Federal Government, including DoD contractors, may return an item to a supply management activity according to 22 U.S.C. § 2761. The proceeds will credit current applicable appropriations and will be available for expenditure for the same purposes as those appropriations. Customers cannot receive inventory credits for returns due to the capitalization of inventories.

4.9.2. The Arms Export Control Act permits the return of defense articles from a foreign country or international organization under specified conditions if the defense article was previously transferred to that country or organization under 22 U.S.C. § 2761, is not significant military equipment (as defined in 22 U.S.C. § 2794) and is fully functioning without needing repair or rehabilitation.

4.9.3. According to 10 U.S.C. § 2208(g), a department, activity, or agency may return supplies to working-capital funds, and they can charge the appraised value to that working-capital fund.

4.9.4. An item manager may grant credit for a returned item after receipt, inspection, and classification of the item. A return that stratifies to a war reserve inventory requirement does not qualify for credit. Annex 3 provides the relationship between USSGL/DoD accounts and logistics supply stratifications.

4.9.4.1. The amount of the credit for the return of a fully serviceable consumable or reparable item or the return of a carcass when not part of an exchange transaction and within the approved acquisition objective (AAO) level must not exceed the current standard price of the returned item less the current fiscal year’s approved cost recovery elements. The AAO level is the quantity of an item authorized for peacetime and wartime requirements to equip and sustain U.S. and allied forces according to current DoD policies and plans.

4.9.4.2. If the supply management activity granted credit before taking ownership or receiving the returned item, and if the item is not received within 90 days from a CONUS customer or 120 days from an OCONUS customer, the supply management activity must bill the customer for the credit it previously recorded. Additionally, the stockage point may choose to bill the customer for costs incurred due to the non-receipt of the item.

4.9.4.3. The supply management activity may grant a credit to a customer at standard price for defective items when a customer's quality deficiency report has been validated, including specification defects.

4.9.4.4. Credits may be applied against future customer demands for items in the current fiscal year or directly credited to the current year available funds for the customer.

4.9.5. The supply management activity must fund transportation and other shipping costs for items approved for return from customers. Shipping costs include packing, crating, handling, transportation, port loading, and unloading. The supply management activity must not fund shipping and transportation costs for items that have not been approved for return from customers.

4.9.6. Return of an item, whether issuable or not issuable, reverses the sale's effect on the Cost of Goods Sold. Activities record receipt of a returned item regardless of whether the customer receives credit.

#### \*5.0 OM&S - (Applicable to GF and WCF)

OM&S consists of tangible personal property that organizations consume in their normal operations. Title 41, section 101-8.705 of the Code of Federal Regulations defines a normal operation as the "operation of a program or activity without significant changes that would inhibit meeting objectives". OM&S applies to GF and WCF. OM&S excludes inventory, stockpile materials and items acquired for use in constructing real property or in assembling equipment.

#### 5.1 OM&S Types

5.1.1. OM&S Held for Use. Tangible personal property that is available for immediate use and ready for consumption in normal daily operations.

5.1.2. OM&S Held in Reserve for Future Use. Items not readily available in the market and there is a remote chance that it will be needed. The criteria considered by management in identifying operating materials and supplies held in reserve for future use must be disclosed in the notes to the financial statements.

5.1.3. OM&S EOU Items That Cannot Be Effectively Used. EOU status may be due to aged technology, outdated laws, old customer preferences, or aged operations.

5.1.4. OM&S Held for Repair. Items awaiting repair due to damage or malfunction.

5.1.5. OM&S In Development. Costs, direct and indirect, for developing OM&S, including costs of tangible personal property consumed in normal operations part of development. Once development is complete, the costs are typically transferred to OM&S Held for Use.

5.1.6. OM&S In Transit. Items currently in shipping. OM&S In Transit includes items not yet accepted in the receiving process at their final designated destination. OM&S In Transit also includes material moved between storage locations or temporarily in use or on loan with contractors or schools. Constructive delivery occurs when a recipient receives title based on the terms of the contract regarding shipping and delivery, even though the physical items haven't been physically delivered.

5.1.7. Long Range Ballistic Missiles (LRBMs). Considered OM&S. DoD Components must classify LRBMs consumed in normal operations as held for use, held in reserve for future use, or EOU.

5.1.7.1. LRBMs are considered OM&S because these missiles are frequently used, are consumable and cannot be reused after consumption, are similar in nature to other missiles classified as OM&S and are broken down and stored as separate parts. In addition, nuclear warheads are critical components of LRBMs. Nuclear warheads remain the property of the Department of Energy (DOE). DOE reports the warheads as OM&S.

5.1.7.2. DoD Components must designate all missiles, including long-range ballistic variants such as Intercontinental Ballistic Missiles and Submarine Launched Ballistic Missiles, as OM&S for financial reporting purposes. DoD Components must promptly reclassify missiles as OM&S if they previously classified them as equipment and document the necessary prior period adjustments to their financial statements.

## 5.2 Recognition and Valuation of OM&S

5.2.1. The consumption method of accounting for the recognition of expenses shall be applied for OM&S. If OM&S (1) are not significant amounts, (2) are in the hands of the end user for use in normal operations, or (3) it is not cost-beneficial to apply the consumption method of accounting, then the purchases method may be applied to operating materials and supplies. An end user is any component of a reporting entity that obtains goods for direct use in the component's normal operations. Generally, material at an end user is not transferred to another location for consumption. Components of a reporting entity, including contractors, that maintain or stock OM&S for future issuance are not end users.

5.2.2. Consumption Method. Recognize and report OM&S as assets on the balance sheet when produced or purchased. "Purchased" is when title passes to the purchasing entity. The contract between the buyer and the seller determines when title passes. 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 is based on contract terms.

5.2.2.1. Under the Consumption method, OM&S are valued at historical cost or on a basis that reasonably approximates historical cost. Valuation must be adjusted for EOU or

expected repair. In addition, alternative valuation methodologies may be used to establish beginning balances.

5.2.2.2. Remove the cost of goods from the applicable OM&S asset account and report it as an operating expense in the period when they use or issue the items to an end user for consumption in normal operations.

5.3.2. Purchases Method. Expense OM&S when produced or purchased. DoD Components must maintain analyses and conclusions documenting the accounting position to use the purchases method. DoD Components must perform a review of their position at least once every three years and make it available to auditors from one fiscal year to the next.

#### \*6.0 STOCKPILE MATERIALS - (Applicable to Revolving Fund Only)

Stockpile materials are strategic and critical materials agencies held due to statutory requirements for national defense, conservation, or national emergencies. Stockpile materials exclude items held for sale or use in normal operations and items kept for use in the event of an agency's operating emergency or contingency. Accounting requirements and procedures for stockpile material transactions particular to the National Defense Stockpile Transaction Fund (NDSTF) and the Strategic National Stockpile (SNS) are included in this section.

### 6.1 Authorities, Roles, and Responsibilities

6.1.1. The National Defense Stockpile operates under the authority of the Strategic and Critical Stock Piling Act (50 U.S.C. Subchapter III). The Stockpiling Act provides that strategic and critical materials are held (stockpiled) in the interest of national defense, conservation, or to preclude a dangerous and costly dependence upon foreign sources of supply in times of a national emergency.

6.1.2. The National Defense Authorization Acts provide authority to buy and sell specific materials (including medicine), set quantity and revenue levels for selling material, and mandate programs to receive the revenue from the sales and collections. There is currently no authorization to buy (acquire) any material if over 99 percent of the inventory is authorized for sale.

6.1.3. The DLA Strategic Materials Directorate (DLA-SM) administers the acquisition, storage, management, and disposal of inventory (including medicine) currently maintained in the National Defense Stockpile. The NDSTF is a continuing fund that finances the operations of the National Defense Stockpile and DNSC. The NDSTF receives resources from diverse sources, including direct appropriations, transfers from other appropriations, transfers of physical assets, and disposal proceeds, and thus is not strictly a revolving fund. The NDSTF's Treasury Federal account symbol is 97X4555.

6.1.4. DLA records and reports stockpile materials within the NDSTF. Annually DLA compiles the NDSTF Agency Financial Report (AFR). The AFR reports the financial position and NDSTF operating results in the form of financial statements and is consolidated into the DoD's agency-wide financial statements.

6.1.5. The Defense Finance and Accounting Service (DFAS) maintains accounting requirements and procedures, performs financial and general ledger accounting, and prepares external accounting reports for the NDSTF. DFAS provides accounting reports and additional supporting supplemental financial information to DLA-SM for preparation of the DoD, “Strategic and Critical Materials Report to the President and Congress”.

6.1.6. The DNSC and DFAS are jointly responsible for reconciling the inventory records.

## 6.2 Recognition and Valuation of Stockpile Materials

Stockpile materials are accounted for using the consumption method and are reported as assets when produced or purchased. The cost of stockpile materials is removed and reported as an operating expense when issued for use or sale. The value of stockpile materials is based on historical cost or on a basis that reasonably approximates historical cost. The financial inventory balance of the National Defense Stockpile is maintained on a historical cost basis as supported by “laid-in cost”. In accounting terms, laid-in cost is used by wholesalers or suppliers and includes additional costs incurred to place the goods in inventory (e.g., a manufacturer's invoice price and freight). In addition, alternative valuation methodologies may be used to establish beginning balances.

## 6.3 Material Acquisition

6.3.1. All acquisitions of material for the National Defense Stockpile are proposed in the Annual Materials Plan, which is subject to approval by Congress and the subsequent authorization of funding. Funding authorization may be in the form of new appropriations, an authorization to spend from the available balance of the Transaction Fund, or from sales proceeds from authorized disposals.

6.3.2. Material purchase contracts are recorded as obligations against the current year acquisition program and reflect the date of the contract. When the material is received, it is recorded in the inventory accounting system and the general ledger inventory account, accounts payable, and as a decrease to undelivered orders.

6.3.3. Additional costs, including initial testing, increase the cost of the material for inventory valuation purposes. The inventory accounting system must be reconciled to the general ledger inventory account each month. A physical inventory count should be conducted at least annually.

## 6.4 Material Upgrade

The Annual Material Plan includes the program for upgrading existing National Defense Stockpile material. Contractors perform the upgrading services, and DoD Components obligate funds from the current year budget for the program. When DoD Components deliver material to a contractor for upgrading, management transfers it from the stockpile inventory to the contractor. Upon returning the upgraded material, the DoD Components determine a new unit cost by adding the upgrading costs to the original inventory value. Management then transfers the upgrading cost

and the original cost of the material from the contractor account to the on-hand stockpile inventory account.

## 6.5 Material Disposals

Various materials in the National Defense Stockpile may become obsolete or in excess of current defense stockpiling needs. The National Defense Stockpile Act authorizes the disposal of such material within the Annual Material Plan and as authorized within the budget program for the NDSTF. Disposal sales of marketable commodities are offered on a bid auction or negotiated sales basis. Material disposals are accounted for as sales, and the original cost of the material is removed from inventory and recorded as cost of sales.

## 6.6 Exchange Transactions

6.6.1. Materials can be offered as like material or as payment in kind or exchange for other material for amounts due for material upgraded or acquired. These transactions are accounted for as exchange disposals and the original cost of the material is removed from inventory and recorded as the cost of exchange disposals. Exchange settlements liquidate an obligation for material upgrade and acquisition and must be accounted for within the budgetary accounts to affect the liquidation of the original contractual obligation within the accounting records.

6.6.2. All sales and disposals are billed shortly after the sales agreement is made or as of the scheduled time for delivery or pickup of the material. Bid deposits received are held as advances until returned or recorded to sales proceeds upon delivery of material to successful buyers. The purchaser of the material is allowed a specified number of days in which to pick up the material, after which time storage charges are assessed. Any such storage charges are billed to the purchaser.

6.6.3. Credits earned for material received and accepted by DNSC are used as payment for material shipped when material is disposed of during an exchange settlement. Additional billings for delayed pickup of material are also applicable to the exchange settlement disposals. Collections are received by the DNSC via electronic fund transfer. A DD Form 1131, "Cash Collection Voucher" and confirmed deposit are sent to the DFAS Accounting and Finance Office for recording in the accounting records upon receipt of the funds.

## 6.7 Inventory Adjustments

Inventory adjustments are made whenever there is evidence that an adjustment is required. Such instances include periodic count or measurement of material, movement of material, and complete disposal of material from a storage location. All adjustments are documented and approved before recording in the inventory accounting system and the general ledger inventory account. Approval is granted by the DNSC Administrator, delegated inventory officials, or the board of survey depending on the nature and the size of the adjustment.

**6.8 Research Grants**

The NDSTF receives appropriations for the award of grants to universities, colleges, and research institutions. The designated recipient of the grant is included in the appropriation act or requisite legislation. The Administrator, DNSC, is the grant administering official. See [Volume 12, Chapter 5, “Grants and Cooperative Agreements”](#) for additional guidance on accounting for research grant funds.

## Annex 1. Moving Average Cost (MAC) Example

In the MAC calculation, include the repaired units at the lower value between their repaired value and the current purchase price for a new unit of inventory. If the repaired value exceeds the current purchase price, expense the difference. Table A1-1 details an example of the MAC valuation method.

Table A1-1 MAC Valuation Method

Event	Transaction Quantity	Transaction Value	Ending Quantity	Ending Value
1. Beginning Balance MAC=\$10,000/10=\$1,000			10	\$10,000
2. Consumption / Sale of 2 items @ \$1,000 per item MAC=\$8,000/8=\$1,000	-2	(\$2,000)	8	\$8,000
3. Purchase of 4 items at \$1,600 per item MAC=\$14,400/12=\$1,200	+4	\$6,400	12	\$14,400
4. Sale of 1 item @ \$1,200 per item MAC=\$13,200/11=\$1,200	-1	(\$1,200)	11	\$13,200
5. Repair of 4 items at \$1,675. Current Purchase Price is \$1,500. MAC=\$19,200/15=\$1,280	+4	\$6,000	15	\$19,200
6. Sale of 1 item at MAC \$1,280 (\$19,200/15 items = \$1,280 per item)	-1	(\$1,280)	14	\$17,920

1. Beginning balance for 10 items is \$10,000. Each item is valued at \$1,000.
2. Two items are consumed or sold. Each item is still valued at \$1,000. Ending value is \$8,000.
3. Four items were purchased for \$1,600 each or \$6,400 total. Ending value is now \$14,400 (\$8,000 + \$6,400). Each item is now valued at \$1,200 (\$14,400 / 12 items).
4. One item is consumed or sold. Each item is still valued at \$1,200. Ending value is \$13,200.
5. Four items previously Held for Repair, now repaired, enter Held for Use or Held for Sale. Value of items for transfer is \$1,675 per item or \$6,700 total. Current purchase price is \$1,500 per item or \$6,000 total. The four items are transferred to inventory at the current purchase price of \$1,500 per item or \$6,000 total. The remaining \$700 associated cost of the repaired item, \$175 per item, is expensed. Ending value is now \$19,200 (\$13,200 + \$6,000). Each item is now valued at \$1,280 (\$19,200 / 15 items).
6. One item is consumed or sold. Each item is still valued at \$1,280. Ending value is \$17,920.

## Annex 2. Relationship of General Ledger Accounts to Logistic Supply Condition Codes and Stratifications

A supply condition code is an alphabetic designation that classifies material according to its readiness for issue and use or identifies any change in the material's status. The financial value is represented by the general ledger amounts, while the logistic supply condition code categorizes the physical inventory condition. The supply condition codes dictate the general ledger account postings based on the inventory item's condition. Current DoD supply condition codes are defined in DLMS Volume 2 “Supply Standards and Procedures”, Appendix 2.5.

Further, the DoD collects, maintains, and reports on inventory data to provide visibility of retail and wholesale requirements, demand, overages, and shortfalls using inventory stratification categories. DoD Manual 4140.01, Volume 10, “DoD Supply Chain Materiel Management Procedures: Supply Chain Reporting and Metrics” details the inventory and materiel stratification process. Additionally, information on supply management of EOU and potential reutilization stock is available in DoD Manual 4140.01, Volumes 6 and 10.

The tables A2-1 through A2-3 illustrate the relationship between USSGL/DoD accounts and logistics supply condition codes and stratifications. For questions about logistics supply condition codes and inventory stratification categories, contact [DEDSO.Supply@dla.mil](mailto:DEDSO.Supply@dla.mil).

Table A2-1 Logistics Inventory Stratification vs General Ledger Accounts

<b>Category</b>	<b>Serviceable</b>	<b>Unserviceable</b>	<b>Repair</b>	<b>Retain</b>
Excess	USSGL 152400	USSGL 152400	No	No
Contingency Retention	USSGL 152200	USSGL 152300	No	Yes
Economic Retention	USSGL 152200	USSGL 152300	No	Yes
Approved Acquisition Objective (AAO)	USSGL 152100	USSGL 152300	No	Yes
Requirement	USSGL 152100	USSGL 152300	Yes	Yes

Table A2-2 Relationship of Inventory USSGL Accounts to Logistic Condition Codes

USSGL Account	Supply Condition Codes
152100 Inventory Purchased for Resale	<p>A Serviceable (Issuable Without Qualification)            B Serviceable (Issuable With Qualification)            C Serviceable (Priority Issue)            D Serviceable (Test/Modification)            T Serviceable (Ammunition Suitable for Training Use Only)            U Serviceable (Limited Remaining Life Before Failure)</p> <p>Use this account to record amounts for inventory with condition codes A-D and T up to the AAO.  <b>[Excludes Excess, Economic Retention and Contingency Retention Inventory]</b></p>
152200 Inventory Held in Reserve for Future Sale	<p>E Unserviceable Repairable (Limited Cost to Restore)            K Suspended (Returns)            L Suspended (In Litigation)            N Suspended (Ammunition Suitable for Emergency Combat Use Only)            Q Suspended (Product Quality Deficiency)</p> <p>Use this account to record amounts for inventory with condition codes A-D and T that is <b>greater than</b> the AAO and is retained for economic or contingency purposes. Include all inventory designated as E, J, K, L, N, and Q in this account.  <b>[Excludes Excess Inventory]</b></p>
152300 Inventory Held for Repair	<p>F Unserviceable (Repairable)            G Unserviceable (Incomplete)            M Suspended (In Work)            R Suspended (Reclaimed Items, Awaiting Condition Determination)            X Suspended (Repair Decision Delayed)</p> <p>Use this account to record amounts for all inventory with condition codes F, G, M, and R that is <b>greater than</b> the AAO and is retained for economic or contingency purposes.  <b>[Excludes Excess Inventory]</b></p>
152400 Inventory – Excess, Obsolete, or Unserviceable	<p>H Unserviceable (Condemned)            P Unserviceable (Reclamation)            S Unserviceable (Scrap)            V Unserviceable (Waste Military Munitions)</p> <p><b>[Includes Serviceable and Unserviceable Excess Inventory]</b></p>

Table A2-3 Relationship of OM&amp;S USSGL Accounts to Logistic Condition Codes

U.S. Standard General Ledger Account	Supply Condition Codes
151100 OM&S Held for Use	<p>A Serviceable (Issuable Without Qualification)            B Serviceable (Issuable With Qualification)            C Serviceable (Priority Issue)            D Serviceable (Test/Modification)            T Serviceable (Ammunition Suitable for Training Use Only)</p> <p>Use this account to record amounts for OM&amp;S with condition codes A-D and T up to the AAO.</p> <p><b>[Excludes Excess, Economic Retention and Contingency Retention OM&amp;S]</b></p>
151200 OM&S Held in Reserve for Future Use	<p>E Unserviceable Repairable (Limited Restoration)            J Suspended (In Stock)            K Suspended (Returns)            L Suspended (In Litigation)            N Suspended (Ammunition Suitable for Emergency Combat Use Only)            Q Suspended (Product Quality Deficiency)</p> <p>Use this account to record amounts for OM&amp;S with condition codes A-D and T that is <b>greater than</b> the AAO and is retained for economic or contingency purposes. Include all inventory designated as E, J, K, L, N and Q in this account.</p> <p><b>[Excludes Excess OM&amp;S]</b></p>
151300 OM&S – Excess, Obsolete, or Unserviceable	<p>H Unserviceable (Condemned)            P Unserviceable (Reclamation)            S Unserviceable (Scrap)            V Unserviceable (Waste Military Munitions)</p> <p><b>[Includes Serviceable and Unserviceable Excess OM&amp;S]</b></p>
151400 OM&S Held for Repair	<p>F Unserviceable (Repairable)            G Unserviceable (Incomplete)            M Suspended (In Work)            R Suspended (Reclaimed Items, Awaiting Condition Determination)</p> <p>Use this account to record amounts for all OM&amp;S with condition codes F, G, M, and R.</p> <p><b>[Excludes Excess OM&amp;S]</b></p>

**VOLUME 4, CHAPTER 5: “ADVANCES AND PREPAYMENTS”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [February 2021](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Completed administrative updates in accordance with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.0	Added general clarifying language on advances and prepayments and reference to 31 United States Code Section 3324, “Advances.”	Addition
1.3.1, 3.3.2 (previous version)	Removed reference regarding 10 United States Code Section 2307, “Contract financing,” as this law was repealed.	Deletion
2.0	Updated definitions related to advances and prepayments.	Revision
3.0	Updated accounting policy to include Standard Financial Information Structure reference and DoD Component responsibilities. Added clarifying language on the accounting for advances and prepayments.	Revision/ Addition

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## CHAPTER 5

ADVANCES AND PREPAYMENTS

## \*1.0 GENERAL

## 1.1 Overview

1.1.1. Advances and prepayments are reported in the Department of Defense (DoD) financial statements as assets and liabilities such as accounts receivable and accounts payable. The Office of Management and Budget (OMB Circular A-11), “Preparation, Submission, and Execution of the Budget” categorizes intragovernmental assets as claims of a federal agency against other federal agencies which, when collected, can be used in the agency’s operations. Transactions with non-federal entities create governmental assets and liabilities. DoD Components must separate intragovernmental and governmental assets and liabilities.

1.1.2. DoD prepays to cover certain period expenses before those expenses are incurred. Federal agencies’ advances and prepayments are accounted for and reported separately as intragovernmental transactions.

1.1.3. Support advances and prepayments with documentation that clearly shows the basis for the amounts recorded and the applicable terms. The supporting audit trail must include sufficient information to show the period the advances were made, the budget authority for the advances, the period the advances were liquidated, and the related approving authorities. Make the audit trail documentation readily available for management and auditors to review. Refer to Volume 6A, Chapter 2 for audit trail guidance.

1.1.4. Per Title 31, United States Code, section 3324 (31 U.S.C. § 3324) Advances may be made only if it is authorized by (1) a specific appropriation or other law; or (2) the President.

## 1.2 Purpose

This chapter prescribes DoD accounting policy for advances and prepayments made to employees, other federal agencies, non-federal entities, and foreign governments.

## 1.3 Authoritative Guidance

The accounting policy and related requirements in accordance with the applicable provisions of:

1.3.1. 10 U.S.C. § 2396, “Advances for payments for compliance with foreign laws, rent in foreign countries, tuition, public utility services, and pay and supplies of armed forces of friendly foreign countries;”

1.3.2. 31 U.S.C. § 6101, “Definitions” (Includes definitions for domestic assistance programs;)

1.3.3. [31 U.S.C. § 6302](#), “Definitions” (Using Procurement Contracts and Grant and Cooperative Agreements);

1.3.4. [31 U.S.C. § 6303](#), “Using Procurement Contracts;”

1.3.5. [31 U.S.C. § 6304](#), “Using Grant Agreements;”

1.3.6. [31 U.S.C. § 6305](#), “Using Cooperative Agreements;”

1.3.7. [Federal Acquisition Regulation \(FAR\) Part 32](#), “Contract Financing;”

1.3.8. Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards ([SFFAS](#)) [1](#), “Accounting for Selected Assets and Liabilities;” and

1.3.9. [Grants.gov](#). The Grants.gov program management office was established in 2002 as a part of the President's Management Agenda. Managed by the Department of Health and Human Services, Grants.gov is an E-Government initiative operating under OMB.

## \*2.0 DEFINITIONS

### 2.1 Advances

According to SFFAS 1, advances are [federal entity](#) cash outlays made to employees, contractors, grantees, or others [for](#) the recipients’ anticipated expenses or as advance payments for the cost of goods and services the entity acquires. OMB Circular A-11 defines advances as [federal agency](#) cash outlays to cover the recipients’ anticipated expenses or for the costs of goods and services the agency is to receive. Examples include travel advances disbursed to employees prior to business trips, and cash or other governmental assets disbursed under a contract, grant, or cooperative agreement before [the contractor or grantee provides the](#) services or goods. [Percentage of completion](#) progress [contract](#) payments are not advances. [A DoD Component](#) advances only to payees [under](#) a mutually binding legal relationship [for](#) not [more than](#) the amount obligated.

### 2.2 Contract

FAR Subchapter A, subpart 2.1 defines a contract as a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the Government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task letters issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by [31 U.S.C.6301](#), et seq.

### 2.3 Cooperative Agreement

In accordance with 31 U.S.C. § 6305 [cooperative agreements](#) transfer anything of value from the federal awarding agency or pass-through entity to the non-federal entity to carry out a public purpose authorized by a United States law. [The federal government or pass-through entity does not acquire](#) property or services for their direct benefit or use. [A cooperative agreement requires](#) substantial involvement between the federal awarding agency or pass-through entity and the non-federal entity in carrying out the activity defined in the federal award.

### 2.4 Entity Cash

[SFFAS 1, paragraph 28](#), defines entity cash as the amount of cash that the reporting entity holds and is authorized by law to spend.

### 2.5 Grants

31 U.S.C. § 6304 defines a grant as an agreement wherein the executive agency transfers a thing of value to the State or local government or other recipient to carry out a public purpose of support or stimulation authorized by a United States law.

### 2.6 Imprest Fund

According to [FAR Part 13.001](#), an imprest fund is a cash fund of a fixed amount, advanced to an agency finance or disbursing officer to disburse cash in relatively small amounts. An imprest fund does not use appropriations.

### 2.7 Intragovernmental Assets

[SFFAS 1, paragraph 18](#) defines intragovernmental assets as claims of a federal entity against other federal entities.

### 2.8 Intragovernmental Liabilities

[SFFAS 1, paragraph 18](#) defines intragovernmental liabilities as claims against the entity by other federal entities.

### 2.9 Prepayments

[SFFAS 1](#) states that a federal entity prepays to cover certain periodic expenses before those expenses are incurred. [Percentage of completion](#) progress payments made to a contractor are not prepayments. Prepayments apply 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.

### \*3.0 ACCOUNTING FOR ADVANCES AND PREPAYMENTS

#### 3.1 Accounting Policy

3.1.1. Refer to the DoD [Standard General Ledger \(USSGL\) Chart of Accounts and Transaction Library](#) for the most current general ledger account numbers, definitions, and required journal entries. [DoD USSGL Transaction Library and Standard Reporting Chart of Accounts](#) are available on the [Standard Financial Information Structure \(SFIS\)](#) web page. SFIS provides the current USSGL accounts to be used, defines these accounts, and illustrates the required proprietary and/or related budgetary accounting entries.

3.1.2. Advances and prepayments must comply with the law or regulation requirements. Organizations or individuals (other than DoD employees requesting travel advances) requesting advances must demonstrate that all external financing sources have been exhausted before [DoD Components authorize](#) an advance. When [the recipient satisfies](#) advance conditions, the [DoD Component must collect](#) unused portions of the advance immediately and return [the same](#) to the original appropriation. [DoD Components must record the prepayment when it is made.](#) At the end of each quarter and fiscal year-end, the DoD Component must review prepayments and expense the expired portion. Prepayments are recurrent transactions that do not provide financing as a precondition of performance.

3.1.3. Accounting activities must [account for and segregate capitalized assets and expenses into separate line items.](#) The Certifying Officer must consult the Requiring Activity (buyer or program office) when the related purchase request does not include sufficient information to segregate between capital and expense items. [Record](#) advances and prepayments paid out as assets. [Record](#) advances and prepayments received as liabilities. In the financial statements, [do not record](#) advances and prepayments paid out as elimination entries for advances and prepayments received. [Liquidate](#) advances and prepayments and [record](#) either an expense or capitalized asset when goods or services are received, contract terms are met, or prepaid expenses expire.

3.1.4. [Receivables are claims to cash or other assets against another entity.](#) [A receivable is established when](#) revenue is recognized, and payment has not been received in advance. Receivables include but are not limited to, monies due for the sale of goods and services and monies due for indebtedness. [DoD indebtedness](#) examples include overdue travel advances, overpayments, and any other event resulting in a determination that a debt is owed to the DoD. Refer to Chapter 3 for further guidance.

3.1.5. SFFAS 1 categorizes [federal entities'](#) advances and prepayments as intragovernmental assets and liabilities. Account for and report these [assets and liabilities](#) separately from those made to non-federal entities.

3.1.6. SFFAS 1 states that advances and prepayments made must be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire. A travel advance, for example, must be initially recorded as an asset and must be subsequently reduced when travel expenses are

incurred. Amounts of advances and prepayments that are subject to refund (for example, a settled travel claim indicating the traveler owes part of the advance to the government) must be transferred to accounts receivable.

3.1.7. SFFAS 1 states that federal entities receive advances and prepayments from other federal and non-federal entities for goods to be delivered or services to be performed. Advances and prepayments received/paid between federal entities are intragovernmental liabilities/assets. Advances and prepayments received/paid between a federal entity and a non-federal entity are governmental liabilities/assets. Before revenues are earned, the current portion of the advances and prepayments are recorded as other current liabilities. After the revenue is earned (goods or services are delivered, or performance progress is made), the federal entity records the revenue or financing source and reduces the liability accordingly. Intragovernmental liabilities are reported separately from governmental liabilities due to employees and the public.

3.1.8. Volume 3, Chapter 8 requires a quarterly review of dormant accounts. This quarterly review is an important part of exercising sound internal controls to increase each DoD Component's ability to use available appropriations before they expire and ensure remaining open obligations are valid and liquidated before the appropriations are cancelled. This increases mission readiness for the DoD.

### 3.2 Recoveries and Adjustments

Ensure that sound internal controls monitor advances and prepayments made. Recover unneeded and unused balances as soon as information indicates they are excess to the original purposes. Unused advance and prepayment recoveries received the same year as the original obligation are recorded as recoupments. Collections are recoveries of unused advances and prepayments of prior-year obligations. Use the SFIS web page given in subparagraph 3.1.1. to decompose DoD USSGL accounting transactions for recoveries and adjustments.

### 3.3 Contract Financing Payments

According to FAR 32.001, the Government authorizes disbursements of monies to a contractor prior to the acceptance of supplies or services in contract financing payments. Contract financing payments include advance payments, performance-based payments, commercial advances, interim payments, progress payments based on cost, progress payments based on a percentage or stage of completion, and interim payments under a cost reimbursement contract. Contract financing payments do not include invoice payments, payments for partial deliveries, or lease and rental payments. Contract financing payments are more fully discussed in Volume 10, Chapter 8.

### 3.4 Grant Awards and Cooperative Agreements

DoD Components account for advance payments to award recipients (including amounts drawn against letters of credit) until the recipient has performed under the grant or agreement. Once the recipient has performed, the assisting agency must record an expense equal to the cost of the services performed or costs incurred and reduce the advance account by a like amount.

Periodically, the advances must be reconciled with the supporting transaction documentation as part of the quarterly review process as outlined in [section 3.0](#). In addition, [review](#) each advance periodically to determine whether [the](#) amounts are [more than](#) the grantee's current needs. [Collect excess](#) amounts from the recipient. [Time](#) the review as each grant milestone or reporting requirement is reached. [Grant agreements, disbursement vouchers, collection vouchers, and grant performance reports are sources for entries.](#) Payment provisions for grants and other instruments of assistance are more fully discussed in Volume 10, Chapter 19 and Volume 12, Chapter 5.

### 3.5 Advances to Foreign Countries

10 U.S.C. § 2396 [authorizes](#) advances to foreign countries. [DoD appropriations may be used](#) to comply with the laws and ministerial regulations of a foreign country; to pay rent for periods determined by local custom, tuition, and public service utilities; and to a friendly foreign country's disbursing official or its armed forces members, for their pay and allowances, and necessary supplies and services. [Assign](#) the advances to the appropriate SFIS element (country code) found on the SFIS web page under the SFIS Values Library Service subcategory and record [the advances](#) in the related DoD Component subsidiary ledger account.

### 3.6 Advances in Military Pay

[Refer to Volume 7A, Chapter 32, for military members' pay advance details.](#) This includes [basic allowance for subsistence and housing; overseas station allowances; family separation allowance; and clothing and uniform allowances.](#) Pay advances to military members must only be to ease hardships imposed by the lack of regular payments when a member is mobilized; ordered to duty at a distant station; or deployed aboard a ship for more than 30 days.

### 3.7 Advances in Civilian Pay

[Refer to Volume 8, Chapter 3, for civilian personnel pay advance details.](#) This includes [foreign post assignment advances, advance payments to evacuees, advances in pay for newly hired employees, and advances in pay for employees relocating within the U.S. or its territories.](#)

### 3.8 Advances as Imprest Funds

Imprest Funds are cash advances against a specific Line of Accounting (LOA) from the Disbursing Officer to an appointed cashier. [The funds are a form of "Cash Held Outside of Treasury" but because an entity LOA is cited as the Imprest Fund, the advance is "entity cash."](#) Refer to Chapter 2 for further guidance.

### 3.9 Travel Advances

3.9.1. A [commander or supervisor-approved travel order](#) must be issued before [military members or civilian personnel travel](#) unless an urgent or unusual situation prevents prior issuance. [Do not authorize](#) cash travel advances unless an exception is granted. Record the maximum advance amount authorized on the travel order.

3.9.2. The DoD traveler obtains cash from an automated teller machine (ATM) with an assigned Government Travel Charge Card (GTCC) for expenses that cannot be charged to the GTCC. The traveler must not exceed the limit specified in the travel order. Personnel who are not eligible for a GTCC may obtain travel advances only via electronic funds transfer. The commander or supervisor, in coordination with the Disbursing Officer, may authorize cash advances in limited situations where no other process is available to accomplish the mission.

3.9.3. A DoD traveler must submit a travel claim voucher within five working days of return. The responsible settlement office accounts for funds in accordance with the applicable DoD Component's accounting or disbursing regulations. Refer to Volume 9, Chapter 5 for further guidance.

3.9.4. Travel advances are also permitted when criteria are met for the following:

3.9.4.1. Transportation documents or funds are lost or stolen.

3.9.4.2. Temporary lodging expense in connection with a Permanent Change of Station to a Permanent Duty Station.

3.9.4.3. House hunting trip expenses if offered and chosen under the Lodging Plus method.

3.9.4.4. Temporary quarters subsistence expense up to 30 days.

3.9.4.5. Mobile home transportation allowances.

3.9.4.6. Evacuation travel and transportation allowances under an evacuation authority.

3.9.4.7. Dislocation Allowance paid to a Service member's designated dependent in moving a household.

3.9.5. Refer to the [Joint Travel Regulations](#) sections 050402, 050602, 054007, 054207, 054407, and 060105 for details.

### 3.10 Defense Working Capital Fund

Defense Working Capital Fund entities must record advances and prepayments in accordance with the policies in this chapter. Refer to Volume 3, Chapter 19 for further guidance.

### 3.11 Inventory Bid Deposits

Record bid deposits received on inventory available for sale as advances. The advance account is relieved in two instances. Record sales proceeds when the inventory has been delivered to successful buyers. Refund the bid deposit and cancel the sale. Refer to Chapter 4 for further guidance.

**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**CHAPTER 6: "ARCHIVED"**

**UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)**

**VOLUME 4, CHAPTER 7: “INVESTMENTS AND OTHER ASSETS”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [October 2022](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
3.4	Clarified the types of Marketable Treasury securities, as stated in SFFAS 1	Revision
5.1.1	Added applicable statutory reference for Use of Other Investments	Addition
5.3.3.4	Corrected title for Chapter 16	Revision
5.3.3.5	Corrected title for Volume 12, Chapter 4	Revision

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## CHAPTER 7

INVESTMENTS AND OTHER ASSETS

## 1.0 GENERAL

## 1.1 Purpose

This chapter prescribes the accounting requirements for recording transactions for investments in Treasury securities. These requirements are consistent with the accounting and reporting for federal and nonfederal securities, and are consistent with the implementation of general accounting policy for assets that is prescribed in Volume 4, Chapter 1. Other assets are those assets not used directly in performing the Department of Defense (DoD) mission. These assets consist of securities held in various trust funds, assets acquired through means other than appropriations, and assets awaiting disposal.

## 1.2 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provision of:

1.2.1. Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Concepts [\(SFFAC\) 1](#), “Objectives of Federal Financial Reporting.”

1.2.2. FASAB Statement of Federal Financial Accounting Standards [\(SFFAS\) 1](#), “Accounting for Selected Assets and Liabilities.”

1.2.3. FASAB [SFFAS 3](#), “Accounting for Inventory and Related Property.”

1.2.4. FASAB [SFFAS 7](#), “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.”

1.2.5. FASAB [SFFAS 27](#), “Identifying and Reporting Funds from Dedicated Collections.”

1.2.6. FASAB [SFFAS 49](#), “Public-Private Partnerships: Disclosure Requirements.”

1.2.7. FASAB [SFFAS 47](#), “Reporting Entity.”

1.2.8. Financial Accounting Standards Board (FASB) Accounting Standards Codification [\(ASC\) 323](#) “Investments Equity Method and Joint Ventures.”

1.2.9. Office of Management and Budget [\(OMB\) Circular A-136](#), “Financial Reporting Requirements.”

1.2.10. Title 10 United States Code, sections 1111-1117, ([10 U.S.C §§ 1111-1117](#)) “Department of Defense Medicare-Eligible Retiree Health Care Fund.”

1.2.11. [10 U.S.C. §§ 1461-1467](#), “Department of Defense Military Retirement Fund.”

1.2.12. [10 U.S.C § 2875](#), “Investments.”

1.2.13. [TFM Part 2 Chapter 4300](#), “Reporting Instructions For Accounts Invested in Department of Treasury Securities.”

1.2.14. DoD is authorized to invest by specific laws, including the law establishing the Medicare-Eligible Retiree Health Care Fund (MERHCF) 10 U.S.C. §§ 1111-1117 and the law establishing the Military Retirement Fund (MRF) 10 U.S.C. §§ 1461-1467. DoD invests in limited partnerships under the law allowing for alternative acquisition authority for the Military Housing Privatization Initiative 10 U.S.C. § 2875.

## 2.0 ACCOUNTING POLICY FOR INVESTMENTS AND OTHER ASSETS

### 2.1 Account References

DoD investments and other assets must be recognized and recorded as prescribed in SFFAS 1. Accounting events recognized under SFFAS 1 must be reported according to the requirements in TFM Chapter 4300, and OMB Circular A-136 using the accounting entries specified in the DoD Standard Chart of Accounts and Standard Financial Information Structure ([SFIS](#)) Transaction Library, unless otherwise stated. Financial record retention requirements are in Volume 1, Chapter 9, and in accordance with the National Archives and Records Administration.

## 3.0 INVESTMENTS IN FEDERAL SECURITIES

### 3.1 Investments

DoD is authorized to invest in Federal securities, which include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities.

### 3.2 Nonmarketable Par Value Treasury Securities

Nonmarketable par value Treasury securities are special issue debt securities that the U.S. Treasury issues to federal entities at face value (par value). The securities are redeemed at face value on demand; thus, investing entities recover the full amounts invested. When authorized, the DoD may invest in MERHCF and MRF may invest par value “special issue” Treasury securities.

### 3.3 Market-Based Treasury Securities Expected to Be Held to Maturity

Market-based Treasury securities expected to be held to maturity are debt securities that the U.S. Treasury issues to federal entities without statutorily determined interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities.

### \*3.4 Market-Based Treasury Securities

Marketable Treasury securities **including** Treasury bills, notes, and bonds, are initially offered by Treasury to the marketplace and can then be bought and sold on securities exchange markets. Their bid and ask prices are publicly quoted by the marketplace.

### 3.5 Recognition of Investments in Federal Securities

DoD Components holding investments in Federal securities must report those investments separately from investments in non-Federal securities. Federal securities should be recorded at their acquisition cost.

3.5.1. When an acquisition is made in exchange for nonmonetary assets, the acquired securities should be recognized at the fair market value (FMV) of either the securities acquired, or the assets given up, whichever is more definitively determinable.

3.5.2. When an acquisition cost differs from the face (par) value, the security should be recorded at the acquisition cost, which equals the security's face value plus or minus the premium or discount on the investment. A discount is the excess of the security's face amount over its purchase price. A premium is the excess of the purchase price over the security's face value. The balance in the valuation account is treated as a contra account to the debt security.

3.5.3. Treasury securities subsequent to their acquisition should be carried at their acquisition cost, adjusted for amortization if appropriate, as explained in SFFAS 1.

3.5.4. Investments must be carried on the Balance Sheet at acquisition cost adjusted for amortization of the premium or discount, except in two cases. If either exception is reflected, then market value should be used (except for pension and retirement plans).

3.5.4.1. When there is intent to sell securities prior to maturity or,

3.5.4.2. When there is a reduction in value that is more than temporary.

3.5.5. DoD Components holding such securities must 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.

### 3.6 Disposition of Treasury Securities

3.6.1. DoD Components must maintain a subsidiary account for each trust fund that invests in U.S. Treasury securities.

3.6.2. The disposition of a U.S. Treasury security may result in a gain or loss. A comparison of principal proceeds, the book value of a U.S. Treasury security, and any remaining unamortized premium or discount will determine whether there is a gain or loss.

3.6.3. Quarterly, the “Investments in U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based” account balance must be reconciled with the trust fund portfolios. Such reconciliations must also 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.

3.6.4. Unless otherwise provided for by law, securities held by DoD trust funds are U.S. Treasury securities. The Treasury issues no certificates. Instead, Treasury notifies trust fund managers of portfolio increases or decreases using the “Transaction Confirmation.”

3.6.5. Source documents for entries to the account include U.S. Treasury securities, the “Transaction Confirmation,” collection and disbursement vouchers, amortization schedules, and journal vouchers.

## 4.0 INTEREST AND AMORTIZATION

### 4.1 Interest and Amortization Recognition

4.1.1. The accounts to be used to record accounting events related to U.S. Treasury securities include Discount on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based (Account 161100.0400), Premium on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based (Account 161200.0400), Amortization of Discount on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based-Discount (Account 161300.0500) and Amortization of Premium on U.S. Treasury Securities Issued by the Bureau of the Fiscal Service-Non-Marketable Market-Based-Premium (Account 161300.0600).

4.1.2. The disposition of a U.S. Treasury security may result in a premium or discount. If an amount of premium or discount exists, the carrying amount, or original purchase cost, of the investments must be adjusted in each reporting period to reflect the amortization of the premium or the discount.

4.1.3. Premiums and discounts must be amortized over the life of the Treasury security using the interest method. Under the interest method, the effective interest rate (the actual interest yield on amounts invested) multiplied by the carrying amount of the Treasury security at the start of the accounting period equals the interest income recognized during the period (the carrying amount changes each period by the amount of the amortized discount or premium).

4.1.4. The amount of amortization of discount or premium is the difference between the effective interest recognized for the period and the nominal interest for the period as stipulated in the Treasury security.

4.1.5. Use Accounts 161100.0400 and 161200.0400 to record the unamortized discount or premium on U.S. Treasury securities issued by the Bureau of the Fiscal Service. Use Accounts 161300.0500 and 161300.0600 to record the amortization of discount or premium on U.S. Treasury securities issued by the Bureau of the Fiscal Service. Use separate accounts to record the accounting events related to U.S. Treasury securities. For example, discounts on U.S. Treasury securities should be recorded separately from premiums on U.S. Treasury securities. The amortization of the related securities must be accounted for in distinct accounts.

4.1.6. A subsidiary account for unamortized premiums or discounts must 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 each trust fund.

4.1.7. The income derived from U.S. Treasury securities other than Treasury bills must be the interest stated on the face of the securities adjusted for the amortized premium or discount. For Treasury bills, the difference between the purchase price and the price received at the time of sale or maturity is income.

4.1.8. Under the interest method of amortization, an amount of interest equal to the carrying amount of the investment times the effective interest rate, is calculated for each accounting period.

4.1.8.1. The calculated interest is the effective interest of the investment (referred to as effective yield in some literature). The amount of effective interest is compared with the stated interest of the investment. The stated interest is the interest that is payable to the investor according to the stated interest rate.

4.1.8.2. The difference between the effective interest and the stated interest is the amount by which the discount or the premium should be amortized (i.e., reduced) for the accounting period.

4.1.8.3. The discounted bonds example in Table 7-1 displays the amortization of a discount. Treasury bonds with the face amount of \$100,000, purchased by a federal entity on the bonds' issuance date, January 1, 2020. The bonds' stated interest rate is 7 percent, and interest is payable at the end of each year. The bonds will mature in 5 years, on December 31, 2024. The cost of the investment is \$96,007, with a discount of \$3,993, which reflects an effective interest rate of 8 percent. In Table 7-1, the annual discount amortization is in column 4, which equals column 3 minus column 2.

Table 7-1. Discount Amortization

Date	Stated Interest 7%	Effective Interest 8%	Discount Amortization	Unamortized Balance	Bonds Carrying Amount
01/01/20				\$3,993	\$96,007
12/31/20	7,000	\$7,681	\$681	3,312	96,688
12/31/21	7,000	7,735	735	2,577	97,423
12/31/22	7,000	7,794	794	1783	98,217
12/31/23	7,000	7,857	857	926	99,074
12/31/24	7,000	7,926	926	0	100,000

4.1.9. The premium bonds example in Table 7-2 displays the amortization of premium Treasury bonds with the face amount of \$100,000, purchased by a federal entity on the bonds' issuance date January 1, 2020. The bonds' stated interest rate is 7 percent, and interest is payable at the end of each year. The bonds will mature in 5 years, on December 31, 2024. The cost of the investment is \$104,212, with a premium of \$4,212, which reflects an effective interest rate of 6 percent. In Table 7-2, the annual premium amortization equals the "Stated Interest 7%" less the "Effective Interest 6%."

Table 7-2. Premium Amortization

Date	Stated Interest 7%	Effective Interest 6%	Premium Amortization	Unamortized Balance	Bonds Carrying Amount
01/01/20				\$4,212	\$104,212
12/31/20	7,000	\$6,253	\$747	3,465	103,465
12/31/21	7,000	6,208	792	2,673	102,673
12/31/22	7,000	6,160	840	1,843	101,833
12/31/23	7,000	6,110	890	943	100,943
12/31/24	7,000	6,057	943	0	100,000

4.1.10. Source documents for entries to this account must include amortization schedules and journal vouchers.

## 5.0 OTHER INVESTMENTS

### \*5.1 Use of Other Investments

5.1.1. When authorized, [an investment under the provisions of 10 U.S.C § 2875](#), may take the form of an acquisition of a limited partnership interest, a purchase of stock or other equity instruments, a purchase of bonds or other debt instruments, or any combination of such forms of investment.

5.1.2. Other investments by the DoD currently authorized include joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of the Military Housing Privatization Initiative (MHPI), authorized by DoD's "Alternative Authority for Acquisition and Improvement of Military Housing," in Subchapter IV, Chapter 169, of Title 10, United States Code, at (10 U.S.C § 2875). These joint ventures are designed as Public-Private Partnerships (P3s), also referred to as Alternative Financing Arrangements, or Privatization Initiatives, which are defined as "risk-sharing arrangements," or transactions lasting more than five years between public and private sector entities.

## 5.2 Reporting Other Investments

5.2.1. P3s may involve the use of appropriated funds, non-appropriated funds, third party financing, or significant amounts of private capital or investment. All business events related to the financing of MHPI must be reported in the DoD financial statements, including relevant disclosures to help the user understand the financial condition of the projects.

5.2.2. Use Account 169000.0900 (Other Investments) to record the value of non-marketable market-based investments owned by DoD. Use Account 169000.0700 (Other Investments-MHPI-Limited Partnership) to record DoD investments with Limited Partnerships (LPs), and Limited Liability Companies (LLCs) under the MHPI, authorized by 10 U.S.C. § 2875.

## \*5.3 Recognition and Measurement of Other Investments

5.3.1. In recognition of the complex and diverse nature and characteristics of the MHPI agreements and P3s, and to determine the appropriate accounting treatment for MHPIs, a comprehensive evaluation of each operating agreement and a full assessment of the relationship with each organization should be reviewed and analyzed in consultation with the Military Department's independent public accountant (IPA).

5.3.2. SFFAS 47 provides guidance for determining the considerations to properly report these complex organizational relationships as consolidation entities, or disclosure entities, and what information should be presented. When the federal government (directly or through its components) holds a majority ownership interest in an organization, it should be included as either a consolidation entity or a disclosure entity in the government-wide financial statements.

5.3.2.1. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets of an organization. If an entity is expected to assume more than 50 percent of another entity's expected losses or gains, it should either consolidate or disclose that entity- as provided in SFFAS 47.

5.3.2.2. An entity could effectively control another entity by making all of the investment decisions and obtaining a considerable portion of the economic benefits, but would not have been required to consolidate that investee if it was exposed to less than 50 percent of the investee's expected losses or gains. These such entities would generally be considered for disclosure rather than consolidation.

5.3.3. It is the Military Department's responsibility to monitor and properly report the financial condition and disclose significant risks of each of its equity investments in MHPI entities. Documentation should be furnished to the Defense Finance and Accounting Service (DFAS) based on DFAS' annual financial schedule and quarterly financial guidance for additional information including cut-off periods. Note that financial statement reporting should be based on the latest financial information for each Limited Liability Corporation (LLC) or Limited Partner (LP), which may not be consistent with the reporting periods for DoD's financial statement reporting.

5.3.3.1. Consolidation considerations and requirements are as follows:

5.3.3.1.1. Per SFFAS 47, an organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the entity is: (1) financed by taxes or other non-exchange revenue, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards to the federal government and (4) providing goods and services on a non-market basis. Goods and services are provided on a non-market basis when they are provided free of charge or at charges that bear little relationship to the cost of providing such goods or services.

5.3.3.1.2. Note, however, not all characteristics are required to be met or to be met to the same degree; classification is based on the assessment as a whole. Each entity should be assessed individually and objectively, to properly examine all of the potential differences among the entities.

5.3.3.1.3. Consolidation entities are considered federal reporting entities, and as such, should apply Generally Accepted Accounting Principles (GAAP) as defined in SFFAS 34, "The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board."

5.3.3.2. Disclosure considerations and requirements are as follows:

5.3.3.2.1. Once SFFAS 47 guidelines have been considered, disclosures for MHPI projects should be evaluated under the established principles of SFFAS 49, "Public-Private Partnerships: Disclosure Requirements," and should be provided for the initial period and all annual periods thereafter where an entity is party to a P3 arrangement/transaction. Disclosure requirements are comprised of quantitative and qualitative information to assist users in understanding the nature of P3s and direct loans and loan guarantees, to include related risks, even those deemed remote. The OMB Circular A-11, Section 185, *Federal Credit*, and OMB Circular A-136, Section II.3.8.8 (Note 8, Loans Receivable, Net and Loan Guarantee Liabilities), specify disclosure requirements for government direct loans and loan guarantees. OMB Circular A-136, Section II.3.8.33 (Note 3, Public-Private Partnerships) specifies disclosure requirements for P3s. DoD's investments in LLCs for MHPIs meet the Circular's P3 disclosure requirements.

5.3.3.2.2. The disclosures should reveal the nature of the relationship to the reporting entity, relevant activity during the reporting period, and the reporting entity's future exposures to risks and rewards resulting from the relationship. Disclosure entities may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis. Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

5.3.3.2.3. While the hierarchy of GAAP established for federal reporting entities may not necessarily apply to disclosure entities; information about such organizations is still needed for accountability purposes and to meet federal financial reporting objectives. The information should be disclosed as specified in SFFAS 49, paragraph 24:

5.3.3.2.4. The DoD, and the Military Departments must continue to disclose their respective relationships with the P3 private entities, disclose the risks inherent in the P3 arrangements, and the DoD will recognize any gains or losses associated with TI-97 contributions to the private entity.

5.3.3.3. The Military Departments and DFAS must use established accounting transaction codes in the DoD Transaction Library to record the primary accounting entries to recognize P3 contributions and any collections received upon dissolution of an arrangement that are not available for use without further Congressional action. See Tables 7-3 through 7-8. Additionally, the Military Department must obtain the agreements and supporting documentation for its equity investments in LPs/LLCs managing MHPI to support the following business events:

5.3.3.3.1. LP/LLC Operating Agreement: governing document that contains the agreements set forth by the parties including the contributed cash and/or property balances, and percent government ownership in the LP/LLC.

5.3.3.3.2. Lockbox Agreement: addresses the flow of funds and order of priority for the project. The agreement is unique to each MHPI project.

5.3.3.3.3. Revenue Agreement: containing the priority for the flow of funds from the Revenue Account, and supporting documentation for understanding the flow of funds from the Revenue Account to the Construction Escrow Account prior to the completion of the Initial Development Period (IDP) and the percentage distribution to the Reinvestment Account and Owner after completion of the IDP.

5.3.3.3.4. Dissolution of the investment at a gain or loss, property conveys back to DoD. The dissolution agreement and supporting information is to allow DFAS to account for the government's gain or loss upon termination of the LP/LLC agreement. The conveyed property must be valued at its FMV, or other GAAP compliant valuation methodology, at that point of dissolution.

5.3.3.3.5. Sale of government share of the LP/LLC, and

5.3.3.3.6. Any other accounting transactions related to financial activities to DoD equity investments of this nature. The Military Departments must provide DFAS any other transaction with a financial impact that is not listed in Tables 7-3 through 7-8, and footnote disclosures required, such as the equity method income or loss and description of events of termination or default, and the associated documentation supporting the Military Department's determination for the disclosure.

5.3.3.4. In addition to the transfer of property and cash, a ground lease may be provided to permit access to, and use of the transferred property and/or cash, to develop property consistent with the goals of the LP/LLC. Amounts received in exchange for the ground leases are revenue and the guidance for recording the revenue can be found in Chapter 16: [Revenue, Other Financing Sources, Gains, and Losses](#). No other accounting entries are appropriate.

5.3.3.4.1. Ground leases executed in conjunction with creation of an LP/LLC do not constitute separately identifiable arrangements despite being executed through a separate agreement. Such separate agreements generally acknowledge that, in addition to a nominal rent (such as \$1 for the duration of the ground lease), the LP/LLC's commitment to construct and lease military housing is a material inducement to the Military Department to enter into the ground lease. Further, success of the overall investment is dependent upon the ground lease, meaning the ground lease and the transfer of property to the LP/LLC are highly interdependent. Because the ground lease and the transferred property are highly interdependent and not distinct goods and services, the ground lease should be considered part of the initial investment made when property is transferred. [FASB ASC 606-10-25-19 through 22](#), "Revenue from Contracts with Customers," provides guidance for identifying distinct goods and services. The transfer of property and the ground lease are not distinct, separately identifiable arrangements.

5.3.3.4.2. Estimation of the FMV of the property should take into consideration relevant characteristics of the property including the related ground lease granting access to and use of the property. Therefore, no separate entries are required to recognize the ground lease. Instead, the FMV of the ground lease is integral to the FMV of the property.

5.3.3.5. See Volume 12, Chapter 4, "[Direct Loans and Loan Guarantees](#)," for additional guidance on the recognition and measurement of direct loans, the liability associated with loan guarantees, and the cost of direct loans and loan guarantees.

Table 7-3. Initial Investment Cash Only

<b>SCENARIO 1 YEAR 1 Initial Formation of LP/LLC P3 Investment (Cash Only)</b>	
1.	Budgetary
	Dr. 461000 - Allotments - Realized Resources
	Cr. 480100 - Undelivered Orders - Obligations, Unpaid
	Dr. 480100 - Undelivered Orders - Obligations, Unpaid
	Cr. 490200 - Delivered Orders - Obligations, Paid
2.	Proprietary
	Dr. 169000 - Public-Private Partnership Investments
	Cr. 101000 Fund Balance with Treasury (FBwT)
	Dr. 310700 Unexpended Appropriations - Used
	Cr. 570000 Expended Appropriations
	(DoD invests cash in LP/LLC)

Table 7-4. Initial Investment Cash and Property

**SCENARIO 2 - YEAR 1 Initial Formation of LP/LLC P3 Investment (Cash and Property)**

In accordance with GAAP, a fair market value (FMV) of the non-cash assets, and the rights and obligations received by the Government, should be assigned at the inception of the LLC agreement, and for the purposes of P3 investment reporting, the FMV should be compared to the cash and book value of the property being conveyed to record a gain or loss on disposition of the asset. If information on the FMV of the property at point of contribution by the government to the LLC is not available, then value will need to be estimated.

## 1. Budgetary

Dr. 461000 - Allotments - Realized Resources

Cr. 480100 - Undelivered Orders - Obligations, Unpaid

Dr. 480100 - Undelivered Orders - Obligations, Unpaid

Cr. 490200 - Delivered Orders - Obligations, Paid

## 2. Proprietary

Dr. 169000 - Public-Private Partnership Investments

Cr. 101000 - FBwT

Dr. 310700 - Unexpended Appropriations - Used

Cr. 570000 - Expended Appropriations

(DoD invests cash as part of equity investment in LP/LLC)

AND

## 3. Budgetary

No Budgetary Impact

## 4. Proprietary

Dr. 171900 - Accumulated Depreciation on Improvements to Land

Dr. 173900 - Accumulated Depreciation on Buildings, Improvements and Renovations

Dr. 169000 - Public-Private Partnership Investments

Dr. 721000 Losses on Disposition of Assets - Other

Cr. 171100 - Land and Land Rights

Cr. 171200 - Improvements to Land

Cr. 173000 - Buildings, Improvements and Renovations

Cr. 711000 - Gains on Disposition of Assets - Other

(DoD also conveys Buildings and leases Land to LP/LLC)

Table 7-5. Recognition of Periodic/Annual Decrease/Loss

<b>SCENARIO 3 - YEAR XX</b> Recognition of Periodic/Annual Decrease/Loss on P3 Investment Valuation DoD recognizes the amount of equity method earnings - based on the change in the investor claim on the investee's book value each reporting period	
Equity Method Loss	
1.	Budgetary No Budgetary Impact
2.	Proprietary  Dr. 729000 - Other Losses Cr. 169000 - Public-Private Partnership Investments
(To recognize equity method loss based on the change in the investor's claim on the investee's book value each reporting period).	

Table 7-6. Recognition of Periodic/Annual Increase/Gain

<b>SCENARIO 4 - YEAR XX</b> Recognition of Periodic/Annual Increase/Gain on P3 Investment Valuation DoD recognizes the amount of equity method earnings - based on the change in the investor claim on the investee's book value each reporting period	
Equity Method Gain	
1.	Budgetary No Budgetary Impact
2.	Proprietary  Dr. 169000 - Public-Private Partnership Investments Cr. 719000 - Other Gains
(To recognize equity method gain based on the change in the investor's claim on the investee's book value each reporting period).	

Table 7-7. Recognition of a Net Loss Upon Dissolution of DoD's Interest in the LLC

**SCENARIO 5 - YEAR XX** DoD dissolves all of its interest in the LLC. Any property interest acquired or reacquired in the dissolution of the LLC must be recorded at their FMV, not the LLC book value.

1. Budgetary

Dr. 426600 - Other Actual Business-Type Collections From Non-Federal Sources  
445000 - Unapportioned Authority

2. Proprietary

Dr. 101000 - FBwT  
Dr. 171100 - Land and Land Rights  
Dr. 171200 - Improvements to Land  
Dr. 173000 - Buildings, Improvements and Renovations  
Dr. 721100 - Losses on Disposition of Investments  
Cr. 169000 - Public-Private Partnership Investments

Table 7-8. Recognition of a Net Gain Upon Dissolution of DoD's Interest in the LLC

**SCENARIO 6 - YEAR XX** DoD dissolves all of its interest in the LLC. Any property interest acquired or reacquired in the dissolution of the LLC must be recorded at their FMV, not the LLC book value.

1. Budgetary

Dr. 426600 - Other Actual Business-Type Collections From Non-Federal Sources  
445000 - Unapportioned Authority

2. Proprietary

Dr. 101000 - FBwT  
Dr. 171100 - Land and Land Rights  
Dr. 171200 - Improvements to Land  
Dr. 173000 - Buildings, Improvements and Renovations  
Cr. 711100 - Gains on Disposition of Investments  
Cr. 169000 - Public-Private Partnership Investments

**6.0 OTHER ASSETS**

Use “Other Assets” to record the value of assets not otherwise classifiable to a specific asset account. Establish applicable subsidiary accounts as necessary to meet management and reporting needs. Source documents for entries to this account include receiving reports and journal vouchers.

**VOLUME 4, CHAPTER 8: “LIABILITIES”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [February 2020](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
1.1	Added the definition of “liability” and directed the reader to the recognition criteria section.	Addition
1.3.4	Directed readers to the Standard Financial Information Structure (SFIS) webpage for U.S. Standard General Ledger (USSGL) accounts and transaction illustrations.	Addition
2.1.3	Restructured subparagraph to provide other considerations for recognition criteria.	Revision
3.6	Updated the example for “Government-Acknowledged Events” to better align with Statement of Federal Financial Accounting Standard (SFFAS) 5.	Revision
3.10	Clarified the definition of “Liabilities Not Covered By Budgetary Resources.”	Revision
Figure 8-1	Updated the Figure 8-1 title to better align with SFFAS 5.	Revision

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## CHAPTER 8

**FINANCIAL CONTROL OF LIABILITIES**

## 1.0 GENERAL

## \*1.1 Overview

A liability is defined as a probable future outflow or other sacrifice of resources as a result of past transactions or events. For instance, a liability is an amount the Department of Defense (DoD) owes to another federal or nonfederal entity for items or services that DoD received and expenses incurred (including personnel related costs). Liabilities can also result from assets to which title has been acquired (whether delivered or in transit), ongoing shipbuilding based on incurred costs, and cash received but not yet earned. Liabilities can also result from amounts owed under grants, military and civilian pensions, certain retirement and post-employment benefits, awards, and other indebtedness. Criteria for recognizing these liabilities (e.g., transaction based events or other than transaction based events) are outlined in paragraph 2.1 and depicted in Figure 8-1.

## 1.2 Purpose

This chapter promulgates the general accounting policy and definitions to be followed in accounting for DoD liabilities covered in Volume 4. This guidance does not apply to liabilities accounted for by Nonappropriated Fund activities, which is located in Volume 13, Chapter 3.

## 1.3 Authoritative Guidance

The financial management policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.3.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards [\(SFFAS\) 1](#), “Accounting for Selected Assets and Liabilities”;

1.3.2. FASAB [SFFAS 5](#), “Accounting for Liabilities of the Federal Government”;

1.3.3. Office of Management and Budget [\(OMB\) Circular A-136](#), “Financial Reporting Requirements.”; and

\*1.3.4. The required DoD U.S. Standard General Ledger (USSGL) proprietary and budgetary accounting entries and transaction illustrations are provided in the Transaction Library and Standard Reporting Chart of Accounts which is available on the Office of the Deputy Chief Financial Officer [Standard Financial Information Structure \(SFIS\)](#) web page.

## 2.0 ACCOUNTING POLICY FOR LIABILITIES

### 2.1 Recognition Criteria

Pursuant to SFFAS 5, criteria for recognizing a liability, depicted in Figure 8-1, starts by identifying **if** the event creating the liability **is** transaction based or other than transaction based.

2.1.1. Transaction Based Events. **Transaction based events comprise both** exchange and nonexchange **transactions.** Transaction based events are recognized in accordance with the following criteria:

2.1.1.1. A liability for an exchange transaction is recognized (recorded and reported) when the DoD receives goods and services in exchange for a promise to provide money or other resources in the future. Probable and measurable amounts that remain unpaid as of the financial statement report date should be recognized as liabilities.

2.1.1.2. A liability for a nonexchange transaction is recognized for any probable and measurable unpaid amounts as of the financial statement report date.

2.1.1.3. The entity must estimate the liability for the financial statement reporting date if the actual amount is unknown.

2.1.2. Other Than Transaction Based Events. **Other than transaction based events comprise both** government-related events and government-acknowledged events. These events are recognized in accordance with the following criteria:

2.1.2.1. A liability for a government-related event is recognized at the time of occurrence, if the expected resource outflow is both probable and measurable, or soon thereafter as it becomes probable and measurable.

2.1.2.2. **A liability for** government-acknowledged events is recognized **only when** Congress appropriates or authorizes the funds **for the event and** an exchange or nonexchange transaction related to the event **is entering into.** The liability is then recognized by following the criteria in subparagraph 2.1.1 for exchange and nonexchange transactions.

\*2.1.3. Other Considerations

2.1.3.1. With the exception of government-acknowledged events, the recognition of a liability is not dependent on the availability of funds. **Liabilities must be recognized when they are incurred regardless of whether they are covered by available budgetary resources, including liabilities related to canceled appropriations.** However, the status of funding does dictate the category of the recognized liabilities used for disclosure and reconciliation purposes as outlined in paragraph 2.2.

2.1.3.2. Accounting and reporting provisions need not be applied to immaterial liabilities. However, all assertions of immateriality must be supportable, and the materiality

determination must be fully documented. Both qualitative and quantitative factors need to be considered in determining materiality.

2.1.3.3. Contingent liabilities are recorded and reported as a liability or disclosed as a contingency in a footnote to the financial statements, depending on the probability of occurrence and the ability to estimate the expected outflow of resources. Contingent liabilities should be recorded in DoD financial systems and reported in financial statements in accordance with Chapter 12.

## 2.2 Reporting and Disclosures

2.2.1. Pursuant to SFFAS 1, Intragovernmental liabilities must be reported separately from nonfederal entities, which include Government sponsored enterprises and the Federal Reserve. See Volume 6B, Chapter 4 for further discussion on reporting.

2.2.2. In accordance with OMB Circular A-136, liabilities are classified as liabilities covered by budgetary resources, liabilities not covered by budgetary resources, and liabilities not requiring budgetary resources. Disclosures must be made for liabilities that are not covered by budgetary resources. See Volume 6B, Chapter 10 for further discussion on disclosures.

## 3.0 DEFINITIONS

### 3.1 Contingency

Pursuant to SFFAS 5, a contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

### 3.2 [Liabilities Covered by Budgetary Resources](#)

Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet date. Liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB with further action by Congress, and without a contingency having to be met first.

### 3.3 Current Liability

A current liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources within one year of the reporting date.

### 3.4 Exchange Transactions

An exchange transaction arises when each party involved in the transaction sacrifices value and receives value in return. In an exchange transaction, a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future.

### 3.5 Funded Liabilities

Funded liabilities are comprised of all liabilities for which budget authority has been received and obligated.

### \*3.6 Government-Acknowledged Events

A government-acknowledged event is a type of an other than transaction based event that is of financial consequence to the Federal Government because the Federal Government has chosen formally to accept the associated financial responsibility. An example would be the assumption of responsibility for damage caused by a natural disaster (such as tornado damage for which Congress appropriates funds).

### 3.7 Governmental Liability

A governmental liability is an amount owed by a federal entity to a nonfederal entity. These liabilities are also called nonfederal or public liabilities.

### 3.8 Government-Related Events

A government-related event is a type of an other than transaction based event that involves interaction between the Federal Government and its environment. An example is an expense to be paid as the result of current government operations, such as the estimated cost of repairing accidental damages to private property. Government-related events resulting in a liability should be recognized in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable.

### 3.9 Intragovernmental Liability

An intragovernmental liability is an amount owed by a federal entity to another federal entity. Intragovernmental liabilities include accounts and interest payable to federal entities and other current liabilities due to federal entities, such as receipt of federal advances and prepayments.

### \*3.10 Liabilities Not Covered By Budgetary Resources

Liabilities not covered by budgetary resources are those liabilities for which budget authority has not been received, i.e., funds necessary to satisfy the liabilities have not been made available through congressional action.

### 3.11 Liability

A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities must be recognized when they are incurred regardless of whether they are covered by available budgetary resources, including liabilities related to canceled appropriations.

### 3.12 Materiality

Materiality is the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.

### 3.13 Measurable

A liability is measurable if it has a relevant attribute that can be quantified in monetary units with sufficient reliability to be reasonably estimable.

### 3.14 Noncurrent Liability

A noncurrent liability is an amount owed by an entity for which the financial statements are prepared, and for which the entity expects to outlay the resources beyond one year of the reporting date.

### 3.15 Nonexchange Transactions

A nonexchange transaction is one in which the DoD promises to provide money or other resources in the future without a promise of receiving direct value in return. An example would be grant payments to state and local governments to carry out a public purpose, when authorized by a law of the United States.

### 3.16 Probable

Probable refers to that which can reasonably be expected or is believed to be more likely than not to occur on the basis of available evidence or logic. In the context of assessing the outcome of matters of pending or threatened litigation and unasserted claims, and recognizing an associated liability, "probable" refers to that which is likely.

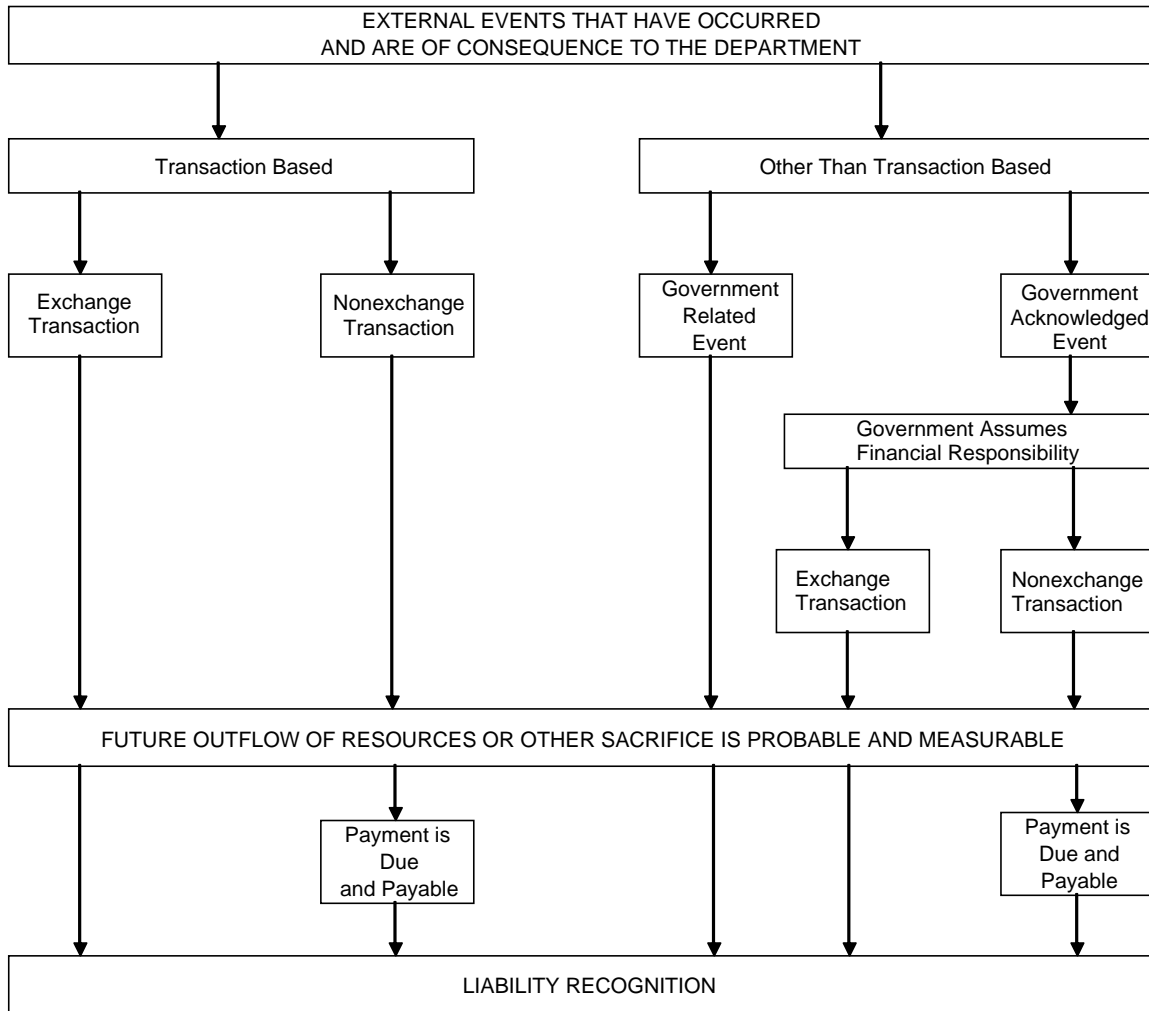
### 3.17 Transaction and Event

A transaction is an event involving the transfer of something of value. An event is a happening that has financial consequences to an entity. An event may be an internal event that occurs within an entity, such as placing an item in service, or an external event that involves interaction between an entity and its environment, such as an act of nature, a theft, vandalism, an injury caused by negligence, or an accident.

3.18 Transaction Recording

The accounting events discussed must be recorded in accordance with the DoD USSGL Transaction Library and reported in accordance with the regulations promulgated by the Department of the Treasury and the Office of Management and Budget.

\*Figure 8-1. LIABILITY RECOGNITION SUMMARY



**VOLUME 4, CHAPTER 9: “ACCOUNTS PAYABLE”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [June 2020](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Completed administrative updates in accordance with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.1	Removed reference to Volume 11B, Chapter 9. Added reference to Volume 4, Chapter 10.	Deletion/ Addition
2.0	Updated accounting policy to include the Standard Financial Information Structure reference and DoD Component responsibilities. Replaced Treasury Financial Manual, Chapter 4700, Section 9.1.3 with Section 4750 reference. Added clarifying language on accounts payable Recognition.	Revision/ Addition

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## CHAPTER 9

ACCOUNTS PAYABLE

## 1.0 GENERAL

## \*1.1 Purpose

1.1.1. This chapter provides the [Department of Defense \(DoD\)](#) financial management policy for recording [accounts payable](#) for both intragovernmental and non-federal accounts payable.

1.1.2. The accounts payable policy in this chapter does not address liabilities related to ongoing continuous expenses such as employees' salaries and benefits and contract holdbacks to be paid after one year of the balance sheet date, both of which are reported as other current liabilities and covered in [Chapters 10 and 12, respectively](#).

## 1.2 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.2.1. Title 31, United States Code, Chapter 39 ([31 U.S.C. Chapter 39](#)), "Prompt Payment;"

1.2.2. [41 U.S.C. § 7103](#), "Decision by contracting officer;"

1.2.3. Title 5, Code of Federal Regulations, Section 1315.9 ([5 CFR § 1315.9](#)), "Required documentation;"

1.2.4. [48 CFR § 46.501](#), "General;"

1.2.5. [48 CFR § 52.247.29](#), "F.o.b. Origin;"

1.2.6. [48 CFR § 52.247.34](#), "F.o.b. Destination;"

1.2.7. [Office of Management and Budget \(OMB\) Circular A-123, Appendix C](#), "Requirements for Payment Integrity Improvements;"

1.2.8. OMB Circular A-136, "Financial Reporting Requirements;"

1.2.9. FASAB [SFFAS 1](#), "Accounting for Selected Assets and Liabilities;"

1.2.9. Treasury Financial Manual ([TFM Chapter 4700](#)), "Federal Entity Reporting Requirements for the Financial Report of the United States Government"; and

1.2.10. TFM United States Standard General Ledger ([USSGL](#)).

## \*2.0 ACCOUNTING POLICY

### 2.1 Accounts Payable

Accounts payable are liabilities the DoD **owes** for goods and services received from, progress in contract performance made by, and rents due to other entities. **Refer to the DoD Standard General Ledger (USSGL) Chart of Accounts and Transaction Library for the most current general ledger account numbers, definitions, and required journal entries. DoD USSGL Transaction Library and Standard Reporting Chart of Accounts are available on the Standard Financial Information Structure ([SFIS](#)) web page. SFIS provides the current USSGL accounts to be used, defines these accounts, and illustrates the required proprietary and/or related budgetary accounting entries.**

### 2.2 Accounts Payable Recognition – General

2.2.1. DoD Components **must recognize a liability for the unpaid amount of the goods when accepting title to goods, whether the goods are delivered or in transit. If invoices for those goods are not available when financial statements are prepared, estimate the amounts owed.**

2.2.2. When a contractor provides a DoD Component with goods that are also suitable for sale to others, the accounts payable generally arises when the contractor physically delivers the goods, and the Component receives them and takes formal title.

2.2.3. When a contractor builds or manufactures facilities or equipment to a DoD Component's specifications, **the Component does not recognize the goods upon formal acceptance. DoD Components must record payable amounts based on an estimate of work completed under the contract or the agreement. The Component's engineering and management evaluates actual performance progress and incurred costs.**

2.2.4. **Recorded accounts payable amounts must be supported with appropriate documentation. Documentation includes:**

2.2.4.1. **Obligation documentation,**

2.2.4.2. Agreement or transaction with another entity (e.g., a contract, DD Form 448, Military Interdepartmental Purchase Request ([MIPR](#)), project order, Reimbursable Work Order ([RWO](#)), or Intra-agency Agreement, General Terms and Condition Section [Form 7600A](#) and the Order Requirements and Funding Information Section [Form 7600B](#)).

2.2.4.3. Documentation establishing the amount recognized as payable (e.g., acceptance certificate on an inspection or receiving report form or commercial shipping document/packing list).

2.2.5. **Accurately record all accounts payable liabilities.**

2.2.6. Obtain and maintain documentation evidencing amounts payable for the DoD Component buyer of goods or services.

2.2.7. Document audit evidence of “receipt” including the item(s) or service(s) and related applicable quantities received, the date the item(s) or the service(s) were received, and contain the authorizing official’s name and signature or electronic equivalent. DoD Components must ensure the audit evidence includes the calculations determining the amount accrued, or the basis used to estimate the amount. The documentation may include monetary amounts shown on or calculated from a purchase order or contract, historical data, or documented using a contracting officer or technical representative-provided value. If audit evidence includes Personally Identifiable Information or sensitive commercial or proprietary information (such as internal labor rates provided to support certain incurred cost vouchers), such information may be redacted or described in aggregate.

2.2.8. Develop, implement, and validate internal controls are in place and effectively operating for all intragovernmental and interfund transactions and for transactions with the public. Receipt and acceptance must be accomplished and documented by authorized personnel. Make documentation available within the timeframe prescribed by the auditor when requested during audits.

2.2.9. 48 CFR §§ 52.247.29 – 52.247.49 determines the recording timing of an accounts payable liability for goods. The DoD Component must estimate the accounts payable as identified in paragraph 2.3, when amounts are not available at the end of an accounting quarter.

2.2.10. Apply the discount if economically justified when recognizing the accounts payable, whether stipulated in the contract or offered on an invoice. Refer to Volume 10, Chapter 2 for further discussion on discount offers and calculations.

### 2.3 Accounts Payable Recognition – Estimating the Accrual

2.3.1. Estimate and record an accrual under a condition identified in subparagraphs 2.3.1.1 – 2.3.1.3, when definitive amounts or invoices are not available, but the requirements for recording an accounts payable liability as stated in paragraph 2.2 exist. The DoD Component must reverse the estimate, and record a more definitive amount, when more complete data becomes available (e.g., upon receipt of an invoice or billing).

2.3.1.1. Services are performed but the corresponding invoices are not received at period end (e.g., professional service contract).

2.3.1.2. Equipment and facilities are being manufactured or built based on the Government’s specifications, but the corresponding invoices are not received at period end (e.g., aircraft, or building).

2.3.1.3. The Government receives and accepts goods, but the corresponding invoices are not received at period end (e.g., computers delivered and accepted by the Government, but invoices are not yet received).

2.3.2. DoD Components must have effective controls in place to ensure that a payable is not duplicated when an invoice is subsequently received for the same procured goods or services.

2.3.3. **Show the calculations and data used to compute the amounts in the** supporting documents (or mechanized program(s) used for the accrual estimates). This documentation must also identify who prepared the estimate, the date prepared, and who received and reviewed/approved the estimate. **Ensure that** the documentation is of sufficient quality to allow an external auditor, to understand and verify the basis, value, and rationale for the recorded amount.

2.3.4. **Validate** methods for calculating the accrual estimate periodically for reasonableness by comparing the estimate to actual data once available. At a minimum, **review** the estimating methodology at fiscal year-end. **Review** the estimating methodology if there is a material change to the business process causing material differences between the method's estimate and actual amounts or if the initial assumptions materially change and the initial accrual estimate is materially affected. **Document** performance **and approval** of these reviews. **Maintain** this documentation for auditors to validate that the review was performed and approved by management.

## 2.4 Accounts Payable Recognition – Quarterly Accruals

2.4.1. To assist in developing more accurate financial statements, at least quarterly, DoD Components must **accrue** all procurements in which DoD has received a measurable benefit from, or ownership title to, but have not been documented due to the lack of a receiving report or invoice. Components may need to **ask the** cognizant contracting officers or the contracting officer's technical representatives to identify **the** material dollar value of undelivered orders not yet invoiced or captured in receiving reports to establish these quarterly accruals. **If** the Component cannot obtain all necessary information from the contracting representatives within the 21 days allowed for the preparation of quarterly financial statements, the **DoD Component must use the** best available information **to** estimate the accrual. **Make** adjusting entries in subsequent periods, as information becomes available from contracting representatives.

2.4.2. DoD Components must also accrue temporary duty (TDY) travel taken, not yet disbursed, or otherwise accounted for as an accounts payable liability at least quarterly. Additionally, Components **must** record an accounts payable liability for TDY travel that crosses two or more accounting quarters on an estimated/proportional basis, if significant. **Record** the accrued liability in the applicable accounting period, supported with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the **liability** amount. This supporting documentation must also **provide** evidence **of** who prepared and who received the estimate and the dates these activities were completed. **If mechanized programs post** accruals, **the** documentation of who prepared, received, and reviewed the estimate and **the date the estimate was prepared** may not be available. In this case, all available information captured by the mechanized program **must** be captured in the accrual.

2.4.3. DoD Components must accrue Permanent Change of Station (PCS) travel taken, not yet disbursed, or otherwise accounted for as a liability, as an accounts payable liability at least quarterly. Additionally, Components **must** record an accounts payable liability for PCS travel that

crosses two or more accounting quarters on an estimated/proportional basis, if significant. **Accrue the liability** in the applicable accounting period. **Support the liability** with appropriate documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount. This supporting documentation must also provide evidence of who prepared and who received the estimate and the dates these activities were completed. If **mechanized programs record** accruals, **the** documentation of who prepared, received, and reviewed the estimate and **the date the estimate was prepared** may not be available. In this case, all available information captured by the mechanized program **must** be captured in the accrual.

2.4.4. When estimating these accruals, DoD Components must follow the policy stated in paragraph 2.3.

2.4.5. Fixed-priced construction contracts containing **progress** payment provisions based upon the percentage or stage of completion require special consideration when recording the accounts payable liability. When accounts payable liability is expected to be paid within the year:

2.4.5.1. Components must record the payable in an amount that reflects the unpaid portion of the contractor's progress payment request for which **the contracting officer concurred or approved** the estimate of actual progress. The accounts payable **accrual** must include any amounts being withheld from the contractor pending acceptance and completion, or for other contract administration reasons, as per the terms of the contract. The supporting documentation **must** include engineering estimates and management evaluation of actual performance progress to validate the percentage of completion used. The contracting officer or their designee must maintain the supporting documentation and be prepared to provide it to the Defense Finance and Accounting Service or auditors to support the accounts payable amount.

2.4.5.2. The accounts payable for this type of contract is recognized because formal acceptance of the final product by the DoD Component is not the determining factor for accounting recognition. The DoD Component acquires an asset during each accounting period based on constructive or de facto receipt and thus must recognize/record an accounts payable during each accounting period to reflect the accumulation of that asset.

## 2.5 Accounts Payable Recognition – Availability of Funds

DoD Components must not delay recognizing an accounts payable liability pending the availability of funds. The accounts payable not covered by budgetary resources must be disclosed in **the financial statement notes** (refer to Volume 6B, Chapters 4 and 10). A potential violation of the Antideficiency Act (ADA) may exist if the payable amount exceeds the total availability of funds. Refer to Volume 14 for the financial management policy regarding an ADA violation.

## 2.6 Intragovernmental Purchases

2.6.1. Procuring a good or service from another DoD Component or Federal entity is an intragovernmental purchase under the TFM Chapter 4700. Payables due to DoD Components or other Federal entities are intragovernmental payables and must be reported separately from payables due to public entities. Note that OMB Circular A-11 uses the term “intergovernmental” for transactions between or among accounts of Federal entities and that transactions with non-appropriated fund instrumentalities are reported as transactions with the public. The United States Department of the Treasury (Treasury) considers both interdepartmental and intradepartmental transactions to be subsets of intragovernmental transactions. Identify the separation of intragovernmental and public transactions at the transaction level in accordance with Treasury regulations to allow for the proper summarization at the various reporting levels within the DoD, and ultimately the Federal Government as a whole. Identification at the transaction level supports auditability down to the transaction level where the supporting documentation normally exists. It also provides the capability to perform intragovernmental elimination entries at various organizational reporting levels, assuming the correct trading partner codes were utilized.

2.6.2. DoD Components must record accounts payable liability for intragovernmental purchases in the appropriate accounting period to recognize the receipt of goods or services ordered regardless of the document used in placing the order (e.g., Forms 7600A and 7600B, MIPR, project order, or RWO). Components must ensure the liability is recorded during the accounting period that the benefit was received and not delayed pending receipt of a corresponding interagency billing or subsequent payment thereof. Documentation supporting the amount recorded must clearly show the basis (description of the good, quantity, and amount; for services, description of the service, labor hours, and amount) for the payable amount recorded (e.g., MIPR, project order, RWO, reciprocal agreement) and proof of receipt. The documentation must also be of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for recorded amounts.

\* 2.6.2.1. In accordance with the TFM Chapter 4700, Section 4750, trading partner records must resolve balance differences by year-end. The Intra-governmental Transaction (IGT) Guide (Appendix 5) contains the business rules and processes to properly record, report, and reconcile intra-governmental transactions, including the processes for dispute resolution.

2.6.2.2. The DoD Component (buyer) must identify and record all accounts payable accruals. The buyer is ultimately responsible for their financial statements and thus must engage with the seller to identify the appropriate amount to accrue.

2.6.3. DoD Components must ensure an accounts payable liability is also recorded when the goods are received, or the buying DoD Component has gained title to an asset. Component buyers must work with the intragovernmental seller to ensure this business event is identified and the corresponding accounts payable liability is recorded.

## 2.7 Late Payment Interest

DoD Components must record in accounts payable an amount for prompt payment interest and other penalties incurred on late payments as required under terms of the non-federal contract. Refer to Volume 10, Chapter 7 for the policy on late payment interest and penalties. Components must also consider and record a quarterly accrual estimate for late payment interest and/or penalties to reflect any expected large dollar value late payments that result in a significant interest and/or penalty liability in the reporting period. Defining what amounts are “significant” for these purposes is left to the discretion of the Component.

## 2.8 Refunds Due

DoD Components must record an accounts payable liability to reflect the refunds due but not paid at the end of the reporting period, when applicable. **Record** either the exact amount of the refund when known, positively established, and clearly documented, or estimated under the provisions in paragraph 2.3. See Chapter 5 for additional guidance on refunds due.

## 2.9 Monetary Credits

2.9.1. **Specific statutes authorize** DoD entities to issue monetary credits as compensation for property or services received from non-federal entities. If the DoD entity exercises this authority, it must also record an accounts payable liability during the period the benefit from the property or services is received. These monetary credits give the seller the agreed-upon value of the acquired property or received service. The **credit** holder may apply them later to reduce an amount owed (by the holder) in other, sometimes unrelated, transactions with the government. When monetary credits are used for exchange transactions, the DoD entity must record an accounts payable liability equal to the value of the monetary credit.

2.9.2. DoD Components must ensure the documentation supporting the accounts payable entry specifically identifies the property or services received, the date received, the name and signature of the DoD receiving official, and include the bilateral agreement between the non-federal entity and designated DoD representative establishing the agreed-upon value. Components must also ensure the documentation is of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for the recorded amount.

## 2.10 Closed Appropriations

When an appropriation account is closed, any remaining balance in the account must be canceled and unavailable for obligation or expenditure for any purpose. However, legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be reinstated to canceled payables and paid out of a current unexpired appropriation that is available for obligation for the same purpose as the closed account. Refer to Volume 3, Chapter 10 for more specific requirements for expired and closed accounts and Volume 3, Chapter 11 for more specific **policies** addressing payables involving closed appropriations.

## 2.11 Liquidating Accounts Payable

Accounts payable recorded **when a particular good or service is received** must be liquidated when the liability created by the payable is settled. Generally, this occurs after a three-way match of a contract, receiving report, and proper invoice is performed, and **the Component** disburses to satisfy the billed amount. In other than the three-way match scenario, the accounts payable liability **is** liquidated when all required prepayment approvals have occurred, and other payment controls satisfied result in generating a payment or recognizing an exchange-in-kind transaction business event.

## 2.12 Reviewing Accounts Payable Balances

2.12.1. The accounting office must review and reconcile all accounts payable balances to the transaction detail level in supporting accounting systems each quarter. As part of the accounts payable quarterly reviews, **reconcile** the budgetary accounts associated with the accounts payable balances (e.g., delivered order unpaid, obligations unpaid) to proprietary accounts payable balances. **Research** any differences, fully document the rationale for necessary adjustments, and obtain approval from the DoD Component's Comptroller or their designated representative before making the adjustments. **Retain** all adjustments made and associated documentation to support future financial statement-related audits.

2.12.2. The accounts payable recorded for acceptable final performance on a contract or order must remain on the account until liquidated through proper payment, or until receipt of contractual or legal documents that remove the remaining liability. DoD Components must assign financial management personnel to work through the cognizant contracting officer to request an invoice from the contractor for any accounts payable amount remaining unliquidated due to non-receipt of an invoice or billing within 180 days from the date of acceptable final contract performance. Component personnel must continue to pursue receipt of overdue invoices through the contract administration and fund holders to avoid canceled appropriations and to improve accounts payable reporting. Refer to Volume 3, Chapter 8 for **a** policy associated with dormant commitments and unliquidated obligations eligible for closeout on physically complete contracts.

2.12.2.1. Continued non-receipt of an invoice on firm-fixed-price contracts may extinguish the contractor's right to payment and relieve DoD's obligation to pay for the un-invoiced goods or services.

2.12.2.2. When a contractor has failed to invoice for the received and accepted goods or services after more than six years since the date of DoD acceptance, **coordinate** with the contracting activity and/or legal counsel, and if applicable, the Defense Contract Audit Agency and the Defense Contract Management Agency to consider **accounts payable** for write-off. **Write-off** documentation must clearly represent that the over-aged accounts payable **is** no longer a **DoD** legal liability. **Consider** whether the Government has acted to toll or suspend the Contract Disputes Act's six-year limitation period on assertion of claims codified at 41 U.S.C. § 7103. **Include** the contracting officer's determination that the legal liability to pay on the contract no longer exists. DoD Components must ensure the accounts payable amounts written off contain sufficient

documentation to allow an independent third party, such as an external auditor, to verify the basis, value, and rationale for the write-off.

2.12.3. The accounting office must investigate accounts payable debit balances over \$100. These debit (abnormal) balances may result from any number of circumstances (e.g., duplicate payments and unrecorded accounts payable). Correct after thorough research of the underlying documentation associated with the business events and transactions impacting the payable accounts.

2.12.3.1. DoD Components must fully document subsequent adjustments to correct the abnormal balance. Include a description of the circumstances that caused the initial abnormal balance and support the valuation of the revised amount in the documentation. Include the names and signatures (or electronic equivalent) of the management official(s) approving the adjustment and identify the correcting steps being taken to prevent reoccurrence. This documentation must be available for review by the independent auditors if necessary. Identify and report to management any recommendations for changes to internal controls or business processes to preclude incurring abnormal accounts payable balances in the future.

2.12.3.2. If the investigation of a debit balance discloses an overpayment or undercouped funds related to a contract or vendor payment, the accounting office must coordinate with the responsible entitlement and disbursing offices to pursue collection or recoupment in accordance with the policies in Chapter 14 and Volume 10, Chapter 22.

2.12.4. If the accounting office cannot match a performance report or invoice with a corresponding obligation, a breakdown of fund control processes and a material weakness in internal controls may exist. If posting a transaction to accounts payable does not disclose a corresponding obligation, this may be evidence that either a contract has not been awarded or a posting error has occurred. The accounting office must request the necessary documentation to support the required accounting entry and notify appropriate officials that reports or invoices are being received without a corresponding recorded obligation. Refer to Volume 3, Chapter 11 for the policy on recording an obligation for an unresolved negative unliquidated obligation.

2.12.5. Disbursements in transit are disbursements that have been reported by a disbursing office, through a paying center, to the Treasury and charged against the Department's fund balances but have not yet been received or processed by the applicable accounting office for recordation against the applicable corresponding obligation. These transactions are defined as, and based on the USSGL Crosswalk, map to the accounts payable line of the balance sheet. Refer to Volume 3, Chapter 11 for disbursements in-transit policy.

## 2.13 Accounts Payable Document Retention

All documentation in support of accounts payable entries and adjustments must be readily available for review by auditors, management, and other DoD Component financial management personnel. The documentation retention policy is contained in Volume 1, Chapter 9.

**VOLUME 4, CHAPTER 10: “PERSONNEL RELATED LIABILITIES”****SUMMARY OF MAJOR CHANGES**

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

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

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The previous version dated [February 2016](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Administrative updates were completed in accordance with the Department of Defense Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.2	Added Authoritative Guidance section for policies and procedures.	Addition
2.1.4	Added a reference for disclosures.	Addition
2.1.5	Added information on imputed costs.	Addition

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## CHAPTER 10

**PERSONNEL RELATED LIABILITIES**

## 1.0 GENERAL

## 1.1 Purpose

This chapter prescribes the accounting policy for the Department of Defense (DoD) personnel-related liabilities. The Transaction Library and Standard Reporting Chart of Accounts is available on the Office of the Deputy Chief Financial Officer Standard Financial Information Structure ([SFIS](#)) web page. The web page also provides the required DoD U.S. Standard General Ledger (USSGL) proprietary and budgetary accounting entries and transaction illustrations.

## \*1.2 Authoritative Guidance

The accounting policy and related requirements prescribed in this chapter are in accordance with the applicable provisions of:

1.2.1. [Federal Accounting Standards Advisory Board \(FASAB\) Statement of Federal Financial Accounting Standards \(SFFAS\) 4](#): “Managerial Cost Accounting Standards and Concepts”;

1.2.2. FASAB [SFFAS 5](#): “Accounting for Liabilities of The Federal Government;”

1.2.3. FASAB [SFFAS 33](#): “Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates;”

1.2.4. FASAB [SFFAS 55](#): “Amending Inter-entity Cost Provisions;”

1.2.5. [Title 5 United States Code Section 6303](#) “Annual leave; accrual;”

1.2.6. [Office of Management and Budget, Circular A-136](#): “Financial Reporting Requirements;”

1.2.7. FASAB [Interpretation 4](#): “Accounting for Pension Payments in Excess of Pension Expense;” and

1.2.8. [Office of Personnel Management \(OPM\) Number 24-304](#), “Benefits Administration Letter”

## 2.0 ACCOUNTING POLICY FOR PERSONNEL RELATED LIABILITIES

### 2.1 General Standards

2.1.1. Refer to Chapter 8 for the accounting principles and policy applicable to the financial control of liabilities. Adhere to the standards listed in the following subparagraphs in accounting for personnel-related liabilities.

2.1.2. Update the personnel-related accounting entries based on appropriate source documents reflecting the latest pay adjustments, leave balances, levels of benefits, and changes in benefit rules.

2.1.3. Do not limit the personnel-related accrued amounts to the amounts covered by available budgetary resources.

\* 2.1.4. Refer to Volume 6B for the required financial statement disclosure guidance for the personnel-related liabilities discussed in this chapter.

\* 2.1.5. Calculate the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program imputed costs for the DoD Components Financial Statements. Base the calculations on the annual OPM Benefits Administration Letter.

### 2.2 Accounting for Personnel Entitlements

2.2.1. Accrue the DoD military and civilian employees' cost of services including overtime when a pay period does not coincide with the end of an accounting period. Accrue based on journal vouchers with supporting documentation (or automated programs) showing the data and calculations in the applicable accounting period. The appropriate authorized accounting official must sign the journal vouchers. Reverse these accruals when the related pay is disbursed, and actual costs are recorded.

2.2.2. Record probable and estimable annuities, adjudicated claims, and benefit payments as of the end of the applicable accounting period. Record amounts based on journal vouchers signed by the appropriate authorized accounting official and supporting documentation clearly showing the basis for the amounts.

2.2.3. Accrue bonuses and awards, if material, in the accounting period earned. DoD Components assess the materiality threshold.

2.2.4. Compensate employee absences (ordinarily for vacation or illness). When DoD employees accrue rights to take leave with pay, DoD Components incur an expense and liability measured by the salary cost when the leave may be taken.

2.2.5. **Accrue** unused annual leave, including restored leave, compensatory time, credit hours earned, and the **associated** fringe benefit costs.

2.2.5.1. **Record** the expense and related liability for annual leave at the regular **earned** hourly rate. **Calculating annual leave based on a** fringe benefit rate is also acceptable.

2.2.5.2. **Reflect** all pay increases and unused leave balances at least quarterly for annual leave, other leave (compensatory time and credit hours), and the **associated** fringe benefit costs, for financial statement purposes. For **general funds**, unused annual leave is typically unfunded until the leave is used. However, **in working capital funds** unused annual leave **must** be funded.

2.2.6. **Do not accrue** sick leave, home leave, and compensatory time for travel, as **unused** balances are not reimbursed by **the DoD**. **These entitlements are expensed as taken**.

2.2.7. **Accrue** Social Security, retirement funds, Thrift Savings Plan (**TSP**), and group health and life insurance programs in the same manner as gross compensation (see Volume 8, Chapter 3).

2.2.8. **Accrue** other benefits such as relocation-related real estate costs and personnel allowances in the period earned.

2.2.9. **Accrue** payments to the OPM for reemployed annuitants and severance pay for former employees in the same manner as gross compensation.

2.2.10. **Accrue** recruitment and relocation bonuses and retention allowances in the period earned.

## 2.3 Pensions

2.3.1. Pension benefits include all retirement, disability, and survivor benefits financed through a pension plan, including unfunded pension plans. **Three defined benefit retirement plans: CSRS, FERS, and Military Retirement System (MRS) cover DoD civilian and military employees.**

2.3.2. **Recognize** the **pension** liability **when** the employee's services are rendered and **report the liability** in the **DoD Components' financial statements**. **Report recoverable estimated amounts as receivables with the sources of expected repayments indicated** if legislation requires that **payments** to participants be recovered from others (e.g., employing agencies).

2.3.3. Defined contribution plans (e.g., TSP) do not **create** pension liabilities.

2.3.4. **DoD Components recognize a pension expense equaling the employee service cost for the applicable accounting period, less employee contributions, if any, for DoD Civilian pension plans (CSRS and FERS).** **DoD Components apply** the cost factor provided by OPM, the administrative entity.

### 2.3.5. Calculate the pension expense and liability using actuarial estimates for MRS.

2.3.5.1. Use the “aggregate entry age normal” actuarial cost method to calculate the pension expense and liability for the MRS financial statements. Calculate the liability using the actuarial present value of all future benefits, based on projected salaries and total service, less the actuarial present value of future normal cost contributions that would be made for and by the employees under the plan.

2.3.5.2. Base individual component expense on the actuarial cost. Recognize the difference between component expense and the amount paid by the component to OPM or MRS as an intragovernmental liability. Refer to Volume 12 for more information.

2.3.6. Maintain official communication between OPM and the DoD Office of the Actuary to support pension expense and any related liability.

## 2.4 Other Retirement Benefits

2.4.1. An employer provides Other Retirement Benefits (ORB) outside the pension plan to a former employee or the employee’s beneficiary upon retirement. ORB includes all retirement benefits other than pension plan benefits, such as retirement health care benefits.

2.4.2. Recognize the ORB liability when the employee’s services are rendered. Report the liability in the DoD Components’ financial statements. Report the recoverable estimated amount as a receivable with the sources of expected repayments indicated, if existing legislation requires that amounts paid to participants be recovered from others (e.g., employing agencies).

2.4.3. Account for and report the ORB expense, such as medical costs for retirees, in the DoD Component financial reports in a manner similar to that used for pensions. Recognize ORB expense in an amount equal to the total service cost (as determined by the DoD Office of the Actuary). Record and report the portion of the ORB liability in the DoD Component financial statements.

## 2.5 Other Postemployment Benefits

2.5.1. DoD Components provide Other Postemployment Benefits (OPEB) to former or inactive employees, their beneficiaries, and covered dependents outside pension or ORB plans. Inactive employees are not currently rendering services to the employer but have not been terminated, including those temporarily laid off or disabled. Postemployment benefits can include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, unemployment compensation, workers’ compensation, and veterans’ disability compensation benefits paid by the employer entity.

2.5.2. **Recognize** expense and liability when a future outflow or other sacrifice of resources is probable and measurable **based on** events occurring on or before the reporting date. **Report the estimated recoverable amount as a receivable with the sources of expected repayments indicated, if existing legislation requires that amounts paid to participants be recovered from employing agencies.** An OPEB example is **the** Federal Employees' Compensation Act (FECA).

2.5.3. FECA provides **workers' compensation benefits** to federal employees injured in the performance of duty. **Workers' compensation benefits include wage-loss benefits** for total or partial disability, monetary benefits for permanent loss or **loss of use of a body part**, medical benefits, and vocational rehabilitation. **Agencies' direct reimbursements finance** the FECA program.

2.5.4. The FECA fund pays benefits on behalf of Federal entities as costs are incurred and bills the entity annually for the **previous period**. Federal entities fund the FECA payments through appropriations reimbursed to the FECA fund. **Include annual budget estimates for the fiscal year beginning in the next calendar year equal to the costs (approximately 15 months) for the appropriation-funded agencies.** Once the appropriation is received, **pay** the Department of Labor (DOL) within 30 days.

2.5.5. The DOL sends each agency the actuarial liability estimates for future worker's compensation benefits amounts for both the current and prior years. The current **amount is** the new balance in the Actuarial FECA Liability. **The DoD Component determines** the change in actuarial liability by taking a difference of **DOL's** prior year **to current year** actuarial liability.

2.5.6. **Include** the following support with the Actuarial FECA Liability entry:

2.5.6.1. The DOL Memorandum for Chief Financial Officers of Executive Departments and Agencies, which contains the actuarial balances;

2.5.6.2. Agency-Wide Financial Statements Directorate allocation spreadsheet reflecting the percentage allocation to the entity level; and

2.5.6.3. A copy of the last three annual chargeback bills for the Department Level.

### 3.0 **AUDITABILITY AND INTERNAL PROCEDURES**

3.1. Each DoD Component must develop and implement internal **operating procedures** to ensure complete, consistent, timely, accurate, valid, and relevant financial data.

3.2. **Maintain** appropriate supporting records to provide **an** appropriate footnote disclosure in the financial statements **if personnel-related** liabilities are unfunded. DoD Components must **disclose according to** Volume 6B, Chapter 10.

**VOLUME 4, CHAPTER 11: “COMPONENT DEBT”****SUMMARY OF MAJOR CHANGES**

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

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

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

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<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Administrative updates in accordance with the Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.2.5	Added Standard Financial Information Structure (SFIS) webpage for U.S. Standard General Ledger (USSGL) accounts and transaction illustrations.	Addition
2.1	Simplified paragraph to clarify the types of DoD component debt. Removed language on DoD borrowed funds for direct and guaranteed loans to foreign governments.	Revision/ Deletion
4.0	Removed USSGL accounts found on the SFIS webpage referenced in subparagraph 1.2.5.	Deletion

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## CHAPTER 11

**COMPONENT DEBT**

## 1.0 GENERAL

## 1.1 Purpose

This chapter [provides](#) the accounting policy for Department of Defense (DoD) Components' debt incurred in accordance with the referenced statutory and other authorities.

## 1.2 Authoritative Guidance

This [chapter is in accordance with the](#) following authoritative guidance:

1.2.1. [DoD Manual 4165.63](#), "DoD Housing Management";

1.2.2. [Title 42 United States Code \(U.S.C.\), section 3374](#);

1.2.3. [DoD Directive 4165.50E](#), "Homeowners Assistance Program" (HAP); and

1.2.4. [Title 32 Code of Federal Regulations \(CFR\), Part 239](#) "Homeowners Assistance Program – Application Processing"

\* 1.2.5. The standard general ledger accounts used to report DoD debt and illustrative entries are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the Office of the Deputy Chief Financial Officer [Standard Financial Information Structure](#) web page.

## 2.0 TYPES OF COMPONENT DEBT

Debt incurred by DoD Components is generally associated with direct and guaranteed loans, and housing programs determined to be necessary to carry out the DoD's mission, including mortgage agreements accepted pursuant to the Family Housing Program (FHP) and the Homeowners Assistance Fund (HAF).

## \*2.1 Loans and Loan Guarantees

2.1.1. The Department must pay the debt on direct loans if borrowers (e.g., foreign governments, county or city governments, ship owners, or housing builders) default. For loan guarantees, the Department must pay the amount of outstanding principal guaranteed.

2.1.2. The accounting policy for loans and loan guarantees is provided in Volume 12, Chapter 4.

## 2.2 Housing Program Debt

2.2.1. Family Housing Program. The Defense FHP provides military and civilian families housing referral services including administration of private rental housing for DoD personnel overseas, leasing private housing for DoD personnel, or guaranteeing service members' rental, mortgage and mortgage insurance payments on privately owned housing. Guidance for financing the FHP is contained in Volume 2B, Chapter 6 and DoD Manual 4165.63, while guidance for accounting for funds made available for this program is contained in Volume 3, Chapter 5.

### 2.2.2. Homeowners Assistance Fund

2.2.2.1. Under 42 U.S.C., section 3374, the Secretary of Defense is authorized to aid 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 HAF. Funding for this program is through annual appropriations made available by the Congress.

2.2.2.2. DoD Directive 4165.50E, "Homeowners Assistance Program," (HAP) provides overall policy guidance and information on this program. The directive also specifies that detailed guidance regarding available benefits, both foreign and domestic, will be provided in the regulations published by the Secretary of the Army as the DoD Executive Agent for the HAP, and codified in 32 CFR Part 239. The Army uses the Headquarters, United States Army Corps of Engineers to implement the program.

## 3.0 ACCOUNTING POLICY FOR DEBT ASSOCIATED WITH HOUSING PROGRAMS

The overall accounting policy for properties acquired under both the FHP and HAP is the same as those for real property discussed in Volume 4, Chapter 24. The accounting policy for the liabilities incurred under the FHP and HAP programs is discussed in the following paragraphs.

### 3.1 Liability for Amounts Owed on Housing Acquired under FHP and HAP

The liability for amounts owed on housing acquired under FHP and HAP programs will 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 DoD.

### 3.2 Mortgage Balance Payable Reductions

The balance of the mortgages payable will be reduced by that portion of the periodic payments made which represent the mortgage principal.

### 3.3 Liabilities for Borrowing from Other Organizations

Liabilities for borrowings from other Federal Agencies and non-federal organizations will be recorded at the amounts obtained. Amounts paid to financial organizations to obtain the borrowings must be treated as a current period operating expense.

**VOLUME 4, CHAPTER 12: “OTHER LIABILITIES”****SUMMARY OF MAJOR CHANGES**

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

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

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

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<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Administrative updates in accordance with Department of Defense (DoD) Financial Management Regulation (FMR) Revision Standard Operating Procedures.	Revision
1.1	Revised paragraph to better align with the other liabilities that are described in the chapter. Added reference to Volume 6B, Chapter 4 for financial reporting requirements.	Revision
1.2.6	Added guidance for standard general ledger accounts used to report DoD other liabilities and illustrative entries on the Standard Financial Information Structure web page.	Addition
2.2.1	Added the definitions for deposit funds and nonfiduciary deposit funds.	Addition
2.2.3	Added Treasury Financial Manual guidance for deposit fund accounts.	Addition

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## CHAPTER 12

OTHER LIABILITIES

## 1.0 GENERAL

## \*1.1 Purpose

This chapter promulgates the accounting policy and related requirements that the Department of Defense (DoD) Components General Fund and Defense Working Capital Fund (DWCF) entities must follow to account for unearned revenues, contingent liabilities, and contract progress payments. These liabilities are reported on the Balance Sheet as “other liabilities” as they are often immaterial and therefore do not warrant separate reporting. See Volume 6B, Chapter 4 for financial reporting requirements for other liabilities. Each DoD Component must develop and implement internal operating procedures to implement this overarching policy in a manner that ensures accurate, complete, and relevant financial data.

## 1.2 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.2.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ([SFFAS 1](#)), “Accounting for Selected Assets and Liabilities”;

1.2.2. FASAB [SFFAS 5](#), “Accounting for Liabilities of the Federal Government”;

1.2.3. FASAB [SFFAS 7](#), “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting”;

1.2.4. FASAB [SFFAS 12](#), “Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government”;

1.2.5. Office of Management and Budget ([OMB Circular A-11](#)), “Preparation, Submission and Execution of the Budget”;

\* 1.2.6. The standard general ledger accounts used to report DoD other liabilities and illustrative entries are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the Office of the Deputy Chief Financial Officer [Standard Financial Information Structure](#) web page.

1.2.7. The U.S. Department of the Treasury (Treasury) [Fast Book](#);

1.2.8. The Treasury [USSGL](#), a supplement of the Treasury Financial Manual ([TFM](#)).

## 2.0 UNEARNED REVENUES

### 2.1 Advances and Prepayments

2.1.1. Advances and prepayments are amounts received in advance for goods and services that will be delivered at a future date.

2.1.2. When advance fees or payments are received by DoD Components, such as for large-scale, long-term projects, revenue should not be recognized until the goods and services are provided (regardless of whether the fee or payment is refundable). When the cash is received, an increase in cash and an increase in advances and prepayments liability should be recorded in accordance with SFFAS 7.

2.1.3. Liability for advances and prepayments includes advances received that are transfers of assets from the public and other federal entities to cover future expenses or the acquisition of other assets. The DoD Components receiving an advance or prepayment must 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), the DoD Components must record the appropriate amount as revenue and reduce advances and prepayments liability accordingly.

2.1.4. The two major activities for which DoD receives advances are as follows:

2.1.4.1. Reimbursable Activities. DoD provides services to other federal agencies and to the public on a reimbursable basis. When a non-federal customer enters into a reimbursable agreement with DoD, the customer is required to pay for services in advance unless exempted by law. Generally, non-DoD entities are required to pay in advance.

2.1.4.2. Defense Working Capital Funds (DWCF) Activities. The appropriation language for DoD's DWCF permits the fund to receive advances for supplies and services. Therefore, the DWCF business entities may be advanced funds identified in the DWCF customer orders during the fiscal year, as required, to enable the DWCF activity to pay for its costs of operation.

### 2.2 Nonfiduciary Deposit Funds

\* 2.2.1. Deposit funds are in general monies that do not belong to the Federal Government. Nonfiduciary deposit funds are deposit funds that do not meet the definition and characteristics of fiduciary activities in SFFAS 31. While awaiting disposition, nonfiduciary deposit funds are reported separately on the entity's financial statements.

2.2.2. Deposit funds must be recorded as a liability because those assets do not belong to the Federal Government. The liability includes, but is not limited to, currency and coin on hand, cash on deposit at designated depositories (excluding Disbursing Officer held cash), negotiable instruments on hand, military payment certificates, and unsupported undistributed collections. Such funds are not available for paying salaries, grants, or other expenses of the Federal Government.

\* 2.2.3. See [TFM Volume I Part 2 Chapter 150 Section 1550](#) for more details on deposit fund accounts.

2.2.4. See Treasury's [FAST Book](#) for a full list of DoD deposit accounts.

## 2.3 Clearing Accounts

2.3.1. **Clearing** accounts represent amounts known to belong to the Federal Government but held temporarily in this account until additional information is collected for the disposition or reclassification of these amounts. Examples of how to use clearing accounts are:

2.3.1.1. To **record** unmatched transactions from the public when there is a reasonable presumption that the amounts belong to a Federal Government account other than miscellaneous receipts in the Treasury.

2.3.1.2. To **record** unmatched transactions between Federal agencies, including intra-governmental payment and collection transactions.

2.3.2. Refer to Chapters 2 and 3 for a discussion of the requirements for reconciling, aging, and clearing Budget Clearing Accounts.

## 3.0 CONTINGENT LIABILITIES

### 3.1 Definition and recognition of contingent liabilities

3.1.1. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur.

3.1.2. To **account for a contingency**, a contingent liability should be recognized in the financial reports and statements when all of **the following** conditions are met:

3.1.2.1. A past event or exchange transaction has occurred (e.g., a DoD Component has breached a contract with a non-federal entity).

3.1.2.2. A future outflow or other sacrifice of resources is probable (e.g., the non-federal entity has filed a legal claim against a DoD Component for breach of contract and the Component entity's management believes the claim is likely to be settled in favor of the claimant).

3.1.2.3. The future outflow or sacrifice of resources is measurable (e.g., the DoD Component entity's management determines an estimated settlement amount).

3.1.3. The estimated **contingent** liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount,

the minimum amount in the range is recognized, and the range and description of the nature of the contingency should be disclosed.

3.1.4. If any of the conditions identified in 3.1.1 are not met, the contingent liability need not be recognized in the DoD Components Balance Sheet but should be disclosed in the financial statement notes when it is at least reasonably possible that a loss or additional loss may have been incurred. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

### 3.2 Probability classifications for contingent liabilities

3.2.1. Probable. The future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are presumed likely to occur.

3.2.2. Reasonably Possible. The chance of the future confirming event or events occurring is more than remote but less than probable.

3.2.3. Remote. The chance of the future event or events occurring is slight.

### 3.3 Legal contingencies

3.3.1. Legal contingencies arise from litigation, claims, and assessments. It is the Component management's responsibility, with legal counsel's advice, to assess the likelihood of adverse outcomes for legal cases and decide whether to recognize them as liabilities and to disclose them in the notes to the financial statements. The Component should obtain evidence relevant to the following factors with respect to litigation, claims, and assessments:

3.3.1.1. The existence of a condition, situation, or set of circumstances indicating uncertainty as to the possible loss to the Component arising from litigation, claims, and assessments;

3.3.1.2. The period in which the underlying causes for a legal action occurred;

3.3.1.3. The likelihood (probable, reasonably possible, or remote) of an unfavorable outcome; and

3.3.1.4. The amount or range of potential loss, if able to estimate.

3.3.2. In accordance with SFFAS 5 and SFFAS 12, the only available categories to assess contingent losses based on the likelihood of the loss are Probable, Reasonably Possible, and Remote. When legal counsel cannot indicate whether the unfavorable outcome is probable or remote, (e.g., unable to express an opinion) the Component should categorize the outcome as Reasonably Possible, and make a disclosure in the notes to the financial statements.

3.3.3. The disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. When disclosing that an estimate cannot be made, the claimed amount should be disclosed. Disclosures and amounts prescribed may be aggregated for presentation in the notes to the financial statements.

#### 4.0 CONTRACT PROGRESS PAYMENTS

When a DoD contractor submits a request for a contract progress payment for the costs incurred in pursuit of the contract, it results in a measurable liability to the DoD. Any progress payment requests from a contractor to the DoD that are expected to be paid within one year must be recorded as an “Accounts Payable,” and the estimated amount of costs incurred by the contractor that are expected to remain unpaid for more than one year until the completed asset is delivered must be recorded as “Other Liabilities.” For every progress payment request, a Contracting Officer Representative, or other authorized representative, must certify that the work reflected has been performed, and is consistent with the requirements of the contract.

**VOLUME 4, CHAPTER 13: “ENVIRONMENTAL AND DISPOSAL LIABILITIES”****SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and denoted by **blue font**.

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

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<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Throughout	Revised “environmental liabilities” to “environmental and disposal liabilities”.	Revision
Throughout	Replaced all references to RACER software with generic language.	Deletion
2.0.11	Updated the definitions to provide clarification.	Revision
2.0.22	Updated the definitions to provide clarification.	Revision
3.2.2	Added clarifying language to accounting treatment.	Revision
3.2.6.1	Added clarifying language to accounting treatment.	Revision
3.2.6.6	Deleted example that is not applicable.	Deletion
3.2.7	Added clarifying language to accounting treatment.	Revision
3.3.1	Added clarifying language to accounting treatment.	Revision
3.3.2	Added clarifying language to accounting treatment.	Revision
3.3.2.1	Added clarifying language to accounting treatment.	Revision
3.3.3	Added clarifying language to accounting treatment.	Revision
3.3.5	Added clarifying language to accounting treatment.	Revision
3.3.6	Added clarifying language to accounting treatment.	Revision
3.3.8.1	Added clarifying language to accounting treatment.	Revision
Figure 2	Additional flowchart for asset-driven liabilities.	Addition
Appendix A	Added clarifying language to accounting treatment.	Revision

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## CHAPTER 13

**ENVIRONMENTAL AND DISPOSAL LIABILITIES**

## 1.0 GENERAL

## 1.1 Purpose

This chapter prescribes the accounting policy for measuring, recognizing, recording, and disclosing Department of Defense (DoD) environmental and disposal liabilities. General accounting principles and policy for liabilities are contained in [Chapter 8](#). The policies prescribed in this chapter apply to all environmental and disposal liabilities regardless of the funding source or availability of funding. Refer to Volume 6B for guidance on roles and responsibilities in the preparation of related financial reports and note disclosures.

## 1.2 Authoritative Guidance

This chapter implements applicable provisions of:

1.2.1. Title 10, United States Code, section 2701 ([10 U.S.C. § 2701](#)).  
“Environmental Restoration Program;”

1.2.2. [42 U.S.C. § 9607](#), “The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA);”

1.2.3. [50 U.S.C. § 1521](#), “Destruction of existing stockpile of lethal chemical agents and munitions;”

1.2.4. Title 40, Code of Federal Regulations, part 266.202 ([40 CFR § 266.202](#));”

1.2.5. Office of Management and Budget ([OMB Circular A-136](#)), “Financial Reporting Requirements;”

1.2.6. U.S. Department of Treasury (Treasury) Treasury Financial Manual ([TFM](#)) United States Standard General Ledger (USSGL);

1.2.7. Statement of Federal Financial Accounting Standards [SFFAS 1](#), “Accounting for Selected Assets and Liabilities;”

1.2.8. [SFFAS 5](#), “Accounting for Liabilities of the Federal Government;”

1.2.9. [SFFAS 6](#), “Accounting for Property, Plant, and Equipment;”

1.2.10. [SFFAS 21](#), “Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources;”

- 1.2.11. [SFFAS 23](#), “Eliminating the Category National Defense Property, Plant, and Equipment;”
- 1.2.12. Federal Accounting Standards Advisory Board  
[\(FASAB\) Technical Bulletin \(TB\) 2006-1](#), “Recognition and Measurement of Asbestos related Cleanup Costs,” amended by [FASAB TB 2011-2](#), “Extended Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos related Cleanup Costs
- 1.2.13. [FASAB Interpretation 9](#), “Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6;”
- 1.2.14. [FASAB Technical Release \(TR\) 2](#), “Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government;”
- 1.2.15. [FASAB TR 10](#), “Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment;”
- 1.2.16. [FASAB TR 11](#), “Implementation Guidance on Cleanup Costs Associated with Equipment;”
- 1.2.17. [FASAB TR 14](#), “Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment;”
- 1.2.18. Statement on Auditing Standards (SAS) Number 122/AU-C Section 540A, “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures; superseded by [SAS Number 143](#);”
- 1.2.19. U.S. Government Accountability Office (GAO) “Standards for Internal Control in the Federal Government” ([The Green Book](#)).
- 1.2.20. DoD Instruction [\(DoDI\) 4165.14](#), “Real Property Inventory and Forecasting;”
- 1.2.21. [DoDI 4165.72](#), “Real Property Disposal;”
- 1.2.22. [DoDI 4715.05](#), “Environmental Compliance at Installations Outside the United States;”
- 1.2.23. [DoDI 4715.06](#), “Environmental Compliance in the United States;”
- 1.2.24. [DoDI 4715.07](#), “Defense Environmental Restoration Program (DERP);”
- 1.2.25. [DoDI 4715.08](#), “Remediation of Environmental Contamination Outside the United States;”

1.2.26. [DoDI 5000.61](#), “DoD Modeling and Simulation Verification, Validation, and Accreditation ;”

1.2.27. [DoDI 5000.64](#), “Accountability and Management of DoD Equipment and Other Accountable Property;”

1.2.28. [DoDI 5530.03](#), “International Agreements;”

1.2.29. [DoD Manual \(DoDM\) 4160.21](#), “Defense Materiel Disposition: Disposal Guidance and Procedures;”

1.2.30. [DoDM 4160.28](#), “Defense Demilitarization Manual;”

1.2.31. [DoDM 4715.20](#), “Defense Environmental Restoration Program (DERP) Management.”

## 2.0 DEFINITIONS

The following definitions apply to environmental [and disposal](#) liabilities:

2.0.1. [Asset-Driven Liability](#). An environmental [and disposal](#) liability is the environmental [and disposal](#) cost associated with future DoD Property, Plant, and Equipment (PP&E) asset closure or disposal that involves non-routine removal of hazardous waste at the point of disposal or closure and/or environmental response explicitly required (by permit or other policy or law). Examples of an asset-driven liability include equipment environmental disposal liabilities, asbestos and environmental closure requirements.

2.0.2. [Baseline](#). A study or survey used to establish the initial site universe of environmental [and disposal](#) liability sites. The baseline provides a starting point from which sites that contribute to financial statement reporting balances will be adjusted over time. Once the baseline is established, DoD Components must rely upon established procedures to maintain their E&DL universe.

2.0.3. [Contamination](#). Defined as a release of a hazardous substance, or the potential release of a discarded hazardous substance, which may have a harmful effect or become injurious to the environment or to the public health, safety, or welfare.

2.0.4. [Cost Model](#). A framework upon which an estimating methodology is developed. The model may use mathematical equations to convert resource data into cost data and require users to enter a minimal amount of information to generate cleanup cost estimates.

2.0.5. [Cost-to-Complete \(CTC\)](#). Represents the total estimated future costs for site level cleanup not currently funded at the end of a given fiscal year. CTC estimates assume that approved funding in the year of execution will be received and obligated in full. CTC (including DERP CTC) estimates also include program management costs.

2.0.6. DoD Component. Refers to the Office of the Secretary of Defense, the Military Departments (including their Reserve components), the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the DoD, the Defense Agencies, the DoD Field Activities, and all other organizational entities in the DoD.

2.0.7. Due Care. As defined in TR 2, due care in the context of environmental [and disposal](#) liability refers to “a reasonable effort to identify the presence or likely presence of contamination. Due care is exercised if an agency has effective policies and procedures in place to routinely identify contamination and forward that information to the responsible agency official.”

2.0.8. Environmental Cleanup, Closure, and/or Disposal Costs. For financial statement reporting purposes, the term “environmental cleanup costs” includes costs associated with restoration of environmental sites funded under DERP, corrective actions, and environmental costs associated with the future closure of operations, including closure [and disposal](#) of PP&E. Cleanup costs as defined in SFFAS 6, paragraph 85, are the cost of removing, containing, and/or disposing of hazardous waste from real property, or material and/or personal property that consists of hazardous waste at the time of shutdown or disposal, and material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E. Consistent with SFFAS 6, paragraph 87, cleanup costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs. Per SFFAS 6, paragraph 93, cleanup costs, such as those resulting from accidents or where cleanup is an ongoing part of operations, are to be accounted for in accordance with liability standards (SFFAS 1 and SFFAS 5) and are not subject to the recognition guidance provided in SFFAS 6 for environmental [and disposal](#) liabilities since the cleanup effort is not deferred until operation of the associated PP&E ceases either permanently or temporarily.

2.0.9. Environmental [and Disposal](#) Liabilities. For financial reporting purposes, a DoD environmental [and disposal](#) liability is a probable future outflow or other sacrifice of resources that exists as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events. A DoD environmental [and disposal](#) liability exists when: (1) contamination is known to be present or likely to be present; (2) environmental cleanup, closure, and/or disposal is required by applicable federal, state, interstate, or local requirements or an authorized legal agreement such as a lease, contract, or international agreement; and (3) DoD activities created the liability and/or an authorized legal agreement establishes DoD as the responsible entity. An environmental [and disposal](#) liability may also exist if environmental contamination is not DoD related, but DoD enters into a binding agreement that formally accepts financial responsibility for cleanup, closure, and/or disposal.

2.0.10. Environmental [and Disposal](#) Liability Site Universe. All sites identified after performing a due care approach to determine if “probable” and “reasonably estimable” criteria outlined in TR 2 have been met.

2.0.11. Environmental Site. An environmental site is a discrete location(s) for which there is an environmental issue that requires evaluation. A site is a distinct area of an installation containing one or more releases or threatened releases of hazardous substances treated as a discrete entity or consolidated grouping for response purposes. Environmental sites can also be created due to certain re-designation of land per the provisions contained in the environmental permitting processes.

2.0.12. Equipment. Equipment is personal property that is functionally complete for its intended purpose, durable, and nonexpendable. Equipment generally has an estimated useful life of two years or more; is not intended for sale; does not ordinarily lose its identity or become a component part of another article when put into use; has been acquired or constructed with the intention of being used or being available for use by the entity.

2.0.13. Event-Driven Liability. An event-driven liability is an environmental [and disposal](#) liability resulting from either a government-acknowledged event or a government-related event where there is a release of contamination to the environment that will require future cleanup.

2.0.14. Friable Asbestos and Non-Friable Asbestos. In accordance with 40 CFR 61.141, friable asbestos is any material containing more than one percent asbestos that, when dry and left undisturbed, can be pulverized, or reduced to powder by hand pressure. Non-friable asbestos is any material containing more than one percent of asbestos that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure during disturbance/removal.

2.0.15. Hazardous Waste. According to SFFAS 6, paragraph 86, hazardous waste is a solid, liquid, or confined gaseous waste, or combination thereof, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or in an increase in serious irreversible, or incapacitating irreversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed. DoD Components should use the hazardous waste definition provided by the Environmental Protection Agency and any materials FASAB specifically identifies as hazardous waste, such as the hazardous air pollutant asbestos. Hazardous substances, as defined under the CERCLA, are generally also hazardous wastes.

2.0.16. Non-routine Environmental [and Disposal](#) Liability. A unique cleanup cost of hazardous waste associated with the closure (either temporarily or permanently), disposal, or decommissioning of equipment that meets the “probable” and “reasonably estimable” criteria outlined in TR 2. Additional guidance on non-routine environmental [and disposal](#) liabilities is included in TR 11.

2.0.17. Permanent Removal from Service. Permanent removal from service requires two business events to occur: (1) the termination of the asset’s use; and (2) documented evidence of management’s decision to permanently remove the asset from service, by selling, scrapping, recycling, donating or demolishing the asset or where there has been destruction of the asset such

as in an aircraft crash. If only one of these two business rules occurs, a “permanent” removal of an asset from service has not occurred.

2.0.18. Probable. As defined in SFFAS 5, probable is that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic. More likely than not is a greater than 50 percent chance that the DoD Component has a responsibility to address the contamination. The probability of a future outflow or other sacrifice of resources is assessed based on current facts and circumstances. These current facts and circumstances include the law that provides general authority for federal entity operations and specific budget authority to fund programs. If budget authority has not yet been provided, a future outflow or other sacrifice of resources might still meet the probability test if (1) it directly relates to ongoing entity operations and (2) it is the type for which budget authority is routinely provided. Therefore, the definition applies both to liabilities covered by budgetary resources and to liabilities not covered by budgetary resources. Additional guidance on determining "probable" for environmental [and disposal](#) liabilities is provided in TR 2.

2.0.19. Property, Plant, and Equipment (PP&E). Tangible assets that (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity.

2.0.20. Real Property. Consists of buildings, structures, linear structures, and land and improvements to the land. Real Property includes equipment affixed and built into the facility as an integral part of the facility (such as heating systems), but not movable equipment (e.g., plant equipment, industrial equipment, buoys).

2.0.21. Reasonably Estimable. The ability to reliably quantify, in monetary terms, the outflow of the required resources. The process for determining if an environmental [and disposal](#) liability is “reasonably estimable” is applied after a transaction or event has occurred that meets the definition of “probable.” Additional guidance on determining "reasonably estimable" for environmental [and disposal](#) liabilities is provided in TR 2.

2.0.22. Recognition is the formal process by which an item is incorporated into an entity’s financial statements as an asset, liability, revenue, expense, or other relevant category.

2.0.23. Removal from Service. Removal from service is defined as an event that terminates the use of a PP&E asset (e.g., shut down of a facility). Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identification as excess to an entity or DoD Component’s mission needs. General removal of an asset from service is not the same as “permanent removal from service.” Removal from service must be considered other than permanent unless (1) the asset’s use is terminated and (2) there is documented evidence of the DoD Component’s decision to permanently remove the asset from service. If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

2.0.24. Roll Forward Procedures. A documented process bridging the timing gap between June 30 (or other interim date that an analysis has been performed) and September 30 to determine if any significant changes to environmental and disposal liabilities have occurred between June 30 (or other interim date that an analysis has been performed) and September 30. Any significant changes that have occurred between June 30 and September 30 must be reflected in the environmental and disposal liability balance through an adjustment to the environmental and disposal liability balance as of September 30.

2.0.25. Routine Hazardous Waste Disposal. The cost of hazardous waste disposal from day-to-day on-going operations, performed on a regular basis (for example, removing and disposing of batteries, cleaning solvents, and motor oil incurred as part of periodic routine maintenance of equipment over its useful life) should be recognized as an operating expense and accrued liability/payable the period the cleanup occurs in accordance with liability standards outlined in SFFAS 1. The cost of removing and disposing of the same routine maintenance hazardous waste at the time of equipment disposal would likewise be expensed and the associated liability is recognized when incurred (TR 11, paragraphs 12-14). In accordance with SFFAS 6, paragraph 93, if such cleanup is an ongoing part of operations and not deferred until operation of associated PP&E ceases either permanently or temporarily, the costs are not subject to the recognition guidance provided in SFFAS 6, paragraphs 97 and 98.

2.0.26. Transaction Level Detail Reports. Provide the line item details that support the summarized values reported on DoD Component financial statements. For event-driven liabilities, transaction level detail reports could include, but are not limited to, site level or program management level data from environmental and disposal liability systems and accounting systems that report CTC estimates, prior year cost incurred, current year cost incurred, and unpaid obligations as of the reporting period. For asset-driven liabilities, transaction level detail reports could include, but are not limited to, cost model outputs at the asset level.

2.0.27. Unpaid Obligations (UPO). Represents valid obligations supported by documentary evidence to conform to 31 U.S.C. § 1501(a). The amount of unpaid obligations represents the amount of orders for goods and services remaining unfilled at fiscal year-end for which the liability has not yet accrued.

### 3.0 ACCOUNTING POLICY FOR ENVIRONMENTAL AND DISPOSAL LIABILITIES

#### 3.1 Audit Readiness

Each DoD Component must develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data.

#### 3.2 Environmental and Disposal Liability Recognition

This paragraph outlines the policy for recognizing, measuring, and disclosing environmental and disposal liabilities in accordance with applicable accounting standards.

3.2.1. Environmental **and disposal** liabilities must be recognized on the financial statements as a result of past transactions or events when the future outflows or expenditures of resources for environmental cleanup, closure, and/or disposal actions are probable and reasonably estimable, in accordance with TR 2. A probable environmental **and disposal** liability exists when it is more likely than not that contamination from hazardous waste exists for which DoD is either legally liable for the cleanup or has acknowledged responsibility for the cleanup. A reasonably estimable environmental **and disposal** liability exists when a dollar value can be estimated for (1) the cleanup costs based on the results of remedial investigation/feasibility study or experience with similar sites and/or conditions; or (2) where there is no known technology to perform cleanup, the costs can be estimated for a remedial investigation/feasibility study **and** costs to contain the contamination (see subparagraph 3.2.2).

3.2.2. Cleanup costs associated with government related events resulting in a liability, such as ongoing operations that result in routine hazardous waste or accidental damage (e.g., oil spill) to property caused by federal operations, must be recognized as an operating expense in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable. If the DoD Component does not complete the cleanup, closure and/or disposal action within the current reporting period, and the cleanup is related to routine ongoing operations, the DoD Component must record an accrued liability for the **non-routine** cleanup, closure, and/or disposal costs incurred and not paid in accordance with Chapter 9.

3.2.3. Cleanup costs associated with government-acknowledged events (such as toxic waste damage caused by nonfederal entities and natural disasters) do not meet the definition of a “liability” until, and to the extent that, the government formally acknowledges financial responsibility for the cost from the event and an exchange or nonexchange transaction has occurred. The liability and expense should be recognized when both (1) the Congress has appropriated or authorized resources, and (2) an exchange occurs (contractor performs repairs) or nonexchange amounts are unpaid as of the reporting date (direct payments to disaster victims), whichever applies, in accordance with SFFAS 5.

3.2.4. SFFAS 5 address liabilities for environmental cleanup resulting from an accident, natural disaster, or other one-time occurrence. SFFAS 6 provides the standards related to the timing of recognition of environmental **and disposal** liabilities and related inter-period operating expenses when cleanup cannot be performed until permanent or temporary closures or shutdown and a portion of the estimated total cleanup costs is to be recognized as an expense during each operating period benefiting from operations of the general PP&E. This allocation must be based on a systematic and rational method. For example, the estimated cost could be allocated to operating periods based on the expected physical capacity of the PP&E and the amount of capacity used each period. In addition, disclosure of the total estimated cost is required.

3.2.5. Cleanup costs must be estimated when the associated PP&E is placed in service. The estimate must be referred to as the “estimated total cleanup cost. As cleanup costs are paid, payments must be recognized as a reduction in the liability for cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities. SFFAS 6, paragraph 94

describes two approaches to recognizing the total cleanup cost: one applies to Stewardship PP&E and another to general PP&E.

3.2.5.1. The estimated environmental and disposal liabilities associated with the total cleanup cost for Stewardship PP&E must be consistent with the treatment of the acquisition cost of Stewardship PP&E (i.e., expensing in the period placed in service). For Stewardship PP&E placed in service after the standard is adopted, the agency must recognize an expense and a liability for the full amount of estimated total cleanup cost when the Stewardship PP&E is placed in service. For Stewardship PP&E already in service, according to SFFAS 6, on the day the standard is adopted or upon early implementation, the agency must charge net position through a prior period adjustment and recognize a liability for the full amount of the estimated total cleanup costs. As re-estimates are made, adjustments to the liability must be recognized in expense as “changes in estimated cleanup costs from prior periods.”

3.2.5.2. SFFAS 6 had an effective implementation date for periods beginning after September 30, 1997 and TB 2006-1 as amended by TB 2011-2 had an effective date for periods beginning after September 30, 2012. For the initial implementation of these standards, DoD Components must record environmental and disposal liabilities for PP&E as described in Table 13-1 (for non-asbestos related liabilities) or Table 13-2 (for asbestos related liabilities).

Table 13-1. Cleanup Cost Liability Options for PP&E-September 30, 1997 and Prior

The following table describes cleanup cost liability options for the initial implementation of SFFAS 6 for liabilities that existed on or before September 30, 1997.

Environmental and Disposal Liability	Accounting Treatment
Option 1	Liability should be recognized for the portion of the estimated total cleanup cost that is attributable to that portion of the physical capacity used or that portion of the estimated useful life that has passed since the PP&E was placed in service. In each subsequent year of the asset’s useful life, recognize a proportionate amount of the remaining costs as an operating expense on the Statement of Net Cost and accumulation of liability on the Balance Sheet (SFFAS 6, paragraph 97-98, 104-105). As re-estimates are made, cumulative effect of changes in total estimated cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate.
Option 2	If costs are not intended to be recovered primarily through user charges, management may elect to recognize the estimated <u>total</u> cleanup cost as a liability upon implementation of the standard. In addition, in periods following the implementation period, any changes in the estimated total cleanup cost must be expensed when re-estimates occur, and the liability balance adjusted.

Note: The offsetting charge is to be recorded as a prior period adjustment on the Statement of Net Position (SFFAS 6, paragraph 104-105).

No amounts may be recognized as expense in the period of implementation. The amounts involved must be disclosed and to the extent possible the amount associated with current and prior periods should be noted.

Table 13-2. Cleanup Cost Liability Options for Asbestos-September 30, 2012 and Prior

The following table describes cleanup cost liability options for the initial implementation of TB 2006-1, as amended by TB 2011-2 for asbestos related liabilities that existed on or before September 30, 2012.

Asbestos	Accounting Treatment
Option 1	Record a liability for estimated cleanup costs equal to that portion of the physical capacity used or that portion of the estimated useful life of the asset that has passed since the PP&E was placed in service. The remaining cost must be recognized in a systematic and rational manner based on use of the physical capacity of the associated PP&E, whenever possible.
Option 2	If the asset has been in service for a substantial portion (greater than 50% of the useful life) of its estimated used life, management can elect to recognize the entire amount of the estimated cleanup cost. This option can only be used if costs are not intended to be recovered primarily through user charges (SFFAS 6, paragraphs 97-98, and 104-105).

Note 1. The offsetting charge for any liability for asbestos related cleanup costs related to general PP&E in service at the date of implementation must be made to the net position of the entity. The amount of the adjustment must be shown as a “change in accounting principle” in any statement of changes in net position that may be required (TB 2006-1, paragraphs 40-41).

Note 2. Illustrative Example of Asbestos Related Cleanup Costs calculation and reporting is presented in Appendix B of TB 2006-1.

Table 13-3. Cleanup Cost Liability Treatment for PP&amp;E Placed in Service After Effective Date

The following table describes the cleanup cost liability treatment for assets placed in service after September 30, 1997 (for non-asbestos related liabilities), as well as the cleanup cost liability treatment for assets placed in service after September 30, 2012 (for asbestos related liabilities).

Environmental and Disposal Liability	Effective Date	Assets Placed in Service After Effective Date
Non-Asbestos	After September 30, 1997	<p>Estimate the total cleanup costs related to the PP&amp;E and recognize annually a portion of the costs over the useful life of the asset.</p> <p>Recognition of the expense and accumulation of the liability must begin on the date that the PP&amp;E is placed into service, continue in each period that operation continues, and be completed when the PP&amp;E ceases operation (SFFAS 6, paragraphs 97-98).</p>
Asbestos	After September 30, 2012	<p>A portion of estimated total asbestos related cleanup costs must be recognized as expense during each period that PP&amp;E is in operation. The estimated useful life of the associated PP&amp;E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability.</p> <p>Recognition of the expense and accumulation of the liability must begin on the date that the PP&amp;E is placed into service, continue in each period that operation continues, and be completed when the PP&amp;E ceases operation (SFFAS 6, paragraph 98 and TB 2006-1, paragraph 38).</p> <p>As re-estimates are made, the cumulative effect of changes in total estimated asbestos related cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate. In certain scenarios, such as when cleanup costs have been fully expensed, the re-estimate may result in a credit to expense for that year (TB 2006-1).</p> <p>As asbestos related cleanup costs are paid, payments must be recognized as a reduction in the liability for asbestos related cleanup costs (SFFAS 6, paragraph 100).</p>

3.2.5.3. The estimated environmental and disposal liabilities associated with PP&E placed in service after September 30, 1997 (i.e., after the initial implementation of SFFAS 6, paragraph 104), that have future environmental cleanup, closure, and/or disposal requirements must be systematically recognized over the useful life or physical capacity usage of the asset. In accordance with SFFAS 6, the accumulation of the liability and the recognition of the related expense should commence when the asset is placed in service, continue in each period that operation continues, and be completed when the PP&E cease operations. The accounting treatment for PP&E placed in service after September 30, 1997, is applicable irrespective of whether the costs are intended to be recovered through user charges or not. If the environmental and disposal liability is not associated with an asset having a useful life, for example an event-driven environmental and disposal liability, the total estimated cleanup cost should be recognized upon identification of the liability in accordance with SFFAS 5.

3.2.5.4. Estimates must be evaluated and revised periodically (at least annually) to account for material changes due to inflation or deflation and changes in regulations, plans, and/or technology (see subparagraph 2.3.4.5). The cumulative effect of changes in total estimated cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate (SFFAS 6, paragraphs 96 and 99).

3.2.5.5. For asbestos (both friable and non-friable) related environmental and disposal liabilities associated with PP&E, the initial date of the standard implementation (i.e., TB 2006-1 amended by TB 2011-2) is the effective date for the systematic liability recognition. Asbestos related environmental and disposal liabilities associated with PP&E placed in service after September 30, 2012, must be systematically recognized over the remaining useful life of the PP&E.

3.2.6. Environmental and disposal liabilities that are unique in nature have different recognition criteria.

3.2.6.1. An environmental and disposal liability for military range cleanup, closure and/or disposal, including disposal of unexploded ordnance, does not exist until a formal decision is made to close the range, or hazardous waste is migrating off the range. If hazardous waste is migrating off the range, the DoD Component will recognize an environmental and disposal liability for the affected portion of the location outside the boundaries of the operational range. This accounting guidance is based on the conditional exemption provided to DoD per EPA regulation 40 CFR 266.202. The EPA regulation effectively excludes military munitions on a military range from the definition of solid waste. A military munition is not a solid waste when:

3.2.6.1.1. Used in training military personnel or explosives and munitions emergency response specialists (including training in proper destruction of unused propellant or other munitions); or

3.2.6.1.2. Used in research, development, testing, and evaluation of military munitions, weapons, or weapon systems; or

3.2.6.1.3. Recovery, collection, and on-range destruction of unexploded ordnance and munitions fragments during range clearance activities at active or inactive ranges. However, “use for intended purpose” does not include the on-range disposal or burial of unexploded ordnance and contaminants when the burial is not a result of product use.

3.2.6.2. Environmental and disposal liabilities related to conventional munitions that are determined to be excess and/or obsolete as of the financial reporting date are recognized for the total disposal estimate (i.e., the environmental and disposal liability). Conventional munitions are typically an inventory item intended for consumption; therefore, an environmental and disposal liability would exist only when the munitions are considered excess or obsolete, because the unused portions require special actions to ensure proper disposal. Conventional munitions are considered to be obsolete when no longer needed due to changes in technology, laws, or operations. Excess quantities of conventional munitions and obsolescence of conventional munitions must be evidenced by documentation of management’s decision to permanently remove an asset from service and the asset’s use is terminated.

3.2.6.3. Environmental and disposal liabilities for stockpile and non-stockpile chemical agents and munitions inventory, and buried chemical agents and munitions, should be recognized for cleanup, closure, and/or disposal costs when the probable and reasonably estimable criteria have been met, in accordance with TR 2. Per 50 U.S.C. § 1521, DoD is required to dispose of chemical weapons and materiel contained in the stockpile, as well as the non-stockpile. The stockpile consists of the chemical weapons and materiel in the inventory. The non-stockpile items are binary chemical weapons, miscellaneous chemical warfare materiel, recovered chemical weapons, and former production facilities. Proper action is needed to mitigate risk to human health and the environment from buried chemical agents and munitions. The determination to dispose of chemical weapons and materials must be evidenced by documentation supporting management’s decision to permanently remove an asset from service and the asset’s use is terminated.

3.2.6.4. For assets permanently removed from service, the environmental cleanup costs liability associated with the disposal, closure, and/or shutdown of the PP&E must be recognized in full. If removal of service is considered other than permanent, the liability and associated cleanup cost expense must continue to accumulate. Permanent removal from service is defined under subparagraph 2.0.17. In compliance with TR 14, documentation must exist of management’s decision to permanently remove an asset from service. Recognition of the full liability for cleanup costs associated with PP&E will not be recorded if an asset’s useful life has not been terminated and there is no documented evidence validating management’s decision to permanently remove the asset from service.

3.2.6.5. Overseas environmental and disposal liabilities are environmental cleanup, closure, and/or disposal costs associated with the operation of installations overseas in accordance with DoDI 4715.08 and international agreements as defined by DoD Directive 5530.3. Environmental and disposal liabilities resulting from DoD operations are considered “Government Related Events,” as defined by SFFAS 5, and will be recognized when the event creating the liability occurs. The requirements to be met will be based on the applicable SFFAS standards,

DoD Issuances (i.e., DoD Directive, DoD Instruction, DoD Manual), and international agreements, in accordance with DoDI 4715.05.

3.2.6.6. When estimating the disposal cost of assets containing hazardous waste, non-environmental costs that are considered immaterial to the total cost of removing or disposing of the asset(s) may be recognized as an environmental **and disposal** liability. Materiality depends on the degree to which an omission or misstatement would change or influence the judgment of a reasonable person relying on the information and requires the application of professional judgment. Each DoD Component is responsible for supporting any materiality determinations.

3.2.6.7. Both friable and non-friable asbestos related cleanup, closure, and/or disposal costs must be estimated in accordance with TB 2006-1, as amended by TB 2011-2. Cost estimates for asbestos must include both friable and non-friable, however itemization of the two types of asbestos is not required in the estimate. Asbestos related cleanup, closure, and/or disposal costs are the costs of removing, containing, and/or disposing of:

3.2.6.7.1. Asbestos-containing materials from property, or

3.2.6.7.2. Material and/or property that consist of asbestos-containing material at permanent or temporary closure, or shutdown of associated PP&E (i.e., when cleanup cannot occur until the end of the useful life or at regular intervals during that life). Asbestos related cleanup, closure, and/or disposal costs associated with PP&E must be recognized in accordance with information in Table 13-2 and Table 13-3. TR 10 provides a framework for identifying assets containing asbestos, assessing assets to collect information, and/or developing assumptions needed to estimate asbestos cleanup costs.

3.2.7. Multiple reporting entities may have distinct responsibilities regarding general PP&E and related cleanup costs. Some component reporting entities are designated by law, rule, or administrative regulation to fund the cleanup liability associated with PP&E owned and operated by another reporting entity during the asset's useful life. In such cases, a component reporting entity that recognizes general PP&E during its useful life differs from the component reporting entity that will eventually be responsible for the future outflows or other sacrifices of resources required for cleanup costs or funding the cleanup liability when the asset is removed from service. FASAB Interpretation 9 clarifies that during the assets useful life, the reporting entity that owns the asset must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for PP&E on its Balance Sheet until the general PP&E and the associated liability are transferred to the entity designated responsible by law, statute or policy for cleanup. At that time, the general PP&E and the liability should be de-recognized by the component reporting entity that recognized them during the general PP&E's useful life and recognized by the component reporting entity that will liquidate the liability. De-recognition and recognition of the general PP&E and liability should be performed in accordance with existing accounting standards. The DoD Component recording the environmental **and disposal** liability must have sufficient supporting documentation to establish its responsibility for the liability. If the receiving entity does not provide DD 1354 Transfer and Acceptance of DoD Real Property,

[Certificate of Title Transfer, quit claim deed, or other instrument of transfer](#), the transferring entity continues to recognize the environmental and disposal liabilities.

3.2.8. Environmental [and disposal](#) liabilities are generally based on accounting estimates that are discussed in paragraph 3.3. Recognition of necessary adjustments to accounting estimates used in establishing environmental [and disposal](#) liabilities are as follows:

3.2.8.1. The cumulative effect of changes in cost estimates is recognized as an expense in the current accounting period and the corresponding liability is adjusted. Additionally, the related cleanup cost for the current period must be expensed and accrued as an environmental [and disposal](#) liability. Refer to section 3.0 for the appropriate accounting procedures for recording environmental [and disposal](#) liabilities.

3.2.8.2. Material adjustments that are required to correct errors related to prior period operations must be recognized as a prior period adjustment that restates the prior period comparative financial statements. Adjustments to correct errors typically result from mistakes, or the oversight or misuse of facts that would materially misstate the entities' financial statements. This includes errors in the calculation of estimated environmental [and disposal](#) liabilities. This type of adjustment is reflected in the Statement of Changes in Net Position and omits any expense recognition in the current period. The amounts involved must be disclosed, and to the extent possible, the amount associated with current and prior periods must be noted. Adjustments required for immaterial amounts are recognized as a current period event.

3.2.9. The risk of material misstatement of accounting estimates normally varies with the complexity and subjectivity associated with the process, the availability and reliability of relevant data, the number and significance of assumptions made, and the degree of uncertainty associated with those assumptions. DERP and non-DERP [environmental sites](#) require cleanup cost estimates to be single point estimates using the best available data. If a range is estimated for environmental [and disposal](#) liabilities and an amount within the range is considered a better estimate than any other estimate, that amount must be recognized; however, if no amount within a range is considered a better estimate, then the minimum amount in the range must be recognized. Refer to paragraph 3.4 for disclosure requirements of estimates that are based on uncertainty.

### 3.3 Environmental [and Disposal](#) Liability Estimates

3.3.1. Environmental [and disposal](#) liabilities are generally developed based on accounting estimates, because the extent of the environmental cleanup, closure, and/or disposal costs cannot be determined until completing cleanup/disposal operations. The DoD Component's responsible program management function and accounting function should work together to identify and support the environmental [and disposal](#) liability estimates and maintain audit records to support assumptions, methodologies, and internal controls used in developing the estimates. The responsible program management function is accountable for generating and approving the cost estimates; the accounting function is responsible for reviewing the cost estimates and ensuring the liability is recognized according to the guidance published in this chapter. Each estimate is based on subjective as well as objective factors. Accordingly, sound business judgment based on

knowledge and experience about past and current events and assumptions is required. The accounting estimates are subject to audit standards of SAS Number 122/AU-C Section 540. Organizations that prepare accounting estimates must retain adequate documentation of quality review, estimator and reviewer qualifications, data sources, estimating methodologies, [substantiation](#) including the [cost](#) models, and internal control procedures. The process of establishing accounting estimates would normally consist of:

3.3.1.1. Identifying situations for which accounting estimates are required;

3.3.1.2. Identifying the relevant factors that may affect the accounting estimate;

3.3.1.3. Accumulating relevant, sufficient, and reliable data on which to base the estimate;

3.3.1.4. Developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors;

3.3.1.5. Determining the estimated amount based on the assumptions and other relevant factors;

3.3.1.6. Comparing prior accounting estimates to actual results and with new estimates to assess the reliability of the process used to develop estimates;

3.3.1.7. Determining that the accounting estimate is consistent with the operational plans of the entity; and

3.3.1.8. Determining that the accounting estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.

3.3.2. The environmental cleanup, closure, and/or disposal costs that are probable and reasonably estimable must be estimated based on site-specific information using engineering estimates, comparison with similar sites, contaminants, equipment, [parametric methodologies](#), or cost models validated in accordance with DoDI 5000.61. As cost estimates by definition are subjective and have an element of uncertainty, documentation to support cost estimates must be substantial and robust. The reliability of the cost estimate will depend on the amount of site-specific information available, the extent of experience and resemblance with similar site conditions or assets, availability of remediation technology, and [parametric methodologies](#) cost models. Once the DoD Component generates a cost estimate, the liability must be recognized in accordance with paragraph 3.2 and any uncertainty disclosed in the notes to the financial statements.

3.3.2.1. A cost estimate produced from a site-specific study is generally more reliable because it is based directly on environmental conditions at the site. Further, environmental personnel can evaluate the alternative cleanup, closure, and/or disposal actions identified through a site-specific study to develop engineering estimates and to identify the selected alternative.

However, understanding that DoD Components often include multiple sites on an individual contract, supporting documentation required to justify individual UPO transaction level details does not need to be at the site level. **Where multiple sites are included on an individual contract, the UPO must have details of each of the sites to decipher reasonably associated costs for each site.** In such circumstances, contracts and invoices supporting the UPO transaction level details for the combined multiple sites must be retained to support future audit requirements.

3.3.2.2. If a site-specific study has not been completed, then the DoD Component must determine whether the site is similar to other sites, where experience has been gained based on the completion of a comprehensive study or actual remediation. If there is no investigation and/or comparable site data available, costs are not considered reasonably estimable. In this case, the DoD Component should recognize the anticipated costs of conducting future studies as an environmental **and disposal** liability in accordance with paragraph 3.2 until they complete the site-specific study.

3.3.2.3. If an acceptable cleanup technology is not available to address the site, then the DoD Component must recognize the estimate to contain the hazardous waste and other relevant costs, such as the costs for future studies, as an environmental **and disposal** liability in accordance with paragraph 3.2. The DoD Component must also disclose the range of uncertainty in the notes to the financial statement.

3.3.2.4. When cost models are leveraged to develop cost estimates, DoD Components must:

3.3.2.4.1. Accumulate relevant, sufficient, and reliable data on which accounting estimates for a given environmental **and disposal** liability concern were based;

3.3.2.4.2. Ensure estimates are prepared by qualified personnel and adequately reviewed and approved by the appropriate levels of authority before being finalized;

3.3.2.4.3. Sustain the use of a cost model methodology by compiling and/or collecting and maintaining documentation from appropriate service providers (as applicable) to support review of cost factors on a regular basis and implementing a data collection process. For purposes of implementing this approach, DoD considers “performed on a regular basis” to mean at least annually. At a minimum, DoD Components must ensure that appropriate reviews have been performed and subsequent supporting documentation is available to provide to an auditor. Decisions on when to update cost factors must be driven by the impact that new information has on existing estimate;

3.3.2.4.4. Compile documentation and/or collect documentation from appropriate service providers (as applicable) supporting the reasonableness of cost factors used by cost estimation software;

3.3.2.4.5. Compile documentation and/or collect assurance from appropriate service providers (as applicable) that cost estimation software has been validated or otherwise ensure that the functions performed by the software are executed as intended; and

3.3.2.4.6. Compare a representative sample of prior accounting estimates with subsequent results to assess the reliability of the process used to develop estimates and the reasonableness of estimates developed.

3.3.3. Environmental and disposal liability estimates must be developed to include all event-driven environmental liability sites in the current asset/site universe and must include all asset-driven cleanup, closure, and/or disposal costs. Such cost estimates are calculated on a current cost basis and are based on a current plan, existing laws, and technology. Overhead management costs for environmental sites, assets, and equipment that cannot be attributed to specific sites should be added to the environmental and disposal liability at a summary level. Environmental and disposal liability estimates must include the following cost elements, as applicable:

3.3.3.1. Compensation and benefits of government personnel expected to devote significant time directly to a disposal effort;

3.3.3.2. Cost of employing contractors, engineers, and consultants;

3.3.3.3. Disposal costs (includes demilitarization, material handling, transportation, and tipping fees);

3.3.3.4. Cost of dedicated facilities, machinery, and equipment, and the related operating and maintenance costs;

3.3.3.5. Research and development costs for alternative remediation technologies;

3.3.3.6. Payments to regulatory agencies to provide technical support (e.g., document review of planned studies);

3.3.3.7. Efforts to tear down, remove, and dispose of the item(s), to include transportation, demilitarization, and dismantlement only as required by regulation and/or permit;

3.3.3.8. Planning and design efforts, to include contract advertisement and document reproduction;

3.3.3.9. Landscaping costs to replace landscaping elements damaged or destroyed by remediation efforts;

3.3.3.10. Permits, licenses, and approval to include State Historic Preservation Officer concurrence and documentation, and required for remediation by environmental regulation;

3.3.3.11. Grants or payments to state, tribal, and local governments;

3.3.3.12. Program management costs for DERP, a statutorily defined program with a limited universe of sites on active, BRAC and Formerly Used Defense Sites properties. Program management associated with DERP exists solely to support the remediation of sites specifically eligible for DERP. Since these program management costs will cease at the conclusion of the DERP [site response actions](#), these costs must be reported as part of environmental [and disposal](#) liability. These costs are necessary to effectively manage and execute the site cleanup requirements for DERP sites; however, they cannot be directly attributed to an individual cleanup site. Per DoDM 4715.20, the DoD Components must report these costs as rolled-up CTC estimates at the appropriate program level. Estimated program management costs must be included for the Future Years Defense Program (FYDP) and beyond. DoD Components must estimate program management costs beyond the FYDP by applying the average percentage of program management costs through the FYDP to the site level requirements remaining past the FYDP. As with other environmental [and disposal](#) liability, these estimates must be supported with appropriate documentation.

3.3.4. Environmental [and disposal](#) liability estimates must be reviewed annually and revised when there is evidence that significant changes in the cost measurement have occurred, such as changes in scope, ownership, regulation, or technology. In the event a significant change has occurred between the environmental [and disposal](#) liability valuation date and September 30, roll forward procedures must be performed (see paragraph 4.2). At a minimum, long-term cost estimates should be adjusted upward or downward annually, through indexing, to maintain them on a current cost basis as if acquired in the current period. Expenditures should be managed to the transaction level to allow for comparison of prior estimates to subsequent results. Supporting documentation required to justify individual transaction level details does not need to be at the site level. However, contracts and invoices supporting the transaction level details for combined multiple sites must be retained to support future audit requirements.

3.3.5. A portion of estimated total cleanup costs must be recognized as an expense during each period the PP&E is in operation. This must be accomplished in a systematic and rational manner based on use of the physical capacity of the associated PP&E, whenever possible. If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability. A more thorough explanation of the term “useful life” is provided in [Chapter 25](#). The current period estimated expense is equal to:

3.3.5.1. The total final estimated costs of the disposal or closure effort;

3.3.5.2. Divided by the total capacity;

3.3.5.3. Multiplied by the physical capacity used;

3.3.5.4. Minus the amounts previously recognized as expense;

3.3.5.5. Equals the current period estimated expense.

3.3.6. DoD Components must follow at least one (or some combination) of the approaches outlined (as applicable for the environmental [and disposal](#) liability considered) to establish and maintain a complete and current universe of environmental [and disposal](#) liabilities (i.e., baseline):

3.3.6.1. Reconcile PP&E asset records maintained in Accountable Property Systems of Record (APSRs) with environmental [and disposal](#) liability records in environmental databases of record;

3.3.6.2. Produce evidence of the performance of a historical fence-to-fence survey focused on identifying and recording environmental [and disposal](#) liabilities and recent efforts to maintain currency over initial survey findings; and

3.3.6.3. Reconcile environmental [and disposal](#) liability records with other appropriate source lists.

3.3.7. After an initial baseline has been established, DoD Components must maintain site universes by using the following techniques:

3.3.7.1. For asset-driven and event-driven liabilities, leverage PP&E asset acquisition [and disposal](#) processes/systems to update routinely the established baseline;

3.3.7.2. For event-driven liabilities, document and adhere to standard operating procedures for responding to typical site addition processes (e.g., spill programs, environmental surveys) and update the baseline; accordingly, and

3.3.7.3. For event-driven liabilities, document and adhere to standard operating procedures for removing future cost estimates when remediation requirements have been met and no additional future liability exists and update the baseline accordingly.

3.3.8. When implementing guidance outlined in subparagraphs 3.3.6 and 3.3.7, DoD Components must establish and maintain environmental [and disposal](#) liability universe baselines for event-driven and asset-driven environmental [and disposal](#) liabilities:

3.3.8.1. Event-driven environmental [and disposal](#) liabilities. In these instances, it is important that DoD Components define the history, timeline, and activities employed in the [environmental](#) surveys to demonstrate that a due care approach was taken, in accordance with TR 2, to establish an initial baseline using current factors (e.g., technology, cost, and the regulatory environment), and that there are sufficient procedures in place to identify and update the baseline to reflect the impact of changes in these factors. Documentation must be readily available to support the baseline, allowing auditors to verify the completeness of established cleanup site universes.

3.3.8.2. Asset-driven environmental and disposal liabilities. To apply the recognition and measurement principles and disclosure requirements for general PP&E in accordance with SFFAS 6, DoD Components may categorize PP&E into categories (base units) of PP&E against which the category definitions will be applied to identify relevant environmental and disposal liabilities. If only a subset of the PP&E asset universe is applicable to a given environmental and disposal liability subcategory, DoD Components must begin by considering the entire PP&E asset universe and demonstrate why individual subcategories are not applicable.

3.3.9. DoD Components must identify and account for environmental and disposal liabilities that are non-routine at the time of equipment disposal, in accordance with TR 11. When using the methodology described in TR 11, DoD Components should:

3.3.9.1. Leverage APSRs to define and categorize equipment assets that should be assessed using TR 11 guidelines.

3.3.9.2. Focus on establishing documentation consistent with guidelines set forth in TR 11 to establish an audit trail for reported equipment environmental and disposal liabilities. An audit trail must be produced even if the resulting value of equipment environmental disposal liabilities is deemed immaterial.

3.3.9.3. Review applicable contractual agreements to understand better the responsibilities and obligations during disposal of equipment assets being considered. In some instances, other contractual parties may assume all or part of a liability at the point of disposal, which could affect DoD financial reporting requirements.

3.3.9.4. Coordinate with the following communities (as applicable): Acquisition, Financial Management, Program Management, and Environmental.

### 3.4 Environmental and Disposal Liability Disclosures

3.4.1. Financial statement disclosures provide pertinent information in notes or narratives about the amounts reported on the face of the financial statements. (Refer to Volume 6B, Chapter 10 for guidance on completing the financial statement notes.) Disclosure requirements for liabilities, including environmental and disposal liabilities, differ depending on the underlying event and the probability and measurability (reasonably estimable) of loss. Key determinants of probable are the likelihood of contamination, the contamination is government related, the government is legally liable, or government acknowledges the financial responsibility, and whether remediation technology exists. The classifications of likelihood are probable, reasonably possible and remote. Probable means that the future confirming event or events are more likely than not to occur; reasonably possible means that the chance of the future confirming event or events is more than remote but less than probable; and, remote means the chance of the future event or events occurring is slight

3.4.2. Environmental and disposal liabilities meeting the criteria in TR 2 for “probable” and “reasonably estimable” must be recognized on the Balance Sheet. The recognition of

environmental and disposal liabilities requires the following disclosures associated with the cleanup, closure, and/or disposal cost estimates that must be addressed each reporting period within the financial statement note for environmental and disposal liabilities:

3.4.2.1. The sources (list applicable laws and regulations) of cleanup, closure, and/or disposal requirements;

3.4.2.2. The method for assigning estimated total cleanup, closure, and/or disposal costs to current operating periods (i.e., based on consumed useful life or physical capacity of the assets);

3.4.2.3. The unrecognized amounts of environmental and disposal liabilities for assets that require the systematic recognition of the total estimated cleanup, closure, and/or disposal costs. The DoD Component must recognize the portion of the total cost that is attributed to the useful life of the asset that has expired since the asset was placed in service. The balance of the total estimated cleanup, closure and/or disposal cost is the unrecognized portion of the liability;

3.4.2.4. Material changes in the total estimated cleanup, closure and/or disposal costs due to changes in laws, technology, or plans, and the portion of the change in estimate that relates to prior period operations;

3.4.2.5. The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, plans, or applicable laws and regulations; and

3.4.2.6. A description of the type of environmental and disposal liabilities identified.

3.4.3. Environmental and disposal liabilities that are not recognized because they do not meet the criteria of “probable” and “reasonably estimable” but for which there is at least a reasonable possibility that a loss may have been incurred are contingent environmental and disposal liabilities that must be disclosed in the notes to the financial statements. OMB Circular A-136 provides details for this disclosure. The financial statement disclosure should include the nature of the environmental and disposal liability and an estimate of the possible liability, an estimate of the range of dollar amounts for the possible liability, or a statement that such an estimate cannot be made.

3.4.4. Environmental and disposal liabilities that are classified as remote or with a slight chance of occurring do not require disclosure in the general-purpose financial statements and accompanying notes, but the law may require disclosure in special purpose reports. If such information is included in general purpose financial reports (e.g., the total face amount of insurance and guarantees in force), it should be labeled in such a way to avoid the misleading inference that there is more than a remote chance of a loss of that amount.

3.4.5. DoD Components must disclose Intragovernmental Liabilities Not Covered by Budgetary Resources separately from Liabilities Covered by Budgetary Resources in accordance with Volume 6B, Chapter 10.

3.4.5.1. Liabilities Covered by Budgetary Resources are liabilities incurred which are covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include:

3.4.5.1.1. New budget authority;

3.4.5.1.2. Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year;

3.4.5.1.3. Spending authority from offsetting collections (credited to an appropriation or fund account); and

3.4.5.1.4. Recoveries of unexpired budget authority through downward adjustments of prior year obligations.

3.4.5.2. Liabilities are considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the Balance Sheet date, provided that the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met first.

3.4.5.3. Liabilities Not Covered by Budgetary Resources include liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity.

3.4.6. DoD reports environmental litigation liabilities separately from other environmental and disposal liabilities in the notes to the financial statements. DoD Components must report estimates of certified third-party damage claims that are probable or reasonably possible. See Volume 6B, Chapters 4 and 10 for information regarding reporting and disclosing requirements on environmental [and disposal](#) liabilities arising from litigation claim.

3.4.7. Documentation to support the environmental [and disposal](#) liability recognition and disclosures, including management reviews, must be retained for the life of the liability. Once the liability has been eliminated, the documentation must be retained according to applicable retention [and disposal](#) instructions in accordance with Volume 1, Chapter 9.

## 4.0 ACCOUNTING PROCEDURES FOR RECORDING ENVIRONMENTAL AND DISPOSAL LIABILITIES

### 4.1 Standard Line of Accounting and Accounting Transactions

4.1.1. The [Standard Financial Information Structure \(SFIS\)](#) is a comprehensive data structure that supports requirements for budgeting, financial accounting, cost/performance, interoperability, and external reporting needs across the DoD enterprise. It is a common business language that enables budgeting, performance-based management, and the generation of financial statements. SFIS standardizes financial reporting across DoD and allows revenues and expenses to be reported by programs that align with major goals, rather than basing reporting primarily on appropriation categories. It also enables decision-makers to efficiently compare programs and their associated activities and costs across DoD and provides a basis for common valuation of DoD programs, assets, and liabilities.

4.1.2. Volume 1, Chapter 4 prescribes the requirements for SFIS and Standard Line of Accounting/Accounting Classification compliance for DoD business systems to meet statutory requirements and additional requirements implemented by the OMB and the Treasury. As stated in Volume 1, Chapter 4, subparagraph 1.3.8, the Treasury Bureau of the Fiscal Service publishes the USSGL which is updated annually in the TFM. TFM Volume 1 Supplements include the latest USSGL Bulletin and seven major sections that comprise the Treasury USSGL guidance: (I) Chart of Accounts, (II) Accounts and Definitions, (III) Account Transactions, (IV) Account Attributes for USSGL Proprietary Account and Budgetary Account Reporting, (V) Crosswalks to Standard External Reports for Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reporting, (VI) Crosswalks to Reclassified Statements for Reporting, and (VII) GTAS Validations and Edits for Reporting. Refer to the Office of the Deputy Chief Financial Officer SFIS website, the authoritative source for the DoD Standard Chart of Accounts (including point accounts), the Transaction Library and data element definitions when recording financial transactions related to environmental [and disposal](#) liabilities and environmental contingent liabilities.

## 4.2 Performing Roll Forward Procedures

4.2.1. Environmental [and disposal](#) liabilities reported in the financial statements must reflect the liability as of the Balance Sheet date (i.e., as of September 30, or as of June 30), not an earlier date. Thus, when the annual evaluation of the environmental [and disposal](#) liabilities is performed as of a date earlier than September 30, DoD Components must develop, document, and execute a process for performing roll forward procedures. These procedures are to determine if any changes that meet the “probable” and “reasonably estimable” criteria occurring during the roll forward period have a significant impact (see Appendix A) on the estimates to be reported as of September 30. To limit the time period covered by the roll forward procedures, DoD Components need to complete a robust cost estimation process at least as recently as June 30 of each year. Subsequent significant changes that have occurred between June 30 and September 30 must be reflected in the environmental [and disposal](#) liability reported as of the Balance Sheet date. To assist DoD Components with segmenting their universe to identify subsets of environmental [and disposal](#) liability cleanup sites that may not require a reassessment during the roll forward period, a decision tree has been developed and included in Figure 1.

4.2.2. While performing the roll forward procedures, each DoD Component must identify and assess any potential qualifying events to determine their significance to reported financial

statement balances. To roll forward the environmental and disposal liability for event-driven liabilities, the DoD Component must consider:

4.2.2.1. Whether the process for developing supporting justification to determine the significance of a roll forward event may not be as robust as the process for developing supporting justification produced to support the initial estimates or annual evaluation. Sufficient evidence must be available to support the roll forward assessments.

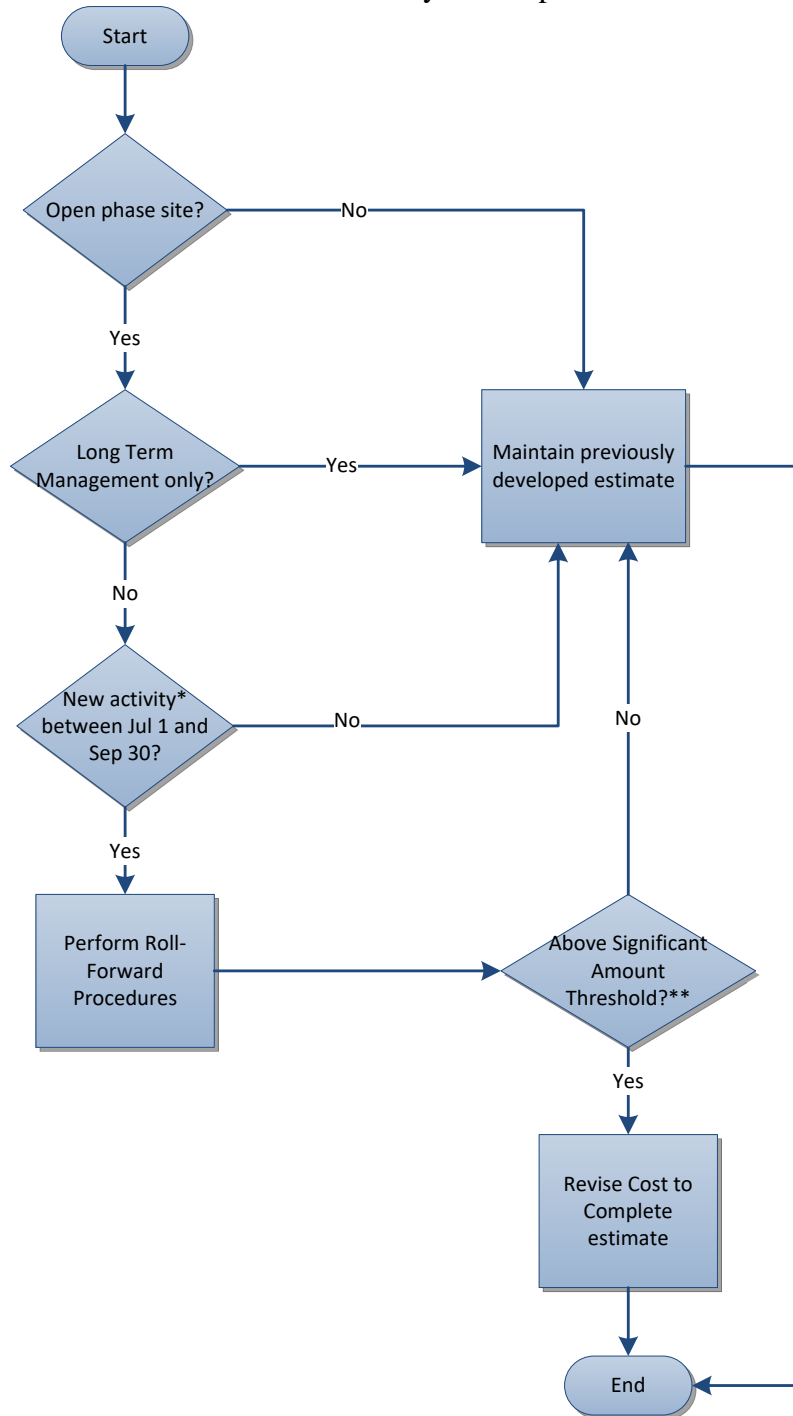
4.2.2.2. Establishing or adjusting liabilities for discoveries/changes occurring in the roll forward period based on prior experience with similar sites and/or conditions for the total cost of cleanup. If several similar sites and/or conditions are considered with no single scenario more likely than any other, the scenario with the minimum associated amount in the range should be used.

4.2.2.3. Macroeconomic factors (e.g., raw materials, regulatory standards, technology) that changed during the roll forward period to determine if they will have a significant impact to the overall cost estimates.

4.2.2.4. Establishing, documenting, and performing roll forward procedures that can sufficiently support the determination of whether any significant changes occurred or alternatively those changes are insignificant. Even if the result of those procedures determines that very few or no events are significant to the financial statements and/or balances as of September 30, the documented process for arriving at that determination will need to be available for auditor's review.

4.2.3. To update the environmental and disposal liability balance for asset-driven liabilities during the roll forward period of July, August and September, DoD Components must consider changes in asset inventories and/or significant occurrence impacting established cost factors developed to predict disposition of non-routine, environmentally hazardous waste at the point of PP&E asset disposal.

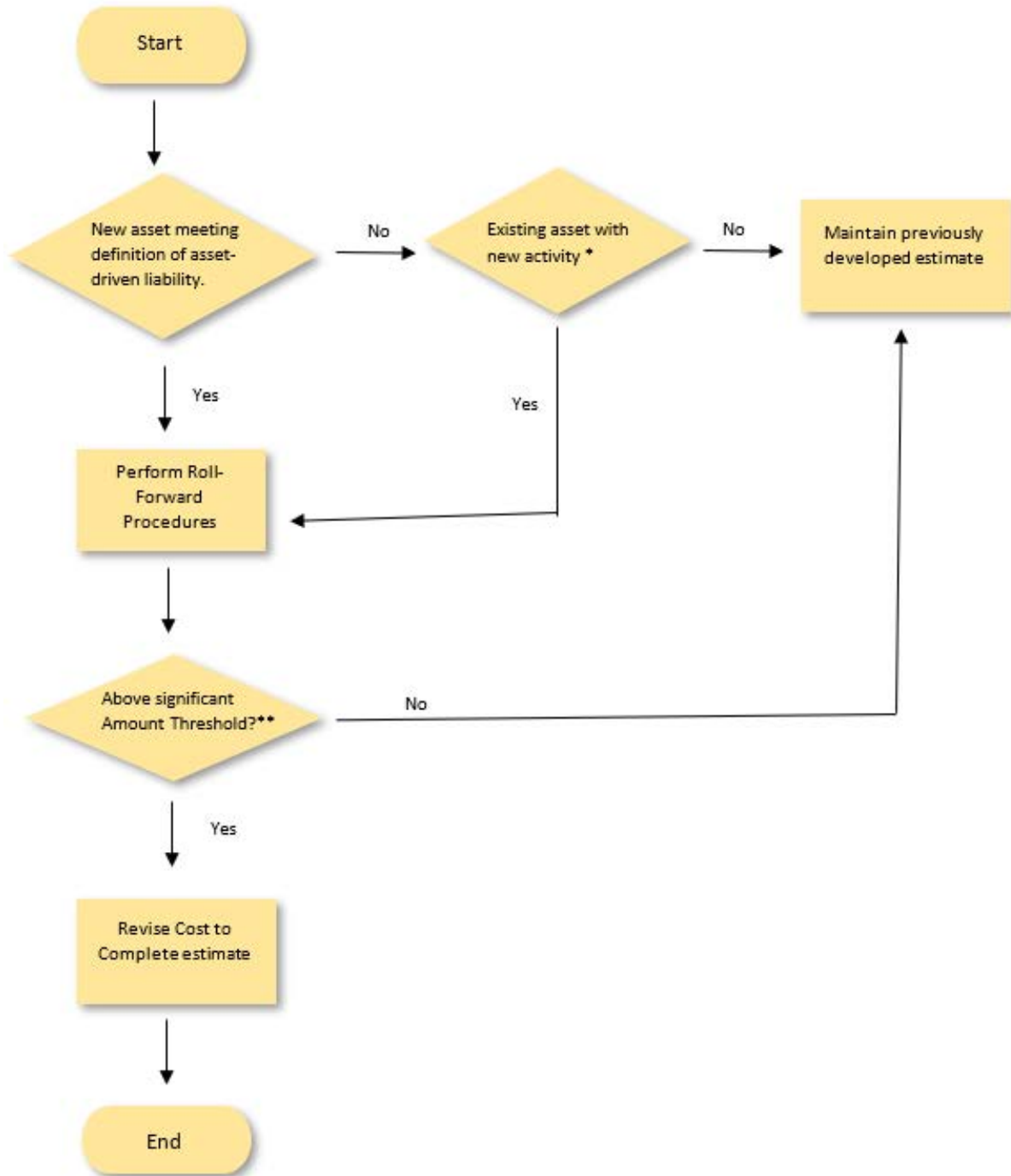
Figure 1. Roll Forward Decision Tree for Event-Driven Environmental and disposal Liabilities  
 Note: This decision tree assumes an interim analysis was performed as of June 30.



\*New activities could include: change in project scope, change in standards or regulations, new technology, new obligation, change in DoD policy, new or additional contamination discovered.

\*\*See Appendix A for determination of significant amounts in the roll forward period.

\* Figure 2. Roll Forward Decision Tree for Asset-Driven Environmental and Disposal Liabilities  
 Note: This decision tree assumes an interim analysis was performed as of June 30.



\*New activities could include: change in capacity, change in standards or regulations, new technology, new obligation, change in DoD policy, new or additional contamination discovered.

\*\*See Appendix A for determination of significant amounts in the roll forward period.

Appendix A. Quantitative Determination of Significant Amounts in the Roll Forward Period

DoD Components should use this quantitative approach to determine what are considered significant amounts in the roll forward period. Significant amounts that have occurred between June 30 and September 30 must be reflected in environmental and disposal liability through an adjustment to the environmental and disposal liability as of September 30. To assist DoD Components with segmenting their cleanup universe to identify subsets of environmental and disposal liability cleanup sites that may not require a reassessment during the roll forward period, decision trees have been developed and included in Figure 1 and Figure 2. DoD Components should leverage Figure 1 and Figure 2 or methods consistent with Figure 1 and Figure 2. The intent of Figure 1 and Figure 2 is to assist DoD Components with segmenting their cleanup universe to identify high risk subsets, subsequently reducing the overall effort required to implement roll forward procedures. Subsequently, DoD Components must assess qualifying events to determine significance to the reported financial statement balances.

Approach to calculate significant amount threshold:

Environmental & Disposal Liability Balance <sup>1</sup>	\$XXXXXX
Multiply by 1%	x .01
Materiality <sup>2</sup>	<u>XXXXXX</u>
Multiply by no more than 3% <sup>3</sup>	x .03
Significant Amount Threshold	<u>XXXXXX</u>

Note: DoD Components must use the calculated significant amount threshold or \$1 million, whichever is greater.

The significant amount threshold calculation has been developed to compensate for the possible aggregation of misstatements in the recorded liability amount by a DoD Component (i.e., misstatements for multiple environmental and disposal liability sites) and among DoD Components at the consolidated DoD financial statement level. While individual misstatements may not be material to the financial statements, when aggregated with other misstatements they could result in a material misstatement.

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<sup>1</sup> Total Environmental and Disposal Liabilities balance on the DoD Component’s financial statements as of the most recently reported period.

<sup>2</sup> This materiality amount is equivalent to Performance Materiality as described in the GAO FAM §230.12.

<sup>3</sup> Based on OUSD’s judgment to compensate for the potential aggregation of amounts at the DoD Component level.

**VOLUME 4, CHAPTER 14: “PAYMENT INTEGRITY”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [September 2023](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Updated formatting and added chapter hyperlinks to comply with current administrative instructions.	Administrative
4.0, Throughout	Updated the Office of the Under Secretary of Defense (Comptroller) role and responsibilities from the Financial Management Policy and Reporting Directorate to the Financial Improvement Audit Remediation Directorate.	Revision

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## CHAPTER 14

**PAYMENT INTEGRITY**

## 1.0 GENERAL

## 1.1 Overview

This chapter establishes policy for the Department of Defense's (DoD) Payment Integrity portfolio. The portfolio comprises separate Payment Integrity programs that report improper payment and unknown payment risk assessments or statistical estimates. These programs include disbursements related to pay and benefits, commercial goods and services, health care, military retirement, and travel, which collectively encompass the majority of payments made by DoD annually in accordance with the Payment Integrity Information Act of 2019 (PIIA). Refer to the Federal Government [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) website for a complete listing of DoD Payment Integrity programs. PIIA repealed the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Improvement Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015. The requirements for compliance with PIIA are described in the Office of Management and Budget (OMB) Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement," and OMB Circular A-136, "Financial Reporting Requirements," or their successor publications.

## 1.2 Purpose

The purpose of this policy is to provide guidance to the DoD Components (i.e., Military Services, Defense Agencies, DoD Field Activities, and Combatant Commands) to implement the requirements from the authorities identified in paragraph 1.3. This policy applies to all DoD Components who make "payments" (as defined in the PIIA).

## 1.3 Authoritative Guidance

1.3.1 [Public Law, 116-117, PIIA](#)1.3.2. [Title 31, United States Code, Section 3351 et. seq](#)

1.3.3. [OMB Circular No. A-123, Appendix C](#), "Requirements for Payment Integrity Improvement"

1.3.4. [OMB Circular No. A-136](#), "Financial Reporting Requirements"

## 2.0 DoD PROGRAM PAYMENT INTEGRITY ACTIVITIES BY PHASE

2.0.1. Programs with annual outlays greater than \$10,000,000 will be classified into one of two possible categories: Phase 1 or Phase 2. Programs that are not likely to have an annual amount of improper payments (IP) plus an annual unknown payments (UP) above the statutory threshold (which is either (1) both 1.5 percent of program outlays and \$10,000,000 of all program

payments made during the fiscal year (FY) or (2) \$100,000,000, regardless of the IP percentage of total program outlays) are referred to as being in Phase 1. If a program in Phase 1 determines that it is likely to annually make IPs plus UPs above the statutory threshold, then the program will move into Phase 2 the following year. Once in Phase 2, a program will have additional compliance requirements such as reporting an annual IP and UP estimate.

**2.0.2. Phase 1 Payment Integrity Activities Performed by the DoD Components.** PIIA requires that federal agencies assess all programs with annual outlays greater than \$10,000,000 for IP risk at least once every three years. The purpose of an IP risk assessment is to adequately conclude whether the program is likely to make total annual IPs plus UPs above or below the statutory threshold, and thus, may be susceptible to significant improper payments for the given year.

2.0.2.1. If the IP risk assessment demonstrates that the program is not likely to make IPs plus UPs above the statutory threshold, then the program will not produce a statistically valid estimate in the following year and instead will conduct another IP risk assessment in three years.

2.0.2.2. An IP risk assessment is a tool that can help a program understand the points within the payment process that may be vulnerable to IPs and UPs. The results of the IP risk assessment help identify weaknesses in internal controls that, if strengthened, could prevent future IPs and UPs from occurring. Establishing and maintaining effective internal controls, including an internal control system that prevents IPs and UPs from being made and promptly detects and recovers any IPs that are determined to be recoverable, should be a priority.

2.0.2.3. Programs must perform an adequate reconciliation of any population used in the creation of the IP risk assessment to conclude on the likelihood of the program being susceptible to significant improper payments. The reconciliation process should be documented in the IP risk assessment. See the [DoD Payment Integrity Risk Appetite Statement](#) for further guidance on the allowable materiality threshold for what percentage of payments from a given universe must be reconciled for the sample population to be considered “complete.”

**2.0.3. Phase 2 Payment Integrity Activities Performed by the DoD Components.** If the results of a program’s IP risk assessment determine that the total annual IPs plus UPs for the program are likely to be above the statutory threshold, the program will report a statistically valid IP estimate and UP estimate in the subsequent FY in which the determination was made. Programs that report IP and UP estimates are referred to as being in ‘Phase 2’. The main purpose of an IP estimate is to reflect the annual estimated known IPs and UPs made by the program.

2.0.3.1. Sampling and Estimation Methodology Plan (S&EMP). Programs reporting IPs for the first time must produce a S&EMP. A program’s S&EMP should have a mechanism for identifying, accounting for, and estimating the annual IPs and the annual UPs separately. The program will be responsible for designing and documenting a S&EMP that produces an IP and UP estimate that is accurate and appropriate given program characteristics, and it will be the DoD Office of Inspector General’s (OIG) responsibility to evaluate whether the explanation provided by the program and the S&EMP without point estimates and confidence

intervals around those estimates warrants compliance during the annual DoD OIG compliance review. S&EMPs will be considered statistically valid if they produce point estimates and confidence intervals around those estimates. Components must work with a statistician to determine the appropriate confidence interval given program characteristics, available resources, and whether the estimate is reliable. If a program is unable to develop a S&EMP that produces a point estimate and confidence interval around the estimate, then it must include in their S&EMP a detailed explanation as to why it is not possible. Once a program has submitted a S&EMP to OMB, the program does not need to resubmit a S&EMP unless an update to the plan is warranted (i.e., if the program is impacted by any significant legislative, funding, structural, or guidance changes).

2.0.3.2. Programs must perform an adequate reconciliation of any population such as the disbursement systems used in the creation of the S&EMP. The reconciliation process should be documented in the S&EMP. See the [DoD Payment Integrity Risk Appetite Statement](#) for further guidance on the allowable materiality threshold for what percentage of payments from a given universe must be reconciled for the sample population to be considered “complete.”

2.0.3.3. If a program is in Phase 2, has established a baseline, and reports an IP and UP estimate that is below the statutory threshold, it will automatically move back into Phase 1 the following FY unless the DoD OIG issued a noncompliance finding for the program in the previous year and the finding demonstrated that the program IP and UPs estimate was inaccurate and inappropriate given the program characteristics.

2.0.4. DoD Components will sample, conduct post payment reviews, estimate the amount of improper payments and unknown payments using statistically valid sampling methodologies, and report improper payments and unknown payments to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for reporting in the consolidated DoD Agency Financial Report (AFR) and the annual OMB Payment Integrity data call.

### 3.0 COMPLIANCE WITH PIIA REQUIREMENTS

3.0.1. The DoD OIG, on an annual basis, will evaluate the Department’s compliance with the requirements under PIIA. The Department is not considered compliant under PIIA if one or more of its programs are found non-compliant with one or more PIIA requirements. Refer to Table 14.1 for applicable compliance requirements by program phase classification type (Phase 1 or Phase 2). The six PIIA requirements are:

3.0.1.1. Published a Payment Integrity section in the Other Information section of the consolidated DoD [AFR](#) for the most recent fiscal year and posted the consolidated AFR and any accompanying materials required by OMB. The payment integrity information that is published on PaymentAccuracy.gov is the most common accompanying materials to the annual DoD AFR and the primary location for the comprehensive detailed Department payment integrity program information. OUSD(C) Financial [Improvement Audit Remediation \(FIAR\)](#) achieves the OMB and PIIA statutory requirements by reporting the Department’s payment integrity information through OMB’s Annual Data Call, which OMB subsequently publishes on PaymentAccuracy.gov.

3.0.1.1.1. DoD Components are not required to include payment integrity information in their individual AFRs.

3.0.1.1.2. DoD Components must include the following statement under the Payment Integrity section in their individual AFRs: “DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD Agency Financial Report. For detailed reporting on DoD payment integrity, refer to PaymentAccuracy.gov and to the Other Information section of the consolidated DoD AFR.”

3.0.1.2. Conducted a program-specific risk assessment for each DoD program or activity and adequately concluded whether the program is likely to make improper payments plus unknown payments above or below the statutory threshold.

3.0.1.3. Published improper payment and unknown payment estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to the consolidated DoD AFR.

3.0.1.4. Published corrective action plans (CAPs) for each program susceptible to significant improper and unknown payments for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.

3.0.1.5. Published a reduction target for each DoD program that has reported improper payment and unknown payment estimates above the statutory threshold, demonstrated improvements to payment integrity or reached a tolerable improper payment or unknown payment rate, and developed a plan to meet the established reduction target.

3.0.1.6. Reported an improper payment and unknown payment estimate of less than 10 percent for each DoD program and activity for which an improper payment and unknown payment estimate was published in the accompanying materials to the annual financial statement.

3.0.2. To be fully compliant with the PIIA, the DoD Components must meet each of the applicable requirements based on the program’s phase classification described in paragraph 2.1.

Table 14.1 DoD Program Compliance Requirements by Payment Integrity Phase Classification

Program Phase	AFR Published In Accordance with OMB Guidance	Conducted Risk Assessment	Published Adequate Estimate	Published CAP	Published Reduction Targets	Reported Rate Under 10 Percent
Phase 1	✓	✓	N/A	N/A	N/A	N/A
Phase 2	✓	N/A	✓	✓	✓	✓

3.0.3. If the DoD OIG determines that a program is non-compliant for any requirement, then the final OIG report must provide concrete recommendations to the program or DoD Component with specific actions the program must take to achieve compliance with the requirement.

#### \*4.0 OUSD(C) ROLES/RESPONSIBILITIES

##### 4.1 FIAR Directorate Role

The Deputy Chief Financial Officer designated the FIAR Directorate as the Executive Agent (EA) for the DoD Payment Integrity portfolio. As the EA for the DoD Payment Integrity portfolio, the FIAR Directorate provides oversight to the DoD Components to ensure compliance with the authoritative guidance listed in paragraph 1.3. Additionally, OUSD(C), FIAR must be notified by the audit agency of any stand-alone audits regarding Payment Integrity.

##### 4.2 FIAR Directorate Responsibilities

4.2.1. Interpret and provide proactive Payment Integrity related guidance and strategy to the DoD Components to ensure compliance with the authoritative guidance listed in [paragraph 1.3](#).

4.2.2. Review, collaborate and coordinate Senior Executive approval (as appropriate) for the DoD Components' performance and execution of their program-specific risk assessments in determining the susceptibility to significant improper and unknown payments.

4.2.3. Review, collaborate and coordinate Senior Executive approval (as appropriate) for the DoD Components' statistical sampling plans and if required, submit them to OMB.

4.2.4. Coordinate progress in reducing monetary loss, and compile and submit quarterly High-Priority Program Quarterly Payment Integrity Scorecard reports to OMB on DoD programs and activities reporting more than \$100 million projected in improper payments that resulted in monetary losses that are designated as "high-priority" by OMB.

4.2.5. Establish and report baselines and subsequently collaborate with DoD Components to establish reduction targets and develop a plan to meet the reduction targets for applicable program(s).

4.2.6. Review, adjudicate, and consolidate the DoD Components' payment integrity data and report the consolidated results in the Payment Integrity section of the consolidated DoD AFR and to OMB through their Annual Data Call.

4.2.7. Review the DoD Components' CAPs to ensure they are complete and link planned actions and improper payments and unknown payments to their root causes.

4.2.8. Review the DoD Components' CAP milestones to track and monitor progress.

4.2.9. Prepare and submit all DoD-wide reports regarding Payment Integrity.

4.2.10. Serve as the primary liaison for annual DoD OIG performance audits and Government Accountability Office (GAO) audits to ensure that all requested information is transmitted to the auditor in a timely manner and that the auditor recommendations are implemented.

4.2.11. Provide administrative and technical support to the DoD PIIA Senior Accountable Officials (SAO) Steering Committee. This committee comprises SAOs from the Military Services and several Defense Agencies responsible for proactive oversight of the DoD Payment Integrity program. The SAO Steering Committee implements best practices, monitors performance, and drives actions for achieving compliance with PIIA. The OUSD(C) FIAR schedules the committee meetings; prepares agendas and briefing materials; prepares meeting minutes; tracks action items to completion; and communicates necessary information to Committee members and stakeholders.

4.2.12. Ensure that the policy contained within the DoD Financial Management Regulation regarding Payment Integrity is current.

4.2.13. Retain documentation submitted by the DoD Components. Refer to [Volume 1, Chapter 9, "Financial Records Retention,"](#) for additional information on financial records retention.

## 5.0 DoD COMPONENT ROLES/RESPONSIBILITIES

### 5.1 DoD Components' Role

The DoD Components ensure that their payments are valid, accurate, and complete. Additionally, the DoD Components ensure that their payments are subjected to post-payment reviews that align with the Department's Payment Integrity lines of effort.

### 5.2 DoD Components' Responsibilities

5.2.1. For each DoD program under Phase 1, conduct a program-specific risk assessment to determine if the DoD program or activity is susceptible to significant improper payments.

5.2.2. For each DoD program under Phase 2 that has been determined to be susceptible to significant improper payments, develop a statistically valid S&EMP. In addition, implement the S&EMP to produce statistically valid improper payment and unknown payment estimates for all DoD programs and activities determined to be susceptible to significant improper payments.

5.2.2.1. For the payment integrity programs in phase 2, the Defense Finance and Accounting Service (DFAS) Enterprise Solutions and Standards, Enterprise Accounting and Audit Support Office (EAAS) performs most of the annual post-payment reviews, with coordinated support and concurrence from the DoD Components and executive oversight from the OUSD(C), FIAR Payment Integrity team.

5.2.2.1.1. The Army performs annual post-payment reviews of its travel payments and vendor payments that are outside the continental United States.

5.2.2.1.2. The Department of the Air Force performs annual post-payment reviews of its travel payments that are made from the Reserve Travel System.

5.2.2.2. Ensure all payments are subject to improper and unknown payment testing either internally or through the sampling methodologies and post-payment review processes performed by the DFAS, Enterprise Solutions and Standards, EAAS Office. The PIIA does not require agencies to test payments made by a Federal agency to another Federal agency. Therefore, DoD Components are not required to test for intergovernmental and intragovernmental payments transactions and these payments may be excluded from all testing populations.

5.2.2.3. Report annual results of improper payments and unknown payments to OUSD(C), [FIAR](#), for adjudication, consolidation, and reporting in the Payment Integrity section of the consolidated DoD AFR and to OMB through their Annual Data Call. DoD Intelligence Agencies must follow the Office of the Director of National Intelligence, National Intelligence Program, PIIA guidelines and reporting requirements. Classified payments are excluded from public reporting.

5.2.3. For programs or activities determined to be susceptible to significant improper payments and unknown payments above the statutory threshold designated by OMB, identify the root causes of improper payments and unknown payments and develop cost-effective CAPs that eliminate the root causes of improper payments and unknown payments and prevent and reduce improper payments and unknown payments.

5.2.3.1. Submit results on a quarterly basis to OUSD(C), [FIAR](#), for consolidation and reporting in accordance with OMB for high-priority programs. This designation is for programs with improper payments resulting in monetary losses that exceed \$100 million annually. High-priority programs must provide quarterly Payment Integrity Scorecard reporting on [PaymentAccuracy.gov](#).

5.2.3.2. Measure the effectiveness and progress of each CAP by assessing the results of actions taken to eliminate the root causes of improper payments and unknown payments.

5.2.4. Implement a cost-effective payment recovery program to recover improper overpayments that resulted in monetary losses.

5.2.5. Support the annual DoD OIG performance audit and relevant GAO audits in a timely manner by furnishing all required provided-by-client documentation, providing responses to auditor's inquiries, and implementing auditor recommendations.

5.2.5.1. Provide support for all ad-hoc requests from external oversight bodies (i.e., OMB, GAO, and Congress).

5.2.5.2. Notify OUSD(C), [FIAR](#) of any stand-alone audits regarding Payment Integrity that directly impact their Component.

5.2.6. Use the DNP Initiative resources to review payment or award eligibility for purposes of identifying and preventing improper payments.

5.2.7. Retain documentation submitted by the DoD Components. Refer to Volume 1, Chapter 9, for additional information on financial records retention.

## 6.0 OMB Circular No. A-123, Appendix C

DoD Components must implement the requirements in OMB Circular No. A-123, Appendix C, or its successor publication. The following paragraphs of this section provide a cursory overview of the key Appendix C requirements.

6.0.1. Programs or Activities Not Susceptible to Significant Improper Payments. PIIA requires that all DoD programs or activities not currently reporting an annual improper payment estimate assess their risk for improper payments. If a DoD component determines that a program or activity is not susceptible to significant improper payments, the DoD component must reassess that program's improper payment risk at least once every three years.

6.0.2. Programs or Activities Susceptible to Significant Improper Payments. If a DoD component determines a program to be susceptible to significant improper payments, the DoD component must estimate and report improper payments for that program annually.

6.0.3. Annual Improper Payment Estimates. In accordance with PIIA, DoD programs that are determined to be susceptible to significant improper payments must produce a statistically valid estimate of the improper payments and unknown payments made.

6.0.4. Annual Reporting. Most payment integrity reporting requirements are met through annual data requests from OMB and by reporting data in the consolidated DoD AFR. For more details on annual payment integrity reporting, see paragraph 7.0 for a summary of OMB Circular A-136 reporting requirements.

6.0.5. High-Priority Programs. PIIA requires OMB to designate the programs with the most egregious cases of improper payments and unknown payments as high-priority; and requires those programs to submit semi-annual or quarterly actions to track the progress towards reducing improper payments and unknown payments. Refer to subparagraph 7.0.2 for more information on the reporting requirements for high-priority programs.

6.0.6. Preventing Improper Payments. If a DoD Component determines that a program or activity is susceptible to significant improper payments, the DoD component must identify the root causes of the improper payments and unknown payments and implement appropriate corrective actions to prevent and reduce these types of payments.

6.0.7. Internal Control Over Payments. As DoD Components implement Appendix C, they should approach improper payments and unknown payments with an Enterprise Risk Management framework in mind and link agency efforts in establishing internal controls and

preventing improper payments and unknown payments. For more information see [OMB Circular No. A-123, Appendix A](#), “Management of Reporting and Data Integrity Risk.”

6.0.8. Payment Recovery Audits. One fundamental requirement that DoD Components must meet is to recover any Federal dollars that are a monetary loss to the Government unless legislation specifically prevents such recovery. Monetary loss to DoD represents overpayments such as duplicate payments or amounts that should not have been paid and can be recovered. PIIA requires any DoD program or activity that expends at least \$1 million during the year to implement payment recovery audits, if cost effective to the agency, in order to recover improper payments. [Volume 10, Chapter 22](#), “Payment Recovery Audits,” provides additional detail on payment recovery audits. The requirement to conduct payment recovery audits is independent of whether a program is susceptible to significant improper payments.

6.0.9. Annual Inspector General Compliance Review. The PIIA contains an important component of accountability to the entire spectrum of improper payment efforts. Every year, the DoD OIG reviews DoD Components’ improper payment reporting in the consolidated DoD AFR and any accompanying material (such as the information provided on PaymentAccuracy.gov) to determine if the agency complies with PIIA and OMB guidance.

6.0.10. Do Not Pay (DNP) Initiative. The [DNP Initiative](#) encompasses multiple resources that are designed to help DoD Components review payment eligibility for purposes of identifying and preventing improper payments.

6.0.11. Confirmed Fraud Reporting. As part of the annual OMB Payment Integrity reporting requirements, OUSD(C) [FIAR](#) collaborates with the DoD Components to report FY confirmed fraud results. It is important to note the classification of confirmed fraud is determined to be fraudulent through the adjudication process. Confirmed fraud does not include transactions determined by management to be anomalous or indicative of potential fraud that were referred to the DoD OIG or the Department of Justice, unless the appropriate judicial or adjudicative process has made the determination.

## 7.0 OMB Circular No. A-136

7.0.1. The Department must implement the requirements in OMB Circular No. A-136, or its successor publication. The following paragraphs of this section provide a cursory overview of the key PIIA reporting requirements.

7.0.2. The Department must complete the Annual Data Call issued by OMB and provide a link to PaymentAccuracy.gov in the annual consolidated AFR. The Department is responsible for: (1) contacting OMB (PaymentIntegrity@omb.eop.gov) by September 1st of the reporting year to gain access to the Annual Data Call and (2) reviewing the Annual Data Call guidance to determine which requirements are applicable. If the Department performs recovery audits and the recovery audit contractor recommends actions that can be taken to prevent overpayments, the Department should report on the actions taken in the consolidated AFR.

7.0.3. Beginning in FY 2023, high-priority programs will be required to provide in the annual consolidated AFR a summary of their payment integrity activities and results. The summary must include:

7.0.3.1. A description of improper payments made by the agency; an estimate of the improper payment amount and rate; an explanation of the causes of improper payments; and any major actions taken or planned to mitigate those causes;

7.0.3.2. An explanation for changes in payment integrity methodologies, activities, or results that occurred during the reporting period; and

7.0.3.3. A hyperlink for PaymentAccuracy.gov. The summary must not conflict with data that is available on PaymentAccuracy.gov, which is intended to be the complete source for all qualitative, quantitative, and contextual payment integrity information.

## 8.0 DEFINITIONS

### 8.1 Baseline

A baseline is a starting point or benchmark against which future progress can be assessed or compared. If a program had a 24-month reporting cycle where no significant changes occur in the S&EMP, the program will most likely be considered to have established a baseline.

### 8.2 Improper Payment

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service (as defined in the PIIA), or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

### 8.3 Payment

The term payment in this chapter means any transfer or commitment for future transfer of Federal funds such as cash, securities, loans, loan guarantees, and insurance subsidies, to any non-Federal person, non-Federal entity, or Federal employee, that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity.

#### 8.4 Recovery Audit

A recovery audit is the review and analysis of an agency's or program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments, that is specifically designed to identify overpayments.

#### 8.5 Root Cause

Root causes may be due to anomalies, random events, or due to process vulnerabilities and other systemic factors (e.g., failure to obtain documentation or failure to update recipient eligibility). A root cause is the origin of a problem or condition that led to the failure in a program or activity that resulted in an improper payment. Root cause analysis must identify the internal control deficiency or underlying problems and events that directly contributed to the improper payment.

#### 8.6 Significant Improper Payments

Significant improper payments are defined as gross annual improper payments and unknown payments (i.e., the total amount of monetary loss of improper payments, non-monetary loss improper payments, and unknown payments) in the program exceeding: (1) both 1.5 percent of program outlays and \$10 million of all reported program or activity payments made during the fiscal year reported, or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

#### 8.7 Tolerable Improper Payment and Unknown Payment Rate

The Tolerable Improper Payment and Unknown Payment Rate is the improper payment and unknown payment estimate achieved with a balance of payment integrity risk and controls. The tolerable improper payment and unknown payment rate for a program is determined by agency senior management and often includes improper and unknown payments, which are unavoidable, cost prohibitive, and sometimes mission prohibitive for the agency to prevent. If a program's tolerable Improper Payment and Unknown Payment Rate is above the statutory threshold, then the Improper Payment and Unknown Payment reduction target will eventually be set to equal that tolerable IP and UP rate.

#### 8.8 Unknown Payment

An unknown payment is a payment that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper because of insufficient or lack of documentation.

**VOLUME 4, CHAPTER 15: “NET POSITION”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [December 2019](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
2.0	Added introduction, providing source guidance references from the Department of Defense, Office Deputy Chief Financial Officer Standard Financial Information Structure.	Addition
2.3	Added definition for “Unexpended Appropriations While Awaiting a Warrant, Account Number 309000” to better align with United States Standard General Ledger (USSGL).	Addition
2.9	Added definition for “Unexpended Appropriations – Used – Disbursed, Account Number 310710” to better align with the USSGL.	Addition

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## CHAPTER 15

### NET POSITION

#### 1.0 GENERAL

#### 1.1 Overview

Net Position is the difference between the total assets and total liabilities recognized in the Federal Government's or a component reporting entity's Balance Sheet. Net Position may be positive (assets greater than liabilities) or negative (assets less than liabilities). Net Position accounts represent the net investment of the United States (U.S.) Government in the Department of Defense (DoD) or to the reporting entities of the DoD. As such, for the DoD agency-wide statements, it includes all operations of DoD activities, including General Funds, Working Capital Funds, and Special and Trust funds. The general policy to account for the Net Position of the U.S. Government in DoD is contained in this chapter.

#### 1.2 Purpose

This chapter provides descriptions of the [primary United States Standard General Ledger \(USSGL\)](#) accounts that comprise Net Position on the Balance Sheet and the Statement of Changes in Net Position (SCNP) financial statements. It also outlines the reporting of prior-period adjustments on the financial statements.

#### 1.3 Authoritative Guidance

The financial management policy and related requirements set forth in this chapter are in accordance with the applicable provisions of:

1.3.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ([SFFAS 21](#)), "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources;"

1.3.2. FASAB [SFFAS 27](#), "Identifying and Reporting Funds from Dedicated Collections;"

1.3.3. FASAB [SFFAS 43](#), "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds;"

1.3.4. Office of Management and Budget ([OMB Circular A-136](#)), "Financial Reporting Requirements;"

1.3.5. U.S. Department of the Treasury (Treasury) [USSGL](#), a supplement of the Treasury Financial Manual.

## \*2.0 STANDARD GENERAL LEDGER ACCOUNTS FOR NET POSITION

The standard general ledger accounts for Net Position presented are derived from the Treasury USSGL. Posting entries and account listings for the Net Position accounts are provided in the “DoD USSGL Transaction Library” and “DoD Standard Reporting Chart of Accounts,” respectively, which are available on the Office of the Deputy Chief Financial Officer [\*Standard Financial Information Structure\*](#) web page. Paragraphs 2.1 through 2.12 identify some relevant USSGL accounts to Net Position, but not limited to:

### 2.1 Unexpended Appropriations – Cumulative, Account Number 310000

This account is used to record the amount of unexpended appropriations after fiscal year-end closing. The balance in this account remains the same during the fiscal year. Activity to increase or decrease unexpended appropriations is reflected in other USSGL accounts in the 310000 series. At year-end, the nominal USSGL accounts in the 310000 series are closed to this USSGL account, including special and trust funds that receive appropriations from the General Fund of the U.S. Government. During the fiscal year, the net of debit and credit balances in the 310000 series accounts reflects the total remaining balance of unused appropriations. Special and trust funds that receive appropriations from the General Fund of the U.S. Government are to record this account. This account does not close at year-end.

### 2.2 Unexpended Appropriations – Appropriations Received, Account Number 310100

This account is used to record the amount of new appropriations received during the fiscal year. Special and trust funds do not use this USSGL account to record appropriations of dedicated collections. However, special and trust funds that receive appropriations from the General Fund of the U.S. Government are to use this account.

### \*2.3 Unexpended Appropriations While Awaiting a Warrant, Account Number 309000

This account is used to record the amount of new appropriations expected to be received during the fiscal year from the General Fund of the U.S. Government. This is equal to the funding provided under a continuing resolution and apportioned in accordance with OMB’s automatic apportionment bulletin. Pursuant to a continuing resolution or enacted annual appropriation act, the account may be used while awaiting a warrant to be issued for an appropriation by the Treasury’s Bureau of the Fiscal Service (Fiscal Service). Special and trust funds do not use this USSGL account to record appropriations for dedicated collections. However, special and trust funds that receive appropriations from the General Fund of the U.S. Government are to use this account. The balance in this account will adjust to zero when the Fiscal Service issues a warrant and must adjust to zero by year-end. This account does not close at year-end.

### 2.4 Unexpended Appropriations – Transfers-In, Account Number 310200

This account is used to record the amount of unexpended appropriations, from current or prior years, transferred in during the fiscal year. Special and trust funds that receive appropriations

from the General Fund of the U.S. Government are to use this account for transfers of unexpended appropriations.

#### 2.5 Unexpended Appropriations – Transfers-Out, Account Number 310300

This account [is used to record](#) the amount of unexpended appropriations, from current or prior years, transferred out during the fiscal year. Special and trust funds that receive appropriations from the General Fund of the U.S. Government are to use this account for transfers of unexpended appropriations.

#### 2.6 Unexpended Appropriations – Prior-Period Adjustments Due to Corrections of Errors - Years Preceding the Prior Year, Account Number 310500

This account [is used to record](#) the amount of net increase or decrease to unexpended appropriations due to errors in years preceding the prior-year's financial statements that resulted from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. Use only when comparative financial statements are being presented. Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

#### 2.7 Unexpended Appropriations – Adjustments, Account Number 310600

This account [is used to record](#) the amount of adjustments during the fiscal year to unexpended appropriations from current or prior years. Examples of adjustments include rescissions, and cancellations of expired appropriations. Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

#### 2.8 Unexpended Appropriations – Used – Accrued, Account Number 310700

This account [is used to record](#) the amount of [accruals representing a](#) reduction during the fiscal year to unexpended appropriations from current or prior years that is paired with USSGL account 570000, “Expended Appropriations - Used - Accrued,” when goods and services are received or benefits provided. [Any](#) funds that receive appropriations from the General Fund of the U.S. Government are to use this account.

#### \*2.9 Unexpended Appropriations – Used – Disbursed, Account Number 310710

[This account is used to record the amount of reduction during the fiscal year to unexpended appropriations from current or prior years that is paired with USSGL account 570010, “Expended Appropriations – Disbursed” when goods and services are received or benefits provided. Any funds that receive appropriations from the General Fund of the U.S. Government are to use this account when Fund Balance with Treasury is disbursed.](#)

### 2.10 Unexpended Appropriations – Prior-Period Adjustments Due to Corrections of Errors, Account Number 310800

This account is used to record the amount of net increase or decrease to unexpended appropriations due to errors in prior-period financial statements that resulted from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. Use USSGL account 310500, “Unexpended Appropriations - Prior-Period Adjustments Due to Corrections of Errors - Years Preceding the Prior-Year” for the amount of net increase or decrease to unexpended appropriations due to errors occurring in years preceding the prior-year's financial statements. Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

### 2.11 Unexpended Appropriations – Prior-Period Adjustments Due to Changes in Accounting Principles, Account Number 310900

This account is used to record the amount of net increase or decrease to unexpended appropriations from a prior period due to a change from one generally accepted accounting principle to another one that can be justified as preferable or the adoption of a new FASAB standard. Although the normal balance for this account is debit, it is acceptable in certain instances for this account to have a credit balance.

### 2.12 Cumulative Results of Operations, Account Number 331000

This account is used to record the amount of net difference since the inception of the activity between (1) expenses and losses, and (2) financing sources including appropriations, revenues, and gains. Although the normal balance for this account is credit, it is acceptable in certain instances for this account to have a debit balance. This account does not close at year-end.

## 3.0 ACCOUNTING POLICY FOR NET POSITION

### 3.1 Activities Financed By Appropriations

Activities whose operations are financed by appropriations must show the results of their operations as reductions to the Unexpended Appropriations account on a transaction basis and as changes in the Cumulative Results of Operations account with respect to the equity effect of transactions. The Unexpended Appropriations account is increased for the receipt of appropriations or other appropriation like resources and reduced for amounts expended for assets or operating expenses, and any appropriation withdrawals.

### 3.2 Activities Financed by Revenues

Activities whose operations are financed by revenues, generally defined as exchange revenue, must have their results of operations reflected as increases or decreases to the Cumulative Results of Operations account, which will include transfers of assets, which are recognized as financing sources. Appropriations received for a specific funding purpose will be accounted for

in the Unexpended Appropriations account until used as a financing source.

#### 4.0 RECOGNITION IN FINANCIAL STATEMENTS

The Component reporting entity's Net Position accounts are Unexpended Appropriations and Cumulative Results of Operations and each must be shown in the consolidated Balance Sheet and SCNP. See Volume 6B, "Form and Content of the Department of Defense Audited Financial Statements."

##### 4.1 Unexpended Appropriations

This amount includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances. Unexpended appropriations on the Balance Sheet must equal unexpended appropriations on the SCNP. Unexpended appropriations attributable to Funds from Dedicated Collections, if material, must be shown separately on the face of the Balance Sheet and should equal unexpended appropriations in the notes to the financial statements as prescribed in OMB Circular A-136.

##### 4.2 Cumulative Results of Operations

This amount represents the net results of operations since inception plus the cumulative amount of prior-period adjustments. This includes the cumulative amount of donations and transfers of assets in and out without reimbursement. Cumulative results of operations on the Balance Sheet should equal cumulative results of operations on the SCNP. Cumulative results of operations attributable to Funds from Dedicated Collections, if material, must be shown separately on the face of the Balance Sheet and should equal the cumulative results of operations in the Funds from Dedicated Collections Note, in accordance with SFFAS 27, as amended.

#### 5.0 ACCOUNTING FOR NET POSITION

Transactions affecting net position frequently require a compound entry; that is, entries must be made in both the proprietary (asset, liability, revenue, expense, and equity) and the budgetary accounts. Entries to the proprietary accounts normally require compound entries to budgetary accounts in the 400000 series of accounts. See the "DoD USSGL Transaction Library" for the listing of the transaction postings to the 300000 series accounts. Entries that affect direct program Delivered Orders, Paid and Unpaid must also include postings to Appropriation Used and Unexpended Appropriation.

#### 6.0 CORRECTION OF AN ERROR OR A CHANGE IN ACCOUNTING PRINCIPLE

##### 6.1 Errors in Financial Statements

Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. When errors are discovered after the issuance of financial

statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:

6.1.1. If only the current period statements are presented, then the cumulative effect of correcting the error should be reported as a prior-period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the SCNP.

6.1.2. If comparative financial statements are presented, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements. If the earliest period presented is not the period in which the error occurred and the cumulative effect is attributable to prior periods, then the cumulative effect should be reported as a prior-period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the SCNP for the earliest period presented.

6.1.3. The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed. Financial statements of subsequent periods need not repeat the disclosures.

6.1.4. Prior-period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated. See SFFAS 21 for additional guidance.

## 6.2 Changes in Accounting Principles

A change in accounting principle is a change from one **Generally Accepted Accounting Principle** to another one that can be justified as preferable. Changes in accounting principles also include those occasioned by the adoption of new federal financial accounting standards. Unless otherwise specified in the transition instructions section of a new FASAB standard, for all changes in accounting principles that would have resulted in a change to prior-period financial statements:

6.2.1. The cumulative effect of the change on prior periods should be reported as a “change in accounting principle.” The adjustment should be made to the beginning balance of cumulative results of operations in the SCNP for the period that the change is made.

6.2.2. Prior-period financial statements presented for comparative purposes should be presented as previously reported; and

6.2.3. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure. See SFFAS 21 for additional guidance.

**VOLUME 4, CHAPTER 16: “REVENUE, OTHER FINANCING SOURCES, GAINS AND LOSSES”**

**SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [February 2016](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Policy Memo	The Deputy Chief Financial Officer memorandum titled, “Policy Change to Account for In-Transit Inventory Assets (FPM19-10), dated December 9, 2019, was cancelled and was not incorporated into the chapter because it has been superseded by the revised policy in the chapter.	Cancellation
Throughout	Added provisions from the Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin 2017-1: “Intragovernmental Exchange Transactions.”	Addition
1.2	Added relevant authoritative guidance.	Addition
2.1.2.1	Updated the exchange revenue definition. Added list of exchange revenue performers (Department of Defense [DoD] activities providing goods and/or services at cost). List is not exclusive.	Revision
2.2	Revised to establish that components recognize exchange revenue from inventory sales when title passes to the customer, based on contract or agreement terms.	Revision
2.3	Added exchange revenue disclosures.	Addition
2.5	Added nonexchange revenue disclosures.	Addition
3.5.3	Added FASAB’s Accounting Standards Codification guidance for various unrealized gains/losses transactions.	Addition
4.2-4.4, 5.1-5.2 (previous version)	Removed exchange revenue, non-exchange revenue, other financing source, gain and loss accounts as these accounts can be found in the DoD Standard Chart of Accounts referenced in section 4.0.	Deletion

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## CHAPTER 16

**REVENUE AND OTHER FINANCING SOURCES, GAINS, AND LOSSES**

## 1.0 GENERAL

## 1.1 Purpose

This chapter describes the accounting principles and concepts that the Department of Defense (DoD) Components must follow to account for revenues, other financing sources, gains, and losses. Expenses are discussed in Chapter 17. Losses are discussed in both this chapter and Chapter 17 because the same transaction type sometimes can result in a gain or loss, e.g., disposition of real property at a price above or below the book value. The “Table of Transactions” in Appendix A assists in classifying exchange and nonexchange revenues, other financing sources, and gains and losses. See [Volume 6B](#) “Form and Content of the Department of Defense Audited Financial Statements” for reporting revenue on the financial statements.

## \*1.2 Authoritative Guidance

The accounting policy and related requirements in this chapter are in accordance with the applicable provisions of:

1.2.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ([SFFAS](#)) 7, “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting;”

1.2.2. FASAB Statement of Federal Financial Accounting Concepts ([SFFAC](#)) 1, “Objectives of Federal Financial Reporting;”

1.2.3. FASAB [SFFAC](#) 5, “Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements;”

1.2.2. FASAB [Technical Bulletin 2017-1](#): “Intragovernmental Exchange Transactions;” and

1.2.3. Office of Management and Budget ([OMB](#)) [Circular A-11](#), “Preparation, Submission, and Execution of The Budget.”

1.2.4. [OMB Circular A-136](#), “Financial Reporting Requirements.”

## 2.0 REVENUE

## 2.1 Sources of Revenue

2.1.1. The DoD earns revenues from normal operations. The DoD incurs gains or losses from unusual or nonrecurring transactions. Revenue is an inflow of resources that the Government

**demands, earns, or receives by donation.** Revenue results in an increase of assets, a decrease in liabilities (or a combination of both), and an increase in Net Position during a reporting period. Decreases in Liabilities for Advances and Prepayment after delivery of goods or services are examples of how decreases in liabilities impact revenue-

### 2.1.2. Exchange and Nonexchange Revenues

\* 2.1.2.1. **Exchange revenues are earned** from the sale of, or reimbursement for, goods and services provided to DoD activities, other Federal Government agencies and the public. **Exchange revenue performers (DoD activities providing goods and/or services at cost) include Defense Working Capital Fund (DWCF) activities; working capital funds within the Military Departments; working capital funds within Other Defense Organizations and construction agents, such as the United States Army Corps of Engineers. Customers include DoD Component organizations, offices, or other elements; non-DoD Federal Government agencies; others officially representing the Federal Government; and members of the public (as specified by law).**

2.1.2.2. Exchange revenues must be recognized when something of value is provided to another government entity or to the public.

2.1.2.3. Exchange revenue must be posted at the actual price that is received or receivable under the established pricing arrangement.

2.1.2.4. Nonexchange revenues are inflows of resources that the government demands or receives by donation.

2.1.2.5. **Cost of goods sold** must be recorded when **exchange** revenues are generated by providing goods and services. **Costs must be recorded in the appropriate accounts, such as Cost of Goods Sold for Inventory Sales or Operating Expenses/Program Costs for services sales.** The cost of goods sold account is discussed in Chapter 17.

2.1.2.6. Nonappropriated Funds (NAF) Activity Revenues must be accounted for in accordance with Volume 13, Chapter 5. **NAF** Activities are not included in federal financial statements and are non-federal activities for budgetary and proprietary accounting purposes. They follow **the standards of the** Financial Accounting Standards Board rather than Federal Accounting Standards Advisory Board.

2.1.2.7. **Refunds** received **are not revenue.** Refunds are recoveries of overpayments and can result from errors in paying invoices or items returned to vendor.

### 2.1.3. Reimbursements and Collections

2.1.3.1. **Appropriated funds used to furnish goods and services on a reimbursable basis must have specific legal authority to retain the collections.** Otherwise, the funds collected must be transferred to a miscellaneous receipt account. The expenses incurred must be recorded in the appropriate expense accounts and must not be reduced. See Volume 11A, Chapter 1 for additional information about reimbursements.

2.1.3.2. Revenue must be recorded in the financial records, collected promptly, and deposited in the appropriate [U.S. Department of Treasury \(Treasury\)](#) account.

## \*2.2 Exchange Revenue [Recognition and Measurement](#)

2.2.1. Exchange revenues are [earned](#) inflows of resources. Each party sacrifices value and receives value in return. Exchange revenue includes most user charges other than taxes.

2.2.1.1. Exchange transactions include intragovernmental transactions where the price is a full or partial reimbursement for the costs incurred.

2.2.1.2. The price received or receivable is the revenue from exchange transactions.

2.2.2. Revenue from exchange transactions must be recognized as follows:

2.2.2.1. When services are [performed for](#) the public or another government entity (except for specific services performed to order under a contract), revenue must be recognized [in the same accounting period](#). [Customer orders from non-federal entities do not become budgetary resources until collected, unless authorized by law](#). [Customer orders from Nonappropriated Funds are accounted for as orders from non-federal entities](#).

2.2.2.2. [When making goods to order or performing specific services under a contract, recognize revenue based on the ratio of the costs incurred to date to the total estimated costs of completing the contract](#). If a loss is probable (more likely than not), [recognize revenue in proportion to the estimated total cost and recognize costs when goods and services are acquired to fulfill the contract](#). [Recognize the loss in proportion to total cost over the life of the contract](#).

2.2.2.3. When goods are kept in inventory and are available for sale to customers when ordered, revenue must be recognized when the goods are [delivered to](#) the customer. [Delivery occurs when title passes to the customer](#). [Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery](#).

2.2.2.4. When services are rendered continuously over time or the right to use an asset extends continuously over time, such as [borrowing money or renting space in a building](#), the revenue must be recognized in proportion to the passage of time or the use of the asset. [If the life of asset leased is less than lease term, the life of asset should be used to calculate lease \(right of use\) revenue](#).

2.2.2.5. When an asset other than inventory is sold, any gain (or loss) must be recognized when the asset is delivered to the purchaser.

2.2.3. [In addition, recognize revenue:](#)

2.2.3.1. [When an entity earns administrative fees for a retirement plan. This offsets the entity's gross cost in calculating its net cost of operations](#).

2.2.3.2. When an entity earns administrative fees associated with collections on delinquent accounts.

2.2.3.3. When an entity earns interest on premiums for money borrowed in an intragovernmental transaction or investments made with premium revenue.

2.2.3.4. When an entity receives funds for administering international and other agreements, the sale of stockpile materials, or the cancellation of a receivable for a reimbursable activity.

2.2.3.5. When an entity receives interest from investments or other sources, where the source funds are from exchange revenues.

2.2.4. For advance fees or payments received, revenue must not be recognized until costs are incurred from providing the goods and services. An increase in cash and liabilities, such as “unearned revenue,” must be recorded when the cash is received or if an agency requests advances or progress payments prior to the receipt of cash and records the amount. Advances/prepayments received must be accounted for as a Liability for Advances and Prepayments until performance is accomplished in accordance with [Chapter 12](#) “Other Liabilities.”

2.2.5. A receivable must be recorded when revenue is recognized and payment is not received. If the full amount is not expected due to credit losses, returns, allowances or price redeterminations, bad debt expense must be recognized. An appropriate allowance for estimated bad debts must be established. [Chapter 3](#) “Receivables” discusses receivables, associated allowance for bad debt and bad debt expense.

### \*2.3 Exchange Revenue Disclosures

2.3.1. Each DoD Component that provides goods or services to the public or another government agency must disclose information about exchange revenue.

2.3.2. The following information is required for exchange revenue disclosures:

2.3.2.1. Differences in pricing policy from the full cost or market pricing guidance for exchange transactions with the public as set forth in OMB Circular A-25, User Charges (July 8, 1993), or in subsequent amendments in circulars that set forth pricing guidance.<sup>1</sup>

2.3.2.2. Exchange transactions with the public in which prices are set by law or executive order and are not based on full cost or on market price.<sup>2</sup>

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<sup>1</sup> Higher prices based on full cost or market price might reduce the quantity of goods or services demanded resulting in a lower amount of revenue foregone. The DoD Component should explain whether the quantity demanded was assumed to change as a result of a change in price.

<sup>2</sup>The pricing guidance in OMB Circular No. A-25 does not apply to prices set by law or executive order.

2.3.2.3. The nature of intragovernmental exchange transactions in which the entity provides goods or services at a price less than the full cost or does not charge a price at all, with explanations of the amount and reason for disparities between the billing (if any) and the full cost.

2.3.2.4. The expected loss when specific goods are made to order, or specific services are produced to order under a contract, and a loss on the contract is probable and measurable (reasonably estimable).

2.3.3. If increased prices for the exchange revenue may cause reduced demand, the entity must provide an estimate of the possible revenue foregone and provide calculation assumptions.

## 2.4 Nonexchange Revenue Recognition and Measurement

2.4.1. Nonexchange revenues include income taxes, excise taxes, duties, fines, penalties, donations, and other inflows of resources arising from the Government's power to demand payments. A reporting entity recognizes nonexchange revenue when the entity has a specifically identifiable, legally enforceable claim. The claim collection must be probable, and the amount is measurable. Recognize nonexchange revenues in the financial results of operations. See Volume 6B, Chapter 6 "Statement of Changes in Net Position" for reporting and disclosing nonexchange revenue.

2.4.2. Donations contributed to the government by a non-federal entity are nonexchange revenue. Donations may be financial, such as cash or securities, or non-financial such as land or buildings. DoD Components recognize exchange revenue from donations as resource inflows and assets measured at the estimated fair market value. For heritage assets or stewardship land donations, no amount is recognized. Multi-use heritage assets must be recognized at fair market value.

2.4.3. Collections not authorized for retention and used as appropriation reimbursements may be either exchange or nonexchange revenue and must be deposited in the Treasury's General Fund as miscellaneous receipts. If the underlying asset is predominately nonexchange, the revenue is nonexchange. Collecting entities must measure nonexchange revenue, but entities legally entitled must recognize the revenue (the recipient entities). SFFAS 7, paragraphs 48 through 63, describe the application of this general standard.

## \*2.5 Nonexchange Revenue Disclosures

2.5.1. Each DoD Component that has nonexchange revenue must disclose:

2.5.1.1. The basis of accounting, when using a modified cash basis of accounting.

2.5.1.2. The disclosure must point out the specific potential accruals not made as a result of this practice, the associated practical and inherent limitations of not making those accruals, and identify any other related required disclosures or supplementary information.

2.5.1.3. The reasons for trust fund revenues not recorded in accordance with applicable law (e.g., earmarked for specific purpose).

2.5.1.4. The nature of intragovernmental exchange transactions, when the entity provides goods or services at a price less than the full cost or does not charge a price at all, with explanations of the amount and reason for disparities between the billing (if any) and the full cost.

2.5.1.5. The expected loss, when specific goods or specific services are made or produced to order under a contract, if probable and measurable (reasonably estimable).

### 3.0 OTHER FINANCING SOURCES

#### 3.1 Other Financing Sources

The term “revenue” does not include most of the appropriations government reporting entities receive. Other financing sources include appropriations used, transfers of assets from other government entities, and imputed financing from cost subsidies.

#### 3.2 Appropriations

Until used, appropriations are not a financing source. Recognize appropriations in capital as “unexpended appropriations” (and in assets such as “Fund Balance with Treasury Under a Continuing Resolution”) when available for apportionment. Unexpended appropriations must be reduced by appropriations used and adjusted for other changes in certain types of rescissions and transfers. The net increase or decrease in unexpended appropriations must be recognized as a change in net position. Used appropriations must be recognized as a financing source in determining net results of operations. DoD Components use appropriations in operations when they receive goods and services, provide benefits and grants, and establish the related liability. Grants are provided when grantees meet the requirements.

#### 3.3 Imputed Financing

3.3.1. Government entities often receive goods and services from other government entities without reimbursing the providing entity for all the related costs. In addition, government entities often incur costs such as pensions, which are paid by other entities. These transactions represent imputed costs for the providing entity and imputed financing to the receiving entity. Recognition of imputed costs and corresponding offsets is important when those costs constitute inputs to government goods or services provided for a fee.

3.3.2. Working Capital Funds must recognize these subsidized costs as an imputed financing source equal to the imputed cost. This offsets any effect of imputed cost on net results of operations for the period.

3.3.3. General Funds do not recognize imputed financing with the exception of costs specifically required by OMB, such as employee pension, post-retirement health, and life insurance benefits; postemployment benefits for terminated and inactive employees, to include

unemployment and workers compensation under the Federal Employees' Compensation Act; and losses in litigation proceedings that are paid from the Treasury Judgement Fund.

3.3.4. DoD Component imputed costs can include military personnel costs, retirement benefits, other postemployment benefits, unreimbursed tenant's costs, and unreimbursed environmental cleanup costs, when administered outside the DoD reporting entity.

### 3.4 Transfers

The receiving entity must recognize a transfer-in as an additional financing source for an unreimbursed intragovernmental asset transfer. The transferring entity must recognize the transfer-out as a decrease in its result of operations. The value recorded must be the transferring entity's book value of the asset. If the book value is unknown, the asset must be recorded at its estimated fair market value on the transfer date. See [Appendix A "Table of Transactions"](#) for more information on property, plant, and equipment (PP&E) transfers. Trading partners should ensure they record reciprocal transfers (Transfers-In and reciprocal Transfers-Out) in the same accounting period to prevent reconciling differences upon elimination. Refer to the OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," Section 20.4(j)), for guidance on the budgetary impact of transfers.

### 3.5 Gains or Losses

3.5.1. Gains or losses must be recognized for unusual or nonrecurring transactions. Gains or losses result from the sale, exchange, trade, or disposition of government assets, except for inventory held for sale. Inventory and related property reclassified as excess, obsolete, or unserviceable results in a loss because the value is now less than the acquisition or moving average cost of the item. Revaluation is recognized as a loss or gain in the net cost of operations. Any difference between the sale proceeds and the book value of an asset is recognized as a gain or loss when the asset is sold. This general rule applies to PP&E, receivables, investments, and other assets' sales where the selling entity retains the sale proceeds. Revenues and gains or losses are classified and presented separately in the general ledger accounts and financial statements. Revenues are reported at their gross amount while gains or losses are shown net of related book value.

3.5.2. Specific guidance on gains and losses is included in each subject area. For example, Base Realignment and Closure gains and losses are discussed in [Volume 12, Chapter 13 "Fiscal Policy for Base Closure and Realignment."](#)

\* 3.5.3. Record unrealized holding gains/losses on securities available for sale in accordance with FASAB's [Accounting Standards Codification \(ASC\) 321-10-35](#); fair value hedges, cash flow hedges, and accounting for a hedge of a net investment in a foreign operation under [ASC 815-20-25](#); and foreign currency matters under [ASC 830-10](#).

### 3.6 Disclosures

Refer to [Volume 6B, Chapter 10](#) “Notes to the Financial Statements” for disclosure requirements for Other Financing Sources.

### 4.0 TRANSACTION LIBRARY

Use the [DoD Standard Financial Information Structure Transaction Library](#) for recording revenue and other financing sources within the DoD. Specific account definitions for all U.S. Standard General Ledger accounts and subaccounts are included in the DoD Standard Chart of Accounts.

**VOLUME 4, CHAPTER 16, APPENDIX A: “TABLE OF TRANSACTIONS”**

**SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [April 2016](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
1.3	Added relevant authoritative guidance.	Addition
3.2, 3.4.1, 3.4.4	Added the provisions of Federal Accounting Standards Advisory Board Technical Bulletin 2017-1: “Intragovernmental Exchange Transactions.”	Addition
5.0	Added revaluation determination factors	Addition
7.0	Added reference to the Department of Defense Transaction Library and Standard Reporting Chart of Accounts.	Addition

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## CHAPTER 16, APPENDIX A

### TABLE OF TRANSACTIONS

#### 1.0 GENERAL

##### 1.1 Overview

The United States (U.S.) Government finances its cost of operations through exchange transactions; nonexchange transactions; other financing sources; revaluations; or transactions not recognized as revenues, gains, or other financing sources. Transactions may be between a government reporting entity and the public or between two government reporting entities (i.e., intragovernmental transactions).

##### 1.2 Purpose

This appendix provides accounting standards used for classifying transactions that finance the Department of Defense's (DoD) cost of operations and a significant number of lesser transactions. This appendix is divided into the following groups: nonexchange transactions; exchange transactions that produce revenue; other financing sources; revaluation gains and losses; and transactions not recognized as revenues, gains, or other financing sources.

##### \*1.3 Authoritative Guidance

The accounting policy and related requirements in this appendix are in accordance with the applicable provisions of:

1.3.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting" established the standards for the classification of specific revenue transactions. Consult SFFAS 7, Appendix B when a transaction is not included in this appendix. SFFAS 7 paragraph numbers are provided for the classifications included in this appendix.

1.3.2. FASAB Technical Bulletin (TB) 2017-1: "Intragovernmental Exchange Transactions."

1.3.3. Office of Management and Budget (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget."

#### 2.0 NONEXCHANGE TRANSACTIONS

##### 2.1 Nonexchange Transactions

A non-exchange transaction arises when one party to a transaction receives value without directly giving or promising value in return. Nonexchange revenues must be classified and

recognized in determining the overall financial results of operations for the period. Refer to SFFAS 7, Paragraph 240.

## 2.2 Nonexchange Transactions with the Public

The Harbor Maintenance Trust Fund is a “user fee” tax classified in the budget as a governmental receipt. It is imposed on commercial cargo loaded and unloaded at specified U.S. ports open to public navigation. The collection is dedicated to the Harbor Maintenance Trust Fund administered by the U.S. Army Corps of Engineers (USACE). USACE recognizes nonexchange revenue for the Harbor Maintenance Trust Fund. Refer to SFFAS 7, Paragraph 249.

## 2.3 Nonexchange Transactions - Intragovernmental

Trust and special funds earn interest from the U.S. Department of Treasury (Treasury) securities. SFFAS 7, Appendix B Paragraphs 306-310 contain nonexchange revenue and Paragraphs 311-313 contain nonexchange gains and losses.

## 3.0 EXCHANGE TRANSACTIONS

### 3.1 Revenue from Exchange Transactions

When a government entity provides goods and services to the public or to another Government entity for a price, the Government entity earns exchange revenues. Subtract exchange revenue from gross cost to determine the net cost of operations and the change in net position. Refer to SFFAS 7, Paragraph 240.

### \*3.2 Exchange Transactions with the Public - Sales of Goods and Services

The sale of goods and services is an exchange transaction. The selling entity recognizes exchange revenue. Each party receives and sacrifices something of value. (Refer to FASAB TB 2017-1, Paragraphs 12-14 for more information about sacrificing value). Revenue defrays production costs, wholly or partially. Revolving funds (such as the Defense Working Capital Fund (DWCF)) and general funds (such as a Military Departments appropriated fund) sell goods and services. Customers include private parties and businesses when authorized by law, foreign governments, state and local governments, and others not officially representing the Federal Government. Nonfederal entities’ orders are budgetary resources when collected. Additionally, interest and rents collected from DoD-owned homes in the Homeowners Assistance Program are exchange revenue. Refer to SFFAS 7, Paragraph 270.

### 3.3 Exchange Transactions with the Public - Sales of Property, Plant, and Equipment

An exchange transaction occurs when the Reporting Entity has legal authority to retain the asset sale proceeds. Each party receives and sacrifices something of value. If the sales price equals book value, then there is no gain or loss. If the sales price is more or less than book value, a gain or loss, respectively, is recognized to the extent of the difference. A gain or loss is recognized rather than revenue or an expense because Property, Plant, and Equipment (PP&E)

sales are nonrecurring inflows of resources. The sales price is a gain when the asset book value is zero. The book value is zero (a) when the PP&E is fully depreciated or has been written off or (b) when the asset is stewardship PP&E, which is expensed when purchased. Refer to SFFAS 7, Paragraphs 295-296.

### 3.4 Exchange Transactions - Intragovernmental Revenue

\* 3.4.1. Revolving Fund Intragovernmental Sales of Goods and Services. Each party receives and sacrifices something of value. The value could be direct, indirect, tangible, intangible, quantitative, or qualitative (such as immeasurable guidance or advice). The proceeds are exchange revenue. The revenue defrays the cost. DoD activities selling at cost include DWCF activities, Military Departments, Other Defense Organizations' revolving funds, and USACE. Customers include any DoD Component, organization, office, or other element; non-DoD Federal Government Agencies; and others officially representing the Federal Government. Refer to SFFAS 7, Paragraph 314, and FASAB TB 2017-1, Paragraphs 15-20 for clarification on value sacrificed or received in intragovernmental transactions.

3.4.2. Appropriated Fund or Trust Fund Activity (Other Than a Revolving Fund) Intragovernmental Sales of Goods and Services. Each party receives and sacrifices something of value. The proceeds are exchange revenue. The revenue defrays the cost. DoD activities selling at cost include the Military Departments, Defense Agencies, and USACE. See subparagraph 3.4.1 for customers. Refer to SFFAS 7, Paragraph 315.

3.4.3. Employer Entity Contributions to Pension and Other Retirement Benefit Plans for Federal Employees. Federal Government employees provide service for compensation, including salary received currently; and pensions, retirement health benefits, and other retirement benefits received upon retirement. Each party sacrifices value and receives value in return. The benefits of financing may include employer-paid contributions to the retirement fund. The employer contribution is an inflow of resources to the retirement fund and a payment for the future provision of a pension or other retirement benefit to its employees. Therefore, it is the retirement plan administrator's exchange revenue that offsets the gross cost of operations. Within the DoD, the DoD Military Retirement Trust Fund reports this revenue. The DoD Office of the Deputy Chief Financial Officer must first approve any DoD Component using this category of exchange revenue. Refer to SFFAS 7, Paragraphs 316-317.

\* 3.4.4. Providing Entity Contracted Third Party Services for Receiving Entity. If the providing entity contracts with a third party to provide services for the receiving entity, the transaction is an exchange transaction. The providing entity records exchange revenue for the full amount earned, whether all costs are recovered or not. The receiving entity records expense or capitalized assets for the full amount paid. Refer to FASAB TB 2017-1, Paragraphs 5-11.

3.4.5. Interest on Treasury Securities Held by Trust Revolving Funds. A trust revolving fund is a revolving fund classified by law as a trust fund. It earns exchange revenue, which offsets its gross cost. Trust revolving funds' capital is predominantly earned revenue. When their capital is invested in Treasury securities, the interest is related to their cost of operations. The interest received is classified as exchange revenue. Refer to SFFAS 7, Paragraphs 324-325.

3.4.6. Interest on Treasury Securities Held by Trust Funds. A major source of revenue for many trust and special funds (such as the DoD Military Retirement Trust Fund, the DoD Education Benefits Fund, the National Security Education Trust Fund, and the Voluntary Separation Incentive Fund) consists of exchange **revenue** and other financing sources. Capital invested in Treasury securities **is** classified as exchange revenue. Refer to SFFAS 7, Paragraph 308.

3.4.7. Interest on Uninvested Funds Received by Loan and Guaranteed Loan-Financing Accounts. A guaranteed loan financing account holds uninvested balances as reserves against its loan guarantee liabilities and earns interest on these balances. A direct loan financing account may hold uninvested balances to bridge transactions that are integral to its operations, **earning** interest on these balances. The interest earned through exchange transactions with **the** Treasury is an offset to the financing account's related costs of operations. Within the DoD, the reporting of **this interest exchange revenue** applies specifically to the **Interest Revenue-Other-Distributed Offsetting Receipt (531000.05) or Interest Revenue – Investments-Distributed Offsetting Receipt (531100.05) accounts.** The Office of the Deputy Chief Financial Officer, DoD must first **approve** any DoD Component **using** this category of exchange revenue. Refer to SFFAS 7, Paragraph 326.

### 3.5 Exchange Transactions - Intragovernmental-Gains and Losses

Revolving fund, trust, and trust revolving fund (e.g., Military Retirement Trust Fund) held Treasury securities may be callable or redeemable on demand. If the Treasury securities are retired before maturity, any difference between the **retirement** price and the net carrying value must be recognized as a gain or loss. For the **nonexchange** interest, the gain or loss is nonexchange. For **usual and recurring** revenues, **the interest received is classified as exchange revenue.** Refer to SFFAS 7, Paragraph 329.

## 4.0 OTHER FINANCING SOURCES – INTRAGOVERNMENTAL

### 4.1 Cost Subsidies: Difference Between Internal Sales Price and Full Cost

Entities may receive goods or services without paying **partial or full cost for** the goods or services. The difference between full cost and the reimbursement **or** “transfer price” is imputed **as a financing** cost to the receiving entity. The imputed financing is recognized as **a financing** source. Examples include military personnel costs not reimbursed by Defense Agencies to the military personnel appropriations and environmental cleanup costs not reimbursed to the **non-DoD fund** administering entity. Refer to SFFAS 7, Paragraphs 333-334.

### 4.2 Transfer of General PP&E and Stewardship Assets without Reimbursement

4.2.1. **General PP&E (GPP&E)** and Stewardship Assets (Heritage Assets and Stewardship Land) may be transferred from one government entity to another. **If the asset was classified as stewardship PP&E in its entirety by both the transferring entity and the recipient entity, the transfer does not affect the net cost of operations or net position of either entity, and therefore in such a case it is not a revenue, a gain or loss, or other financing source.**

4.2.2. If GPP&E is transferred, the transferring entity recognizes it as a negative other financing source (transfer out) of capitalized assets and the recipient entity recognizes it as another financing source (transfer in) of capitalized assets at the asset book value.

4.2.3. If GPP&E is transferred out, but the recipient entity classifies the asset as stewardship PP&E, the transferring entity recognizes it as a transfer-out of capitalized assets and the recipient entity recognizes no amount. Refer to SFFAS 7, Paragraph 346. Similarly, if the transferring entity transfers multi-use heritage assets and the cost remains on the books, the cost is recognized as a transfer-out of capitalized assets. The receiving entity must not recognize any amount. The receiving entity must enter the stewardship PP&E in their APSR, report the asset within financial statement notes, as appropriate (within heritage PP&E), and maintain supporting documentation of ownership.

4.2.4. If the transferred asset was classified as stewardship PP&E but GPP&E for the recipient entity, the recipient entity recognizes it as a financing source. The transferring entity recognizes no amount.

4.2.5. Stewardship assets transferred do not affect the net cost of operations or net position of either entity. It is not revenue, a gain, a loss, or other financing source. Donated stewardship PP&E is not recognized as a cost or revenue. Refer to SFFAS 7, Paragraph 345.

#### \*5.0 REVALUATIONS

Revaluation is a reassessment of the estimated future value of an asset. Capitalized PP&E is revalued when it no longer serves its intended purpose due to damage, obsolescence, or being identified as excess. Inventory and related property are revalued due to excess inventory, obsolescence, damage, anticipated losses on purchase agreements, or changes in the net realizable value of commodities. Revaluation is recognized as a loss or gain in the net cost of operations. Refer to SFFAS 7, Appendix B, Paragraphs 347-350 for these classifications. Foreign currency revaluations are discussed in Volume 6A, Chapter 7 “Foreign Currency Reports.”

#### 6.0 TRANSACTIONS NOT RECOGNIZED AS REVENUES, GAINS, OR OTHER FINANCING SOURCES

##### 6.1 Disposition of Revenue to Other Entities - Custodial Transfers

An entity may collect primarily non-exchange revenue on behalf of the General Fund or another entity within the government. The collecting entity debits a “nonentity” liability account and credits its “nonentity” Fund Balance with Treasury account. Custodial transfers do not affect the collecting entity’s net cost of operations or operating results. The receiving entity recognizes the revenue according to the applicable standards. Refer to SFFAS 7, Paragraph 353.

##### 6.2 Sales of Different Types of Government Assets

The sale of government assets (other than forfeited property) is an exchange transaction because each party receives and sacrifices something of value. Any difference between the sales

proceeds and book value is recognized as a gain or loss when the asset is sold. If the sales proceeds equal book value, there is no gain or loss. This general rule applies to PP&E, receivables (other than direct loans), foreclosed property associated with pre-1992 direct loans and loan guarantees, and miscellaneous assets. It does not apply to inventory, forfeited property, the sale of direct loans, the sale of foreclosed property associated with post-1991 direct loans and loan guarantees. Refer to SFFAS 7, Paragraphs 354-355.

### 6.3 Repayment of Post-1991 Direct Loans

The estimated loan repayments present value is included in the direct loan's subsidy cost, and a recognized expense when the loans are disbursed. When cash is received, decrease the loans receivable by an equal amount. Therefore, the repayment is not recognized as a revenue, a gain, or other financing source. If the actual repayment is different from the previous estimate, the subsidy is re-estimated and recognized as an **increase or reduction** in subsidy expense. Refer to SFFAS 7, Paragraph 365.

### 6.4 Repayment of Pre-1992 Direct Loans **or Receivables**

When pre-1992 direct loans or receivables are repaid, **wholly or partially**, the entity exchanges one asset (loans receivable) for another (cash) with equal value. Therefore, cash inflow equal to book value is not recognized as a revenue, a gain, or other financing source. Any unpaid amount is recognized as an adjustment to the bad debt allowance. Refer to SFFAS 7, Paragraphs 366-367.

### 6.5 Repayment of Receivables – Except Direct Loans

When receivables other than direct loans are paid, the entity exchanges one asset (loans receivable) for another (cash) with equal value. The amount of cash inflow equal to book value is not recognized as revenue, gain, or other financing source. If the receivable is not repaid, the unpaid amount is recognized as an adjustment to the bad debt allowance and does not affect revenue, gains, or other financing sources. Refer to SFFAS 7, Paragraph 367.

### 6.6 Sales of Direct Loans

A direct loan sale is a modification according to the Federal Credit Reform Act of 1990. The direct loan sale loss (or gain) equals the book value of the loans sold (prior to sale) minus the net proceeds of the sale. **Modification costs are expenses due to interest rate changes.** If the sale is with recourse, the estimated recourse loss present value is also recognized as an expense. Any difference between the book value loss (or gain) and the cost of modification is recognized as a gain or loss. The amount of cash inflow equal to **the** book value is not recognized as revenue, gain, or other financing source. Refer to SFFAS 7, Paragraph 368.

### 6.7 Acquisition of PP&E through Exchange

The cost of PP&E acquired through an exchange of assets with the public is the fair value **when** the PP&E is surrendered. If the **acquired PP&E** fair value is more readily determinable than that of the PP&E surrendered, the cost is the **acquired PP&E** fair value. If neither fair value

is determinable, the cost of the PP&E acquired is the cost recorded for the PP&E surrendered net of any accumulated depreciation or amortization. If cash consideration is included, the cost of PP&E acquired is increased (or decreased) by the cash surrendered (or received). Refer to SFFAS 7, Paragraph 356.

#### 6.8 Sales of Foreclosed Property Associated with Post-1991 Direct Loans and Loan Guarantees

When property is foreclosed, the property is recognized as an asset at the net present value of its estimated net cash flows. The subsidy cost of post-1991 direct loans and loan guarantees is included as an expense when the loans are disbursed. When the foreclosed property is sold, any difference between the sales proceeds and the net present value requires a reestimate of the subsidy expense. The amount of cash flow equal to book value is not recognized as a gain, revenue, or other financing source. Refer to SFFAS 7, Paragraph 369.

#### 6.9 Negative Subsidies on Post-1991 Direct Loans and Loan Guarantees

If the direct loans or loan guarantees are estimated to make a profit, a negative subsidy results, apart from administrative costs (which are excluded from the subsidy calculation by law). The subsidy cost is an expense when the direct loan or guaranteed loan is disbursed. A negative subsidy is a direct reduction in expense. Refer to SFFAS 7, Paragraph 362.

#### 6.10 Downward Subsidy Reestimates for Post-1991 Direct Loans and Loan Guarantees

A downward subsidy reestimate means that the subsidy cost is less than previously estimated. A downward subsidy reestimate is a direct reduction in expense. Refer to SFFAS 7, Paragraph 363.

#### 6.11 Fees on Post-1991 Direct Loans and Loan Guarantees

The estimated fee present value is a subsidy cost offset of the direct loans and loan guarantees. The estimated fee present value is one component in calculating the value of loans receivable or loan guarantee liabilities. When cash is received for fees, the loans receivable decrease (or the loan guarantee liabilities increase) by an equal amount. The increase in one asset is offset by an equal decrease in another asset (or by an equal increase in liabilities). Therefore, fees are not recognized as revenue, a gain, or other financing source. Refer to SFFAS 7, Paragraph 364.

### \*7.0 TRANSACTION LIBRARY

Use the [DoD Standard Financial Information Structure Transaction Library](#) for recording revenue and other financing sources within the DoD. Specific account definitions for all U.S. Standard General Ledger accounts and subaccounts are included in the DoD Standard Chart of Accounts.

**VOLUME 4, CHAPTER 17: “EXPENSES AND MISCELLANEOUS ITEMS”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [June 2021](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Checked references, hyperlinks, and format in accordance with the DoD Financial Management Regulation Standard Operating Procedures and added clarifying language where appropriate.	Revision

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## CHAPTER 17

**EXPENSES AND MISCELLANEOUS ITEMS**

## 1.0 GENERAL

## 1.1 Purpose

This chapter provides guidance to account for expenses and miscellaneous items, such as gains and losses, incurred in carrying out Department of Defense (DoD) operations. Additionally, it describes how to identify and account for extraordinary items and adjustments to prior period financial statements.

## 1.2 Authoritative Guidance

The Federal Accounting Standards Advisory Board concluded in Statement of Federal Financial Accounting Standards ([SFFAS 5](#)), “Accounting for Liabilities of the Federal Government” that expenses are not independent of assets and liabilities and do not have their own essential characteristics. Expenses are changes in assets and/or liabilities during a reporting period resulting in a change in net position. Thus, the definition of expenses is dependent on the definitions of assets and liabilities. Additional guidance for expenses is found in the following:

1.2.1. [SFFAS 3](#), Accounting for Inventory and Related Property.

1.2.2. [SFFAS 4](#), Managerial Cost Accounting Standards and Concepts.

1.2.3. [SFFAS 6](#), Accounting for Property, Plant, and Equipment.

1.2.4. [SFFAS 7](#), Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.

1.2.5. [SFFAS 21](#), Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources.

1.2.6. [SFFAS 55](#), Amending Inter-entity Cost Provisions.

1.2.7. Statement of Federal Financial Accounting Concepts ([SFFAC 5](#)), Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements.

1.2.8. [SFFAC 7](#), Measurement of Accrual-Basis Financial Statements in Periods after Initial Recording.

1.2.9. [Treasury Financial Manual](#), Volume 1, Part 2, United States Standard General Ledger Part 2 Fiscal Year 2023 Reporting.

1.2.10. Office of Management and Budget ([OMB Circular A-136](#)), “Financial Reporting Requirements”.

## 2.0 AUDIT REMEDIATION AND INTERNAL PROCEDURES

Each DoD Component must develop and implement internal operating procedures and guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data. Relevant records supporting financial statements must be maintained and made available during financial statement audits.

## 3.0 EXPENSE OVERVIEW

### 3.1 Definition

Expenses represent the outflow or consumption of assets or the incurrence of liabilities (or a combination of both) during a period of providing goods, rendering services, or carrying out other normal operating activities related to the entity's programs and missions which results in a decrease in the entity's net position.

### 3.2 Exceptions to Cash Outlays

Most expenses require cash outlays. There are exceptions such as depreciation, other losses, bad debt expenses and miscellaneous items. Miscellaneous items may result from extraordinary transactions, prior period adjustments, and changes in actuarial liabilities.

### 3.3 Unusual or Nonrecurring Transactions

Costs attributable to extraordinary or unexpected events are classified as miscellaneous items. Unusual or nonrecurring transactions or having resulted from peripheral or incidental activities of an entity should be recognized as a gain or loss, rather than as a revenue or expense.

### 3.4 Budgetary Accounts

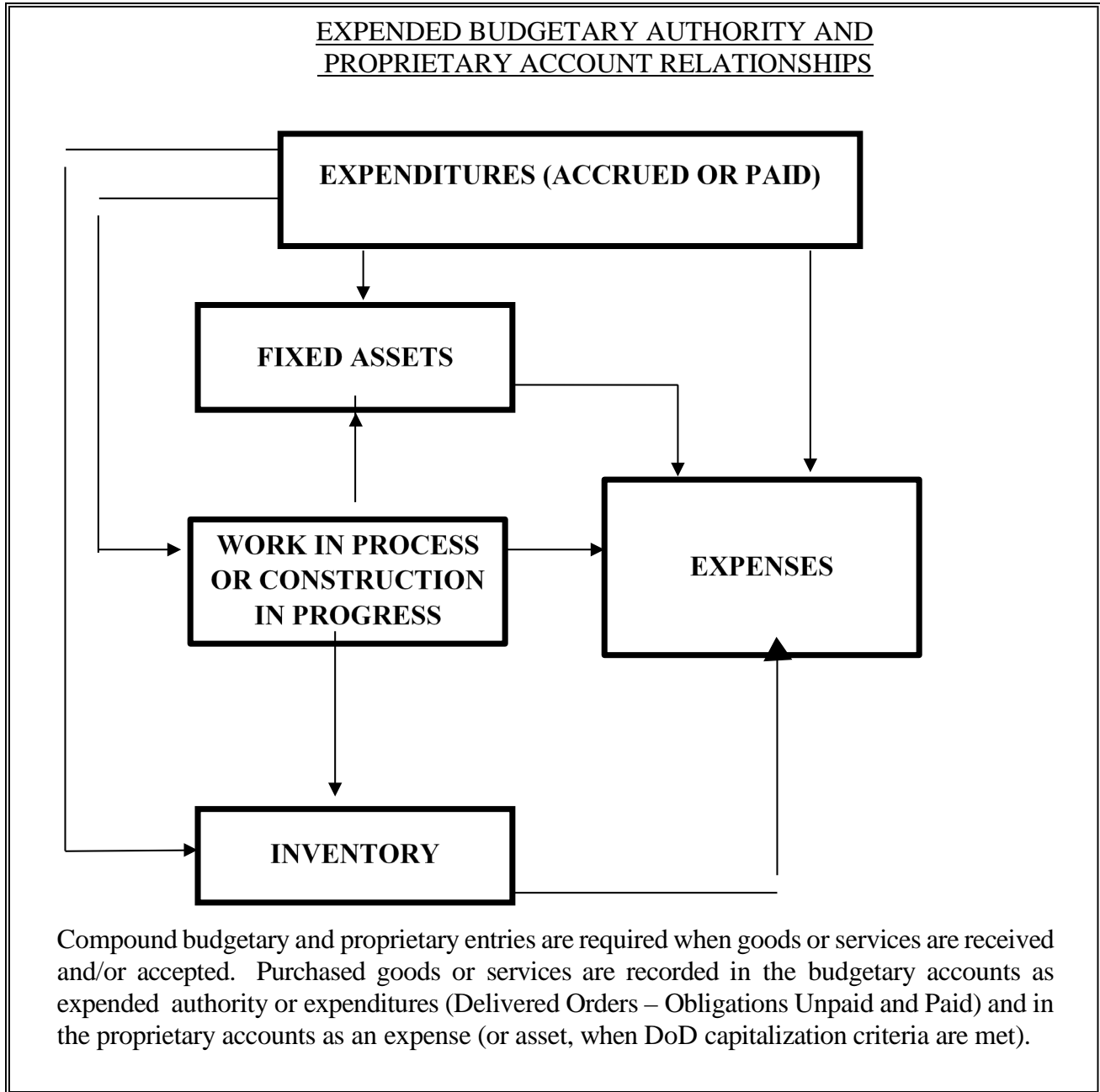
An expense normally includes an application of budgetary or other resources. Goods and services ordered and received are recorded in the budgetary accounts as expended authority (Delivered Orders – Obligations, Unpaid) and in the proprietary accounts as an expense. The budgetary accounts provide financial control over the resources provided to the entity and ensure accurate accounting during the budget execution process.

### 3.5 Defense Working Capital Funds (DWCF) Expenses

The treatment of expenses by some DWCF activities differ compared to the treatment of appropriation funded activities. Expenses accumulated in asset accounts are costs. For some activity groups in the DWCF, such as depot maintenance, costs are accumulated by job order in Construction in Progress (account 172000) or Inventory Work in Process (account 152600) and subsequently billed to customers. Other activity groups, such as supply management, record civilian personnel costs as an expense to the activity or cost center as a whole, in the same manner as appropriated funded activities. Refer to Volume 11B, Chapter 12 for DWCF policy.

FIGURE 17-1. BUDETARY AND PROPRIETARY RELATIOSNHIPS

Figure 17-1 illustrates the relationship between Expended Budgetary Authority and Proprietary accounts.



## 4.0 PRESENTATION IN FINANCIAL STATEMENTS

### 4.1 Expense Recording

Expenses are commonly reported at the time they are incurred, not when invoices are received. [Goods and services \(costs\) acquired from or provided to other government trading partners or programs \(i.e., intragovernmental\) must be recorded separately from those purchased from nonfederal entities \(i.e., the public\).](#) The accounting entries are specified in the DoD United States General Ledger (USSGL) Standard Financial Information Structure ([SFIS](#)) Transaction Library.

### 4.2 Reporting Program Costs

4.2.1. Program costs must be reported in the Statement of Net Cost as required by Volume 6B, Chapter 5.

4.2.2. Program costs include the full costs of the program outputs and consist of the direct costs and all other costs directly traced, assigned on a cause and effect basis, or reasonably allocated to a program's outputs. Program costs also include any nonproduction costs assigned to a program but not to its outputs.

4.2.3. The costs of program outputs must include the costs of services provided by other entities regardless of whether the providing entity is fully reimbursed. The costs of program outputs must also include costs paid in total or in part by other entities to the extent accounting standards require them to be recognized in financial statements. For example, DoD Components must recognize imputed costs of pensions and other retirement benefit expenses in their financial statements.

4.2.4. Imputed costs represent the unreimbursed portion of the full cost of goods and services received from another source. In the case of post-employment benefits for retired, terminated, and inactive employees, imputed costs are the excess of the costs actually incurred by employing agencies for covered employees over the total contributions made by and for covered employees. Imputed costs encompass all unreimbursed portions of the full cost of goods and services received by a DoD entity from a providing DoD entity according to SFFAS 55.

### 4.3 Production and Nonproduction Costs

4.3.1. Costs related to the production of outputs must be reported separately from costs not related to the production of outputs (i.e., nonproduction costs) on the Statement of Net Cost. Nonproduction costs are reported as a separate item in the financial statements and are addressed in the SFFAS 4.

4.3.2. The following nonproduction costs must be reported separately from other nonproduction costs, if incurred:

4.3.2.1. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets. Costs associated with multi-use heritage assets are capitalized and depreciated over the expected useful life if they meet the capitalization criteria discussed in Chapter 28.

4.3.2.2. The acquisition cost of acquiring stewardship land.

4.3.2.3. The cost of maintenance not performed but delayed to a future period (deferred maintenance) reported in the Required Supplementary Information section of the financial statements (refer to Volume 6B, Chapter 12).

## 5.0 ACCOUNTING TREATMENT FOR EXPENSES

### 5.1 Accounting Treatment for Expenses and Miscellaneous Items

5.1.1. Operating expenses include personnel costs, contractual services, and operating materials and supplies. Expenses also can include an allocation of prior capital outlays (depreciation/amortization) or to recover costs of operations.

5.1.2. Refer to Chapters 24-28 for expenses incurred by research and development programs, or related to the search for knowledge and the conversion of knowledge into use for DoD missions as related to capitalization or expense of assets.

### 5.2 Operating Expenses/Program Costs

5.2.1. Operating expenses/program costs include costs associated with carrying out a specific program or function. Examples include personnel, travel, communications, contractual services, and other program expenses. Amounts paid often represent transactions requiring a budgetary entry, recording obligations from the unexpended obligation (undelivered order) to the expended authority (delivered order). DWCF activities routinely record operating expenses/program costs to a cost of goods sold account (either directly or via work in process accounts) so costs may be matched to revenue upon completion of the task or filling an order.

5.2.2. Accounting systems must have the ability to report expenses related to operating expenses/program costs at the detail necessary to support budget preparation and applicable cost accounting requirements.

### 5.3 Costs for Property, Plant and Equipment (PP&E)

Costs for PP&E acquired or constructed for a project must be capitalized if the acquisition cost exceeds the Department's capitalization threshold (refer to Chapters 24-28), the items are not intended for sale in the ordinary course of operations, the items have been acquired or constructed with the intention of being used by the entity, and the items have a life expectancy of more than two years. An asset may be expensed (account 615000) if the amount of the expenses recognized by a purchasing agency when a capitalized asset acquired from another federal agency does not meet the purchasing agency's capitalization threshold or has a useful life of less than two years.

#### 5.4 Work in Process Account

Work in process accounts must be used to accumulate the costs of goods or services in accordance with guidance contained in Chapters 4, 5, and 24-28. The amounts recorded in these accounts, as well as amounts recorded in applicable inventory accounts, must be the basis for determining the amounts to be recorded as cost of goods sold.

#### 5.5 Depreciation, Amortization and Depletion Account

Depreciation, Amortization and Depletion is used to record the allocation of the cost of an asset (tangible or intangible) over the period of time benefited or the asset's useful life. The amounts to be recorded in these accounts must be determined in accordance with the guidance contained in Chapters 1, 7, and 24-28.

#### 5.6 Depreciation Expense for Capitalized and Donated Assets

Depreciation expense for capitalized and donated assets is recorded with a debit to Depreciation, Amortization, and Depletion (account 671000) and a credit to the appropriate Accumulated Depreciation account related to the asset. No budgetary entry is **recorded**. For the DWCF, depreciation expense is an element included in the cost recovery rates, used to finance the capital programs. Refer to the DoD USSGL SFIS Transaction Library for additional information on account descriptions for reporting depreciation.

#### 5.7 Benefits Expense

5.7.1 The employer's **contribution** portion of the following employee benefit programs are: retirement funds, life insurance, Voluntary Separation Incentive Payment (VSIP), Federal Employee's Compensation Act (FECA), unemployment for Federal employees, Social Security (Federal Old-Age, Survivors Insurance, and Federal Disability Insurance) and Medicare (Federal Hospital Insurance (Medicare Part A), Federal Supplementary Medical Insurance (Medicare Part B)). The amount of benefit expense (such as employment benefits, entitlement benefits due and payable, or insurance and guarantee benefits) incurred by the program agency and/or administering agency for benefit payments must be recorded in the entity's General Ledger.

5.7.2. Employer contributions to the Thrift Savings Plan are nonfederal expenses. The account must be supported by subsidiary accounts to show the types of transactions for which entitlement benefits were incurred.

5.7.3. Administrative expenses incurred for benefit payments are generally nonfederal expenses. This includes (but is not limited to) costs for retirement, life insurance, health insurance, VSIP, FECA, unemployment, entitlements, and insurance guarantees (i.e., flood insurance).

## 5.8 Cost of Goods Sold Account

The cost of goods sold account is used to record the cost of goods or services sold from inventory, by DWCF activities, or by other DoD activities authorized to provide services or material to other federal government agencies (including other DoD Components) or nonfederal organizations. This account is used predominantly by revolving fund activities. Appropriated fund activities must also use this account to support reimbursable programs.

## 5.9 Imputed Costs Account

The Imputed Cost account must be used by all DoD activities receiving goods or services without reimbursement from an activity outside the reporting entity. SFFAS 55 provides for recognition of significant inter-entity costs among and between federal agencies by business-type activities and allows non-business-type activities to elect not to recognize inter-entity costs, with the exception of inter-entity costs for personnel benefits and the United States Department of the Treasury Judgement Fund settlements unless otherwise directed by OMB. Business-type activity is significantly self-sustaining activities financing their accounting cycle of operations through collections of exchange revenues. For example, DWFC would be considered business-type activities.

## 5.10 Future Funded Expenses

Future funded expenses represent the amount of accrued expenses which are required to be funded from future year appropriations. Examples of future funded expenses are, accrued annual leave expense (except for working capital funds), accrued worker's compensation, upward re-estimates for credit reform loan programs, and projected future cleanup costs associated with the removing, containing, and/or disposing of hazardous materials associated with PP&E.

## 5.11 Expense Transactions Not Requiring Budgetary Resources

Some expense transactions do not require the use of budgetary resources and, therefore, only proprietary accounts are used to record these transactions. These expenses are usually allocated over more than one reporting period (e.g., depreciation expense), costs incurred that are paid in total or in part by other entities (e.g., imputed costs), or recognizing costs to be funded from future year appropriations (e.g., future funded expenses).

## 6.0 LOSSES

Losses are associated with the transactions not incurred in the normal operation of the organization (such as the loss on the disposal of property).

### 6.1 Losses on Disposition of Assets Account

The Losses on Disposition of Assets account is used to record a loss incurred on the disposition of DoD owned assets. Such losses can result from the sale, exchange, casualty, or retirement of assets. Losses are reported net of any received proceeds.

## 6.2 Components of Losses on Disposition of Assets Account

The Losses on Disposition of Assets account must be used only by DoD Components 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 its control. The effect from such losses must be recorded in Losses on Disposition of Assets in the Statement of Net Cost.

## 6.3 Other Losses

Other Losses must be used to record the loss on assets resulting from events other than disposition, such as investment losses and miscellaneous losses.

## 7.0 EXTRAORDINARY ITEMS

Events distinguished by unusual nature and infrequency of occurrence. Both criteria of unusual nature and infrequency of occurrence must be met to classify an event as an extraordinary item, taking into account the environment in which the entity operates. Unusual nature criteria is the underlying event or transaction must possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity. The criteria for infrequency of occurrence are the underlying event or transaction must be of a type not reasonably be expected to recur in the foreseeable future. The total amount of all extraordinary items is included in the applicable Gross Program Cost or Non Production Cost lines of the Statement of Net Cost. Disclosure of the nature and amount of each extraordinary item is included in the notes to the financial statements.

## 8.0 PRIOR PERIOD ADJUSTMENTS

### 8.1 Adjustments to Prior Period Financial Statements

Circumstances may arise requiring an entity to make adjustments to prior period financial statements due to a change in accounting principle or correction of a material error (or an aggregation of errors). Such circumstances include the retrospective application of a change in accounting principle or the correction of an error in prior period financial statements pursuant to SFFAS 21. See Volume 6B, Chapter 6 for information on reporting prior period adjustments in the financial statements.

### 8.2 Change in Accounting Principle

A change in accounting principle results from adoption of one Generally Accepted Accounting Principle to another that can be justified as preferable. Changes in accounting principles also include adoption of new federal financial accounting standards. The newly adopted accounting principle should result in more accurate and meaningful financial statement disclosures.

8.2.1. The term, accounting principle, includes not only accounting principles and practices but also the methods of applying them. Unless otherwise specified in the transition instructions section of a new federal financial accounting standard, the cumulative effect of the change on prior periods should be reported as a change in accounting principle, with the adjustment made to the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position.

8.2.2. Prior period financial statements presented for comparative purposes should be presented as previously reported.

8.2.3. The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure.

### 8.3 Correction of Errors

When errors are discovered after the issuance of the financial statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:

8.3.1. If comparative financial statements are presented, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements. If the earliest period is not the period in which the error occurred and the cumulative effect is attributable to prior periods, then the cumulative effect should be reported as a prior period adjustment with the adjustment made to the beginning balance of cumulative results of operations in the Statement of Changes in Net Position for the earliest period presented.

8.3.2. The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed. Financial statements of the subsequent periods need not repeat the disclosures.

8.3.3. Prior period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated.

**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**CHAPTER 18: "ARCHIVED"**

**UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)**

**VOLUME 4, CHAPTER 19: “MANAGERIAL COST ACCOUNTING”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [August 2023](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
3.5, 4.8	Removed references to analysis of alternatives as a valid example of acquisition related cost analysis in compliance with Secretary of War memorandum, “Subject: Transforming the Defense Acquisition System into the Warfighting Acquisition System to Accelerate Fielding of Urgently Needed Capabilities to Our Warriors,” dated November 7, 2025.	Deletion

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## CHAPTER 19

### MANAGERIAL COST ACCOUNTING

#### 1.0 GENERAL

#### 1.1 Overview

1.1.1. Managerial cost accounting standards and concepts are focused on providing reliable and timely information on the full cost of federal programs, projects, activities, and outputs. This information provides the structure needed for accurate, consistent, and reliable managerial cost accounting.

1.1.2. The concepts of managerial cost accounting describe the relationship among cost accounting, financial reporting, and budgeting. Managerial cost accounting concepts are an integral part of the financial management system in that they provide a basis of accounting, recognition, and measurement appropriate for the intended purpose.

1.1.3. The five standards set forth are fundamental elements of managerial cost accounting:

1.1.3.1. Accumulating and reporting costs of activities on a regular basis for management information purposes,

1.1.3.2. Establishing responsibility segments to match costs with outputs,

1.1.3.3. Determining full costs of government goods and services,

1.1.3.4. Recognizing the costs of goods and services provided among Federal entities, and

1.1.3.5. Using appropriate costing methodologies to accumulate and assign costs to outputs.

#### 1.2 Purpose

The purpose of this chapter is to provide the DoD policy for managerial cost accounting to improve financial management and managerial decision making in five essential areas:

1.2.1. Budgeting and cost control,

1.2.2. Performance measurement,

1.2.3. Determining reimbursements and setting fees and prices,

1.2.4. Program evaluations, and

1.2.5. Making economic choice decisions.

### 1.3 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.3.1. Chief Financial Officers Act ([CFO Act of 1990](#));

1.3.2. Government Performance and Results Act ([GPRA of 1993](#));

1.3.3. Government Management Reform Act ([GMRA of 1994](#));

1.3.4. Federal Financial Management Improvement Act ([FFMIA of 1996](#));

1.3.5. Statement of Federal Financial Accounting Standards ([SFFAS 4](#)), “Managerial Cost Accounting Standards and Concepts”;

1.3.6. [SFFAS 8](#), “Supplementary Stewardship Reporting”;

1.3.7. Federal Accounting Standards Advisory Board (FASAB) Handbook [Appendix E: Consolidated Glossary](#);

1.3.8. Office of Management and Budget (OMB) [Circular A-25](#), “User Charges”;

1.3.9. The United States (U.S.) Department of Treasury (Treasury) U.S. Standard General Ledger (USSGL) [Treasury Financial Manual](#); and

1.3.10. Chief Financial Officers’ Council’s Governmentwide Cost Accounting Committee Managerial Cost Accounting Implementation Guide ([MCAIG Glossary](#)) – February 1998

## 2.0 DEFINITIONS

The following definitions primarily originate from the FASAB Handbook, Appendix E: Consolidated Glossary, and/or the MCAIG Glossary.

### 2.1 Activity

An activity is the actual work task or step performed in producing and delivering products and services, or an aggregate of actions performed within an organization that is useful for purposes of activity based costing.

## 2.2 Activity Based Costing

Activity Based Costing (ABC) is a cost accounting method that measures the cost and performance of process related activities and cost objects. It assigns cost to cost objects, such as products or customers, based on their use of activities. It recognizes the causal relationship of cost drivers to activities.

## 2.3 Budgetary Accounting

Budgetary accounting is the system that measures and controls the use of resources according to the purposes for which budget authority was enacted, and that records receipts and other collections by source. It is undertaken to assess and ensure compliance with fiscal legal requirements applicable to an appropriation or fund. It tracks the use of each appropriation for specified purposes in separate budgetary accounts through the various stages of budget execution—from appropriation to apportionment and allotment to obligation and eventual outlay.

## 2.4 Cost Accounting System

A cost accounting system is a continuous and systematic cost accounting process, which may be designed to accumulate and assign costs to a variety of objects routinely or as desired by management.

## 2.5 Cost Accumulation

Cost accumulation is the collection of costs in an organized fashion by means of a cost accounting system. There are two primary approaches to cost accumulation: job order and process costing. Under a job order system, the three basic elements of costs: direct materials, direct labor, and overhead, are accumulated according to assigned job numbers. Under a process cost system, costs are accumulated according to processing department or cost center.

## 2.6 Cost Allocation

Cost allocation is a method of assigning costs to activities, outputs, or other cost objects. The allocation base used to assign a cost to objects is not necessarily the cause of the incurred cost. For example, assigning the cost of power to machine activities by machine hours is an allocation because machine hours are an indirect measure of power consumption.

## 2.7 Cost Assignment

Cost assignment is a process that identifies costs with activities, outputs, or other cost objects. In a broad sense, costs can be assigned to processes, activities, organizational divisions, goods, and services. There are three approaches of cost assignment: (a) directly tracing costs wherever economically feasible, (b) using cause and effect, and (c) allocating costs on a reasonable and consistent basis.

## 2.8 Cost Finding

Cost finding techniques produce cost data by analytical or sampling methods. Cost finding techniques are appropriate for certain kinds of costs, such as indirect costs, items with costs below set thresholds within programs, or for some programs in their entirety. Cost finding techniques support the overall managerial cost accounting process and can represent nonrecurring analysis of specific costs.

## 2.9 Cost Object (Also Referred to as Cost Objective)

A cost object is an activity, output, or item whose cost is to be measured. In a broad sense, a cost object can be an organizational division, function, task, good, service, or customer. It is also defined as an activity, operation, or completion of a unit of work to complete a specific job for which management decides to identify, measure, and accumulate costs. The cost object must be discrete enough and described in writing to such a level of detail as to form a basis to establish cost centers and output products.

## 2.10 Direct Costs

Direct costs are the costs of resources directly consumed by an activity. Direct costs are assigned to activities by direct tracing of units of resources consumed by individual activities.

## 2.11 Financial Accounting (Proprietary Accounting)

Financial accounting is the accounting for assets, liabilities, net position, revenues, and expenses as a basis for reports to external parties. It is a methodology that focuses on reporting financial information primarily for use by owners, external organizations, and financial institutions. This methodology is constrained by rule making bodies such as the Financial Accounting Standards Board, Securities Exchange Commission, and the American Institute of Certified Public Accountants. For Federal Agencies, the rule making bodies include FASAB, the Treasury, and the OMB. Financial accounting supports accrual accounting and attempts to show actual financial position and results of operations.

## 2.12 Fixed Cost

A fixed cost is a cost that does not vary in the short term (usually less than one year) with the volume of activity. Fixed cost information is useful for cost savings by adjusting existing capacity or by eliminating idle facilities.

## 2.13 Full Cost

2.13.1. Full costs are the sum of all costs required by a cost object including the costs of activities performed by other entities regardless of funding sources. More specifically, the full cost of an output produced by a responsibility segment is the sum of (a) the costs of resources consumed by the responsibility segment that directly or indirectly contributes to the output, and

(b) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities.

2.13.2. Full cost is all direct and indirect costs to any part of the Federal Government of providing goods, resources, or services (OMB Circular A-25).

#### 2.14 Indirect Cost

Indirect costs are costs that cannot be identified specifically with or traced to a given cost object in an economically feasible way.

#### 2.15 Inter-Entity Costs

Inter-entity is a term meaning between or among different federal reporting entities. It commonly refers to activities or costs between two or more agencies, departments, or bureaus.

#### 2.16 Intra-Entity Costs

Intra-entity costs are costs from organizational components within the reporting entity that provide support for the responsibility segment's programs, projects, or activities. These costs include the direct and indirect costs of other organizational components of the reporting entity.

#### 2.17 Job Order Costing

Job order costing is a method of cost accounting that accumulates costs for individual jobs or lots. A job may be a service or manufactured item, such as the repair of equipment or the treatment of a patient in a hospital.

#### 2.18 Latest Acquisition Cost

Latest acquisition cost is a method in which all units are valued at the invoice price of the most recent items purchased less any discounts, plus any additional costs incurred to bring the item to a form and location suitable for its intended use.

#### 2.19 Managerial Cost Accounting

Managerial cost accounting is the process of accumulating, measuring, analyzing, interpreting, and reporting cost information useful to both internal and external groups concerned with the way in which the organization uses, accounts for, safeguards, and controls its resources to meet its objectives. Managerial cost accounting is the integration of budgetary and financial accounting, and management reporting because it provides information for decision making purposes and performance measurement. Managerial cost accounting is the organization and procedures, whether automated or not, and whether part of the general ledger or stand-alone, that accumulate and report consistent and reliable cost data from various agency feeder systems.

## 2.20 Outcome

2.20.1. Outcome is defined in broad terms in Statements of Federal Financial Accounting Concepts ([SFFAC 1](#), “Objectives of Federal Financial Reporting (OFFR)”, paragraphs 204-208, as accomplishments or results that occur (at least partially) because of the service efforts of government entities. Some authorities use terms like “impact,” “effect,” or “results” to distinguish the change in outcomes specifically caused by the government activity from the total change in conditions that can be caused by many factors.

2.20.2. Outcome is an assessment of the results of a program compared to its intended purpose. Outcomes must: (a) be capable of being described in financial, economic, or quantitative terms, and (b) provide a plausible basis for concluding that the program has had or will have this intended effect. For measuring outcomes for research and development programs, results may be reported by a narrative discussion of the major results achieved by the program during the year (SFFAS 8, paragraphs 93 and 99).

## 2.21 Output

Output is any good or service generated from the consumption of resources. It is measured as a tabulation, calculation, or recording of activity or effort that can be expressed in a quantitative or qualitative manner. It must have two key characteristics:

2.21.1. Systematically or periodically captured through accounting or management information system, and

2.21.2. A logical connection between the reported measures and the program’s purpose.

## 2.22 Performance Measurement

Performance measurement is a means of evaluating efficiency, effectiveness, and results. A balanced performance measurement scorecard includes financial and nonfinancial measures focusing on quality, cycle time, and cost. Performance measurement should include program accomplishments in terms of outputs (quantity of goods or services provided, e.g., how many items are efficiently produced) and outcomes (results of providing outputs, e.g., are outputs effectively meeting intended agency mission objectives).

## 2.23 Pricing

Pricing is the process to determine the amount at which to sell a product or service. Setting prices is a policy matter, sometimes governed by statutory provisions and regulations, and other times by managerial or public policies. The price of a good or service does not necessarily equal the cost of the good or the service determined under a particular set of principles (SFFAS 4, paragraph 37).

## 2.24 Product

A product is any discrete, traceable, or measurable good or service provided to a customer. Often goods are referred to as tangible products, and services are referred to as intangible products. A good or service is the product of a process resulting from the consumption of resources.

## 2.25 Program

Program is defined as a mission program, whose products or services the Agency delivers as part of its strategic plan. Agencies decide the exact classification of programs based on the entity's budget structure, the missions and outputs described in the GPRA strategic and annual plans and the guidance for defining and structuring responsibility segments.

## 2.26 Project

A project is a planned undertaking, usually related to a specific activity, such as the research and development of a new product or the redesign of the layout of a plant.

## 2.27 Process Costing

Process costing is a method of cost accounting that first collects costs by processes and then allocates the total costs of each process equally to each unit of output flowing through it during an accounting period.

## 2.28 Recovery of Cost

Recovery of cost is the method of recovering the costs of any given expenditure.

## 2.29 Relevant Costs

Relevant costs are those cost elements that are necessary for particular management analyses and/or decision making purposes when full cost is not appropriate. Relevant costs may include expected or potential costs that differ among alternative courses of action.

## 2.30 Resource

A resource is an economic element that is applied or used in the performance of activities. Salaries and materials, for example, are resources used in the performance of activities.

## 2.31 Responsibility Segment

A responsibility segment is a significant organizational, operational, functional, or process component which has the following characteristics: (a) its manager reports to the entity's top management, (b) it is responsible for carrying out a mission, performing a line of activities or services, or producing one or a group of products, and (c) for financial reporting and cost

management purposes, its resources and results of operations can be clearly distinguished, physically and operationally, from those of other segments of the entity.

### 2.32 Service

A service is an intangible product or task rendered directly to a customer. (Also, see Product as defined in paragraph 2.24.)

### 2.33 Service Department

A service department is also known as an Intermediate Cost Object. A service department is an organizational unit of a facility that has the responsibility for providing support for the work of the production departments. Examples are purchasing, building and ground personnel, and power departments. All of these activities are necessary parts of the production process and primarily supportive of production departments. Service department costs must be allocated to production departments before overhead rates are determined.

### 2.34 Standard Costing

Standard costing is a costing method that attaches costs to cost objects based on reasonable estimates or cost studies and by means of budgeted rates rather than according to actual costs incurred. It is the anticipated cost of producing a unit of output. It is a predetermined cost to be assigned to products produced. Standard cost implies a norm, or what costs should be. Standard costing may be based on either absorption or direct costing principles, and may apply to all or some cost elements. Refer to Volume 11B and Volume 3, Chapter 19 for use of standard costing in the Working Capital Fund (WCF).

### 2.35 Unit Price

Unit price is the cost of a selected unit of a good or service.

### 2.36 Variable Cost

Variable cost is a cost that varies with changes in the level of an activity, when other factors are held constant. The cost of material handling to an activity, for example, varies according to the number of material deliveries and pickups to and from that activity.

## 3.0 MANAGERIAL COST ACCOUNTING POLICY

### 3.1 Concepts

3.1.1. As described in SFFAS 4, paragraphs 41-45, the concepts and standards of managerial cost accounting explain the relationship among budgetary, financial, and cost accounting. Managerial cost accounting is the process of accumulating, measuring, analyzing, and reporting cost information useful to both internal and external groups concerned with how DoD uses, accounts for, safeguards, and controls its resources to meet its objectives. Managerial costing

uses a basis of accounting, recognition, and measurement that is appropriate for the intended purpose. Managerial cost accounting is an essential element of proper financial planning, control, performance evaluation, and program accountability.

3.1.2. Managerial cost accounting is a basic, integral part of the DoD financial management system. Information from a common data source provides cost information relevant to budgetary and financial accounting and reporting while providing useful information directly to management for control and decision making. Financial, budgetary, and cost accounting processes ultimately produce the Department's audited general purpose financial statements and special purpose reports from the DoD general and sub ledgers to achieve cost accountability and transparency to stakeholders. Cost information developed for different purposes are drawn from a common data source so that output reports are reconcilable to each other.

## 3.2 Standards

3.2.1. SFFAS 4 requires each reporting entity to accumulate and report the cost of its activities on a regular basis for management. Costs may be accumulated through cost accounting systems or through cost finding techniques. The standard provides flexibility based on organization mission, operations, size, capabilities, and resources. Agencies have flexibility in designing a cost accounting methodology that meet both internal and external user needs.

3.2.2. The following are the five standards referenced in SFFAS 4:

3.2.2.1. Requirement: Accumulate and report costs of activities on a regular basis for management information purposes (see section 4.0),

3.2.2.2. Responsibility Segments: Establish responsibility segments to match costs with outputs (see section 5.0),

3.2.2.3. Full Cost: Determine the full cost of goods and services (see sections 4.0, 5.0, and 6.0),

3.2.2.4. Inter-Entity Costs: Recognize the cost of goods and services provided among federal entities (see sections 5.0 and 6.0), and

3.2.2.5. Methodology: Use appropriate costing methodologies to accumulate and assign costs to outputs (see section 5.0).

## 3.3 Uses

In managing DoD programs, cost accounting information assists managers and other stakeholders in making informed decisions in the areas of budget and cost control, performance measurement, reimbursement and fee/price setting, program evaluations, and economic choice decisions. An organization should be able to answer the following types of questions:

3.3.1. Given the current spend plan and rate of execution, at what interval (if applicable) could the program experience a cost over-run?

3.3.2. What are the full costs to deliver goods and/or services by organization, line of business, or region?

3.3.3. How well is the organization managing its available resources in terms of mission effectiveness and cost efficiency?

3.3.4. How well has the organization met its strategic plan and the expected outcomes based on resources available?

### 3.4 Assignment and Methodologies

3.4.1. Cost assignment approaches link expenses from a financial accounting perspective using the USSGL, as further defined in the Office of the Deputy Chief Financial Officer Standard Financial Information Structure ([SFIS](#)) to outputs of an organization (see paragraph 5.3). Users should assign costs with one of the following approaches listed in the order of preference:

3.4.1.1. Directly trace costs wherever feasible and economically practicable,

3.4.1.2. Assigning costs on a cause and effect basis, or

3.4.1.3. Allocating costs on a reasonable and consistent basis.

3.4.2. Methodologies are processes used to accumulate and allocate costs to specific outputs. Although SFFAS 4 does not require the use of a particular costing methodology, the standard requires that a costing methodology, once adopted, be used consistently. The standard recognizes that the agency management is in the best position to select a type of costing system that would meet its needs and describes the four costing methodologies in section 5.0, which include (a) job order costing, (b) process costing, (c) standard costing, and (d) ABC. The DoD Component must select the costing methodologies that best meet the organization's operational need and mission requirement.

### 3.5 Systems, Sources and Cost Finding

3.5.1. Managers must establish appropriate procedures and practices to enable the collection, measurement, accumulation, analysis, interpretation, and communication of consistent and periodic cost information with a system or the use of cost finding techniques.

3.5.2. A system is a continuous and systematic process, which may be designed to accumulate and assign costs from a common data source to a variety of objects routinely or as desired by managers. The common data source may include many different kinds of data from many financial and non-financial sources of information to support cost, financial and budgetary accounting. Costs are traced using the accounts described in the USSGL as the standard to produce financial and budgetary general purpose reports and special purpose performance reports. Cost

accumulation is facilitated by the SFIS structure, which includes the Standard Line of Accounting (SLOA). See paragraph 5.3.

3.5.3. When data systems are unable to provide the needed cost information or where information is required on a non-recurring basis (e.g., budget estimates, Business Case Analysis, and/or Cost Benefit Analysis), cost finding techniques may provide the needed results through analytical or sampling methods and special cost studies and analysis. Cost finding techniques should not replace consistent and regular managerial cost reporting when available.

## 4.0 REPORTING AND ANALYSIS

### 4.1 Overview

4.1.1. Reliable costs of federal programs and activities is important to managers. Cost reporting and analysis provides a better understanding of specific programs and activities (e.g., products and services) to include costs and changes in costs; efforts and accomplishments over time; efficiency and effectiveness of assets and liabilities in support of budgetary, financial, and managerial cost reporting; and program business decisions. Additional benefits are derived when planned and actual performance data are aligned, such as the ability to capture full costs of products and/or manpower, transparency into pricing and fees, and consistency in standardized cost reporting for historic and forecasting value. Benefits derived will vary based on organization, model maturity, and department mission.

4.1.2. Managerial cost accounting improves both financial management and decision making by providing:

4.1.2.1. An understanding of the reporting requirements as seen by management,

4.1.2.2. The type of information management needs, and

4.1.2.3. An approach to developing the analysis that will eventually support the reporting and performance structure.

### 4.2 Users

4.2.1. Regardless of a stakeholder's function, users need accurate reporting to identify cash, disbursements, collections, full cost of resources, activities, capabilities, and operations for various needs. Specifically, for the DoD Reporting Components, some of these needs include:

4.2.1.1. Making better decisions at the cost element levels,

4.2.1.2. Knowing the cost of operations and activities,

4.2.1.3. Linking budget planning and allocation to actual expenditures,

4.2.1.4. Responding to both external and internal cost related inquiries, and

4.2.1.5. Making costs visible to DoD leadership, component leadership, operational commanders, and program managers.

#### 4.2.2. Internal Users

4.2.2.1. Government managers are the primary users of cost information. They are responsible for carrying out program objectives with resources entrusted to them. Reliable and timely cost information helps ensure that resources are spent to achieve expected results and outputs as well as identify waste and inefficiency.

4.2.2.2. Program Managers use cost information to (a) effect cost control, (b) make resource acquisition decisions, (c) evaluate and improve efficiency and cost effectiveness of various program activities, and (d) make budget and planning proposals to agency heads and Congress.

4.2.2.3. Financial Managers, including accountants and budget analysts, use cost information to (a) calculate unit costs of outputs, (b) analyze and explain cost variances, (c) formulate standard costs, (d) compile period financial reports, and (e) analyze the cost behavior to quantify variable, fixed, and/or incremental costs for decisions such as buy or lease.

4.2.2.4. Franchise Activity Managers use cost information to set prices or reimbursements for the goods or services they provide (MCAIG A-xxv).

4.2.2.5. Government executives use cost information to (a) evaluate the overall performance of the programs, (b) assess future resource requirements for financial plans and budgets, and (c) develop proposals to the President and Congress on resource allocations and program expansion, modification, or downsizing.

#### 4.2.3. External Users

4.2.3.1. Congress makes policy decisions on program priorities and allocates resources among programs through the appropriations process. These officials need cost information to compare alternative courses of action and to make program authorization decisions by assessing costs and benefits and evaluating program performance outcomes and outputs.

4.2.3.2. Citizens, including news media and interest groups, use cost information to assess the efficiency and effectiveness of resource allocation.

### 4.3 Decision Making

4.3.1. To interpret cost data appropriately, it is important to distinguish between direct and indirect costs, fixed and variable costs, and full and relevant costs. Analysis of these cost components help managers understand the demand their program places on federal resources of other organizational units and contributes to their organizational costs. The accurate recording

and availability of detailed historical cost information is important in providing insight into budgets, cost estimates, and performance metrics.

4.3.2. Cost information should allow organizations to address:

4.3.2.1. Current spend plan and program expense status, and

4.3.2.2. The full costs to deliver goods and/or services by an organization, line of business, or region,

4.3.3. Cost information assists managers in budget and cost control, performance measurement, reimbursement and fee/price setting, program evaluations, and economic choice decisions.

#### 4.4 Budget and Cost Control

4.4.1. Budget planning and control serves an important function within the Federal Government. Managers use historical and current costs of program activities as a basis in estimating future budgets and to measure actual performance against established goals.

4.4.2. Once budgets are approved and executed, current cost information serves as feedback on the budgets. DoD financial managers use the feedback derived from the current costs to budget analysis to control and reduce costs, as well as find and avoid waste. With appropriate cost information collected through managerial cost accounting, federal managers can:

4.4.2.1. Explain variances between actual and budgeted costs of a cost object,

4.4.2.2. Compare cost changes over time and identify their causes,

4.4.2.3. Compare costs of similar activities and identify cost differentials, and

4.4.2.4. Produce budgets at a detailed level which will improve accuracy, insight, and increased transparency of an agency's expenditures.

4.4.3. Organizations should produce a Statement of Net Cost (actual to budget) in accordance with Volume 6B, Chapter 5.

#### 4.5 Performance Measurement

4.5.1. The GPRA requires Federal Agencies to develop five-year strategic plans and annual performance plans and report annually on actual performance compared to goals. The GMRA reduces duplicative administrative services by establishing a self-sustaining franchise fund to provide common and efficient administrative support services on a reimbursable basis. Participation in these franchise funds requires proper costing procedures. Subsequently, the FFMIA was enacted to help improve compliance with accounting standards resulting in reporting full costs of programs and activities, which increases accountability and improves cost efficiency, performance, and

productivity. The FFMIA builds upon and complements the CFO Act, GPRA, and GMRA, and increases the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities. Cost information is necessary to aid organizations in evaluating and comparing actual costs to planned performance measures, outputs, and outcomes.

4.5.2. In defining annual performance plans, program managers can establish performance goals based upon an understanding of both the direct and indirect costs of programs, and thereby align strategic resources to results.

4.5.3. Results are often stated in terms of an “output,” because they are easier to identify and measure. Leading practice in performance management prefers to measure an “outcome” or a result or measurable goal, which is often more difficult to identify and measure. The utilization of managerial cost accounting can provide the performance details useful to leadership for determining whether the organization achieves an “outcome” or not. Defined cost goals will assist managers in deploying resources more efficiently to achieve the desired performance.

4.5.4. An annual performance plan defines measurements for each major activity, good, and service. Plans and performance goals are developed based upon anticipated resource levels. In the budget formulation process, program managers begin to connect federal resources to results. Managerial cost accounting policies require that financial managers base their planning upon all federal resources allotted to their programs. This includes resources for both direct and indirect costs. The indirect allocated support for activities, goods, and services that are separately appropriated or covered through relevant activities are often overlooked and not included. A complete and fully inclusive performance report will include both direct and indirect (from all sources within program or support programs) costs of the cost object. When the cost of a program is managed through managerial cost accounting, and cost goals are defined, the costs of the activity, good, and service can be monitored and managed more efficiently.

4.5.5. Performance measurement can be viewed as the government equivalent of private sector profitability measurements. However, selecting appropriate measurements is quite difficult and requires exercise of judgment. Cost itself can be a performance metric, but cost should also be combined with an effectiveness measure, such as the percent of a goal achieved at a level of expected performance, to ensure the resulting output is cost effective.

4.5.6. As suggested by SFFAS 4, paragraph 35, measuring cost is an integral part of measuring performance for efficiency and cost effectiveness. Efficiency is measured by relating outputs to inputs, often expressed as cost per unit of output. Effectiveness is measured by the outcome or the degree to which a predetermined objective is met, commonly expressed as “cost effectiveness.” Therefore, the service efforts and accomplishments of a government entity can be evaluated with the following measures:

4.5.6.1. Measures of an organization’s efforts (inputs), which include the costs of resources used or consumed, and non-financial measures,

4.5.6.2. Measures of an organization's accomplishments (outputs), which include the quantity of goods and services provided and outcomes (the results of those goods and services), or

4.5.6.3. Measures that relate efforts to accomplishments, such as cost per unit of output or cost effectiveness.

#### 4.6 Reimbursements and Fee/Price Setting

4.6.1. Cost information is important for setting prices and user fees for government provided goods and services. Pricing and costing, however, conceptually use cost information differently. In the Federal Government, setting prices is a policy matter, sometimes governed by statutory provisions and regulations, and at other times, by department or managerial policies.

4.6.2. SFFAS 4, paragraph 37 and OMB Circular A-25 requirements include:

4.6.2.1. With respect to goods and services that the government provides in its sovereign capacity to a particular group of individuals as a special benefit, user charges should be sufficient to recover the full cost of those goods and services.

4.6.2.2. With respect to goods and services that the government provides under business-like conditions, user charges for those goods and services need not be limited to the recovery of full cost and may yield net revenue. WCFs are revolving funds that rely on a cost recovery methodology to finance operations. WCF activities are designated as zero profit/loss or breakeven activities. The full costs of the goods and services delivered are reimbursed through the associated sales. Those sales represent receipts from the appropriated funds. For this to happen, it is critical that reimbursement rates be as accurate as possible. If the rates are set too high, the organization will overcharge its customers. If rates are set too low, costs will not be fully recovered. To set rates accurately, the DoD needs a comprehensive understanding of the goods and services that are delivered, the activities and tasks required for delivery, and the resources consumed by those activities. For more information on WCF see Volume 3, Chapter 19 and Volume 11B.

4.6.3. Cost information is also important in calculating reimbursements for goods and services provided by one federal agency to another. Hence, reimbursable accounting allows one federal organization to recover its cost from another federal organization for the direct and indirect costs of providing those goods and services. The reimbursable fee structure, best displayed in the reimbursement of communication, data, and accounting services by some of the DoD agencies, is specifically established for providing those goods and services. Even if fees or reimbursements do not recover the full costs due to policy or economic constraints, management needs to be aware of the difference between cost and price. With this information, program managers can properly inform the public, Congress, and federal executives about the costs of providing the goods or services. For more information on reimbursable fees, see Volumes 11A and 11B.

#### 4.7 Program Evaluations

The cost of federal resources required by programs is an important factor in making policy decisions related to program authorization, modification, consolidation, or discontinuation. These decisions are usually subject to policy constraints. They often require the consideration of both social and economic costs and benefits affecting different sectors of the economy and society. For complete program cost evaluation, it may be necessary to obtain advice from outside the entities' data systems. The Office of the Director, Cost Assessment and Program Evaluation (CAPE), provides independent analytic advice to the Secretary of Defense on all aspects of the Defense program, including alternative weapon systems and force structures, the development and evaluation of defense program alternatives, and the cost effectiveness of defense systems.

#### 4.8 Economic Choice Decisions

As noted in SFFAS 4, agencies and programs often face decisions involving choices among alternative actions, such as whether to do a project in-house or contract it out, to accept or reject a proposal, or to continue or discontinue a good or service. Making these decisions requires cost comparisons among available alternatives. In the case of outsourcing, decisions may involve comparing the incremental cost and benefits of continuing a government activity with the incremental cost and benefits of turning the project over to a private sector business. Cost studies of various types can help to decide whether to accept or reject a proposal for a government capital project, to continue or drop a government good or service, or to contract with a private sector vendor.

### 5.0 COST ASSIGNMENT AND COSTING METHODOLOGY

#### 5.1 Overview

5.1.1. SFFAS 4, paragraph 116, requires that managers accumulate the cost of resources consumed by responsibility segments and type of resource; accumulate outputs produced and, if practicable, measured in units; and that the full cost of direct and/or indirect resources be assigned to outputs through consistently-applied and appropriate costing methodologies or cost finding techniques.

5.1.2. When assessing cost accounting requirements, reporting entities must determine the appropriate detail for processes and procedures based the following factors:

5.1.2.1. Nature of the entity's operations,

5.1.2.2. Precision desired and needed in cost information (accuracy, frequency, granularity, transparency, and cost benefit of obtaining data),

5.1.2.3. Practicality of data collection and processing,

5.1.2.4. Availability of service departments for indirect services,

5.1.2.5. Cost of installing, operating, and maintaining the cost accounting processes, and

5.1.2.6. Any specific information needs of management.

5.1.3. Management should evaluate alternative costing methods and select those that provide the best results considering its operating environment and economic feasibility (e.g., the benefits resulting from implementing the methods outweigh the costs).

5.1.4. SFFAS 4 requires that a costing methodology, once adopted, be used consistently so that cost information can be compared from year to year. This requirement, however, does not preclude necessary improvements and refinements to the system or methodology, so long as the effect of any change is documented and explained. Documenting the changes assists in appropriately incorporating the new processes over historic years and provides support to any forecast adjustments.

## 5.2 Cost Accumulation

5.2.1. SFFAS 4 states that cost accumulation is the process of collecting cost data in an organized way and that the accumulation is for costs incurred within each responsibility segment; this does not involve the assignment or allocation of costs incurred by other supporting segments.

5.2.2. Of the five standards in SFFAS 4, two reference cost accumulation:

5.2.2.1. Accumulating and reporting costs of activities on a regular basis for management information purposes, and

5.2.2.2. Using appropriate costing methodologies to accumulate and assign costs to outputs.

5.2.3. Cost accumulation for cost objectives or outputs is achieved by selecting costing methods (e.g., standard costing, job order costing, ABC) or cost finding techniques that are suited to the operational environment. For more information on cost finding techniques, see section 6.0.

5.2.4. SFFAS 4 requires organizations to accumulate costs for the identified types of outputs produced for various programs or projects. Organizations may establish a network of cost centers to accomplish this cost accumulation task. Cost centers are a tool that groups relevant costs that support a consistent output or objective. Cost centers can be used to simplify the various costs incurred by aggregating costs into a cost center that provides a product, be it a service or a good. A project management office is a common type of cost center.

5.2.5. Responsibility segments should accumulate the costs of resources consumed by the type of resource, such as costs of employees, employee benefits, and office space or rent. Accumulating the costs incurred by resource type supports detailed reporting and provides transparency of cost by type. Outputs (if practical, measured in units) produced by responsibility segments should also be accumulated; the full cost of resources that directly or indirectly

contribute to the production of outputs should be assigned, if the purpose is to support billing a customer (refer to Volumes 11A and 11B).

### 5.3 Cost Assignment Authoritative Guidance

The SFIS is a comprehensive DoD enterprise data structure and common business language for budgeting, financial accounting, cost, performance, and standardized reporting requirements. SFIS enables budgeting, performance-based management, and the generation of financial statements. Through the SLOA classification, SFIS improves interoperability between business systems, provides better end-to-end funds traceability and linkage between budget and expenditures, complies with Treasury requirements, and helps achieve audit readiness. SLOA provides additional granularity to accounting transactions that improves the appropriate assignment of costs. Volume 1, Chapters 4 and 7, and the SFIS resources web page provide complete information, including the SFIS matrix, Compliance Checklist, USSGL Transaction Library, the Standard Chart of Accounts (SCOA) and the SLOA.

### 5.4 Cost Assignment Approaches

5.4.1. Cost assignment is the process that identifies the accumulated costs to cost objects (an activity or item whose cost is measured). As per SFFAS 4, there are three approaches, summarized in Table 19-1, for assigning costs to outputs listed in order of preference:

5.4.1.1. Directly tracing costs wherever feasible and economically practicable,

5.4.1.2. Assigning costs on a cause and effect basis, and

5.4.1.3. Allocating costs on a reasonable and consistent basis

Table 19-1. Cost Assignment Approaches

<b>Approach</b>	<b>General Cost Behaviors</b>	<b>Accuracy/ Frequency</b>	<b>Granularity/ Transparency</b>	<b>Project/ Program Requirement</b>
Direct Tracing	Job Order Direct and/or Indirect Actual or Standard	High	High to Moderate	Activity / Task Level
Cause and Effect	Job Order Direct and/or Indirect Process Direct and/or Indirect Variable Actual or Standard	High to Moderate	High to Moderate	Task / Delivery Order
Allocation	Job Order Indirect Process Indirect Fixed Actual or Standard	Lowest	Lowest	Project / Program

5.4.2. Agencies and responsibility segments select the appropriate cost assignment approach based on their operational needs. Operational needs tend to follow historic practices

(if reliable historic data is available); however, cost assignment approaches can change if the operating environment or regulations change. SFFAS 4 requires organizations to identify the full cost of outputs (the goods or services produced, the missions or tasks performed, and the customers or markets served) including:

5.4.2.1. Direct and indirect costs incurred within the responsibility segment,

5.4.2.2. Intra-entity costs from other responsibility segments, and

5.4.2.3. Inter-entity costs recognized by the receiving entity.

5.4.3. Responsibility segments that produce only one output assign costs of the resources used in production to the output. Responsibility segments that deliver intermediate goods or provide supporting services assign the costs to the segments that receive the goods and services. Inter-entity costs are assigned to the responsibility segments that use the inter-entity goods and services. A receiving entity should also recognize assigned inter-entity costs from other Federal Entities.

5.4.4. It is a requirement to document changes to a cost assignment approach. Documenting changes may also require noting in the financial statements. It is important to maintain a consistent cost assignment approach, where possible, for reporting and pricing efforts.

## 5.5 Direct Tracing

5.5.1. Direct tracing applies to resources directly used in the production of an output. Examples include materials used in production, employees providing direct effort, facilities, and equipment used exclusively in the production of the output, and goods or services received from other entities (inter-entity) directly used in support of the output. Direct tracing also applies to specific resources dedicated to particular outputs, such as resources tracked to a single task or objective.

5.5.2. Direct costs tend to originate internally by program, responsibility segment, or reporting entity; however, outside entities may also assign direct costs to a segment. Additionally, the direct tracing approach is not limited to direct costs. Indirect costs from these outside entities can also use the direct tracing approach to capture costs in more detail. Regardless of origin or funding profile, all direct costs are included in the cost of the output.

5.5.3. As noted in Table 19-1, directly tracing costs provides the highest level of granularity and yields the highest level of reporting information; however, it is not necessary to apply direct tracing to all elements of a cost object or output. For example, directly tracing office supplies to a particular weapon system upgrade would not be cost effective, but if a program or activity explicitly budgets for administrative or clerical services, then direct traceability is relevant for costing purposes.

## 5.6 Cause and Effect Basis

5.6.1. Costs that cannot be traced directly to a final output (such as activities or work elements), or it is cost prohibitive to do so, but a relationship can be made between the resource costs and outputs, are assigned to intermediate cost objects. The cause and effect basis recognizes that activities have incurred costs, outputs have required these activities, and therefore, a reasonable relationship can be derived between the two. The causal beneficial relationship permits the activity costs to be accumulated and assigned using the cause and effect basis.

5.6.2. Establishing an intermediate cost object requires the identification of homogenous activities to an output and determining the rate of allocation to receiving cost objects. For example, a laboratory's costs can first be assigned to various tests it runs. The costs of the tests can then be assigned to the operating units that ordered the tests.

5.6.3. The cause and effect basis is useful when production is consistent and manageable. The cause and effect basis must not be used if cost cannot be normalized or linked to a final output; instead, costs are assigned using a more general process.

## 5.7 Cost Allocation

5.7.1. Cost allocation is the process of assigning costs that cannot be directly traced or assigned using the cause and effect basis. General and Administrative services used by various common segments apply cost allocation to assign costs to benefiting cost objects. Cost allocation provides the least detail in costs incurred and is used for indirect costs only.

5.7.2. General and Administrative support costs are allocated initially to the segments and then to the outputs of that segment on a pro rata basis. This involves two steps:

5.7.2.1. Allocate the accumulated costs of services to the segment, and

5.7.2.2. Allocate the accumulated costs to the outputs of each segment.

5.7.3. The usual basis for cost allocations is the relevant common denominator. The basis of cost allocation may include the number of employees, direct hours worked, or the amount of direct costs incurred in segments. The common denominator is also referred to as the allocation base. Grouped costs should be accumulated and assigned using a consistent and relevant base. The allocation frequency and base should remain consistent to allow cost comparison over a period of time.

5.7.4. Cost allocation is similar to cause and effect in that it may use an intermediate cost object to accumulate costs; however, it differs in that a single benefiting segment or output is unable to be identified for allocation purposes. Cost allocation is commonly used for general and administrative costs. A responsibility segment may use more detailed costing methods to accumulate costs within the intermediate cost object for more detailed internal reporting, but the allocation remains based on the accumulated cost.

5.7.5. Costs accumulated for intermediate cost objects must be homogeneous. Examples in homogeneity accumulation include, but are not limited to: human resource departments, program management offices, and general and administrative offices. Activities within these examples are often difficult to measure in meaningful amounts per unit or per cost object.

## 5.8 Costing Methodologies and Cost Behaviors

It is important to note that the costing methodologies described in paragraphs 5.9 through 5.12 are not mutually exclusive nor all inclusive, and can be utilized in combination based on the objective, job order, or process costing and can be applied to both ABC and standard costing systems.

## 5.9 Job Order Costing

5.9.1. Job order costing is a costing methodology that accumulates and assigns costs to discrete jobs. Job order costing systems are used by organizations that produce unique products or special order products, projects, assignments or groups of similar outputs. Job order costing is used if:

5.9.1.1. The production or service is being performed to meet customer specifications or requirements, or

5.9.1.2. Products or services require different amounts and types of direct material, labor and indirect costs.

5.9.2. In a job order costing system, different products with varying degrees of production time and different amounts of direct materials consumed are tracked separately by work orders. Job order costing provides more control, less estimation, and more direct and reliable allocation of costs.

5.9.3. Direct materials and supplies owned by the performing activity, acquired from a WCF or from an inventory account financed by appropriated funds, are charged to a job order in accordance with established costing procedures for the segment.

5.9.4. The structure for job order data must be consistent with the SFIS and the SFIS Business Rules (see paragraph 5.3). Where relevant, subsidiary ledger accounts or proprietary accounts will be incorporated into the structure for job order data.

5.9.5. A job order number is given to each identified cost object, similar to a project Work Breakdown Structure, in which a number is assigned to each task that is being tracked or reported. Job order numbers are the framework for identifying each job and a means of accumulating departmental direct labor, direct material, and overhead (indirect, general, and administrative) cost by job order. Detailed DoD specific transactions are available in the DoD USSGL Transaction Library and must be consistent with Volume 1, Chapters 4 and 7. Refer to Volumes 11A and 11B for reimbursable policies applicable to activities financed with annual appropriations and WCFs.

## 5.10 Process Costing

5.10.1. Process costing accumulates costs by individual processing cost center. These processing cost centers are involved in a continuous flow of effort, with each center contributing towards the completion of the end products. The output of a processing center becomes the input of the next processing cost center or becomes a part of the end product.

5.10.2. Process costing is appropriate for production of goods or services with the following characteristics:

5.10.2.1. The production involves a regular pattern of processes, and

5.10.2.2. The output consists of homogeneous units, and

5.10.2.3. All units are produced through the same process procedures.

5.10.3. Each cost center accumulates costs, assigns the costs to its outputs, and calculates the unit cost of its output. For each period, cost centers prepare a cost and performance report showing the costs, the completed effort, and the work-in-process. When a certain number of completed units are transferred from the cost center to the next cost center, the cost of those units are also transferred and are eventually incorporated into the costs of the end product. Therefore, the cost flow follows the physical flow of the production. The unit cost of the end product is the sum of the unit costs of all the divisions.

## 5.11 Standard Costing

5.11.1. Standard costs are carefully predetermined or expected costs that can be applied to activities, services or products on a per unit basis. The purpose of standard costing is to have a standard cost per product used as a goal to compare with actual costs.

5.11.2. A standard cost outlines how a task should be accomplished in nonfinancial terms (hours, minutes, board feet) and how much it should cost. Standard costing can be done for components such as direct materials, direct labor, and indirect costs. Standard costs are a fixed price per unit and are commonly used in production or service center models.

5.11.3. Standard costing is used in conjunction with job order costing, process costing, and activity based costing and it can be applied to specific outputs or activities, or to a responsibility segment in aggregate by comparing total actual costs with total standard costs based on outputs produced within a certain time period. Standard costing is appropriate for operations that produce services or products on a consistently repetitive basis. (Refer to Volumes 11A for Reimbursable Operations and 11B for WCF activities).

## 5.12 ABC

5.12.1. ABC focuses on activities of a production cycle, based on the premises that:

5.12.1.1. Output requires activities to produce, and

5.12.1.2. Activities consume resources.

5.12.2. ABC uses cost drivers to assign costs through activities to outputs.

5.12.3. The ABC cost assignment process is a two-stage process. The first stage assigns the cost of resources to activities. The second stage assigns activity costs to outputs.

5.12.4. Implementing ABC is a four step process:

5.12.4.1. Identifying activities within a segment. This may require an in-depth analysis of the operating processes, as some processes may consist of one or more activities. Activities may be classified into unit level, batch level, product sustaining, and facility sustaining activities. Management may combine related small activities into larger activities to avoid excessive costing efforts.

5.12.4.2. Assigning resource costs to activities to capture the full cost of the final output. Assigned resource costs should include direct and indirect costs as well as any inter- or intra-department costs relevant to the activity. Resource costs are assigned to activities in three ways, depending on feasibility and cost benefit considerations:

5.12.4.2.1. Direct tracing,

5.12.4.2.2. Standard costing or cost finding report, or

5.12.4.2.3. Allocations.

5.12.4.3. Identifying outputs. Outputs are any good or service generated by a segment, and can include information or paperwork generated by the completion of the tasks or customers (e.g., persons or entities to whom a federal agency is required to provide goods or services). Omitting a resource cost, activity, or output in the ABC process will result in overcharging costs to other outputs.

5.12.4.4. Assigning activity costs are assigned to outputs using activity drivers based on individual outputs' consumption or demand for activities. For example, a driver may be the number of times an activity is performed or the length of time an activity is performed in the production of an output. These are referred to as transactional and durational drivers, respectively.

5.12.5. ABC can be used in conjunction with job order costing or process costing. Job order or process costing would be costing activities that occur in the production of a final output. For example, a contracting office has many activities that lead into the finalization of a contract.

There are routine processes relevant to all contracts, such as document formatting, printing, and delivery activities, that are likely allocated using a standard cost methodology (established rate per output), while other activities such as research and negotiation are not common and vary depending on contract type, are allocated using ABC methods.

5.12.6. A major advantage of using ABC is that it avoids or minimizes distortions in product costing that result from arbitrary allocations of indirect costs. By tracing costs through activities, ABC can provide more accurate good or service costs. Ranking activities by the degree to which they add value to the organization or its outputs encourages management to evaluate the efficiency and cost effectiveness of activities. An ABC method starts with identifying and examining the following:

5.12.6.1. What value-added activities are really needed in order to accomplish a mission, deliver a service, or meet customer demand?

5.12.6.2. How can activities be modified to achieve cost savings or product improvements?

5.12.6.3. What activities do not actually add value to services or products?

5.12.6.4. Where can cycle time analysis and value-added analysis be incorporated?

## 6.0 DATA SYSTEMS, DATA SOURCES AND COST FINDING

### 6.1 Data System

6.1.1. Financial accounting, budgeting, and managing are three essential ingredients of accountability. Data systems are the source of cost and programmatic information used for reporting. SFFAS 4 requires that each reporting entity accumulate and report the cost of activities on a regular basis.

6.1.2. A data “system” is an organized grouping of methods, source information, and activities surrounding data collection used to produce reliable cost information on a consistent basis. Data systems include a collection of system tools and sources used for automating managerial cost accounting reporting, but can also include manual processes, such as cost finding reports. System based reporting should be used first before relying on cost finding reports in order to routinely collect reliable data from a common data source, process the data, and report cost and output information for general and special purposes. Data systems will integrate sources of information across an organization and may need to include data sources that cross multiple reporting segments of an entity in order to provide the proper cost information, such as accounting information, time records, or asset data. A data system can also include evaluation and decision source information derived as a result of prior reporting and feedback.

6.1.3. Cost information developed for managerial cost accounting purposes from established data systems should be reconcilable to financial, budgetary, or managerial accounting items. When possible, information produced from a data system should be corroborated with other

reporting tools to validate the content in the systems (quantity of line items or sum of dollars). This task may be included in a recurring internal control assessment to reduce redundancy. DoD financial managers will decide the best approach based on the complexity of the data and its reliance.

6.1.4. DoD data systems, to the extent practicable, should be integrated with an organization's accounting, budgetary, and financial system(s). As SFFAS 4, paragraph 72 prescribes, a system should take into consideration:

6.1.4.1. The nature of the entity's operations,

6.1.4.2. Precision desired and needed in cost information,

6.1.4.3. Practicality of data collection and processing,

6.1.4.4. Availability of electronic data handling,

6.1.4.5. Cost of installing, operating and maintaining the cost accounting processes, and

6.1.4.6. Any specific management information needs.

6.1.5. Data systems will support cost analyses used to compare actual to anticipated costs. To meet managerial cost accounting needs, data systems should use uniform and basic cost, transactional, or programmatic data. Examples of these data are units of output produced and input used, to include the amount of labor in terms of employees or employee hours.

## 6.2 Data Sources

6.2.1. Data sources, as SFFAS 4 describes it, "consists of all financial and programmatic information used by the budgeting, cost accounting, and financial accounting processes. The common data source may include many different kinds of data, which may be spread among multiple systems or locations, including non-computerized sources. These data are far more than the information about financial transactions found in the standard general ledger, although that is a significant part of the data source." Non-financial data may include human capital, logistical, and operational data. Common data sources will include information about financial transactions found in the standard general ledger along with various other data types. The use of the term "data source" is not limited to the use of computerized systems for information, but includes a broad array of sources of information (for example, manually prepared reports or audit findings).

6.2.2. Data sources integrated into the data system must be relevant to the reporting segment and its reporting requirements. Data sources may originate from within the reporting segment or from an external entity. Data sources must be capable of retaining pertinent data over periods sufficient to provide historical reference and allow for forecasting. Managers will examine non-systematic data sources for content, accuracy, and reliability on a recurring basis.

6.2.3. Reporting needs will vary depending upon the circumstances and purpose for which the measurement is used. Data sources established within an entity's data system may need to change as the operational needs change. However, as stated in SFFAC 1, the focus is on developing generally accepted accounting standards for reporting on the financial operations, financial position, and financial condition of the Federal Government and its component entities and other useful financial information. This implies a variety of data sources that complement budget information will be required and must be adapted to fit OFFR, SFIS, and SLOA standards.

### 6.3 Cost, Budget, and Financial System Relationships

6.3.1. Proper financial management requires that cost, budget, and financial systems work closely together to provide useful information. Per FASAB, OFFR should consider the needs of both internal and external users, the decisions they make and the information they need. The established data systems must follow the DoD USSGL Transaction Library and DoD SCOA for consistency of the cost information.

6.3.2. Budgetary accounting ensures compliance with fiscal legal requirements and tracks the use of each appropriation for specified purposes in separate budgetary accounts through the various stages of budget execution—from appropriation to apportionment and allotment to obligation and eventual outlay. Cost accounting informs budget formulators and decision makers with the full cost of federal resources required to support policy and program goals. Cost accounting also assists the budget execution process by consistently accumulating and reporting the costs of the federal resources consumed, and by comparing actual against planned federal resource consumption (MCAIG Glossary, page I-19). Managerial cost accounting uses the defined data elements prescribed by SLOA to produce a more detailed Statement of Net Cost for budget reconciliation (see paragraph 5.3).

6.3.3. Financial accounting tracks financial events of DoD Reporting Entities and produces results of operations, including assets, liabilities, and changes in net position, revenues, and expenses. Federal financial reporting derived from cost accounting data systems will encompass general and special purpose report capabilities to meet the needs of the four user groups: program managers, executives, Congress, and citizens. Information produced by managerial cost accounting appears in or influences both general and special purpose reports.

6.3.4. Data systems for cost accounting should provide sufficient cost detail on a timely basis to support performance reporting. Measuring and reporting actual performance against established goals is essential to assess governmental accountability. Cost information is necessary in establishing strategic goals, measuring service efforts, determining whether expected outcomes were achieved, and relating efforts to accomplishments.

6.3.5. Data systems that use different accounting bases or different recognition and measurement methods than the norm should be reconcilable and should fully explain the accounting bases and measurement methods. Regardless of the type of report in which it is presented, cost information should ultimately be traceable back to the original source.

6.3.6. As per SFFAS 4, to be reconcilable, the amount of the differences in the information reported should be ascertainable and the reasons for the differences should be explainable. In some situations, informational differences may be clearly understandable without further explanation. However, other cases may require a narrative statement concerning the differences. In complicated situations, a schedule or table may be required to fully explain the differences. Any variances observed in data system reports to budgetary, financial, or managerial cost accounting reports must be documented noting the reason for the variance (if discernable), the source of the variance, and the resolution, if applicable.

## 6.4 Cost Finding

6.4.1. Cost finding is a tool used to perform cost examinations when a data system cannot provide sufficient data. Cost finding techniques produce cost data by analytical or sampling methods. Cost finding techniques are only appropriate for certain kinds of projects or programs that have limited scopes or costs. Organizations may use thresholds to limit the use of cost finding technique. When cost finding techniques are used, the value of the report should be limited and a timeframe for updating the cost finding report established. As cost information becomes available and normalized on the project or program, the cost finding report should be replaced with actual data.

6.4.2. Special purpose cost reports and analyses, or cost finding techniques, can be performed for financial based decision making. Cost finding techniques will vary depending on the type, level, and significance of the financial decision, e.g., planning decisions for replacement costs, capital costs, or sustainment of operations. It is important that the basis and method used be appropriate for the circumstances and consistent with the intended purpose.

6.4.3. Cost finding techniques produce cost data by analytical or sampling methods. Cost finding techniques are used for indirect costs, items with costs below set thresholds within programs, or for programs in their entirety. Cost finding techniques support the overall managerial cost accounting process and can represent nonrecurring analysis of specific costs.

## 6.5 Cost Finding Application

6.5.1. Cost findings generated manually outside of the standard reporting tools should utilize an established managerial cost accounting data system where possible. Cost finding techniques will vary. It is crucial that the process be thoroughly documented. Documentation must be sufficient to replicate the cost finding process used with consistent results.

6.5.2. Within the DoD, cost finding techniques will be used to compare costs of different organizational units or operations performing the similar output. Cost finding is one tool in estimating full costs, and can be used to compare organizational efficiency. For example, the costs for an intermediate object, such as processing a personnel action at a personnel office, can be compared with the cost at other personnel offices to determine the efficiency of one over the other or value of both.

6.5.3. Cost finding techniques are used for a number of different circumstances, but there are four general circumstances:

6.5.3.1. A cost accounting system is not in place for full cost of a cost objective.

6.5.3.2. The data system does not have the full costs incurred to provide an output or product. In this scenario, the output is often new or unique.

6.5.3.3. Activities do not have formal cost accounting capability as part of their financial management system, but periodically provide outputs to other DoD Components, Federal agencies, or to the public.

6.5.3.4. 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.

6.5.4. When the purpose of a cost finding includes the preparation of an internal report or an external report for another Federal agency or non-Federal organization, General Fund (GF) Components should follow the guidance contained in Volume 11A, Chapter 1 to ensure that all applicable costs are considered. WCF Components must follow the guidance in Volume 11B. When the purpose is to establish the cost of an activity associated with the Security Cooperation Program, managers and users will follow the guidance contained in Volume 15, Chapter 7.

## 6.6 Cost Finding Requirements

6.6.1. Cost finding techniques must be repeatable and set up in a manner that is consistent with similar prior cost finding reports in the cost collection approach, even if the effort is associated with a one-time cost accounting requirement. This is required to sustain an audit or assessment of the cost later.

6.6.2. Although cost finding practices are outside of the standard processes, cost finding techniques must align with the SFIS Business Rules for financial data (see paragraph 5.3).

6.6.3. A thoroughly documented cost finding approach requires:

6.6.3.1. The cost objects or outputs (both intermediate and final) to which cost finding techniques are to be applied, in addition to the relevant funds used to support the organization (WCF and GF),

6.6.3.2. The organizations involved in performing the cost objects and the tasks performed by each,

6.6.3.3. The applicable cost elements,

6.6.3.4. A plan that includes the specific cost finding techniques to be used and the criteria followed in selecting the specific cost finding technique, and

6.6.3.5. A description of how those techniques will be used to estimate the cost object.

6.6.4. The documented statement and the related work papers should be retained for the same length of time as other documentation used to support billings to federal agencies or the public. Refer to Volume 1, Chapter 9, for document retention and audit readiness.

6.6.5. Identifying and describing cost objects are an important element of the documentation requirement. When the cost object identified is at a reporting entity or organizational level, the cost finding approach could rely on more estimation techniques and fewer details in the cost estimates. If the cost object identified is at the specific function or operation level, additional granularity will be required to provide useful cost object data. At the specific function or operation level, the data may not be available in the legacy financial systems.

6.6.6. The task is to classify the direct or indirect cost objects. A cost object responsible for actually performing the work is direct. A cost object that provides support or performs an administrative function is indirect.

6.6.7. Organizations or cost objects may be either direct or indirect costs depending on the activities identified. For example, when using cost finding techniques to collect costs for paying a contractor invoice, the costs of the accounting technicians at the Defense Finance and Accounting Service (DFAS) disbursement function would be considered direct costs, as they are assigning their time directly to the specific customer. However, when using cost finding to collect costs for the operation of an aircraft carrier battle group, the disbursing function at DFAS is considered an indirect cost and allocated to all benefiting organizations. In the two examples, the difference is the activity scope performed and how cost is recognized as a singular cost easily identifiable in a cost summary or multiple cost aggregated into a single assignment.

6.6.8. An organization classified as indirect cost will not always be recognized in the computation of costs for a final cost object. At the macro level, service center type organizations generally will be recognized as indirect and the related costs allocated among direct organizations. At the micro level, materiality and usefulness will be determining factors on recording the costs as direct. Specifically, if some cost assignment amounts are not readily available, and they are estimated to be relatively insignificant in the context of the total costs, cost finding techniques would allow them to be excluded from the overall costs with a notation that they are not material.

6.6.9. An important aspect of any cost finding technique is identifying the direct and indirect cost elements applicable to the good or service. Even within a direct cost organization, there may be indirect cost elements. Both the direct and indirect activities may have the same cost elements, such as civilian personnel costs. The difference is in whether the costs are considered direct or indirect. If indirect, allocate across the direct cost elements.

6.6.10. All possible cost elements must be identified and determined if they are significant. Personnel compensation, purchased services, supplies, and materials are typical major categories within the SFIS Cost Element Code (see paragraph 5.3).

6.6.11. After the potential elements are identified, it must be decided which cost elements are sufficiently significant to the final cost object and if they warrant separate consideration. An evaluation of the elements would also include the relevance and materiality of each cost element to the cost object. Materiality is determined by analyzing whether excluding the data could distort the computed value for the final cost object.

6.6.12. Before the values for each cost finding can be determined, the source documents for the required data must be identified and physical hardcopies or softcopies retained for audit or performance examination purposes. Source documentation is cost information on a prior project, effort, or purchase that is the same or similar in nature. Examples include: invoices of procurements, contracts, statement on costs, and funding reports. When WCF organizations are part of the cost finding, detailed cost or pricing documentation should already be available since these data are needed for the customer rate setting process. Depending on the significance and intended use of the cost finding report, the identification of specific documents may not be necessary if it is insignificant to the operating costs to which it will be applied.

6.6.13. The following principles are intended to help guide the collection of comprehensive data:

6.6.13.1. Provide a comprehensive data structure for the cost object that specifies the source of all data,

6.6.13.2. Rely on the financial management system to the maximum extent possible and ensure the source data is complete and representative for its intended purpose (reflective of all debits, credits, cost transfers, and journal adjustments),

6.6.13.3. Document the rationale for direct and indirect costs,

6.6.13.4. Pricing lists, costing sheets, benchmarking studies on standard items such as direct and indirect labor and materials, and

6.6.13.5. Create an auditable, repeatable process to support cost management analysis over time.

6.6.14. The following guidance using cost finding techniques should be applied when determining the individual costs of intermediate and final cost objects:

6.6.14.1. Civilian direct labor costs are computed using the average pay grade for applicable General Schedule series personnel (e.g., step 5). For Wage Grade employees, use the average applicable pay grade (e.g., step 4). Amounts included as direct labor costs should recognize only productive time that is, the time actually used to perform the function. All other times, such as training or annual leave, are indirect labor and are included in indirect costs. Actual costs may be used, if known, provided appropriate documentation is available to support their substitution. Prior to applying the labor costs, it will be necessary to develop an approach for collecting the number of hours associated with an activity reflected in a cost object.

6.6.14.2. Civilian Personnel Fringe Benefit costs are computed using the rates published annually on the Office of the Under Secretary of Defense, Comptroller (OUSDC) [Financial Management Reports](#) website in accordance with Volume 11A, Chapter 6 or Volume 15, Chapter 7.

6.6.14.3. Costs for Military Personnel are calculated using standard military composite rates in accordance with guidance in Volume 11A, Chapter 1 and Chapter 6, Appendix G. Military Personnel Composite Standard Pay and Reimbursement Rates are published annually on the OUSDC Financial Management Reports website.

6.6.14.4. Both military and civilian labor should be included, as applicable. Labor that is directly traceable to jobs should be recorded as direct labor. Indirect labor (labor that cannot be charged to a specific job) should be used in computing indirect costs. Volume 11A, Chapter 1, reimbursable policy controls whether military labor costs actually are includable in charges to other DoD entities.

6.6.14.5. Direct material cost is determined using standard prices, unless the actual cost is known from vendor invoices. Standard prices can be obtained from vendor catalogs, supply system stock databases, recent contract purchases of similar items, or any other available data source.

6.6.14.6. Depreciation and amortization of capitalized property and real property represent an additional cost of an activity, project, or service. Chapters 24-27 provide additional guidance on calculation of depreciation and amortization for general equipment; assets under capital leases, internal use software, government furnished equipment, contractor acquired property, and real property.

6.6.14.7. Other costs that can be directly related to the cost object are determined using source documents, such as vendor invoices and travel vouchers.

## 6.7 Pricing for a Cost Finding Report

6.7.1. Pricing elements (labor, materials and overhead) for cost finding reports are estimates based on prior same or similar purchases, projects, or programs. When pricing for a cost finding primarily uses financial system data, it improves the accuracy and confidence in the estimate. Common elements such as labor, raw materials, and materiel are examples of standard costs found in financial systems. Pricing practices and standards should be researched for each agency before developing a new practice or procedure.

6.7.2. Information available from CAPE, such as full cost of manpower, and defense employment and purchase projection system are available to support pricing of labor costs. In addition to base pay, these sources provide additional costs related to labor, including fringe benefits and training. When pricing labor, it is important to include the full cost of labor, as fringe benefits will increase total labor costs significantly.

6.7.3. Materials and supply pricing tools are also available from CAPE. These tools can support costs for common purchase items. Pricing for materials and supplies should include the full cost of procurement, which can include material handling and destination charges. Supporting agencies like Washington Headquarters Services or Defense Logistics Agency may supply the full cost of procurement. It is important to identify where services and goods originate from as part of the pricing documentation. The life cycle of a procurement will need to be included as part of a procurement pricing estimate.

6.7.4. A pricing Basis of Estimate (BoE) will vary for services provided by a GF Component vice a WCF Component. Volume 11A, Chapter 1, paragraph 2.4 provides guidance on the pricing of reimbursements for providing authorized services or materiel unless a specific DoD issuance authorizes alternative reimbursement policies. Volume 11B provides WCF guidance for products and services cost recovery. A WCF-financed activity must include general and administrative costs and other overhead in a BoE to satisfy requirements for full cost recovery. Under reimbursable policies set forth in Volume 11A, Chapter 1, DoD activities that finance reimbursable operations using annual appropriations generally do not include such costs in charges to customer activities within the DoD.

**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**CHAPTER 20: "ARCHIVED"**

**UNDER SECRETARY OF DEFENSE  
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**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**CHAPTER 21: "ARCHIVED"**

**UNDER SECRETARY OF DEFENSE  
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**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**CHAPTER 22: "ARCHIVED"**

**UNDER SECRETARY OF DEFENSE  
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**DoD 7000.14 - R**



**DEPARTMENT OF DEFENSE**

**FINANCIAL MANAGEMENT REGULATION**

**CHAPTER 23: "ARCHIVED"**

**UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)**

**VOLUME 4, CHAPTER 24: “REAL PROPERTY”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [October 2019](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Policy Memo 2.4.2.5	This revision incorporated and cancelled the Deputy Chief Financial Officer (DCFO) policy memorandum “Alternative Valuation Methodologies for Establishing Opening Balances for Buildings, Structures, and Linear Structures” (FPM20-14), dated January 4, 2021.	Cancellation
Policy Memo 2.5.1	This revision incorporated and cancelled the DCFO policy memorandum, “Department of the Army Real Property Capitalization Threshold Exception to Policy Waiver (FPM24-08),” dated April 9, 2024.	Cancellation
Policy Memo 2.5.1	This revision incorporated and cancelled the DCFO policy memorandum, “Department of the Air Force Real Property Capitalization Threshold Exception to Policy Waiver (FPM24-07),” dated April 9, 2024.	Cancellation
Policy Memo 2.5.3 2.6	This revision incorporated and cancelled the DCFO policy memorandum, “Implementation of Statement of Federal Financial Accounting Standards 59, ‘Accounting and Reporting of Government Land’ (FPM 22-03),” dated September 30, 2022.	Cancellation
Policy Memo 2.5.4 Annex 3	This addition incorporated the Assistant Secretary of Defense for Infrastructure Modernization and Resilience and the DCFO joint policy memorandum, “Real Property Construction in Progress Accounting Policy (FPM23-05) and Asset Documentation Timeliness”, dated January 22, 2024.	Cancellation
2.1	Retitled “Overview” (previously paragraph 1.1), “Description,” to introduce the purpose earlier on in the chapter and added description of facilities and exclusions from real property.	Revision

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
2.2	Added definitions of terminology used throughout the chapter.	Addition
2.3.2.9	Updated Non-Federal Joint Ventures, describing accounting treatment for Non-Federal Entity contributions to DoD construction clarifying how to record full cost of Real Property Assets in accordance with generally accepted accounting principles.	Revision
2.4 (previously Annex 4)	Revised Alternative Valuation for Establishing Opening Balances.	Revision
3.3	Added real property physical inventory reconciliation requirements.	Addition
A4.1	Updated the Construction in Progress illustrative examples.	Revision/ Addition

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## CHAPTER 24

REAL PROPERTY

## 1.0 GENERAL

## 1.1 Purpose

This chapter prescribes Department of Defense (DoD) real property accounting policy. The **real property** general ledger accounts listed in the United States Standard General Ledger (USSGL) are contained in [Volume 1, Chapter 7](#), “Department of Defense Standard Chart of Accounts,” and the accounting entries are specified in the [DoD USSGL Transaction Library](#). Unless otherwise stated, this chapter is applicable to all DoD Components, both General Fund and Working Capital Fund (WCF) activities.

## 1.2 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.2.1. Title 10, United States Code, section 2674 ([10 U.S.C. § 2674](#)) “Operation and control of Pentagon Reservation and defense facilities in National Capital Region;”

1.2.2. [10 U.S.C. § 2682](#); “Facilities for defense agencies”;

1.2.3. [10 U.S.C. § 2721](#); “Property records: maintenance on quantitative and monetary basis”;

1.2.4. Title 41, Code of Federal Regulations, part 102-75 ([41 CFR 102-75](#)); “Real Property Disposal;”

1.2.5. Federal Accounting Standards Advisory Board (FASAB) [Statement of Federal Financial Accounting Standards \(SFFAS\) 1](#), “Accounting for Selected Assets and Liabilities;”

1.2.6. FASAB [SFFAS 4](#), “Managerial Cost Accounting Standards and Concepts;”

1.2.7. FASAB [SFFAS 6](#), “Accounting for Property, Plant, and Equipment;”

1.2.8. FASAB [SFFAS 29](#), “Heritage Assets and Stewardship Land;”

1.2.9. FASAB [SFFAS 42](#), “Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32;”

1.2.10. FASAB [SFFAS 44](#), “Accounting For Impairment of General Property, Plant, and Equipment Remaining In Use;”

- 1.2.11. FASAB [SFFAS 50](#), “Establishing Opening Balances for General Property, Plant and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35;”
- 1.2.12. FASAB [SFFAS 55](#), “Amending Inter-entity Cost Provisions;”
- 1.2.13. FASAB [SFFAS 59](#), “Accounting and Reporting of Government Land;”
- 1.2.14. Treasury Financial Manual ([TFM Volume 1, Part 2, Chapter 4700](#)), “Federal Entity Reporting Requirements for the Financial Report of the United States Government;”
- 1.2.15. FASAB Statement of Federal Financial Accounting Concepts ([SFFAC 5](#)), “Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements;”
- 1.2.16. FASAB [SFFAC 7](#), “Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording;”
- 1.2.17. Technical Bulletin ([TB 2017-2](#)), “Assigning Assets to Component Reporting Entities;”
- 1.2.18. FASAB Technical Release ([TR 13](#)), “Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment;”
- 1.2.19. FASAB [TR 14](#), “Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment;”
- 1.2.20. FASAB [TR 15](#), “Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation;”
- 1.2.21. FASAB [TR 17](#), “Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment;”
- 1.2.22. FASAB [TR 18](#), “Implementation Guidance for Establishing Opening Balances;”
- 1.2.23. [Staff Implementation Guidance 6.1](#), “Clarification of Paragraphs 40 – 41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as Amended;”
- 1.2.24. Office of Management and Budget ([OMB Circular No. A-136](#)), “Financial Reporting Requirements;”
- 1.2.25. DoD Directive ([DoDD 4165.06](#)), “Real Property;”
- 1.2.26. [DoDD 5110.04](#), “Washington Headquarters Services;”
- 1.2.27. DoD Instruction ([DoDI 1015.15](#)), “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources;”

- 1.2.28. [DoDI 4000.19](#), “Support Agreements;”
- 1.2.29. [DoDI 4165.14](#), “Real Property Inventory and Reporting;”
- 1.2.30. [DoDI 4165.70](#), “Real Property Management;”
- 1.2.31. [DoDI 4165.71](#), “Real Property Acquisition;”
- 1.2.32. [DoDI 4165.72](#), “Real Property Disposal;”

## 2.0 ACCOUNTING FOR REAL PROPERTY

### \*2.1 Description

[Real property](#) is a subset of General Property, Plant, and Equipment (General PP&E).

2.1.1. [General PP&E](#) consists of tangible assets that:

- 1.2.1.1. Have an estimated useful life of two years or more;
- 1.2.1.2. Are not intended for sale in the ordinary course of operations; and
- 1.2.1.3. Are acquired or constructed to be used or available for use by the entity.

2.1.2. [Characteristics of Real Property](#). Real property [assets](#) are used in providing goods or services, or [supporting](#) the mission of the entity, and have one or more of these characteristics:

2.1.2.1. [The item could be used by other DoD or federal programs, state or local governments, or nongovernmental entities;](#)

2.1.2.2. The item is used in business-type activities, which are defined as a significantly self-sustaining activity [financing](#) its operations through [the](#) collection of exchange revenue; and/or

2.1.2.3. The item is used by entities whose costs can be compared to similar activities (e.g., federal hospital services in comparison to commercial hospitals).

2.1.3. [Real Property Assets \(RPAs\)](#) consist of [facilities](#), land, and land rights.

2.1.3.1. [Facilities](#) are buildings, structures, or linear structures [that are permanently constructed on or in the land](#). [Facilities include equipment affixed to the real property asset that facilitates the use of and is inclusive and intrinsic to the facility itself, such as heating, ventilation, and air conditioning equipment; utility connections; stairs; ramps; and passageways.](#)

2.1.3.1.1. A building is a roofed and floored facility enclosed by exterior walls and consisting of one or more levels that is suitable for multiple functions and that protects occupants and their properties from the direct harsh effects of weather.

2.1.3.1.2. A structure is a facility, other than a building or linear structure, that is constructed on or in the land.

2.1.3.1.3. A linear structure is a facility that traverses land (e.g., runway, road, rail line, pipeline, fence, pavement, electrical distribution line) or is otherwise managed by a linear unit of measure at the category code (i.e., CATCODE) level. RPA Type Code (B, S, LS, L) is managed at the DoD-level Facility Analysis Category

2.1.3.2. Land is a portion of the earth's surface distinguishable by boundaries. Land must be accounted for by parcel when the parcel is transferred into a Host Installation's custody and control. Excluded from the definition are natural resources, including depletable resources such as mineral deposits and petroleum, and renewable resources such as timber and the outer continental shelf resources related to land.

2.1.3.3. A land right is an interest and privilege in land owned by others, such as leaseholds, easements, water, diversion rights, mineral rights, and other like interests in land.

2.1.4. Inclusions. Real property also includes:

2.1.4.1. Leasehold improvements (See [Chapter 26](#), "Accounting for Leases" for a discussion of accounting for real property acquired through leases);

2.1.4.2. Items for which a Military Department or Washington Headquarters Services (WHS) financially reports or has accountability of, even though these items may be possessed by others (e.g., state and local governments, colleges and universities, or contractors);

2.1.5. Exclusions. Real property excludes:

2.1.5.1. Items where the DoD has a reversionary interest (for example, the DoD grants real property; if the recipient no longer uses the real property for the grant purpose, it reverts to the DoD);

2.1.5.2. Lands withdrawn from the public domain for specific uses. To the extent consistent with statutory authorities, an entity may withdraw public land from sale, settlement, or recreational for specific use, such as to expand buffer zones for security or training needs.

2.1.5.3. Non-Multi-Use Heritage Assets or Stewardship Land (see descriptions in [Chapter 28](#), "Heritage Assets, Multi-Use Heritage Assets and Stewardship Land").

2.1.5.4. Leases of real property (see Chapter 26 for additional information).

## \*2.2 Definitions

2.2.1. DoD Components include the Office of the Secretary of Defense (OSD), Military Departments (including their Reserve components), Chairman of the Joint Chiefs of Staff, Combatant Commands, Office of the Inspector General of the Department of Defense, Defense Agencies, DoD Field Activities, and other organizational entities in the Department of Defense.

2.2.2. Component reporting entity refers to a reporting entity within a larger reporting entity. Examples include executive departments and agencies. Component reporting entities also include subcomponents that may themselves prepare general-purpose federal financial reports (GPPFRs). One example is a bureau that is within a larger department that prepares its own standalone GPPFR.

2.2.3. Funding DoD Component is the entity paying to acquire or construct the real property asset or improvement, regardless of whether appropriation or working capital funds are used.

2.2.4. Host Installation describes the Military Department (i.e., Department of the Army, Department of the Navy, which includes the U.S. Marine Corps, or Department of the Air Force, which includes the U.S. Space Force) or WHS on whose installation a real property asset is located. A Host Installation may be either a General Fund or a WCF operation.

2.2.5. DoD Construction Agent (DCA) is the DoD organization authorized to administer design and construction contracts for DoD facilities projects in accordance with applicable laws and regulations.

2.2.6. Materiality, as defined by the SFFAS 1, is the degree to which an item's omission or misstatement in a financial statement makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

2.2.7. Opening Balances exist at the beginning of the annual reporting period. Opening balances reflect the prior period ending balance of the account and the effects of transactions, events, and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

2.2.8. An Unreserved Assertion is an unconditional statement.

2.2.9. Permanent Land Rights are land rights that are for an unspecified period of time or unlimited duration. Examples of permanent land rights include easements or rights-of-way.

2.2.10. Temporary land rights are land rights for a specified period of time or limited duration. Examples of temporary land rights include construction easements or rights-of-way.

## 2.3 Valuation

2.3.1. Recorded cost includes all amounts paid to bring the asset to its form and location suitable for its intended use. The recorded cost for capitalized assets is depreciated or expensed depending on the acquisition cost. Non-capital assets are expensed when acquired and do not depreciate. Capitalization is not dependent on whether the funds are appropriated or working capital funds.

2.3.1.1. Acquisition Cost is the original purchase or construction cost, net of (less) any purchase discounts. Purchase discounts lost and late payment interest expenses must be recognized as operating expenses. The amounts initially determined and recorded are referred to as the historical cost of an asset. Real property is valued at historical cost.

2.3.1.2. Net Book Value (NBV) is the recorded cost of a real property asset, less its accumulated depreciation, amortization, or depletion from the asset's original cost.

2.3.1.3. Fair Market Value is the current exchange amount in a transaction between willing parties, other than in a forced or liquidation sale.

2.3.1.4. Ancillary Costs are identifiable, necessary, and include other direct and indirect costs. Acquisition and ancillary costs are included in the recorded cost of the asset. Examples include:

2.3.1.4.1. Labor and other direct or indirect production costs;

2.3.1.4.2. Engineering, architectural, and other outside services for designs, plans, specifications, and surveys after funding and design authorization;

2.3.1.4.3. Facilities acquisition and preparation costs;

2.3.1.4.4. An appropriate share of construction equipment;

2.3.1.4.5. Fixed equipment and related installation costs required for activities in a building or facility;

2.3.1.4.6. Allowable inspection, supervision, and construction contract administration and construction work direct costs;

2.3.1.4.7. Legal and recording fees and damage claims;

2.3.1.4.8. Fair market value of facilities and installed equipment donated;

2.3.1.4.9. Interest paid directly to goods or services providers related to the acquisition or construction (not including late payment interest penalties).

### 2.3.2. Method of Acquisition or Transfer Determines Recorded Cost

2.3.2.1. Purchased Real Property. Recorded cost for real property assets purchased from a private, commercial, or state or local government includes the purchase contract cost plus applicable ancillary costs. Purchases by cash, check, or progress payments on contracts or purchase agreements are included.

2.3.2.2. Constructed Real Property. Recorded cost for constructed real property asset(s) is the sum of all the costs incurred to bring the real property asset(s) to a form and condition suitable for its intended use. Project design and actual construction costs, such as labor, materials, and overhead costs, are included. Preliminary planning and design costs prior to funding and design authorization are excluded. For Construction in Progress (CIP) cost recognition, see subparagraph 2.5.4.

2.3.2.3. Donated Real Property. Recorded cost for real property received through donation, execution of a will, or judicial process, excluding forfeiture, is estimated fair market value when received plus any costs incurred to bring the asset into service (e.g., legal fees). Assets transferred from a Non-Federal Entity (NFE) are donations, including assets transferred or reverted to the Federal government at the end of a land lease or end of a Military Housing Privatization Initiative.

2.3.2.4. Exchanged Real Property. Recorded cost for real property acquired through exchange between the DoD and a nonfederal entity is the fair market value of the consideration surrendered when exchanged. If the fair value of the real property acquired is more readily determinable than that of the consideration surrendered, the cost will be the fair value of the real property acquired. If fair market value cannot be determined, the cost is the consideration surrendered, net of any accumulated depreciation/amortization. Any difference must be recognized as a gain or loss. If cash consideration is included, the cost is increased by the cash consideration surrendered or decreased by the cash consideration received. If the fair market value is less than the consideration surrendered, the real property acquired cost is its fair market value. A loss must be recognized equal to the difference between the consideration surrendered and its fair market value. Exchanges between DoD Components or a federal agency must be accounted for as transfers.

2.3.2.5. Seized and Forfeited Real Property. The recorded cost for real property acquired through seizure or forfeiture is its fair market value, less any liens or claims from a third party.

2.3.2.6. Vested and Seized Property During Times of War. See [Volume 12, Chapter 29](#), “Administering, Using and Accounting for Seized and/or Vested Funds and Property During Contingency Operations,” for discussion of vested and seized property during times of contingency operations.

2.3.2.7. Transferred Real Property from a non-DoD Federal agency to DoD. Recorded cost for real property transferred from a non-DoD Federal agency to a DoD Component is the cost recorded on the transferring entity’s books, net of any accumulated depreciation/

amortization. If the receiving DoD Component cannot reasonably ascertain those amounts or the transfer is related to a non-capitalized asset, the cost is its fair market value when transferred. DoD Components should retain documentation supporting the transfer. See Table 24-3 for examples of supporting documentation.

2.3.2.8. Transfer of Capitalized Real Property between DoD Components must adhere to the following:

2.3.2.8.1. The recorded cost for real property transferred from one DoD Component to another is the gross cost net of accumulated depreciation/ amortization on the transferring DoD Component's books. The DoD Component transferring the real property must provide the gross cost recorded net of accumulated depreciation/amortization for the transferred asset. Both parties must agree to the transfer and document the agreement. Each DoD Component must complete requisite tasks in a timely manner.

2.3.2.8.2. The transferring DoD Component must provide financial reporting and trading partner information to the receiving DoD Component when the asset is transferred using the G-Invoicing and Intra-governmental Payment and Collections (IPAC) systems. These data elements include:

2.3.2.8.2.1. Project/Work Order Number;

2.3.2.8.2.3. Name;

2.3.2.8.2.3. RPUID (Real Property Unique Identifier);

2.3.2.8.2.4. Real Property Site Unique Identifier (RPSUID);

2.3.2.8.2.5. Contract Number(s);

2.3.2.8.2.6. Operational Status Code

2.3.2.8.2.7. Acquisition Original Recorded Cost Amount;

2.3.2.8.2.8. Capital Improvement Recorded Cost Amounts;

2.3.2.8.2.9. Placed-in-service Date (PISD);

2.3.2.8.2.10. Capital Improvement PISDs;

2.3.2.8.2.11. Facility Total Accumulated Depreciation Amount;

2.3.2.8.2.12. Capital Improvement Estimated Useful Life Year  
Quantity;

2.3.2.8.2.13. Facility Estimated Useful Life Quantity;

2.3.2.8.2.14. Facility Estimated Useful Life Adjustment Quantity;  
and

2.3.2.8.2.15. Applicable MGRS coordinate or other locational/GIS  
data;

2.3.2.8.2.16. Transaction details including Acquisition Fund Source Code, Acquisition Method Code, and Real Property Asset Predominate Design Use Facility Analysis Code (FAC). If this information is not available, the receiving and transferring entities must develop and document an estimate supporting the financial transfer of the asset. See [Volume 12, Chapter 14](#), “Transferring, Disposing, and Leasing of Real Property and Personal Property,” for further policy on transfers of DoD real property between [Host Installations](#).

2.3.2.8.3. DoD Components [have](#) different capitalization thresholds. Capitalized assets are capitalized and depreciated after transfer, regardless of the new financial reporting entity’s capitalization threshold. [Expensed](#) assets remain expensed at the new entity. The receiving DoD Components include the [assets in their Accountable Property Systems of Record \(APSR\)](#) as accountable real property.

\* 2.3.2.9. [Non-Federal Joint Venture Type Arrangements](#). When DoD Components engage in jointly funded construction of RPAs with Non-Federal Entities (NFEs) on DoD installations, including improvements and major renovations, such as Non-Appropriated Fund Instruments (NAFI) in construction of buildings used for Morale, Welfare, and Recreation (MWR) or State National Guard in construction of National Guard Readiness Centers (formally known as Armories), DoD components must value the RPAs at full cost based on the agreement between the DoD and the NFE.

2.3.2.9.1. Where the agreement stipulates written and expressed rights to be provided to the NFE, such as the expressed right to occupy or use the building after construction, the rights (even if intangible or deemed to be insignificant) consist of an exchange in return for the contribution of funding to the construction. Therefore, the funding contribution from the NFE is considered Other Revenue from Other Financing Sources, recorded under SGL 590000 with the “N” non-federal attribute and the “E” Budgetary Impact Indicator.

2.3.2.9.2. Where the agreement does not stipulate written and expressed rights to be provided to the NFE or where there is no expressed agreement, the funding contribution from the NFE is considered Donated Revenue, recorded under SGL 561000.

2.3.2.9.3. DoD Components must retain appropriate documentation of construction funding agreements, as well as blanket agreements between the DoD and NFEs. DoD components must also retain documentation for acceptance of the RPA that identifies the total cost of the constructed RPA.

## \*2.4 Alternative Valuation for Establishing Opening Balances

### 2.4.1. Applicability and Considerations

This section applies for the reporting period when the reporting entity is presenting financial statements, or one or more line items, following Generally Accepted Accounting Principles (GAAP) promulgated by FASAB either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without using the alternative methods. The SFFAS 50 alternative valuation for establishing opening balances for General PP&E is available only once per line item to each reporting DoD Component. Therefore, prior to establishing opening balances DoD Component must validate that they are prepared to account for and comply with SFFAS 6 recognition, measurement, presentation, and disclosure requirements for real property.

### 2.4.2. Deemed Cost

2.4.2.1. Deemed cost can be used to establish opening balances for real property. Deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required to establish opening balances. Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E. The Cost must include all costs incurred to bring the PP&E to a form and location suitable for its intended use. Deemed cost may be based on any, or a combination of, allowable valuation methods such as fair value, estimated historical cost, or replacement cost.

2.4.2.2. Fair market value is defined in subparagraph 2.2.1.3.

2.4.2.3. Estimated historical cost may be based on cost of similar assets at the time of acquisition; current cost of similar assets deflated to costs at the time of acquisition by general price index; or other reasonable methods, including latest acquisition cost and estimation methods based on budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended.

2.4.2.4. Replacement cost is the amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date, including the amount that the entity would receive from disposing of the asset at the end of its useful life. Replacement cost includes Plant Replacement Value (PRV). PRV does not include the value received from disposing of the asset.

\* 2.4.2.5. DoD's preferred valuation method for real property facilities is PRV. If a component plans to use another methodology for establishing opening balances of facilities for financial reporting, it must first ensure the methodology complies with GAAP and that the component has sufficient documentation to support the valuation. See Annex 2 for PRV methodology.

2.4.3. Existing real property assets with deemed cost equal to or over the current real property capitalization threshold and remaining book values are recorded as a part of the opening

balance. DoD Components **must** apply the applicable capitalization threshold to their entire population of real property retroactively, irrespective of the capitalization thresholds in effect for years prior to October 1, 2013. DoD Components **must include** all relevant prior period adjustments and note disclosures in their annual financial statements in accordance with SFFAS 50. DoD Components must perform additional analytical procedures to identify assets that have been improperly capitalized or expensed. Examples include searching for real property assets with values of \$0 or \$1 or reviewing for an erroneous additional zero, incorrectly placing the asset above the capitalization threshold.

2.4.4. When establishing opening balances using deemed cost, calculate a gross and an accumulated depreciation value for real property assets. **These values are** recorded in the accounting records. Adjustments must be properly documented and supported to assist ongoing audit efforts.

2.4.4.1. **Record** the difference between the deemed cost NBV on the opening Balance Sheet of the current fiscal year and the existing/historical NBV of the real property on the previous fiscal year ending Balance Sheet **as a prior period adjustment**. This prior period adjustment is a change in accounting principle in accordance with **SFFAS 21**, paragraph 13. **Deemed cost value depreciation must be recorded using the deemed cost, and existing/historical value depreciation must be removed.**

2.4.4.2. Remove the existing/historical gross value and accumulated depreciation from the APSR and replace it with **the** deemed cost gross value and accumulated depreciation. **Existing/historical real property value in the APSR and the deemed cost value documentation must be retained.**

2.4.5. **In some cases, the in-service date must be estimated. If only a range of years can be identified, then the midpoint of the range is an acceptable estimate of the in-service date. All improvements included in the opening balances at deemed cost may be treated as if they were placed in service at the date the base unit was placed in service.**

#### 2.4.6. Financial Statement Disclosure Requirements

DoD Components **using** the deemed cost methodology must **include a disclosure in their financial statements. The disclosure must describe** the alternate valuation method **used to establish** the financial statement opening balances. **Include** an unreserved assertion **that** one or more line items are presented fairly in accordance with GAAP. **The disclosure does not need to specifically identify** the amount of **the** deemed cost of real property included in the opening balances.

### 2.5 Recognition

\* 2.5.1. DoD Components must recognize real property assets for accountability. Real property assets must be expensed or capitalized and depreciated. The DoD Components must list capitalized assets and accumulated depreciation/ amortization on the appropriate financial statements. The **DoD** capitalization threshold for real property is \$250,000, **except for the**

following deviations. The capitalization threshold is \$1 million for Air Force General and Working Capital Funds, Army General Fund, Navy General Fund, and DoD Intelligence Agencies. The capitalization threshold is \$500,000 for Marine Corps General Fund Real Property.

## 2.5.2. Recognition Responsibility

2.5.2.1. DoD Components must report real property facilities located on their installations. Under 10 U.S.C. § 2682, the Secretary of Defense designates the military department jurisdiction of real property facilities. DoD Components with jurisdiction over real property assets report the assets on the General Fund financial statements. (see FASAB TB 2017-2). WHS is delegated jurisdiction over its facilities via 10 U.S.C. § 2674 and DoDD 5110.04. The DoD Components' WCF financial statements include real property if the WCF has jurisdiction over a specific installation.

2.5.2.1.1. The RPA Command Claimant Code identifies the Service organization that has direct command authority over a real property asset. This code must be reviewed whenever tenant agreements change.

2.5.2.1.2. The RPA Financial Reporting Organization Code identifies the organization responsible to report and depreciate the original asset or capital improvement or both on its financial statements.

2.5.2.2. Real property must be reported on the Host Installation financial statements where the real property asset is located, or as identified on the OSD-approved Enduring Location Master List for real property outside the U.S. The OSD identifies jurisdiction in the consolidated real property database. The Office of the Assistant Secretary of Defense (OASD) Acquisition and Sustainment (A&S) (Energy, Installations and Environment) maintains and manages the database. The OASD A&S helps resolve financial reporting responsibility disputes between Host Installations. Non-DoD entities report their funded real property assets located on a DoD installation.

2.5.2.3. Assets assigned to/from one reporting DoD Component to another reporting DoD Component must be treated as transfers of assets per [SFFAS 7](#).

2.5.2.4. Financial reporting responsibility includes all aspects of financial reporting and disclosures, including footnote disclosures, Deferred Maintenance & Repair (DM&R), and other Required Supplementary Information (RSI).

2.5.2.5. Financial reporting documentation must establish the reporting entity's rights and obligations (see paragraph 3.2). Records reflecting the Host Installation jurisdiction, inter- and intra-agency agreements, and host-tenant relationships are examples.

2.5.2.6. The DoD's and the Federal Government's overall accounting records must not be duplicative. Where doubt exists as to which DoD Component recognizes the real property asset, the DoD Components involved must reach agreement on which entity records the asset for financial reporting purposes. If an agreement cannot be reached, the matter must be referred to

OASD (Sustainment) for resolution. Requests for resolution must be accompanied by adequate supporting documentation to resolve the matter and submitted through the DoD Component Financial Management and Comptroller.

\* 2.5.3. Treatment

2.5.3.1. Capitalize the cost of all real property assets, other than land and land rights, that equal or exceed the applicable capitalization threshold and have a useful life of at least two years, and depreciate the cost over the assets' useful lives. Expend the cost of all real property assets below the applicable capitalization threshold or that have a useful life of less than two years.

2.5.3.2. Capitalize Temporary land rights and depreciate or amortize the cost over the specified period of time of the right acquired. For temporary land rights under lease contracts, refer to the guidance described in Chapter 26.

2.5.3.3. Expense the cost of acquiring land and permanent land rights on the statement of net cost when the cost is incurred. The cost includes all costs to prepare general PP&E land or a permanent land right for its intended use (for example, razing a building). The financial statement balance sheet must reference a note that discloses required information about land and permanent land rights, but no asset dollar amount is shown.

2.5.3.3.1. DoD Components that have received an unmodified audit opinion and are currently accounting for General PP&E land and land rights in accordance with SFFAS 6 must keep the land and land rights on the Balance Sheet along with existing disclosures.

2.5.3.3.2. DoD Components that do not already have an unmodified audit opinion must value existing land and land rights at zero dollars and expense future land acquisitions as described in SFFAS 50. Entries to adjust the value of land and land rights to zero represent a change in accounting principle and are subject to the reporting requirements within SFFAS 21.

2.5.3.3.3. In some cases, land may be acquired along with existing structures. If the structure is to be used in operations, the amount related to the structure is estimated and capitalized, while the cost of the land is expensed. If the structure is incidental to the acquisition of the land and is not intended to be used in operations, the cost of the entire acquisition is expensed.

2.5.3.3.4. General PP&E land or permanent land rights acquired through donation, legal devise, or a will, or judicial process are not capitalized.

\* 2.5.4. Construction In Progress

2.5.4.1. The Funding DoD Components must report construction costs of a capital asset anticipated to meet the capitalization criteria of the Host Installation in CIP until the construction of the capital asset is complete. Once complete and placed in service, the Host

Installation reports and depreciates the asset on the General Fund's financial statements. The WCF financial statements report real property if it has jurisdiction over a specific installation.

2.5.4.2. The journal entries required for the Funding DoD Components and the Host Installation reflect the flow of legal ownership of the asset. The Funding DoD Components do not recognize the asset on their books before transfer to the Host Installation because they do not hold title to and are not the ultimate owners of the real property asset. If the Funding DoD Component sub-allots to the DoD Construction Agent (DCA), the DCA is responsible for the same journal entries.

2.5.4.3. Additional costs incurred after the asset is placed in service are accumulated in the Funding DoD Component's CIP account. Upon final contract closeout, the Funding DoD Component relieves the additional accumulated CIP, and the Host Installation adjusts the original acquisition cost. The Host Installation depreciates the revised amount over the remaining useful life of the asset. See paragraph 2.8 for Depreciation.

2.5.4.4. See Annex 3 for a detailed outline of the CIP accounting life cycle.

2.5.4.5. DoD Components funding CIP must regularly reconcile their recorded CIP balances with any service provider/contractor working on the CIP. Balances must be supported by appropriate documentation such as invoices and reports of work progress.

2.5.4.6. If a construction project is cancelled, all accumulated CIP costs must be expensed. When a portion of a project is cancelled or decreased in scope, the direct and common costs associated with that portion must be expensed. All projects deferred for more than two years must be reviewed for continuance or cancellation.

#### 2.5.5. Intra-DoD Transfers

Both parties must agree to and document the transfer (e.g., DD Form 1354). The transferor must provide adequate and appropriate supporting documentation for financial statement reporting. Data elements included are not limited to the fields listed in subparagraph 2.2.2.8.2. The financial reporting information must be maintained with the asset throughout the asset lifecycle. When DoD Components have different capitalization thresholds, previously capitalized assets by the transferring DoD Component remain capitalized and will depreciate after transfer, regardless of the new financial reporting entity's capitalization threshold. Assets previously expensed by the transferring DoD Component must remain expensed within the new entity. The receiving DoD Components must include the assets in their APSR as accountable real property.

#### 2.5.6. Memorandum of Agreement.

All DoD Component tenants must have a Memorandum of Agreement (MOA) with the Host Installations. An MOA establishes rights and obligations between the Host Installation and the DoD Component using the real property asset. All tenants must maintain a list of occupied

real property facilities and facilities for which operations, maintenance, or improvement is the tenant's responsibility (see DoDI 4000.19 for DoD policy on intra-departmental support).

#### 2.5.7. WCF Capital Recovery Rate and Accounting Treatment.

WCF recovers real property construction costs funded by the WCF, regardless of financial reporting responsibility. When a real property asset or capital improvement is accepted/recorded by a different reporting entity, the WCF records an imputed cost in lieu of an actual depreciation expense. Capital recovery rates are set in accordance with [Volume 2B, Chapter 9](#), "Defense Working Capital Fund Budget Justification Analysis."

#### 2.5.8. Inter-Entity Costs

**2.5.8.1.** SFFAS 55 requires recognition of significant inter-entity costs among and between federal agencies by business-type activities (e.g., WCFs). Unless otherwise directed by the OMB, non-business type activities may elect not to recognize inter-entity costs, but personnel benefits and the U.S. Department of the Treasury (Treasury) Judgment Fund settlements must be recognized. DoD elected not to recognize imputed costs and corresponding financing, aside from the exceptions stated in this subparagraph.

**2.5.8.2.** WCFs or other business-like activities must impute costs. These imputed costs include depreciation expense, estimated depreciation expense for WCF-funded real property assets and improvements subsequently posted to the General Fund, and depreciation expense or other costs for assets not funded by the WCF. See the Office of the Deputy Chief Financial Officer Standard Financial Information Structure ([SFIS](#)) webpage for imputed costs journal entries (transaction code E402). The decision tree in Figure 24-1 "Imputed Asset Related Costs" illustrates what real property asset-related costs must be imputed and reported by a DoD Component for business-type activity (e.g., WCF). Accounting for imputed costs in the decision tree is applicable only to business-type activities (e.g., WCFs).

#### 2.5.9. Accounting for Real Property Outside of the U.S.

**2.5.9.1.** As used in this chapter, U.S. means the 50 States of the U.S., the District of Columbia, and the commonwealths, territories, and possessions of the U.S. DoD Components occupy and use real property facilities outside of the U.S. DoD's rights to real property outside of the U.S. are different from those within the U.S. For financial reporting purposes, a DoD Component that occupies and uses facilities outside of the U.S. must adhere to the following guidance:

**2.5.9.2.** DoD real property that is not located on a DoD installation (including property located on an installation of a host nation) is reported on the Host Installation financial statements identified on the OSD approved Enduring Location Master List (which is maintained and managed by the Office of the Under Secretary of Defense for Policy) when all of the following criteria are met:

2.5.9.2.1. An agreement exists between the U.S. and the host nation/foreign government (e.g., Cooperative Security Agreement, Bilateral Security Agreement, and Status of Forces Agreement) and the agreement conveys a right to construct and operate real property facilities;

2.5.9.2.2. The U.S. Government/DoD Component funded the asset's purchase and construction (see [SFIS webpage for journal entry with Transaction Code B402](#)). See subparagraph 2.5.3 when the real property acquisition is funded by a DoD Component other than a [Host Installation](#) having jurisdiction over the installation on which the real property resides.

2.5.9.2.3. The cost incurred is over the DoD Component's real property capitalization threshold (if the asset is partially funded by DoD, only the portion funded by DoD is evaluated against the capitalization threshold and recognized as an asset if applicable);

2.5.9.2.5. The asset has an estimated useful life of two years or more; and

2.5.9.2.5. The DoD Component is using the asset in its operations.

2.5.9.3. Such capitalized assets depreciate over their estimated useful lives. If asset use terminates earlier than the estimated useful life, the asset's remaining NBV is written off.

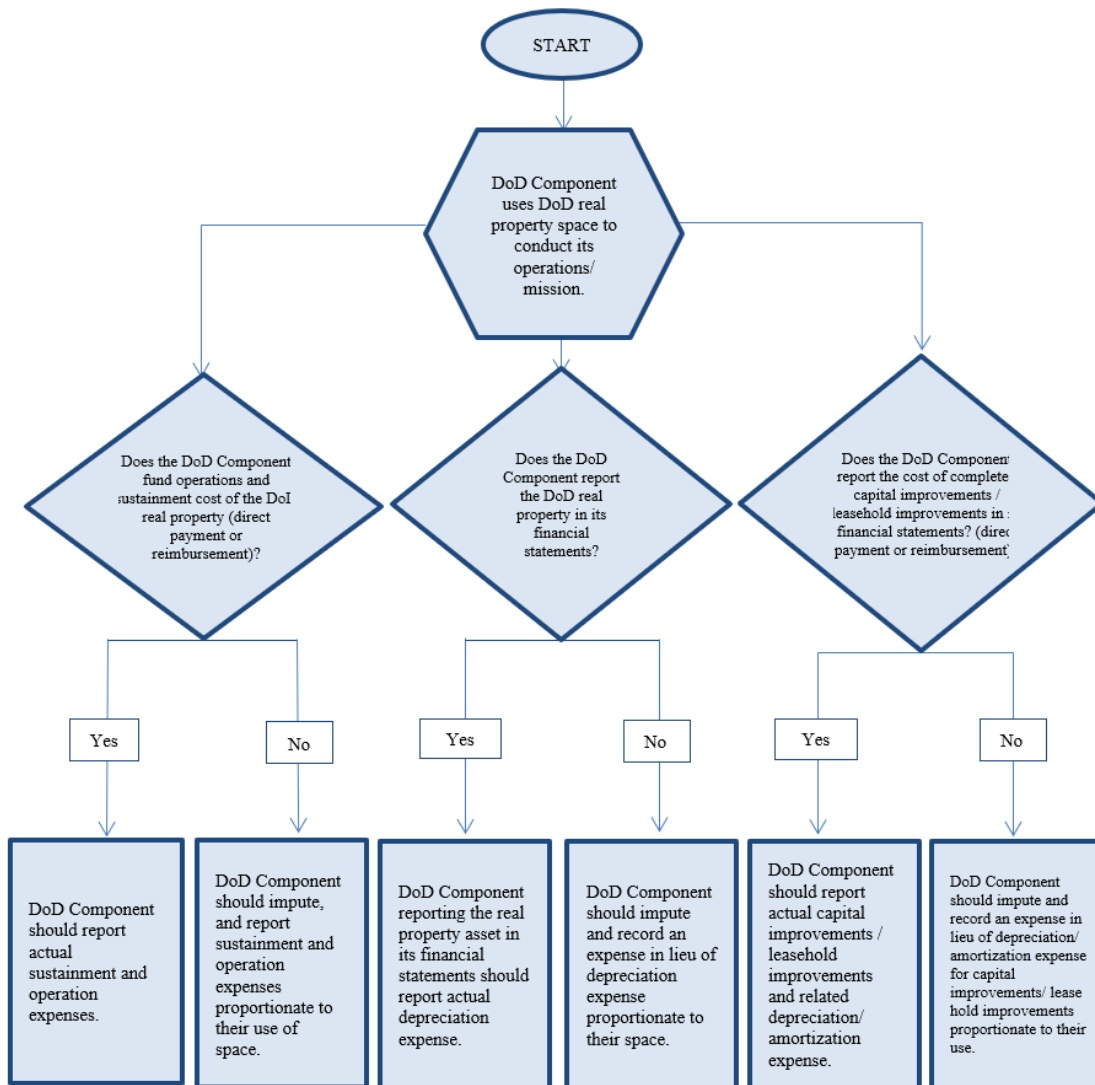
2.5.9.4. When a DoD Component occupies a facility, but the DoD did not fund its acquisition, the DoD Component recognizes such facilities on its financial statements as a lease if a specific agreement with the host nation/foreign government exists and addresses the use of the facility. See Chapter 26 for guidance on real property leases outside of the U.S.

2.5.9.5. SFFAS 4 "Managerial Cost Accounting Standards and Concepts" addresses imputed costs between federal agencies but does not extend to entities outside of the federal context. Therefore, a DoD Component does not record imputed costs for the use and/or occupancy of facilities, for which it does not pay directly or pay through reimbursement, but which are provided by international organizations (e.g., North Atlantic Treaty Organization) or the host nation/foreign government.

2.5.9.6. The [Host Installation](#) with jurisdiction over the installation outside of the U.S. must record all real property occupied and used by it in an APSR, regardless of interest type, in accordance with [10 U.S.C. § 2721](#), DoDI 4165.14, and subparagraphs 1.1.1.1 and 1.1.1.2. Assets that do not meet the criteria for capitalization are expensed in the period received.

2.5.9.7. The [Host Installation](#) with jurisdiction over the installation outside of the U.S. must record an expense for any maintenance and sustainment costs relating to the real property paid, or to be paid by them, in the period incurred, regardless of real property interest type.

Figure 24-1. Imputed Asset Related Costs



## \*2.6 Disclosure Requirements for Land and Permanent Land Rights

2.6.1. DoD Components must disclose, in the notes to their financial statements, referencing the Balance Sheet, the number of acres of General PP&E land and **permanent** land rights (where the types of land rights are conducive to measurement in acres) held as of the period of **their** first audited financial statement. This acreage amount must be reported separately from the DoD Component's Stewardship Land. There are no disclosure requirements for General PP&E land rights not measured in acres in establishing opening balances. **The disclosure requirements for land and permanent land rights in Table 24-1 must be presented in accordance with SFFAS 59. Existing disclosures must continue.**<sup>1</sup>

2.6.2. DoD Components must disclose the number of acres of General PP&E land and land rights measured in acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period. **DoD Components' disclosure must include:**

2.6.2.1. **Land and land rights.** Reported as zero dollar value.

2.6.2.2. **Public domain land.** Land that was originally ceded to the United States by treaty, purchase, or conquest, in contrast to acquired lands, which have been purchased by, given to, exchanged with, or transferred through condemnation proceedings to the Federal government.

2.6.2.3. **Acres of land held for disposal or exchange.** Land where the entity has satisfied the specific statutory disposal authority requirements. Disposal includes conveyances of federal land to non-federal entities. Entities disposing of land often involve public participation, economic impact studies, surveys, and appraisals.

2.6.3. **Predominant use of land.** Predominant use is the major or primary current use of an asset during the reporting period and does not include incidental or infrequent uses of the asset.

2.6.3.1. Predominant use can change between reporting periods. An asset's predominant use must be consistent with the entity's authorizing legislation.

2.6.3.2. The level of aggregation of land and permanent land rights used to determine predominant use should be determined based on the entity's mission, types of land use, and how it manages the assets.

2.6.4. Categorize land and permanent land rights into one of the following categories based on predominant use.

2.6.4.1. **Commercial use land.** Land or land rights are used to generate inflows of resources. Examples include land used to generate revenue derived from concession

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<sup>1</sup>Existing disclosures are those which are in effect per SFFAS 6, 29, and 50 prior to the amendments contained in SFFAS 59.

arrangements, grants, land sales or land exchanges, permits for public or temporary use, and forest product sales.

2.6.4.2. Conservation and preservation of land. Land or land rights used for conservation or preservation purposes. Conservation protects and ensures proper use of natural resources. Preservation protects buildings, objects, and landscapes.

2.6.4.3. Operational land. Land or land rights used for general or administrative purposes. Examples include military functions for effectively pursuing war, scientific functions conducting and managing research, managing or regulating the use of nuclear energy, and other administrative or mission-related functions.

\*Table 24-1. SFFAS 59 Disclosure Requirements for Land and Permanent Land Rights

SFFAS 59 Disclosure Requirements for Land and Permanent Land Rights	
➤	A concise statement defining an entity's Federal land and explaining how land relates to the mission of the entity.
➤	A brief description of the entity's policies for land, including: <ul style="list-style-type: none"> <li>• Goals and principles that the entity established to guide its acquisition, maintenance, use, and disposal of land consistent with statutory requirements;</li> <li>• Prohibitions; and</li> <li>• Limitations governing the entity and the land.</li> </ul>
➤	Land and permanent land rights must be assigned to one of three sub-categories (i.e., commercial use land; conservation and preservation land; and operational land) based on predominant use. Land rights information must include a general description of the different types of rights acquired by the entity (e.g., whether such rights are permanent or temporary), and amounts paid during the year to maintain such rights. (See OMB Circular A-136 for additional Information).
➤	Report estimated number of acres at the beginning and the end of each reporting period for land and permanent land rights by sub-category.
➤	The estimated number of acres held for disposal or exchange and their predominant use (if applicable).

## 2.7 Capital Improvements

2.7.1. Capital improvements (including leasehold improvements) are reported by the DoD Component that reports the improved real property asset. Capital improvements under construction are reported in accordance with subparagraph 2.4.4.

2.7.2. The Funding DoD Component accumulates and reports the cost of a capitalized improvement until the improvement is placed in service. Once this asset is placed in service, it is debited to the entity responsible for reporting the real property base asset. The Funding DoD Component coordinates the delivery of the final DD Form 1354 and supporting documentation to the Host Installation and shares the DD Form 1354 and supporting documentation with the DoD Funding Components. Supporting documentation includes construction status, invoices, and other

relevant documents shared with the funding DoD Components to enable the funding DoD component to accumulate and report the cost of a capitalized improvement until the improvement is placed in service.

2.7.3. As stated in SFFAS 6, “costs which either extend the useful life of existing General PP&E, or enlarge or improve its capacity shall be capitalized and depreciated/ amortized over the remaining useful life of the associated General PP&E.” Capital improvements must be capitalized when:

2.7.3.1. The improvement increases the asset’s useful life by two or more years, or increases its capacity or size, and

2.7.3.2. The cost of the improvement equals or exceeds the capitalization threshold (see subparagraph 2.4.3.1).

2.7.3.3. Capital improvements not meeting these two criteria are expensed, and the item must be designated as an adjustment in the APSR.

#### 2.7.4. Capital Improvement Examples

2.7.4.1. Extends the useful life: Major restoration or reconstruction restores facilities damaged by a natural disaster or similar.

2.7.4.2. Increase capacity: The roof of a warehouse is raised to increase cubic feet.

2.7.4.3. Increase size: An addition, expansion, or extension built to the building, i.e., increases the footprint.

#### 2.7.5. Depreciation of Capitalized Improvements

2.7.5.1. Depreciate capitalized improvements that extend the asset’s useful life, but do not increase the asset’s capacity or size with the original asset over the revised estimated useful life.

2.7.5.2. Depreciate capitalized improvements that increase the asset’s capacity or size over the lesser of the useful life of the improvement or the remaining economic useful life of the asset. Note that the economic life of the real property asset may be different than the original estimated accounting useful life. The economic life is the remaining period of utility for the real property.

2.7.5.3. Depreciation is described in paragraph 2.7.

2.7.6. Capitalize improvements to multiple real property assets constructed under a single project or work order if the allocated cost per real property asset equals or exceeds the capitalization threshold per asset. When multiple improvements are made to a single real property asset, increasing the real property’s capacity, size, and/or useful life, the total improvements must

be capitalized if the summed costs equal or exceed the capitalization threshold. [Different funding sources must be summed to determine capitalization](#). The summed improvements costs must be capitalized and depreciated upon being placed in service as described in paragraph 2.7.

2.7.7. Maintenance and repair costs are not considered capital improvements, regardless of the capitalization threshold. Per SFFAS 42, maintenance and repairs are activities [that](#) keep fixed assets in an acceptable condition. Maintenance and repair activities include preventative maintenance; parts, systems, or components replacement; cyclic work done to prevent damage (e.g., painting); and other activities [preserving](#) or [maintaining](#) assets. A roof or a heating and air conditioning system that is replaced due to failure must be classified as a repair and must be expensed, even if the replacement incorporates a better quality and longer life shingle or a more efficient heating and air conditioning unit.

2.7.8. Intent determines whether a replacement must be recognized as a repair or an improvement. Replacement of parts, systems, or components that have failed, are in the incipient stages of failing, or are no longer functional, [is](#) classified as a repair and must be expensed. If the replacement was undertaken to expand the capacity or extend the life of a real property asset that was in good working order, then the replacement must be recognized as an improvement. Rebuilding [the](#) entire [asset](#) within the same physical area (footprint) is [an improvement](#).

2.7.9. [Increased](#) capacity [means](#) an increased footprint, or internal structural reconfiguration that increases the amount of usable space, number of personnel, or increased throughput. Increased capacity includes activities that upgrade the asset to serve needs different from, or significantly greater than its current use.

2.7.10. For constructed capital [improvements](#), the cost [must](#) be accumulated and reported by the Funding DoD Component in a CIP account until the improvement is placed in service. When placed in service, the improvement [is debited](#) to the entity responsible for reporting the real property base asset. See subparagraph 2.5.5 for intra-DoD transfers. Only [Host Installations](#) with jurisdiction over a specific installation have financial reporting responsibility for real property and completed capital improvements.

## 2.8 Depreciation

2.8.1. The recorded cost of real property and capital improvements must be depreciated over the shorter of (i) the period benefited, or (ii) the asset's useful life. Depreciation is the systematic and rational allocation of the recorded cost [less its estimated salvage/residual value](#) of an asset over its estimated useful life.

2.8.2. [Capitalized](#) amounts, as well as associated amounts of accumulated depreciation and depreciation expense, must be reflected in DoD financial statements. [Recognize depreciation expense for all capitalized general PP&E](#). Estimates of useful life for real property assets must consider factors such as usage, physical wear and tear, and technological change. [To](#) compute depreciation on DoD real property assets, specific useful lives are prescribed. Table 24-2 reflects the useful lives to be used for DoD real property.

2.8.3. The **PISD** triggers the depreciation calculation (regardless of whether it is used). Depreciation is generally based on the Month Available for Service method. The month the asset was available for use is used to calculate depreciation expense for the first year.

2.8.4. DoD policy permits only the use of the straight-line method of depreciation for real property assets. Straight-line depreciation expense is calculated as the recorded cost divided by the asset's useful life based on the useful lives in Table 24-2.

2.8.5. If an asset remains in use longer than its estimated useful life, it must be retained in the APSR, as well as the accounting records, and reflect both its recorded cost and accumulated depreciation until disposition of the asset.

2.8.6. WCF activities **must** depreciate real property assets in accordance with this chapter guidance, whether such assets are procured through the WCF activity's Capital Purchase/Investment Program budget or depreciation is included in rates charged to customers. The WCF activities may recognize and **depreciate assets differently** for financial statement reporting purposes than for WCF rate development and budget presentation. All WCF real property depreciation must be expensed on the Statement of Net Cost, included in accumulated depreciation amounts on the Balance Sheet, and reported in the "Defense Working Capital Fund Accounting Report (Monthly) 1307 (AR(M)1307)." Depreciation recorded on real property that was **neither** acquired **nor** replaced through the use of Defense WCF resources must be classified as non-recoverable for rate-setting purposes and reported on the AR(M)1307. Defense WCF rates charged to customers are based on guidance in **Volume 2B**, "Budget Formulation and Presentation," and **Volume 11B**, "Reimbursable Operations Policy – Working Capital Funds."

2.8.7. Annex 1 Scenarios I and II illustrate the depreciation methodology for capital improvements and the underlying real property asset.

Table 24-2. DoD Useful Lives for Depreciable Real Property Assets

Real Property Classification	Real Property Useful Lives	Capital Improvements (if useful life is not provided by an engineering estimate) <sup>2</sup>
Buildings	45 years	20 years
Structures	35 years	15 years
Linear Structures	40 years	20 years
Land Rights of a Limited Duration <sup>1</sup>	Over the specified duration	-
<ol style="list-style-type: none"> <li><b>Permanent</b> Land Rights are included on the balance sheet in General PP&amp;E only if the DoD Component did not make the election to implement the provisions of SFFAS 50, Paragraph 13 to exclude land rights from the opening balance of General PP&amp;E and <b>to</b> expense future land rights acquisitions after the establishment of the opening balance.</li> <li>Engineering estimates are of particular importance when evaluating full restoration or conversion.</li> </ol>		

## 2.9 Impairment

2.9.1. Description. SFFAS 44 defines impairment as a significant and permanent decline in the service utility of General PP&E or the expected service utility of CIP resulting from events or changes in circumstances that are not considered normal and ordinary.

2.9.1.1. Expected service utility is the usable capacity that was expected to provide service. The usable capacity may be less than its original usable capacity due to expected decline in useful life or impairing events, such as physical damage, obsolescence, enactment of laws or regulations, changes in environmental or economic factors, or changes in the manner or duration of use.

2.9.1.2. Normal and ordinary events fall within the expected useful real property life such as standard maintenance and repair requirements. Events or circumstances that are not considered normal and ordinary are unexpected during the real property's useful life or, if expected, are not sufficiently predictable to estimate the useful life.

2.9.2. Identification of Potential Impairment Loss. The following two-step process determines whether real property remaining in use is impaired: (1) identifying potential impairment indicators and (2) testing for impairment. Identified real property must be tested for impairment.

2.9.2.1. Step 1 – DoD Components must evaluate existing processes and internal controls to determine if they are sufficient to identify potential impairment indicators and implement appropriate additional processes and internal controls if necessary. Potential impairment can be identified in a variety of ways, such as procedures related to DM&R. Once identified, DoD Components must consider the surrounding circumstances to determine whether a test of potential impairment is necessary. Common indicators of potential impairment include:

- 2.9.2.1.1. Evidence of physical damage;
- 2.9.2.1.2. Enactment of laws or regulations limiting the asset usage;
- 2.9.2.1.3. Changes in environmental factors (e.g., change in floodplain);
- 2.9.2.1.4. Technological changes or evidence of obsolescence;
- 2.9.2.1.5. Changes in the manner or duration of use of real property;
- 2.9.2.1.6. Construction stoppage or contract termination; and
- 2.9.2.1.7. Real property idled or unserviceable for long periods.

2.9.2.2. Step 2 – Impairment Test. Identified real property must be tested to determine whether the decline in service utility is: (1) significant and (2) permanent. For CIP, the testing of impairment must be performed over the period of expected future service utility.

2.9.2.2.1. **Determine** impairment significance with professional judgement. Judgements may be based on the relative costs of maintaining the facility before and after the decline, or other considerations. Significant declines in service utility cause operational and maintenance costs to be disproportionate to expected service utility.

2.9.2.2.2. Decline in service utility is **considered** permanent when the DoD Component **does not** expect the lost service utility to be restored. In contrast, a reasonable expectation that the lost service utility will be restored may exist when the DoD Component has:

2.9.2.2.2.1. Specific plans to restore the lost service utility,

2.9.2.2.2.2. Committed funding for remediation efforts, or

2.9.2.2.2.3. Remediated lost service utility in similar real property.

2.9.3. Determining the Appropriate Measurement Approach. To **determine** impairment losses on real property that will continue to be used, estimate the portion of NBV associated with the diminished service utility of the real property. A measurement method resulting in an unreasonable NBV is not appropriate. Conversely, a reasonable measurement method may result in no impairment loss **being** recorded. Recognition of impairment loss **must** be limited to the asset's NBV at the time of impairment. Widely recognized methods for measuring impairment are identified in SFFAS 44, paragraph 18.

2.9.4. Recognizing and Reporting Impairment Losses. The impairment loss **must** be recognized and reported in the Statement of Net Cost **when** the **Host Installation** concludes that the impairment is both (1) a significant decline in service utility and (2) expected to be permanent. Such losses may be included in program costs or costs not assigned to programs. A general description of the real property, the nature (e.g., damage or obsolescence), amount, and the financial statement classification must be disclosed in the financial statement notes.

2.9.5. Recoveries. The impairment loss must be reported net of any associated recovery when the recovery and loss occur in the same fiscal year. Recoveries reported in subsequent fiscal years must be reported as revenue or other financing source. The amount and financial statement classification **must** be disclosed in the financial statements' notes.

2.9.6. Remediating Previously Reported Impairments. The costs incurred to restore the lost service utility of impaired real property remaining in use must be recognized according to the nature of the costs incurred and the appropriate capitalization threshold.

2.9.7. Diminished Service Utility Without Recognized Impairment Loss. If the future service utility has been adversely affected but the impairment test determines that a loss does not need to be recognized, a change such as estimated useful life and salvage value **must** be considered.

## 2.10 Removal/Disposal

2.10.1. FASAB TR 14 defines removal from service as terminating real property asset use. Removal from service may occur because of the factors in paragraph 2.8.2.1 or identification as in excess of mission needs. Permanent removals occur when (1) the asset's use is terminated and (2) there is documented evidence of the DoD Component's decision to permanently remove the asset from service. If only one business event has occurred, the removal is other than permanent.

2.10.2. If the asset no longer provides service in the operations of the entity but the DoD Component has not permanently removed the asset from service, it must be accounted for as other than permanent. Other than permanent removal is evidenced by continuing low-level maintenance. These assets' value does not change and must continue to be depreciated.

2.10.3. Assets permanently removed from service are no longer depreciated. The DoD Component's documented decision to dispose of an asset is permanent removal. The recorded cost and the accumulated depreciation/amortization must be removed from the accounts, and the asset must be recorded at its Net Realizable Value (NRV) (see SFIS webpage Transaction Code C613). NRV is the estimated amount that can be recovered from selling, or any other method of disposing of an item, less estimated costs of completion, holding, and disposal. Any difference between the NBV and its expected NRV must be recognized as a gain or loss. The expected NRV must be evaluated at the end of each fiscal year, and any change in NRV must be recognized as a gain or loss.

2.10.4. When an asset is sold, donated, or demolished, the asset must be written off and the difference between disposal proceeds and the asset's NBV must be recognized as a gain or loss. The legally enforceable disposal obligation date is the disposal date. It is the demolition contract's start date. For transfers to a non-DoD entity and sales, it is instrument endorsement, or operation end date, whichever comes later. For natural disasters, it is the complete loss date.

## 3.0 ADDITIONAL CONSIDERATIONS

### 3.1 Use of Cancelled Treasury Account Symbol

3.1.1. DoD Components report their trial balance data to Treasury through the Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS). Capitalized assets must be reported and remain in GTAS after the original purchase. If a capitalized asset has not been moved to a cancelled ("C") TAS as described in subparagraph 3.1.2, GTAS provides a "C" TAS on the GTAS Super Master Account File for each fund family. The system-generated "C" TAS has three components: the three-digit agency identifier, availability type "C", and a four-digit main account.

3.1.2. All DoD Components must use the "C" availability type TAS to report capitalized assets. Assets may be moved to a "C" TAS at any time from the purchase date to the date the original purchasing fund cancels. (Refer to the TFM Volume 1, Part 2, Chapter 4700 for additional information).

3.1.3. To **financially** transfer an asset to a “C” TAS:

3.1.3.1. Use USSGL account transaction E510 to **financially** transfer out the asset from the purchasing fund account.

3.1.3.2. Use USSGL account transaction E606 to **financially** transfer the asset into the appropriate “C” TAS.

## 3.2 Supporting Documentation

3.2.1. Entries to record financial transactions in **the** accounting system, general ledger accounts, and the accountable property records and/or systems must:

3.2.1.1. Include source documents reflecting all investment transactions.

3.2.1.2. **Document the asset PISD.** All real property acquisitions, **whether by purchase, transfer from other agencies, donation, or other means,** must be supported as of the date the DoD Component takes custody of the real property. **Table 24-3 provides a list of documents that can be used to support the changes in asset value or physical attributes as a result of a new acquisition or capital improvement.**

3.2.1.3. **Include the financial reporting and trading partner information listed in subparagraph 2.2.2.8.2** and other relevant information. If this information is not available, the receiving and transferring entities must develop and document an estimate to support the financial transfer of the asset. See Volume 12, Chapter 14, and DoDI 4165.72 for further policy on transfers of DoD real property between **Host Installations.**

3.2.1.4. **Support** the disposal date to provide an adequate audit trail. Disposal events **generating** financial or administrative accountability transactions must be readily available to support disposals:

3.2.1.4.1. Declaration of excess document;

3.2.1.4.2. Disposal approval documentation;

3.2.1.4.3. Original acquisition documents;

3.2.1.4.4. Deed or contracts **indicating** the obligation to dispose of an asset;

3.2.1.4.5. Document showing the disposal completion date;

3.2.1.4.6. Receipt documentation; and

3.2.1.4.7. Transfer documents for **the** transferred.

3.2.1.5. Be retained in accordance with the National Archives and Records Administration requirements described in [Volume 1, Chapter 9, “Financial Records Retention.”](#) Original documents and/or hard and electronic copies of original documentation must be maintained in a readily available location during the retention period. These documents must permit validation of the purchase cost, purchase date, cost of improvements, and RPUID(s). Supporting documentation is not limited to the documentation as outlined in this subparagraph.

3.2.2. Include sufficient information indicating the physical size, location, and unit cost of each real property asset. The APSR and/or other systems must be designed for maximum assistance in making procurement and utilization decisions. Decisions identifying potential excess real property available for reuse, transfer, or disposal must be supported.

3.2.3. Enable periodic, independent verification of the accounting, APSR, and/or other systems’ accuracy through periodic inventories. Real property “book to floor and floor to book” existence and completeness must be confirmed. Such inventories must reconcile the APSR and/or other systems with the general ledger accounts. Personal hand receipt self-validations are not acceptable for meeting the independent verification requirements (see DoDI 4165.14).

3.2.4. Identify and classify real property that was capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

3.2.4.1. The [Host Installation](#) having jurisdiction over the real property, in accordance with DoDD 4165.06 and DoDI 4165.70, [must](#) record assets in their APSR.

3.2.4.2. The [Host Installation](#) must reconcile [its](#) real property APSR to [its](#) financial statements (or to their trial balance if financial statements are not required) quarterly.

3.2.4.3. All Funding DoD Component CIP must reconcile recorded CIP balances on a quarterly basis with service providers [building the assets](#). CIP [must](#) reflect the actual progress payments and other costs incurred based on work completed as of the quarter end.

3.2.5. [Ensure that asset information is](#) based on the same documents, so that the financial accounting/reporting and APSR are the same. The APSR must be integrated and subsidiary to the financial accounting system, and such records must be reconciled with the accounting system.

3.2.6. Include documents accumulating the cost and linking to the appropriate RPUID(s).

3.2.7. Include all real property in which the DoD has a legal interest.

3.2.8. Provide information to identify and account for leased real property.

3.2.9. Provide information to identify and account for capitalized improvements.

Table 24-3. Examples of Supporting Documentation for Real Property Acquisition  
(Note: These examples may not be all-inclusive for all circumstances)

Evidence	Examples
<b>Unique Identification</b>	Assignment of RPUID
<b>Project Approval</b>	Such as, but not limited to a Work Order
<b>Obligation on Behalf of the Government</b>	Such as, but not limited to: <ol style="list-style-type: none"> <li>1. For contracts, contract modifications, or change orders:               <ul style="list-style-type: none"> <li>• Statement of Work;</li> <li>• Dollar Amount of Contract;</li> <li>• Location;</li> <li>• Source of Funds;</li> <li>• Parties to the Contract; and</li> <li>• Signature Page [Signature of All Parties].</li> </ul> </li> <li>2. Documentation of troop labor hours;</li> <li>3. Approved Work Order.</li> </ol>
<b>Payment Submitted</b>	Such as, but not limited to: <ol style="list-style-type: none"> <li>1. Approved last invoice reflecting the total amount submitted for payment and received to date;</li> <li>2. Evidence of in-house construction costs, including labor;</li> <li>3. Indirect Costs incurred internally by the gaining activity.</li> <li>4. <a href="#">Recurring monthly invoices received by the DoD Construction Agent (DCA)/Public Works or service providers building the assets on behalf of the Funding DoD Component.</a></li> </ol>
<b>Acceptance</b>	Such as, but not limited to: <ol style="list-style-type: none"> <li>1. <a href="#">General Services Administration Form 1334</a>, Request for Transfer of Excess Real and Related Personal Property;</li> <li>2. Interim and final DD Form 1354, Transfer and Acceptance of DoD Real Property, with associated source documentation retained by the responsible party. Note: All cost information transferred from the CIP account to the real property asset account <a href="#">when</a> the asset is placed-in-service must be included with the DD Form 1354;</li> <li>3. Executed acquisition document and donated asset appraisals;</li> <li>4. Signed judgment documents for condemnations;</li> <li>5. Deed;</li> <li>6. Signed lease for leased property;</li> <li>7. Letter of withdrawal for property withdrawn from public domain;</li> <li>8. Executed occupancy agreement;</li> <li>9. Executed reversionary document;</li> <li>10. Transfer letter and documents for transferred assets; and</li> <li>11. Collection voucher.</li> <li>12. Beneficial Occupancy Date (BOD)</li> </ol>
<b>Project Closeout</b>	A final DD Form 1354, with associated source documentation retained by the responsible party.

DCA/Public Works or service providers, building the assets on behalf of the Funding DoD Component, must share key supporting documents with the Funding DoD Component. Table 24-3 provides examples of key supporting documentation. Effective 01 Oct 2022, key supporting documents, such as DD 1354s, property improvement worksheets, photos, and other primary real property, should be uploaded to the APSR or another repository approved in DA PAM 25-403.

### \*3.3 Physical Inventories of Real Property

3.3.1. The MILDEPs and WHS must reconcile, at least annually, their real property inventory records with all other DoD Components that occupy, operate, or maintain facilities or land for which the MILDEPs or WHS have real property accountability. This reconciliation ensures both parties maintain accurate records of the asset's use, location, and basic characteristics. The final review ensures all assets are accurately reported in the host installation APSR.

3.3.2. DoD Components must perform an inspection of each RPA record, including a physical inspection of each RPA, is required every 5 years; however, RPAs designated with historic status must be reviewed and physically inspected every 3 years and reported in accordance with DoDI 4715.16. Assets identified with RPA Historic Status Code - "Eligible for the purposes of a Program Alternative – ELPA" are not required to be inspected every 3 years, and may be inspected on the regular every 5-year schedule in accordance with DoDI 4165.14.

### 3.4 Deferred Maintenance & Repairs (DM&R)

3.4.1. FASAB SFFAS 42 defines DM&R as maintenance and repairs that were not performed when scheduled, and which are delayed to a future period. DM&R includes preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset in working condition.

#### 3.4.2. Measurement

3.4.2.1. The values reported for DM&R must be consistent with the Facility Condition Index ratings and Facility Plant Replacement Values.

3.4.2.2. DoD Components **must** determine acceptable condition standards and which DM&R measurement methods to apply. Condition standards and measurement methods must be consistently applied. If the DoD Components determine that changes are necessary, they **must** document the change(s) rationale, the related DM&R estimate impact.

3.4.2.3. DM&R must be measured for capitalized, non-capitalized, and fully depreciated real property. DM&R for inactive real property **must** be included when the asset is reported with an operational status of caretaker (CARE) or non-functional (NONF). DM&R must measure funded **and unfunded** maintenance and repairs delayed. The data **must** not include DM&R funded with NAFs' commissary surcharge, or from non-DoD sources.

#### 3.4.3. Required Supplemental Information

The **Host Installation reporting** real property must report DM&R material amounts as RSI. See **Volume 6B, Chapter 12**, "Required Supplementary Information," paragraph 2.3 for required RSI reporting.

### 3.5 Financial Statement Disclosure Reporting and Representation Requirements

3.5.1. DoD Components reporting real property **must** reference the Balance Sheet note disclosing information about the reported real property assets.

3.5.2. The management representation letter provided to the IPA (for audited DoD Components), and the financial statements notes **must fully and completely** disclose how reported real property **complies** with this chapter's policies. See note disclosure examples in Annex 3.

3.5.3. DoD Components must disclose in the financial statement notes **when a** host nation/foreign government provides real property without reimbursement, and that the financial statements do not contain amounts for these properties. The agreement's general nature **must be disclosed**. The host nation/foreign government's geographic location **must not** be disclosed.

3.5.4. In accordance with SFFAS 55, DoD Components must disclose in the financial statement notes that inter-entity (imputed) costs are recognized for business-type activities (if applicable), employee benefits, and claims to be settled by the Treasury Judgment Fund. Other federal entities provide these goods and services at no cost or at a cost less than the full cost, as applicable. Unreimbursed costs of goods and services other than those identified in the preceding sentence are not included in DoD financial statements.

3.5.5. Refer to [Volume 6B, Chapter 10](#), "Notes to the Financial Statements" for additional disclosure reporting requirements.

### 3.6 Environmental Liabilities/Cleanup Costs

The accounting policy for real property environmental liabilities/cleanup costs is contained in [Chapter 13](#), "Environmental Disposal Liabilities."

Annex 1. Capital Improvement Depreciation Scenarios

Scenario I. Capital Improvement Extends the Useful Life of Existing General PP&E

In this scenario, the estimated extension of the useful life is combined with the remaining original asset useful life to establish a revised useful life. The revised useful life is used to depreciate the combined NBV of the original asset plus the improvement.

In this scenario, the conversion of a warehouse to office space, the capital improvement is placed in service at the beginning of the 26th year of the useful life of the original asset.

Scenario I	Value
Original Building Acquisition Cost	\$450,000
Original Estimated Useful Life in years (yrs.) <sup>1</sup>	45
Annual Depreciation Expense (using straight-line depreciation) (\$450,000 ÷ 45)	\$10,000
Accumulated Depreciation at the end of year 25 (25 yrs. X \$10,000 per year)	\$250,000
NBV of original asset at the end of year 25 (\$450,000 - \$250,000)	\$200,000
Capital Improvement – added at the beginning of year 26 of original building’s useful life	\$280,000
Extension of useful life (yrs.) of existing building from capital improvement based on documented Engineering Estimate <sup>2</sup>	30
Revised remaining useful life for building with the capital improvement. (45 yrs. (original useful life) less 25 yrs. (expired useful life) plus 30 yrs. (capital improvement useful life)	50
Revised depreciable value of building, including capital improvement. (\$200,000 (original NBV) plus \$280,000 (capital improvement))	\$480,000
Revised annual depreciation for the building and capital improvement (\$480,000 ÷ 50 yrs.)	\$9,600
<sup>1</sup> From Table 24-2	
<sup>2</sup> If an Engineering Estimate for the extended useful life of the capital improvement were not available; the 20-year useful life from Table 24-2 would be used.	

**Scenario II. Capital Improvement Increases the General PP&E Asset’s Capacity, Size, or Modifies the Functionality/Use but Does Not Extend the Life of the Original General PP&E Asset**

In this type of scenario, the capital improvement is depreciated over the lesser of the useful life of the improvement or the remaining useful life of the underlying General PP&E asset.

The capital improvement is placed in service at the beginning of the 16th year in the useful life of the original base asset. The remaining economic useful life of the original base asset is 25 years at the date the capital improvement is placed in service.

Scenario II	Value
Original Linear Structure Acquisition Cost	\$500,000
Original Estimated Useful Life (yrs.) <sup>1</sup>	40
Annual Depreciation Expense (using straight-line depreciation) (\$500,000 ÷ 40)	\$12,500
Accumulated Depreciation at the end of year 15 (15 yrs. X \$12,500 per year)	\$187,500
NBV of original asset at the end of year 15 (\$500,000 - \$187,500)	\$312,500
Capital Improvement – added at the beginning of year 16 of original linear structure useful life	\$270,000
Useful life of capital improvement (yrs.) <sup>2</sup>	20
Annual Depreciation Expense (using straight-line depreciation) (\$270,000 ÷ 20)	\$13,500
Depreciation for the original value of linear structure would continue on an annual basis for the next 25 years. ((40 yrs. (original useful life) - 15 yrs. (expired useful life))	\$12,500 annual depreciation
Depreciation for the capital improvement would be recorded over the estimated 20-year useful life of the improvement	\$13,500 annual depreciation
<sup>1</sup> From Table 24-2 <sup>2</sup> If an Engineering Estimate were available for the useful life of the capital improvement were available, the Engineering Estimate would be used rather than the amount from Table 24-2	

## Annex 2. Plant Replacement Value (PRV) Methodology

### A2.0 PRV

PRV is based on cost factors such as averages of historical contractual cost data, commercially available cost data, and models using general price information. PRV includes capital improvements and is calculated using existing asset size, but does not consider the Placed in Service Date (PISD) or remaining useful life.

#### A2.1 Benefits of PRV

Key benefits of DoD's PRV model include:

A2.1.1. Cost and time effectiveness: The PRV model values **must** be updated annually for all assets;

A2.1.2. DoD Components validated many of the key data elements during existence and completeness procedures;

A2.1.3. Consistency: The PRV model is a common approach for **the** DoD to establish and support its opening balances.

A2.1.4. Documentation must support the data element inputs for PRV model calculations.

#### A2.2 PRV Responsibilities

The DoD Components and the OSD **must perform specific actions to successfully use PRV**. The Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Remediation Directorate, and the Office of the Assistant Secretary of Defense (Sustainment) **complete OSD actions**.

A2.2.1 DoD Components **must ensure**:

A2.2.1.1 **The following** key PRV data element inputs are accurate:

A2.2.1.1.1. Real Property Site Unique Identifier (RPSUID);

A2.2.1.1.2. RPUID;

A2.2.1.1.3. Real Property Asset (RPA) Interest Type;

A2.2.1.1.4. Asset Allocation Current Use **or Asset Configuration Design Use Category Code**;

A2.2.1.1.5. Asset Allocation Current Use **or Asset Configuration Facility Analysis Category (FAC) Code**;

A2.2.1.1.6. Asset Allocation or Asset Configuration Size Quantity;

A2.2.1.1.7. Asset Allocation or Asset Configuration Unit of Measure Code; and

A2.2.1.1.8. RPA Historic Status Code.

A2.2.1.2. The following specific data elements used to apply and report the PRV values are accurate:

A2.2.1.2.1. RPA PISD. This data element is important for depreciation purposes.

A2.2.1.2.2. Government Investment Percentage (For Government / Private Agreement (GVPV) interest type only). The Government's investment percentage of an asset's total value is required to allocate DoD's portion of the total PRV.

A2.2.1.3. Documentation exists and is readily available to support the Asset Allocation, Size, Quantity, RPA Historic Status Code, RPA PISD, and Government Investment Percentage (for GVPV interest types).

A2.2.1.4. Processes, controls, and systems are in place to value newly acquired assets at actual cost in accordance with SFFAS 6.

A2.2.1.5. Valuation calculations are performed correctly using the PRV formula, appropriate cost factors, and adjustments found in the Unified Facilities Criteria 3-701-01 ([UFC 3-701-01](#)), "DoD Facilities Pricing Guide."

A2.2.1.6. Accounting adjustments are performed accurately and timely manner, are supported with sufficient documentation, and are reflected in the DoD Component's APSR, general ledger, and financial statements.

A2.2.2. OSD must ensure that:

A2.2.2.1. The PRV model is supportable for audit purposes. OSD evaluates the processes, procedures, systems, and controls that produce the PRV tables, factors, indexes, and functions, and reviews the model outputs for overall reasonableness; and

A2.2.2.2. DoD estimated useful lives for depreciation purposes are supportable.

### A2.3 Steps to Establish Deemed Cost Using PRV

A2.3.1. DoD Components develop opening balances using the PRV approach. In summary, DoD Components:

A2.3.2. Validates all assets used to calculate and apply PRV values;

A2.3.3. Calculates each asset's PRV as found in SFFAS 50. Capital improvements are included within the PRV calculation. It is acceptable to use PRV for decision-making and management purposes, allowing PRV to be used as a starting point in establishing the replacement cost for real property. Each DoD Component's management must formally document the review and acceptance of the resulting values;

A2.3.4. Multiplies DoD's interest percentage by the asset's total PRV to calculate the reported value for assets with a GVPV interest type. DoD's portion of the PRV equal to or more than the capitalization threshold is reported;

A2.3.5. Identifies all DoD accountable General PP&E (commonly known as FEE assets) with a PRV equal to or more than the capitalization threshold. These assets are capitalized assets and reported on the DoD Component's Balance Sheet. The current real property capitalization threshold is applied to all existing real property assets; and

A2.3.6. Adjusts, as appropriate, the DoD Component's or WHS's APSR, general ledger, and financial statements upon establishing the beginning balance. Maintain supporting documentation.

#### A2.4 Determining Placed-in-Service Date

A2.4.1. The Real Property Information Model (RPIM) defines RPA PISD as "the calendar date the real property asset (or a portion of the real property asset) is available and accepted for use by DoD. On this date, warranties begin, and the Government assumes liability for the asset and the DoD receives legal interest." The UFC 1-300-08, "Criteria for Transfer and Acceptance of DoD Real Property," notes this as the date the DCA and other approving parties attending the inspection have agreed the construction is acceptable, and the DCA accepts the construction from a contractor on behalf of the government using contract procedures.

A2.4.2. Table A2-1 describes sufficient supporting documentation for auditors to validate the accuracy of recorded PISDs.

Table A2-1: Placed-in-Service Date Documentation

Acquisition Method	Source Document	Acceptance Date	Effective Date	Acquisition Date <sup>1</sup>	RPA PISD <sup>2</sup> (Depreciation Triggering Event)
New construction	DD Form 1354	Executed interim DD Form 1354 transaction	Date specified in DD Form 1354 transaction	Date first interim DD Form 1354 <sup>3</sup> transaction is executed	Date interim DD Form 1354 transaction is executed
Purchase <sup>4</sup> (can include Exchange)	Deed	Deed or executed interim DD Form 1354 <sup>5</sup> transaction	Date of delivery/ Recordation	Date of delivery/ recordation	Acquisition Date
Lease/Grant	Lease/Grant	Signed lease/grant	Grant Start Date	Date lease signed	Grant start date (Not applicable for depreciation)
Transfer between Services	DD Form 1354	Executed interim DD Form 1354 transaction	Date specified in transaction	Date of original transaction when United States Government acquired title, or legal interest in the asset (Acquisition Date for the transferring Service)	Original DoD RPA Placed-in-service Date as shown by the transferring Service
Inventory Adjustment	Tier documentation noted in Table A2-3	Executed interim DD Form 1354 transaction	Date based on Tier documentation noted in Table A2-3	Date based on Tier documentation noted in Table A2-3	Date based on Tier documentation noted in Table A2-3
Transfer from one federal Component to another	Transfer letter, SF 1334	Executed interim DD Form 1354 transaction	Date specified in document	Date the United States Government acquired title or legal interest in the asset	Acquisition Date
Condemnation	Judgment document	Executed interim DD Form 1354 transaction/ Signed Judgment	Declaration of Taking is accepted by a court	Declaration of Taking is accepted by a court	Acquisition Date

Table A2-1: Placed-in-Service Date Documentation (continued)

Acquisition Method	Source Document	Acceptance Date	Effective Date	Acquisition Date <sup>1</sup>	RPA PISD Date <sup>2</sup> (Depreciation Triggering Event)
Reversion	Reversion legal document	Executed interim DD Form 1354 transaction	Date of executed reversionary document	Date of executed reversionary document	Date of executed reversionary document
Gifts and donations	Executed acquisition document	Deed delivery/ recordation	Date of acquisition document	Date of acquisition document	Acquisition Date
<sup>1</sup> Acquisition Date is a RPIM data element to be populated upon first acceptance by the United States Government. For RPA PISD, the term Acquisition Date equals the entry in the column titled Acquisition Date.					
<sup>2</sup> The date reflected in box 7a on the DD Form 1354.					
<sup>3</sup> Changed from final DD Form 1354 to interim DD Form 1354.					
<sup>4</sup> Purchase acquisition method is associated with both the land purchase and land purchase with facilities and exchange acquisition scenarios.					
<sup>5</sup> This method of acquisition is being added to the UFC 1-300-08 as requiring a completed interim DD Form 1354 at acceptance.					

A2.4.3. In the absence of information noted in Table A2-1, the guidance in Table A2-2 must be used.

Table A2-2. Placed-in-Service Date Determination with Authoritative Guidance

Governing Document Reference	PISD Determination
FASAB - SFFAS 6, Paragraph 34	“PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or an agent of the entity.”
FASAB - SFFAS 6, Paragraph 40 and SFFAS 50, Paragraph 13	“In some cases, the in-service date must be estimated. In estimating the year that the base unit was placed in service, if only a range of years can be identified, then the midpoint of the range is an acceptable estimate of the in-service date.” “It is not necessary to separately identify the in-service date for material improvements included in the opening balances of a base unit. All improvements included in the opening balances at deemed cost may be treated as if they were placed-in-service at the date the base unit was placed-in-service.”
Chapter 24, Paragraph 2.7	“The event that triggers the calculation of depreciation is the date the real property asset is placed in service (regardless of whether it is actually used).”
Defense Finance and Accounting Service 7900.4-M, Financial Management Systems Requirements Manual Volume 3, Property, Plant and Equipment, page 41, August 2014	“Property, Plant and Equipment (PP&E) shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed Property, PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be debited to general PP&E in the system.”

A2.4.4. DoD Components and WHS must review the real property asset documentation for existence and adequacy to support the placed-in-service information. The following questions must be answered:

A2.4.4.1. Does sufficient documentation exist?

A2.4.4.2. Does alternative documentation need to be used?

A2.4.4.3. Is the PISD clearly identified and marked on supporting documents?

A2.4.4.4. Are all required authorized signatures noted on documentation?

A2.4.5. Documentation supporting the PISD is vital to the completeness of both functional and financial records. GAAP allows for alternative placed-in-service methodologies where adequate historical documentation does not exist. Estimates of cost and PISD must be fully supported, and information retained in accordance with National Archives and Records Administration requirements described in Volume 1, Chapter 9. Table A2-3 lists examples of supporting documentation for PISD in descending order of preference.

#### A2.5 Adjustment for Inflation

When using PRV to establish deemed cost, components must deflate values to the time of construction by the general price index.

Table A2-3. Placed In Service Examples of Supporting Documentation

Documentation for PISD	Description	Tier
Source Documentation (noted in Table A2-1)	Noted in the second column of Table A2-1.	1
Tax Assessor Records	If adequate historical PISD is not available, search the county tax assessor's website for the asset and the purchase date to determine a reasonable estimate for PISD.	1
Dedication Plaque	If adequate historical PISD is not available, a search of the asset <b>must</b> be conducted for a dedication plaque. Once the dedication plaque has been found, ensure that it references the DoD as <b>the</b> owner. If DoD is listed as <b>the</b> owner, obtain a photograph of the dedication plaque with an inscription indicating the dedication date. If DoD is not listed on the plaque, the date <b>must</b> not be used as an alternative for PISD.	2
Cornerstone	If adequate historical PISD is not available, search the asset for a cornerstone. If the cornerstone is found, obtain a photograph of the cornerstone. The cornerstone <b>must</b> be located on the outside of the building or structure with an inscription on the stone indicating the construction date. This date would be used for the PISD.	2
Earliest Site Plot of Asset	If adequate historical PISD is not available, search online in the <b>DOD COMPONENT</b> or <b>WHS</b> database for the earliest site plot or asset drawing available. <b>This date</b> may be used as a reasonable alternative for PISD.	2
Earliest Maintenance Record of Asset or Engineering Estimates (e.g., Engineering Form 3013)	If adequate historical PISD is not available, search for work order or maintenance records from <b>the</b> Department of Public Works or <b>RPAO</b> , or local program office. Once found, the date of the earliest recorded work order or maintenance may be used as a reasonable alternative for PISD.	3
Placed-in-service Date of Major Asset on Site	If adequate historical PISD is not available, research and obtain the actual or alternate PISD established from a major asset on the DoD site. A major asset can be defined as a significant asset that is critical to the primary function of the site. The major assets may vary based on the purpose of the site. For example, a tower would be a major asset at a communications station, a house would be a major asset at a housing site, and a lighthouse would be a major asset for a site that includes the lighthouse, housing units, as well as other assets such as driveways, fences, and storage buildings that were established to support the lighthouse. For other sites, such as air stations, units, or sectors that may have multiple functions, a major asset could be a building where many of the management and administrative activities occur. The major assets must be located within the same real property site. Upon obtaining the PISD of the major asset, use the PISD of the major asset as the reasonable alternative for the PISD of the supporting assets in question. If more than one major asset has a reliable PISD on the site, and the PISD of the major assets <b>is</b> different, then use the PISD of the oldest asset on the site. Once found, the PISD of the oldest major asset may be used as a reasonable alternative for PISD.	3
Construction Style	If adequate historical PISD is not available, a search for assets on the DoD site of a similar construction style or period. Once found, the PISD of a similar style asset may be used as a reasonable alternative for PISD. If only a range of years can be identified, then the mid-point of the range is an acceptable estimate of the PISD.	3

## A2.6 Definitions

**A2.6.1. Asset Allocation Current Use Category Code:** A Military Service designator that represents the current use by the assigned user of a specific portion of an RPA.

**A2.6.2. Asset Allocation Current Use FAC Code:** An OSD level designator that represents the current use by the assigned user of a specific portion of the RPA.

**A2.6.3. Asset Allocation Size Quantity:** The amount of the asset granted for use based on the Asset Allocation Current Use FAC and expressed in terms of the Asset Allocation Unit of Measure Code.

**A2.6.4. Asset Allocation Unit of Measure Code:** The unit of measure code used for the measurement of the associated Asset Allocation Size Quantity.

**A2.6.5. GVPV:** An interest in a real property asset held by the U.S. Government acquired by a mutually beneficial partnership agreement between a **DoD Component** or WHS and a private entity, where equity interest in a project is shared for a specific business purpose. This interest type applies when the DoD has ongoing reported financial statement costs directly associated with an asset(s) gained by the project or the asset is located on a military installation.

**A2.6.6. City Code:** The code used to identify the city or the nearest city to where the real property asset or real property site is located. The nearest city **must** be in the same county as the asset.

**A2.6.7. Country Code:** The Geopolitical Component Names and Codes standard, code used to identify the country in which the real property asset or site is located.

**A2.6.8. County Code:** The code used to identify the county in which the real property asset or site is located. This code identifies counties and equivalent administrative entities of the U.S., its possessions, and associated areas as defined by the Federal Information Processing Series (FIPS) and found in the General Services Administration (GSA) Geographic Locator Codes (GLCs) or the county equivalent for countries not covered in the GSA GLCs. A County Code is only unique if it is combined with a State or Country Primary Subdivision Code in the areas listed in the GSA GLCs or with the Country Code for areas not in the GSA GLCs.

**A2.6.9. Deemed Cost:** An amount used as a surrogate for initial amounts that otherwise would be required by SFFAS 6 to establish opening balances.

**A2.6.10. RPUID:** A unique non-intelligent code used to permanently identify a real property asset.

**A2.6.11. State or Country Primary Subdivision Code:** The code used to identify the primary subdivision of a country, such as a state, the District of Columbia, or a possession in which the real property asset or site is located.

**A2.6.12. Structure:** A facility, other than a building or linear structure, that is constructed on or in the land.

**A2.6.13. RPSUID:** A unique non-intelligent code used to permanently identify real property sites. A real property site is a specific geographic location that has individual land parcels and/or facilities assigned to it. The City Code, County Code, State or Country Primary Subdivision Code, and Country Code associated with the RPSUID provide location information necessary for location cost factors.

**A2.6.14. PRV:** A value, recorded in U.S. dollars, which represents the cost to design and construct a facility to current standards for the replacement of an existing facility at the same location.

**A2.6.15. RPA Historic Status Code:** A code used to identify the current historical status of an RPA.

**A2.6.16. RPA Interest Type Code:** A code used to identify the type of legal interest that DoD holds in an RPA.

\*Annex 3. Construction in Progress (CIP) Process

A3.1 CIP Process

A3.1.1. CIP accounts accumulate costs of real property construction and capital improvements anticipated to meet the capitalization criteria. (The USSGL accounts used to report DoD real property are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the SFIS webpage.)

A3.1.2. A CIP account is created when either: (i) an in-house construction project(s) receives the work order and funding authorizations; or (ii) another DoD Component, Federal agency, or commercial entity receives the design and funding authorizations. A DoD Component constructing real property for a DoD Component accumulates all costs in a CIP account from project inception until the costs are billed to the Funding DoD Component. The DoD Component records billed amounts in its CIP account. See [Volume 3, Chapter 17, “Accounting Requirements for Military Construction Projects”](#) for guidance on intergovernmental construction work and services.

A3.1.2.1. When Federal and nonfederal entities share project costs, a CIP account must be created if the real property asset will be federally owned. The federal share of construction costs is captured in a CIP account. For a cost-shared project between DoD and another Federal agency, the DoD share is captured in a CIP account within DoD’s financial statements. The real property asset must be recognized in the acquiring DoD Component’s financial statements.

A3.1.2.2. When a DoD Component is a construction agent and constructs a non-federally owned real property asset, costs must be accumulated in a CIP account to be billed to the customer. If a DoD Component is not the construction agent and the real property asset is not DoD-owned, the DoD Component’s share is expensed as incurred. If DoD does not have rights and obligations to the real property asset, the costs should be expensed, not captured in CIP. If final ownership was not determined at project funding and design authorization, the cost must be relieved from the CIP account and expensed when it is determined that the real property asset will not be federally owned.

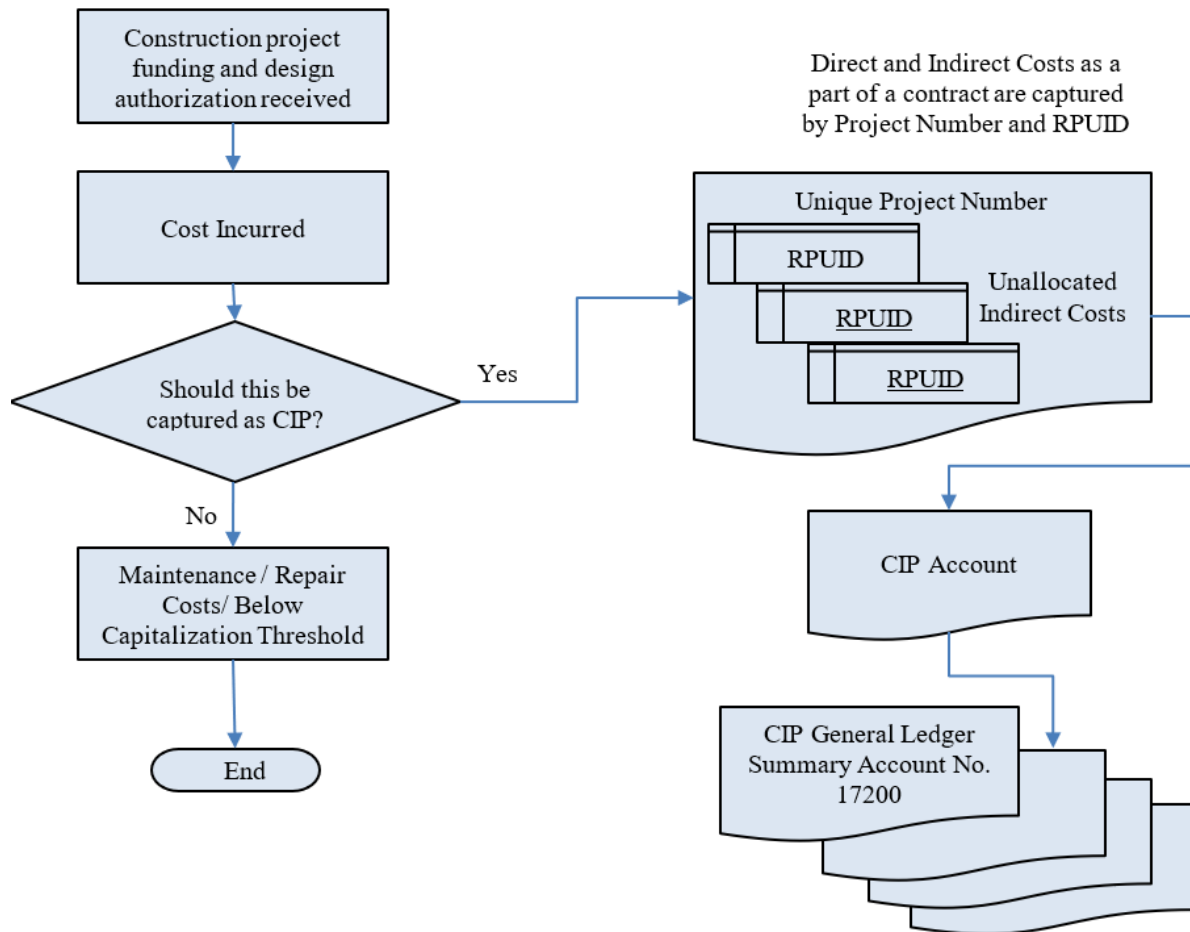
A3.1.3. DoD Components must assign a unique project number, and the Host Installation must assign at least one RPUIID for each approved construction project. The project number and RPUIID are associated with a CIP account. The unique project number must remain the same and be used for all phases of a construction project, regardless of the fiscal year.

A3.1.4. CIP costs must be tracked by both the Component unique project number and the RPUIID to ensure visibility, traceability, and accountability. The relationship among a construction project, RPUIID, and CIP account is provided in Figure A3-1.

A3.1.5. The Funding DoD Components must continue to report CIP on their financial statements until the constructed item is accepted by the accountable DoD Component. The CIP amount reported for financial statements must include the Funding DoD Component’s Project Number, Project Detail Fund Code(s), Project Detail Fund Code Cost Amount, Project Detail

Organization Code(s), Programmed Amount, and RPUID(s). The construction agent (invoices to support DD1354) and the Funding DoD Component (SF 1080 to support reimbursable work performed by the construction agent via 7600B, when funds are not provided by sub-allotment) must retain the supporting documentation for their respective CIP account portion(s) for the audit trail. Upon the host installation's RPAO acceptance of real property asset(s) or capital improvements, the construction agent provides the Funding DoD Component's RPAO with auditable supporting documentation to support the Interim/ Final DD1354. The Funding DoD Component's RPAO must provide the documentation to the DoD Component to retain in accordance with applicable laws, regulations, and instructions.

Figure A3-1. Relationships among a Construction Project, RPUID, and CIP Account



A3.1.6. When constructed real property asset(s) or improvements are accepted and placed in service, the CIP account costs must be relieved in the same period as the individual real property asset is posted to the appropriate real property account with an RPUID. The recorded cost must equal the sum of all construction and applicable design costs. In addition, the Funding DoD Component must ensure that all costs incurred are provided to the construction agent on a formal

document of the real property asset(s) or improvements prior to acceptance by the accountable DoD Component.

A3.1.7. For construction projects that are completed in multiple phases, the cost of each phase is credited from the CIP account and debited to the appropriate asset or expense account, by RPUID, when each real property asset or useable portion of the asset is placed in service. The assets may have one or more PISDs for depreciation purposes. Each phase must be depreciated over its estimated useful life when placed in service.

A3.1.8. Interim DD Form 1354. The standard processing timeline for the required Interim DD Form is shown in Table A3-1. Prior to the established inspection date at the completion of new construction or capital improvement, the DCA prepares an Interim DD Form 1354 for all accountable real property assets. The DCA verifies that distributed indirect costs and all CIP costs expended to date, including assets below the capitalization thresholds, are accurately captured on the Interim DD Form 1354 in column 19, Cost, along with the PISD in block 7a.

Table A3-1. Interim DD Form 1354 Timeline

<b>Initiation Responsibility</b>	<b>Timeline</b>
DCA signs Interim DD Form 1354 and provides signed copy to the Installation Management Organization Accountable Official (IMOAO) / Real Property Accountable Officer (RPAO)	Within 20 calendar days <sup>2</sup> after PISD but before the 10 <sup>th</sup> day of the last month of the fiscal year quarter, regardless of PISD.
IMOAO/RPAO signs Interim DD Form 1354 and provides signed copy to DCA. IMOAO/RPAO records/updates Interim DD Form 1354 into Host Installation's APSR.	Prior to the end of the next month after the date of the DCA signature and no later than the 20 <sup>th</sup> day of the last month of the fiscal year quarter. <sup>3</sup>
DCA provides copy to the Project Sponsor. DCA or Project Sponsor relieves CIP costs to date after receipt of Interim DD Form 1354 signed by both DCA and IMOAO/RPAO.	Prior to the end of the next month after the date of the DCA signature and no later than the Fiscal Quarter of the PISD or the Fiscal Quarter of the month after the date of the construction agent's signature.

A3.1.9. Equipment and non-capital construction costs must be listed in block 28, with Project Remarks, and Construction Deficiencies noted in block 27. The DCA signs the Interim DD Form 1354 and forwards it to the IMOAO/RPAO. The IMOAO/RPAO signs the Interim DD Form 1354 and ensures that all facilities listed are recorded in the Host Installation APSR. The DCA provides copies of the signed Interim DD Form 1354 to the Project Sponsor. Upon receipt of the signed copies of the Interim DD Form 1354, the DCA or Project Sponsor relieves the CIP and the IMOAO/RPAO posts to the Host Installation's APSR by the timeline.

<sup>2</sup> DoD Components and WHS may establish more stringent requirements but not less stringent than under this policy. Metrics will be generated from OSD policy, regardless of DoD Components or WHS timelines.

<sup>3</sup> Recordation must occur before the end of each quarter for the purposes of financial accounting accuracy.

A3.1.10. Final DD Form 1354. The standard processing timeline for the required Final DD Form 1354 is shown in Table A3-2. Any difference between the interim and final DD-1354 must be documented. An accrual must be recorded for material unpaid amounts for accepted assets across the entire portfolio of construction projects, which requires tracking for each end item and aggregating its costs. The DCA records and the Project Sponsor account for any additional costs after the PISD. The DCA accounts for all additional construction costs upon final contract closeout and posts the costs in the Final DD Form 1354, column 19. The DCA signs the Final DD Form 1354 and provides it to the IMOAO/RPAO for signature. The IMOAO/RPAO ensures that all additional costs are recorded in the Host Installation APSR, signs the Final DD Form 1354, and returns it to the DCA for distribution and final CIP relief. Once the Project Sponsor receives the signed Final DD Form 1354, any remaining funds in the Project Sponsor's CIP account must be moved to the Host Installation. The IMOAO/RPAO updates the original acquisition cost in the Host Installation's APSR, and the final amount is depreciated over the remaining useful life of the asset. All these actions must be completed timely.

Table A3-2. Final DD Form 1354 Timeline

Initiation Responsibility	Timeline
DCA determines all costs are accumulated, financially closes the contract, processes claims, completes all outstanding items, and provides a signed Final DD Form 1354 to the IMOAO/RPAO	Within 20 calendar days <sup>4</sup> after final costs are determined, but must be complete by the 10 <sup>th</sup> day of the last month of the fiscal year quarter.
IMOAO/RPAO signs Final DD Form 1354, provides signed copy to the DCA, and ensures all accumulated construction costs are recorded in the Host Installation's APSR.	Prior to the end of the next month after the date of the DCA signature on the final DD Form 1354 and no later than the 20 <sup>th</sup> day of the last month of the fiscal year quarter. <sup>5</sup>
DCA provides a copy of the signed Final DD Form 1354 to the Project Sponsor. DCA or Project Sponsor relieves the remaining CIP costs.	Prior to the end of the next month after the date of the DCA signature and no later than the end of the fiscal year quarter. <sup>4</sup>

A3.1.11. The Construction Agent (MILCON) or Project Sponsor (O&M) relieves CIP at construction completion if the Project Sponsor (entity that initiates and funds the project) is not the Host Installation (base or facility where the project is located). When the construction is finished, the Construction Agent or the Project Sponsor officially takes over the completed project and its associated costs, effectively relieving the CIP of its responsibility for that specific project. Construction costs are debited by RPUID in the financial systems and APSR. Funds must be accurately depicted on the Interim and Final DD Form 1354. The IMOAO/RPAO and construction agent must sign the DD Form 1354 within ten business days, but not later than 20 calendar days of the PISD.

<sup>4</sup> DoD Components may establish more stringent requirements but not less stringent than under this policy. Metrics will be generated from OSD policy, regardless of DoD Component's timelines.

<sup>5</sup> Recordation must be not later than the end of each quarter for the purposes of financial accounting accuracy.

## A3.2 Metrics

Real Property Inventory Model (RPIM) data elements track the timeliness of the real property documentation process. Table A3-3 lists the RPIM data elements. On the PISD, the government assumes ownership and liability for a newly constructed facility or a capital improvement. The PISD is captured on the Interim DD Form 1354, entered into the Host Installation's APSR as the "RPA PISD", and transmitted to the Data Analytics Integration Support (DAIS) system. The placed-in-service date will be established on an interim DD Form 1354 and is not to be updated with the final DD Form 1354. If there are multiple interim DD Forms 1354 for a single project, the final DD Form 1354 will include the placed-in-service date from the first interim DD Form 1354. The placed-in-service dates for subsequent interim DD Forms 1354 will be annotated on the final DD Form 1354 in block 28, Project Remarks. Metrics track the DoD Component's adherence to the timelines, so processing delays can be identified and corrective action implemented. The Office of Deputy Assistant Secretary of Defense for Real Property (DASD RP) uses DAIS Business Intelligence (BI) reports to monitor the CIP documentation timelines. These new data elements were introduced as Engineering Change Proposals (ECPs) to the RPIM Configuration Support Panel for the next update to RPIM. The Host Installation's APSR and DAIS will capture this data going forward. Final systems implementation must be completed by the end of 2025. Capital improvements do not change the original PISD but capture the APSR posting date.

Table A3-3. Proposed RPIM Data Elements<sup>6</sup>

<b>Proposed RPIM data elements</b>	<b>Data to populate new RPIM data elements</b>
RPA Date of Interim DD Form 1354 DCA Signature	Date from Block 24c of the Interim DD Form 1354.
RPA Date of Interim DD Form 1354 IMOAO/RPAO Signature	Date from Block 25c of the Interim DD Form 1354.
Date Entered into APSR	System-generated date based on change of Operational Status Code of TBA to ACTIVE or creation date of new facility, or date Capital Improvement is recorded into the APSR.
RPA Date of Final DD Form 1354 DoD DCA Signature	Date from Block 24c of the Final DD Form 1354.
RPA Date of Final DD Form 1354 IMOAO /RPAO Acceptance Signature	Date from Block 25c of the Final DD Form 1354.

<sup>6</sup> These RPIM data elements were submitted in an Engineering Change Proposal to the RPIM Configuration Control Board in October 2023, as a part of the FY24 Update to RPIM version 11.0.

## Annex 4. Illustrative Examples and Note Disclosures

### A4.1 CIP Illustrative Examples

A4.1.1. The General Ledger (G/L) journal entries must be recorded to relieve CIP costs expended for the construction of real property assets or capital improvements when the Funding DoD Component is not the Host Installation: [The Funding DoD Component uses Transaction Code E510](#), and the Host Installation uses Transaction Code E606 (see the SFIS webpage for detailed entries).

A4.1.2. CIP Example 1: Defense Logistics Agency (DLA) funds the construction of a new building on an Army installation using the United States Army Corps of Engineers (USACE) as the DCA. DLA suballocates funding to USACE via the Funding Authorization Document (FAD). USACE accumulates costs during construction and reports the costs to DLA. These costs are reflected in DLA's CIP account and reported on its financial statements. When the building is placed in service, USACE provides all the relevant supporting documentation (i.e., signed Interim DD1354 by USACE and the Army) to the Army and DLA. USACE relieves CIP on DLA's behalf, and the Army records the asset in its APSR. The Army also reports the facility on its financial statements and depreciates it over its estimated useful life. Journal entries must be recorded for USACE on DLA's behalf and the Army upon the building's placement in service and the receipt of the completed documentation from USACE. USACE on DLA's behalf uses Transaction Code E510, and the Army uses Transaction Code E606 (see the SFIS webpage for detailed entries). Note: If the asset is not recognized during the month CIP is relieved, then the depreciation must be recorded by the Host Installation.

A4.1.3. CIP Example 2: The Defense Health Agency (DHA) funds a capital improvement to a building on an Air Force installation using Naval Facilities Engineering Systems Command (NAVFAC) as the construction agent. DHA accumulates costs during construction and reports these costs in its financial statement CIP account. NAVFAC provides a monthly SF-1080 to support the cost of CIP until the capital improvement is complete. When the capital improvement is placed in service, NAVFAC provides all the relevant supporting documentation (i.e., signed Interim DD1354 by NAVFAC and Air Force) to the Air Force and DHA. See Table 24-3 for examples. With this documentation, DHA relieves CIP, and the Air Force records the capital improvement in its APSR. The Air Force also reports the capital improvement to a building on its financial statements and depreciates it for its estimated useful life. Illustrated below are journal entries that must be recorded for DHA and Air Force upon the capital improvement's placement in service and the receipt of the relevant documentation from NAVFAC. The DHA uses Transaction Code 510, and the Air Force uses Transaction Code E606 (see the SFIS webpage for detailed entries).

### A4.2 In-Service Real Property Examples

A4.2.1. The Missile Defense Agency (MDA) operates a facility that includes other defense agency tenants located on an Army Installation. The Army does not have operations in the facility, but is the designated [Host Installation](#) and carries the MDA facility as Army real property in its real property database. The Army is the financial reporting entity for the facility.

**A4.2.2.** The Army Working Capital Fund (WCF) operates and has jurisdiction over a maintenance depot. The Army WCF reports the real property on that installation on its financial statements and is responsible for maintaining supporting documentation to support the audit.

**A4.2.3.** The illustrative G/L journal entries to demonstrate the transfer of in-service real property from one **DoD Component or WHS** to the **Host Installation** are found on the **SFIS webpage, transaction code E510 for the DoD Component or WHS and transaction code F606 for the Host Installation.**

### **A4.3 Capitalized Improvements to Real Property Illustrative Examples and Journal Entries**

#### **A4.3.1. Capitalized Improvements to Real Property Examples**

**A4.3.1.1.** The Defense Logistics Agency (DLA) WCF funds an improvement to a building on an Army base. DLA reports the CIP until the improvement is complete, then transfers the improvement to the Army to be reported on the Army's General Fund financial statements. DLA sets its capital recovery rates related to the capital improvement in accordance with Volume 2B, Chapter 9, recording the imputed cost instead of actual depreciation expense as the basis for its budget.

**A4.3.1.2.** The Defense Advanced Research Projects Agency (DARPA) funds a conversion of an office suite to another purpose that it occupies on a Navy installation. DARPA reports the CIP until the conversion is complete, relieves CIP, and then transfers the improvement to the Navy to be reported on the Navy's General Fund financial statements.

**A4.3.2.** The transfer of in-service real property from one **DoD Component or WHS** to the **Host Installation** is found on the **SFIS webpage, transaction code E510 for the Funding DoD Component and transaction code E606 for the Host Installation (see the SFIS webpage for detailed entries).**

## A4.4 Note Disclosure Examples

A4.4.1. The following is an example of a note disclosure for **Host Installations**, which could be Military Departments, WHS, or Military Department WCFs:

*The [Host Installation] reports the real property within the jurisdiction of [Host Installation] installations, in its financial statements because it is the designated Host Installation. This includes real property on [Host Installation] installations including real property used and occupied by [another Military Department, WHS, another Military Department WCF or other DoD Components (who are not the Host Installation)]. The [Host Installation] who is the Host Installation does not report assets on its installation that were funded by and are exclusively used by an entity not included in the consolidated DoD financial statements. While the [Host Installation] is responsible and accountable for accepting, controlling, managing, and utilizing real property assets, the [Host Installation] has entered into Memoranda of Agreement, with another Host Installation, or other DoD Components, and license or permit with non-DoD governmental agencies, transferring the right to control the use of a [Host Installation] real property asset to the [other Host Installation and other DoD Components or WHS and non-DoD governmental agencies (who are not the Host Installation)]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset under the jurisdiction of the [Host Installation].*

A4.4.2. The following are examples of note disclosures for **DoD Components and WHS** utilizing real property assets in their operations that are being financially reported by a **Host Installation**:

Example of the Note for **DoD Component**:

*The [DoD Component] does not report in its financial statements real property that they use and occupy within the jurisdictions of [Military Department or WHS]. This includes all real property used and occupied by the [DoD Component]. The [DoD Component] has entered into Memoranda of Agreement, with the [Host Installation] that is the Host Installation, which transfers the right to control the use of [Host Installation] real property asset to the [DoD Component]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains an asset of the [Host Installation] acting as the Host Installation.*

Example of the Note for a non-Military Department WCF Component (e.g., DLA):

*The [DoD WCF Component] does not report in its financial statements real property that they use and occupy within the jurisdiction of [Host Installation]. This pertains to all real property used and occupied by the [DoD WCF Component] including real property that was funded with WCF outlays that are being recovered through the capital recovery rate. The [DoD WCF Component] has entered into Memoranda of Agreement, with the [Host Installation] that is the Host Installation, which transfers the right to control the use of a [Host Installation] real property asset to the [DoD WCF Component]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction and the asset remains and asset of the [Host Installation] acting as Host Installation.*

A4.4.3. The following is an example of a note disclosure for a Military Department WCF that (1) has been given jurisdiction over specific installation(s) and financially reports that real property; and (2) also uses and occupies other real property for which it is not the financially reporting [Host Installation](#):

The [Military Department WCF] reports in its financial statements real property within the jurisdiction of the [Military Department WCF], when it is the designated [Host Installation](#) for the real property. This includes real property on [Military Department WCF] designated installations, including real property used and occupied by [another [DoD Component](#) (who are not the [Host Installation](#))]. However, the [Military Department WCF] which is the designated [Host Installation](#) does not report assets on its installation that were funded by and are exclusively used by an entity not included in the consolidated DoD financial statements.

The [Military Department or WCF] used and occupied certain real property asset(s) in which it is not the designated [Host Installation](#) as a result does not include the real property asset(s) in its financial statements. The [Military Department WCF] has entered into Memoranda of Agreement, with the [[Host Installation](#)] that is the [Host Installation](#), which transfers the right to control the use of [[Host Installation](#)] real property asset(s) to the [Military Department WCF]. The transfer of the right to control the use of the real property asset does not transfer jurisdiction, and the asset remains an asset of the [[Host Installation](#)] acting as the [Host Installation](#).

**VOLUME 4, CHAPTER 25: “GENERAL EQUIPMENT”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated [May 2019](#) is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Updated hyperlinks and formatting to comply with current administrative instructions.	Revision
1.1	Updated purpose with Standard Financial Information Structure website and Department of Defense (DoD) Standard Reporting Chart of Accounts references. Removed specific U.S. Standard General Ledger accounts (previously paragraph 2.2).	Revision
2.2.2.1.4	Added language to support use of electronic receiving reports to support valuation of property at the time of delivery.	Addition
2.3, 2.3.4, 2.3.7.5, 2.3.7.6	Incorporated Alternate Valuation Methods for Establishing Opening Balances (previously Annex 2) into paragraph 2.3. Added disclosure requirements, subparagraph 2.3.4, engineering document based estimates, subparagraph 2.3.7.5 and cost estimator based estimates, subparagraph 2.3.7.6.	Revision/ Addition
2.4.4	Clarified language to ensure recognition of equipment aligns with corresponding revenue recognition.	Revision
2.6.2.2.2	Removed requirement for Office of the Under Secretary of Defense (Comptroller) approval to use other than DoD standard useful lives for depreciation.	Deletion/ Revision
Annex 1	Moved detailed Construction In Progress (CIP) process from Recognition Section (previously subparagraph 2.4.7) to a separate Annex. Moved CIP-related tables and figures to Annex.	Revision

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## CHAPTER 25

GENERAL EQUIPMENT

## 1.0 GENERAL

## \*1.1 Purpose

1.1.1. This chapter establishes the accounting policy for financial control over Department of Defense (DoD) general equipment.

1.1.2. General Equipment is a subset of general Property, Plant, and Equipment (PP&E). DoD Components record general PP&E transactions to general ledger accounts in the financial statements required by the Treasury and other reporting requirements mandated by Congress and the Office of Management and Budget (OMB).

1.1.3. The Standard Financial Information Structure ([SFIS](#)) website hosts the DoD Standard Reporting Chart of Accounts, which provides account descriptions and posting guidance for the general ledger accounts referenced in this chapter. The DoD Standard Chart of Accounts was developed from the U.S. Standard General Ledger ([USSGL](#)) Transaction Library.

1.1.4. Refer to [Volume 6B, Chapter 10](#), “Notes to the Financial Statements” for detailed requirements on preparing and presenting notes to the financial statements for general equipment.

## 1.2 Authoritative Guidance

The accounting policy and related requirements prescribed in this chapter are in accordance with the applicable provisions of the following sources:

1.2.1. [Title 40, United States Code \(U.S.C.\), Section 571](#), “General rules for deposit and use of proceeds”;

1.2.2. [Title 40 U.S.C. Section 574](#), “Other rules regarding proceeds”;

1.2.3. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Concepts ([SFFAC](#)) 5, “Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements”;

1.2.4. FASAB [SFFAC 7](#), “Measurement of the Elements of Accrual-Basis Financial Statements in Periods after Initial Recording”;

1.2.5. FASAB [Statement of Federal Financial Accounting Standards \(SFFAS\) 1](#), “Accounting for Selected Assets and Liabilities”;

1.2.6. FASAB [SFFAS 4](#), “Managerial Cost Accounting Standards and Concepts”;

- 1.2.7. FASAB [SFFAS 6](#), “Accounting for Property, Plant, and Equipment”;
- 1.2.8. FASAB [SFFAS 23](#), “Eliminating the Category National Defense Property, Plant, and Equipment”;
- 1.2.9. FASAB [SFFAS 40](#), “Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment”;
- 1.2.10. FASAB [SFFAS 42](#), “Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32”;
- 1.2.11. FASAB [SFFAS 44](#), “Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use”;
- 1.2.12. FASAB [SFFAS 50](#), “Establishing Opening Balances for General Property, Plant and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35”;
- 1.2.13. FASAB [SFFAS 55](#), “Amending Inter-entity Cost Provisions”;
- 1.2.14. FASAB [Technical Bulletin 2017-2](#), Assigning Assets to Component Reporting Entities”;
- 1.2.15. FASAB Technical Release [\(TR\) 13](#), “Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment”;
- 1.2.16. FASAB [TR 14](#), “Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment”;
- 1.2.17. FASAB [TR 15](#), “Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation”;
- 1.2.18. FASAB [TR 17](#), “Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment”;
- 1.2.19. FASAB [TR 18](#), “Implementation Guidance for Establishing Opening Balances”;
- 1.2.20. FASAB [Staff Implementation Guidance 6.1](#), “Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as Amended”;
- 1.2.21. FASAB [Staff Implementation Guidance 23.1](#), “Guidance for Implementation of SFFAS 23, Eliminating the Category National Defense Property, Plant, and Equipment: Classification of Items Formerly Considered National Defense PP&E”;
- 1.2.22. Federal Acquisition Regulation [\(FAR\)](#);

- 1.2.23. Defense FAR Supplement ([DFARS](#));
- 1.2.24. DFARS and Procedures, Guidance, and Information ([PGI](#));
- 1.2.25. United States Department of the Treasury Financial Manual ([TFM Volume 1, Part 2, Chapter 4700](#), “Agency Reporting Requirements for the Financial Report of the United States Government”);
- 1.2.26. TFM USSGL;
- 1.2.27. OMB [Circular A-136](#), “Financial Reporting Requirements”;
- 1.2.28. DoD Instruction ([DoDI 5000.02](#), “Operation of the Adaptive Acquisition Framework System”);
- 1.2.29. [DoDI 5010.40](#), “DoD Enterprise Risk Management and Risk Management and Internal Control Program”;
- 1.2.30. [DoDI 5000.64](#), “Accountability and Management of DoD Equipment and Other Accountable Property”; and
- 1.2.31. DoD Manual ([DoDM 4160.21](#), Volume 1, CH-4 “Defense Materiel Disposition: Disposal Guidance and Procedures.”

## 2.0 ACCOUNTING FOR GENERAL EQUIPMENT

### 2.1 Description

- 2.1.1. General equipment consists of tangible assets that:
- 2.1.1.1. Have an estimated useful life ([normal operating life in terms of utility to the owner](#)) of two years or more;
  - 2.1.1.2. Are not intended for sale in the ordinary course of operations [and not held in anticipation of physical consumption](#);
  - 2.1.1.3. Are acquired or constructed to be used or available for use by the entity;
- 2.1.2. General equipment items are characterized as providing goods or services, or supporting the mission of the entity, [and](#) typically have one or more of these characteristics:
- 2.1.2.1. The item could be used by other DoD or federal programs, state or local governments, or nongovernmental entities, but is used to produce goods or services, or support the mission of the entity;

2.1.2.2. The item is used in business-type activities which are defined as a significantly self-sustaining activity financing its operations through collection of exchange revenue; and/or

2.1.2.3. The item is used by entities in activities whose costs can be compared to those of other entities performing similar activities (e.g., federal hospital services in comparison to commercial hospitals).

2.1.2.4. The item is functionally complete and does not ordinarily lose its identity or become a component part of another asset when used.

2.1.3. General Equipment excludes:

2.1.3.1. Inventory and Related Property (I&RP). Tangible items that do not meet the criteria in subparagraph 2.1.1 and long-range ballistic missiles are I&RP. I&RP is discussed in Chapter 4.

2.1.3.2. Real Property. Facilities, land, and land rights. Installed equipment that facilitates the use of and is inclusive and intrinsic to the facility itself, such as landscaping; heating, ventilation, and air conditioning equipment; utility connections; installed overhead bridge cranes; and elevators. These items are real property and are discussed in Chapter 24.

2.1.3.3. Internal Use Software (IUS). IUS includes the application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. IUS is discussed in Chapter 27.

2.1.4. General Equipment may include:

2.1.4.1. Contractor-Acquired Property (CAP). Property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the Government has title.

2.1.4.2. Government Furnished Property (GFP). Property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract. GFP includes equipment, material, special tools, special test equipment, spares, and property furnished for repair, maintenance, overhaul, or modification.

2.1.4.3. CAP and GFP items that do not meet the criteria in subparagraph 2.1.1 are not general equipment and generally fall under the category of I&RP.

2.1.5. Examples of General Equipment are:

2.1.5.1. Weapon systems used by the Armed Forces to carry out battlefield, intelligence, or surveillance missions, including combat aircraft, pods, combat ships, support ships, satellites, and combat vehicles.

2.1.5.2. Specialized support equipment; information technology infrastructure, specialized training devices, specialized vehicles (not combat), and facilities support equipment.

2.1.5.3. Computer software that is integrated into (embedded) and necessary to operate weapon systems (rather than perform an application). This software is considered part of the PP&E of which is an integral part.

## 2.2 Valuation

2.2.1. Acquisition Cost. The acquisition cost includes all amounts paid for the original purchase, construction, or development, to bring the equipment to its form and location suitable for its intended use, costs for embedded items and/or integral software, and ancillary costs, net of (less) any purchase discounts. Although the measurement basis for valuing general equipment remains historical (acquisition) cost, reasonable estimates may be used to establish the acquisition cost for general equipment as described in SFFAS 6 as amended by SFFAS 50.

2.2.1.1. Net Book Value. The cost of general equipment, less its accumulated depreciation (reduced for any impairments, if applicable).

2.2.1.2. Fair Value. The amount exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

2.2.1.3. Ancillary Cost. Identifiable costs necessary to bring the asset to its form and location suitable for its intended use, including other direct and indirect costs. Table 25-1 provides examples of ancillary costs.

### 2.2.2. Method of Acquisition or Transfer Determines Recorded Cost

2.2.2.1. Purchased Equipment. The cost for general equipment acquired from a third party (private, commercial, or state or local government) is its purchase contract cost plus applicable ancillary costs. Purchase contract cost includes procurements by cash, check, or installment, or progress payments on contracts. Value purchase contract costs (when equipment is delivered and accepted by the government) in accordance with the contractual arrangement used to acquire the item as follows:

2.2.2.1.1. For fixed price type line, subline, or exhibit line items, when property is identified as a deliverable end item, the value of the property is the unit price identified in the contract at the time of delivery;

2.2.2.1.2. For cost type or un-definitized line, subline, or exhibit line items, the contractor's estimated fully burdened unit cost to the Government at the time of delivery; and

2.2.2.1.3. For items delivered under a time and materials contract, the contractor's estimated fully burdened unit cost to the Government at the time of delivery.

\* 2.2.2.1.4. Electronic receiving reports support the valuation of property at the time of delivery. The Defense Federal Acquisition Regulation Supplement (DFARS) requires formal receiving reports to be filed and processed electronically in the Wide Area Workflow (WAWF) system. Further, DFARS makes WAWF the formal system to store electronic receiving reports.

2.2.2.2. Constructed Equipment. The cost for constructed general equipment items is the sum of all the costs incurred to bring the item(s) to a form and condition suitable for its intended use, including labor, materials, and overhead costs. [Table A1-1 in Annex 1](#) describes the types of costs accumulated for construction items.

2.2.2.3. Donated Equipment. The cost for general equipment acquired through donation, execution of a will, or judicial process, excluding forfeiture, must be its estimated fair value at the time acquired by the DoD.

2.2.2.4. Exchanged Equipment. The cost for general equipment acquired through exchange between the DoD and a non-federal entity (NFE) is the fair value of the consideration surrendered at the time of exchange. If the fair value of the equipment acquired is more readily determinable than that of the consideration surrendered, the cost will be the fair value of the equipment acquired. If neither fair value can be determined, the cost of the equipment acquired will be the cost recorded for the consideration surrendered, net of any accumulated depreciation.

2.2.2.4.1. A gain or loss is recognized for the difference between the net recorded amount of the consideration surrendered and the cost of the equipment acquired.

2.2.2.4.2. If cash consideration is included in the exchange, the cost of general equipment acquired will be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received.

2.2.2.4.3. If the fair value of the equipment acquired is less than that of the consideration surrendered, [recognize](#) the equipment acquired at the amount of the consideration surrendered, as described previously, and subsequently reduce [it](#) to its fair value. A loss must be recognized in an amount equal to the difference between the amount of the consideration surrendered for the equipment acquired and its fair value.

2.2.2.4.4. This guidance on exchanges applies only to exchanges between a DoD Component and [an](#) NFE. Exchanges between a DoD Component and another DoD Component or [a](#) Federal agency must be accounted for as a transfer.

2.2.2.5. Seized and Forfeited Equipment. The cost recorded for general equipment acquired through seizure or forfeiture is its fair value, less an allowance for any liens or claims from a third party.

2.2.2.6. Transferred Equipment. Transfers of equipment must adhere to the [cost recorded for general equipment transferred from another DoD Component or Federal agency as the cost recorded on the transferring entity's books for the general equipment, net of any](#)

accumulated depreciation (i.e., net book value). To prevent intergovernmental transaction elimination issues, the DoD component must ensure record the transfer-in amount in aligns with the transfer document received from the transferring agency. If the receiving DoD Component cannot reasonably ascertain those amounts, the cost of the asset will be its fair value at the time of transfer. Accountability for general equipment transferred between entities must be in accordance with DoDI 5000.64. Refer to DoDI 1225.06 for other than DoD entities and Reserve Components equipment transfers.

2.2.2.7. Equipment Acquired by Trade-In. The cost for general equipment acquired when trading for another general equipment asset is the sum of the net book value of the asset(s) traded plus (minus) any cash paid (received) or liabilities assumed (relinquished) for the new asset. The net book value is the acquisition cost of a general equipment asset, less its accumulated depreciation (reduced for any impairments, if applicable).

Table 25-1 Examples of Ancillary Cost

Examples of Ancillary Costs	
GFP installed in end items, such as engines installed in aircraft	Fair value of equipment donated to the DoD
Acquisition and preparation costs of equipment	Labor and other direct or indirect production costs (for assets produced or constructed)
Direct costs of inspection, supervision, and administration of construction contracts and construction work	Allowable direct cost of maintaining the Program Management Office, if material
An appropriate share of the cost of Government-furnished materials used in the production of end items	An appropriate share of the cost of the equipment and facilities used in construction work
Transportation charges to the point of initial use	Cost of handling and storage
Engineering and other outside services for designs, plans, specifications, and surveys	Legal and recording fees and damage claims
Interest paid directly to providers of goods or services related to the acquisition or construction (not including late payment interest penalties).	A prorated share of non-recurring cost** associated with the production of the equipment.

\*\* A non-recurring cost is an unusual charge, expense, or loss that is unlikely to occur again in the normal course of business. Non-recurring costs include write-offs, fire or theft losses, and losses on sales of assets.

### \*2.3 Alternate Valuation Methods for Establishing Opening Balances.

2.3.1. The alternative valuation methods for establishing opening balances for general PP&E are available only once to each reporting entity. Therefore, prior to the establishment of opening balances for general equipment, DoD Components must validate that they account for

and comply with the recognition, measurement, presentation and disclosure requirements for general equipment at historical cost in accordance with FASAB SFFAS 6, as amended by SFFAS 50. Components must prepare and retain documentation to support compliance with the recognition, measurement, presentation, and disclosure requirements to meet audit requirements. When a Component cannot apply historical cost as outlined in SFFAS 6, **Deemed Cost** is acceptable to estimate the initial amounts (historical cost) to establish the opening balances for general equipment.

2.3.2. When evaluating general equipment for the purpose of establishing opening balances, DoD Components must apply the applicable capitalization threshold to their entire population of general equipment retroactively.

2.3.3. DoD Components must calculate a gross value and an accumulated depreciation value for General Equipment assets **when establishing opening balances using Deemed Cost**.

2.3.3.1. Both the gross value Deemed Cost and the accumulated depreciation Deemed Cost will be recorded in the accounting records. The difference between the Net Book Value (NBV) of the Deemed Cost on the opening Balance Sheet of the current fiscal year presented and the existing/historical NBV of the general equipment as of the ending Balance Sheet of the previous fiscal year, is considered a prior period adjustment.

2.3.3.2. This prior period adjustment represents a change in accounting principle in accordance with FASAB **SFFAS 21**, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources". Adjustments must be properly documented and supported to assist ongoing audit efforts, including retaining documentation of the existing/historical equipment value in the Accountable Property System of Record (APSR) and documentation supporting the Deemed Cost value.

\* 2.3.4. DoD component reporting entities applying deemed cost in establishing opening balances for general PP&E must disclose in the notes to their financial statements that they used an alternative valuation method and describe the methods used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with Generally Accepted Accounting Principles. An unreserved assertion is an unconditional statement. Financial statements or, as applicable, reports on line items of subsequent periods need not repeat this disclosure, unless the financial statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of the amount of deemed cost of general PP&E included in the opening balance is required.

2.3.5. Deemed Cost estimates must be based on one or a combination of the following allowable valuation methods:

2.3.5.1. **Replacement Cost**. The amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date,

including the amount that the entity would receive from disposing of the asset at the end of its useful life.

2.3.5.2. Estimated Historical Cost (initial amount). A reasonable estimate of historical (acquisition) cost. See subparagraph 2.3.7 for reasonable estimating methods.

2.3.5.3. Fair Value. The amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

2.3.6. DoD Components that anticipate substantial use of replacement cost or fair value methodologies for equipment valuation must contact the Office of the Under Secretary of Defense (Comptroller) (OUSD(C))/Office of the Deputy Chief Financial Officer (ODCFO) and the Office of the Deputy Assistant Secretary of Defense for Logistics prior to committing significant resources to these methods.

2.3.7. Estimated historical cost may be based on:

2.3.7.1. Cost of Similar Assets at the Time of Acquisition. This alternate method is frequently used for commercial off-the-shelf general equipment, but may also be used for other general equipment, such as weapon systems, when appropriate. When using this method, DoD Components must:

2.3.7.1.1. Work closely with other organizations to gather the information needed to support the valuation when using general equipment from another organization as a comparable asset;

2.3.7.1.2. Exercise due care to ensure that the source value is supported. If the comparable asset is not properly supported, the subject general equipment is also not properly supported; and

2.3.7.1.3. Apply appropriate price indices to estimate the cost of the general equipment in the period when it was placed into service if the comparable general equipment has a different in-service date. See FASAB Federal Financial Accounting and Auditing Technical Release 13, "Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment," for additional details for using indices to inflate or deflate costs.

2.3.7.2. Current cost of similar assets discounted for inflation. Deflating current costs to costs at the time of acquisition by the general price index; or

2.3.7.3. Budget-Based Estimates. This methodology uses information included in the DoD Component's budget to estimate the value of the general equipment. The key requirement is that the procurement budget detail must allow DoD Components to clearly associate budgeted amounts with the general equipment end items. DoD Components must consider that acquisition programs can span many years, and not all costs associated with the budgeted amount must be capitalized. Steps for performing budget-based estimates include:

2.3.7.3.1. Reviewing the relevant President's Procurement Budget documentation for the general equipment acquisition program and determine whether the budget has adequate detail to support the budget valuation methodology.

2.3.7.3.2. Identifying costs and determining which costs must be included in the capitalized costs of the general equipment;

2.3.7.3.3. Compiling documentation supporting the valuation, including copies of the referenced budget exhibits; and

2.3.7.3.4. Documenting the process and results.

2.3.7.4. Contract-Based Estimates. This methodology involves valuing general equipment using the pricing data included in contracts. A complete understanding of the acquisition program, including the structure of related contracts, is required to implement this methodology. DoD Components must align activities and costs of general equipment with relevant accounting standards to isolate the costs that are capitalized versus expensed (e.g., research and development costs, factory training). DoD Components must also consider the complexity of multiple contracts used to develop or acquire the general equipment assets. Steps for performing contract-based estimates include:

2.3.7.4.1. Identification by Program Management Offices (PMOs) of all contracts for the acquisition or modification of the general equipment. Relevant contracts include those that have a financial impact on the value of the asset and/or establish its placed-in-service date;

2.3.7.4.2. Working with Financial Managers, Procurement Contracting Officers, and PMOs to review all line items in the contract to identify costs to include in the capitalized acquisition costs and to identify the costs to exclude;

2.3.7.4.3. Compiling documentation supporting the valuation, including copies of relevant contract documents; and

2.3.7.4.4. Documenting the process and results.

\* 2.3.7.5. Engineering Document-Based Estimates. Technical and engineering documents lay out the assumptions, materials, and estimated cost to produce an asset. In these instances, the engineering documents can provide a sufficient basis for estimating deemed cost for opening balances. Examples of acceptable supporting documentation include technical specifications and estimates, maintenance delivery schedule, bill of materials, invoices, vendor quotes on material costs/sale rates, time compliance, and technical orders, industry estimates, and Federal Logistics Data (FED LOG) published by the Defense Logistics Agency.

\* 2.3.7.6. Expert Cost Estimator Estimates. An informed opinion of an expert cost estimator may be used to support reasonable estimates. Informed opinion refers to the judgment of others who make estimates based on programmatic knowledge and/or experience based on

limited information and, in some cases, without using an econometric or other statistical model. If an expert cost estimator is used, document the expert's credentials or qualifications in sufficient detail to allow review and validation by independent sources, including independent auditors. Maintain other relevant communications describing the basis for any assumptions or changes in assumptions in support of the expert's opinion. Other relevant communications may include:

2.3.7.6.1. Reports and studies.

2.3.7.6.2. Memos with outside experts and minutes from internal meetings describing the basis for any assumptions or changes in assumptions.

2.3.7.6.3. Previous studies conducted by the expert, including industry studies, journal articles, and third-party studies.

## 2.4 Recognition

2.4.1. Recognition requires appropriate accounting treatment (expense or capitalization with depreciation) and reporting of capitalized amounts and accumulated depreciation on the DoD Component's financial statements.

2.4.2. Recognition Responsibility. The entity that has accountability for a general equipment asset, defined in DoDI 5000.64, has financial reporting responsibility for that asset from purchase or construction, upon transfer of title (receipt, delivery, or acceptance) to disposal or when another entity takes physical accountability for the asset. See Annex 2 for illustrative examples of financial reporting responsibilities for general equipment and related journal entries.

2.4.2.1. The base asset and all related capital improvements are reported by the same reporting entity to maintain consistency between the financial reporting and the physical assets.

2.4.2.1.1. Software developed separately and installed on several assets at different times may be treated as a separate IUS asset, rather than integrated or embedded software.

2.4.2.1.2. When software is treated as a separate IUS asset, improvements to the software are capitalized to the separate IUS asset, not the general equipment asset.

2.4.2.2. Financial reporting responsibility for asset transfers with the accountability of the asset in cases where accountability changes from one entity to another. Documentation for transferring assets must be maintained to support audit requirements in accordance with DoD FMR Volume 1, Chapter 9: "Financial Records Retention."

2.4.2.3. Financial reporting responsibility for assets includes all aspects of financial reporting and disclosures, including, but not limited to, footnote disclosures, deferred

maintenance and repair (DM&R), and other required supplemental information (RSI) as detailed in the Additional Considerations section.

2.4.2.4 DoD Components must follow existing DoDIs for establishing and maintaining accountability for general equipment assets using their APSRs.

2.4.2.5 DoD Components responsible for the financial reporting of an asset **must** be prepared to support the financial statement assertions, including existence and completeness, rights and obligations, accuracy and valuation, occurrence, and presentation and disclosure.

2.4.2.6 DoD Components funding CAP recognize the item as general equipment **upon delivery** and **acceptance** by the DoD Component or an authorized representative in accordance with the terms and conditions of the contract **and** in accordance with **DFARS PGI 245.402-71**. Constructive Delivery is **when the title** transfers to another **entity**, even if the physical delivery did not take place. Constructive delivery **is** based on the terms of the contract regarding shipping and/or delivery. **Recognize** constructive delivery of a CAP item in the **Construction in Progress (CIP)** account until acceptance.

2.4.2.7. If a local DoD Component identifies a DoD general equipment asset on site that is not recorded in its APSR, it must determine who is accountable for the asset. The accountable entity must perform **a property** inventory in accordance with DoDI 5000.64 and establish proper internal controls to support Property Management in accordance with DoDI 5010.40. If the local DoD Component is not accountable for certain general equipment assets, the Component must **prepare and maintain supporting documentation** for those assets **to provide to** their respective accountable DoD Components for audit purposes **in accordance with DoD FMR Volume 1, Chapter 9: “Financial Records Retention.”**

2.4.2.8. Entities that have assets on loan or under temporary or stewardship control do not transfer accountability or financial reporting. The entity with stewardship control must maintain supporting documentation that identifies its physical control while clarifying that it does not hold financial reporting responsibility. **Custodial entities** provide this documentation to the accountable entity **and** support any audit requests from the accountable entity related to the property in its control.

2.4.3. **Recognition Uncertainty.** The DoD and the Federal Government must ensure that the accounting records are not duplicative.

2.4.3.1. In situations where doubt exists about which DoD Component must recognize an item, the DoD Components involved must reach an agreement with the other applicable DoD Components or Federal agencies on which entity will record the item for financial reporting purposes.

2.4.3.2. Disputes between DoD Components regarding accountability for an asset under DoDI 5000.64 guidelines may be resolved by contacting the Office of the Deputy Assistant Secretary of Defense for Logistics.

\* 2.4.4. Recognition Timing. Recognition of general equipment for financial reporting purposes must occur upon delivery to the acquiring DoD Component. Delivery occurs when the title passes to the customer. Delivery or constructive delivery shall be based on the terms of the contract.

2.4.4.1. Upon delivery or constructive delivery of finished goods, the cost of general equipment items must be capitalized in the appropriate equipment account.

2.4.4.2. Deliveries of unfinished goods must be accumulated in the CIP account by the funding DoD Component, assuming the estimated total costs will reach the capitalization threshold.

2.4.4.2.1. In cases where there are multiple DoD funding entities, the entity with accountability according to DoDI 5000.64 will act as the financial reporting entity and record the completed asset at full cost in their APSR.

2.4.4.2.2. DoD Components record transfers of in-service assets in the same month that the asset was removed from CIP and placed in service. Refer to Annex 2 for illustrative examples and journal entries.

2.4.4.3. When a contractor acquires general equipment on behalf of a DoD Component (i.e., CAP), the component must recognize the asset upon delivery or constructive delivery and acceptance. The contract determines the terms of delivery, receipt, and acceptance in accordance with DFAR PGI 245.402-71.

2.4.4.3.1. Record contract financing payments for work performed (e.g., progress payments, performance-based payments, and commercial interim payments) or interim payments under a cost reimbursable contract for supplies made to a contractor prior to delivery or constructive delivery in the CIP account until you receive the goods, assuming estimated total costs will reach the capitalization threshold.

2.4.4.3.2. Upon completion and contractual delivery of general equipment to the Government, the DoD Component must either capitalize the equipment in the appropriate USSGL account (relieving CIP) or, if below the capitalization threshold, record such items in the appropriate expense account. DoD Components must estimate whether the total costs of the item under construction will reach the capitalization threshold, and if not, they must document and expense costs as they construct it.

2.4.4.4. When a DoD component acquires general equipment from another federal entity, the DoD component must ensure the timing of asset recognition aligns with the removal of the asset from the providing entity's property accountability and financial reporting records. This is especially important in environments of joint asset management, such as integrated Defense Health Program (DoD) and Veterans Affairs (Non-DoD) facilities.

2.4.5. Capitalization Thresholds. The DoD capitalization threshold for general equipment is \$250,000, except for the following deviations. The capitalization threshold is

\$1 million for the Department of Air Force General Fund, the Department of Navy General Fund, and select DoD Intelligence Agencies. The capitalization threshold is \$100,000 for the Marine Corps General Fund.

2.4.5.1. Capitalize general equipment with a recorded cost that equals or exceeds the applicable capitalization threshold and has a useful life of at least two years as an asset, and depreciate the cost over its useful life.

2.4.5.2. Expense general equipment with a recorded cost below the applicable capitalization threshold or has a useful life of less than two years, except for general equipment items that are acquired as part of a qualifying bulk purchase.

2.4.6. DoD Components must capitalize special tooling, special test equipment, and other similar equipment items that meet or exceed the appropriate capitalization threshold with a useful life of at least two years at the time of delivery. Per SFFAS 6, general equipment must be recognized when title passes to the acquiring entity or when the general equipment is delivered to the entity or an agent of the entity. The component must recognize the general equipment acquired by the contractor on behalf of the DoD Component, for which the Government will ultimately hold title.

#### 2.4.7. Bulk Purchases.

2.4.7.1. Each DoD Component must establish guidance on applying DoD capitalization thresholds to its bulk purchases. DoD Components must document their rationale regarding accounting treatment for bulk purchases and retain the documentation for audit purposes in accordance with DoD FMR Volume 1, Chapter 9: “Financial Records Retention.”

2.4.7.2. For financial accounting, a bulk purchase is a single contractual/purchase arrangement of multiple like general equipment items within a fiscal year. For bulk purchases made on a single multiple-year contractual/purchase arrangement, DoD Components must consider aggregate purchases on a fiscal year basis.

2.4.7.3. The DoD Component must consider whether period costs on the Statement of Net Costs would be materially overstated and/or asset values on the Balance Sheet would be materially understated by expensing bulk purchases. SFFAS I defines materiality as the degree to which an item's omission or misstatement in a financial statement makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement. To determine materiality, the DoD Component must exercise appropriate and reasonable professional judgment.

2.4.7.4. In the instance where more than one DoD Component has the authority to place orders under the same contractual/purchase arrangement, the component must consider only those orders it funds for purposes of bulk purchase evaluation and not those funded by other DoD Components.

2.4.8. CIP. Funding DoD Components must report and record constructed general equipment in the CIP account (when expected to meet capitalization criteria of the component that will own the asset) until they complete and place it in service, at which time they must transfer the balance to the general equipment USSGL account. The CIP account accumulates costs of new construction of general PP&E and capital improvements while the asset is under construction. CIP accounts include all costs (i.e., direct labor, direct material, supervision, inspection, and overhead) incurred in construction.

2.4.8.1. Expense planning costs prior to design authorization (Milestone C in the Adaptive Acquisition Framework).

2.4.8.2. Capitalize expenditures or financing payments paid to contractors, for general equipment being manufactured or constructed in a CIP account. Reporting entities must capture and accumulate capital costs separately for each acquisition program or contract.

2.4.8.3. As completed assets are delivered and accepted by DoD or constructive delivery occurs, capital costs will be relieved from the CIP account and transferred to the general equipment asset account.

2.4.8.4. All DoD Components funding CIP must reconcile their recorded CIP balances on a quarterly basis with any service provider/contractor working on the CIP. CIP must reflect the value associated with the actual progress of work completed, which may be more or less than amounts invoiced to the DoD Component as of the quarter end.

2.4.8.4.1. DoD components must include appropriate contract data requirement provisions in their contracts to enable CIP reconciliation and accurate reporting.

2.4.8.4.2. DoD components performing work on behalf of other components must periodically provide appropriate data to enable CIP reconciliation and accurate reporting.

2.4.8.5. See Annex 1 for a detailed discussion of recognition throughout the CIP Process.

2.4.9. Accounting for General Equipment Outside of the United States. As used in this chapter, the “United States” is defined as the 50 States of the United States, the District of Columbia, and the commonwealths, territories, and possessions of the United States. DoD's rights to general equipment outside of the United States may be different from those within the United States. For financial reporting purposes, a DoD Component that uses general equipment outside of the United States must adhere to the following guidance:

2.4.9.1. DoD Components must recognize a general equipment asset on their financial statements in accordance with the guidance provided throughout the other provisions of this chapter if the DoD Component purchases the general equipment asset outside of the host nation/foreign country to which it is bringing the general equipment.

2.4.9.2. DoD Components must evaluate any foreign legal restrictions or terms of any agreement with the host nation/foreign government to determine the accounting treatment if a DoD Component both purchases and uses the general equipment in the foreign country as follows:

2.4.9.2.1. If there are no foreign legal restrictions, terms of agreement with the host nation/foreign government, or similar barriers for owning general equipment purchased within the foreign country, the DoD Component will account for such general equipment in accordance with the other provisions of this chapter.

2.4.9.2.2. If there are foreign legal restrictions, terms of agreement with the host nation/foreign government, or other restrictions that prevent the DoD from owning the general equipment imposed by the host nation/foreign government, the DoD Component must estimate the period of time it will use the general equipment in the foreign country. If the estimated period of use is two years or greater and the cost of the general equipment equals or exceeds the capitalization threshold, the general equipment must be capitalized and depreciated over a shorter period of use in the foreign country or the useful life.

2.4.9.3. If a general equipment acquisition is not funded/purchased by DoD but instead provided by the host nation/foreign government and the terms and use of the general equipment are set out in an agreement between the DoD Component and the host nation/foreign government, the DoD Component will recognize the general equipment as an asset under capital lease if it meets the criteria in Chapter 26.

2.4.9.4. SFFAS 4 and SFFAS 55 address imputed costs between Federal agencies. The concept of imputed costs does not apply to activities between a DoD Component and a host nation/foreign government. Therefore, a DoD Component will not record imputed costs for the use of general equipment, for which it does not pay directly or pay through reimbursement, provided by international organizations (e.g., North Atlantic Treaty Organization) or host nations/foreign governments.

2.4.9.5. The DoD Component must record accountable general equipment it uses in an APSR, including those that have not been capitalized for accounting and financial reporting purposes in accordance with DoDI 5000.64.

2.4.9.5.1. Expense general equipment items that do not meet the criteria for capitalization in the period acquired or built.

2.4.9.5.2. If the host nation/foreign government does not receive payment from the DoD Component for the use of general equipment provided to the DoD Component, the DoD Component **must** not reflect this general equipment in financial statements (other than through note disclosure).

2.4.9.5.3. Enter and maintain all other property attributes and data elements in the APSR for all general equipment regardless of the dollar value assigned to the asset.

2.4.9.6. The DoD Component must record an expense for any maintenance and sustainment costs that they incur or will incur relating to the general equipment paid. Maintenance and sustainment costs refer to costs that do not meet the criteria for capitalization of an improvement as described in section 2.5.2.

## 2.5 Capital Improvements

2.5.1. Referred to as modifications, modernizations, upgrades, remanufacture, and enhancements.

2.5.2. Capital improvements to general equipment must be capitalized when the improvement increases the asset's useful life by two or more years, or increases the asset's capability, or increases its capacity or size, and when the cost of the improvement equals or exceeds the capitalization threshold. If capital improvements do not meet these two criteria, they must be expensed. If the capital improvement extends the useful life of the underlying general equipment asset by two years or more, the DoD Component must capitalize and depreciate the improvement alongside the original general equipment over the revised estimated useful life. If the costs of capital improvements do not extend the useful life of an existing general equipment asset but enhance its capacity and have a useful life of two years or more, the DoD Component must capitalize and depreciate these costs over the lesser of the estimated useful life of the improvement or the remaining economic estimated useful life of the underlying general equipment asset.

2.5.2.1. A capital improvement funded by the same entity that reports the base asset must first accumulate the costs of the improvement in a CIP account and then transfer those costs to the same account as the base asset when the improvement goes into service.

2.5.2.2. If the entity that funds the improvement is different than the entity that reports the base asset, the entity or entities funding the improvement will accumulate the cost of the improvement in their CIP account(s) until the implementation of the improvement is complete. The funding organization relieves the CIP as a transfer out, and the entity that reports the base asset recognizes the improvement as a transfer in when the improvement is placed in service. See Annex 2 for illustrative examples and journal entries.

2.5.2.3. DoD Components report the base asset and all capital improvements made to the base asset on the same financial statements.

2.5.3. The cost of improvements to more than one general equipment item as identified by a unique identifier when performed under a single contract or work order, and cannot be specifically identified by asset, must be capitalized only when the allocated cost per general equipment item equals or exceeds the applicable capitalization threshold and the estimated useful life is two or more years. When a single item undergoes more than one improvement and these improvements are part of one overall effort to increase the item's capability, size, and/or useful life, the DoD Component must capitalize the sum of the costs of the improvements if the summed costs equal or exceed the applicable capitalization threshold. Once the DoD

Component determines that it will capitalize the aggregate costs of the improvements, it must capitalize and depreciate each improvement upon placing it in service.

2.5.4. Maintenance and repair costs are not considered capital improvements, regardless of whether the cost equals or exceeds the applicable capitalization threshold. Per SFFAS 42, maintenance and repairs are defined by the FASAB as activities that people direct toward keeping fixed assets in an acceptable condition, such as preventative maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain assets. Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

2.5.5. DoD Components generally expense maintenance and repairs in the period incurred. However, certain replacements of parts, systems, or components may or may not be an improvement for accounting purposes. The intent behind the replacement determines whether the DoD Components recognize a replacement as a repair or an improvement. Repair by replacement occurs when parts, systems, or components have failed or are no longer performing the functions for which they were designated and must be expensed. If the replacement was undertaken to improve or extend the life of an item [beyond that of its originally designed service life](#), then the replacement must be recognized as an improvement.

## 2.6 Depreciation

2.6.1. Depreciation is the systematic and rational allocation of the recorded cost of an asset, less its estimated salvage or residual value, over its estimated useful life. The recorded cost of general equipment and capital improvements, which have been capitalized, must be depreciated.

2.6.2 Capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, must be reflected in DoD financial statements. The depreciable basis of an asset is the recorded cost reduced by the asset's salvage value (if applicable).

2.6.2.1 The salvage value, also known as the residual or scrap value, is the amount expected to be obtained from selling an asset at the end of its useful life, but only when such proceeds (from recycle, resale, or salvage) are permitted to be retained and used by the DoD Component. If the asset is to be traded in on a new asset, the salvage value is the expected trade-in value.

2.6.2.2. DoD policy specifies using the straight-line method of depreciation only. However, [in certain circumstances](#), the DoD may permit alternate depreciation methods. DoD Components that would like to implement a method of depreciation different from straight line must submit a written request from the DoD Component's Accounting Policy Office to the OUSD(C)/ODCFO for approval to proceed. [One of the alternate depreciation methods used within DoD is](#) activity-based depreciation, referred to as Operational Tempo (OPTEMPO). OPTEMPO recognizes changes in expected utilization rates and fatigue caused by [the](#) operating environment and mission.

2.6.2.2.1. Straight line depreciation expense is calculated as the depreciable basis (recorded cost less salvage value, if applicable) divided equally among accounting periods during the asset's useful life.

\* 2.6.2.2.2. Table 25-2 shows the [standard](#) useful lives DoD uses for general equipment. [This list is not all-inclusive](#). DoD Components may elect to depreciate assets over a useful life that more accurately reflects [their](#) useful life. The DoD Component making this election must document and [maintain](#) the basis for that decision, [including appropriate evidentiary matter \(e.g., an engineering estimate\) to support the decision](#). Documentation to support useful life determination, other than DoD standard useful lives, must be maintained and made available to auditors in accordance with DoD FMR Volume 1, Chapter 9: "Financial Records Retention."

2.6.3. The event that triggers the calculation of depreciation is the date of receipt shown on the asset receiving document in cases where no installation is required; the date installed (if required); or the date the asset is available for use, also known as the acceptance date.

2.6.4. If an asset remains in use longer than its estimated useful life, it must be retained in the APSR, as well as the accounting records, and reflect both its recorded cost and accumulated depreciation until disposition of the asset.

2.6.5. WCF activities must depreciate general equipment assets in accordance with the guidance in this chapter [for financial reporting purposes](#) without regard to whether assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether depreciation for such assets is included in rates charged to customers.

2.6.5.1. The recognition of general equipment assets and depreciation of such assets by WCF activities may differ for financial statement reporting purposes [from](#) amounts used for WCF rate development and budget presentation.

2.6.5.2. Defense WCF rates charged to customers are based on guidance in [Volume 2B](#) and [Volume 11B](#).

Table 25-2 DoD Useful Lives for Depreciable General Equipment

Categories	Sub-Categories	Useful Life
<b>GENERAL EQUIPMENT ASSETS (EXCLUDING WEAPON SYSTEMS)</b>		
<b>General Purpose Vehicles</b>		
	Heavy-duty Trucks and Buses	5
<b>ADP Systems and Hardware</b>		
	Computers and Peripherals	5
<b>Communication and Medical Equipment</b>		
	High Tech Medical Equipment	5
	Radio and Television Broadcasting Equipment	5
<b>All Other Equipment and Machinery</b>		
	All Other Equipment and Machinery	10
	Equipment used in Research, Development, Test, and Evaluation (RDT&E)	5
<b>Vessels</b>		
	Tugs	20
	Barges	20
	Similar Water Transportation Equipment	20
<b>Generation Equipment</b>		
	Steam Generation Equipment (12.5K pounds per hour or more)	20
	Electric Generation Equipment (500 Kilowatt or more)	20
<b>Capital Improvements *</b>		
<b>GENERAL EQUIPMENT WEAPON SYSTEMS</b>		
<b>Ground Systems</b>		
	Armored/Assault Vehicle	15
	Cargo Vehicle	15
	Tracked Vehicle	20
<b>Fixed Wing Aircraft</b>		
	Combat Fixed Wing	20
	Cargo Fixed Wing	25
	Utility Fixed Wing	20
<b>Rotary Wing</b>		
	Combat Rotary Wing	25
	Cargo Rotary Wing	25
	Utility Rotary Wing	30
<b>Ships</b>		
	Combat Ship	35
	Cargo Ship	40
	Aircraft Carrier	50
<b>Submarines</b>		
	Submarine	33
<b>Unmanned Aerial Vehicle Systems (UAVS)</b>		
	UAVS	15
<b>Combat Support Systems</b>		
	Combat Support System	15
	Missile Defense System	20
*See Capital Improvements in paragraph 2.5		

## 2.7 Impairment

2.7.1. Impairment means a significant and permanent decline in the service utility of general equipment or expected service utility for CIP resulting from events or changes in circumstances that are not considered normal and ordinary.

2.7.1.1. A decline is permanent when management has no reasonable expectation that the lost service utility will be replaced or restored.

2.7.1.2. The expected service utility of general equipment is the usable capacity that, at acquisition, was expected to be used to provide service. The current usable capacity of general equipment may be less than its original usable capacity:

2.7.1.2.1. Due to the normal or expected decline in useful life or

2.7.1.2.2. Due to impairing events or changes in circumstances, including physical damage, obsolescence, enactment or approval of laws or regulations, or other changes in environmental or economic factors, or changes in the manner or duration of use.

2.7.1.3. Normal and ordinary events or circumstances are those that fall within the expected useful life of the general equipment, including standard maintenance and repair requirements.

2.7.1.4. Events or circumstances that are not considered normal and ordinary are unexpected, at the time of acquisition, or if expected, were not sufficiently predictable to be considered in estimating the general equipment's useful life.

2.7.2. Identification of Potential Impairment Loss. The determination of whether general equipment remaining in use is impaired is a two-step process, which includes (1) identifying potential impairment indicators and (2) testing for impairment. Document potential impairment indicators, tests for impairment performed, analysis of materiality, and significance. Retain documentation to support audit remediation efforts in accordance with DoD FMR Volume 1, Chapter 9: "Financial Records Retention."

2.7.3. Determining the Appropriate Measurement Approach. DoD Components must estimate impairment losses on general equipment that will continue to be used by using a measurement approach that reasonably estimates the portion of net book value associated with the diminished service utility of the general equipment. DoD Components must limit the recognition of impairment loss to the asset's net book value at the time of impairment. Widely recognized methods for measuring impairment are identified in SFFAS 44, paragraph 18, including:

2.7.3.1. Replacement Approach. DoD Components can generally measure the impairment of general equipment with physical damage using a replacement approach. This approach uses the estimated cost to replace the lost service utility of the general equipment at today's standards to identify the portion of the historical cost of general equipment that must be

written off due to impairment. It may be appropriate to apply the ratio of estimated cost to replace the diminished service utility over total estimated cost to replace the general equipment, to the net book value of general equipment, to determine the impairment amount.

2.7.3.2. Restoration Approach. This approach identifies the portion of the historical cost of the general equipment that the DoD Component must write off by using the estimated cost to restore the diminished service utility of the general equipment. The estimated restoration cost can be converted to historical cost by restating the estimated restoration cost using an appropriate cost index. Alternatively, it may be appropriate to apply the ratio of estimated restoration cost to restore the diminished service utility over total estimated restoration cost to the net book value of the general equipment to determine the impairment amount.

2.7.3.3. Service Unit Approach. DoD Components can generally measure the impairment of general equipment affected by the enactment or approval of laws or regulations, other changes in environmental factors, or subject to technological changes or obsolescence, using a service unit approach. This approach isolates the historical cost of the service utility that the impairment prevents from being used by comparing the service units provided by the general equipment before and after the impairment to determine the impairment amount.

2.7.3.4. Deflated Depreciated Current Cost Approach. DoD Components can generally measure impairment of general equipment that is subject to a change in manner or duration of use using a deflated, depreciated current cost approach. Under this approach, the current cost for general equipment to replace the current level of service is estimated. This estimated current cost is then depreciated to reflect the fact that the general equipment is not new and is then subsequently deflated to convert it to historical cost dollars. A potential impairment loss results if the net book value of the general equipment exceeds the estimated historical cost of the current service utility (i.e., deflated, depreciated current cost).

2.7.3.5. Cash Flow Approach. A cash flow approach recognizes an impairment loss only if the net book value (1) is not recoverable and (2) exceeds the higher of its net realizable value (NRV) or value-in-use estimate.

2.7.3.5.1. The net book value of general equipment is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the general equipment.

2.7.3.5.2. NRV is the estimated amount that can be recovered from selling, or any other method of disposing of an item, less estimated costs of completion, holding, and disposal. SFFAC 7 describes value-in-use as the benefit to be obtained by an entity from the continuing use of an asset and its disposal at the end of its useful life.

2.7.3.5.3. If the net book value is not recoverable, the impairment loss is the amount by which the net book value of the general equipment exceeds the higher of its NRV or value-in-use estimate. No impairment loss exists if the net book value is less than the higher of the general equipment's NRV or value-in-use estimate.

2.7.3.6. Lower of (a) Net Book Value or (b) Higher of NRV or Value-in-Use Approach. General equipment impaired from either construction stoppages or contract terminations, which are expected to provide service, must be reported at their recoverable amount; the lower of (1) the general equipment's net book value or (2) the higher of its NRV or value-in-use estimated.

2.7.4. Recognizing and Reporting Impairment Losses. Per SFFAS 44, the losses must be reasonably estimated by determining the portion of the decline in the net book value of the G-PP&E attributable to the lost service utility. The loss from impairment, if any, must be recognized and reported in the Statement of Net Cost when the DoD Component concludes that the impairment is both (1) a significant decline in service utility and (2) expected to be permanent. Such losses may be included in program costs or costs not assigned to programs. A general description of the general equipment for which an impairment loss is recognized, the nature (e.g., damage or obsolescence) and amount of the impairment, and the financial statement classification of the impairment loss must be disclosed in the notes to the financial statements in the period the impairment loss is recognized.

2.7.5. Diminished Service Utility Without Recognized Impairment Loss. If the future service utility has been adversely affected but the impairment test determines that a loss does not need to be recognized, a change to the estimates used in depreciation calculations (such as estimated useful life and salvage value, if applicable) must be considered and adjusted as appropriate.

2.7.6. General Equipment that No Longer Provides Service or CIP. Where there is no expectation of future service by the entity, general equipment that no longer provides service must be accounted for in accordance with [SFFAS 6](#), and [TR 14](#), Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment.

2.7.7. Remediating Previously Reported Impairments. The costs incurred to replace or restore the lost service utility of impaired general equipment remaining in use must be accounted for in accordance with applicable standards (i.e., recognized according to the nature of the costs incurred and the appropriate capitalization threshold).

2.7.8. Recoveries. The impairment loss must be reported net of any associated recovery when the recovery and loss occur in the same fiscal year. Recoveries reported in subsequent fiscal years must be reported as revenue or other financing sources, as appropriate. The amount and financial statement classification of recoveries must be disclosed in the notes to the financial statements.

## 2.8 Removal/Disposal

2.8.1. FASAB [TR 14](#) paragraph 8 defines removal from service as an event that terminates the use of a general equipment asset. Removal from service may occur because of a change in the manner or duration of use, a change in technology, or obsolescence, damage by natural disaster or by use in operations, or identification as excess to mission needs. Permanent

removal from service is evident from the DoD Component's documented decision to dispose of an asset by selling, scrapping, recycling, donating, or demolishing the asset.

2.8.2. Removals from service must be considered other than permanent unless:

2.8.2.1. The asset's use is terminated and

2.8.2.2. There is documented evidence of the DoD Component's decision to permanently remove the asset from service.

2.8.2.3. If only one of the two business events has occurred, permanent removal from service has not occurred.

2.8.3. When an asset is disposed of (e.g., by selling, scrapping, recycling, donating, or demolishing the asset), the asset must be written off, and the difference between any disposal proceeds and the asset's net book value must be recognized as a gain or loss. Disposals of general equipment will be conducted in accordance with DoDM 4160.21.

2.8.3.1. The disposal start date is the calendar date of a legally enforceable and recognizable obligation to complete the disposal action. For demolitions, this represents the demolition contract's start date. For transfers to a non-DoD entity and sales, this represents the date on which the instrument is endorsed, or the operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident if the asset is a complete loss.

2.8.3.2. All disposals or retirements must be supported as of the date the general equipment leaves the custody of the DoD Component to provide an adequate audit trail for the disposal of the asset. The execution of certain disposal events will generate financial or administrative accountability transactions. Refer to Table 25-3, which lists examples of supporting documentation for disposals and retirements.

2.8.4. Plant clearance officers follow the direction of the [FAR Subpart 45.6](#), DFARS [Subpart-245.6](#), and [DFARS PGI 245.602-70](#). Following the plant clearance officer's acceptance of an inventory disposal schedule, the property must be screened for reutilization DoD-wide. Surplus personal property with commercial value that is processed through the reutilization screening process without success may be sold. Proceeds of any sale of surplus property are to be credited to the Treasury as miscellaneous receipts, unless otherwise provided by statute or the contract or any subcontract thereunder authorizing the proceeds to be credited to the price or cost of the work per 40 U.S.C. § 571 and § 574, FAR 45.604-3.

### 3.0 ADDITIONAL CONSIDERATIONS

#### 3.1 Use of Cancelled Treasury Account Symbol

Capitalized assets are required to be reported and remain in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) after the original purchasing Treasury Account Symbol (TAS) has expired and been cancelled. Refer to the TFM Volume 1,

Part 2, Chapter 4700 for additional information. The GTAS is the primary means for DoD Components to report their trial balance data to the Treasury. Capitalized assets are required to be reported in GTAS **even** after the original purchasing Treasury Account Symbol (TAS) has expired and been cancelled. If a capitalized asset has not been moved to a cancelled (“C”) TAS, GTAS will provide a “C” TAS on the GTAS Super Master Account File (SMAF) for each fund family represented on the SMAF. The system-generated “C” TAS has three components: the three-digit agency identifier, availability type "C", and a four-digit main account. All DoD Components must use the “C” availability type TAS to report capitalized assets. Assets may be moved to a “C” TAS at any time from the purchase date to the date the original purchasing fund cancels. Refer to the TFM Volume 1, Part 2, Chapter 4700 for additional information.

### 3.2 Documentation Requirements

3.2.1. Financial transactions in **the** accounting system, general ledger accounts, the **APSR**, and/or **other** systems must be supported by source documents affecting the Component’s investment in the **general equipment**.

3.2.2. All **general equipment** acquisitions, whether by purchase, transfer from other agencies, donation, or other means, **must be supported** as of the date **of delivery and acceptance (including acceptance where constructive receipt has occurred)** by the DoD Component.

3.2.3. Items must be assigned a dollar value (i.e., **acquisition** cost) when recording the general equipment item in the APSR and/or accounting system. The dollar value must be supported by appropriate documentation **describing the reasons for** changes in asset value or physical attributes as a result of new acquisition or capital improvement, where applicable. **Table 25-3 lists examples of supporting documentation.**

3.2.4. DoD Components must retain supporting documents for the cost of general equipment assets in accordance with **Volume 1, Chapter 9** or otherwise stated. Documentation (original documents and/or hard and electronic copies of original documentation) must be maintained in a **specific** location during the applicable retention period to **support audit compliance**.

3.2.5. The **APSR and/or other systems must** be designed to **support** procurement and utilization decisions, including decisions related to identifying potential excess **general equipment** that may be available for reuse, transfer to other DoD Components, or made available for disposal in accordance with current DoD regulations and other regulatory requirements. **APSR and/or other systems must:**

3.2.5.1. Enable periodic, independent verification of the accuracy of the accounting and **APSR and/or other systems** through periodic physical counts/inventories of **general equipment**. Periodic inventory **counts** include reconciling the **APSR and/or other** systems with the general ledger accounts and physical **counts**.

3.2.5.2. Identify and classify [general equipment](#) that was capitalized, recorded in the APSR [and](#) accounting system, and reported in the financial statements.

3.2.5.3. [Validate](#) that entries to the [financial accounting/reporting](#) and APSR are the same to support [APSR integration and reconciliation with the financial](#) accounting system.

3.2.5.4. Include documents used to accumulate the cost of construction or developmental projects. Each document must link to the appropriate asset unique identifier. For a listing of those costs that may be incurred during the construction, see Annex 1.

3.2.5.5. Include all [general equipment](#) possessed by the DoD (to include property held by others) and [general equipment](#) of others held by DoD through seizure, forfeiture, loss, or abandonment.

3.2.5.6. Provide information to identify and account for leased [general equipment](#). [Refer to DoDI 5000.64 for accountability requirements for general equipment.](#)

3.2.5.7. Provide information to identify and account for capitalized improvements to [general equipment](#).

Table 25-3 Examples of Supporting Documentation for General Equipment  
(Note: These examples may not be all inclusive for all circumstances.)

Evidence	Examples
<b>Unique Identification</b>	Assignment of a unique identifier
<b>Project Approval</b>	Work Order
<b>Obligation on Behalf of the Government</b>	<ol style="list-style-type: none"> <li>1. Contracts, contract modifications, or change orders: <ul style="list-style-type: none"> <li>• Statement of Work;</li> <li>• Dollar Amount of Contract;</li> <li>• Location;</li> <li>• Source of Funds;</li> <li>• Parties to the Contract; and</li> <li>• Signature Page [Signature of All Parties].</li> </ul> </li> <li>2. Documentation of troop labor hours;</li> <li>3. Approved Work Order; or Purchase Order; or Reimbursable Agreement; or Military Interdepartmental Purchase Requests</li> </ol>
<b>Payment Submitted</b>	<ol style="list-style-type: none"> <li>1. Approved the last invoice reflecting the total amount submitted for payment and received to date;</li> <li>2. Evidence of in-house construction costs, including labor;</li> <li>3. Indirect Costs incurred internally by the gaining activity that relate to the new acquisition or capital improvement.</li> </ol>
<b>Acceptance/Receipt (Acceptance of New Acquisitions and receipt or requisition of equipment items)</b>	<ol style="list-style-type: none"> <li>1. <a href="#">DD Form 250</a>, Material Inspection and Receiving Report;</li> <li>2. General Services Administration (<a href="#">GSA</a>) <a href="#">1334</a>, Request for Transfer of Excess Real and Related Personal Property;</li> <li>3. Executed acquisition document and appraisal results for the donated assets;</li> <li>4. Signed lease for leased property;</li> <li>5. Executed reversionary document;</li> <li>6. Transfer letter and documents for transferred assets to include <a href="#">DD Form 1348-1A</a>, Issue Release/Receipt Document, and equivalent Electronic Turn-In Document;</li> <li>7. Receiving report, e.g., iRAPT receiving report;</li> <li>8. <a href="#">DD Form 1149</a>, Requisition and Invoice/Shipping Document;</li> <li>9. <a href="#">DD Form 1150</a>, Request for Issue/Transfer/Turn-In;</li> <li>10. <a href="#">DD Form 1155</a>, Order for Supplies or Services.</li> </ol>
<b>Project Closeout</b>	Final DD Form 1354 with associated source documentation retained by the responsible party.
<b>Disposals or Retirements</b>	<ol style="list-style-type: none"> <li>1. Declaration of excess' document;</li> <li>2. Approval documentation;</li> <li>3. Original acquisition documents;</li> <li>4. Legal instruments (such as a contract) to indicate a legal obligation to dispose of an asset;</li> <li>5. Document showing the disposal start date and disposal end date;</li> <li>6. Receipt documentation;</li> <li>7. Transfer documents for transferred assets or as stated.</li> </ol>

### 3.3 Physical Inventories of General Equipment

3.3.1. DoD Components must perform periodic physical inventories of general equipment in accordance with DoDI 5000.64.

3.3.2. All DoD Components (i.e., Military Departments, Washington Headquarters Service, and Other Defense Organizations) must reconcile their APSR to their financial statements (or to their trial balance if financial statements are not required to be prepared) on a quarterly basis.

3.3.3. While conducting physical inventories, DoD components should consider if any general equipment shows potential evidence of impairment and if any general equipment does not appear to be in use, where it has not been used for a significant period of time.

### 3.4 Deferred Maintenance and Repairs (DM&R)

3.4.1. DM&R are maintenance and repairs that were not performed when they should have been or were scheduled to be, and which are put off or delayed to a future period.

3.4.2. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Maintenance and repairs include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities aimed at expanding the capacity or capability of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

3.4.3. Amounts for DM&R may be measured using condition assessment surveys, life-cycle cost forecasts, or other similar methods.

3.4.3.1. Condition assessment surveys are periodic physical inspections of general equipment to determine their current condition and estimated cost to correct any deficiencies. DoD Components must assess the condition of general equipment assets as a function of their day-to-day operations and document condition through periodic assertion/assessment statements provided by their field office managers. DoD Components also need to evaluate the costs and benefits of doing condition assessment surveys. Such things as cycling the assessments on a rotating basis, the frequency of assessments (i.e., every three or five years), and the criteria and methodology used for making such assessments need to be considered.

3.4.3.2. Life-cycle costing is an acquisition or procurement technique that considers operating, maintenance, and other costs in addition to the acquisition cost of assets. Since it results in forecasts of maintenance and repair expenses, these forecasts may serve as a basis against which to compare actual maintenance and repair expenses to arrive at an estimate of DM&R.

3.4.4. DoD Components must determine what condition standards are acceptable and which DM&R measurement methods to apply. Once determined, condition standards and measurement methods must be consistently applied unless the DoD Component determines that changes are necessary. Changes deemed necessary by the DoD Component must be accompanied by an explanation documenting the rationale for the change(s) and any related impact the change(s) will have on the DM&R estimates.

3.4.5. DM&R must be measured for capitalized and non-capitalized general equipment and fully depreciated general equipment. In addition, DM&R must be measured for inactive and/or excess general equipment to the extent that it is required to maintain the general equipment in acceptable condition (e.g., to comply with existing laws and regulations or to preserve value pending disposal). In addition, DM&R must measure funded maintenance and repairs that have been delayed for a future period as well as unfunded maintenance and repairs.

3.4.6. DoD Components who report general equipment must report material amounts of DM&R as RSI to the financial statements (see Volume 6B, Chapter 12). At a minimum, this information must be presented as RSI for all general equipment:

3.4.6.1. Estimates of the beginning and ending balances of DM&R for each major category of equipment;

3.4.6.2. A summary of the DoD Component's maintenance and repairs policies and a brief description of how they are applied (i.e., method of measuring DM&R);

3.4.6.3. Policies for ranking and prioritizing maintenance and repair activities;

3.4.6.4. Factors the DoD Components consider in determining acceptable condition standards;

3.4.6.5. Whether DM&R relates solely to capitalized general equipment or also to amounts relating to non-capitalized or fully depreciated general equipment;

3.4.6.6. Capitalized general equipment for which the DoD Component does not measure and/or report DM&R and the rationale for the exclusion; and

3.4.6.7. If applicable, explanation of any significant changes to DM&R amounts from the prior year, and policies and factors subject to the reporting requirements established in subparagraphs 3.2 and 3.5.

3.4.7. Maintenance and repair of weapon systems is accomplished by two different, yet complementary components—depot level maintenance and repair activities and field level maintenance and repair activities. The term “field level maintenance and repair” includes all non-depot level maintenance and repair activities (e.g., organizational, intermediate, and regional). DoD Components must determine whether the year-end amounts of field level DM&R on weapon systems are material when compared to their component depot level amounts

of DM&R. This determination must be updated and documented on an annual basis. Material amounts of weapon systems field-level DM&R should be reported in the financial statements.

3.4.7.1. Depot-level maintenance and repair includes: major repair, overhaul, or complete rebuilding of weapon systems, end items, parts, assemblies, and subassemblies; manufacture of parts; technical assistance; and testing. Material amounts of depot-level deferred maintenance due to the unavailability of funding and/or capacity constraints have been historically reported through the DoD's budget process by the Military Departments. Such amounts are provided annually to Congress in the President's Budget submission and satisfy the intent of the federal accounting standard definition. The same budget submission amounts must be reported in the financial statements of the Military Departments.

3.4.7.2. Field-level maintenance and repair comprises maintenance and repair activities at lower organizational levels than depot levels. The Military Departments may or may not separate this level of maintenance and repair into intermediate and organizational maintenance and repair activities when describing the field-level maintenance and repair structure and capability.

3.4.7.3. Intermediate field level maintenance and repair includes limited repair of commodity-oriented components and end items; job shop, bay, and production line operations for special mission requirements; repair of printed circuit boards; software maintenance; and fabrication or manufacture of repair parts, assemblies, and components. The intermediate maintenance and repair mission is to sustain the combat readiness and mission capability of supported activities by providing quality and timely materiel support at the nearest location with the lowest practical resource expenditure.

3.4.7.4. Organizational field level maintenance and repair is normally performed by an operating unit on a day-to-day basis in support of its own operations. The organizational maintenance and repair mission is to maintain assigned equipment by performing functions such as inspections, servicing, preventive maintenance, and corrective maintenance.

### 3.5 Disclosure Requirements

3.5.1. DoD Components with general equipment **must** reference a note on the Balance Sheet that discloses information about the reported general equipment assets. Note 1 of the financial statements must include a disclosure related to the DoD Component's general equipment reporting accounting policy. DoD Components must state that they are financially reporting property that they have accountability for according to DoDI 5000.64. Additionally, DoD Components must disclose that they may use assets to complete their mission **that** are financially reported by another DoD Component. See Volume 6B, Chapter 10, for the specific **disclosure** requirements.

3.5.2. DoD Components must disclose in the notes to the financial statements those instances where they are using general equipment provided by a host nation/foreign government without reimbursement by DoD to the host nation/foreign government, as applicable, that:

3.5.2.1. The DoD Component is utilizing general equipment provided by and owned by a host nation/foreign government in its operations outside of the United States without reimbursement by DoD to the host nation/foreign government, and there are no amounts recorded in the financial statements related to these assets.

3.5.2.2. The general nature of the agreement with the host nation/foreign government is not intended or recommended to disclose the geographic location of the foreign government/host nation.

\*Annex 1      Construction in Progress (CIP) Process

A1.1      Cost of Constructed Equipment

The costs of constructed equipment are all the costs incurred to bring the item(s) to a form and condition suitable for its intended use, including labor, materials, and indirect costs. Table A1-1 describes the types of costs accumulated for construction items.

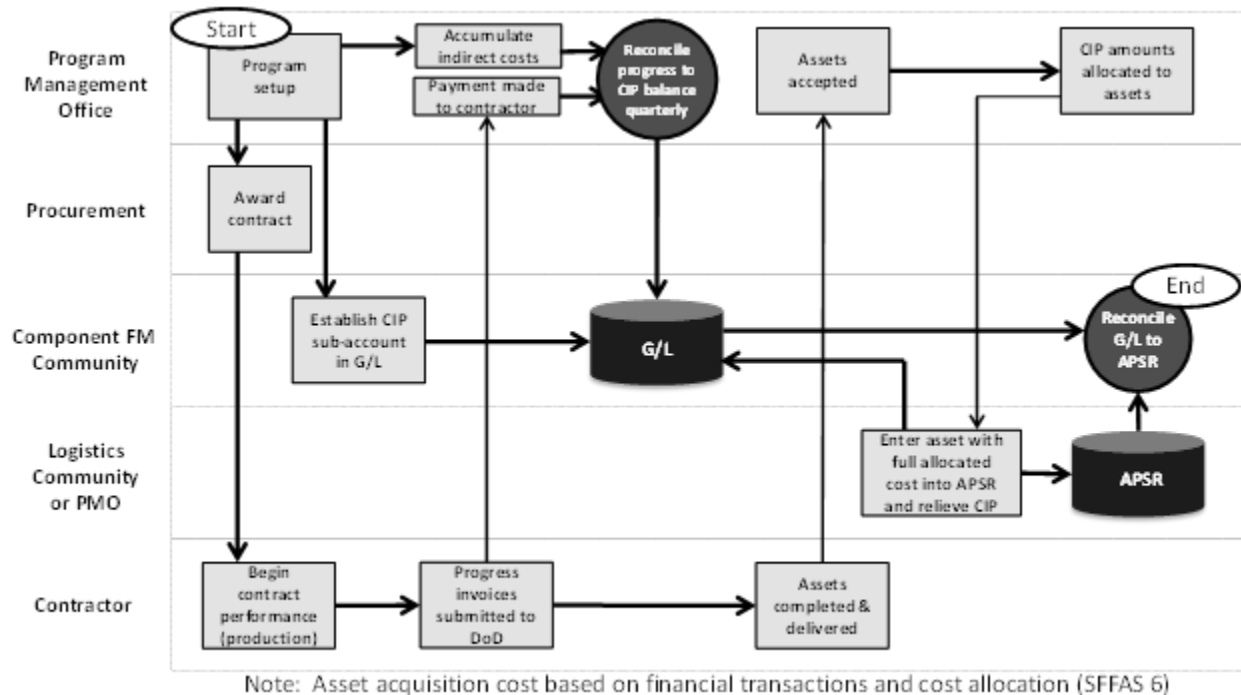
Table A1-1      Construction-in-Progress Costs  
 (Costs accumulated for construction items)

Cost Type	Description
Cost of Contract Work	Amounts paid for work performed under contract, as well as any incentive fees paid to contractors to reward performance goals.
Direct Cost of Labor	The direct cost of labor and all associated fringe benefits in connection with the construction project. Includes both military and civilian labor costs.
Direct Cost of Materials and Supplies	The purchase price, the cost of inspection, and loading are assumed by the carrier.
Cost of Supervision, Inspection, and Overhead	Support associated with the administration of contracts for facility projects. May include contract award, payments, inspections, material testing, and other actions taken during contract execution.
Cost of Transportation	Amounts paid for transportation of workers, materials, and supplies in connection with the construction project.
Cost of Handling and Storage	Amount paid for packaging and storing the materials and supplies, and equipment used in the construction project.
Cost of Legal and Recording fees	Legal fees incurred to bring the asset to its intended use (e.g., title or recording fees).
Cost of Architecture and Engineering Studies	Amounts paid for engineering, architectural, and other outside services for designs, plans, specifications, and surveys.
Cost of Government-Furnished Property	An appropriate share of the cost of the government-furnished equipment and material, and facilities used in construction work.
Cost of Donated Assets	The fair value of facilities and equipment donated to the government, as authorized by special legislation, in connection with the construction project.

A1.2 Recognition throughout the CIP Process

DoD funding components report and record the costs of constructed general equipment in the CIP account after project design authorization (Milestone C in the Middle Tier of Acquisition and Major Capability Acquisition pathways of the Adaptive Acquisition Framework), until the general equipment is complete and placed into service, at which time they transfer the balance to the general equipment account. See Figure A1-1 for the typical steps involved in the CIP process for construction to completion of the asset.

Figure A1-1 CIP Process Flow



A1.2.1. Advance Payments, as defined in FAR 32.202-2, are recorded in an advance account (USSGL 141000, “Advances and Prepayments”) until the end items are delivered. All other contract financing payments must be recorded as CIP. DoD Components must perform a periodic reconciliation (at least quarterly) between amounts recorded in CIP and the actual progress on the contract. Generally, the DoD Contracting Officer’s Representative performs the reconciliation, but may require working with the contractor to complete the reconciliation. DoD Components must report costs incurred that exceed finance payments as a liability. Advances and Prepayments are discussed in Chapter 5, “Advances and Prepayments”.

A1.2.2. DoD Components must write acquisition programs or acquisition contracts to reflect the general equipment items being manufactured or constructed. To effectively trace commitments, obligations, and expenditures to the general equipment recorded in the DoD Component’s accounting records, the contract must align its level of detail with the level at which items will be delivered, recorded in the accounting records, and managed. As defined in DFARS Subpart 204.71, the Uniform Contract Line Item Numbering System provides specific

instructions for the composition of the contract line item numbers (CLINs) and accounting classification reference numbers, which ensure funding citations are appropriately designated for items and services being acquired. Examples of cost types that may be included in a contract and whether those costs would be capitalized or expensed are provided in Table A1-2.

Table A1-2 Examples of Cost Types and Accounting Treatment

Cost Type	Accounting Treatment
Air Vehicle	<input type="checkbox"/> Capitalize the cost if the full cost is greater than the capitalization threshold and <b>has</b> a useful life of two years or more <input type="checkbox"/> Expense the cost if the full cost is less than the capitalization threshold
Research, Development, Test and Evaluation (RDT&E)	<input type="checkbox"/> Expense costs*
Acquired Data	<input type="checkbox"/> Expense costs
Support Equipment	<input type="checkbox"/> Capitalize the cost if the full cost is greater than the capitalization threshold and <b>has</b> a useful life of two years or more <input type="checkbox"/> Expense the cost if the full cost is less than the capitalization threshold
Initial Spares and Repair Parts	<input type="checkbox"/> Report as Inventory for WCF activities or Operating Materials and Supplies for general fund activities in accordance with Chapter 4
*RDT&E costs, which are typically expensed, will be capitalized if they are associated with the production of functional end items that will be placed in service or have alternative future uses.	

A1.2.3. A CIP account will be created following the decision to proceed with an acquisition program granted at Milestone C (design authorization) as described in [DoDI 5000.02](#) and the successful completion of the funding authorization document. When a DoD entity is constructing an item for another DoD entity on a cost reimbursable basis, the constructing entity must accumulate all costs since project inception in a CIP account until the costs are billed to the funding entity.

A1.2.4. Each approved acquisition project must receive a service unique project number assigned by DoD Components when they create the CIP account to accumulate costs. When multiple entities perform portions of CIP for the same construction project, all phases of the construction project must use the same project number regardless of the performing entity.

A1.2.5. The funding entity will accumulate all costs for capitalizing a construction project in the CIP account. A reasonable allocation methodology must assign project costs (including non-recurring costs) to the end items that the DoD Component receives, accepts, and places into service. **Indirect project costs include construction administration, legal fees, and various office costs that relate to projects under development or construction.** DoD Components must allocate any indirect project costs across CIP accounts periodically as incurred, and no later

than the date they place the items in service, based on the direct cost of each constructed item as a percentage of the total direct cost of all constructed items in the project. Thus, **DoD Components** can adequately capture and report the full cost of constructed items. [Chapter 19](#) addresses allocation and cost identification.

**A1.2.6.** The DoD entity constructing the item must continue to report CIP on *its* financial statements until the accountable DoD Component or its agent accepts the constructed item. The minimum information associated with the CIP amount reported for financial statement preparation purposes must include the DoD Component's project number, project fund code(s), project detail cost, project detail organization code(s), and programmed amount. For a specified project and for the purpose of an audit trail of the CIP account, the Government's project construction agent and the DoD constructing entity must retain the supporting documentation for their respective portion(s) of the project to which they have fiscal accountability. Upon acceptance of constructed items, the accountable property officer must receive the legible copies of auditable supporting documentation along with their location from the Government's project construction agent and the DoD constructing entity. The accountable property officer must ensure that they retain the documentation in accordance with applicable laws, regulations, and instructions.

**A1.2.7.** When the DoD Component accepts constructed items, it must relieve the costs accumulated in the CIP account. To ensure that **DoD Components** record constructed items at full cost, they must make the recorded cost of the item(s) accepted equal the sum of all the costs incurred to bring the item(s) to a form and condition suitable for their intended use. These include costs incurred after project design authorization for actual construction, including labor, materials, and overhead costs. Refer to Annex 1 for a list and description of cost types that they should accumulate for constructed items.

**A1.2.8.** If a construction project is cancelled, the DoD Component must expense each cost that it has accumulated in the associated CIP account. When the DoD Component cancels or decreases the scope of a portion of a project, the **DoD Component** must expense the cost directly associated with that portion of the project and an allocated portion of the common cost in the CIP. All **DoD Components** must review all projects deferred for more than two years for continuance or cancellation during the review cycle.

**Annex 2** Illustrative Examples and Journal Entries Relating to Financial Reporting Responsibilities for General Equipment

**A2.1** Construction-In-Progress (CIP) Example

The Air Force, Missile Defense Agency (MDA), and National Geospatial-Intelligence Agency (NGA) fund the construction of a satellite to be launched into space. Each entity will report its portion of CIP in its CIP accounts until a depreciable asset is recognized. The Air Force is the accountable entity under DoD Instruction (DoDI) 5000.64 once the asset is placed in service. When the satellite is placed into service, all funding entities will recognize the capitalized costs of the satellite and transfer the capitalized costs to their Equipment account. MDA and NGA will then transfer the costs in their Equipment account to the Air Force’s Equipment account. The Air Force will subsequently record depreciation for the full cost of the asset.

Table A2-1 Liquidation of CIP

Table A2-1 illustrates the general ledger (G/L) entries that are required to liquidate CIP and recognize a depreciable asset.

Funding Entity	G/L Entry – Liquidation of CIP by the Entity Funding Construction to Place the Asset in Service (Transaction Code D510)
	Debit 175000 Equipment Credit 172000 Construction-in-Progress

**A2.2** In-Service Assets (including weapon systems and Government-Furnished Property)

The following are three illustrative examples of In-Service Assets:

**A2.2.1.** The Army is conducting an inventory of capital assets and has identified a Humvee that was not previously reported on its Accountable Property System of Record (APSR). They are unable to locate any procurement documentation for the asset, but the Army has been using and maintaining the asset and will assume accountability for the asset in accordance with DoDI 5000.64. Because the Army has accountability for the asset, it will also be responsible for the financial reporting of the asset.

**A2.2.2.** The Defense Health Program (DHP) funds the acquisition of a magnetic resonance imaging (MRI) machine and records it in its APSR as the accountable entity in accordance with DoDI 5000.64. The MRI machine will be located at a Veterans Affairs (VA) hospital, but will remain in DHP’s APSR. DHP will have financial reporting responsibility for the asset. To facilitate an information request from an auditor of the VA or DHP on the MRI machine, the VA and DHP must have processes in place that will allow them to easily demonstrate the designation of the responsible reporting entity based on the policy in Chapter 25.

**A2.2.3.** The US Special Operations Command (USSOCOM) funds the acquisition of a mine resistant ambush protected (MRAP) vehicle and records it in its APSR as the accountable

entity in accordance with DoDI 5000.64. The MRAP is later issued to an Army special operations unit, where it is added to the Army’s APSR. USSOCOM transfers accountability and financial reporting responsibility to the Army at the time of issuance. All required financial information and supporting documentation must be provided to the Army to support its financial reporting.

Table A2-2 Transfer of In-Service General Equipment Reporting Responsibility

Table A2-2 illustrates the G/L entries to be recorded if a transfer is required to implement or if a transfer is needed after an asset is placed in service.

Entity Transferring Out	G/L Entry Upon Transfer Out to New Reporting Entity (Transaction Code E510)
	Debit 573000 Financing Sources Transferred Out Without Reimbursement Debit 175900 Accumulated Depreciation on Equipment Credit 175000 Equipment
Entity Transferring In	G/L Entry for New Reporting Entity Upon Transfer In (Transaction Code E606)
	Debit 175000 Equipment Credit 175900 Accumulated Depreciation on Equipment Credit 572000 Financing Sources Transferred In Without Reimbursement

**A2.3 In-Service Capital Improvements**

Once capital improvements are placed in service, they become a part of the total recorded value of the depreciable asset (regardless of whether or not the asset is tracked or depreciated separately from the base asset). The following are two illustrative examples of capital improvements:

A2.3.1. The Air Force provides USSOCOM a C-130 for use in its operations. USSOCOM makes an improvement to convert it to an AC-130 aircraft. Because the Air Force is responsible for the financial reporting of the base asset, it is also responsible for the financial reporting of any capital improvements to the base asset.

A2.3.2. An F-18E Super Hornet (i.e., the base asset) that was the financial reporting responsibility of the Navy received a capital improvement package that significantly increased its capacity to perform its mission. The improvement package was added to a Navy asset, so the Navy is responsible for the financial reporting of the capital improvement.

**VOLUME 4, CHAPTER 26: “ACCOUNTING FOR LEASES”****SUMMARY OF MAJOR CHANGES**

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

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

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

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

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

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Policy Memo	The Deputy Chief Financial Officer memorandum, “Implementation of Federal Financial Accounting Standard 54, Leases (FPM20-03),” dated September 25, 2020, was incorporated into this chapter and cancelled.	Cancellation
Various	The Federal Accounting Standards Advisory Board issued new accounting standards, technical releases, and a technical bulletin for leases, which required substantive changes to the policy contained in this chapter.	Revision
1.0	Updated the General section to incorporate the Statement of Federal Financial Accounting Standards 54.	Revision
2.0	Added lease-related definitions.	Addition
3.0	Revised the Accounting for Leases section.	Revision
3.4 (previous version)	Removed the Deferred Maintenance and Repair Costs section as these costs no longer apply to leases.	Deletion
4.1	Added reference for Standard Financial Information Structure webpage for United States Standard General Ledger accounts and transaction illustrations.	Addition
4.6	Added list of required supporting documentation.	Addition
Table 26-1	Added Capitalization Threshold table.	Addition

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## CHAPTER 26

ACCOUNTING FOR LEASES

## \*1.0 GENERAL

## 1.1 Purpose

This chapter prescribes the Department of Defense (DoD) accounting policy for leases. This chapter addresses lease accounting for both DoD lessees and lessors. The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards 54 (SFFAS 54) to update the financial reporting policy for Federal Agencies, including DoD. This chapter does not apply to leases (licenses) of internal use software (see Chapter 27) or leases of assets under construction. Budgetary accounting treatment of capital leases and lease purchases are found in the Office of Management and Budget Circular A-11, "Preparation, Submission, and Execution of the Budget," Appendix B, and does not fall under the scope of this chapter.

## 1.2 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.2.1. FASAB Statement of Federal Financial Accounting Standards (SFFAS 1), "Accounting for Selected Assets and Liabilities;"

1.2.2. FASAB SFFAS 4, "Managerial Cost Accounting Standards and Concepts;"

1.2.3. FASAB SFFAS 5, "Accounting for Liabilities of The Federal Government;"

1.2.4. FASAB SFFAS 6, "Accounting for Property, Plant, and Equipment;"

1.2.5. FASAB SFFAS 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting;"

1.2.6. FASAB SFFAS 21, "Statement of Federal Financial Accounting Standards 21: Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources;"

1.2.7. FASAB SFFAS 44, "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use;"

1.2.8. FASAB SFFAS 47, "Reporting Entity;"

1.2.9. FASAB SFFAS 54, "Leases;"

- 1.2.10. FASAB [SFFAS 58](#), “Deferral of the Effective Date of SFFAS 54, Leases;”
- 1.2.11. FASAB [SFFAS 60](#), “Omnibus Amendments 2021: Leases-Related Topics;”
- 1.2.12. FASAB [SFFAS 61](#), “Omnibus Amendments 2023: Leases-Related Topics II;”
- 1.2.13. FASAB [SFFAS 62](#), “Transitional Amendment to SFFAS 54;”
- 1.2.14. FASAB Technical Release [\(TR\) 20](#), “Implementation Guidance for Leases;”
- 1.2.15. FASAB [TR 21](#), “Omnibus Technical Release Amendments 2022: Conforming Amendments;”
- 1.2.16. FASAB [TR 22](#), “Leases Implementation Guidance Updates;”
- 1.2.17. FASAB [Technical Bulletin \(TB\) 2023-1](#), “Intragovernmental Leasehold Reimbursable Work Agreements;”
- 1.2.18. [DoD Directive 5110.4](#), “Washington Headquarters Services;”
- 1.2.19. [DoD Instruction \(DoDI\) 4165.14](#), “Real Property Inventory and Forecasting;” and
- 1.2.20. [DoDI 5000.64](#), “Accountability and Management of DoD Equipment and Other Accountable Property.”

## \*2.0 DEFINITIONS

2.0.1. [Consolidation Entity](#). An organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the organization: (1) is financed through taxes and other non-exchange revenues, (2) is governed by the Congress and/or the President, (3) imposes or may impose risks and rewards to the federal government, or (4) provides goods and services on a non-market basis.

2.0.2. [Embedded Lease](#). A contract or agreement that contains both a lease element and a non-lease element, or a lease that contains multiple underlying assets. The lease element in the contract or agreement is an embedded lease.

2.0.3. [Initial Direct Lease Costs](#). Initial direct lease costs are costs that are directly attributable to negotiating and arranging a lease or portfolio of leases that would not have been incurred without entering into the lease.

2.0.4. [Intragovernmental Lease](#). An intragovernmental lease is a contract or agreement occurring within a consolidation entity (e.g., between two or more DoD Components) or between two or more consolidation entities (e.g., between DoD and one or more federal agencies), whereby one entity (lessor) conveys the right to control the use of Property, Plant, & Equipment (PP&E)

(the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

2.0.5. Intragovernmental Leasehold Reimbursable Work Agreement. An agreement whereby one federal entity (the provider-lessor) acquires, constructs, improves, and/or alters an underlying asset that is or will be leased to another federal entity (the customer-lessee), and the customer-lessee agrees to reimburse the provider-lessor for direct and indirect costs for the acquisition, construction, improvement, and/or alteration.

2.0.6. Lease. A lease is a contract or agreement whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

2.0.7. Lease Asset. An expression of the economic benefit that the lessee expects to receive from the right to control the underlying asset.

2.0.8. Lease Concessions. Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. For example, lease concessions may include rent holidays/free rent periods or reduced rents.

2.0.9. Lease Incentives. Lease incentives include lessor payments made to, or on behalf of, the lessee to entice the lessee to sign a lease. Lease incentives may include up-front cash payments to the lessee; for example, moving costs, termination fees to the lessee's prior lessor, or the lessor's assumption of the lessee's lease obligation under a different lease with another lessor.

2.0.10. Lease-Leaseback Transactions. An asset is leased by one party (first party) to another party and then leased back to the first party.

2.0.11. Lease Liability. An expression of the amount to be paid by the lessee for the right to control the underlying asset.

2.0.12. Lease Term. The lease term is the non-cancelable period plus certain periods subject to options to extend or terminate the lease. The noncancelable period is the shorter of the (1) period identified in the lease contract or agreement that precedes any option to extend the lease or (2) the period identified in the lease contract or agreement that precedes the first option to terminate the lease.

2.0.13. Leasehold Improvements. Leasehold improvements are additions, alterations, remodeling, renovations, or other changes to leased property that either extend the useful life of the existing property or enlarge or improve its capacity and are paid for (financed) by the lessee. Leasehold improvements may include easements and rights-of-way, buildings, structures, and linear structures utilized by the United States Federal Government.

2.0.14. Lessee. Refers to the entity receiving the right to control the use of PP&E from another entity (lessor) through a contract or agreement that qualifies as a lease.

2.0.15. Lessor. The entity that conveys the right to control the use of PP&E (underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

2.0.16. Lessor Improvements. Lessor improvements are additions, alterations, remodeling, renovations, or other changes to the leased property that either extend the useful life of the existing property or enlarge or improve its capacity and are paid for (financed) by the lessor rather than by the lessee.

2.0.17. Materiality. Materiality, as defined by the SFFAS 1, is the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

2.0.18. Probable. That which can reasonably be expected or is believed to be more likely than not (greater than 50% probability) based on available evidence or logic.

2.0.19. Right to Control. To determine whether a contract or agreement conveys the right to control the use of the underlying asset, assess whether the lessee receives both: (1) the right to obtain, and (2) the right to control access to the economic benefits or services from the use of the underlying asset as specified in the contract or agreement.

2.0.20. Sale-Leaseback. The sale of an underlying asset by the owner and a lease of the property back to the seller (the original owner).

2.0.21. Short-Term Lease. A short-term lease is a non-intragovernmental lease with a lease term of 24 months or less.

2.0.22. Sublease. A lease involves three parties – the original lessor, the original lessee (who is also the lessor in the sublease), and the new lessee.

2.0.23. Variable Payments. A payment where the amount is not fixed. One type may include payments based on an index or rate (e.g., Consumer Price Index), the future performance of the lessee (e.g., percentage of sales), or usage of the underlying asset.

### \*3.0 ACCOUNTING FOR LEASES

#### 3.1 Short-Term Leases (Non-Intragovernmental)

3.1.1. Lessee Treatment of Short-Term Leases. A DoD Component as the lessee must recognize short-term lease payments as an expense based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. The DoD Component (lessee) must recognize an asset if payments are made in advance of the reporting period to which they relate or liability for rent due and unpaid at the end of the reporting period to which they relate. Rental increases, rental decreases, lease incentives, and lease concessions must be recognized when incurred as increases/reductions to lease rental expenses.

3.1.2. Lessor Treatment of Short-Term Leases. A DoD Component as the lessor must recognize short-term lease payments as revenue based on the payment provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. The DoD Component (lessor) must recognize a liability if payments are received in advance of the reporting period to which they relate or an asset for rent due and to be received after the reporting period to which they relate. Rental increases, rental decreases, lease incentives, and lease concessions must be recognized when incurred as increases/reductions to lease rental income.

### 3.2 Contracts or Agreements That Transfer Ownership

A contract or agreement that (a) transfers ownership of the underlying asset to a lessee by the end of the contract or agreement and (b) does not contain options to terminate, but that may contain availability of funds or cancellation clause that is not probable of being exercised, must be reported as a purchase of that asset by a lessee or a financed sale of the asset by the lessor. For this purpose, options to purchase the underlying asset prior to the transfer of ownership are not considered options to terminate.

### 3.3 Intragovernmental Leases

3.3.1. Any lease, regardless of the lease term, that meets the definition of an intragovernmental lease must follow the accounting and disclosure guidance described in subparagraphs 3.3.2 – 3.3.3.

#### 3.3.2. Lessee Treatment of Intragovernmental Leases

3.3.2.1. Lease Payments. A DoD Component as the lessee must recognize lease payments, including lease-related operating costs (for example, maintenance, utilities, and taxes) paid to the lessor, as expenses based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. Prepaid rent or payable for rent due must be recognized as an asset or liability, respectively, and an expense must be recognized in the appropriate reporting period based on the specifics of the lease provisions.

3.3.2.2. Leasehold Improvements. Leasehold improvements that meet or exceed the capitalization threshold and are placed in service at or after the beginning of the lease term must be amortized over the useful life (the normal operating life in terms of utility to the lessee) of the leasehold improvement, but no longer than the expected lease term. This recognition is consistent with PP&E capital improvements outlined in SFFAS 6, paragraph 37. Refer to paragraph 3.13 for capitalization thresholds.

3.3.2.3. Disclosures. A DoD Component as the lessee must disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure): (1) a general description of significant intragovernmental leasing arrangements, including general lease terms with any applicable specific intragovernmental requirements; and (2) annual lease expense in total and by major underlying asset category.

### 3.3.3. Lessor Treatment of Intragovernmental Leases

3.3.3.1. Lease Payments. A DoD Component as the lessor must recognize lease receipts, including lease-related operating costs (for example, maintenance, utilities, or taxes) received from the lessee as income based on the provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. Rent paid in advance, or a lease receivable must be recognized as a liability or asset, respectively, and income must be recognized in the appropriate reporting period based on the specifics of the lease provisions.

3.3.3.2. Lessor Improvements. Lessor improvements, which are elements of the leased property that meet or exceed the capitalization threshold, must be capitalized, and depreciated by the lessor over their useful life. This accounting treatment aligns with the lessor's handling of PP&E and is consistent with the capital improvement guidelines outlined in SFFAS 6, paragraph 37.

3.3.3.3. Disclosures. Lessors must disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure): (1) a general description of significant leases; and (2) future lease payments that are to be received to the end of the lease term for each of the five subsequent fiscal years and in five-year increments thereafter.

### 3.3.4. Other Considerations for Lessees and Lessors

3.3.4.1. Fixed Rental Increases/Decreases. Rental increases/decreases may be fixed in the lease and take place over time (for example, be based on such factors as anticipated increases/decreases in costs or anticipated appreciation/depreciation in property values, but the amount of the increase/decrease is specified in the lease), or they may be contingent on future events.

3.3.4.2. Variable Rental Increases/Decreases. Rental increases/decreases may also be variable and based on future changes in specific economic factors on which lease payments are based, for example, future sales or usage activity levels or future inflation/deflation (tied to a specific economic indicator where the specific amount of the change is not known).

3.3.4.3. Treatment of Rental Increases/Decreases, and Lease Incentives/Concessions. Rental increases/decreases and lease incentives/concessions must be recognized by the lessee and lessor when incurred as increases/reductions to lease rental expense and income, respectively. Refer to paragraph 3.6 for lease incentives and lease concessions.

3.3.4.4. Initial Direct Lease Costs. Initial direct lease costs incurred by the lessee must be expensed when incurred. Initial direct lease costs incurred by the lessor must be expensed when incurred.

3.3.4.5. Lease terminations and modifications. Refer to paragraph 3.9.

### 3.4 Lessee Recognition, Measurement, and Disclosure for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases

3.4.1. At the commencement of the lease term, a DoD Component as the lessee must recognize a lease liability and a right-to-use lease asset (hereinafter referred to as the lease asset), for leases other than short-term leases, contracts, or agreements that transfer ownership, and intragovernmental leases, that meet the capitalization thresholds in section 3.13. For leases that do not meet the capitalization threshold, a lease expense must be recognized in the current period.

3.4.2. Lease Liability. A lessee must initially measure the lease liability at the present value of payments expected to be made during the lease term. Measurement of the lease liability must include the following if required by a lease:

3.4.2.1. Fixed payments;

3.4.2.2. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term;

3.4.2.3. Variable payments that are fixed in-substance as described in 3.4.3;

3.4.2.4. Amounts that are probable of being required to be paid by the lessee under residual value guarantees;

3.4.2.5. The exercise price of a purchase option if it is probable that the lessee will exercise that option;

3.4.2.6. Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) an availability of funds or cancellation clause;

3.4.2.7. Any lease incentives/concessions (see paragraph 3.6) receivable from the lessor; and

3.4.2.8. Any other payments to the lessor that are probable of being required based on an assessment of all relevant factors.

3.4.3. Variable payments based on the future performance of the lessee or usage of the underlying asset must not be included. Rather, these variable payments must be recognized as an expense in the reporting period in which those payments are incurred. However, any portion of these variable payments that is fixed in-substance must be included in the lease liability. An example is a lease payment based on a percentage of sales or usage but with a required minimum amount to be paid. That required minimum payment is fixed in-substance.

3.4.4. Interest Rate. The future lease payments must be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, it must be based on the

interest rate on marketable *U.S. Department of the Treasury (Treasury)* securities at the commencement of the lease term (or at the subsequent financial reporting date), with a similar maturity to the term of the lease (as determined by the Treasury).

3.4.4.1. The interest rate may be based on a recent interest rate on marketable Treasury securities or a historical average interest rate on marketable Treasury securities of similar maturity to the term of the lease, provided that the interest rate is consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

3.4.4.2. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities must be consistent from period to period.

3.4.4.3. DoD Components must not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, they must select the longest Treasury maturity. For example, if the longest Treasury maturity at the commencement of the lease term is 30 years, DoD Components must select the 30-year rate as the discount rate for a lease with a 75-year term.

3.4.4.4. In subsequent financial reporting periods, the lessee must calculate the amortization of the discount on the lease liability and recognize that amount as interest expense for the period. Any payments made must be allocated first to the accrued interest liability and then to the lease liability.

3.4.5. Remeasurement of Lease Liability. The lessee must remeasure the lease liability at subsequent financial reporting dates if one or more of the stipulated changes in subparagraphs 3.4.5.1 through 3.4.5.6 have occurred at or before that financial reporting date, based on the most recent lease contract or agreement before the changes, and if the changes individually or in the aggregate, are expected to significantly affect the amount of the lease liability since the previous measurement. Changes arising from amendments to a lease contract or agreement must be accounted for under the provisions of paragraph 3.9 for lease modifications and terminations.

3.4.5.1. There is a change in the lease term;

3.4.5.2. An assessment of all relevant factors indicates that the likelihood of a residual value guarantee being required to be paid has changed from probable to not probable or vice versa;

3.4.5.3. An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa;

3.4.5.4. There is a change in the estimated amounts for payments already included in the liability (except as provided in subparagraph 3.4.5.7);

3.4.5.5. There is a change in the interest rate the lessor charges the lessee if used as the initial discount rate; or

3.4.5.6. A contingency, upon which some or all of the variable payments that will be made over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease liability. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying asset to become fixed payments for the remainder of the lease term.

3.4.5.7. If a lease liability is remeasured for any of the changes in subparagraphs 3.4.5.1 through 3.4.5.6., the liability also must be adjusted for any change in an index or rate used to determine variable lease payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments.

3.4.5.8. The lessee also must update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the lease liability: (1) There is a change in the lease term or (2) An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa.

3.4.5.9. A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the interest rate on marketable Treasury securities.

3.4.5.10. If the discount rate is required to be updated based on the provisions in subparagraph 3.4.5.8., the discount rate must be based on the revised interest rate the lessor charges the lessee at the time the discount rate is updated. If that interest rate cannot be readily determined, the interest rate on marketable Treasury securities with a similar maturity to the term of the lease at the time the discount rate is updated must be used as described in subparagraph 3.4.4.

3.4.6. Lease Asset. A lessee must initially measure the lease asset as the sum of subparagraphs 3.4.6.1 through 3.4.6.3:

3.4.6.1. The amount of the initial measurement of the lease liability, as determined by section 3.4.2;

3.4.6.2. Lease payments made to the lessor (e.g., prepaid rents) at or before the commencement of the lease term, less any lease incentives; and

3.4.6.3. Initial direct lease costs that are necessary to place the lease asset into service.

3.4.6.4 A lease asset must be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset, except as provided in subparagraph 3.4.6.5. For example, if the useful life for the asset is five years but the lease term is 4 years, the amortization of the lease asset is 4 years. If the useful life of the asset is five years,

but the lease term is 7 years, the amortization of the lease asset is 5 years. The amortization of the lease asset must be reported as amortization expense. Refer to Chapter 25 for more information on asset useful life.

3.4.6.5. If a lease contains a purchase option that the lessee has determined is probable of being exercised, the lease asset must be amortized over the useful life of the underlying asset. However, if the underlying asset will be capitalizable and non-depreciable in the reporting period the purchase option is expected to be exercised, the lease asset must not be amortized. If the underlying asset will be non-capitalizable in the reporting period the purchase option is expected to be exercised, the lease asset must be amortized over the remaining lease term.

3.4.6.6. The lease asset generally must be adjusted by the same amount when the lease liability is remeasured. However, if this change reduces the carrying value of the lease asset to zero, any remaining amount must be reported in the statement of net cost as a gain. Changes arising from amendments to a lease contract or agreement must be accounted for under the provisions of lease terminations and modifications.

3.4.6.7. Leased assets are subject to SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use. The presence of impairment indicators to the underlying asset may result in a change in the manner or duration of use of the lessee's rights to obtain and control access to economic benefits and services derived from the underlying asset and the application of SFFAS 44. The change in the manner or duration of use of the underlying asset is an indicator that the lease asset may be impaired. If impaired, the lease asset must be reduced first for any change in the lease liability resulting from remeasurement under subparagraph 3.4.5., or terminations or modifications under paragraph 3.9. Any remaining amount must be recognized as an impairment loss. SFFAS 44 provides criteria for testing for impairment, along with recognizing, reporting, and disclosing impairment losses. This guidance must be applied to lease assets to the extent that impairment losses exceed any reduction to the lease liability and lease asset that may stem from the impairment.

3.4.7. Lease Term. The lessee's lease term includes the noncancelable period and the following periods, if applicable:

3.4.7.1. Those periods specified in the lease contract or agreement that relate to a lessee's option to extend the lease if it is probable, based on all relevant factors, that the lessee will exercise that option; and

3.4.7.2. Those periods specified in the lease contract or agreement that follow a lessee's option to terminate the lease (up until the point in time when there is another option or, if none, the end of the lease) if it is probable, based on all relevant factors, that the lessee will not exercise that option.

### 3.4.8. Disclosure Requirements for Lessees

Lessees must disclose the following regarding lease activities (which may be grouped for purposes of disclosure), other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases:

3.4.8.1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease liability are determined;

3.4.8.2. The total amount of lease assets and the related accumulated amortization, are to be disclosed separately from PP&E assets;

3.4.8.3. The amount of lease expense recognized for the reporting period for variable lease payments not previously included in the lease liability;

3.4.8.4. Principal and interest requirements to the end of the lease term, presented separately, for the lease liability for each of the five subsequent years and in five-year increments thereafter; and

3.4.8.5. The amount of the annual lease expense and the discount rate used to calculate the lease liability.

### 3.5 Lessor Recognition, Measurement, and Disclosures for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases

3.5.1. At the commencement of the lease term, a DoD Component as the lessor must recognize a lease receivable and unearned revenue, for leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases. Any initial direct lease costs incurred by the lessor must be reported as an expense of the period.

3.5.2. Lease Receivable. A lessor initially must measure the lease receivable at the present value of lease payments to be received for the lease term, reduced by any provision for uncollectible amounts. Measurement of the lease receivable must include the following types of payments that might be required by a lease:

3.5.2.1. Fixed payments;

3.5.2.2. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term;

3.5.2.3. Variable lease payments that are fixed in-substance;

3.5.2.4. Residual value guarantees that are fixed payments in-substance; and

3.5.2.5. Any lease incentives payable to the lessee.

3.5.3. Variable payments based on the future performance of the lessee or usage of the underlying asset must not be included in the measurement of the lease receivable. Rather, those payments must be recognized as revenue in the reporting period to which those payments relate. However, any portion of those variable payments that are fixed in-substance must be included in the lease receivable. For example, if a lease payment is based on a percentage of sales but has a required minimum payment, that required minimum is a fixed payment in-substance. Similarly, a residual value guarantee is an in-substance fixed payment if it stipulates the underlying asset will be sold at the end of the lease term, with the lessee assuming liability for any shortfall if the sales price is less than an agreed-upon minimum amount.

3.5.4. Amounts to be received under residual value guarantees (that are not fixed in-substance) must be recognized as a receivable and revenue when (a) a guarantee payment is required (as agreed to by the lessee and lessor) and (b) the amount can be reasonably estimated. Amounts to be received for the exercise price of a purchase option or penalty for lease termination must be recognized as a receivable and revenue when those options are exercised.

3.5.5. Interest Rate. The future lease payments to be received must be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, it must be based on the interest rate on marketable Treasury securities at the commencement of the lease term (or at the subsequent financial reporting date), with a similar maturity to the term of the lease (as determined by the U.S. Department of the Treasury).

3.5.5.1. If the interest rate is based on marketable Treasury securities, it must be consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or the interest rate on marketable Treasury securities on the subsequent financial reporting date).

3.5.5.2. The interest rate may be based on a recent interest rate on marketable Treasury securities or a historical average interest rate on marketable Treasury securities of similar maturity to the term of the lease, provided that the interest rate is consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

3.5.5.3. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities must be consistent from period to period.

3.5.5.4. DoD Components must not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, they must select the longest Treasury maturity. For example, if the longest Treasury maturity at the commencement of the lease term is 30 years, DoD Components must select the 30-year rate as the discount rate for a lease with a 75-year term.

3.5.5.5. In subsequent financial reporting periods, the lessor must calculate the amortization of the discount on the receivable and report that amount as interest revenue for the period. Any payments received must be allocated first to the accrued interest receivable and then to the lease receivable.

3.5.6. Remeasurement of Lease Receivable. The lessor must remeasure the lease receivable at subsequent financial reporting dates if one or more of the changes in subparagraphs 3.5.6.1 through 3.5.6.3 have occurred at or before that financial reporting date, based on the most recent lease contract or agreement before the changes and the changes individually or in the aggregate, are expected to significantly affect the amount of the lease receivable since the previous measurement. Changes arising from amendments to a lease contract or agreement must be accounted for under the provisions of paragraph 3.9 for lease modifications and terminations.

3.5.6.1. There is a change in the lease term;

3.5.6.2. There is a change in the interest rate the lessor charges the lessee;

3.5.6.3. A contingency, upon which some or all of the variable payments that will be received over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease receivable. For example, an event occurs that results in variable payments that are contingent on the performance or use of the underlying asset becoming fixed payments for the remainder of the lease term.

3.5.6.4. If a lease receivable is remeasured for any of the changes described in subparagraphs 3.5.6.1 through 3.5.6.3, the receivable also must be adjusted for any change in an index or rate used to determine variable lease payments if that change in the index or rate is expected to significantly affect the amount of the receivable since the previous measurement. A lease receivable is not required to be remeasured solely for a change in an index or rate used to determine variable lease payments.

3.5.6.5. The lessor also must update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the lease receivable: (1) there is a change in the lease term, or (2) there is a change in the interest rate the lessor charges the lessee.

### 3.5.7. Unearned Revenue.

3.5.7.1. A lessor must initially measure the unearned revenue to include the following: (1) the amount of the initial measurement of the lease receivable, and (2) lease payments received from the lessee at or before the commencement of the lease term that relates to future periods (for example, the final month's rent), less (3) any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term.

3.5.7.2. A lessor subsequently must amortize the unearned revenue, recognizing it as earned revenue, in a systematic and rational manner over the term of the lease. The unearned revenue generally must be adjusted using the same amount as the change resulting from the

remeasurement of the lease receivable. However, if the change reduces the carrying value of the unearned revenue to zero, any remaining amount must be reported in the statement of net cost as a loss.

3.5.8. Underlying Asset. A lessor must not derecognize the asset (PP&E) underlying the lease. A lessor must continue to apply other applicable guidance to the underlying asset, including depreciation and impairment. However, if the lease contract or agreement requires the lessee to return the asset in its original or enhanced condition, a lessor must not depreciate the asset during the lease term.

3.5.9. Lease Term. The lessor's lease term includes:

3.5.9.1. Those periods specified in the lease contract or agreement that relate to a lessor's option to extend the lease if there is significant evidence, based on all relevant factors, that the lessor will exercise that option; and

3.5.9.2. Those periods specified in the lease contract or agreement that follow a lessor's option to terminate the lease (up until the point in time when there is another option or, if none, the end of the lease) if there is significant evidence, based on all relevant factors, that the lessor will not exercise that option.

3.5.9.3. Lease term options should be considered in chronological order - with the lessee options considered first. If a determination is made that an additional period will not be added to the lease term for an option based on the likelihood criteria listed in section 3.5.9, subsequent options will not be considered.

3.5.10. Disclosures Requirements for Lessors. Lessors must disclose the following regarding lease activities (which may be grouped for purposes of disclosure), other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases:

3.5.10.1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease receivable are determined;

3.5.10.2. The carrying amount of assets on lease by major classes of assets, and the amount of related accumulated depreciation;

3.5.10.3. The total amount of revenue (for example, lease revenue, interest revenue, and any other lease-related revenue) recognized in the reporting period from leases; and

3.5.10.4. The amount of revenue recognized in the reporting period for variable lease payments and other payments not previously included in the lease receivable, including revenue related to residual value guarantees and termination penalties.

3.5.10.5. If a DoD Component's principal ongoing operations consist of leasing assets through the use of non-intragovernmental leases, the DoD Component must disclose a

schedule of future lease payments that are included in the lease receivable, showing principal and interest, for each of the five subsequent years and in five-year increments thereafter.

### 3.6 Lease Incentives and Lease Concessions

3.6.1. Lease incentives and lease concessions reduce the amount that a lessee is required to pay for a lease. For leases other than short-term leases and intragovernmental leases, lease incentives and lease concessions that provide payments to, or on behalf of, a lessee at or before the commencement of a lease term are included in the initial measurement by directly reducing the amount of the lease asset.

3.6.2. Lease incentive and lease concession payments to be provided after the commencement of the lease term must be accounted for by lessees and lessors as reductions of lease payments for the periods in which the incentive or concession payments will be provided. Those payments must be measured by lessees consistently with the lessee's lease liability and by lessors consistently with the lessor's lease receivable. Accordingly, lease incentive and lease concession payments to be provided after the commencement of the lease term are included in the initial measurement and any remeasurement if they are fixed or fixed in-substance, whereas variable or contingent lease incentive or lease concession payments are not included in the initial measurement.

3.6.3. Lessor improvements that are made to or on behalf of the lessee without additional cost to the lessee must be accounted for by the lessee and the lessor consistent with other lease incentives and lease concessions. As leasehold improvements are paid for (financed) by the lessee, leasehold improvements would not be considered a lease incentive or concession received from the lessor.

### 3.7 Contracts or Agreements With Multiple Elements

3.7.1. Lessors and lessees may enter into contracts or agreements that contain multiple elements, such as a contract or agreement that contains both a lease element and a non-lease element, or a lease that contains multiple underlying assets.

3.7.2. If a lessor or lessee enters into a contract or agreement that contains both a lease (such as the right to use a building) and non-lease elements (such as maintenance services for the building), the lease and non-lease elements must be accounted for as separate contracts or agreements unless the contract or agreement meets the exception in subparagraph 3.7.5.

3.7.3. If a lease involves multiple underlying assets and the assets have different lease terms, the lessor and lessee must account for each underlying asset as a separate lease element. The provisions of paragraph 3.7 must be applied unless the contract or agreement meets an exception in subparagraph 3.7.5.

3.7.4. To allocate the contract or agreement price to the different elements, lessors and lessees must first use any prices for individual elements that are included in the contract or agreement, as long as the price allocation does not appear to be unreasonable based on the terms

of the contract or agreement and professional judgment, maximizing the use of observable information, for example, using readily available observable stand-alone prices. Stand-alone prices are those that would be paid or received if the same or similar assets were leased individually or if the same or similar non-lease elements (such as services) were contracted individually. Some contracts or agreements provide discounts for bundling multiple leases or lease and non-lease elements together in one contract or agreement. These discounts may be considered when determining whether individual element prices do not appear to be unreasonable. For example, if the individual element prices are each discounted by the same percentage from normal market prices, those element prices would not be considered unreasonable.

3.7.5. If a contract or agreement does not include prices for individual elements or if any of those prices appear to be unreasonable, lessors and lessees must use professional judgment to determine their best estimate for allocating the contract or agreement price to those elements, maximizing the use of observable information. If it is not practicable to determine the best estimate for price allocation for some or all elements in a contract or agreement, those elements must be accounted for as a single lease unit.

3.7.6. If multiple elements are accounted for as a single lease unit, the accounting for that unit must be based on the primary lease element within that unit. For example, the primary lease element's lease term must be used for the unit if the lease elements have different lease terms.

### 3.8 Contract or Agreement Combinations

3.8.1. Contracts or agreements that are entered into at or near the same time with the same counterparty must be considered to be part of the same lease contract or agreement if either of the following criteria is met: (1) the contracts or agreements are negotiated as a package with a single objective; and (2) the amount of consideration to be paid in one contract or agreement depends on the price or performance of the other contract or agreement.

3.8.2. If multiple contracts or agreements are determined to be part of the same lease contract or agreement, that contract or agreement must be evaluated in accordance with the guidance for contracts or agreements with multiple elements as described in paragraph 3.7.

### 3.9 Lease Terminations and Modifications

3.9.1. The provisions of a lease contract or agreement may be amended while the contract or agreement is in effect. Examples of amendments to lease contracts or agreements include changing the contract or agreement price, lengthening, or shortening the lease term, and adding or removing an underlying asset. An amendment must be considered a lease modification unless the lessee's right to use the underlying asset decreases, in which case the amendment must be considered a partial or full lease termination. By contrast, exercising an existing option, such as an option to extend or terminate the lease, is subject to the guidance for remeasurement.

3.9.2. Lease Terminations. The lessee and lessor must account for an amendment during the reporting period resulting in a decrease in the lessee's right to use the underlying asset (for

example, the lease term is shortened, or the number of underlying assets is reduced) as a partial or full lease termination.

3.9.2.1. Lessee Treatment of Lease Terminations. A lessee generally must account for the partial or full lease termination by reducing the carrying values of the lease asset and lease liability and recognizing a gain or loss for the difference. However, if the lease is terminated because of the lessee purchasing the underlying asset from the lessor, the lease asset must be reclassified to the appropriate class of owned asset.

3.9.2.2. Lessor Treatment of Lease Terminations. A lessor must account for the full or partial termination of a lease by reducing the carrying values of the lease receivable and related unearned revenue and recognizing a gain or loss for the difference. However, if the lease is terminated because of the lessee purchasing an underlying asset from the lessor, the carrying value of the underlying asset also must be derecognized and included in the calculation of any resulting gain or loss.

3.9.3. Lease Modifications. The lessee and lessor must account for an amendment during the reporting period resulting in a modification to a lease contract or agreement as a separate lease (that is, separate from the most recent lease contract or agreement before the modification) if both of the following conditions are present: (1) the lease modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in the original lease contract or agreement; and (2) the increase in lease payments for the additional lease asset does not appear to be unreasonable based on (a) the terms of the amended lease contract or agreement and (b) professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).

3.9.3.1. Lessee Treatment of Lease Modifications. Unless a modification is reported as a separate lease, a lessee must account for a lease modification by remeasuring the lease liability. The lease asset must be adjusted by the difference between the remeasured liability and the liability immediately before the lease modification. However, if the change reduces the carrying value of the lease asset to zero, any remaining amount must be reported in the statement of net cost as a gain.

3.9.3.2. Lessor Treatment of Lease Modifications. Unless a modification is reported as a separate lease, a lessor must account for a lease modification by remeasuring the lease receivable. The unearned revenue must be adjusted by the difference between the remeasured receivable and the receivable immediately before the lease modification. However, to the extent the change relates to payments for the current period, the change must be recognized as revenue or expense for the current period.

### 3.10 Subleases

3.10.1. A sublease involves three parties: the original lessor, the original lessee (who also is the lessor in the sublease), and the new lessee. The original lessor must continue to apply the general lessor guidance. The DoD Component that is the original lessee and becomes the lessor in the sublease must account for the original lease and the sublease as two separate transactions,

as a lessee and a lessor, respectively. Those two separate transactions must not be offset against one another. The new lessee must apply the general lessee guidance.

3.10.2. The original lessee (and now the lessor in a sublease) must include the sublease in its disclosure of the general description of lease arrangements. Its lessor transactions related to subleases must be disclosed separately from its lessee transactions related to the original lease.

### 3.11 Sale-Leaseback Transactions

3.11.1. Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). A sale-leaseback must include a transaction that qualifies as a sale to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include a transaction that qualifies as a sale must be accounted for as a borrowing by both the seller-lessee and the buyer-lessor. Refer to SFFAS 7, "Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting," paragraph 295 (with the public) and paragraphs 314-315 (intragovernmental).

3.11.2. The sale and lease portions of a sale-leaseback transaction must be accounted for as two separate transactions: (1) a sale transaction; and (2) a lease transaction, except that the difference between the carrying value of the capital asset that was sold and the net proceeds from the sale must be reported as unearned revenue or deferred expense to be recognized in the statement of net cost systematically and rationally over the term of the lease. However, if the lease portion of the transaction qualifies as a short-term lease, any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale must be recognized immediately.

3.11.3. A sale-leaseback transaction is considered to have off-market terms if there is a significant difference between: (a) the sales price and the estimated fair value of the asset; or (b) the present value of the contractual lease payments and the estimated present value of what the lease payments for that asset would be at a market price, whichever of the two differences is more readily determinable. The difference must be reported based on the substance of the transaction (for example, as a borrowing, a non-exchange transaction, or an advance lease payment) rather than as a part of the sales-leaseback transaction.

3.11.4. A seller-lessee must disclose the terms and conditions of sale-leaseback transactions as part of the disclosures required of a lessee. A buyer-lessor must disclose the terms and conditions as part of the disclosures required of a lessor.

### 3.12 Lease-Leaseback Transactions

In a lease-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. The leaseback may involve an additional asset (such as leasing a building that has been constructed by a developer on land owned by and leased back to a DoD Component) or only a portion of the original asset (such as leasing back only one floor of a building to the owner). A lease-leaseback transaction must be displayed in the financial statements as a net transaction. Both parties to a lease-leaseback transaction must disclose the amounts of the lease and the leaseback separately.

### 3.13 Capitalization Thresholds

A capitalization threshold is the amount that determines the financial reporting of an asset or expensing its cost. See Table 26-1 for capitalization thresholds. The applicable capitalization threshold for the underlying assets (PP&E) is applied to the lease assets. Refer to Chapters 4 and 25 for additional guidance on capitalization thresholds for real property and general equipment, respectively.

### 3.14 Intragovernmental Leasehold Reimbursable Work Agreements

3.14.1. Normally, for intragovernmental reimbursable leasehold work agreements, the customer-lessee is expected to be the predominant beneficiary of the acquisition, construction, improvement, and/or alteration to the underlying asset. The customer-lessee must recognize the leasehold improvement, which is a type of PP&E asset in accordance with subparagraphs 3.3.2.2 and paragraph 3.13.

3.14.2. The provider-lessor would not be expected to derive significant residual economic benefits or services from such reimbursable work under these types of agreements. The provider-lessor must expense the costs incurred for the reimbursable work and recognize the amounts received as reimbursement as intragovernmental revenue. The provider-lessor must account for the underlying asset other than the leasehold improvement (recognized by the customer-lessee in these types of agreements) in a manner consistent with subparagraph 3.5.8.

3.14.3. However, for acquisitions, construction, improvements, and/or alterations under an intragovernmental reimbursable leasehold work agreement with an expected useful life beyond the remaining lease term and for which the provider-lessor is expected to derive a significant level of residual economic benefits and services from the reimbursable work, the customer-lessee would not be considered the predominant beneficiary. For these types of agreements, the customer-lessee and provider-lessor must follow the guidance under this subparagraph.

3.14.3.1. Customer-Lessee. The federal entity paying for the acquisition/construction of, or improvements and/or alterations to, the underlying asset provided by the provider-lessor on a reimbursable basis.

3.14.3.1.1. Customer-lessees must initially recognize an intragovernmental reimbursable work asset for the amount payable for reimbursable work acquisition, construction, improvement, and/or alteration costs (in accordance with subparagraph 3.3.3.1).

3.14.3.1.2. Customer-lessees must amortize the intragovernmental reimbursable work asset systematically and rationally over the shorter of: (a) the remainder of the lease term; or (b) the useful life of the underlying asset acquired/constructed, or improvements/alterations thereto associated with the reimbursable work. The amortization of the intragovernmental reimbursable work asset must commence when the customer-lessee has access to economic benefits and services resulting from the reimbursable work and be reported as amortization expense.

3.14.3.1.3. Coordination with the provider-lessor on asset amount and subsequent amortization can facilitate the elimination of inter-entity balances and costs in a manner consistent with SFFAS 4 (i.e., paragraphs 108-113) when appropriate for purposes of recognizing the full cost of goods and services provided for inter-entity business-type activities, and the elimination of inter-entity balances and transactions.

3.14.3.1.4. Customer-lessees must disclose a general description of significant reimbursable work agreement activities. Such disclosures may be separate from or incorporated within the general description disclosures provided for under subparagraph 3.3.2.3.

3.14.3.2. Provider-lessor. The federal entity providing the acquisition/construction of, or improvements and/or alterations to, the underlying asset to the customer-lessee on a reimbursable basis.

3.14.3.2.1. Provider-lessors must initially recognize an intragovernmental unearned reimbursable work revenue liability for the amount receivable for reimbursable work acquisitions, construction, improvements, and/or alterations (in accordance with subparagraph 3.3.3.1).

3.14.3.2.2. Provider-lessors must recognize the intragovernmental reimbursable work revenue systematically and rationally over the shorter of (a) the remainder of the lease term or (b) the useful life of the underlying asset acquired/constructed, or improvements/alterations thereto associated with the reimbursable work. Revenue recognition must commence when the provider-lessor provides access to the economic benefits and services resulting from the reimbursable work.

3.14.1.3.3. Coordination with the customer-lessee on revenue recognition can facilitate the elimination of inter-entity balances and earned revenues (in accordance with subparagraph 3.3.3.1).

3.14.1.3.4. Provider-lessors must disclose a general description of significant reimbursable work agreement activities. Such disclosures may be separate from or incorporated within the general description disclosures provided for under subparagraph 3.5.10.

#### 4.0 ADDITIONAL CONSIDERATIONS

##### \*4.1 Standard General Ledger Accounts

The U.S. Standard General Ledger (USSGL) accounts used to report DoD lease entries are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the Office of the Deputy Chief Financial Officer Standard Financial Information Structure ([SFIS](#)) web page.

## 4.2 Recognition Uncertainty

4.2.1. In situations where doubt exists as to which DoD Component must record an item, the DoD Components involved must reach an agreement with the other applicable DoD Component(s) or federal agencies as to which entity will record the item.

4.2.2. If the DoD Components cannot reach an agreement, the matter must be referred to the Office of the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) for resolution. Requests for resolution must be accompanied by adequate supporting documentation to assist in the resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting Military Department or Defense Agency.

4.2.3. The DoD Component that procures an item of PP&E by entering a lease will be the DoD Component that must initially record the lease transaction. In the event a DoD Component other than the initial lessee uses and benefits from a lease asset, the recognition responsibility of the lease asset must be re-evaluated.

## 4.3 Bulk Acquisitions Through Leases

Other than short-term contracts or agreements that transfer ownership, and intragovernmental leases, a bulk acquisition is defined as the acquisition of like items, of which their individual value does not meet the capitalization threshold, as part of multiple leases with a single lessor within a fiscal year. Acquisitions through multiple leases with a single lessor during separate fiscal years are to be considered separately within each fiscal year. To determine proper recognition of bulk acquisitions through leases, the acquisition cost of all like items leased, under multiple leases with a single lessor within a fiscal year must be totaled, and the resulting total must be considered against the lease criteria for capitalization and the capitalization threshold prescribed by paragraph 3.13. Refer to Volume 4 Chapter 25 for additional guidance regarding Bulk Acquisitions.

## 4.4 Accounting for Real Property Leases Outside of the United States and Managed by the Department of State.

As used in this chapter, the term “outside of the United States” means other than the 50 States of the United States, the District of Columbia, and the commonwealths, territories, and possessions of the United States. For real property leases that are managed by the Department of the State, the Department of State’s Bureau of the Comptroller and Global Financial Services (CGFS) will provide relevant lease data to any agencies who occupy real property overseas and will allocate the residential housing pool lease balances (i.e., liability, corresponding right to use asset, and amortization) across the participating agencies. The applicable DoD Component with the assigned leases, will have to record the applicable allocation/portion in their book and records. The housing pool allocation will be based on each federal agency’s share of the estimated expenses for the next fiscal year and will be applied across the entire housing pool’s net present value calculation. For further information or assistance contact CGFS at [sffas54leases-cgfs@state.gov](mailto:sffas54leases-cgfs@state.gov).

#### 4.5 Use of Canceled Treasury Account Symbol

4.5.1. The Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) is a data collection system that replaces the reporting functionalities of Federal Agencies Centralized Trial Balance System I and II, Intra-governmental Fiduciary Confirmation System, and Intra-governmental Reporting and Analysis System, as the primary means for DoD Components to report their trial balance data to Treasury. Capitalized assets are required to be reported and remain in GTAS after the original purchasing Treasury Account Symbol (TAS) has expired and been canceled. If a capitalized asset has not been moved to a canceled ("C") TAS as described in subparagraph 4.5.2; GTAS will provide a "C" TAS on the GTAS Super Master Use of Canceled Treasury Account Symbol Account File (SMAF) for each fund family represented on the SMAF. The system-generated "C" TAS will have three elements: the three-digit agency identifier, availability type "C", and a four-digit main account.

4.5.2. All DoD Components must use the "C" availability type TAS to report capitalized assets. Assets may be moved to a "C" TAS at any time from the purchase date to the date the original purchasing fund is canceled. (Refer to the [TFM Volume 1, Part 2, Chapter 4700](#) for additional information.)

##### 4.5.3. To transfer an asset to a "C" TAS

4.5.3.1. Use USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

4.5.3.2. Use USSGL account transaction E606 to transfer-in the asset into the appropriate "C" TAS

#### \*4.6 Supporting Documentation

4.6.1. Entries to record financial transactions must be supported by source documents reflecting all transactions affecting the DoD Component's investment in assets under a lease.

4.6.2. All leases must be supported as of the date the DoD Component takes custody of the asset. The documents listed in [Table 26-2](#) must be readily available to support the changes in lease asset value or physical attributes because of a new lease, leasehold improvements, impairments, modifications, and terminations:

4.6.3. Lease documents must be retained by the DoD Component in accordance with the Volume 1, Chapter 9 requirements or as otherwise stated. Documentation (original documents and/or hard and electronic copies of original documentation) must be maintained in a readily available location during the applicable retention period. The documentation must also be linked to the appropriate unique identifier(s).

4.6.4. Include sufficient lease information indicating the physical quantity, location, and unit cost of the PP&E underlying assets. The accountable property records must support

procurement and utilization decisions, including identifying potential excess PP&E for reuse, transfer to other DoD Components, or disposal.

4.6.5. Documentation must enable periodic, independent verification of the accounting and accountable property records through periodic physical counts/inventories of PP&E underlying assets (existence and completeness – “book to floor and floor to book”). Reconcile the Accountable Property System of Record (APSR) and accounting systems with the USSGL accounts and physical counts. Personal hand receipt self-validations are not acceptable. See DoDI 5000.64 (excluding real property) and DoDI 4165.14 for real property.

4.6.6. Identify and classify PP&E that was capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

4.6.7. Use the same documents for the accounting and accountable property records. Property accountability records must be integrated and reconciled with the accounting system.

4.6.8. Include all PP&E possessed by the Department (to include DoD leased property held by contractors).

4.6.9. Identify and account for all leased PP&E.

4.6.10. Identify and account for improvements to PP&E lease assets.

#### 4.7 Physical Inventories of PP&E

DoD Components must perform periodic physical inventories of real property and general equipment in accordance with DoDI 4165.14 and DoDI 5000.64, respectively.

#### 4.8 Reporting Requirements

DoD Components with leased PP&E must reference a note on the Balance Sheet that discloses information about the reported assets. See Volume 6B for the specific reporting requirements.

#### 4.9 Environmental Liabilities/Cleanup Costs

The lease agreement must clearly identify the party responsible for environmental liabilities/cleanup costs. The accounting policy for environmental liabilities/cleanup costs on PP&E is contained in Chapter 13.

\*Table 26-1 Capitalization Thresholds

Entity	Capitalization Threshold
Army Real Property	\$1,000,000
Air Force Real Property	\$1,000,000
Air Force General Fund General Equipment	\$1,000,000
Navy Real Property	\$1,000,000
Navy General Fund General Equipment	\$1,000,000
Marine Corps Real Property	\$500,000
Army Corps of Engineers Buildings and Structures Related to Hydropower	Capitalized regardless of cost
Army Corps of Engineers General PP&E Other than Buildings and Structures Related to Hydropower	\$25,000
DoD Intelligence Community Entities (All PP&E)	\$1,000,000
All Other DoD Component General Funds and Working Capital Funds' PP&E	\$250,000

Table 26-2 Supporting Documentation

Evidence	Examples
<b>Unique Identification</b>	Assignment of a unique identifier
<b>Project Approval</b>	Work Order or similar document
<b>Obligation on Behalf of the Government</b>	<ol style="list-style-type: none"> <li>1. For leases or lease modifications: <ul style="list-style-type: none"> <li>• Statement of Work;</li> <li>• Dollar Amount of Lease;</li> <li>• Location;</li> <li>• Source of Funds;</li> <li>• Parties to the Lease agreement; and</li> <li>• Signature Page [Signature of All Parties].</li> </ul> </li> <li>2. Approved Work Order</li> <li>3. Evidence supporting asset impairment.</li> </ol>
<b>Payment Submitted</b>	Approved last invoice reflecting the total amount submitted for payment to date.
<b>Acceptance</b>	<ol style="list-style-type: none"> <li>1. DoD <a href="#"><i><u>DD Form 250</u></i></a>, Material Inspection and Receiving Report;</li> <li>2. <a href="#"><i><u>General Services Administration Form 1334</u></i></a>, Request for Transfer of Excess Real and Related Personal Property;</li> <li>3. <a href="#"><i><u>DD Form 1354</u></i></a>, Transfer and Acceptance of DoD Real Property (interim or final), with associated source documentation retained by the responsible party;</li> <li>4. Signed lease for leased property;</li> <li>5. Executed Occupancy agreement; and</li> <li>6. Transfer letter and documents for transferred assets.</li> </ol>

## VOLUME 4, CHAPTER 27: “INTERNAL USE SOFTWARE”

### SUMMARY OF MAJOR CHANGES

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

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

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

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

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

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates to include clarifying language in accordance with Department of Defense Financial Management Regulation Revision Standard Operating Procedures.	Revision
Throughout	Deleted references and tables related to Capital Leases. Capital Leases are discussed in <a href="#">Chapter 26</a> , “Accounting for Leases”.	Deletion
1.1	Refined the definition of General Property, Plant, and Equipment.	Revision
2.1.4.3	Updated the internal use software definition based on FASAB Technical Release 16: “Implementation Guidance for Internal Use Software”, footnote 4.	Revision
2.3.1	Added clarifications for when capitalization starts.	Revision
2.4	Moved “Alternative Valuation Methodology for Establishing Opening Balances for Internal Use Software” to paragraph 2.4, (previously Annex 2).	Revision
2.5.5	Moved specific cost treatment from Valuation section 2.3 to Recognition section 2.5. Valuation is full cost. However, recognition differs based on criteria described in section.	Revision
Annex 2	Moved Software Development Life-Cycle Phases section Annex (previously 2.3.2) to provide additional clarity.	Revision
Annex 3	Moved Software Development Methods section to Annex (previously 2.3.3) to provide additional clarity.	Revision

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## CHAPTER 27

INTERNAL USE SOFTWARE

## 1.0 GENERAL

## \*1.1 Purpose

1.1.1. This chapter prescribes the Department of Defense (DoD) accounting policy for Internal Use Software (IUS), which is a subset of General Property, Plant, and Equipment (PP&E). General PP&E, per Statement of Federal Financial Accounting Standards ([SFFAS 10](#)), “Accounting for Internal Use Software,” includes IUS and consists of tangible and intangible assets that (1) have an estimated service life of two years or more; (2) are not intended for sale in the ordinary course of business; and (3) are intended to be used or available for use by the entity.

1.1.2. The IUS general ledger accounts are listed in the government-wide United States Standard General Ledger (USSGL) contained in [Volume 1, Chapter 7](#). The accounting entries for these accounts and the DoD Standard Chart of Accounts are specified in the [DoD USSGL Standard Transaction Library](#). Unless otherwise stated, this chapter is applicable to all DoD Components, including Working Capital Fund (WCF) activities.

## 1.2 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.2.1. Federal Accounting Standards Advisory Board (FASAB) [SFFAS 1](#), “Accounting for Selected Assets and Liabilities;”

1.2.2. FASAB [SFFAS 4](#), “Managerial Cost Accounting Standards and Concepts;”

1.2.3. FASAB SFFAS 10, “Accounting for Internal Use Software;”

1.2.4. FASAB [SFFAS 50](#), “Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, and SFFAS 23, and Rescinding SFFAS 35;”

1.2.5. FASAB [SFFAC 5](#), “Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements;”

1.2.6. FASAB [SFFAC 7](#), “Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording;”

1.2.7. FASAB Technical Release ([TR 13](#)), “Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment;”

1.2.8. FASAB [TR 14](#), “Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment;”

1.2.9. FASAB [TR 15](#), “Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation;”

1.2.10. FASAB [TR 16](#), “Implementation Guidance for Internal Use Software;”

1.2.11. FASAB [TR 17](#), “Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment;”

1.2.12. FASAB [TR 18](#), “Implementation Guidance for Establishing Opening Balances;”

1.2.13. FASAB [TR 23](#), “Omnibus Technical Release Amendments 2024: Conforming Amendments to Technical Releases 10, 16, 20, and 21;”

1.2.14. Office of Management and Budget (OMB) [Circular No. A-136](#), “Financial Reporting Requirements;”

1.2.15. [Treasury Financial Manual \(TFM\) Volume1, Part 2, Chapter 4700](#) “Federal Entity Reporting Requirements for the Financial Report of the United States Government;”

\* 1.2.16. [DoD Instruction \(DoDI\) 5000.75](#); “Business Systems Requirements and Acquisition;”

1.2.17. [DoDI 5000.76](#); “Accountability and Management of Internal Use Software (IUS).”

## 2.0 ACCOUNTING FOR IUS

### 2.1 Definition

2.1.1. “Software” includes the application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program. Most often, software is an integral part of an overall system(s) having interrelationships between software, hardware, personnel, procedures, controls, and data. IUS is software that:

2.1.1.1. Is acquired or developed to meet the entity’s internal or operational needs (*intended purpose*); and

2.1.1.2. Is a stand-alone application, or the combined software components of an information technology (IT) system that can consist of multiple applications, modules, or other software components integrated and used to fulfill the entity’s internal or operational needs (*software type*).

2.1.2. IUS can be:

2.1.2.1. Purchased from commercial off-the-shelf (COTS) vendors and be ready for use with little or no changes;

2.1.2.2. Internally developed by employees of DoD, including new software and existing or purchased software that is modified with or without a contractor's assistance; or

2.1.2.3. Contractor-developed software that a DoD Component paid a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software.

2.1.3. IUS includes software that is:

2.1.3.1. Used to operate an entity's programs (e.g., financial and administrative software, including that used for project management);

2.1.3.2. Used to produce the entity's goods and to provide services (e.g., maintenance work order management and loan servicing); and

2.1.3.3. Developed or obtained for internal use and subsequently provided to other Federal Entities with or without reimbursement.

2.1.4. Integrated (embedded) software is not IUS.

2.1.4.1. IUS **excludes** computer software that integrates with and is necessary for operating General PP&E, rather than performing an application. **DoD Components must consider** such software as part of the PP&E of which it is an integral part, and must capitalize and amortize accordingly. **They must use** the aggregate cost of the hardware and software to determine whether to capitalize or expense the costs. In situations where software and the hardware on which it runs have independent service lives, **they must** determine the useful life of the software independently of the useful life of the hardware. **They must** determine **this** on a case-by-case basis and **document** the rationale.

2.1.4.2. Software used in conjunction with the operation of equipment is not the same as the integrated or embedded software **and** can be considered IUS if all of the following criteria apply:

2.1.4.2.1. The software was developed separately from the equipment;

2.1.4.2.2. The software is not required for the equipment to perform its core purpose and functions; and

2.1.4.2.3. The quantity of equipment items on which the software will be installed is unknown.

\* 2.1.4.3. Additionally, software developed separately and installed on several assets at different times may be treated as a separate IUS asset, rather than integrated or embedded software. For example, anti-ballistic missile software installed on multiple radar systems at different times can be treated as a separate IUS asset if the software meets the capitalization threshold (see subparagraph 2.5.5 for capitalization thresholds).

2.1.5. DoD Components may purchase IUS as part of a package of products and services (e.g., training, maintenance, data conversions, reengineering, site licenses and rights to future upgrades and enhancements). They must allocate costs based on the relative fair values of the IUS and the services if the costs are not readily separable between the IUS and the services on the invoice. They must capitalize the cost of the IUS (assuming it meets the capitalization criteria) and expense the cost of the training/maintenance. They must expense non-IUS costs (e.g., training and maintenance services) that are not susceptible to allocation between maintenance and relatively minor enhancements.

2.1.6. SFFAS 1 defines materiality as the degree to which omitting or misstating an item in a financial statement is likely to change or influence the judgment of a reasonable person relying on the information.

2.1.7. Additional definitions can be found in Annex 1.

Figure 27-1. IUS is Generally One Component of an IT System



## 2.2 USSGL Accounts

2.2.1. The DoD Components must record IUS transactions to general ledger accounts in the financial statements required by the Treasury and other reporting requirements mandated by Congress and OMB. The USSGL Transaction Library outlines detailed posting transactions, and the DoD Standard Chart of Accounts provides detailed account descriptions. The DoD standard Chart of Accounts is located on the Office of the Deputy Chief Financial Officer (ODCFO) Standard Financial Information Structure webpage.

2.2.2. DoD Components may elect to create subaccounts within their general ledger systems to track software under development at a detailed level; however, the internal subaccounts must summarize to one USSGL/DoD account.

2.2.3. Management must retain adequate supporting source documentation for entries in accordance with Volume 1, Chapter 9, “Financial Records Retention.”

## 2.3 Valuation

\* 2.3.1. Record the acquisition and other costs necessary to make the software operable.

2.3.1.1. DoD Components calculate the cost of COTS software by adding the actual purchase price of the COTS license to any costs incurred to place the software in service or otherwise make the software ready for use.

2.3.1.2. The cost of contractor-developed software includes the amount paid to the contractor to design, program, install, and implement new software or to modify existing or COTS software, plus any costs incurred to implement or otherwise make the software ready for use.

2.3.1.3. The costs of internally developed software must include the full cost incurred. Full cost includes both direct and indirect costs of new software (e.g., salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants’ fees; rent; and supplies and overhead) and technical documentation.

2.3.1.4. Considering economic feasibility, a cost estimation technique could be developed to trace the costs to outputs based on the SFFAS 4, paragraph 124, provision that “[in] principle, costs should be assigned to outputs in one of the methods listed in the order of preference:

2.3.1.4.1. Directly tracing costs wherever economically feasible;

2.3.1.4.2. Assigning costs on a cause-and-effect basis; and

2.3.1.4.3. Allocating costs on a reasonable and consistent basis.

## \*2.4 Alternative Valuation Methodology for Establishing Opening Balances

### 2.4.1. Establishing Opening Balances for Internal Use Software

2.4.1.1. The alternative valuation method for establishing opening balances for IUS described in FASAB SFFAS 50, “Establishing Opening Balances for General Property, Plant and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35” is available only once to each reporting entity. Therefore, prior to the establishment of IUS opening balances, DoD Components must validate that they are prepared to account for and comply with the recognition, measurement, presentation, and disclosure requirements for IUS in accordance with FASAB SFFAS 10, “Accounting for Internal Use Software.”

2.4.1.2. DoD Components must identify any IUS that they have capitalized prior to establishing opening balances, including capitalized development costs. All DoD Components that have not previously undergone a financial statement audit where they received an unmodified (i.e., “clean”) audit opinion will exclude the value of all IUS, including development costs, from opening balances of General Property, Plant, and Equipment on their Balance Sheet. This means that DoD Components who have not undergone a financial statement audit where they received a “clean” audit opinion will adjust their capitalized IUS, including development costs and opening balances to zero in the year the DoD Component makes an unreserved assertion. A DoD Component that has received a “clean” audit opinion should continue to account for IUS, including development costs, in accordance with FASAB SFFAS 10 and will not reduce their balances to zero.

2.4.1.3. Entries in the DoD Component accounting systems/records to record IUS opening balances at zero are subject to the reporting requirements under paragraph 13 of FASAB SFFAS 21, “Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources”. Accordingly, reflect the entries as a change in accounting principle. Document and support any adjustments to assist ongoing audit efforts.

### 2.4.2. Financial Statement Disclosure Requirements

DoD Components who adjust their opening IUS balances must disclose in their financial statements that they used an alternative valuation method in establishing their opening balances. They must include a disclosure in the financial statements describing the use of the alternative valuation method in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are in accordance with Generally Accepted Accounting Principles. An unreserved assertion is an unconditional statement.

### 2.4.3. Prospective Accounting for Internal Use Software

2.4.3.1. DoD Components must capitalize IUS costs for IUS in-service and IUS in development in accordance with the provisions of FASAB SFFAS 10 after recording the opening balances at zero as described in paragraph 2.4.1.2. This capitalization requirement includes IUS development costs incurred after the establishment of opening balances for projects started prior

to the establishment of opening balances. DoD Components must have sufficient source documentation to support the capitalized amounts of IUS based on actual historical cost. DoD Components must apply the provisions of FASAB SFFAS 10 regarding amortization and impairment to any unamortized capitalized cost of the IUS.

2.4.3.2. DoD Components **must** fully implement the systems, internal controls, processes and procedures to be compliant with accounting for IUS under FASAB SFFAS 10. They must also periodically review and update the documentation of the systems, processes, and procedures as needed.

## 2.5 Recognition

2.5.1. DoD Components must recognize all acquired IUS for accountability and financial reporting purposes. Recognition requires the proper accounting treatment (expense or capitalization with amortization) and the reporting of capitalized amounts and accumulated amortization on the appropriate DoD Component's financial statements. **The capitalizable cost phase begins after the entity has completed all preliminary planning, designing, coding, and testing activities that are necessary to establish that the IUS can meet the design specifications. Capitalize IUS that has a useful life of two years or more and meets the capitalization criteria described in subparagraph 2.5.5. Expense IUS items with a cost below the capitalization threshold; except for IUS items acquired as part of a qualifying bulk purchase (see subparagraph 2.5.8). Expense data conversion and training cost in the period incurred.**

### 2.5.2. Recognition Responsibility

2.5.2.1. The DoD Component's financial reporting responsibility can be determined using two-tier criteria:

2.5.2.1.1. Exclusive/sole Use. When a DoD Component is the exclusive/sole user of capitalized IUS, it will report the IUS on its Balance Sheet. If there is no exclusive/sole user, the DoD Component must apply the second criteria.

2.5.2.1.2. Control. If an exclusive/sole user does not exist, the DoD Component that controls the IUS will have financial reporting responsibility. Evidence of control can include funding the software maintenance, exercising access control, and prioritizing enhancements.

2.5.2.2. DoD Components that possess and/or control IUS items that materially contribute to the Component's mission must maintain accounting and financial reporting for such items, regardless of the organization that originally acquired or provided the funding for the items. If a DoD Component prepares financial statements, **it** must appropriately recognize IUS in its financial statements.

### 2.5.3. Recognition Uncertainty

2.5.3.1. It is important that the overall accounting records of the DoD and the Federal Government are not duplicative. In situations where doubt exists as to which DoD Component should recognize an item, DoD Components involved must reach an agreement with the other applicable DoD Components or Federal agencies as to which entity will recognize the item. DoD Components must document the process used to reach this agreement and the terms of the agreement in a memorandum of agreement, which will serve as supporting documentation.

2.5.3.2. If DoD Components cannot reach an agreement, they must refer the matter to the ODCFO, Office of the Under Secretary of Defense (Comptroller) for resolution. DoD Components must submit requests for resolution with adequate supporting documentation to assist in resolving the matter, and they should send these requests through the Financial Management and Comptroller of their respective Military Department or Defense Agency.

### 2.5.4. Recognition Timing

2.5.4.1. Recognition of the COTS IUS for financial reporting purposes must occur no later than the technical acceptance of the software.

2.5.4.2. Record IUS in development anticipated to meet capital criteria in the IUS in Development account during the design, development, and testing, phases. Annex 2 describes the various phases of software development. After completing technical acceptance testing, DoD Components must recognize the IUS asset, transfer capital costs to the IUS account, and establish accountability in the APSR.

2.5.4.2.1. Larger and more complex software systems, such as Enterprise Resource Planning systems, are developed and placed in service over time. For each module or component of a software project, when a module or component has been successfully tested, move costs from IUS in Development to Internal Use Software, and begin amortization.

2.5.4.2.2. If the use of a module is dependent on the completion of another module(s), move costs from IUS in Development to IUS when both that module and the other module(s) have successfully completed testing.

2.5.4.2.3. For example, a DoD Component may develop an accounting software system containing three modules: a general ledger, an accounts payable sub-ledger, and an accounts receivable sub-ledger. In this example, each module could be analyzed to determine whether it could be treated as a separate IUS asset. Specifically, if the module provides economic benefit through distinct, substantive functionality, and meets the tests for capitalization threshold, ownership, and eligibility for capital treatment, then the module could be treated as a separate IUS asset.

2.5.4.3. For IUS assets acquired by a contractor on behalf of a DoD Component (i.e., the DoD Component that will ultimately hold title/license to the assets), recognize the software upon completion of the technical acceptance testing by the contractor performing the

service, or by the DoD Component. Record contract financing payments (e.g., progress payments, performance-based payments, and commercial interim payments) made to a contractor prior to completion of final technical acceptance testing in a Software in Development account until the IUS is placed in service. Capitalize upon completion of technical acceptance testing.

\* 2.5.5. Capitalization Threshold, Criteria, and Cost Treatment

2.5.5.1. The current IUS capitalization threshold for all DoD Components is \$250,000. However, DoD Intelligence Community Entities may elect to use a capitalization threshold of \$1 million. The capitalization threshold described above is for financial reporting purposes. The requirement for accountability of IUS is discussed in subparagraph 2.5.12.

2.5.5.2. Capitalize IUS if it meets the following criteria for General PP&E:

2.5.5.2.1. Useful life of two years or more;

2.5.5.2.2. Intended for use or being available for use by the entity;

2.5.5.2.3. Not intended for sale in the normal course of business; and

2.5.5.2.4. Total cost is greater than the capitalization threshold.

2.5.5.3. DoD Components must apply the treatment of costs based on the nature of the costs incurred, not the exact sequence of the work. Annex 2 provides IUS project phases, activities, deliverables, and accounting treatment.

2.5.5.3.1. Capitalize direct labor costs of government employee and contractor project teams (e.g., programmers, engineers, managers) incurred during the Design/Development and Testing/Implementation Phase as part of the costs of the software project. Project managers and/or program managers must track direct labor costs and allocate to individual software projects. The allocation methodology used must be consistent between projects and must be auditable.

2.5.5.3.2. Expense indirect labor costs for Program Management Office personnel overseeing more than one software project when immaterial compared with the overall costs of a software project. Decisions regarding the materiality of indirect labor costs, when such costs are expensed, must be justified, documented, and must be auditable. If determined material to a software project or projects, allocate costs based on a distribution methodology that is consistently applied, documented, and auditable.

2.5.5.3.3. Overhead costs are costs associated with rent, utilities, building maintenance, and supplies that are essential to the overall accomplishment of a software project. In many instances, overhead costs are immaterial when compared with the overall costs of a project. If determined immaterial, expense these costs and document the expense justification. If determined material to a project or projects, allocate costs based on a consistent and documented distribution methodology that is auditable.

2.5.5.3.4. DoD components must evaluate contractor costs to determine the correct treatment. Such determination is based on the type of work performed by the contractors. Annex 2 breaks down the criteria to expense or capitalize various work activities.

2.5.5.3.5. Expense data conversion costs as incurred for internally developed, contractor-developed, or COTS software, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software. Such costs may include the purging or cleansing of existing data, reconciliation or balancing of data, and the creation of new or additional data.

2.5.5.3.6. Capitalize the cost of development of technical documentation and manuals and expense costs of mass-producing manuals in the period incurred.

2.5.5.4. The capitalized costs of internally developed software should be limited to costs incurred:

2.5.5.4.1. After the DoD Component authorizes and commits to a software project and believes that it is more likely than not that the project will be completed and the software will be used to perform the intended function(s), and it will have an estimated service life of two years or more; and

2.5.5.4.2. After the completion of the planning and requirements phase (i.e., project evaluation, concept testing, and evaluation of alternatives) as evidenced by a documented approval decision.

2.5.5.5. Technical acceptance testing is testing undertaken to verify if a software product meets technical specifications. Capitalize technical acceptance testing costs. After technical acceptance, expense operational testing, evaluation, and other functional testing.

2.5.5.5.1. If the software consists of multiple individual components or modules, the capitalization phase must end for each component/module after technical acceptance testing is complete for that component/module.

2.5.5.5.2. In some development practices, teams conduct acceptance testing for each iteration within an IUS development before moving forward to the next iteration and may not always conduct final acceptance testing. The DoD Component should identify a pre-determined agency milestone such as the go-live or in-service date, which is equivalent to a final technical acceptance test for capitalization cut-off purposes.

2.5.5.6. Capitalize the amounts paid to a COTS vendor for the software. Capitalize amounts paid to a contractor to design, program, install, and implement contractor-developed software. Capitalize material internal costs incurred by the Federal Entity to implement the COTS or contractor-developed software and otherwise to make it ready for use.

### 2.5.6. Documentation

2.5.6.1. DoD Components must assign a dollar value (i.e., recorded cost) to the IUS when recording the acquisition of IUS in the Accountable Property System of Record (APSR) and/or accounting system. Appropriate documentation must be available to support the dollar value. Paragraph 3.2 includes a complete discussion of supporting documentation related to IUS.

2.5.6.2. To establish proper PP&E financial control when acquiring IUS from another DoD Component or Federal Agency, the acquiring DoD Component must request from the losing DoD Component or other Federal Agency, the necessary source information and financial transfer documents, to include a unique identifier(s) for the software(s); location; original acquisition cost(s); cost of enhancements; the date the software was developed, or acquired; the estimated useful life; the amount of accumulated amortization; and other relevant information linked to that software. If this information is not available, the gaining and losing entities must develop and document a reasonable estimate to support the financial transfer of the software.

2.5.6.3. Capitalized IUS costs must have sufficient supporting documentation as discussed in paragraph 3.2, including support for costs incurred in the development of the IUS. DoD Components must provide narratives, software architectural documentation, user manuals, and other similar documents to substantiate whether they treat the IUS as separate IUS assets, supporting the functionality of the components/modules of a software system.

### 2.5.7. Joint Ventures

If two or more entities, including at least one entity outside of the DoD, develop the IUS through a joint venture, the DoD Component must capitalize the IUS asset if it meets the criteria for capitalization, based on its share of the development cost in relation to the capitalization threshold. The DoD Component only capitalizes the portion it funded if it meets the criteria for capitalization.

### 2.5.8. Bulk Purchases of Software Applications/Programs

2.5.8.1. Bulk purchases must be considered if they materially affect the fiscal year financial statements during which they were purchased. Bulk purchases of software with an aggregate cost that exceeds the capitalization threshold must be capitalized.

2.5.8.2. When multiple acquisitions of the same IUS application(s)/programs (for example spreadsheets, word processing programs, etc.) or modules or components of a software system are made as part of a single contract within a fiscal year, the purchases must be added together to determine whether they meet the capitalization threshold. Purchases made on a single contract during separate fiscal years are to be considered separately. DoD Components must not split bulk purchases into multiple transactions with the intent of avoiding capitalization.

2.5.8.3. Bulk purchases of licensed IUS with terms less than two years in length do not need to be considered for capitalization. Table 27-1 provides capitalization guidelines for bulk purchase licenses.

### 2.5.9. Software Licenses

2.5.9.1. Software licenses [grant the](#) license holder [the right to use](#) the software for a specific time period. After this period expires, the license holder must renew the license or purchase a new one to continue using the software. License agreements to use software come in many forms and vary in length of the license period. Software licenses can be term or perpetual.

2.5.9.1.1. Term licenses provide [DoD Components](#) the right to use [IUS](#) for a specified period of time. [Capitalize or expense](#) term licensed IUS per criteria in [Table 27-1](#).

2.5.9.1.2. Perpetual software licenses [allow](#) the DoD Component to use the software [indefinitely](#) in exchange for an upfront cost, which [they can pay](#) as a one-time payment or finance over a set period. [Apply capitalization criteria](#) if the license is perpetual, to determine to capitalize or expense.

2.5.9.2. If one of the following criteria applies, the IUS can be expensed:

2.5.9.2.1. The license term is less than two years;

2.5.9.2.2. The license cost (excluding any maintenance agreements) is less than the capitalization threshold; or

2.5.9.2.3. The aggregate cost of a bulk license purchase (excluding any maintenance agreements) is less than the capitalization threshold. See subparagraph [2.5.8](#) for guidance related to bulk purchases of software.

2.5.9.3. A license agreement may include executory costs for maintenance and technical support. DoD Component judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs. DoD Components may also want to consider having each license agreement specifically identify the various costs throughout the license life cycle, for example, initial license, maintenance, and enhancement.

2.5.9.4. Additional guidance regarding accounting for license agreements includes:

2.5.9.4.1. Expense maintenance costs agreed to as part of the initial license agreement in the period they are incurred;

2.5.9.4.2. Expense “True-up” costs associated with unlimited license agreements or enterprise licenses that may occur (depending on the agreement terms) at the end of each year to reconcile and account for the actual quantity of users; and

2.5.9.4.3. Expense software upgrades from annual maintenance and security assurance agreements, do not capitalize as enhancements or separate assets.

## 2.5.10. Cloud and Other Subscription-Based Services

2.5.10.1. A cloud computing service is any resource that is [accessible](#) over the Internet. It has the following essential characteristics: on-demand self-service, broad network access, resource pooling, rapid elasticity, and measured service. The most common cloud service resources are: software as a service, platform as a service, and infrastructure as a service. Cloud services can take a number of forms. To determine whether the arrangement includes capitalized IUS, the DoD Component will need to examine the nature of the arrangement and apply the capitalization criteria.

2.5.10.2. When a DoD Component pays regular subscription fees to access and use software from a non-DoD entity, it should expense subscription costs in the period incurred. This scenario is a service and does not constitute an IUS asset for the DoD Component.

2.5.10.3. A subscription arrangement using a cloud with a non-DoD entity can result in DoD-owned IUS if the using DoD Component takes possession, or has the ability to take possession of a software application without incurring a significant penalty. DoD Components must capitalize this IUS if it meets the capitalization criteria as described in subparagraph [2.5.6](#).

2.5.10.4. When a cloud or subscription arrangement exists between DoD Components, the Component that owns the software (see subparagraph [2.4.1](#)) will report it as IUS. The subscribing DoD Component(s) will expense any fees paid for the service in the period incurred.

2.5.10.5. If a cloud computing arrangement includes a software license, the customer must account for the software license element of the arrangement consistent with the acquisition of other software licenses in accordance with the [Table 27-1](#) criteria discussed in subparagraph [2.5.9](#). SFFAS 10 is not applicable to a cloud computing arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license. The entity that develops and owns the software, platform, or infrastructure used in the cloud computing arrangement would account for the software development in accordance with SFFAS 10. If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for maintaining the software, platform, or infrastructure must account for the software in accordance with SFFAS 10 and the full cost/inter-entity cost requirements of SFFAS 4.

## 2.5.11. Shared Services

2.5.11.1. Shared services means a mission or support function provided by one business unit to other business units within or between organizations. The funding and resourcing of the service is shared and the providing entity effectively becomes an internal/external service provider.

2.5.11.2. There are three types of shared service structures in the Federal Government:

2.5.11.2.1. Intra-agency. Intra-agency shared services include those provided within the boundaries of a specific organization such as a Federal Department or Agency, to that organization's internal units. Intra-agency shared services would be those between one DoD Component and another DoD Component.

2.5.11.2.2. Inter-agency. Inter-agency shared services are those provided by one Federal Organization to other Federal Organizations that are outside of the provider's organizational boundaries. Inter-agency shared services would be those between one DoD Component and another Federal Agency/Organization outside of DoD.

2.5.11.2.3. Commercial. Commercial shared services are those provided by private vendors.

2.5.11.3. For intra-agency shared services, a cost allocation methodology could be developed in accordance with SFFAS 4, paragraphs 120-125. Additional guidance on cost allocation methodology can be found in [Chapter 19](#). For inter-agency shared services and commercial shared services, the service provider entity that owns (receives funding/responsible for maintaining) the software must account for the software in accordance with SFFAS 10. In the event that the entity receiving the service (the customer) has the contractual right to take possession of the software at any time during the hosting period without significant penalty, and it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software, then the customer must account for the software in accordance with SFFAS 10.

2.5.11.4. If the shared service arrangement includes a software license, the DoD Component must account for the software license element of the arrangement consistent with the acquisition of their other software licenses, as discussed in subparagraph 2.5.9. SFFAS 10 is not applicable to a shared service arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license.

## 2.5.12. Accountable Records of IUS

DoD Components must establish accountable records for all government IUS. Account for IUS which meets the criteria for capitalization in an APSR. [DoD Components must also establish and maintain accountability records](#) for IUS which does not meet the criteria for capitalization in either an APSR or approved managerial system [through disposition or transfer](#). Managerial systems must contain all general data elements contained in a data-compliant APSR. In addition, managerial systems must document controls and procedures in place that are sufficient to withstand potential audit scrutiny and support the audit requirement of a complete universe of assets. The primary Accountable Property Officer (APO) or designated delegate should grant managerial system approval. See DoDI 5000.76.

## 2.6 IUS Enhancements

2.6.1. An IUS enhancement is a modification to [an](#) existing IUS that provides it with significant additional capabilities and enables the software to perform tasks that it was previously

incapable of performing. DoD Components must capitalize an enhancement that increases the capability of the IUS when its cost meets or exceeds the capitalization threshold. Criteria to capitalize enhancements to IUS differs from that of other PP&E; expense changes that merely extend the useful life or improve efficiency, irrespective of the cost. Even though the **DoD component** expenses the costs associated with extending the useful life, it must extend the amortization of any previously capitalized amount to reflect the new useful life period. Capitalizable enhancements normally require new software specifications and may require a change to all or part of the existing software specifications. For example, DoD Components should capitalize the cost of modifying existing software for making ad hoc queries, if it requires new software specifications and/or changes to existing software specifications and it also exceeds the capitalization threshold. In addition, the DoD Components should expense the nominal charges paid for enhanced versions of software in the period incurred.

2.6.2. Evaluate modules together as one enhancement if one module is dependent upon another to function. **DoD** Components must amortize all costs of an enhancement that **they** have capitalized based on the IUS capitalization criteria, including any costs **they** carry over or allocate from the original software, over the enhancements' estimated useful life, which should not exceed five years.

2.6.3. DoD Components must begin to accumulate costs for enhancements when these enhancements are more likely than not to produce new capabilities; and the project phase in which the costs are being incurred and the nature of the cost meets the criteria for capitalization treatment set out in **Annex 2**; and the estimated total cost of the enhancement meets the IUS capitalization threshold. When the development of the enhancement takes place over multiple periods, the costs will accumulate in account 183200 (**IUS** in Development) until the completion of the enhancement (see subparagraph **2.8.3** on placed-in-service dates), at which time the costs are moved to account 183000 (Internal Use Software).

2.6.4. DoD Components must separately account for enhancements in a manner that allows them to specifically identify and support each capitalized enhancement made to the IUS.

2.6.5. Expense an enhancement to IUS that meets or exceeds the capitalization threshold to correct a design flaw, and in effect doubles its useful life, in the period incurred, unless the enhancement adds new capabilities to the software. However, the useful life of the IUS is subject to adjustment and must reflect the enhancement. Knowledgeable personnel must determine and document the additional useful life, which should not exceed five years added to the existing useful life.

2.6.6. Expense the cost of minor enhancements resulting from ongoing systems maintenance or incurred solely to repair a design flaw without adding additional capabilities in the period incurred. Examples of minor enhancements include updating data tables, web-enabling, customizing reports, or changing graphic user interfaces. Expense enhancements that extend the useful life of the software without adding significant capabilities. However, in instances where the useful life of **IUS** is extended, DoD Components must adjust the amortization period as described in subparagraph **2.6.5**.

2.6.7. A specific software development project may include expenditures for enhancements and maintenance that cannot be easily separated but may be reasonably and consistently allocated. One approach that can be used is a ratio, based on the projected development phase activities work hours relative to other types of work. Apply the ratio to determine the expenditures to capitalize when the expenses meet the other capitalization criteria. Apply the basis for allocating costs consistently and in accordance with GAAP.

2.6.8. Retain documentation related to IUS enhancement decisions, such as the justification for capitalizing the enhancement, a change of useful life, and the amount to capitalize. Specific documents that support these decisions can vary by organization and asset but could include an analysis from software developers or a cross-functional review team that defines the enhancement's impact on functionality and useful life.

2.6.9. **Only capitalize** the cost of enhancements to more than one IUS asset as identified by a unique identifier, when performed under a single contract or work order that cannot be specifically identified by asset if the allocated cost per IUS equals or exceeds the appropriate DoD capitalization threshold and the enhancements are more likely than not to add additional capability to the existing software.

2.6.10. When a single IUS goes under more than one enhancement and the enhancements are part of one overall effort to increase the software's functionality, and/or useful life; the sum of the costs of the enhancements must be capitalized if the summed costs equal or exceed the appropriate DoD capitalization threshold. This is required even when the enhancements are funded separately. The enhancements must be capitalized when the determination has been made that it is more likely than not that the enhancements will result in new significant capabilities.

## 2.7 Maintenance and Repair

2.7.1. Maintenance and repair costs are not capital enhancements, regardless of whether the cost equals or exceeds the DoD capitalization threshold. Maintenance and repairs are activities directed toward keeping IUS assets in an acceptable condition so that they continue to provide services and achieve their expected useful life. Maintenance and repair activities include subsequent security accreditations (not included in user acceptance testing); software diagnostics; repair processing and/or performance failures; updates to documentation; minor software updates; minor corrections to design flaws; and other activities needed to preserve or maintain the software. Maintenance and repairs, as distinguished from enhancements, exclude activities directed towards expanding the capacity of IUS or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

2.7.2. When determining whether to capitalize the IUS, do not include the costs of maintenance agreements purchased with a software license in the historical cost of the IUS. If **DoD Components** cannot distinguish maintenance costs from the cost of the license itself, they must use reasonable and documented estimating methods. Do not capitalize upgrades included in annual maintenance and security assurance agreements.

## 2.8 Amortization

2.8.1. Amortization is the systematic and rational allocation of the acquisition cost of IUS, over its estimated useful life. The DoD recovery periods (useful life) for IUS amortizable assets are set out in Table 27-2. During the planning phase of IUS development, determine the useful life based on how long the IUS is expected to provide economic benefit or service potential to the DoD Component. The decision regarding the useful life must be documented and made with input from personnel who are familiar with the software's technical characteristics and planned use. Amortize IUS acquired for research and development with no alternative future use over the period of the project as opposed to the normal life-cycle amortization.

2.8.2. Amortize the recorded cost of IUS and enhancements to IUS, which have been capitalized according to the guidance in Annex 2. Reflect such capitalized amounts, as well as associated amounts of accumulated amortization and amortization expense, in DoD Component's financial statements.

2.8.3. DoD Components must document the placed-in-service dates for both acquired IUS and developed IUS. Documentation of placed-in-service dates is critical in determining when to start amortization of capitalized IUS costs. IUS is considered placed in service when final technical acceptance testing is completed. The point at which this milestone is reached can vary for different types of software acquisitions.

2.8.3.1. For IUS acquired through a Major Automated Information System acquisition program, the Full Deployment Decision date made by the Milestone Decision Authority will serve as the placed-in-service date.

2.8.3.2. Use the Initial Operational Capability (IOC) date for other IUS system acquisitions, as the placed-in-service date. The system's Capability Development Document (CDD) and/or Capability Production Document (CPD) often define the IOC. DoD Components can use other supporting documents for acquisitions that do not require a CDD or CPD.

2.8.3.3. Use the alternate placed-in-service date if knowledgeable parties within a DoD Component determine that a placed-in-service date other than the ones listed in subparagraphs 2.8.3.1 and 2.8.3.2 better aligns with the completion of final technical acceptance testing for a specific software acquisition. However, the DoD Components must document and justify the decision.

2.8.4. Successfully complete final acceptance testing before beginning amortization for the IUS asset. This criteria is necessary, especially for internally developed software but also for contractor-developed and COTS software because testing plays a major role for software assets by demonstrating that the software product can meet the requirements and the need for a clear point for ending the developmental phase.

2.8.5. When replacing the IUS with new software, expense the unamortized cost of the old IUS when the new IUS successfully completes testing. No adjustments will be made to the

previously recorded amortization. Treat any additions to the book value or changes in useful life prospectively. Account for the change during the period of the change and future periods.

2.8.6. Account for all IUS in an APSR. Figure 27-2 provides a decision tree to assist in determining what elements of an IUS project should be capitalized for financial reporting purposes.

2.8.7. The program office must retain proper supporting documentation to justify the estimated useful life of the program. Examples of proper documentation are engineering estimates, operational requirements documents, mission needs statements, commercial industry-equivalent information, contracts, and acquisition documents (such as the Select Acquisition Report). See paragraph 3.2 for additional information on supporting documentation requirements.

2.8.8. In the case of IUS assets, after the successful completion of the final technical acceptance testing described in subparagraph 2.8.4, the event that triggers the calculation of amortization is the date the asset is installed and placed in service (regardless of whether it is actually used). In the case of internally developed IUS, record the costs of developing the IUS that is capitalizable in the IUS in Development account (183200) but do not amortize until the software is placed in service, at which time transfer the balance (total capitalizable development costs) to the IUS account (183000). Begin amortization when the testing of a module or component is successful. If the use of a module is dependent on the completion of another module(s), the movement from account 183200 to account 183000 will take place and amortization will begin when both that module and the other module(s) have successfully completed testing and are placed-in-service.

2.8.9. DoD policy permits the use of only the straight-line method of amortization. Calculate straight-line amortization expense based on the recorded cost divided equally among accounting periods during the software's useful life based on recovery periods in Table 27-2. The salvage value for all capitalized IUS for the DoD Components should be zero.

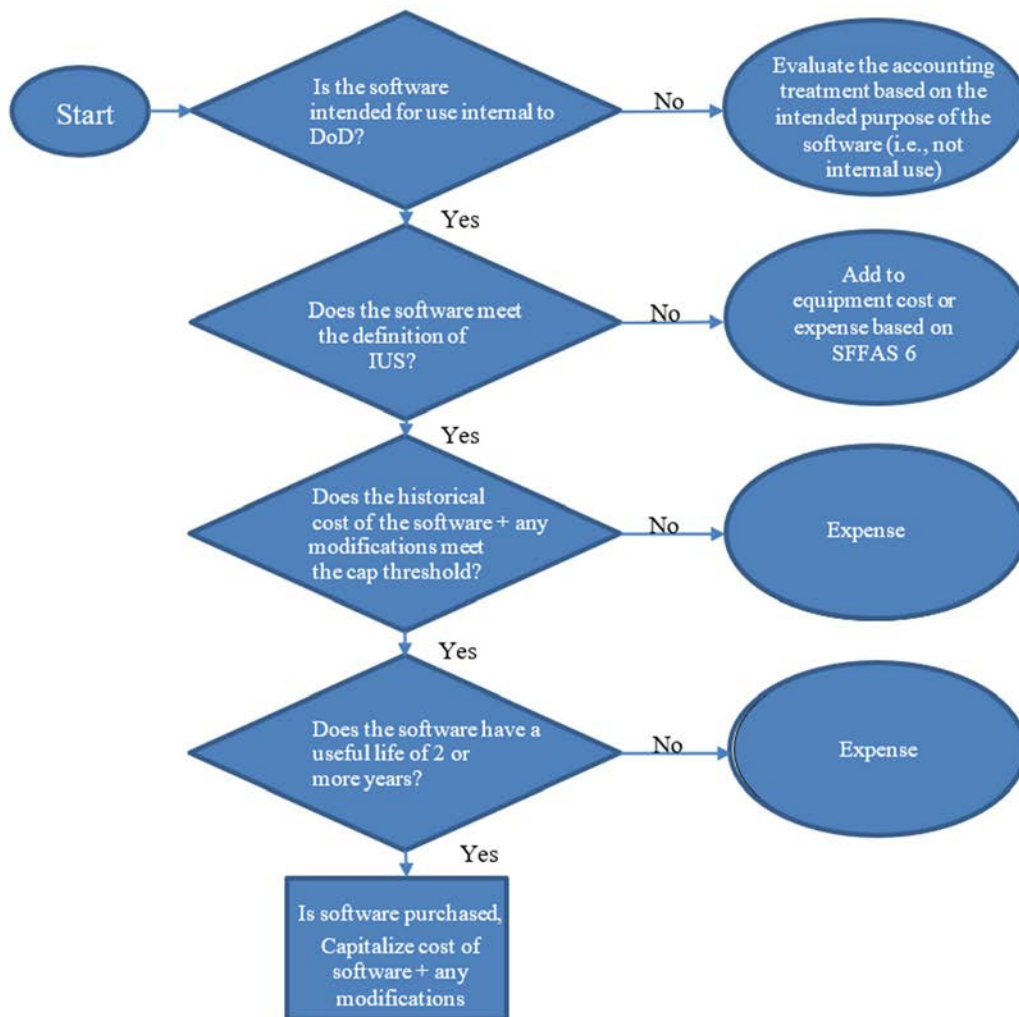
2.8.10. Retain the IUS asset in APSR if it remains in use longer than its estimated useful life, as well as the accounting records, and reflect both its recorded cost and accumulated amortization until disposition of the software.

2.8.11. WCF activities are required to recognize and amortize IUS assets in accordance with the guidance in this chapter without regard to whether such assets are procured through a WCF activity's Capital Purchase/Investment Program budget or whether amortization for such assets is included in rates charged to customers. The recognition of IUS assets and the amortization of such assets by WCF activities therefore may be different for financial statement reporting purposes than the amortization amounts used for WCF rate development and budget presentation. All IUS asset amortization of WCF activities must be recognized as an expense on the Statement of Net Cost, reflected in the Statement of Changes in Net Position, included in accumulated amortization amounts on the Balance Sheet, and reported in the "Defense Working Capital Fund Accounting Report [Accounting Report (Monthly) 1307] (AR(M)1307)." Accounting Report 1307 is described in [Volume 6A, Chapter 15](#). Amortization recorded on IUS assets that were not acquired nor will be replaced through the use of Defense WCF resources must be classified as non-

recoverable for rate-setting purposes and reported appropriately on the AR(M)1307. Defense WCF rates charged to customers are based on guidance in [Volume 2B](#) and [Volume 11B](#).

Figure 27-2. Capitalization Decision Tree

Use the following decision tree for IUS Purchased from Commercial Off-the-Shelf Vendors; IUS Internally Developed by DoD and IUS Developed by a Third Party on Behalf of DoD.



## 2.9 Impairment

2.9.1. Impairment must be recognized and measured when one of the following occurs and is related to post-implementation/operational [IUS assets](#):

2.9.1.1. The [IUS asset](#) is no longer expected to provide substantive service potential and will be removed from service; or

2.9.1.2. A significant reduction occurs in the software's or software module's capabilities, functions, or uses.

2.9.2. If the impaired software is to remain in use, the loss due to impairment must be measured as the difference between the book value and either:

2.9.2.1. The cost to acquire software that would perform similar remaining functions (i.e., the unimpaired functions) or, if that is not feasible;

2.9.2.2. The portion of the book value attributable to the remaining functional elements of the software.

2.9.3. Recognize the loss upon impairment and reduce the book value of the asset accordingly. If the criteria listed in subparagraph 2.9.2 cannot be determined, the DoD Component should continue to amortize the book value over the remaining useful life of the software. Document and retain this decision and associated analyses.

2.9.4. If the impaired IUS asset is to be removed from use, measure the loss as the difference between the book value and the Net Realizable Value (NRV), if any. Recognize the loss upon impairment and reduce the book value of the asset accordingly. Transfer the NRV, if any, to an appropriate asset account until the software is disposed of and the amount is realized.

2.9.5. When it is more likely than not that a developmental software project will not be completed, no further costs are to be capitalized and any costs that have been capitalized must be expensed. Indications that the software development may no longer be completed include:

2.9.5.1. The expenditures are neither budgeted nor incurred to fund further development;

2.9.5.2. The discontinuance of the business segment for which the software was designed;

2.9.5.3. The inability to resolve programming difficulties timely;

2.9.5.4. A decision to obtain COTS software instead and abandon the current software development; or

2.9.5.5. Major cost overruns occur.

2.9.6. When an IUS developmental software project is suspended pending management's evaluation as to whether to resume or terminate the project, the software development cost may remain capitalized in an IUS in Development account (USSGL 183200) as long as it is more likely than not that the developmental software project will eventually be completed and the cost incurred or expected to be incurred meets the capitalization threshold. Reevaluate the status of the project periodically and write off capitalized costs if management concludes that it is more likely than not that the software will not be placed in service in the future.

2.9.7. Recognize and report the loss from impairment, if any, in the Statement of Net Cost in the period in which the DoD Component concludes that the impairment is both (1) a significant decline in service utility and (2) expected to be permanent. Include such losses in program costs or costs not assigned to programs. A general description of the IUS for which an impairment loss is recognized, the nature (e.g., damage or obsolescence) and amount of the impairment and the financial statement classification of the impairment loss must be disclosed in the notes to the financial statements in the period the impairment loss is recognized if the amount is significant to the financial statements.

2.9.8. Report the impairment loss net of any associated recovery of the net realizable value when the recovery and loss occur in the same fiscal year. Report recoveries reported in subsequent fiscal years as revenue or other financing source as appropriate. Disclose the amount and financial statement classification of recoveries in the notes to the financial statements.

2.9.9. Account for the costs incurred to replace or restore the lost service utility of impaired IUS remaining in use in accordance with applicable standards (i.e., recognized according to the nature of the costs incurred and the appropriate capitalization threshold).

## 2.10 Removal/Disposal

2.10.1. In TR 14, FASAB defines removal from service as an event that terminates the use of a General PP&E asset. [DoD Component Heads must establish and maintain effective policies and procedures for the removal \(disposal or transfer\) of IUS assets.](#) Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identification as excess to mission needs. Removal from service must be considered other than permanent unless (1) the asset's use is terminated and (2) there is documented evidence of the DoD Component's decision to permanently remove the asset from service. If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

2.10.2. If an IUS's normal use is terminated (i.e., it no longer provides service in the operations of the entity) but the DoD Component has not yet decided to permanently remove the IUS from service, the removal from service is considered other than permanent. Other than permanent removal from service is evidenced by activities such as continuing low-level maintenance to sustain the IUS in a recoverable status or until reutilization efforts are exhausted. For example, IUS taken out of service on a temporary basis is considered other than permanently removed from service. In such cases, the recorded cost of the IUS will remain in the IUS account (USSGL 183000). There is no change in the reported value for IUS that has been other than permanently removed from service and the IUS must continue to be amortized. Amortization charges to expense for IUS will continue to be recorded in USSGL 183900.

2.10.3. If (1) an IUS's use is terminated and (2) the DoD Component has documented its decision to permanently remove the IUS from service, the removal from service must be accounted for as permanent. Permanent removal from service is evident from the DoD Component's documented decision to dispose of an IUS by selling, recycling, or donating the IUS. The recorded cost as well as the accumulated amortization of an IUS permanently removed from service must

be removed from the accounts in which they are reported, and the IUS must be recorded at its NRV in a General Property, Plant and Equipment Permanently Removed But not Yet Disposed account (USSGL 199500). USSGL account 199500 is defined in the DoD Standard Reporting Chart of Accounts under the DoD Account Definitions tab as the NRV of General PP&E that is permanently removed from service but not yet disposed of and is reclassified in accordance with FASAB TR 14, paragraphs 10 and 12. NRV is the estimated amount that can be recovered from disposing of the asset less estimated costs of completion, holding, and disposal. Any difference between the net book value of the asset and its expected NRV must be recognized as a gain or loss. Any gain should be recorded in the Gains on Disposition of Assets – Other account (USSGL 711000); any loss should be recorded in the Losses on Disposition of Assets – Other account (USSGL 721000). The expected NRV should be evaluated at the end of each fiscal year and any change in NRV should be recognized as a gain or loss. IUS permanently removed from service is no longer amortized.

2.10.4. When an IUS is disposed of (e.g., by selling, recycling, donating, or destruction) the IUS must be written off from the financial records and financial statements and the difference between any disposal proceeds and the IUS's net book value must be recognized as a gain or loss as described in subparagraph 2.10.3. In such case, if the DoD Component receives a consideration (e.g., cash) for the disposal, a receipt of cash should be recorded in the Fund Balance with Treasury account (USSGL 101000). If the funds (consideration received) are not apportioned to the DoD Component, the fund must be transferred to miscellaneous receipts of the Treasury. There will be no consideration received for a donation. The disposal start date is the calendar date of a legally enforceable and recognizable obligation to complete the disposal action. For transfers and sales, this represents the date on which the instrument is endorsed or operation is ceased, whichever comes later. For natural disasters, this represents the actual date of the incident.

2.10.5. Upon authorized disposition, APOs are responsible for ensuring that all IUS asset dispositions and transfers are properly recorded in the APSR or managerial system, including updating the asset's status to "Disposed," recording the date and method of disposition. The reason for disposition or transfer of IUS assets must be properly documented. The APO retains all supporting documentation per record retention policies. Refer to DoD Instruction 5000.76 for additional information.

### 3.0 ADDITIONAL CONSIDERATIONS

#### 3.1 Use of Canceled Treasury Account Symbol

3.1.1. The Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) is a data collection system that replaces the reporting functionalities of Federal Agencies Centralized Trial-Balance System I and II, Intragovernmental Fiduciary Confirmation System and Intragovernmental Reporting and Analysis System as the primary means for DoD Components to report their trial balance data to the Treasury. Capitalized assets are required to be reported and remain in GTAS after the original purchasing Treasury Account Symbol (TAS) has expired and been canceled. If a capitalized asset has not been moved to a "C" TAS as described in 3.1.2. GTAS will provide a "C" TAS on the GTAS Super Master Account File (SMAF) for

each fund family represented on the SMAF. The system-generated “C” TAS will have three components: the three-digit agency identifier, availability type “C”, and a four-digit main account.

3.1.2. All DoD Components must use the “C” availability type TAS to report capitalized assets. Assets may be moved to a C TAS at any time from the purchase date to the date the original purchasing fund is canceled. (Refer to the TFM, Part 2, Chapter 4700 for additional information.)

3.1.3. To transfer an asset to a C TAS:

3.1.3.1. Use the USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

3.1.3.2. Use USSGL account transaction E606 to transfer-in the asset into the appropriate C TAS.

## 3.2 Supporting Documentation

Entries to record financial transactions in accounting system general ledger accounts and/or the supporting subsidiary accountable property records and/or systems must:

3.2.1. Be supported by source documents that reflect all transactions affecting the DoD Component’s investment in the IUS.

3.2.1.1. Support all acquisitions, whether by purchase, transfer from other agencies, donation, or other means, as of the date the DoD Component takes custody of the IUS. The documents listed in Table 27-3, where applicable, must be readily available to support the changes in asset value or physical attributes because of new acquisition or capital enhancement.

3.2.1.2. Support all disposals or retirements as of the date the IUS leaves the custody of the DoD Component to provide an adequate audit trail for the disposal of an asset. The execution of certain disposal events will generate financial or administrative accountability transactions. These documents, where applicable, must be readily available to support disposals:

3.2.1.2.1. ‘Declaration of excess’ document;

3.2.1.2.2. Approval documentation for the disposal;

3.2.1.2.3. Original acquisition documents;

3.2.1.2.4. Legal instruments (such as a license agreement or contract) to indicate a legal obligation to dispose of an asset;

3.2.1.2.5. Document showing the disposal start date;

3.2.1.2.6. Receipt documentation; and

3.2.1.2.7. Transfer documents for transferred assets or as otherwise stated.

3.2.1.3. Retain documents that support the recorded cost of IUS assets by the DoD Component in accordance with the requirements contained in Volume 1, Chapter 9, or as otherwise stated. Maintain documentation (original documents and/or hard and electronic copies of original documentation) in a readily available location during the applicable retention period to permit the validation of information pertaining to the asset such as the purchase cost, purchase date, and cost of enhancements. The documentation must also be linked to the appropriate unique identifier(s). Supporting documentation may include, but is not limited to, the documentation as outlined in this subparagraph. DoD Component asset managers will maintain all applicable documentation for the retention period outlined in Volume 1, Chapter 9.

3.2.2. Include sufficient information indicating the quantity (as applicable would include the number of seats for which the IUS asset is loaded; the number of licenses; and/or the number of copies of a computer disk purchased), location, and unit cost (as measured consistently with the criteria for quantification) of the IUS. Designate the accountable property records to be of maximum assistance in making procurement and utilization decisions, including decisions related to identifying potential excess IUS that may be available for reuse, transfer to other DoD Components, or made available for disposal in accordance with current DoD regulations and other regulatory requirements.

3.2.3. Identify and classify IUS that was capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

3.2.4. Be based on the same documents, to ensure that entries to the accounting and accountable property records are the same. This will ensure that the property accountability records are integrated and subsidiary to the accounting system and those records can be reconciled with the accounting system.

3.2.5. Include documents used to accumulate the cost of developmental projects. Each document must link to the appropriate asset unique identifier. For a listing of those costs that may be incurred during the development, see [Annex 2](#).

3.2.6. Include all IUS possessed by the Department (to include property held by others) and IUS of others held by DoD through seizure, forfeiture, loss, or abandonment.

3.2.7. Provide information to identify and account for capitalized enhancements to IUS.

### 3.3 Reporting Requirements

DoD Components with IUS should reference a note on the Balance Sheet that discloses information about the reported IUS assets. See [Volume 6B, Chapter 10](#) for the specific reporting requirements.

Table 27-1. Capitalization is Dependent on Term and Aggregate Purchase Amount

Bulk Purchased License Terms	Aggregate Purchase Amount	Guidance
License Term < 2 years	N/A	Expense
License Term = / > 2 years or Perpetual	Under capitalization threshold	Expense
License Term = / > 2 years or Perpetual	Equal to or exceeding capitalization threshold*	Capitalize
*Maintenance agreements included in the purchase of licenses are not to be considered part of the cost for this determination.		

Table 27-2. DoD Recovery Periods for Amortizable IUS Assets

DOD RECOVERY PERIODS FOR AMORTIZABLE IUS ASSETS (IUS is capitalized only if it meets the capitalization threshold)	
Description of IUS Assets	Recovery Period
Capitalized IUS	2, 3, 4, 5 or 10 Years*
Licenses	Term of the license agreement
Perpetual Licenses	5 Years
IUS Upgrades	Not capitalized**
Enhancements	Not more than 5 years***
* The useful life will be determined during the planning phase of the asset’s development based on the length of time it is expected to have economic benefit or service potential to the DoD Component.	
** The amortization period of an IUS must be adjusted (not extending more than 5 years) if minor upgrades resulting from ongoing systems maintenance or repair of a design flaw extend the useful life of the software without adding additional capabilities. The cost of the upgrades should be expensed in the period incurred. Also, note the upgrades that do add additional capabilities would be considered enhancements and would be capitalized and amortized if they meet the capitalization criteria in subparagraph 2.5.6.	
***See paragraph 2.6 on the criteria for capitalizing versus expensing of IUS enhancements.	

Table 27-3. Supporting Documentation for IUS Acquisition

Evidence	Examples
<b>Unique Identification</b>	Assignment of a unique identifier
<b>Project Approval</b>	Such as, but not limited to, a Work Order
<b>Obligation on Behalf of the Government</b>	Such as, but not limited to: <ol style="list-style-type: none"> <li>1. For contracts, contract modifications, or change orders:               <ul style="list-style-type: none"> <li>• Statement of Work;</li> <li>• Dollar Amount of Contract;</li> <li>• Location;</li> <li>• Source of Funds;</li> <li>• Parties to the Contract; and</li> <li>• Signature Page [Signature of All Parties].</li> </ul> </li> <li>2. Documentation of labor hours;</li> <li>3. Approved Work Order.</li> </ol>
<b>Payment Submitted</b>	Such as, but not limited to: <ol style="list-style-type: none"> <li>1. Approved the last invoice reflecting the total amount submitted for payment and received to date;</li> <li>2. Evidence of in-house development costs, including labor;</li> <li>3. Indirect Costs incurred internally by the gaining activity that relates to the new acquisition or capital enhancement.</li> </ol>
<b>Acceptance</b>	Such as, but not limited to: <ol style="list-style-type: none"> <li>1. DoD <a href="#"><u>DD Form 250</u></a> Material Inspection and Receiving Report;</li> <li>2. Executed acquisition document and appraisal results for the donated IUS;</li> <li>3. Signed agreement for software licenses;</li> <li>4. A signoff document confirming key development milestones such as technical acceptance tests are met;</li> <li>5. Documents to support the amount that has been expensed versus capitalized during the software development phase.</li> <li>6. Executed reversionary document; and</li> <li>7. Transfer letter and documents for transferred assets.</li> </ol>

## Annex 1. Definitions and Examples

The following Table A1-1 contains common terms as they are generally defined by information technology and software programming professionals. It also includes scenarios relevant to IUS.

Table A1-1. Definitions and Examples

Definition	Classified as IUS?	Capitalization	DoD Examples**
<b>Access Control Software</b>			
This type of software, which is external to the operating system, provides a means of specifying who has access to a system and the specific capabilities authorized users are granted.	No	Include equipment costs	CA-ACF2, RACF
<b>Application Software</b>			
A software program that performs a specific function directly for a user and can be executed without access to system control, monitoring, or administrative privileges.	Yes	Yes - When capitalization criteria is met	Microsoft Excel, Adobe Photoshop
<b>Cloud – Public</b>			
A cloud-based environment that is generally external to the Department with infrastructure owned and managed by a third party. Public cloud services are generally subscription-based.	No	No	Dropbox
<b>Cloud – Private</b>			
A cloud based environment that is generally internal to the Department and used solely by DoD Components.	Yes	Yes – When the capitalization criteria is met, the DoD Component that controls the IUS has financial reporting responsibility	DISA milCloud
<b>Database Management System (DBMS)</b>			
Computer software applications that interact with the user, other applications, and the database itself to capture and analyze data.	Yes	Yes - When capitalization criteria is met	Oracle Enterprise Manager

\*\*DoD examples provided may or may not be capitalized

Definition	Classified as IUS?	Capitalization	DoD Examples**
<b>Enterprise Resource Planning System</b>			
Commercial software that integrates business information flowing through the Component. ERP systems contain functional modules (e.g., financial, accounting, human resources, supply chain, and customer information) that are integrated within the core system or interfaced <b>with</b> external systems.	Yes – portions of ERP systems are IUS (excluding any hardware acquired as part of the system)	Yes – portions of ERP systems are capitalized	Navy ERP, GFEBS, LMP, DAI
<b>Firmware</b>			
A program recorded in permanent or semi-permanent computer memory.	No	May be capitalized as part of <b>general equipment depending on applicable capitalization criteria being met</b>	Radar system software, lathe software
<b>Freeware / Open Source Software (OSS)</b>			
Software that is offered at no cost.	No	No	Internet browser
<b>Hardware</b>			
The physical components of IT, include computers, peripheral devices such as printers, disks, and scanners, cables, switches, and other IT equipment.	No	May be capitalized as general equipment depending on applicable capitalization criteria being met	Router, Server, Modem, Switch
<b>License – Annual</b>			
A software license that must be renewed annually to continue using the software.	Yes	No - an annual license does not meet the useful life criteria of 2 years for capitalization	Microsoft Lync, VMWARE vSphere
<b>License – Perpetual</b>			
A software license that gives the Department the right to use the software in perpetuity.	Yes	Only if it meets <b>the</b> capitalization threshold	SAP Chrystal Reports

\*\*DoD examples provided may or may not be capitalized.

Definition	Classified as IUS?	Capitalization	DoD Examples**
<b>Middleware</b>			
Computer software that provides services to software applications beyond those available from the operating system.	Yes	Yes - If the system it is part of meets capital criteria	Linux Kernel
<b>Portal</b>			
A web-based application that provides personalization, single sign-on, and content aggregation from different sources, and hosts the presentation layer of information systems	Yes	Yes – When capitalization criteria is met	Audit Response Center (ARC) Tool
<b>Simulation Software</b>			
Based on the process of modeling a real or proposed system with a set of mathematical formulas that allows the user to observe an operation before performing it.	Yes	Yes – When capitalization criteria is met	F-35 Lightning II Training Software
<b>Operating System</b>			
The software that controls the execution of other computer programs, schedules tasks, allocates storage, manages the interface to peripheral hardware, and presents a default interface to the user when no application program is running.	No	Include in equipment costs	Windows, Linux
<b>System / IT System</b>			
The term “system” by itself is not limited to any specific resource. A system may be any two resources that work together to produce a specific outcome. Internal use software may or may not be one component of an overall “system”.	Yes – software components of a system or IT system are IUS	Yes - When capitalization criteria are met	Navy ERP, GFEBS, DAI, CAMIS, OMIS-A
<b>Utility Program</b>			
System software designed to perform a particular function or system maintenance.	No	Include in equipment costs	CD burner, Disk defragmenter, virus scan
<b>Web Application</b>			
An application that is accessed via the web over a network.	Yes (assuming it is owned by a DoD Component)	Yes - When capitalization criteria is met	Outlook Webmail

\*\*DoD examples provided may or may not be capitalized.

\*Annex 2. The Software Development Life-Cycle (SDLC)

1.0 SDLC Phases Include Planning, Development, and Operations.

Generally, capitalize costs incurred during the development phase and expense costs incurred in the planning and operations phases. IUS development under other methods, such as agile software developments, may not follow this linear approach, and capitalization decisions absent distinct phases are more difficult. Regardless of timing, capitalize or expense the cost incurred for development phase activities based on their substance/task activity rather than their phase. Table A3-1 depicts the three phases with a linear sequential paradigm.

1.1 In the Preliminary Design phase, DoD Components will most likely do the following:

1.1.1. Make strategic decisions to allocate resources between alternative projects at a given time. (e.g., decide whether to develop a new IUS asset or fix existing IUS problems);

1.1.2. Determine performance requirements

1.1.3. Invite vendors to perform demonstrations of how their software will fulfill a DoD Component's needs.

1.1.4. Explore alternative means of achieving specified performance requirements. For example, should a DoD Component make or buy the software? Should the software run on a mainframe or client-server system?

1.1.5. Determine if technology exists to meet requirements.

1.1.6. Select a vendor if a DoD Component chooses to obtain COTS software.

1.1.7. Select a consultant to assist in the software's development or installation.

1.2 In the Development phase, the DoD Components may:

1.2.1. Use a system to manage the project;

1.2.2. Track and accumulate life-cycle cost and compare it with performance indicators;

1.2.3. Determine the reasons for any deviations from the performance plan and take corrective actions;

1.2.4. Test the deliverables to verify that they meet the specifications.

1.3 In the Operations phase, the DoD Components may:

1.3.1. Operate and maintain the IUS asset and provide user training.

1.3.2. Convert data from the old [system](#) to the new system;

1.3.3. Compare asset usage with the original plan; and/or

1.3.4. Track [SDLC](#) cost and compare it with the original plan.

1.3.5. Capitalize costs of enhancements to the IUS if they meet the capital enhancement requirements.

## 2.0. Capital Versus Expense IUS Activities.

Many government and contractor personnel conduct a variety of activities throughout the SDLC for various IUS programs and contracts. [Capitalize](#) some costs associated with these activities as part of the cost of the IUS and expense other costs. Capitalization decisions follow the activity regardless of the software development method (e.g., waterfall, prototyping, agile, or spiral). [Software development methods are described in Annex 3.](#) When reviewing contracts and budget documentation, [take care to](#) distinguish between activities to determine to capitalize or expense.

Table A2-1. Traditional IUS SDLC Phases, Tasks, and Accounting Treatment

Project Phase	Task	Treatment
Planning	Project Evaluation	Expense
	Concept testing	Expense
	Evaluation of alternatives	Expense
	Project approval	Expense
Development	Design and Configuration	Capitalize
	Coding	Capitalize
	Installation to Hardware	Capitalize
	Direct personnel costs	Capitalize
	Technical Acceptance Testing	Capitalize
	Quality assurance testing	Capitalize
	Documentation	Capitalize
	Indirect and Overhead costs	Allocate*
Data conversion software	Expense	
Operations	Testing	Expense
	Training	Expense
	Data conversion	Expense
	Help desk	Expense
	Enhancement	See “IUS Enhancements”, section 2.6.
	Maintenance/Bug Fix	Expense

\*Expense or capitalize indirect and overhead costs depending on 1) the materiality to overall costs of individual IUS development projects, and 2) the phase in which the costs are incurred.

### \*Annex 3. Software Development Methods

1.1 Software development methods are ever-evolving, with new methods and techniques being introduced over time. Included in the following subparagraphs are several descriptive examples of common software development methods.

1.1.1. Linear/Waterfall Software Development Method. The linear/waterfall software development method is a sequential design process, used in software development in which progress is seen as flowing steadily downwards (like a waterfall) through the software development phases. The linear/waterfall software development method follows the phases outlined in [Annex 2](#) in sequence, whereas the other software development methods as can move between phases during the life of the development. Regardless of the development method (e.g., waterfall, prototyping, agile, or spiral), the capitalization decisions follow the tasks identified.

1.1.2. Prototyping Software Development Method. The prototyping software development method is a system development method in which a prototype (an early approximation of a final system or product) is built, tested, and then reworked as necessary until an acceptable prototype is finally achieved from which the complete system or product can be developed. This model works best in scenarios where not all the project requirements are known in detail ahead of time. An iterative, trial-and-error process takes place between the developers and the users.

1.1.3. Agile Software Development Method. The agile software development method is a group of software development methods in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams.

1.1.3.1. In an agile project, working software is deployed in iterations of typically one to eight weeks in duration, each of which provides a segment of functionality. Initial planning regarding cost, scope, and timing is usually conducted at a high level, and the project status is primarily evaluated based on software demonstrations.

1.1.3.2. The IUS development phases listed in [Annex 2](#) could be applied to agile development projects on an iteration basis. If an iteration developed meets the module or component asset description in accordance with subparagraph [2.5.4.2.1](#) and the capitalization cut-off period described in subparagraph [2.5.5.5.2](#), then it could be treated as an individual IUS project. If the number of iterations is dependent on the outcomes of multiple processes for a complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with paragraph [2.6](#).

1.1.4. Spiral Software Development Method. The spiral software development method combines the features of the waterfall and prototyping incremental models, but with more emphasis placed on risk analysis and management.

1.1.4.1. The spiral methodology projects are typically separated into phases like the waterfall method: planning, risk analysis, engineering, and evaluation. However, they are broken up into incremental releases of the product, or incremental refinement each time around the spiral and through continuously analyzing the requirements and improving the definition and implementation. At each iteration around the cycle, the project is improved and extended.

1.1.4.2. The IUS development phases listed in subparagraph [Annex 2](#) could be applied to a spiral development project on a process iteration basis. If an iteration developed meets the module or component asset description in accordance with subparagraph [2.5.4.2.1](#) and the capitalization cut-off period described in subparagraph [2.5.5.5.2](#), then it could be treated as an individual IUS project. If the number of iterations is dependent on the outcomes of multiple spiral processes for a complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with paragraph [2.6](#).

**1.2 Cross-Functional IUS Reviews.** Software development can be complex and accounting decisions often require a measure of judgment and expertise found throughout an organization. Examples of these decisions can include identifying assets that meet the IUS definition, determining the point at which an IUS project is more likely than not to be completed, whether an enhancement should be capitalized, and determining the useful life. DoD Components will ensure that key stakeholders from the IUS program, acquisition, and accounting organizations have adequate visibility into the major milestones throughout the acquisition process to make these decisions. This could take the form of an IUS acquisition review board, consisting of knowledgeable stakeholders who assess pending and active IUS projects to make such decisions. It could also include leveraging portfolio management processes already in place at some DoD Components. Stakeholders will meet periodically and with enough frequency to make timely decisions concerning the IUS and the decisions will be documented. Additional cross-functional decisions and deadlines for making them are found in [Table A3-1](#). This review activity can also serve as a key control.

Table A3-1. Cross-Functional Review Decisions and Timeline

<b>Decision</b>	<b>Decision Timeline</b>
Identify potential IUS	During the budget process and not later than end of <b>the</b> planning phase
Determine that it is more likely than not that the IUS project will be completed	Prior to the completion of the planning phase
Assign a useful life	Prior to the end of final technical acceptance testing
Confirm that <b>the</b> cost has been correctly accumulated and assigned to the asset	Prior to the end of final technical acceptance testing
Confirm that indirect costs have been appropriately allocated	Prior to the end of final technical acceptance testing
Assign an in-service date	Upon completion of final technical acceptance testing
<b>Decision</b>	<b>Decision Timeline</b>
Identify potential capital enhancements	During the budget process and not later than end of <b>the</b> planning phase
Management Oversight Decisions <ul style="list-style-type: none"> <li>• Impairment</li> <li>• Evaluation of suspended projects               <ul style="list-style-type: none"> <li>o More likely than not the project will be completed</li> <li>o More likely than not the project will be cancelled</li> </ul> </li> </ul>	On-going

**VOLUME 4, CHAPTER 28: “HERITAGE ASSETS, MULTI-USE HERITAGE ASSETS, AND STEWARDSHIP LAND”**

**SUMMARY OF MAJOR CHANGES**

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

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

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

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

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

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Updated hyperlinks and formatting to comply with current administrative instructions.	Revision
1.1, 2.0, 3.0, & 4.0	Added “Overview” section. Broke out each type of asset into separate sections. Removed “Definitions” sections (previously paragraph 2.1) and incorporated content into “Overview” and each asset’s “Description” subparagraph.	Revision
1.3.13	Added Statement of Federal Financial Accounting Standards 59, “Accounting and Reporting of Government Land” to the authoritative guidance section.	Addition
2.1.7	Added additional historic significance criteria to align with the National Register of Historic Places guidelines found in the Code of Federal Regulations, Title 36, Chapter 1, Part 60, Section 60.4	Addition
3.3 3.4 Throughout	Removed accounting treatment for multi-use heritage assets where the guidance is in accordance with general equipment (previously subparagraphs 2.5.2, 2.6.2, 2.7.2, 2.8.3, 2.9, and 2.10.2).	Deletion
Table 28-1, Table 28-2, & Table 28-3 (previous version)	Removed duplicate tables found in either Chapter 24 “Real Property” or Chapter 25, “General Equipment” Referenced the appropriate chapter.	Deletion
4.1.1.2	Defined Land Rights.	Addition
4.1.2 4.1.3	Added examples of stewardship land and described how stewardship land supports military readiness.	Addition

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## CHAPTER 28

**HERITAGE ASSETS, MULTI-USE HERITAGE ASSETS, AND STEWARDSHIP LAND**

## 1.0 GENERAL

## \*1.1 Overview

As the Department executes its mission to provide the military forces needed to deter war and protect the security of our country, it has become a large-scale owner of historic buildings, structures, historical artifacts, art, stewardship land, and other cultural resources. Protection of these elements of the nation's Heritage Assets and Stewardship Land is an essential part of the Department's mission. This chapter provides Department of Defense (DoD) accounting policy for heritage assets, multi-use heritage assets, and stewardship land, which are subsets of property, plant and equipment (PP&E). PP&E consists of tangible assets that meet the following criteria – (i) they have estimated useful lives of two years or more; (ii) they are not intended for sale in the ordinary course of operations; and (iii) they have been acquired or constructed with the intention of being used, or being available for use by the entity.

## 1.2 Purpose

This chapter establishes the accounting policy and requirements for financial control over heritage assets, multi-use heritage assets, and stewardship land. The applicable general ledger accounts are listed in the United States Standard General Ledger (USSGL) discussed in [Volume 1, Chapter 7](#), “Department of Defense Standard Chart of Accounts.” The [DoD USSGL Transaction Library](#) contains both the DoD Standard Chart of Accounts and the accounting entries for these PP&E accounts. The accounting policy for environmental liabilities/cleanup costs pertaining to heritage assets, multi-use heritage assets, and stewardship land is contained in [Chapter 13](#), “Environmental Disposal Liabilities.” Unless otherwise stated, this chapter is applicable to all DoD Components, including Working Capital Fund activities.

## 1.3 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.3.1. Title 54 United States Code, Section 306131 ([54 U.S.C. § 306131](#)), “Standards and Guidelines”;

1.3.2. Code of Federal Regulations, Title 36, Chapter 1, Part 60, National Register of Historic Places, [Section 60.4 Criteria for Evaluation](#);

1.3.3. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ([SFFAS 1](#)), “Accounting for Selected Assets and Liabilities”;

1.3.4. FASAB [SFFAS 5](#), “Accounting for Liabilities of the Federal Government”;

- 1.3.5. FASAB [SFFAS 6](#), “Accounting for Property, Plant, and Equipment”;
- 1.3.6. FASAB [SFFAS 7](#), “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting”;
- 1.3.7. FASAB [SFFAS 29](#), “Heritage Assets and Stewardship Land”;
- 1.3.8. FASAB [SFFAS 40](#), “Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant and Equipment”;
- 1.3.9. FASAB [SFFAS 42](#), “Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32”;
- 1.3.10. FASAB [SFFAS 44](#), “Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use”;
- 1.3.11. FASAB [SFFAS 50](#), “Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35”;
- 1.3.12. FASAB [SFFAS 55](#), “Amending Inter-entity Cost Provisions”;
- \* 1.3.13. FASAB [SFFAS 59](#), “Accounting and Reporting of Government Land”;
- 1.3.14. FASAB Federal Financial Accounting and Auditing Technical Release [\(TR\) 9](#), “Implementation Guide for SFFAS 29: Heritage Assets and Stewardship Land”;
- 1.3.15. FASAB [TR 13](#), “Implementation Guide for Estimating the Historical Cost of General Property, Plant & Equipment”;
- 1.3.16. FASAB [TR 14](#), “Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment”;
- 1.3.17. FASAB [TR 15](#), “Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation”;
- 1.3.18. [Treasury Financial Manual Volume 1, Part 2, Chapter 4700](#) “Agency Reporting Requirements for the Financial Report of the United States Government.”
- 1.3.19. Office of Management and Budget [Circular No. A-136](#), “Financial Reporting Requirements”;
- 1.3.20. DoD Instruction [\(DoDI\) 4165.14](#), “Real Property Inventory (RPI) and Forecasting”;
- 1.3.21. [DoDI 4165.70](#), “Real Property Management”;

1.3.22. [DoDI 4715.16](#), “Cultural Resources Management”; and

1.3.23. [DoDI 5000.64](#), “Accountability and Management of DoD Equipment and Other Accountable Property”;

## \*2.0 HERITAGE ASSETS

### 2.1 Description

2.1.1. Heritage assets are PP&E that are unique for one or more of the following reasons:

2.1.1.1. Historical or natural significance;

2.1.1.2. Cultural, educational, or artistic (e.g., aesthetic) importance; or

2.1.1.3. Significant architectural characteristics.

2.1.2. Heritage assets consist of (1) collection-type assets, such as objects gathered and maintained for exhibition (e.g., museum collections, art collections, and library collections); and (2) non-collection-type assets (e.g., memorials, monuments, buildings, and archeological sites). Cultural resources and historic properties, defined in DoDI 4715.16, may be categorized as heritage assets for financial reporting purposes if they have the attributes of heritage assets described in this definition.

2.1.3. Heritage assets are generally expected to be preserved indefinitely.

2.1.4. The cost or value must not serve as a factor when deciding if an asset must be classified as a heritage asset.

2.1.5. If a particular asset is listed on the National Register of Historic Places, it is heritage in nature. If it is not listed on the National Register of Historic Places, refer to cultural resources and collections policies, published registers, and consult with DoD subject matter experts (i.e., the DoD cultural resources or museum staffs) when making this assessment. Designation of a PP&E asset (including such assets as museum, library, and art collections) as a heritage asset can be done at any time in its life cycle, based on the application of evaluation criteria by qualified staff.

2.1.6. Historic significance may be identified if a property/asset meets at least one of the following criteria adapted from the National Register of Historic Places as determined by the relevant DoD Component with concurrence by the relevant State Historic Preservation Officer, or as determined by the guidelines of the National Register of Historic Places in the 36 CFR, Part 60, Section 60.4:

2.1.6.1. Association with historic events or activities that have made a significant contribution to the broad patterns of history (e.g., battles, development of military technology, prehistoric cultural patterns);

2.1.6.2. Association with the lives of significant historic persons (e.g., important military leaders, political leaders, inventors);

2.1.6.3. Distinctive design or physical characteristics of a type, period, or method of construction (e.g., work representative of a particular approach to military design or a particular type or style of architecture or engineering); or that represents the work of a master (e.g., work of a master architect, landscape architect, planner, or engineer); or that possess high artistic values (e.g., artwork that was commissioned by a recognized artist to commemorate military history); or that represents a significant and distinguishable entity whose components may lack individual distinction (e.g., a formative example of standardized planned military housing); or

2.1.6.4. Have yielded or may be likely to yield important information about prehistory or history (e.g., an archeological site on a military installation).

\* 2.1.7. Ordinarily, cemeteries, birthplaces, or graves of historical figures, properties owned by religious institutions or used for religious purposes, structures that have been moved from their original locations, reconstructed historic buildings, properties primarily commemorative in nature, and properties that have achieved significance within the past 50 years are not considered eligible for the National Register. However, such properties will qualify if they are integral parts of districts that meet the criteria, or if they fall within the following categories:

2.1.7.1. A religious property deriving primary significance from architectural or artistic distinction or historical importance; or

2.1.7.2. A building or structure removed from its original location but which is significant primarily for architectural value, or which is the surviving structure most importantly associated with a historic person or event; or

2.1.7.3. A birthplace or grave of a historical figure of outstanding importance if there is no appropriate site or building directly associated with their productive life.

2.1.7.4. A cemetery which derives its primary significance from graves of persons of transcendent importance, from age, from distinctive design features, or from association with historic events; or

2.1.7.5. A reconstructed building when accurately executed in a suitable environment and presented in a dignified manner as part of a restoration master plan, and when no other building or structure with the same association has survived; or

2.1.7.6. A property primarily commemorative in intent if design, age, tradition, or symbolic value has invested it with its own exceptional significance; or

2.1.7.7. A property achieving significance within the past 50 years if it is of exceptional importance.

2.1.8. As contrasted with multi-use heritage assets (described in section 3.0), heritage assets are not used predominantly in general government operations. Heritage assets having an incidental (i.e., not significant or predominant) use in government operations are not considered and are not classified as multi-use heritage assets; they are simply heritage assets.

2.1.9. Some heritage assets will meet the definitions of, and be considered and reported as, both heritage assets and stewardship land. Such reporting would not be considered duplication as the type of information reported on the physical unit would be different for each category of stewardship asset (i.e., heritage assets and stewardship land).

## 2.2 Acquisition/Valuation

The cost of acquiring heritage assets is expensed in the period incurred. The cost must include all costs incurred to bring the asset to a form and location suitable for its intended use.

## 2.3 Recognition and Measurement

2.3.1. Recognize the cost of acquiring, improving, reconstructing, or renovating heritage assets on the Statement of Net Cost for the period in which the cost is incurred. Include all costs incurred to bring the asset to its current condition and location.

2.3.2. Do not recognize revenue for heritage assets acquired through donation or devise (a will or clause of a will disposing of property).

2.3.3. Transfers of heritage assets from one DoD Component to another or to another Federal agency do not affect the net cost of operations or net position of either entity.

## 2.4 Removal/Disposal

Heritage Assets can be removed from service or otherwise disposed of.

## 2.5 Disclosure Requirements

The DoD Component that has control over the heritage asset must report information about the heritage assets in its financial statement note disclosures as set forth in SFFAS 29, paragraph 25. Disclosures must include physical units of measure, described in section 5.3 Physical Units of Measure.

## \*3.0 MULTI-USE HERITAGE ASSETS

### 3.1 Description

Heritage assets may in some cases serve two purposes: (i) a heritage function and (ii) a government operations function. In cases where a heritage asset serves two purposes and the predominant use of the asset is in general government operations, the heritage asset must be considered and classified as a multi-use heritage asset. An example of a multi-use heritage asset

is the Pentagon, which has been listed on the National Register of Historic Places and is also used as an office building. Cultural resources and historic properties, as defined in DoDI 4715.16, may be categorized as multi-use heritage assets for financial accounting purposes if they have the attributes of multi-use heritage assets as described in this definition.

### 3.2 Acquisition/Valuation

Newly acquired multi-use heritage asset items must follow general PP&E guidance. [Chapter 25 “General Equipment”](#) defines and prescribes the use of acquisition cost, net book value, fair value, ancillary costs, and recorded cost when recording the cost of general PP&E.

### \*3.3 Recognition and Measurement

**3.3.1.** The costs of acquisition, improvement, or renovation of multi-use heritage assets must be capitalized as general PP&E and depreciated if the costs equal or exceed the DoD capitalization threshold. Expenses are the costs that do not equal or exceed the capitalization threshold. Refer to Chapter 25 for the capitalization threshold for general PP&E.

**3.3.2.** Assets classified as multi-use heritage assets and acquired through donation or devise must be recognized as general PP&E at the fair value of the assets at the time received and the amount must be recognized as non-exchange revenues as defined in SFFAS 7.

**3.3.3.** Transfers of multi-use heritage assets from one Federal entity to another (including between DoD Components or between a DoD Component and another Federal entity) must be recognized by the receiving entity as a transfer-in as an additional financing source, and the transferring entity must recognize a transfer-out. The value recorded must be the transferring entity’s net book value of the multi-use heritage asset.

**3.3.4. Improvements/Enhancements.** Capital improvements or enhancements to multi-use heritage assets must be capitalized in accordance with general PP&E. Refer to Chapter 25.

**3.3.5. Depreciation.** The recorded cost of capitalized multi-use heritage assets must be depreciated in accordance with the general PP&E guidance as described in Chapter 25.

**3.3.6. Impairment.** Multi-use heritage assets are subject to the same impairment ruleset as general PP&E. Refer to Chapter 25 for additional information on impairment.

### \*3.4 Removal/Disposal

Multi-use heritage assets must be removed and disposed of in accordance with the general PP&E guidance as described in Chapter 25.

### 3.5 Disclosure Requirements

Multi-use heritage assets require additional descriptive information in the heritage asset note disclosure as set forth in SFFAS 29, paragraph 25. Multi-use heritage assets are to be reported

in both the principal financial statements (in dollars) as general PP&E and in the heritage asset note disclosure (in physical units). This reporting and note disclosure would not be considered duplicative as each category is considered unique for this reporting purpose. Disclosures must include physical units of measure, described in section 5.3 Physical Units of Measure.

### 3.6 Use of Canceled Treasury Account Symbol

Multi-use heritage assets are required to be reported in the Department of the Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS), a data collection system for DoD Components to report their trial balance data to the Department of Treasury. Refer to Chapter 25 for information on reporting capitalized assets and remaining in GTAS after the original purchasing Treasury Account Symbol has expired and been canceled.

## \*4.0 STEWARDSHIP LAND

### 4.1 Description

4.1.1. Stewardship land includes both public domain and acquired land and land rights owned by the Federal Government intended to be held indefinitely but not acquired for or in connection with the acquisition or construction of real property facilities.

4.1.1.1. Land is defined as the solid part of the surface of the earth. Excluded from the definition are natural resources (e.g., depletable resources, such as mineral deposits and petroleum, renewable resources such as timber and the outer continental shelf resources) related to land.

\* 4.1.1.2. Land rights are interests and privileges held by DoD or a DoD Component, in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, mineral rights, and other like interests in land.

4.1.1.2.1. Land rights such as easements or rights-of-way that are for an unspecified period of time or unlimited duration are considered permanent land rights in perpetuity.

4.1.1.2.2. Temporary land rights are those land rights that are for a specified period of time or limited duration.

4.1.1.3. "Acquired for or in connection with the acquisition or construction of real property facilities," is defined as including land or land rights acquired with the intent to construct general PP&E and land or land rights acquired in combination with general PP&E. Land and land rights owned by DoD or a DoD Component, and acquired for or in connection with real property facilities must be accounted for and reported as general PP&E.

\* 4.1.2. Examples of stewardship land include land reserved, managed, planned, used, or acquired for:

4.1.2.1. Forests and parks;

4.1.2.2. Recreation and conservation;

4.1.2.3. Wildlife habitat and grazing;

4.1.2.4. Conservation or preservation of cultural resources and historic sites;

4.1.2.5. Multiple-purpose ancillary revenue-generating activity (for example, special use permits, mineral development activities, and timber production); or

4.1.2.6. Buffer zones for security, flood management, and noise and view sheds.

\* 4.1.3. While DoD stewardship lands support environmental conservation, they also support military readiness. Healthy ecosystems mean realistic training grounds that mirror potential battlefields. Soldiers train in deserts, forests, wetlands, and coastal areas to prepare for global challenges. In addition, clean water and air protect military families.

## 4.2 Acquisition/Valuation

The cost of acquiring stewardship land is expensed in the period incurred. The cost must include all costs incurred to bring the asset to a form and location suitable for its intended use.

## 4.3 Recognition and Measurement

4.3.1. Recognize the cost of the acquisition of stewardship land as an expense on the Statement of Net Cost for the period in which the cost is incurred. The cost must include all costs to prepare stewardship land for its intended use (e.g., grading the land or razing a building).

4.3.2. In some cases, land may be acquired along with existing facilities. Consult with Component cultural resources staff to determine how to treat the acquisition cost of the facility.

4.3.2.1. Facilities to be used in operations must be treated as an acquisition of stewardship land, if;

4.3.2.1.1. The value of the facility is insignificant; or

4.3.2.1.2. Its acquisition is merely a byproduct of the acquisition of the land.

4.3.2.2. Facilities of significant value that have an operating use (e.g., a constructed hotel or employee housing block) must be treated as general PP&E (real property or multi-use

heritage assets) by identifying the cost attributable to the facilities and segregating it from the cost of stewardship land acquired.

4.3.3. Do not recognize revenue for stewardship land acquired through donation or devise.

4.3.4. Transfers of stewardship land from one DoD Component to another or to another Federal agency do not affect the net cost of operations or net position of either entity.

#### 4.4 Removal/Disposal

Stewardship land can be removed from service or otherwise disposed of. For example, stewardship land can be granted to the DoD Component by the Department of Interior (DOI) for a definite period with the expectation that the land will be returned at the end of the period. In this example, the stewardship land is removed from service when it is returned to the DOI.

#### 4.5 Disclosure Requirements

Land classified as stewardship land is reported as basic information within the financial statements of the DoD Component responsible for such land. Refer to [Chapter 24 “Real Property”](#) for disclosure requirements for stewardship land and permanent land rights in accordance with SFFAS 59. Disclosures must include physical units of measure, described in section 5.3 Physical Units of Measure.

### 5.0 DOCUMENTATION

All heritage assets, multi-use heritage assets, and stewardship land acquired by DoD Components must be recognized for accountability (in accordance with DoDI 4165.14, DoDI 4165.70, and DoDI 5000.64) and financial reporting purposes.

#### 5.1 Supporting Documentation

5.1.1. Entries to record financial transactions in accounting system general ledger accounts and the Accountable Property System of Record (APSR) and/or other systems, as well as information to be included in financial statement note disclosures, must be supported by source documents that reflect all transactions affecting the DoD Component’s stewardship investment in the PP&E. Refer to paragraph 5.4 for information on APSR requirements.

5.1.2. All acquisitions, whether by purchase, transfer from other agencies, donation, or other means, must be supported as of the date the DoD Component accepts the heritage assets, multi-use heritage assets and/or stewardship land. Documentation, where applicable, must be readily available to support the changes in asset value or physical attributes as a result of new acquisition or capital improvement. Refer to Chapter 25 for examples of supporting documentation for acquisition.

5.1.2.1. Agencies must maintain historical files evidencing ownership of heritage assets, multi-use heritage assets, and stewardship land; and for some types of heritage assets,

records and documentation pertaining to the asset's historical significance are required to be maintained pursuant to U.S.C. and DoD policy (e.g., 54 U.S.C. § 306131 and DoDI 4715.16).

5.1.2.2. When original property records or other documentation (e.g., deeds, tax assessments, insurance records) for heritage assets and stewardship land do not exist, a methodology must be employed in order to develop alternative documentation to support management's assertions of Federal ownership.

5.1.2.3. Maintenance or renovation contracts, historical maintenance records or a history of payment of invoices, minutes of meetings, historical data bases, surveys of land records, a history of past/historical practices (e.g., establishing de facto ownership), or other relevant sources of information may provide acceptable alternative evidence of government ownership of heritage assets and stewardship land.

5.1.3. When definitive documentation for stewardship land and/or heritage assets is not available, management must identify and use alternative methods for supporting management's assertions for these assets. For assessing land, for example, these methods could mirror the areas used to determine major categories for note disclosure in the financial statements, such as the number of areas of recreational use, geographic management areas, and federal water projects of fish hatcheries.

5.1.4. All disposals or retirements must be supported as of the date the PP&E leaves the custody of the DoD Component to provide an adequate audit trail for the disposal of the asset. The execution of certain disposal events will generate financial or administrative accountability transactions. Refer to Chapter 25 for examples of supporting documentation for disposals and retirements.

## 5.2 Policies and Procedures

DoD Components must document the identification, categorization, and method used to physically quantify the assets to ensure consistent reporting for all similar heritage assets and stewardship land.

## 5.3 Physical Units of Measure

Physical units of measure are necessary to meet disclosure requirements described in SFFAS 29.

5.3.1. Heritage Assets. Heritage assets must be quantified in terms of physical units (unit of measure) to facilitate the required financial statement note reporting. The appropriate level of aggregation and physical units of measure for each major category must be meaningful and determined by the preparer based on the entity's mission, types of heritage assets, and how the entity manages the assets. For each major category of heritage asset, the following must be documented:

5.3.1.1. The number of physical units by major category. The major categories must be classified by collection or non-collection-type heritage assets for which the entity is the steward as of the end of the reporting period;

5.3.1.2. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period; and

5.3.1.3. A description of the major methods of acquisition and withdrawal of heritage assets during the reporting period. This must include disclosure of the number of physical units (by major category) of transfers of heritage assets between federal entities and the number of physical units (by major category) of heritage assets acquired through donation or devise, if material. In addition, the fair value of heritage assets acquired through donation or devise during the reporting period must be disclosed, if known and material.

5.3.2. [Stewardship Land](#). Stewardship land must be quantified in terms of physical units (acres). The appropriate level of aggregation and physical units (acres) of measure for each major category (e.g., Land Predominate Use Code) of stewardship land use must be meaningful and determined by the preparer based on the entity's mission, types of stewardship land use, and how the entity manages the assets. For each major category of stewardship land, the following must be documented:

5.3.2.1. The number of physical units (acres) by major category of stewardship land use for which the entity is the steward as of the end of the reporting period;

5.3.2.2. The number of physical units (acres) by major category of stewardship land use that were acquired and the number of physical units (acres) by major category of stewardship land use that were withdrawn during the reporting period; and

5.3.2.3. A description of the major methods of acquisition and withdrawal of stewardship land during the reporting period. This must include disclosure of physical units (acres) (by major category of stewardship land use) of transfers of stewardship land between federal entities and the number of physical units (acres) (by major category of stewardship land use) of stewardship land acquired through donation or devise, if material. In addition, the fair value of stewardship land acquired through donation or devise during the reporting period must be disclosed, if known and material.

#### 5.4 [Accountable Property System of Record \(APSR\)](#)

The APSR [and/or other systems](#) must be designed to [support](#) procurement and utilization decisions, including decisions related to identifying general PP&E that may transfer to other DoD Components, or made available for disposal in accordance with current DoD regulations and other regulatory requirements. [APSR and/or other systems must:](#)

5.4.1. Enable periodic, independent verification of the accuracy of the accounting and APSR [and/or other systems](#) through periodic physical counts/inventories. [Periodic inventory](#)

counts include reconciling the APSR and/or other systems with the general ledger accounts and physical counts for multi-use heritage assets;

5.4.2. Identify and classify multi-use heritage assets that were capitalized, recorded in the APSR and accounting system, and reported in the financial statements;

5.4.3. Validate that entries to the financial accounting/reporting and APSR are the same to support APSR integration and reconciliation with the financial accounting system;

5.4.4. Include all multi-use heritage assets, heritage assets, and stewardship land possessed by DoD (to include property held by others) and multi-use heritage assets, heritage assets, and stewardship land held by DoD through seizure, forfeiture, loss, or abandonment; and

5.4.5. Provide information to identify and account for capitalized improvements to multi-use heritage assets.

## 6.0 PHYSICAL INVENTORIES

DoD Components must perform periodic physical inventories of heritage assets and multi-use heritage assets in accordance with DoDI 5000.64 and DoDI 4165.14. Periodic physical inventories of stewardship land must be performed in accordance with DoDI 4165.14.

## 7.0 DEFERRED MAINTENANCE AND REPAIRS (DM&R)

### 7.1 Description

7.1.1. DM&R are maintenance and repairs that were not performed when they should have been or were scheduled to be, and which are put off or delayed to a future period.

7.1.2. Maintenance and repairs are activities directed towards keeping assets in an acceptable condition. Maintenance and repairs include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset.

7.1.3. Maintenance and repairs exclude activities aimed at expanding the useful life, capacity or capability of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

### 7.2 Measurement

7.2.1. DoD Components must determine acceptable condition standards and which DM&R measurement methods to apply. Condition standards and measurement methods must be consistently applied. If the DoD Component determines that changes are necessary, they must document the change(s) rationale and any related impact the change(s) will have on the DM&R estimates.

7.2.2. Amounts for DM&R may be measured using condition assessment surveys, life-cycle cost forecasts, or other [similar](#) methods.

7.2.2.1. Condition assessment surveys are periodic physical inspections of assets to determine their current condition and estimated cost to correct any deficiencies. DoD Components must assess the condition of [multi-use](#) heritage assets as a function of their day-to-day operations and document condition through periodic assertion/assessment statements. DoD Components [must](#) evaluate the costs and benefits of [conducting](#) condition assessment surveys. Such things as cycling the assessments on a rotating basis, the frequency of assessments (i.e., every three or five years), and the criteria and methodology used for making such assessments need to be considered.

7.2.2.2. Life-cycle costing is an acquisition or procurement technique [that](#) considers operating, maintenance, and other costs in addition to the acquisition cost of assets. Since it results in forecasts of maintenance and repair expenses, these forecasts may serve as a basis against which to compare actual maintenance and repair expenses to arrive at an estimate of DM&R.

7.2.3. DM&R must be measured for capitalized and non-capitalized PP&E, and fully depreciated general PP&E. In addition, DM&R must be measured for inactive and/or excess general PP&E to the extent that it is required to maintain the general PP&E in acceptable condition (e.g., to comply with existing laws and regulations or to preserve value pending disposal) and, DM&R must measure funded maintenance and repairs that have been delayed for a future period as well as unfunded maintenance and repairs.

### 7.3 Disclosure Requirements

DoD Components must report material amounts of DM&R [in the notes](#) to the financial statements. Refer to [Volume 6B, Chapter 12](#) “Required Supplementary Information.”