

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.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
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Assets (FPM19-10), dated December 9, 2019, was cancelled and was not incorporated into the chapter because it has been superseded by the revised policy in the chapter.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.¹

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.²

¹ 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.

²The 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.