ACCOUNTING ILLUSTRATION

INVESTED CAPITAL USED

A. GENERAL

1. Revenue and expenses associated with reimbursable orders must be matched and reported on the Statement of Operations. Likewise, the use of assets, as measured by depreciation of those assets, which are not included in reimbursement rates is a financing source against which expenses must be matched and reported on the Statement of Operations. To accomplish this requirement, general ledger account 5790 has been established.

2. Assets used by the Defense Business Operations Fund (DBOF) may be made available in one of two ways:

a. Assets may be purchased by use of DBOF (97X4930) resources. Assets purchased through use of DBOF resources are accounted for as an exchange of assets (DBOF cash for the acquired asset) as demonstrated by the following accounting entry:

Dr	1730 Buildings	$ 60,000	
Dr	1740 Other Structures and Facilities	$ 48,000	
Cr	1012.2 Funds Disbursed - Capital Program - DBOF		$108,000

b. Assets may be acquired through resources other than those made available to the DBOF for its use. Assets of this type (generally buildings, structures, and facilities financed by a Military Construction appropriation and assets financed by a Procurement appropriation for mobiization requirements) are accounted for as an increase to the applicable asset account and a corresponding increase in equity as demonstrated by the following accounting entry (and more fully explained in this Addendum):

Dr	1730 Buildings	$240,000	
Dr	1740 Other Structures and Facilities	$120,000	
Cr	3211.2 Assets Capitalized		$360,000

Account 5790, "Invested Capital Used," a credit balance account, is a general ledger account established to match, as a financing source, the current period depreciation of assets acquired through resources other than those made available to the DBOF (97X4930) for its use.

B. ILLUSTRATION. The following simplified illustration provides an explanation, in accounting terms, of the accounting necessary to properly recognize revenue and associated expense applicable to invested capital.

1. Identification of Expense to Financing Source. Assets used by the DBOF may be financed through use of DBOF resources (97X4930) or they may be financed by other sources and donated or otherwise made available to the DBOF for its use. The assets acquired must be identified to their original financing source so that the depreciation of those assets can be properly identified.

Financing Source	Account 1730 Buildings	Account 1739 Monthly Depreciation	Account 1740 Other Structures and Facilities	Account 1749 Monthly Depreciation
97X4930	$ 60,000	$ 250	$ 48,000	$ 200
Donation/Other	$240,000	$1,000	$120,000	$ 500
Total	$300,000	$1,250	$168,000	$ 700

2. Recognition of Accrued Expenses

Dr	6126 Depreciation of Real Property	$1,500	
Cr	1739 Accumulated Depreciation on Buildings		$1,000
Cr	1749 Accumulated Depreciation on Other Structures and Facilities		$ 500

To record monthly real property depreciation on donated/Military Construction financed assets. (As shown in preceding table, $1,500 [$1,000 + $500] of the depreciation is applicable to assets used by the DBOF but financed by resources other than those available to the DBOF.)

Dr	6126 Depreciation of Real Property	$ 450	
Cr	1739 Accumulated Depreciation on Buildings		$ 250
Cr	1749 Accumulated Depreciation on Other Structures and Facilities		$ 200

To record monthly real property depreciationon on assets acquired with DBOF financial resources.

3. Reduction of Invested Capital (Account 3211.2). The amounts to be recorded in account 5790 shall be equal to the amount of depreciation/depletion/amortization expenses recorded in the 6100 series of accounts that are applicable to assets used by the DBOF but financed by resources other than those available to the DBOF. In this illustration, those expenses total $1,500.

The following entry illustrates the use of this account:

Dr	3211.2 Assets Capitalized	$1,500	
Cr	5790 Invested Capital Used		$1,500

To record, as a financing source, the monthly benefit received from the use of non-DBOF assets. The benefit received shall be equal to the depreciation expense recorded for those assets during the same period.

4. CLOSING OF ACCOUNTS AT FISCAL YEAR END

Dr	3321 Net Results of Operations - DBOF	$ 23,400	
Cr	6126 Depreciation of Real Property		$ 23,400
Dr	5790 Invested Capital Used	$ 18,000	
Cr	3321 Net Results of Operations-DBOF		$ 18,000
Dr	1012.2 Funds Disbursed - Capital Program - DBOF	$108,000	
Cr	3211.4 Net Treasury Balance-DBOF		$108,000

5. NOTES:

a. Account 5790, "Invested Capital Used," should equal the amount of depreciation expenses recorded for assets used by the DBOF but financed by resources other than those available to the DBOF.

b. The balance in account 5790 should be reported within the "Revenues and Financing Sources" section of the Statement of Operations on the line for "Other Revenue and Financing Sources."

c. The accrued depreciation expense should be reported within the "Expenses" section of the Statement of Operations on the line for "Depreciation and Amortization."

d. The Journal Voucher used to generate the third entry in paragraph B.4. above to close general ledger account 1012.2, "Funds Disbursed - Capital Program - DBOF" to general ledger account 3211.4 shall be retained indefinitely. A copy of the Journal Voucher shall be forwarded to the Defense Finance and Accounting Service-Cleveland Center. Upon receipt of the Journal Voucher from a DBOF activity, the Defense Finance and Accounting Service-Cleveland Center shall make the following accounting entry:

Dr	3211.4 Net Treasury Balance-DBOF	$108,000	
Cr	1013.2 Funds with Treasury - Capital Program - DBOF		$108,000

DEFENSE BUSINESS OPERATIONS FUND

CAPITAL INVESTMENT PROGRAM

PROJECT JUSTIFICATION AND ANALYSIS
(For Capital Investment Projects less than $100,000)

1. Project Title:

2. Functional Process/Project Description:

3. Need/Requirement/Objective Statement:

4. Workload Projections:

5. Alternative(s):

- Status Quo
- Feasible Alternatives
  - Alternative A
  - Alternative B (if applicable)

6. Cost and Benefits Display (see following page)

7. Summary Information for All Alternatives: (Numbers in parentheses are keyed to the Cost Comparison Format on the following page)

	Alt. A	Alt. B
Total Benefits (Current Dollars) (6)	_____	_____
Investment Cost (Current Dollars (7)	_____	_____
Payback (Yrs))	_____	_____
BIR (8)/(9)	_____	_____
Productivity Benefits: (Workyears)	_____	_____

8. Source and Derivation of Costs: (Provide complete explanation, rationale, and backup to support the project and ensure validation.)

9. Assumptions and Constraints: (Identify significant assumptions and constraints.)

10. Conclusions and Recommendation:

COST COMPARISON FORMAT

Constant Dollars (Base Year FY96)				Current Dollars (Inflated)
	Operations Costs		Benefits	Benefits
Evaluation Period* (1)	Status Quo (2)	Alternative A (3)	(Differential Costs) (4) = (2) - (3)	(Differential Costs) (5) = (4) x Infl. Fac.
FY96				
FY97				
FY98				
FY99				
FY00				
FY01				
Residual Value				
Total	$ XXX	$ XXX	$ XXX (8)	$ XXX (6)
		Investment Cost $ XXX (9)		Investment Cost $ XXX (7)
		Project Total $ XXX		

*Limited to 6 years

Repeat Cost Comparison Format for each alternative.

DEFENSE BUSINESS OPERATIONS FUND

CAPITAL INVESTMENT PROGRAM

PROJECT JUSTIFICATION AND ANALYSIS
(For Capital Investment Projects of $100,000 or more)

1. Project Title:

2. Functional Process/Project Description:

3. Need/Requirement/Objective Statement:

4. Workload Projections:

5. Alternative(s):

- Status Quo
- Feasible Alternatives
  - Alternative A
  - Alternative B (if applicable)

6. Cost and Benefits Display (see following page)

7. Summary Information for All Alternatives: (Numbers in parentheses are keyed to the Cost Comparison Format on the following page)

	Alt. A	Alt. B
Total Benefits (Current Dollars) (7)	_____	_____
Investment Cost (Current Dollars (8)	_____	_____
Payback (Yrs))	_____	_____
BIR (11)/(12)	_____	_____
Productivity Benefits: (Workyears)	_____	_____

8. Source and Derivation of Costs: (Provide complete explanation, rationale, and backup to support the project and ensure validation.)

9. Assumptions and Constraints: (Identify significant assumptions and constraints.)

10. Sensitivity/Uncertainty: (Analyze the implications of potential changes to key parameters on the costs and monetary benefits for each alternative.)

11. Other Quantifiable Benefits (non-monetary) and Intangible Benefits: (Identity and discuss other quantifiable and intangible benefits that may help to distinguish between alternatives with similar economic indicator values.)

12. Conclusions and Recommendation:

ECONOMIC ANALYSIS FORMAT

Constant Dollars (Base Year FY96)				Net Present Value (Discounted Dollars)	Constant Dollars (Inflated)
Evaluation Period* (1)	Operations Costs		Benefits	Benefits	Benefits
	Status Quo	Alternative A	(Differential Costs)	(Differential Costs)	(Differential Costs)
	(2)	(3)	(4) = (2) - (3)	(5) = (4) x Disc. Fac	(5) = (4) x Disc. Fac
FY96					
FY97					
FY98					
FY99					
FY00					
FY01					
FY02					
FY03					
FY04					
FY05					
Residual Value			$ XXX	$ XXX	$ XXX
TOTAL	$ XXX	$ XXX	$ XXX (9)	$ XXX (11)	$ XXX (7)
		Investment Cost		Investment Cost	Investment Cost
		$ XXX (10)		$ XXX (12)	$ XXX (8)
		Project Total			
		$ XXX			

*Number of years based on projected economic life of the capital asset (5 - 20 years depending upon the asset's depreciation period)

Repeat Economic Analysis Format for each alternative.