

**SUMMARY OF MAJOR CHANGES TO
DoD 7000.14-R, VOLUME 11B, CHAPTER 12,
“EXPENSES”**

Substantive revisions are denoted by an ★ preceding the section or paragraph with the substantive change or revision.

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
	CHAPTER 12 (previously, Chapter 62) EXPENSES	
1202	Revision to update the accounting process for reimbursement to the military personnel appropriations.	Update
1203	Revision to refer reader to Volume 4, Chapter 6, of this Regulation for additional information on depreciation of assets. Update of information specific to the depreciation of Defense Working Capital Funds (DWCF) assets.	Update

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CHAPTER 12

EXPENSES1201 GENERAL

120101. General Information. Additional information relating to expenses can be found in Volume 4, Chapter 17, “Expenses and Miscellaneous Items,” of this Regulation.

120102. Expense. An expense is an outlay, or other using of an asset, or the incurring of a liability (or a combination) as a result of an entity’s efforts to perform its mission. Expenses are an application of budgetary resources made available to Department of Defense (DoD) Components. Goods and services ordered and received are recorded in the budgetary accounts as accrued expenditures and in the proprietary accounts as an expense, a capital item, or an inventory item. The proprietary accounts maintain financial control over the resources provided to the DoD and assure full accountability once the budget execution process has been completed. Full financial control over all material, labor, supplies, etc., is maintained until consumed (expensed), sold or transferred to another federal agency in accordance with statutory authority. The treatment of expense items by the DWCF entities is different from the treatment accorded to expenses related to appropriation funded activities. For DWCF entities, all expenses, unless specifically exempted by higher management, are costs that shall be recovered through billings to customers.

★1202 MILITARY PERSONNEL EXPENSE

120201. General. Prior to the establishment of the DWCF, military personnel were assigned to a DWCF activity as a “free” resource--that is, the cost of military personnel was not paid by the DWCF nor was that cost included in reimbursable billings of the activity to its customers. After establishment of the DWCF, that process was changed. Now, the cost of military personnel involves two separate processes. The first involves the payment to military personnel appropriations for the budgeted amount of military personnel for an activity group--regardless of the actual number of military personnel assigned. The second involves the costing of military personnel to jobs or cost centers for work performed at the DWCF activity. This does not result in duplicate transactions but does: (1) ensure that military personnel appropriations are not underfunded due to variances between budget and actual numbers of military personnel assigned to DWCF activities, (2) ensure that customers are charged--through the rate structure--for the budgeted amount of military personnel, and (3) provide a way to identify the military cost applied to work performed.

A. The applicable military personnel appropriation request reimbursement for the cost of military personnel from the DWCF in an amount equal to the dollar amount estimated at the time of budget formulation regardless of the number and grade of military personnel subsequently actually assigned to the DWCF activity.

B. The DWCF reimburses the applicable military personnel appropriation for the cost of military personnel in an amount equal to the dollar amount estimated at the time of budget formulation regardless of the number and grade of military personnel subsequently actually assigned to the DWCF activity.

C. The performing DWCF activity includes the cost of military personnel in its stabilized billing rates to DWCF customers. The stabilized billing rate shall be developed based on the military personnel dollar amount estimated at the time of budget formulation regardless of the number and grade of military personnel subsequently actually assigned to the DWCF activity.

D. The performing DWCF activity includes the cost of military personnel, in support of customers orders, in their cost of operations.

120202. Civilian Equivalency Rate

A. The civilian equivalency rate of military personnel shall be included in the stabilized rate billed to all DWCF activity customers. The civilian equivalency rates are published annually by the Office of the Under Secretary of Defense (Comptroller) (OUSDC), Office of Deputy Comptroller (ODC) (Program/Budget). The rates are computed using the guidance provided in Volume 11A, Chapter 6, Appendix B of this Regulation.

B. Military personnel may be assigned to DWCF activities for mobilization purposes, sea/shore rotation flexibility, or for career progression. In addition, military personnel are subject to duties and responsibilities as a result of their military position that do not apply to civilian employees and that may not be of direct benefit to the DWCF activity. These activities include short-term military training, guard duty, inspections, and other military related activities. To adjust for these differences, the military personnel appropriations are reimbursed at the civilian equivalency rate, and the balance of required funding is included as a direct appropriation to the affected military personnel appropriation. The civilian equivalency rate policy recognizes that if the military requirements did not exist, some positions now staffed by military personnel could be staffed with civilians at a lower cost to the activity group.

120203. Military Personnel Costing Process

A. Military Personnel Cost Classification. Military personnel may be classified as direct, indirect, or general and administrative (G&A) depending upon the organizational placement of a military member within a function and the work performed by that member.

B. Inclusion of Military Personnel Costs in Stabilized Billings to DWCF Customers. Stabilized rate billings shall, in addition to other operating and capital program factors, include a factor sufficient to reimburse the DWCF for military personnel costs at the budgeted civilian equivalency amount.

C. Inclusion of Military Personnel Costs in DWCF Costs of Operations. The cost, to the DWCF, of military personnel is the amount paid to the military personnel appropriation by the DWCF for the services of those personnel. The amount paid by the DWCF is fixed at the time of budget formulation. However, during budget execution the actual number, grade, or both of military personnel may differ from the estimated amount included within the budget. The amount of military personnel services, in terms of number and grade, shall be applied at civilian equivalency rates to work performed. Since this amount is based on work performed rather than estimates, it is likely to result in a variance between the amount applied by the DWCF to customer work and the amount paid by the DWCF to the military personnel appropriations (see paragraph 120205, below).

120204. Reimbursement to the Military Personnel Appropriations. For reimbursement of military personnel costs to military personnel appropriation accounts, DWCF activities shall:

A. Provide Obligational Authority. Obligational authority shall be provided to the applicable military personnel appropriations equal to the total dollar amount for the number and grade of military personnel included in the approved budget of the DWCF activity. The budgeted amount is based on the civilian equivalency rate and the civilian equivalency rate for military personnel is less than the military composite pay rate, the military personnel appropriations is responsible for including any difference in its appropriation requests. Obligational authority shall be provided to the applicable military personnel appropriation through issuance, by the DWCF, of a reimbursable order or other appropriate document as requested by the military personnel appropriation manager. The document providing the obligational authority shall cite the applicable DWCF treasury account symbol (97X4930.xxx). The provision of obligational authority to the military personnel appropriation(s) shall result in the obligation of the applicable DWCF Treasury account in that same amount. The obligational authority provided to the military personnel appropriations may, in accordance with an agreement between the military personnel appropriation manager and the DWCF activity manager, be provided either:

1. At the beginning of each quarter of the execution fiscal year in an amount equal to one-fourth of the annual total budgeted dollar amount priced at civilian equivalent rates for the military workyears included in the approved budget of the DWCF activity, or

2. At the beginning of the execution fiscal year in an amount equal to the full annual total budgeted dollar amount priced at civilian equivalent rates for the military workyears included in the approved budget of the DWCF activity.

B. Record Obligation for Military Personnel. The DWCF accounting entries for recording the quarterly/annual obligation for military personnel are shown below.

Dr 4610 Allotments-Realized Resources (Reimbursable)

Cr 4801 Undelivered Orders - Obligations, Unpaid (Reimbursable)

Entry to record obligation of the DWCF for the budgeted cost (at the civilian equivalency rate) for the budgeted dollar amount of military personnel. The obligation is to provide obligational authority to the applicable military personnel appropriation for subsequent payment of military personnel by the military personnel appropriations.

C. Recognize Military Personnel as a Job Cost. The DWCF activities shall record the amount of military personnel costs applied to work performed at the civilian equivalency rate for the number and grade of military personnel assigned to the DWCF activity. The DWCF activities shall accumulate and allocate to customer orders, through a labor distribution system, the military personnel costs applied to work performed at the civilian equivalency rate applicable to the grade of each military member. There will be no additional acceleration of the civilian equivalency rate charged to customer orders for military leave or other absences. Accounting entries to record military personnel costs are shown below.

Dr 6100 Operating Expenses/Program Costs (Military Personnel)
Cr 2110 Accounts Payable (Military Personnel)

Dr 4801 Undelivered Orders-Obligations, Unpaid (Reimbursable)
Cr 4901 Delivered Orders-Obligations, Unpaid (Reimbursable)

Entry to record accrual of military employee cost incurred during the period.

D. Record Payment to the Military Personnel Appropriations for the Budgeted Cost of Military Personnel. Payment of the budgeted cost shall be made by the DWCF to the applicable military personnel appropriation in the last month of each fiscal year quarter as reimbursement for military personnel. The quarterly payments shall equal, in total, the full amount of the obligational authority provided to the military personnel appropriations. The final quarterly deposit must be made on or before the last day (September 30) of the fiscal year. In the event of an unresolved dispute between the military personnel appropriation manager and a DWCF activity on the budgeted amount of the deposit, the budgeted amount requested by the military personnel appropriation manager shall be immediately provided. Upon resolution of the dispute, the DWCF activity shall be provided a refund, if any is due, of the applicable amount. Accounting entries for the recordation of the periodic deposit are shown below.

Dr 4901 Delivered Orders-Obligations, Unpaid (Reimbursable)
Cr 4902 Delivered Orders-Obligations, Paid (Reimbursable)

Dr 2110 Accounts Payable (Military Personnel)
Cr 1010 Funds Balance With Treasury (Funds
Disbursed-Operating Program)

Entry to record payment to applicable military personnel appropriation.

120205. Adjustment of Military Personnel Cost. The applicable military personnel appropriations are paid an amount exactly equal to the total dollar amount for military personnel included in the approved budget of DWCF activities (see paragraph 120204.D, above). The amount of military personnel cost applied to work performed is based on the civilian equivalency rates for the actual number and grade of military personnel assigned (see paragraph 120204.C, above). As a result, a variance may result between the amount paid to military personnel appropriations and the amount applied to work performed. That variance will result in a debit or credit amount in Account 2110, “Accounts Payable (Military Personnel)” at the end of the fiscal year. The variance in Account 2110, “Accounts Payable (Military Personnel)” could be the result of several factors, for example, differences in the numbers of actual versus budgeted military personnel; differences in the grade/rank of actual versus budgeted military personnel; or differences in the hours of actual versus budgeted workload. The amount of the variance shall be reduced to zero at the end of the fiscal year by adjusting Account 2110, “Accounts Payable (Military Personnel)” and Account 6100, “Operating Expenses/Program Costs (Military Personnel)” to equal the amount budgeted paid to the military personnel appropriation. The purpose of this adjustment is to eliminate the variance between the costs applied to work performed and the budgeted amount. After this adjustment, no additional adjustment is required to the DWCF Accounting Report 1307, Part V of the Statement of Operations for military personnel since the budgeted amount paid to the military personnel appropriations is included in the recoverable cumulative results of operations. The accounting entries for the adjustment are shown below:

A. Military Personnel Costs Received (Applied to Work Performed) is Less than the (Budgeted) Amount Paid to Military Personnel Appropriations. Account 2110, “Accounts Payable (Military Personnel)” as it relates to military personnel payments, will contain a debit balance if the amount recorded as military personnel costs applied to work performed is less than the budgeted amount paid or payable to military personnel appropriations. In those instances, the following adjusting accounting entry is needed. The adjusting entry shall be made at the end of the fiscal year.

Dr 6100 Operating Expenses/Program Costs (Military Personnel)
Cr 2110 Accounts Payable (Military Personnel)

Dr 4801 Undelivered Orders-Obligations, Unpaid (Reimbursable)
Cr 4901 Delivered Orders-Obligations, Unpaid (Reimbursable)

Entry to eliminate the variance amount between the costs applied to work performed and budgeted (paid) military personnel cost when the amount applied to work performed is less than the budgeted amount. The purpose of the above entry is to adjust military personnel costs to the budgeted amount paid by a DWCF activity for its military labor.

B. Military Personnel Costs Received (Applied to Work Performed) is Greater than the (Budgeted) Amount Paid to Military Personnel Appropriations. Account 2110, “Accounts Payable (Military Personnel),” as it relates to military personnel

payments, will contain a credit balance if the amount of military personnel costs applied to work performed is more than the budgeted amount paid or payable to military personnel appropriations. In those instances, the following accounting entry is needed. The adjusting entry shall be made at the end of the fiscal year.

Dr 2110 Accounts Payable (Military Personnel)
 Cr 6100 Operating Expenses/Program Costs (Military Personnel)

Dr 4901 Delivered Orders-Obligations, Unpaid (Reimbursable)
 Cr 4801 Undelivered Orders-Obligations, Unpaid (Reimbursable)

Entry to eliminate the variance amount between the costs applied to work performed and budgeted (paid) military personnel cost when the amount applied to work performed is greater than the budgeted amount. The purpose of the above entry is to adjust military personnel costs to the budgeted amount paid by a DWCF activity for its military labor.

★1203 DEPRECIATION EXPENSE

120301. Additional information relating to depreciation of DoD capital assets may be found in Volume 4, Chapter 6 of this Regulation. Depreciation criteria applicable specifically to the DWCF are in the following subparagraphs.

120302. Depreciation Expense versus Capital Surcharge

A. The purpose of asset depreciation is to record a decrease in value of property through wear, deterioration, or obsolescence. Depreciation is therefore the recognition of an expense in the current period for an outlay that occurred in a previous period. Thus, depreciation expense recovery (through inclusion in stabilized rates or prices) results in a cash accumulation that can be used to acquire assets to replace those wearing out. Recovery of depreciation expense is the primary financing source for the DWCF Capital Investment Program.

B. It is possible that at times depreciation expense recovery may not, by itself, be sufficient to finance the desired capital investment program. In those instances and if approved by the OUSD(C), ODC (Program/Budget), Revolving Funds Directorate, an additional element may be added to the stabilized rates/prices to finance the incremental difference. That additional element is termed a “Capital Surcharge.” It is important to note that capital surcharge is not an expense and is not displayed as such on the Accounting Report 1307 Statement of Operations. A capital surcharge is one of many elements that may be used in computation of the stabilized billing rate/price. The stabilized billing rate/price, when billed, is recorded as revenue. Since there is no counteracting expense for a capital surcharge, it should result in a positive Net Operating Result.

C. To avoid the return of the capital surcharge through lower future stabilized rates/prices, DWCF Accounting Report 1307, Part V of the Statement of Operations has been designed to disclose capital surcharges as nonrecoverable in calculating recoverable operating results. As a simplified illustration, assume that a stabilized rate consisted of only two elements: (1) depreciation expense recovery of \$8 per hour, and (2) capital surcharge of \$2 per hour. One thousand hours were billed. Actual depreciation expense was \$8000. (Note: Actual depreciation expense will seldom, if ever, be exactly equal to depreciation expense recovery and its recovery is based on an estimate.) A simplified Statement of Operations would then show:

Revenue	\$10,000
Expenses	
Depreciation	\$ <u>8,000</u>
Net Operating Results	\$ 2,000
(-) Capital Asset Surcharge	\$ <u>2,000</u>
Recoverable Operating Results	\$ <u>-0-</u>

120303. Depreciation Expense Classification

A. Depreciation expense is classified as either indirect or G&A depending upon the organizational location of the asset and the use to which it is put. However, it may be charged as a direct expense only if depreciation costs of all like assets used for similar purposes are charged in the same manner.

B. If multiple cost centers use the same computer system, building or equipment, the depreciation or amortization shall be prorated based upon levels of usage or benefit received for each cost center. If, under unusual conditions, a computer system, building, facility, or equipment does not have a use identifiable to a direct or indirect cost center, the depreciation cost shall be charged to a G&A expense account.

120304. DWCF Acquired Assets. The DWCF assets are those assets acquired through expenditure of resources available to the DWCF or, if not so acquired, are the responsibility of the DWCF to replace or otherwise use funds generated through depreciation expense recovery in operations or acquisition of other capital assets. As a general rule, the DWCF are not authorized to acquire, through use of its resources, real property. Additional information relating to DWCF acquired capital assets may be found in Chapter 8 of this volume.

120305. Facilities Used by DWCF Activities. As a general rule, the DWCF are not authorized to acquire, through use of its resources, real property. These assets are not acquired through expenditure of resources available to the DWCF and are not the responsibility of the DWCF to replace or otherwise use funds generated through depreciation expense recovery in DWCF operations to acquire real property capital assets. Volume 4, Chapter 6 of this Regulation provides guidance on recognizing and depreciating real property assets used by DWCF activities. Chapter 8 of this volume provides guidance on facilities used by DWCF activities.

1204 MANAGEMENT IMPROVEMENT INITIATIVES

Management improvement initiatives shall be expensed from DWCF operating resources unless specifically directed otherwise by the USD(C).

1205 REAL PROPERTY MAINTENANCE AND REPAIR

Major real property maintenance and repair shall be expensed in the period in which the maintenance and repair occurs. Major real property maintenance and repair is defined as recurring maintenance costs and repair projects, real property renovation costs, planning and design costs associated with repair and renovation projects, for the maintenance and repair of buildings, structures, warehouses, and other real property owned or operated by DWCF activities. Costs that will be expensed from operating budgets include real property maintenance, major maintenance and repair, and repair projects in any amount undertaken to preserve the physical structure or its support systems. Major real property maintenance and repair requirements are normally budgeted and executed as a level of effort necessary to support the maintenance and repair of activity group real property.

1206 MANAGEMENT HEADQUARTERS COSTS

120601. General. Each DWCF activity, or group of activities is under the management control of a designated DoD Component. The DWCF headquarters management is related to specific DWCF activity operations, and is separate from the general policy direction for the department or a DoD Component. Management headquarters to be funded from the DWCF must be identified in the DWCF Charter (Management Command) for each applicable activity group (see Chapter 2 of this volume for guidance on DWCF charter requirements).

120602. Identification and Payment for Headquarters Costs. Costs for discrete DWCF management headquarters organizations, and parts of organizations that perform DWCF management headquarters functions, should be directly funded by DWCF if feasible or, if not feasible, reimbursed by DWCF on a pro rata basis. Significant costs for common support (e.g., counsel and personnel) at organizations partially funded or reimbursed by DWCF (i.e., that have direct DWCF management responsibilities) also should be allocated, if feasible. Only significant costs should be reimbursed. Significant headquarters costs are costs that exceed 1 percent of the total activity group costs, or \$1 million, whichever is greater.