



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

SEP 16 2019

COMPTROLLER

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS
(FINANCIAL MANAGEMENT AND COMPTROLLER)
COMMANDERS OF THE COMBATANT COMMANDS
DIRECTORS OF DEFENSE AGENCIES
DIRECTORS OF DOD FIELD ACTIVITIES

SUBJECT: Policy Change for Recording Contract Holdbacks (FPM 18-01-R)

Based on new guidance issued from the Federal Accounting Standards Advisory Board (FASAB), we are revising guidance for "Contract Holdbacks" issued in the attached "Policy Change for Recording Contract Progress Payments (FPM 18-01)" memorandum, dated April 29, 2019.

Policy memorandum FPM 18-01 required "Contract Holdbacks" be recorded as "Accounts Payable." New guidance issued from the FASAB states that Accounts Payable are expected to be paid within the year. Therefore, depending on when the outflow of resources is expected to occur, Contract Holdbacks to be paid after one year of the balance sheet date should be classified as "Other Liability" in the DoD Components' financial statements.

Components must continue to follow the guidance in the Department of Defense (DoD) Financial Management Regulation (FMR), Volume 4, Chapter 5, "Advances and Prepayments," to record the contract progress payments in an appropriate work-in-process asset account or Advances and Prepayments account.

This policy change will be incorporated into the next update to the DoD FMR, Volume 4, Chapters 9 and 12. My point of contact is Mrs. Glenys Vasquez-Banchon, 703-695-9265, glenys.j.vasquez-banchon.civ@mail.mil.

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated





OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

APR 29 2019

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS
(FINANCIAL MANAGEMENT AND COMPTROLLER)
COMMANDERS OF THE COMBATANT COMMANDS
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Policy Change for Recording Contract Progress Payments (FPM 18-01)

Effective immediately, progress payments for the estimated costs incurred by a contractor must be recorded as an accounts payable in Department of Defense (DoD) Components' financial statements. This includes the amount that remains unpaid until a completed asset is delivered, referred to in DoD guidance as "Contract Holdbacks." This required change in accounting aligns DoD policy with generally accepted accounting principles and the Statement of Federal Financial Accounting Standards 1: "Accounting for Selected Assets and Liabilities" requirements to report all known liabilities.

DoD Components' financial statements for third quarter, fiscal year 2019 must reflect this policy change. The attached document entitled, "Accounting for Contract Progress Payments," describes the Department's application of the relevant accounting standards.

Components must continue to follow the guidance in the DoD Financial Management Regulation (FMR), Volume 4, Chapter 5, "Advances and Prepayments" to record the contract progress payments in an appropriate work-in-process asset account or "Advances and Prepayments" account.

This policy change will be incorporated into the next update to the FMR, Volume 4, Chapters 9 and 12. My point of contact is Mrs. Glenys Vasquez-Banchon, 703-695-9265, glenys.j.vasquez-banchon.civ@mail.mil.

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated



Office of the Under Secretary of Defense (Comptroller)
Office of the Deputy Chief Financial Officer

Accounting for Contract Progress Payments (FPM 18-01)

Background

Contract progress payments based on cost are one type of contract financing payment. According to the Financial Acquisition Regulation (*FAR*) 32.001, contract financing payments are authorized disbursements of monies to a contractor prior to the acceptance of supplies or services. DoD contractual arrangements with vendors also may provide for other types of contract progress payments and contract financing payments. However, this document addresses the treatment of progress payments based on cost under the clause at *FAR* 52.232-16.

Pursuant to the FAR 52.232-16, progress payments based on cost are made on the basis of the contractor cost or percentage of completion accomplished. Liabilities resulting from contracts utilizing progress payments based on cost will be recorded based on the difference between an estimated amount of contractor-incurred cost and authorized progress payments based on cost. The Defense Federal Acquisition Regulation Supplement 232.501-1, "Customary Progress Payment Rates," designates a customary DoD progress payment rate of 80 percent of a contractor's cumulative allowable costs and 90 percent for small business concerns.

Relevant Accounting Standards

Statement of Federal Financial Accounting Standards (*SFFAS*) No. 1), "Accounting for Selected Assets and Liabilities," and *SFFAS* No. 5, "Accounting for Liabilities of the Federal Government" address the accounting for liabilities which includes those arising from contract progress payment arrangements.

SFFAS No. 1 states, "Accounts payable are amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rent due to other entities."¹ In addition, SFFAS No. 1 states, "For facilities or equipment constructed or manufactured by contractors or grantees according to agreements or contract specifications, amounts recorded as payable should be based on an estimate of work completed under the contract or the agreement. The estimate of such amounts should be based primarily on the federal entity's engineering and management evaluation of actual performance progress and incurred costs."²

SFFAS No. 5 states, "A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) non exchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date."³

¹ SFFAS No. 1 paragraph 74

² SFFAS No. 1, Paragraph 79

³ SFFAS No. 5, Paragraph 19

Office of the Under Secretary of Defense (Comptroller)
Office of the Deputy Chief Financial Officer

In addition, SFFAS No. 5 addresses contingencies and states, “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.”⁴

Application of Accounting Standards

The submission of a progress payment request from a contractor for their incurred costs results in a measurable liability to DoD. For every progress payment request, voucher or invoice, a Contracting Officer Representative, or other authorized representative, must certify that the work reflected has been performed and quantities and amounts involved are consistent with the requirements of the contract. These procedures support approval of payment and thereby support the probability of a future outflow of resources in payment of the progress payment. Therefore, progress payment invoices must be recorded by DoD Components as accounts payable based on the criteria described in SFFAS No. 1 and SFFAS No. 5.

In addition, the estimated amount of costs incurred by the contractor that remain unpaid until the completed asset is delivered (Contract Holdback) must also be recorded as an accounts payable liability. The payment of these amounts is not considered uncertain due to DoD’s consistent historical practice of ultimately paying Contract Holdback amounts. Therefore, the Contract Holdback amount must be recorded as an account payable and not as a contingent liability in accordance with SFFAS No 5.

The DoD Federal Management Regulation (FMR) Volume 4, Chapters 9 and 12 will be revised to reflect the new requirement for DoD Components to record and account for unpaid contractor work in progress amounts associated with progress payments (including Contract Holdbacks) as an accounts payable.

Progress Payments based on cost and other contract financing payments are recorded with the following United States Standard General Ledger (USSGL) accounts as appropriate:

- Account 152600.9000, Inventory Work in Process
- Account 172000.0200, Construction in Process
- Account 183200.9000, Internal Use Software in Development
- Account 610000.9000, Operating Expenses/Program Costs
- Account 211000.9000, Accounts Payable, to accrue a liability

Refer to the DoD FMR Volume 4, Chapter 5, Table 1 – Contract Financing Payments Matrix for the list of applicable USSGL accounts used with all types of contract financing payments based on the FAR.

⁴ SFFAS No. 5, Paragraph 35