

**SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 4, CHAPTER 12
“UNEARNED REVENUE AND OTHER LIABILITIES”**

All changes are denoted by blue font

Substantive revisions are denoted by a * preceding the section,
paragraph, table, or figure that includes the revision

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

This updated chapter supersedes the previously published version dated June 2009

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
ALL	Updated hyperlinks and format.	Update
120103	Adds: Audit Readiness/Internal Procedures: In promoting audit readiness, this paragraph requires DoD Components to establish internal operating procedures and/or guidance in line with the overarching policy cited in this volume.	Add
120202.C.	Clarified wording to align with the Statement of Federal Financial Accounting Standards 5 (SFFAS 5), paragraph 40.	Clarification
1203	Deleted last sentence of section 1203 of the previous DoD FMR version which stated: “Specific general ledger accounts, Other Deferred Revenue (2320), Liability for Subsidy Related o Undisbursed Loans (2950), and Custodial Liability (2980) require OUSD(C) approval prior to use.” OUSD(C) approval for use of these USSGL accounts is no longer required.	Update

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CHAPTER 12

UNEARNED REVENUE AND OTHER LIABILITIES1201 GENERAL

120101. Purpose. This chapter prescribes the accounting policy and related requirements necessary to establish financial control over the Department of Defense (DoD) liabilities not discussed in Chapters 9 through 11 of this volume. Environmental and nonenvironmental disposal cost liabilities and estimated cleanup cost liabilities are discussed in Chapter 13 of this volume. General Fund and Defense Working Capital Fund (DWCF) entities are required to record unearned revenue and other liabilities in accordance with the guidance in this chapter.

120102. Overview. Unearned revenue and other liabilities will be accounted for in accordance with Statement of Federal Financial Accounting Standards (SFFAS No. 1, “Accounting for Selected Assets and Liabilities”, SFFAS No. 5, “Accounting for Liabilities of the Federal Government”, and SFFAS No. 12, “Recognition of Contingent Liabilities Arising from Litigation.”

* 120103. Audit Readiness/Internal Procedures. Each DoD Component shall 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.

120104. Glossary

A. Unearned Revenue. Unearned revenue consists of amounts received in advance for goods and services to be delivered at a future date, property used by the DoD Components that is owned by others, liabilities for funds awaiting final disposition and reimbursable activities for services provided by DoD.

B. Other Liabilities. Other liabilities include measurable and probable expected outflows resulting from past transactions or events, and the estimated costs of conditions, situations, or circumstances that will be resolved in the future. “Other Liabilities” represent amounts not otherwise classified to specific liability accounts discussed in this volume.

C. Liability for Nonfiduciary Deposit Funds, Clearing Accounts and Undeposited Collections. This account represents amounts in deposit funds for receipts held in suspense (e.g., 21X6434), temporarily for later refund or payment to some other Treasury fund or other entity, or held by the DoD as banker or agent for others for payment at the direction of the owner. Amounts classified in this account may also represent budget clearing accounts (e.g., F3875) awaiting disposition or reclassification. The liability includes United States (U.S.) currency and coin on hand, cash on deposit at designated depositories, cash in the hands of deputy disbursing officers, cashiers and agents, negotiable instruments on hand, military payment certificates,

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unsupported undistributed collections, etc. Such funds are not available for paying salaries, grants, or other expenses of the federal government. Sources for entries to this account include requests for cash, cash collection vouchers, deposit tickets, and invoices for transferred funds.

1202 ACCOUNTING POLICY

120201. Unearned Revenue. Unearned revenue 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. All advances, including those under any long-term contract in excess of revenue earned, shall be recorded as unearned revenue. The DoD Components receiving an advance (unearned revenue) or prepayment (deferred credit) shall 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 shall record the appropriate amount as revenue and reduce the liability accordingly. The two major activities for which DoD receives advances are as follows:

A. Reimbursable Activities. DoD provides services to other federal agencies and to the public on a reimbursable basis. When a nonfederal 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.

B. DWCF Activities. The appropriation language for DoD's DWCF permits the fund to receive advances for supplies and services. Therefore, the DWCF business entities shall 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.

120202. Other Liabilities. Other liabilities include the following items:

A. DoD entities will record a liability for each capital lease at the present value of the rental payments for the entire secured term of the lease. For capital leases, the lease term is the fixed non-cancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease that can reasonably be expected to be taken. This amount will exclude that portion of the payments representing executory cost (i.e., insurance, maintenance and taxes) to be paid by the lessor. If the amount exceeds the fair market value of the leased property at the inception of the lease, the DoD entity will record the liability at the fair market value of the property. If the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated. Specific guidance on capital leases is outlined in [Volume 4, Chapter 6](#) of this Regulation.

B. 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. A contingent liability should be recognized in the financial reports and statements when all of these three conditions are met:

1. A past event or exchange transaction has occurred (e.g., a DoD

Component has breached a contract with a nonfederal entity).

2. A future outflow or other sacrifice of resources is probable (e.g., the nonfederal 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. The future outflow or sacrifice of resources is measurable (e.g., the DoD Component entity's management determines an estimated settlement amount). The estimated 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 a description of the nature of the contingency should be disclosed.

* C. If **any** of the above three conditions are **not** met, the contingent liability need not be recognized in the DoD Components financial reports and statements but should, nevertheless, be disclosed in notes regarded as an integral part of those reports and statements 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.

D. The probability classifications as follows:

a. 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 likely to occur.

b. Reasonably Possible. The chance of the future confirming event or events occurring is more than remote but less than probable.

c. Remote. The chance of the future event or events occurring is slight.

E. Contingent Liability Arising From Progress Payments Based on Cost. As addressed in the ([FAR 52.232-16](#)), 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 estimated contractor-incurred cost is calculated by dividing the cumulative unliquidated progress payment (based on cost) balance by the contract-authorized progress payment rate. The difference between the resulting estimated contractor-incurred cost and the balance of unliquidated progress payments based on cost will be recorded as a contingent liability.

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*1203 UNITED STATES STANDARD GENERAL LEDGER ACCOUNTS. General ledger accounts used to record unearned revenue and other liabilities are outlined in the *United States Standard General Ledger (USSGL), Standard Financial Information Structure Transaction Library*. DoD Components shall account and report separately the amount of unearned revenue and other liabilities associated with nonfederal entities and federal entities.