

VA Financial Policies and Procedures  
Expenses

CHAPTER 2

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## 0201 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures regarding VA expenses. Expenses are the outflow or usage of assets or incurrence of liabilities (or a combination of both) during a period from delivering or producing goods, rendering service, or other VA activities that constitute the entity's ongoing major or central operations. Accrued expenses are recognized at the time the goods and/or services are received and utilized, or an asset is consumed, regardless of when payment for these goods and services is made.

VA is accountable for the overall stewardship of the financial resources it requires in carrying out its mission. VA incurs expenses for operating costs, including personnel costs, contractual services, and the purchase of operating materials and supplies at the time they are incurred. VA will also record expenses for depreciation, other losses, bad debt expenses, extraordinary transactions, prior period adjustments, and changes in actuarial liabilities, when necessary.

## 0202 POLICIES

### 020201 ACCOUNTING FOR EXPENSES.

A. VA will follow the cost accrual basis of accounting as mandated by 31 U.S.C. Section 3512(e). VA expenses will be recorded at their gross amount at the time that they are incurred, in the period that services are rendered, not when invoices are received. Accrued expenses will be recognized at the time the services are received and utilized or an asset is consumed. Additionally, VA may allocate expenses over more than one reporting period, incur costs that are paid in total or in part by other entities, and recognize costs to be funded from future year appropriations.

B. VA will recognize expenses in both the proprietary and budgetary accounts. More information on the accounts used to record expenses can be found in Volume I, Chapter 2, *United States Standard General Ledger (USSGL)*. In addition, information on budgetary accounting and appropriation law can be found in Volume II, Chapter 7, *Various Appropriations Law Related Topics*. VA will not charge budgetary accounts for expenses such as depreciation expense, imputed costs, or future funded expenses.

C. VA will record expenses for goods and services provided to other Federal Government programs as Intra-Governmental which will be reported separately from the expenses for goods and services provided to the public in accordance with Federal Agencies' Centralized Trial-Balance System (FACTS I) reporting requirements. Refer to Volume VII, Chapter 5, *Intra-Governmental Activity and Reconciliations*, for more information.

020202 PROGRAM COSTS AND OPERATING EXPENSES.

A. VA will track the program costs and operating expenses for the total outlay in cash or its equivalent applied in carrying out a specific program or function, including personnel costs, contractual services, and operating materials and supplies acquisitions. VA will utilize budget object codes (BOCs) under 31 U.S.C. 1104(b) in order to present obligations by object class for each account. BOCs reflect the nature of financial transactions when obligations are first incurred and are an expansion of the associated object classes. Object classes are categories or accounting identifiers that code financial obligations according to the nature of the services or items purchased by VA. More detailed information on BOCs can be found in Volume XIII, Chapter 2, *Budget Object Codes*.

B. VA accounting systems will be able to report these expenses at the detail necessary to support budget preparation and applicable cost accounting compliance requirements under Volume XIII, Chapter 3, *Managerial Cost Accounting*, and Chapter 5, *Cost Accounting Compliance*. Refer to Volume I, Chapter 4, *Financial Management Systems*, for requirements to be adhered to in VA's accounting systems.

C. VA will record costs for goods and services purchased from other Government programs as Intra-Governmental costs and will record those costs separately from those purchased from non-Federal entities recorded as public costs.

020203 EMPLOYEE BENEFIT EXPENSES.

A. VA will record its share of expenses for contributions to the following employee benefit programs administered by other Federal agencies (Intra-Governmental cost) using the "F" (Federal) attribute under the USSGL proprietary account:

- Retirement;
- Federal Employees Group Life Insurance (FEGLI);
- Voluntary Separation Incentive Payment (VSIP);
- Federal Employees' Compensation Act (FECA);
- Unemployment for Federal employees;
- Social Security (Old-Age, Survivors and Disability Insurance);
- Medicare; and
- Imputed costs owed to the Office of Personnel Management for health benefits (refer to Section 020206).

B. VA will record its share of expenses for contributions to employee benefit programs administered by non-Federal entities (public cost) including health insurance and other miscellaneous fringe benefits using the "N" (non-Federal) attribute under the USSGL proprietary account.

C. VA will record the amount of benefit expenses (such as employment and fringe benefits) incurred by each VA Office for benefit payments in a timely manner using the

appropriate USSGL account and attribute. For more information on USSGL accounts and attributes, refer to Volume I, Chapter 2, *United States Standard General Ledger*, and Treasury's Financial Management Service (FMS) guidance on the USSGL.

#### 020204 INVENTORIES AND COST OF GOODS SOLD.

##### A. Cost of Goods Sold.

1. VA will ensure that the recognition of tangible personal property that is held for sale (including raw materials and work in process), in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee, complies with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 3. VA will recognize the expense for the cost of the inventory when it is removed from inventory for sale (when title passes or the goods are delivered) or upon use when a service is provided. More information on cost of goods sold and inventories can be found in Volume V, Chapter 8, *Inventories*.

2. VA will ensure that the reporting of its inventory and cost of goods sold complies with the reporting requirements contained within the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

##### B. Accounting Methods for Inventories.

1. VA will adhere to the purchase method of accounting for operating materials and supplies. The purchase method provides that these items be recorded as an expense immediately upon purchase. Refer to Volume V, Chapter 8A, *Operating Materials and Supplies*, for more information.

2. VA will adhere to the consumption<sup>1</sup> method of accounting for inventoried stockpile materials. The consumption method provides that these items be expensed when used. Refer to Volume V, Chapter 8B, *Stockpile Materials*, for more information.

#### 020205 DEPRECIATION, AMORTIZATION AND DEPLETION.

A. VA will record the depreciation, amortization or depletion expense for the allocation of the cost of an asset over the period of time benefitted or the asset's useful life. Refer to Volume V, Chapter 9, *General Property, Plant and Equipment*, for more information.

B. VA will capitalize additions, replacements, and alterations to property, plant and equipment. VA will record depreciation expenses for capitalized assets by debiting Operating Expenses/Program Costs and crediting the Accumulated Depreciation account of the asset. Depreciation will be reported as part of the financial statements in the Statement of Net Cost (SNC) and the Reconciliation of Net Cost to Budget footnote

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<sup>1</sup> The policy on implementing the consumption method for stockpile material became effective on October 1, 2010. Refer to Volume V, Chapter 8A, *Operating Materials and Supplies*, for more information.

(as it is not an expense requiring a cash payment). Refer to Volume V, Chapter 9, *General Property, Plant and Equipment*, for more information.

C. VA will expense maintenance costs to property, plant and equipment as they are incurred when required in accordance with VA policy.

#### 020206 IMPUTED COSTS.

A. VA will account for imputed costs, which are the excess of the costs actually incurred for covered employees over the total contributions made by and for covered employees in accordance with OMB Circular A-136.

B. VA will disclose its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees as outlined in Volume VI, Chapter 7, *Federal Employees' and Veterans' Benefits Liability*.

#### 020207 FUTURE FUNDED EXPENSES.

VA will recognize amounts for future funded expenses relating to accrued expenses that are required to be funded from future year appropriations. This includes accrued annual leave expense, covered in Volume VI, Chapter 10, *Other Liabilities*, and accrued workers' compensation covered in Volume VI, Chapter 7, *Federal Employees and Veterans Benefits Liability*. VA's projected future cleanup costs associated with environmental and disposal liabilities covered in Volume VI, Chapter 8, *Environmental and Disposal Liabilities*, are also future funded expenses.

#### 020208 LOSSES.

A. VA will record losses, net of any proceeds, incurred on the disposition of VA-owned assets from the sale, exchange, casualty, or retirement of assets. Losses will be recorded in Losses on Disposition of Assets in the SNC.

B. VA will record other losses on assets resulting from events other than disposition, such as investment losses and miscellaneous losses.

#### 020209 EXTRAORDINARY ITEMS.

A. VA will record extraordinary items for transactions or events that are distinguished by their unusual nature and by the infrequency of their occurrence. Both of the following criteria should be met to classify an event or transaction as an extraordinary item:

- Unusual nature. The underlying event or transaction must possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.

- Infrequency of occurrence. The underlying event or transaction must be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

B. VA will disclose the total amount of all extraordinary items on the face of the SNC, and the nature and amount of each extraordinary item will be included in the notes to the financial statements.

#### 020210 RESEARCH AND DEVELOPMENT COSTS.

VA will expense research and development costs in the period incurred unless the expenses are associated with the development of an end item produced for operational use, in which case, the expenses will be capitalized if the cost and life expectancy of the end item produced meets VA's capitalization threshold. VA will capitalize costs for property, plant and equipment acquired or constructed for a particular research and development project if the acquisition cost exceeds the Department's capitalization threshold and the items have a life expectancy of more than 2 years. Refer to Volume V, Chapter 9, *General Property, Plant and Equipment*, for information on capitalization thresholds and accounting guidance for capitalizing, depreciating or amortizing assets.

#### 020211 ADJUSTMENTS, CORRECTIONS, AND CHANGES IN ACCOUNTING PRINCIPLES.

A. VA may make adjustments to prior-period financial statements due to a change in accounting principle or correction of a material error (or an aggregation of errors) in accordance with SFFAS No. 21.

B. Unless otherwise specified in the new accounting standard, VA will report the cumulative effect of the change on prior periods as a change in accounting principle, with the adjustment made to the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position. VA will present prior period financial statements as previously reported, but will disclose the nature of the changes in accounting principle and its effect on relevant balances for the current period. VA will not disclose this information on subsequent financial statements.

C. VA will restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period. The Associate Deputy Assistant Secretary for Financial Policy, Office of Finance, will make the decision of whether an error is material and requires restatement.

#### 020212 PRESENTATION OF EXPENSES IN THE STATEMENT OF NET COST.

VA will report program costs on its SNC following reporting requirements outlined in Volume VII, Chapter 1, *Financial Reporting: General Financial Reporting Requirements*, and Chapter 2, *Consolidated Financial Statements*. VA will report costs for the following

programs: Veterans Health Administration, Veterans Benefits Administration, National Cemetery Administration, and Indirect Administrative Program Costs. The program costs include the full costs of the program outputs and consist of the direct costs. In addition, VA may incur general management and administrative support costs that cannot be traced, assigned, or allocated to segments and their outputs. These unassigned costs are part of VA's organization costs, and they will be reported on VA's SNC as costs not assigned to programs, or Indirect Administrative Program Costs in accordance with SFFAS No. 4. More information can be found in Volume XIII, Chapter 3, *Managerial Cost Accounting*, and Volume XIII, Chapter 5, *Cost Accounting Compliance*.

### **0203 AUTHORITY AND REFERENCES**

020301 31 U.S.C. Section 3512(e), Executive agency accounting and other financial management reports and plans

020302 Financial Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*

020303 SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*

020304 SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*

020305 Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements

020306 Treasury Financial Management Service, United States Standard General Ledger

020307 Office of Financial Policy Publications Library

### **0204 ROLES AND RESPONSIBILITIES**

020401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309: Veterans' Benefits. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

020402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

## **0205 PROCEDURES**

Refer to 0202 POLICIES for information. The following appendix includes additional information related to the policies:

- APPENDIX A: Types of Expenses and Office of Financial Policy Cross References.

## **0206 DEFINITIONS**

020601 Cost. The monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service.

020602 Cost Allocation. A method of assigning costs to activities, outputs, or other cost objects. The allocation base used to assign a cost to objects is not necessarily the cause of the cost. For example, assigning the cost of power to machine activities by machine hours is an allocation because machine hours are an indirect measure of power consumption.

020603 Cost Assignment. A process that identifies costs with activities, outputs, or other cost objects. In a broad sense, costs can be assigned to processes, activities, organizational divisions, products, and services. There are three methods of cost assignment: (a) directly tracing costs wherever economically feasible, (b) cause-and-effect, and (c) allocating costs on a reasonable and consistent basis.

020604 Depreciation Accounting. The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

020605 Direct Cost. The cost of resources directly consumed by an activity. Direct costs are assigned to activities by direct tracing of units of resources consumed by individual activities. A cost that is specifically identified with a single cost object.

020606 Disclosure. Reporting information in notes regarded as an integral part of the basic financial statements.

020607 Expense. Outflow or other using up of resources or incurring liabilities (or a combination of both), the benefits from which apply to an entity's operations for the current accounting period, but do not extend to future periods.



020608 Federal Accounting Standards Advisory Board (FASAB). The board that promulgates Federal accounting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies and other users of Federal financial information.

020609 Imputed costs. The excess of the costs actually incurred by employing agencies for covered employees over the total contributions made by and for covered employees.

020610 Indirect Cost. A cost that cannot be identified specifically with or traced to a given cost object in an economically feasible way.

020611 Notes to Financial Statements. Detailed information on VA's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources.

020612 Statement of Changes in Net Position. Reports the change in net position during the reporting period.

020613 Statement of Net Cost. Provides an understanding of the net costs of each organization and each program that the Government supports with taxes and other unearned monies.

## **0207 RESCISSIONS**

020701 MP-4, Part 5, Chapter 1, Controller Policy Administrative Accounting

020702 VA Directive 4667, Revenues, Other Financing Sources, and Expenses

## **0208 QUESTIONS**

Questions concerning these financial policies and procedures should be directed as shown below:

VHA	VHA CFO Accounting Policy (10A3A) (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)

**APPENDIX A: TYPES OF EXPENSES AND OFFICE OF FINANCIAL POLICY (OFP)  
CROSS REFERENCES**

This appendix contains an inventory of the many different types of expenses with the appropriate reference to the associated financial policies and procedures in the current OFP Publications Library.

TYPES OF EXPENSE	VOL #	CH #	TITLE
Accounting for Expenses	I	2	United States Standard General Ledger
Accounting for Expenses and Program Costs and Operating Expenses	III	Several	Miscellaneous Accounting Topics
Cost of Goods Sold	V	8	Inventories
Program Costs and Operating Expenses	V	8A	Operating Materials and Supplies
Program Costs and Operating Expenses	V	8B	Stockpile Materials
Depreciation, Amortization and Depletion	V	9	General Property, Plant and Equipment
Losses	V	10	Other Assets
Losses	V	10A	Other Assets – Real Estate Owned
Program Costs and Operating Expenses	V	10B	Use of Appropriated Funds to Purchase Kitchen Appliances
Future Funded Expenses	VI	7	Federal Employees and Veterans Benefits Liability
Future Funded Expenses	VI	8	Environmental and Disposal Liabilities
Future Funded Expenses	VI	10	Other Liabilities
Presentation of Expenses in Financial Statements	VII	1	Financial Reporting: General Financial Reporting Requirements
Presentation of Expenses in Financial Statements	VII	2	Consolidated Financial Statements
Program Costs and Operating Expenses	XIII	1	Cost Centers
Program Costs and Operating Expenses	XIII	2	Budget Object Codes
Program Costs and Operating Expenses	XIII	3	Managerial Cost Accounting
Program Costs and Operating Expenses	XIII	5	Cost Accounting Compliance