

CHAPTER 5

ADVANCES AND PREPAYMENTS0501 GENERAL

050101 Purpose. This chapter prescribes the principles and policy to be followed by DoD Components to account for advances and prepayments made to employees, other Federal Government agencies and to non-Federal Government organizations. Advances do not include payments for which performance has occurred.

050102 Overview

A. The legal authority to make advances is contained in 31 U.S.C. 3324:

"(a) Except as provided in this section, a payment under a contract to provide a service or deliver an article for the United States Government may not be more than the value of the service already provided or the article delivered."

"(b) An advance of public money may be made only if it is authorized by--

(1) a specific appropriation or other law; or

(2) the President to be made to--

(A) a disbursing official if the President decides the advance is necessary to carry out--

(i) the duties of the official promptly and faithfully; and

(ii) an obligation of the Government; or

(B) an individual serving in the armed forces at a distant station if the President decides the advance is necessary to disburse regularly pay and allowances."

B. Advances and prepayments are disbursements of money from Department of Treasury accounts before performance has been certified by an authorized DoD receiving official.

C. Advances are made in contemplation of the later receipt of goods, services, or other assets. Advances are made only to payees to whom a Component has an obligation and not in excess of the amount of the obligation. A common example is travel advances. Travel advances are amounts made available to employees before beginning a trip for costs to be incurred in accordance with the 5 U.S.C. 5705 and in accordance with standardized Government travel regulations.

1. Within the Department of Defense, the following categories of advances may exist: travel advances; advances to contractors and suppliers; advances to grantees; advances to the public, including foreign governments; and advances to Federal Agencies.

2. Advances to contractors and suppliers and to grantees shall be supported by the contracting officer's determination that all statutory requirements are met and that the provisions of the Federal Acquisition Regulation (FAR), Part 32, subpart 32-4 and the DoD FAR Supplement, Part 32, subpart 32-4 are met. These provisions require, among other things, that the contractor give adequate security, advance payments may not exceed the unpaid contract price, the advance payment shall not exceed the contractor's interim cash needs, the advance is necessary to supplement funds available to the contractor, and, the Department of Defense shall benefit from performance prospects, or there are other practical advantages.

3. Advances to foreign countries are authorized by 10 U.S.C. 2396 which provides that:

"(a) An advance under an appropriation to the Department of Defense may be made to pay for:

(1) compliance with laws and ministerial regulations of a foreign country;

(2) rent in a foreign country for periods of time determined by local custom; and

(3) tuition."

"(b)(1) Under regulations to be prescribed by the Secretary of Defense or by the Secretary of the Transportation with respect to the Coast Guard when it is not operating as a service of the Navy, an officer of an armed force of the United States accountable for public money may advance amounts to a disbursing official of a friendly foreign country or members of an armed force of a friendly foreign country for--

(A) pay and allowances to members of the armed force of that country; and

(B) necessary supplies and services.

(2) An advance may be made under this subsection only if the President has made an agreement with the foreign country--

(A) requiring reimbursement to the United States for amounts advanced;

(B) requiring the appropriate authority of the country to advance amounts reciprocally to members of the armed forces of the United States; and

(C) containing any other provision the President considers necessary to carry out this subsection and to safeguard the interests of the United States."

D. Advances to foreign governments shall be made as closely as possible to the time they actually disburse funds for costs incurred.

1. Normally, advances shall not be outstanding for more than 90 days. Statements of actual costs incurred in sufficient detail to allow certification of performance by an authorized DoD official shall be provided on a monthly basis. Advances to foreign countries may require consultation with the Treasury Department.

2. Advances made pursuant to 10 U.S.C. 2396 shall be recorded in account 1414, "Advances-All Others-Public." Subsidiary accounts shall be established for each country and each organization or person to whom the advance is made.

E. Prepayments are amounts paid for goods and services to be provided over a specified period in time. They apply only to those situations when it is a generally accepted industry practice to pay for items such as rents, subscriptions, and maintenance agreements in advance of the service being provided and the prepayment is authorized by law. When expenses are prepaid, DoD Components shall record the prepayment when it is made. At the end of the fiscal year, prepayments shall be reviewed and the expired portion expensed. As a general rule, DoD operation and maintenance appropriations are annual in nature and thus limited to obligations for goods and services required to meet current operating requirements. Progress payments to contractors also are recorded as prepayments.

F. Advances shall be made only to meet requirements authorized by law. When the conditions under which an advance was made are satisfied, the unused portions of the advance shall be collected immediately and returned to the fund from which originally made.

G. Except for DoD personnel receiving advances for travel purposes, all requesting organizations shall prove destitution; i.e., that they are financially unable to perform without DoD financial assistance. Failure to seek financial market assistance is not a valid basis

for requesting an advance. Organizations or individuals (other than DoD employees requesting travel advances) requesting advances shall demonstrate that all external financing sources have been exhausted before an advance is authorized.

H. Advances to civilian and military personnel for pay shall be made in accordance with the guidance contained in Chapters 28 and 29 of this Volume.

0502 ACCOUNTING POLICY

050201 DoD Components making advances or prepayments shall record them as assets until receipt of the goods or services involved or until contract terms are met. When goods or services have been received or contract terms met, the expense or acquired asset shall be recognized and the advances or prepayments reduced.

050202 Advance payments to grant award recipients (including amounts drawn against letters of credit) shall be accounted for as advances of the assisting DoD Component until the recipient has performed under the award or contract.

050203 Once the recipient has performed under the grant or agreement, the assisting agency shall record an expense in an amount equal to the cost of the services performed or costs incurred and reduce the advance account by a like amount.

050204 Advances and prepayments made shall be aggregated and not netted against each other and shown as separate line items on the financial statements and not included in accounts receivable or accounts payable.

050205 DoD Components shall report or disclose separately the amount of advances and prepayments associated with the following:

- A. Non-federal entities.
- B. Federal Agencies.

0503 ACCOUNTING FOR ADVANCES

050301 The primary purpose for advances is to provide funds to assist other organizations and individuals, who otherwise might be disadvantaged financially to carry out specified activities related to the U.S. national defense.

050302 Advances represent a current outlay of funds to meet a near- or long-term need. As such, they are a negative factor minimizing the Treasury's borrowing requirements. Accordingly, amounts advanced shall be kept to the minimum amounts necessary for the shortest possible time period.

050303 DoD Component financial management systems shall incorporate sufficient internal controls and information gathering techniques to monitor the use of advances made. Unneeded and unused balances shall be recovered as soon as information indicates they are excess to the purposes for which originally made.

050304 Recoveries of unused advances shall be recorded as a negative disbursement; i.e., as a debit to account 1012, Funds Disbursed. This permits the Funds Disbursed account to support the disbursements balances reported on the DD 1176, "Report on Budget Execution."

050305 Paragraphs 050306 through 050312, below, discuss the general ledger accounts to be used by DoD Components for advances. Accounts are established for the major categories of advances made by the Department of Defense.

050306 Advances and Prepayments (Account 1400)

A. "Advances and Prepayments" is used to record the outstanding balance of amounts advanced to Federal Agencies and non-federal entities by DoD Components and prepayments made for the later receipt of goods, services, or other assets.

B. This account is a summary control account for financial reporting purposes. No entries are posted to this account.

050307 Advances to Others (Account 1410)

A. "Advances to Others" represents the amount of payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or for other assets.

B. This account is a summary control account used for financial reporting purposes. No entries are posted to this account.

050308 Travel Advances (Account 1411)

A. "Travel Advances" represents the outstanding balance of advances made to DoD military personnel, civilian employees, and appointees for per diem, transportation, and related expenses incident to travel on authorized official business or change of official duty station.

B. Travel advances shall be minimal and allowed only when necessary. Generally, advances shall not exceed 80 percent of the estimated per diem. The use of credit cards by DoD employees as a result of General Services Administration contracts with major credit cards is to be encouraged in lieu of travel advances.

C. Travel advances shall be charged to the appropriations or funds from which reimbursements of travel expenses are to be made. An authorized travel order shall serve as the basis for issuing a travel advance.

D. When authorized travel carries over from one fiscal year to the next, the total balance of all travel advances shall be transferred from the expiring appropriation accounts to the next year's appropriation accounts. Such transfers are to be made at the beginning of the new fiscal year. The transfer documents shall be supported by detailed data on each outstanding advance included in the transfer.

E. Periodically, but at least semiannually, all outstanding advances shall be reviewed to determine if the original justification for the advances are still valid. Advances determined to be in excess of the travelers'

immediate needs shall be collected from the traveler.

F. Recovery of travel advances may occur in the following ways: submission of a travel voucher upon completion of official travel; repayment by the employee to whom the advance was made; or, when necessary, deductions from the employee's pay. If the traveler is in a continuous travel status and periodic travel vouchers are submitted, the full amount of allowable travel expenses may be reimbursed to the traveler without deductions of advances until such time as the final vouchers are submitted.

G. If travel advances are not fully recoverable by deductions from travel vouchers or refunded by the travelers, prompt action shall be taken to recover the outstanding advances by deductions from any amounts due the traveler or by using any other legal means available. In such instances, the travel advance shall be reclassified and recorded in account 1316, "Refunds Receivable-Public."

H. Subsidiary travel advance accounts shall be established for each appropriation and for each employee. Information in the employee subsidiary account shall include sufficient information to establish an audit trail showing when the advance was made, the authority for the advance, and the date the advance was liquidated.

I. Employees shall be provided a reasonable period of time to repay their travel advances upon completion of travel. As a general rule, 15 calendar days shall be considered sufficient unless evidence is available to indicate a longer or shorter period is justifiable.

J. Table 5-1 illustrates the most common entries used for this account.

K. Sources for entries to this account include travel orders, travel vouchers, cash collection vouchers, disbursement vouchers, and journal vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 1411 - TRAVEL ADVANCES

1. Dr 1411 Travel Advances
Cr 1012 Funds Disbursed

To record travel advance issued to employee.
2. Dr 6116 Travel and Transportation of Persons
Dr 1012 Funds Disbursed
Cr 1411 Travel Advances

To liquidate outstanding travel advances on completion of travel. (Debit to 1012 required for part of advance returned)
3. Dr 1316 Refunds Receivable-Public
Cr 1411 Travel Advances

To transfer an unliquidated travel advance to refunds receivable when an employee fails to repay an advance.

Table 5-1

050309 Advances to Contractors and Suppliers (Account 1412)

A. "Advances to Contractors and Suppliers" is used to record amounts advanced to non-federal organizations or individuals under contracts for goods and services.

B. This account shall be supported by subsidiary accounts for each appropriation and fund and for each advance made. Periodically, the account balance shall be reconciled with the detailed documentation supporting the advances recorded in this account. Such reconciliations shall be made no less frequently than semiannually.

C. Advances to non-federal organizations shall be made only when authorized by law.

D. Table 5-2 illustrates the most common entries used for this account.

E. Sources for entries to this account include contracts, receiving and inspection reports accepting goods and services received, and collection vouchers.

050310 Advances to Grantees (Account 1413)

A. "Advances to Grantees" is used to record amounts advanced to grantees pursuant to terms included in grant agreements.

B. This account shall be supported by subsidiary accounts for each applicable appropriation and grantee receiving an advance. Periodically, the account balance shall be reconciled with the detailed documentation supporting the advances recorded in this account. Such reconciliations shall be made no less frequently than semiannually.

C. Each account shall be reviewed periodically to determine whether amounts advanced are in excess of the grantee's current needs. Amounts determined to be excess shall be collected from the recipient. The timing of the review should be coordinated with DoD grantors so that the review occurs as each grant milestone or reporting requirement is reached.

D. Table 5-3 illustrates the most common entries used for this account:

ACCOUNTING ENTRIES FOR ACCOUNT 1412 - ADVANCES TO CONTRACTORS AND SUPPLIERS	
1.	Dr 1412 Advances to Contractors and Suppliers Cr 1012 Funds Disbursed To record advances issued.
2.	Dr 6120 Other Services Dr 1510 Inventory for Agency Operations Dr 1766 Equipment Not in Use Dr 1012 Funds Disbursed Cr 1412 Advances to Contractors To liquidate an outstanding advance and collect unused balances.

Table 5-2

ACCOUNTING ENTRIES FOR ACCOUNT 1413 - ADVANCES TO GRANTEES	
1.	Dr 1413 Advances to Grantees Cr 1012 Funds Disbursed To record issue of an advance.
2.	Dr 6123 Grants, Subsidies, and Contributions Cr 1413 Advances to Grantees To record application of an advance to execution of the grant.
3.	Dr 1012 Funds Disbursed Cr 1413 Advances to Grantees To record recovery of advances made to grantees.

Table 5-3

E. Sources for entries to this account include grant agreements, disbursement vouchers, collection vouchers and reports on grant performance.

050311 Advances-All Other-Public (Account 1414)

A. "Advances-All Others-Public" is

used to record advances to the general public, pay advances to military personnel, and to foreign nations that may not be classified to a specific advance account.

B. This account shall be supported by subsidiary accounts for each applicable appropriation and recipient.

C. Advances in this category shall be made only when authorized by law or regulations as discussed in paragraph 050102.A.3 above.

D. Each account shall be reviewed periodically to determine whether the amounts advanced are in excess of the recipient's current needs. Amounts determined in excess shall be collected from the recipient. The required review shall be made at least semiannually.

E. Table 5-4 illustrates the most common entries used for this account:

F. Sources for entries to this account include contract documents, inspection and receiving reports, disbursing vouchers, and collection vouchers.

050312 Advances to Government Agencies and Funds (Account 1415)

A. "Advances to Government Agencies and Funds" is used to record advances made to other Federal Agencies and funds pursuant to law or agreements between DoD Components and other federal organizations.

B. This account shall be supported by subsidiary accounts for each appropriation and recipient.

C. Advances to other Government agencies shall be made only pursuant to law or when such interests are in U.S. national defense. Generally, work performed for the Department of Defense by other Federal Agencies is on a reimbursable or a direct cite arrangement, and funds are transferred to the performing agency using noncheck transfer mechanisms.

D. Table 5-5 illustrates the most common entries used for this account:

E. Sources for entries to this account include interagency agreements, disbursement vouchers, collection vouchers, and receiving and inspection reports.

ACCOUNTING ENTRIES FOR ACCOUNT 1414 - ADVANCES-ALL OTHERS-PUBLIC	
1.	Dr 1414 Advances-All Others-Public Cr 1012 Funds Disbursed To record advances made.
2.	Dr 1012 Funds Disbursed Cr 1414 Advances-All Others-Public To record recovery of unused advances.
3.	Dr 1510 Inventory for Agency Operations Dr 6120 Other Services Cr 1414 Advances-All Others-Public To liquidate the advance when services required are delivered.

Table 5-4

0504 ACCOUNTING FOR PREPAYMENTS

050401 Prepayments are expenditures in advance of accepted or delivered performance. They differ from advances in that prepayments relate to transactions that are recurrent in nature and do not provide financing as a precondition of performance.

050402 In the absence of specific legal authority, DoD Components are not authorized to incur obligations using operation and maintenance appropriations for goods and services to be provided in future years.

050403 Prepayments as they apply to the Defense Business Operations Fund are discussed in Volume 11B of this regulation.

050404 Prepayments (Account 1450)

A. "Prepayments" represent the account of expenditures which provide future benefits and include such items as subscriptions, rents, taxes, royalties, commissions, progress payments to contractors, insurance and supplies. This account is a summary account used for financial reporting and control purposes.

B. Table 5-6 illustrates the most common entries used for this account.

C. Sources for entries to these accounts include progress payment requests, vendor invoices, contracts, and disbursement vouchers.

**ACCOUNTING ENTRIES FOR ACCOUNT 1415 -
ADVANCES TO GOVERNMENT AGENCIES AND FUNDS**

1. Dr 1415 Advances to Government Agencies
Cr 1012 Funds Disbursed

To record advances issued.

2. Dr 1510 Inventory for Agency Operations
Dr 6120 Other Services
Dr 1012 Funds Disbursed
Cr 1415 Advances to Other Government Agencies

To record liquidation of the advance, recovery of unused balances and performance.

Table 5-5

ACCOUNTING ENTRIES FOR ACCOUNT 1450 - PREPAYMENTS

1. Account 1451, "Prepaid Expenses." The following entries illustrate the use of this account:

- a. Dr 1451 Prepaid Expenses
Cr 1012 Funds Disbursed

To record invoice and prepayment of an item or service that will be an expense when received.

- b. Dr 6100 Operating/Program Expenses
Cr 1451 Prepaid Expenses

To amortize a prepaid expense over its prescribed period of usefulness.

- c. Dr 6100 Operating/Program Expenses
Cr 1451 Prepaid Expenses
Cr 1012 Funds Disbursed

To record receipt of an item or service for which prepayments have been made (including any payment due upon receipt).

2. Account 1452, "Progress Payments Made To Others." The following entries illustrate the use of this account:

- a. Dr 1452 Progress Payments Made To Others
Cr 1012 Funds Disbursed

To record prepayment for an asset that has not been received.

- b. Dr 1700 Fixed Assets
Cr 1452 Progress Payments Made To Others
Cr 1012 Funds Disbursed

To record receipt of an asset for which progress payments have been made (including any payment due upon receipt).

- c. Dr 1542 Inventory-Work in Process-Contractor
Cr 1452 Progress Payments Made To Others
Cr 1012 Funds Disbursed

To record receipt of an asset for which progress payments have been made (including any payment due upon receipt).

Table 5-6

ACCOUNT NO. 1400	
ADVANCES AND PREPAYMENTS	
DESCRIPTION: The outstanding balance of amounts advanced to federal and non-federal entities by DoD and prepayments made for the later receipt of goods, services, or other assets.	
DEBIT	CREDIT
<p>This account is a summary account</p> <p>Do not post to this account</p>	
NORMAL BALANCE: DEBIT	
FIGURE 5-1	

ACCOUNT NO. 1410	
ADVANCES TO OTHERS	
DESCRIPTION: Payments made in contemplation of the future performance of services, receipt of goods or other assets.	
DEBIT	CREDIT
<p>This account is a summary account</p> <p>Do not post to this account</p>	
NORMAL BALANCE: DEBIT	
FIGURE 5-2	

ACCOUNT NO. 1411	
TRAVEL ADVANCES	
<p>DESCRIPTION: Represents the outstanding balance of advances made to military personnel, civilian employees and appointees for per diem, transportation, and related expense incident to travel on official business or change of official duty station.</p>	
DEBIT	CREDIT
<p>1. Amounts paid to DoD travelers or others before incurring travel expenses.</p> <p>Contra: 1012 Funds Disbursed</p>	<p>1. Traveler transportation vouchers processed to liquidate outstanding travel advances.</p> <p>Contra: 6116 Travel and Transportation of Persons</p> <p>2. Collections received to liquidate outstanding travel advances.</p> <p>Contra: 1012 Funds Disbursed</p> <p>3. Unused travel advances not returned.</p> <p>Contra: 1316 Refunds Receivable - Public</p>
<p>NORMAL BALANCE: DEBIT</p>	
<p>FIGURE 5-3</p>	

ACCOUNT NO. 1412	
ADVANCES TO CONTRACTORS AND SUPPLIERS	
DESCRIPTION: Represents the outstanding balance of amounts advanced to organizations or individuals outside the U.S. Government under contracts for goods and services.	
DEBIT	CREDIT
<p>1. Amounts paid in advance of work performed by contractors or suppliers.</p> <p>Contra: 1012</p>	<p>1. Liquidation of outstanding advances.</p> <p>Contra: 1012, 1510, 1530, 1560, 1570, 1710, 1730, 1762, 1763, 1766, and 6120</p>
NORMAL BALANCE: DEBIT	
FIGURE 5-4	

ACCOUNT NO. 1413	
ADVANCES TO GRANTEES	
DESCRIPTION: Represents the outstanding balance of advances issued to grantees.	
DEBIT	CREDIT
<p>1. Amounts paid to grantees. Contra: 1012</p>	<p>1. Amounts applied to costs incurred under terms of grants. Contra: 6123</p> <p>2. Cancellation of a grant. Contra: 1012 and 1313</p>
NORMAL BALANCE: DEBIT	
FIGURE 5-5	

ACCOUNT NO. 1414	
ADVANCES - ALL OTHERS - PUBLIC	
DESCRIPTION: Represents the outstanding balance of other amounts advanced to the public including personnel of foreign nations.	
DEBIT	CREDIT
<p>1. Amounts paid to non-federal organizations or parties for goods which have not been delivered or for services which have not been performed.</p> <p>Contra: 1012</p>	<p>1. Collections received to liquidate outstanding advances.</p> <p>Contra: 1012</p> <p>2. Amounts applied to costs incurred under terms of agreements.</p> <p>Contra: 1510, 1530, 1560, 1570, 1710, 1730, 1740, 1750, 1762, 1766, 1820, 1890, and 6120</p>
NORMAL BALANCE: DEBIT	
FIGURE 5-6	

ACCOUNT NO. 1415	
ADVANCES TO GOVERNMENT AGENCIES AND FUNDS	
DESCRIPTION: Represents the outstanding balance of other advances made to U.S. Government organizations and funds.	
DEBIT	CREDIT
<p>1. Amounts paid to Federal Government organizations for goods which have not been delivered or for services which have not been performed.</p> <p>Contra: 1012</p>	<p>1. Collections received to liquidate outstanding advances.</p> <p>Contra: 1012</p> <p>2. Amounts applied to costs incurred under terms of various agreement documents.</p> <p>Contra: 1510, 1530, 1560, 1570, 1710, 1730, 1740, 1762, 1766, 6116, 6117, 6118, 6119, and 6120</p>
NORMAL BALANCE: DEBIT	
FIGURE 5-7	

ACCOUNT NO. 1451	
PREPAID EXPENSES	
DESCRIPTION: Expenditures which provide future benefits. Prepayments are often recurrent in nature and cover items such as rent, taxes, royalties, commissions, insurance, and supplies.	
DEBIT	CREDIT
<p>1. Prepayment of a service. Contra: 1012</p>	<p>1. Recognition of a prepayment as an expense. Contra: 6100</p>
NORMAL BALANCE: DEBIT	
FIGURE 5-9	

ACCOUNT NO. 1452	
PROGRESS PAYMENTS MADE TO OTHERS	
DESCRIPTION: Expenditures for assets in advance of their receipt.	
DEBIT	CREDIT
<p>1. Progress payment request paid. Contra: 1012</p>	<p>1. Recordation of an asset to its proper account upon receipt. Contra: 1500, and 1700</p>
NORMAL BALANCE: DEBIT	
FIGURE 5-10	