

CHAPTER 2

GENERAL INSTRUCTIONS FOR THE FINANCIAL STATEMENTS

0201 RESPONSIBILITY FOR PREPARING FINANCIAL STATEMENTS

★020101. Responsibility for Audited Financial Statements. Primary responsibility for the content and submission of the audited financial statements rests with the head of the reporting entity for which the statements are prepared. The actual preparation of the financial statements is the joint responsibility both of the Department of Defense (DoD) accounting activity maintaining the official departmental accounting records and the DoD Component for which those official accounting records are maintained. It is important to recognize that, while the accounting organization is responsible for assembling the principal statements, much of the data needed to prepare the principal statements originates in nonfinancial systems. Entity management is responsible for ensuring that the data originating outside of the official accounting systems is provided to the accounting organization in a timely manner, that it is complete, and that there are adequate internal controls and audit trails to ensure the data is accurate. The officials responsible for the content and submission of audited financial statements are identified in Table 2-1.

Officials Responsible for Audited Financial Statements

Reporting Entities	Responsible DoD Official
Department of Defense	Chief Financial Officer, DoD
Department of the Army	The Secretary of the Army
Department of the Navy	The Secretary of the Navy
Department of the Air Force	The Secretary of the Air Force
Army Working Capital Fund (WCF)	The Secretary of the Army
Navy (WCF)	The Secretary of the Navy
Air Force (WCF)	The Secretary of the Air Force
Department of Defense Military Retirement Trust Fund	Under Secretary of Defense (Personnel & Readiness)
U.S. Army Corps of Engineers Civil Works Program	The Secretary of the Army

Table 2-1

★020102. Responsibility for Preparation of the Financial Statements. The primary responsibility for the financial statements rests with the reporting entity management. However, responsibility for preparation of individual sections of the statements is shared with the accounting organization responsible for maintaining the financial records of the reporting entity. Table 2-2 identifies the office that is primarily responsible for preparation of each section of the financial statements.

Official Responsible for Sections of the Audited Financial Statements

Responsibility for Preparation and Submission of Audited Financial Statements	CFO DOD	DFAS/ Accounting Activity	Reporting Entity Management
Overview of the Reporting Entity			★
Balance Sheet		★	
Statement of Net Costs		★	
Statement of Changes in Net Position		★	
Statement of Budgetary Resources		★	
Statement of Financing		★	
Statement of Custodial Activity		★	
Note 1 to the Principal Statements		★	
Remaining Notes to the Principal Statements			★
Required Supplementary Stewardship Information (RSSI)			★ ¹
Required Supplementary Information (RSI):			
Disaggregated Statement of Budgetary Resources And Segment Information		★	
Deferred Maintenance RSI			★
Intra-governmental Balances and Eliminations Schedules		★	
Other Accompanying Information:			
Other Supporting Statements		★	
Additional Performance Measures and Other Management Information			★
★Submission of Entity-level Unaudited Financial Statements concurrently to the Inspector General, DoD and to the Chief Financial Officer, DoD			★
★Submission of Agency-wide Unaudited Financial Statements to the Inspector General, DoD for Audit	★		
Submission of Entity-level Audited Financial Statements to the Chief Financial Officer, DoD			★
Submission of Audited Financial Statements to the Office of Management and Budget (OMB)	★		

¹Primary responsibility rests with the reporting entity. However, DFAS assists by providing accounting report information and additional support as agreed.

Table 2-2

★020103. Responsibility For Other Defense Organization Subentities. In order for the Department to prepare the DoD Agency-wide audited financial statements, supporting financial statements must be prepared for the remaining DoD organizations that are not required to submit stand alone audited financial statements. The assigned accounting activities shall prepare the required supporting statements for the subentities identified in Table 2-3 and submit the statements to the responsible official designated in Table 2-3. The responsible official shall be responsible for providing all necessary data that originates in nonfinancial processes and systems (such as inventory and property data), reviewing combining statements and providing

feedback to the Defense Finance and Accounting Service (DFAS) for consolidation with other combining statements.

Office of the Secretary of Defense Principal Staff Assistants
and Other Defense Organizations Subentities

RESPONSIBLE OFFICIAL	OTHER DEFENSE ORGANIZATIONS SUB-ENTITIES	FUND TYPE
Under Secretary of Defense (Acquisition and Technology)	Ballistic Missile Defense Organization	General Funds
	Defense Advanced Research Projects Agency	General Funds
	Defense Acquisition University	General Funds
	Defense Logistics Agency	General Funds
	Defense Threat Reduction Agency	General Funds
	Federal Energy Management Program	General Funds
	Joint Logistics Systems Command	General Funds and WCF
	National Defense Stockpile Transaction Fund	General Funds
	Office of Economic Adjustment	General Funds
Under Secretary of Defense (Personnel and Readiness)	Defense Commissary Agency	General Funds and WCF
	Defense Health Program	General Funds
	Defense Medical Program Activity	General Funds
	Department of Defense Education Activity	General Funds
	Department of Defense Education Benefits Fund	General Funds
	Tricare Support Office	General Funds
	Voluntary Separation Incentive Trust Fund	General Funds
	★ Ready Reserve Mobilization Income Insurance Fund	Revolving Fund
Under Secretary of Defense (Comptroller)	Defense Contract Audit Agency	General Funds
	Defense Finance and Accounting Service	WCF
	Unallocated	General Funds
	Undistributed	General Funds
Under Secretary of Defense (Policy)	National Security Education Trust Fund	General Funds
	Defense Security Cooperation Agency	General Funds
	U.S. Special Operations Command	General Funds
	Defense Prisoner of War/Missing Persons Office	General Funds
Assistant Secretary of Defense (C3I)	Defense Information Systems Agency	General Funds and WCF
	Defense Intelligence Agency	General Funds
Assistant Secretary of Defense (C3I)	Defense Security Service	General Funds and WCF
	National Imagery and Mapping Agency	General Funds
Director, National Security Agency	National Security Agency	General Funds

Table 2-3

RESPONSIBLE OFFICIAL	OTHER DEFENSE ORGANIZATIONS SUB-ENTITIES	FUND TYPE
Inspector General, Department of Defense	Office of the Inspector General	General Funds
Director, Joint Staff	Joint Chiefs of Staff	General Funds
Director, Washington Headquarters Services	Court Appeals Armed Forces	General Funds
	Defense Legal Services Agency	General Funds
	American Forces Information Service	General Funds
	Office of the Secretary of Defense (OSD)	General Funds
	Pentagon Reservation Maintenance Revolving Fund	General Funds
	Washington Headquarters Services (WHS)	General Funds
	Building Maintenance Fund, Defense	General Funds
	Other "97" Funds Provided to WHS by OSD	General Funds
Assistant Secretary of the Army (Financial Management and Comptroller)	All Other (Prior Year Residual) "97" Funds	General Funds
	Emergency Response Fund, Defense	General Funds
	Homeowners Assistance Fund, Defense	General Funds
Assistant Secretary of the Navy (Financial Management and Comptroller)	Other "97" Funds Provided to the Army by OSD	General Funds
	Other "97" Funds Provided to the Navy by OSD	General Funds
Assistant Secretary of the Air Force (Financial Management and Comptroller)	Other "97" Funds Provided to the Air Force by OSD	General Funds

Table 2-3 (Cont.)

★020104. Reporting of Foreign Military Sales (FMS) Activity in the DoD Financial Statements. The Defense Security Cooperation Agency administers the FMS programs on behalf of the Executive Office of the President. The OMB, in coordination with the General Accounting Office (GAO), has approved the following provisions regarding the specific information on the financial activity of FMS programs, that is to be included in the DoD financial statements.

★A. Amounts for FMS procurement by contract will not be reported in the DoD Agency-wide Statement of Net Costs but will be disclosed in a footnote. Management's estimate of the amount of FMS program procurements by contractors during the period will be included only in Note 16 F. of the DoD Agency-wide consolidated financial statements.

B. A Statement of Custodial Activity will be prepared for cash receipts and disbursements of the FMS Trust Fund and included in the DoD Agency-wide consolidated financial statements.

C. Revenue and expense amounts pertaining to FMS goods or services provided from the stocks of the DoD Components on a reimbursable basis will continue to be reported in the financial statements of the applicable selling DoD Component and in the

DoD Agency-wide consolidated statements. Guidance concerning the identification of interagency transactions is contained in Chapter 13 of this Volume.

D. Revenue and expense amounts pertaining to the FMS administrative expenses will be included in the DoD Agency-wide consolidated financial statements as a portion of “Other Defense Organizations, General Funds.” Guidance concerning the identification of interagency transactions is contained in Chapter 13 of this Volume.

★E. Principal statements for the following accounts will not be required. However, information will be provided in the “Other Accompanying Information” section of the DoD Agency-wide report, on the allocations and authorities received from the Executive Office of the President for appropriated funds (i.e., 11*1081, 11*1082, 1151084, 11X1088, and 11*1085) and revolving funds (11X4116, 11X4121, 11X4122). See Chapter 3, Section 0304 of this Volume.

0202 REPORTING SCHEDULE

020201. Audited Financial Statements. The OMB requires agencies to submit audited financial statements by March 1st following the end of the fiscal year for each of the reporting entities identified in the current OMB Bulletin titled “Audits of Agency Financial Statements.” The DoD reporting entities that must meet this requirement are those identified in Chapter 1, paragraph 010601 of this volume.

★020202. Key Statements Preparation Due Dates. The development and publication of the audited financial statements requires coordinated actions by entity management, the supporting accounting organization, and the audit community. Table 2-4 provides a list of the key milestones in the development of the audited financial statements. The schedule contained in Table 2-4 applies to all reporting entities identified in paragraph 010601 and to all Other Defense Organizations subentities identified in Table 2-3. The dates identified in Table 2-4 represent the month and day immediately following the end of the fiscal year for which the financial statements are being prepared. If an identified date falls on a Saturday, Sunday, or holiday, then the due date becomes the last workday preceding the weekend or holiday.

Key Statements Preparation Due Dates

Required Action	Responsible Office	FY 1999 DATES	
		Start	End
Identify trading partners	DFAS and the United States Army Corps of Engineers (USACE) Finance Center (FC)	08/01	09/30
Request legal and management representation letters from reporting entity management.	Auditors		10/15
Provide auditors preliminary year-end budgetary reports and trial balances	DFAS and the USACE-FC		10/30
DoD provide seller-side account balances to DoD and Other federal agency buyers	DFAS and the USACE-FC		10/30
DFAS and USACE-FC receive seller-side account balances from other DoD and other federal agencies	Other Federal Agencies and DoD		10/30
Provide data from feeder systems (required to complete statements and notes) to the DFAS or USACE-FC	DoD Components	09/30	11/05
Complete adjustments of DoD buyer-side data to reflect seller-side intragovernmental balances	DFAS and USACE-FC		11/05
Provide initial Required Supplementary Stewardship Information to the Office of the Deputy Chief Financial Officer Accounting Policy Directorate (ODCFO(AP)) for Stewardship Assets, Stewardship Investments and Deferred Maintenance	Department of Defense (DoD) Components		11/15
Provide Statements and Notes to DoD Components (Informal copy to OIG, DoD)	DFAS and USACE-FC		11/19
Jointly review Statements and Notes	DFAS, DoD Components	11/22	12/08
Provide revised Statements and Notes to DoD Components	DFAS and USACE Finance Center		12/10
Provide DoD Agency-wide Statements and Notes to the DCFO	DFAS		12/14
Provide Legal Representation interim response letters to auditors	DoD Components	12/01	12/15*
Provide stand alone entity complete unaudited annual financial reports concurrently to the DCFO and to the OIG, DoD	DoD Components		12/22
DCFO provide the complete unaudited DoD Agency-wide annual financial report to the OIG, DoD	DCFO		12/23
Provide final audit adjustments to DoD Components and the DFAS	Auditors		01/14

Table 2-4

Required Action	Responsible Office	FY 1999 DATES	
		Start	End
Provide Final Required Supplementary Stewardship Information to the ODCFO (AP) for Stewardship Assets, Stewardship Investments and Deferred Maintenance	DoD Components		01/14
Provide audit-adjusted DoD Agency-wide Statements and Notes to the DCFO	DFAS		01/27
Provide final, complete Financial Statements and Notes to the DCFO and OIG	DoD Components		02/02
Provide final, complete DoD Agency-wide Financial Statements to the OIG	DCFO		02/04
Provide Management Representation letters to auditors	DoD Components		02/09
Provide Legal Representation updated response letters to auditors	DoD Components		02/09
Provide audit opinion letter on reporting entity annual financial statements to the OIG, DoD	Component Audit Agency/Service or Certified Public Accountant firm		02/09
Provide Management Representation letters on the DoD Agency-wide to the OIG, DoD	DoD Comptroller		02/14*
Provide Legal Representation updated response letters on DoD Agency-wide to the OIG, DoD	DoD Comptroller		02/14*
Provide audit opinion letter on the DoD Agency-wide reporting entity annual financial statements to the DCFO	OIG, DoD		02/14
Provide printed and electronic copies of Financial Statements to the DCFO	DoD Components		02/24
Provide audited Financial Statements to the OMB	DCFO		03/01
Post audited Financial Statements on the Under Secretary of Defense Comptroller (USD(C)) website	DCFO		03/02

*The required dates for the Legal Representation Letters are included in the current OMB Audit Bulletin on "Audits of Agency Financial Statements." The FY 1999 revised bulletin was not issued as of the completion of this schedule. Please refer to the current bulletin that may have revised dates for the Legal Representation Letters and other related requirements.

Table 2-4 (Cont.)

0203 MANAGEMENT REPRESENTATION LETTERS

★Auditors request that management prepare and submit a management representation letter, for each reporting entity audited, prior to the conclusion of an audit. During the audit, management makes many representations to the auditor, both oral and written, in response to specific inquiries and through the financial statements. In the management representation letter, management confirms the representations explicitly or implicitly given to the auditor, indicates and documents the continuing appropriateness of such representations, and reduces the possibility of misunderstanding concerning the matters that are the subject of the representations.

Representations by management generally relate to the: (a) the financial statements, (b) completeness of the information, (c) recognition, measurement, and disclosure, and (d) subsequent events. Specifically, management will represent that the financial statements do, or do not, present fairly in accordance with federal generally accepted accounting principles and OMB form and content guidance the financial status of the reporting entity. The OMB Bulletin 99-XXX “Audits of Agency Financial Statements” provides an illustrative management representation letter. Management representation letters are due to the office performing the entity’s audit by due date specified in Table 2-4, above.

020301. Signature levels for management representation letters are indicated below:

★A. The Secretary or Under Secretary of the Military Department concerned must sign a management representation letter in support of a financial statement for a Military Department’s general funds and WCF.

★B. The Director or Deputy Director of the Defense Agency concerned must sign a management representation letter in support of financial statements for a Defense Agency WCF.

★C. The fund manager of the trust or revolving fund concerned must sign a management representation letter in support of financial statements for a trust or revolving fund managed by the OSD or Defense Agency.

★D. The USD(C) must sign a management representation letter for the DoD Agency-wide financial statements.

★E. The Director or Principal Deputy Director of the DFAS, or the Director of the applicable DFAS Center, will provide a certification to the USD(C), respective Military Department Secretary, Defense Agency Director or trust fund manager as supporting documentation for their management representation letter. However, the Director, DFAS will not sign, or cosign, management representation letters (except for the management representation letter for the DFAS WCF financial statements). When an office other than the DFAS provides accounting support, the accounting office must provide the same type of certification. A sample of the certification to be provided by the DFAS or other accounting office is provided in Volume 6, Chapter 2, paragraph 020210.

020302. Requests for management representation letters below the above levels should be referred to the ODCFO for resolution.

0204 LEGAL REPRESENTATION LETTERS

★Legal representation letters are the auditors’ primary means of corroborating the information furnished by management concerning litigation, claims, and assessments. Legal representation letters are required for each of the reporting entities identified in paragraph

010601 of this Volume. Legal representation letters are intended to identify pending or threatened litigation and unasserted claims or assessments having a materiality threshold of \$100 million or more. Upon receipt of the audit agency request, it is the responsibility of the senior management official of each reporting entity to request the legal representation letter from those lawyers with whom management consulted during the year. Requests for legal representation letters will be forwarded to the General Counsel (GC) of the applicable Military Service. Requests for legal representation letters for Defense accounts will be forwarded to the GC, DoD. Requests for legal representation letters below the Service or fund level should be referred to the ODCFO, for resolution. Legal representation letters must be provided to GC, DoD, ATTN: Deputy General Counsel (Fiscal) and to the office performing the audit--the IG, DoD or the Military Service audit agency--of the entity's financial statements by the dates specified in the schedule provided in Table 2-4 of this volume. The OMB Bulletin 99-XX "Audits of Agency Financial Statements" provides an illustrative legal representation letter.

0205 GENERAL PREPARATION INSTRUCTIONS

020501. The principal statements and notes embody the financial accounting concepts and recognition and measurement requirements contained in the Statements of Federal Financial Accounting Concepts (SFFACs) and Statements of Federal Financial Accounting Standards (SFFASs) recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Secretary of the Treasury, the Director of the OMB, and the Comptroller General. The SFFACs and SFFASs have been or will be incorporated into the accounting policy and guidance contained in the "DoD Financial Management Regulation" ("DoDFMR"). Preparers of financial statements seeking detailed guidance on matters involving the recognition and measurement requirements for transactions and information covered by the SFFASs should refer to the "DoDFMR." If sufficient guidance is not found in this Regulation, preparers shall follow the hierarchy of accounting principals and standards contained in Volume 1 Chapter 8 of this Regulation.

★020502. Preparers of financial statements and notes will crosswalk their unique general ledger accounts to the U.S. Government Standard General Ledger (USGSGL) chart of accounts and at a further lower level of detail to include Treasury Financial Management Service, Federal Agencies' Centralized Trial-Balance System (FACTS) attributes. The USGSGL, with FACTS attributes, will be used to prepare FY 1999 financial statements. Preparers of financial statements must provide the following computer files with each version of financial statements and notes: financial statements, notes, the trial balance used to prepare the statements, and the eliminations worksheets (as required in Chapter 13 of this Volume). The computer files shall be submitted via e-mail to the DFAS-Headquarters Accounting Directorate (DFAS-HQ/A) and that office will provide the ODCFO(AP) the same computer files and information for each version of the financial statements.

★020503. Prior year comparative data is required by the OMB for FY 2000 annual financial statements. The DoD reporting entities (with the exception of the Military Retirement Trust Fund) will not include comparative data for FY 1999. Effective with the FY 2000 statements, comparative data will be required for each of the principal statements. Prior year

data, when reported, must be consistent with the amounts reported on the financial statements of the prior year. In addition, significant variances in the values reported from one year to the next on a report line should be explained in the footnotes.

★020504. Statement line items, footnotes, and lines or columns in footnotes that do not apply to the reporting entity may be excluded from the published version of the statements and notes. However, in order to ensure consistent and accurate aggregation of amounts from suborganizations, such lines may not be excluded prior to the submission of the final version to entity management. Due to the short timeframes available for statement consolidation at the agency level, preparers are not authorized to combine lines for which the referenced account balances are immaterial.

★020505. Do not designate in footnotes as “other” any discrete balances of a material amount. Material balances should be separately reported and designated by name. Material is defined as any component of a line item that represents more than 10 percent of the value of the line in the principal statements.

★020506. The footnote numbering sequence contained in Chapter 10 of this Volume must be maintained in order to ensure consistent and accurate aggregation to the DoD agency level. If a note is not applicable for the reporting entity, so state after the note number and title. If additional footnotes are necessary to provide required disclosures, number them sequentially beginning with the number following the last footnote identified in Chapter 10 of this Volume.

020507. The accounting policies and procedures will be applied consistently throughout the financial statements. As a result, the amounts reported throughout the financial statements, footnotes and supplemental information will be reported consistently. Ensure that schedules presented in the footnotes, in support of amounts presented on financial statements, have total figures that agree with the amounts presented in the body of the financial statements. Financial information reported in multiple footnotes or other sections shall be reported in a consistent manner.

★020508. The principal statements provided for the DoD reporting entities must be prepared as consolidated/consolidating statements net of intraentity transactions except as noted below. However, the OMB has deferred the requirement for consolidated/consolidating statements for the Statement of Budgetary Resources and the Statement of Financing. For FY 1999, the Department will prepare combined/combining statements for the Statement of Budgetary Resources and a combined Statement of Financing. These statements will not be net of intraentity transactions.

★020509. Round dollar amounts to the nearest whole thousand on the final published principal statements and in the tables contained in the notes to the principal statements. To avoid excessive workload associated with the resolution of rounding errors, accounting activities should report amounts as dollars and cents on all versions of the principal statements and notes prior to submission by the reporting entity of the final annual financial statements to the ODCFO(AP).

★020510. Reporting entities that choose to present additional financial statements or information should include these in the Other Accompanying Information section.

★020511. The financial statements of the reporting entities identified in paragraph 0106 should be organized as displayed in Chapter 1, Table 1-1 of this Volume.

★020512. Entity managers are responsible for the preparation and printing of the final complete version of their financial statements. Fifteen bound copies of the printed financial statements and one set of portable document format files (Adobe Acrobat pdf files) must be submitted to the Office of the Under Secretary of Defense (Comptroller), Office of Deputy Chief Financial Officer, Directorate for Accounting Policy (ODCFO(AP)), 1100 Defense Pentagon, Room 3A882, Washington, DC 20301-1100, no later than February 24.

★020513. The Department's financial statements will be posted electronically to the USD(C) web site. Entity managers will provide ODCFO(AP) with files of their financial statements for posting to the USD(C) web site by March 1. The files will be in the portable document format.

0206 DEPARTMENTAL ADJUSTMENTS RESULTING FROM FINANCIAL STATEMENTS AUDITS

★020601. Material errors in financial statements discovered after installation-level records are closed but before departmental-level records are closed shall be corrected upon the approval of the reporting entity management. Material errors result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the installation-level financial statements were prepared. Corrections to departmental-level financial statements will be made only after their application to specific installations, appropriations and/or accounts, and general ledger accounts has been documented. The DFAS, in conjunction with the DoD Component, will establish and document procedures to ensure that corrections made at the departmental level (after installation-level accounting records have been closed for the reporting year) are transmitted to subordinate installations for input into current year accounting records. Procedures also will be established to monitor and ensure that each installation's respective corrections and prior year adjustments are input into installation accounting systems and that such information is transmitted to the departmental level for control and reporting purposes.

020602. Departmental-level adjustments must be reversed in their entirety during the current fiscal year (i.e., as early as feasible in the fiscal year following the fiscal year for which the financial statements were prepared). The DFAS shall have on file documentation supporting the prior period adjustments along with an audit trail of the approval and recording of transactions and reports on the recording of the associated installation-level adjustments. These records will include the agreement between the DoD Component, the auditors, and the DFAS that resulted in the adjustment.

020603. Sample Entries.

A. A January 1999 audit of the FY 1998 financial statements reveals that a revenue item for \$100,000 for services provided was not posted to installation records. The installation records supporting the FY 1998 records have been closed but the departmental records supporting the FY 1998 financial statements are still open. Review of the transaction also reveals that an accounts receivable entry and related budgetary accounts were not posted. The installation accounting officer should determine the reasons for not posting the transaction and for not collecting the receivable. Documentation supporting the need for the adjustment is available. The posting of revenue, when closed, would have had an effect on equity; therefore, the following actions shall be taken.

1. Departmental-level Action.

★a. Increase both accounts receivable and revenue and related budgetary account balances in the FY 1999 financial statements by \$100,000.

Dr 1310	Accounts Receivable	100,000	
	(Additional Information Required: Government-Current)		
Cr 5200	Revenue from Services Provided		100,000
Dr 4251	Reimbursements and Other Income Earned - Receivable	100,000	
Cr 4220	Unfilled Customer Orders		100,000
	(Additional Information Required: No advance)		

b. Closing Entries for FY 1999.

Dr 5200	Revenue from Services Provided	100,000	
Cr 3310	Cumulative Results of Operations		100,000

c. Reversing Entries in FY 1999.

Dr 7400	Prior Period Adjustments	100,000	
Cr 1310	Accounts Receivable		100,000
	(Additional Information Required: Government-Current)		
Dr 4220	Unfilled Customer Orders	100,000	
	(Additional Information Required: No advance)		
Cr 4251	Reimbursements and Other Income Earned - Receivable		100,000

2. Installation-level Action. The installation should be requested to make the following journal entries to its FY 1999 accounting records.

Dr 1310	Accounts Receivable	100,000	
	(Additional Information Required: Government-Current)		
Cr 7400	Prior Period Adjustments		100,000
Dr 4251	Reimbursements and Other Income Earned - Receivable	100,000	
Cr 4220	Unfilled Customer Orders		100,000

(Additional Information Required: No advance)

B. During the same audit of the FY 1998 financial statements, a revenue item for \$200,000 for services provided was discovered to not have been posted to the FY 1997 (prior year) installation accounting records. The Departmental records supporting the FY 1998 financial statements have not been closed; however, the records for FY 1997 have been closed for over a year. Review of the transaction also revealed that an accounts receivable entry and related budgetary accounts were not posted. The installation accounting officer should determine the reasons for not posting the transaction and for not collecting the receivable. Documentation supporting the need for the adjustment is available. The posting of revenue, when closed, would have had an effect on equity; therefore, the following actions shall be taken:

1. Departmental-level Action.

★a. Increase departmental accounts receivable and Prior Period Adjustments and related budgetary accounts by \$200,000. Disclose in the footnotes to the financial statements the adjustment for \$200,000 and its correction during FY 1999.

Dr 1310	Accounts Receivable	200,000	
	(Additional Information Required: Government-Noncurrent)		
Cr 7400	Prior Period Adjustments		200,000
Dr 4251	Reimbursements and Other Income Earned - Receivable	200,000	
Cr 4220	Unfilled Customer Orders		200,000
	(Additional Information Required: No advance)		

★b. Closing Entries for FY 1999.

Dr 7400	Prior Period Adjustments	200,000	
Cr 3310	Cumulative Results of Operations		200,000

c. Reversing Entries in FY 1999.

Dr 7400	Prior Period Adjustments	200,000	
Cr 1310	Accounts Receivable - (Additional Information Required: Government-Current)		200,000
Dr 4220	Unfilled Customer Orders	200,000	
	(Additional Information Required: No advance)		
Cr 4251	Reimbursements and Other Income Earned - Receivable		200,000

2. Installation-level Action. The installation should be requested to make the following journal entries to its FY 1999 accounting records.

Dr 1310	Accounts Receivable	200,000	
	(Additional Information Required: Government-Noncurrent)		
Cr 7400	Prior Period Adjustments		200,000
Dr 4251	Reimbursements and Other Income Earned -	200,000	

Receivable		
Cr 4220 Unfilled Customer Orders		200,000
(Additional Information Required: No advance)		

C. During January 1999, audit of the FY 1998 financial statements revealed that an expense for \$50,000, related to a reimbursable program, was not posted to installation records. The departmental records supporting the FY 1998 financial statements have not been closed. Review of the transaction also revealed that an accounts payable and related budgetary accounts were not posted and that payment was never made. The installation accounting officer shall determine the reason for not posting the transaction and for not making a payment to liquidate the payable. Documentation supporting the need for the adjustment is available. The posting of expense, when closed, will have had an effect on equity; therefore, the following actions shall be taken:

1. Departmental-level Action.

a. Increase both accounts payable and expense, as well as, the related budgetary account balances in the financial statements by \$50,000.

Dr 6100 Operating Expenses/Program Costs	50,000	
Cr 2110 Accounts Payable		50,000
(Addition Information Required: Government-Current)		
Dr 4801 Undelivered Orders - Unpaid	50,000	
Cr 4901 Expended Authority - Unpaid		50,000

★b. Closing Entries for FY 1999.

Dr 3310 Cumulative Results of Operations	50,000	
Cr 6100 Operating Expenses/Program Costs		50,000

c. Reversing Entries in FY 1999.

Dr 2110 Accounts Payable	50,000	
(Addition Information Required: Government-Current)		
Cr 7400 Prior Period Adjustments		50,000
Dr 4901 Expended Authority - Unpaid	50,000	
Cr 4801 Undelivered Orders - Unpaid		50,000

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

Dr 7400 Prior Period Adjustments	50,000	
Cr 2110 Accounts Payable		50,000
(Addition Information Required: Government-Current)		
Dr 4801 Undelivered Orders - Unpaid	50,000	
Cr 4901 Expended Authority - Unpaid		50,000

D. During the same audit of FY 1998 installation accounts, an expense for \$210,000, related to a reimbursable program, was mistakenly posted as \$120,000 to installation FY 1998 records. The \$90,000 error was not detected. The departmental records supporting the FY 1998 financial statements had not been closed. Review of the transaction also revealed that the \$90,000 difference has caused the payment to remain unmatched and the accounts payable and related budgetary accounts unliquidated. The installation accounting officer shall determine the reasons for not correcting the initial posting and for not liquidating the payable. Documentation supporting the need for the adjustment was available. The posting of expense, when closed, will have had an effect on equity; therefore, the following actions shall be taken:

1. Departmental-level Action.

★a. Increase both accounts payable and expense and related budgetary account balances in the FY 1999 financial statements by \$90,000.

Dr 6100 Operating Expenses/Program Costs	90,000	
Cr 2110 Accounts Payable		90,000
(Addition Information Required: Government-Current)		
Dr 4801 Undelivered Orders - Unpaid	90,000	
Cr 4901 Expended Authority - Unpaid		90,000

★b. Closing Entries for FY 1999.

Dr 3310 Cumulative Results of Operations	90,000	
Cr 6100 Operating Expenses/Program Costs		90,000

c. Reversing Entries in FY 1999.

Dr 2110 Accounts Payable	90,000	
(Addition Information Required: Government-Current)		
Cr 7400 Prior Period Adjustments		90,000
Dr 4901 Expended Authority - Unpaid	90,000	
Cr 4801 Undelivered Orders - Unpaid		90,000

2. Installation-level Action. The installation shall be requested to make the following journal entry to its FY 1999 accounting records.

Dr 7400 Prior Period Adjustments	90,000	
Cr 2110 Accounts Payable		90,000
(Addition Information Required: Government-Current)		
Dr 4801 Undelivered Orders - Unpaid	90,000	
Cr 4901 Expended Authority - Unpaid		90,000

★E. During January 1999, audit of the FY 1998 financial statements revealed that general equipment for \$160,000 was not posted to installation records. The departmental records supporting the FY 1998 financial statements have not been closed. Further review of the

transaction revealed that the item of equipment was free issue from a procurement appropriation as of September 29 of the reporting fiscal year. Documentation supporting the need for the adjustment is available. The installation accounting officer shall review accounting procedures to determine why the property was not posted to official accounting reports. The posting of financing sources, when closed, will have an effect on equity; therefore, the following actions shall be taken:

1. Departmental-level Action.

★a. Increase the asset account for general equipment and financing accounts for \$160,000 in the FY 1999 financial statements. There are no budgetary entries required.

Dr 1750 Equipment	160,000	
Cr 5720 Financing Sources Transferred In Without Reimbursement		160,000

★b. Closing Entries for FY 1999.

Dr 5720 Financing Sources Transferred In Without Reimbursement	160,000	
Cr 3310 Cumulative Results of Operations		160,000

c. Reversing Entries in FY 1999.

Dr 7400 Prior Period Adjustments	160,000	
Cr 1750 Equipment		160,000

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

Dr 1750 Equipment	160,000	
Cr 7400 Prior Period Adjustments		160,000

F. During January 1999, audit of the FY 1998 financial statements revealed that numerous equipment items totaling \$120,000 were capitalized on installation accounting records. No depreciation had been recorded against the equipment. Departmental records supporting the FY 1998 financial statements have not been closed. Further review of the transactions revealed that the items were purchased from operation and maintenance funds and were not expensed. Budgetary entries to obligate and disburse funds related to these items were correctly posted. Each item acquisition cost was less than the \$100,000 capitalization criteria. Documentation supporting the need for the adjustment is available. The installation accounting officer should be reviewing accounting procedures to determine why the property was not expensed in the official accounting records. (Note: That property records must be maintained in some specific cases.) The posting of expense, versus capital, when closed, will have had an effect on equity (Unexpended Appropriations); therefore, the following actions are required. In

this case, the proper posting would have effected expense; therefore, the installation shall record a prior period adjustment as follows:

1. Departmental-level Action.

★a. Decrease equipment and equity accounts for \$120,000 in the FY 1999 financial statements. There are no budgetary entries required.

Dr 6100	Operating Expenses/Program Costs	120,000	
Cr 1750	Equipment		120,000

★b. Closing Entries for FY 1999.

Dr 3310	Cumulative Results of Operations	120,000	
Cr 6100	Operating Expenses/Program Costs		120,000

c. Reversing Entries in FY 1999.

Dr 1750	Equipment	120,000	
Cr 7400	Prior Period Adjustments		120,000

2. Installation-level Action. The installation should be requested to make the following journal entry to its FY 1999 accounting records.

Dr 7400	Prior Period Adjustments	120,000	
Cr 1750	Equipment		120,000

G. During January 1999, audit of the FY 1998 financial statements revealed that a \$150,000 error was made in consolidating the FY 1998 line item for “Property, Plant and Equipment, Net” of the balance sheet at an installation. The departmental records supporting the FY 1998 financial statements had not been closed. The installation accounting officer should determine the reason the error was made in consolidating the FY 1998 line item to preclude it happening in FY 1999. Documentation supporting the need for the correction was available.

1. Departmental-level Action. Make the correction to the “Property, Plant and Equipment, Net” line at the departmental level and ensure that an offsetting entry is made to equity at the Departmental level. Reprint the balance sheet after correction.

2. Installation-level Action. No corrections are made to the FY 1998 financial statements; however, installation-level property records must be corrected so the same mistake is not made next year.