



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

JAN 11 2010

MEMORANDUM FOR COMMANDER, UNITED STATES SPECIAL OPERATIONS  
COMMAND (ATTN: ACQUISITION EXECUTIVE)  
COMMANDER, UNITED STATES TRANSPORTATION  
COMMAND (ATTN: ACQUISITION EXECUTIVE)  
DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(PROCUREMENT), DASA(P)  
DEPUTY ASSISTANT SECRETARY OF THE NAVY  
(ACQUISITION AND LOGISTICS MANAGEMENT),  
ASN (RDA)  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(CONTRACTING), SAF/AQC  
ASSISTANT SECRETARY OF DEFENSE (LOGISTICS AND  
MATERIEL READINESS)  
DIRECTORS, DEFENSE AGENCIES  
DIRECTORS, DOD FIELD ACTIVITIES

SUBJECT: Contractor Acquired Property (CAP) under Cost Reimbursement Contracts  
and Line Items

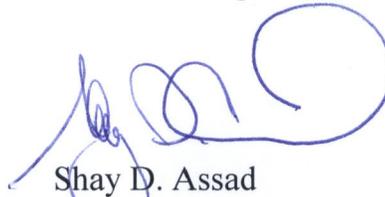
This memorandum is issued to clarify Department of Defense (DoD) business rules for Contractor Acquired Property (CAP). CAP, as defined by the Federal Acquisition Regulation (FAR) 45.101, is property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the Government has title. Business rules relative to CAP are exclusive to cost-reimbursement contracts as well as cost reimbursement line items under mixed type contracts and cost reimbursement delivery orders under indefinite delivery contracts or basic ordering agreements.

Historically, some DoD Components sought to establish accountable property records for CAP — an inefficient practice that resulted in duplicate accountability records. In a joint memorandum entitled “Military Equipment Valuation Contractor Acquired Property Business Rule,” dated December 22, 2007, the Office of the Under Secretary of Defense (Comptroller) and Under Secretary of Defense (Acquisition, Technology & Logistics) clarified the Department’s policy (attached). The business rule states that although title passes to DoD when the property is obtained by the contractor, the property will not be recorded on DoD financial statements (as other than construction in process) or in accountability systems until the property is delivered to DoD.

Given the many ongoing audits and Congressional interest in Government Property, it is imperative that DoD Components understand the business rules for CAP, as well as the aforementioned change in accountability and financial record keeping, and that they ensure that accountable property records are established for CAP only upon delivery to the Government on a contract line item number (CLIN).

The procedures and guidance in the attachment for formulation and valuation of CLINs for CAP delivery shall be published as PGI 245.401, Contractor Acquired Property, within 90 days from the date of this memorandum.

My point of contact for this matter is LeAntha Sumpter, 703-602-7955, [LeAntha.Sumpter@osd.mil](mailto:LeAntha.Sumpter@osd.mil).



Shay D. Assad  
Director, Defense Procurement  
and Acquisition Policy

Attachment:  
As stated

## ATTACHMENT

SUBJECT: Business Rules for Establishing Accountable Property Records for  
Contractor Acquired Property (CAP)

1. Title.

a. The Government has title to CAP (under cost reimbursement contracts).

b. Title to property acquired by contractors under fixed price contracts is dependent on the contract terms and conditions as follows:

1) Fixed price contracts. The contractor retains title to all property acquired, except for property identified and ultimately delivered and accepted as a deliverable end-items on CLINs.

2) Fixed price contracts with contract financing provisions. The Government obtains title to property acquired by the contractor under financing clause(s), up until the point the property is accepted as a deliverable end-item, and all payments have been liquidated. This property is not considered CAP.

c. Government furnished property (GFP). The Government retains title to all GFP until ultimately disposed of by authorized means as specified in Federal Acquisition Regulation (FAR) Part 45. CAP items subsequently delivered on a CLIN are considered GFP when retained by the contractor for continued use under a contract. In such cases, and in accordance with the requirements of FAR 45.102, the items shall be added to the contract as GFP by contract modification.

2. General CAP Business Rules

a. The Requiring Activity, in partnership with the contracting specialists, should determine the CAP items that are required to be delivered. The following procedure acknowledges that CAP may not be anticipated at the time of contract award.

1) A CLIN, included at contract award, shall include a Contract Data Requirements List (CDRL) for the contractor to deliver a list of all CAP items (as required). The delivery date for that list should be at the discretion of the Requiring Activity, but no later than contract performance completion.

2) When CAP items are selected for delivery to the Government, a CLIN should be structured for CAP delivery and an Exhibit established in accordance with FAR Procedures, Guidance and Instructions (PGI) 204.7105. This will allow identification of CAP and enable the contractor to establish the property acquisition value and date placed in service upon delivery of the items in that Exhibit.

a) Separate CLINs should be established for material, equipment, special tooling, and special test equipment.

b) CLINs should be identified as “Not Separately Priced”, unless an equitable adjustment is necessary, as determined by the Contracting Officer (CO).

b. CAP items meeting the Item Unique Identification (IUID) criteria of DFARS 211.274-2 should be marked and reported to the DoD UID registry upon delivery in accordance with the clause at DFARS 252.211-7003. Requiring activities should update paragraph (c)(1)(ii) of that clause, as required to insert the Exhibit Line Item Numbers (ELINs) of those items.

c. Oversight and visibility of CAP not designated for delivery to the Government is limited to reviews and audits of contractor accounting and property management systems. Property management systems are maintained in accordance with the requirements of FAR 52.245-1(b)(1).

### 3. Business Rules for Establishing Property Accountability

a. Consistent with the FAR required order of disposition precedence, once the contractor determines that the CAP is no longer needed for contract performance, the contractor may purchase that item at original acquisition cost (See FAR 52.245-1(j)(2)). If the contractor does not use this option, then the contractor should notify the CO if use of the property in the performance of other Government contracts is practical.

b. GFP items shall be added to and/or removed from the contract by contract modification(s) to both the losing and gaining contracts, and recorded via submission of a Property Transfer action through Wide Area Work Flow.

c. Excess contractor inventory (See FAR 45.101), including CAP, is disposed of in accordance with FAR Clause 52.245-1, Government Property; 52.245-2 or 52.245-5, as applicable, i.e., reported on Inventory Disposal Schedules (SF 1428) or to the Plant Clearance Automated Reutilization Screening System. The Inventory Disposal Schedule is suitable for the CDRL data description (paragraph 2.a.1).

### 4. GFP Business Rules

a. If required, CAP items may be delivered in place of the acquisition contract. The property is then considered GFP and meets the reporting criteria of DFARS 211.211-7007, and must be reported to the UID registry, once rule 3 b actions are complete.

b. Provided the requirements of FAR Part 45.102 are met, CAP may be retained for continued contract performance. If the requirements of FAR Part 45.102 do not apply, the items may be declared excess.



OFFICE OF THE SECRETARY OF DEFENSE

WASHINGTON, DC 20301

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
COMMANDER, U.S. SPECIAL OPERATIONS COMMAND  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DEPARTMENT OF DEFENSE  
FIELD ACTIVITIES  
ASSISTANT TO THE SECRETARY OF DEFENSE  
(NUCLEAR, CHEMICAL AND BIOLOGICAL DEFENSE  
PROGRAMS)

SUBJECT: Military Equipment Valuation Contractor Acquired Property Business Rule

The attached business rule was developed in response to questions and issues raised by the DoD Components regarding financial accounting and property accountability for Contractor Acquired Property (CAP). The rule states that while title passes to DoD when the property is obtained by the contractor, the property will not be recorded on DoD financial statements (as other than construction in process) or in accountability systems until the property is delivered to DoD. This business rule will be incorporated into the DoD Financial Management Regulation.

Questions concerning this memorandum and the attached business rule should be directed to Mr. Richard Sylvester, Deputy Director, Acquisition Resources and Analysis (Property and Equipment Policy), Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) at 703-604-6350 x121 or richard.sylvester@osd.mil.

Tina W. Jonas  
Under Secretary of Defense  
(Comptroller)

John J. Young, Jr.  
Under Secretary of Defense  
for Acquisition, Technology and Logistics

Attachment:  
As stated



***Business Rule: Accounting for and Accountability of Contractor Acquired Property***

**DESCRIPTION OF ISSUE**

The purpose of this paper is to provide the requirements for accounting for Contractor Acquired Property (CAP) in accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*. It also addresses how CAP should be managed in the Government's accountability systems.

**BACKGROUND**

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, requires that Property, Plant and Equipment (PP&E) shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction-in-progress until it is placed in service, at which time the balance shall be transferred to general PP&E.

Contractor acquired property (CAP) is property obtained or otherwise provided by the contractor for performing a contract. Contractors may acquire property, as a direct cost to the Government, to fulfill the contract's requirements. When this occurs, the Government takes title to the property under the terms and conditions of the Government property clause.

DoD policies, processes, and practices are structured on delivery, receipt and acceptance of property. This aligns and is consistent with other DoD processes and practices, e.g., Wide-Area Work Flow, Unique Item identification. Although the DoD may have title to some property, e.g., property acquired, fabricated, or otherwise provided by the contractor for performing a contract, such property has not yet been delivered.

**ACCOUNTING TREATMENT**

The cost of contractor acquired property and other reimbursed costs should be accumulated in the construction-in-progress (CIP) general ledger account for posting to the applicable General Property, Plant, and Equipment account when construction or manufacturing is completed. For General and Military Equipment, construction-in-progress is transferred to the applicable General Property, Plant,

and Equipment account on the date the asset is placed in service<sup>1</sup> and recorded in the appropriate property accountability system.

With respect to contractor acquired property, upon completion of the construction or manufacture of end items for which the contractor acquired property was used and delivery of the contractor acquired property to the Government, contractor acquired property should either be capitalized in the appropriate Property, Plant, and Equipment account or if the contractor acquired property does not meet the capitalization threshold, such items should be recorded in the appropriate expense account. The amount transferred from CIP will be the Contractor's estimated fully burdened unit cost of contractor acquired property at the time of delivery to the Government.<sup>2</sup>

## **ACCOUNTABILITY TREATMENT**

Upon delivery to the Government, contractor acquired property should be recorded in the appropriate property accountability system. Consistent with DoDI 5000.64, there is no requirement for accountability by DoD Components for such property prior to delivery to the Government. Third parties (to include contractors) have stewardship responsibility, to include creating and maintaining records of all Government property accountable to the contract, consistent with the terms and conditions of the contract or third party agreement, for the Government property in their care.

## **AUTHORITATIVE GUIDANCE**

Statement of Federal Financial Accounting Standards No. 6, "*Accounting for Property, Plant, and Equipment*"

DoDI 5000.64, "*Accountability and Management of DoD-Owned Equipment and Other Accountable Property*"

DoD Financial Management Regulation, Volume 4, Chapter 6 (now under revision)

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<sup>1</sup> DoD Financial Management Regulation (FMR), DoD 7000.14-R, Volume 4, Chapter 6, "Property, Plant and Equipment," (paragraph 060105) defines recognition for Military Equipment as "normally be the date shown on Block 22, Receiver's Use, of the "Material Inspection and Receiving Report" (DD Form 250) or the equivalent date source under Wide Area Work Flow."

<sup>2</sup> Defense Federal Acquisition Regulation Supplement (DFARS) 211.274-3 Policy for valuation.