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[1] 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.[2]

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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[1] 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."

[2] Defense Federal Acquisition Regulation Supplement (DFARS) 211.274-3 Policy for valuation.