

Summary of Business Rules for Accounting for and Reporting of Military Equipment

Work-in-Process

Objective

- Prescribe the accounting for, and reporting of, costs incurred for end items in production but not yet completed in accordance with the provisions of Statement of Federal Financial Accounting Standards No.6, *Accounting for Property, Plant, and Equipment*.

Baseline Valuation Methodology

- Calculate Work-in-Process (WIP) by subtracting the total acquisition cost of end items placed in service from total disbursements to date (outlays).

Mid-Term Valuation Methodology

- Establish a WIP account to accumulate all costs related to the acquisition of constructed PP&E.
- Determine the full cost of the end item at the time of delivery and acceptance and transfer the amount from WIP to the Military Equipment account.

Military Equipment Valuation Project

Position Paper: Work-in-Process

Description of Issue

Some items of property, plant, and equipment (PP&E) acquired by DoD are commercial items that require no unique government modifications or maintenance over the life cycle of the product to meet the needs of the procuring DoD Component. Often referred to as “commercial off-the-shelf” items, these items frequently are ordered, received, and paid for on acceptance. However, most major DoD acquisition programs, particularly those dealing with items of military equipment, do not involve off-the shelf purchases, but rather, involve the research, development, and production of complex items of PP&E. The acquisition costs of these programs include vendor progress payments, the cost of government-furnished property, and the operating costs of the Program Management Office, all of which are paid for over an extended period of time. Most of these programs result in multiple end items delivered over time, thereby complicating the process of determining the total cost of individual end items.

With costs incurred over an extended period and individual end items completed at different times, the question is what mechanism should DoD use to accumulate and assign costs to individual end items so that the costs can be capitalized in accordance with Federal Accounting Standards.

Statement of Federal Financial Accounting Standards (SFFAS) No.6, *Accounting for Property, Plant, and Equipment*, Paragraph 34, states that in the case of constructed PP&E, the PP&E should be recorded as construction work-in-process until it is placed in service, at which time the balance shall be transferred to general PP&E.

Proposed Policy

DoD will establish a Work-in-Process (WIP) account to accumulate all costs (direct and indirect) related to the acquisition of constructed PP&E. When an individual PP&E item is delivered and accepted, DoD will transfer the total cost of the item from the WIP account to the general PP&E account. The individual end item should be recorded at full cost.

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In establishing a WIP account, costs must be accounted for by acquisition program and must include all costs incurred to acquire and bring the PP&E to a form and location suitable for its intended use. The full cost of PP&E items is discussed in the Full Cost position paper.

Authoritative Guidance

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