



Structuring Procurement Requests to Facilitate Proper Financial Accounting Treatment for Military Equipment

You've just been tasked with preparing a procurement request, following the new [policy](#) for the proper financial accounting treatment of military equipment. What do you do?

You read on, because you've come to the right place.

Below, you'll see procedures and links to two quick reference tools for filling out your procurement request. You have the choice of launching the interactive version of either tool or download the directions and the tools in a PDF format so that you can look up definitions and reference the Federal accounting standard documents as you need them.

If you need assistance at any time, contact [MEVA Support](#). We look forward to helping you succeed.

Business/Financial Management Analyst (BFMA) Quick Reference Tools

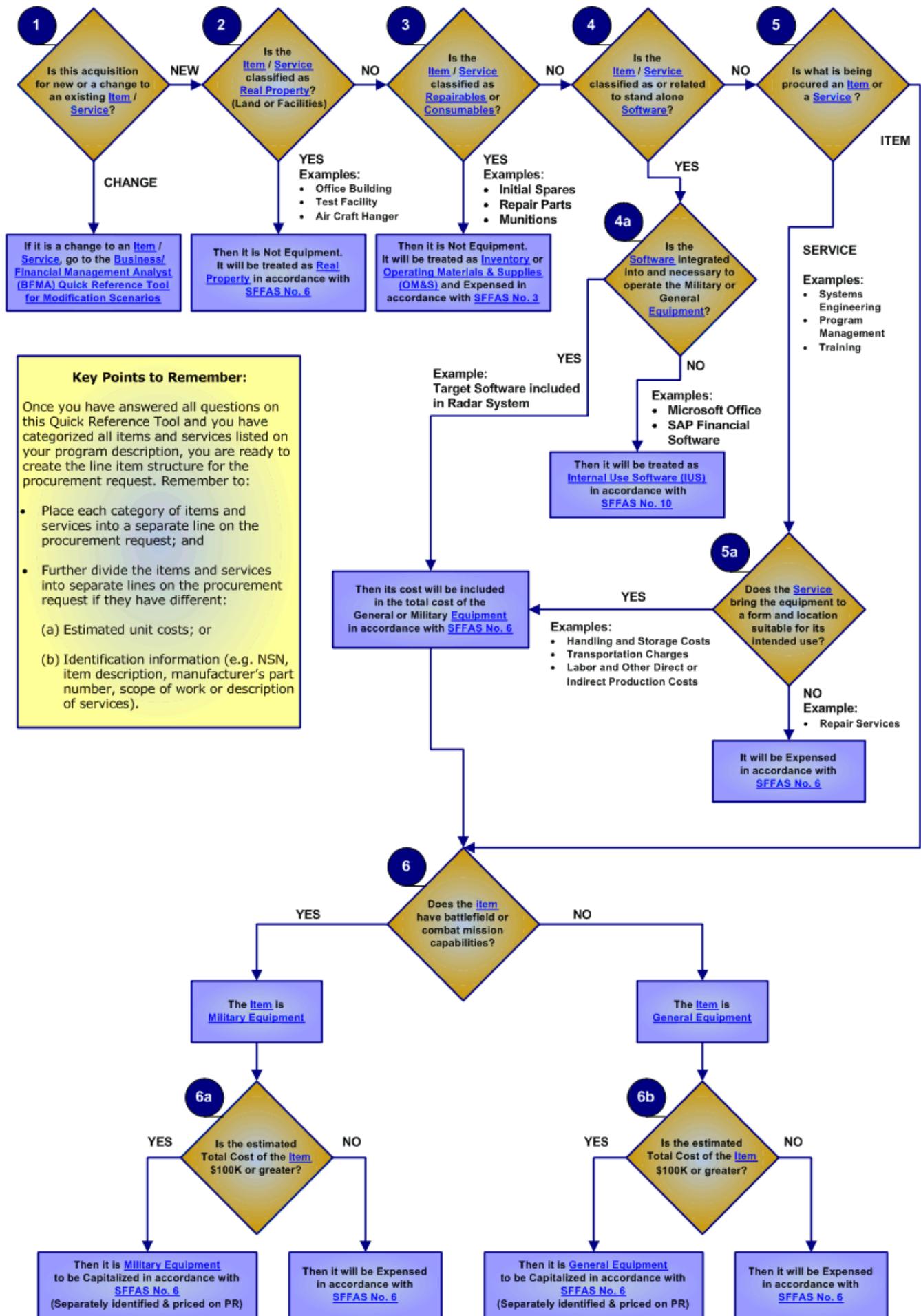
The procurement package you received already includes the "program description" document. As you may recall from the [Proper Financial Accounting Treatment for Military Equipment](#) online course, the Program Manager is to prepare the program description and attach it to the Acquisition Strategy Report at the Milestone C decision.

To use the tools effectively, follow these steps:

1. First, examine the program description to see if you can distinguish services from items. If not, contact the Program Manager or the person who wrote the description for help. You will not be able to use the tools effectively without this knowledge.
2. Use the tools to help you decide whether to put a service or item listed on the program description on its own line on the procurement request. This new structuring is required now! In the future, once financial systems are capable of processing the information, you will also be required to indicate the category (asset type) and accounting treatment on the procurement requisition.
3. If you notice that an item is designated for *foreign military sales*, place it on a separate line in the procurement request. There is no need to use the tool for this item.
4. To use the tools, address one item or service at a time and answer the sequential questions. You will see that there are several categories—Services, Real Property, Repairables or Consumables, Software, General Equipment, and Military Equipment. Click on the blue underlined words to link to the definition or to the applicable Statement of Federal Financial Accounting Standards (SFFAS) documents.
5. Once you have categorized the items and services listed on the program description, you're ready to create the line item structure for the procurement request.
 - Place each category of items and services into a separate line on the procurement request.
 - Further divide the items and services into separate lines on the procurement request if they have different:
 - (a) Estimated unit costs; or
 - (b) Identification information (e.g., NSN, item description, manufacturer's part number, scope of work or description of services, etc.).
6. The goal is to have a clear, organized list of separately itemized line items on the procurement request so that the Procurement Contracting Officer will be able to quickly and easily identify each as a separate contract line item (CLIN) or subcontract line item (SLIN) when he or she is developing solicitations and contracts.
7. Remember, if you have any questions, contact [MEVA Support](#) help.

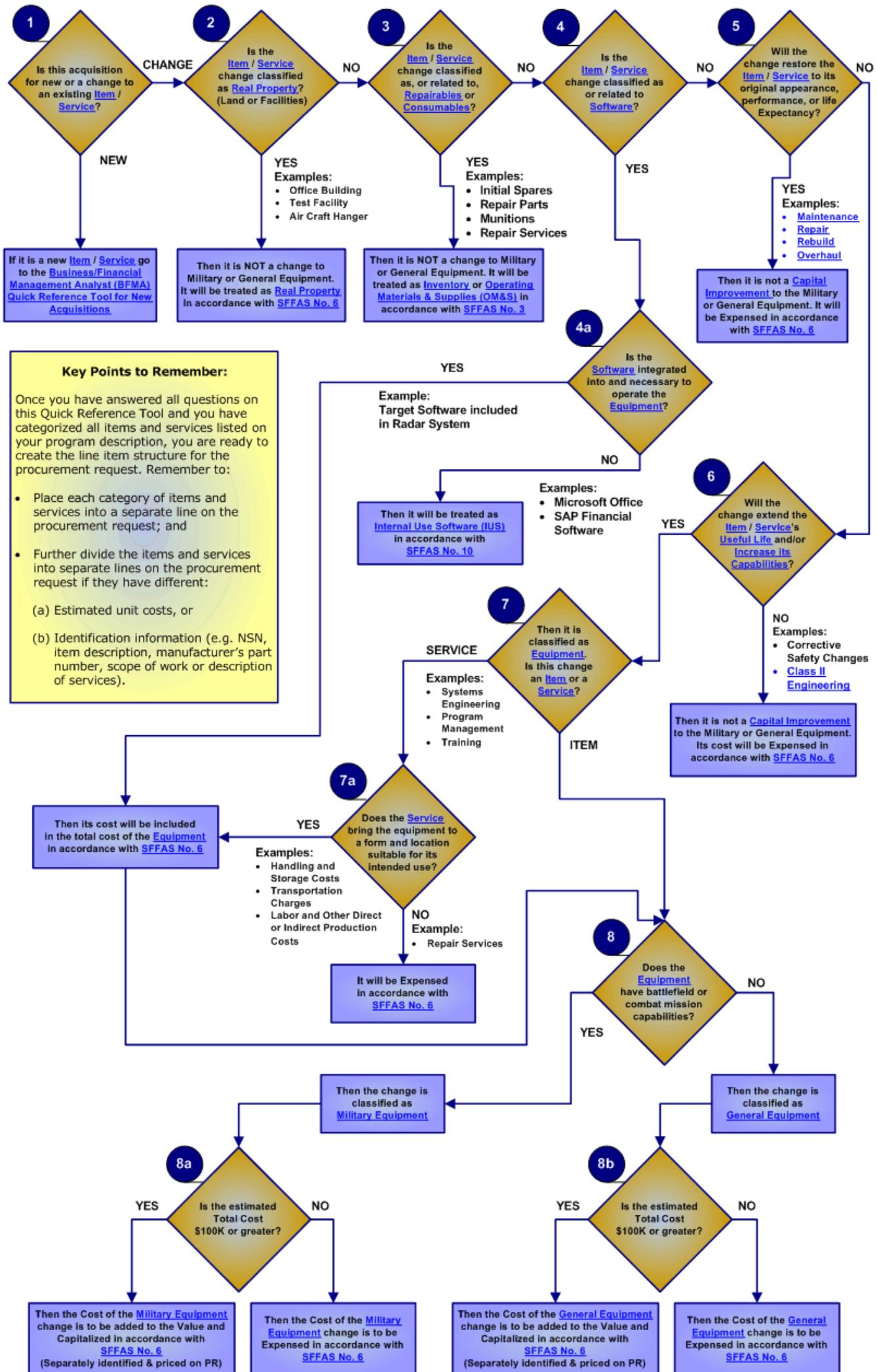


**A Quick Reference Tool to Facilitate
 Proper Financial Accounting Treatment for Military Equipment**





A Quick Reference Tool to Facilitate Proper Financial Accounting Treatment for Military Equipment Modification Scenarios





**Proper Financial Accounting Treatment for Military Equipment
 Glossary of Terms**

	Term	Definition	Examples
1.	Acquisition Cost	Equal to the sum of the development cost for prime mission equipment and support items; the procurement cost for prime mission equipment, support items and initial spares; and the system specific facilities cost. <i>(DAU Glossary of Defense Acquisition Acronyms and Terms, 12th Edition)</i>	
2.	Betterment	An expenditure having the effect of extending the useful life of an existing asset, increasing its normal rate of output, lowering its operating cost, increasing rather than merely maintaining its efficiency or otherwise adding to the worth of benefits it can yield. Betterment is distinguished from repair or maintenance in that the latter have the effect of merely keeping the asset in its customary state of operating efficiency without the expectation of added future benefits. <i>(FASAB Appendix E)</i>	<ul style="list-style-type: none"> • Corrective Safety Changes • Class II Engineering changes
3.	Capacity	<p>Ability to produce during a given time period, with an upper limit imposed by the availability of space, machinery, labor, materials, or capital. Capacity may be expressed in units, weights, size, dollars, man-hours, labor cost, etc. Typically, there are five different concepts of capacity.</p> <p>(1) Ideal capacity-volume of activity that could be attained under ideal operating conditions, with minimum allowance for inefficiency. It is the largest volume of output possible. Also called theoretical capacity, engineered capacity, or maximum capacity.</p> <p>(2) Practical capacity-highest activity level at which the factory can operate with an acceptable degree of efficiency, taking into consideration unavoidable losses of productive time (i.e., vacations, holidays, repairs to equipment). Also called maximum practical capacity.</p> <p>(3) Normal capacity-average level of operating activity that is sufficient to fill the demand for the company's products or services for a span of several years, taking into consideration seasonal and cyclical demands and increasing or decreasing trends in demand.</p> <p>(4) Expected actual capacity-similar to normal capacity, except it is a short-run level based on demand, it minimizes under- or over-applied overhead but does not provide a consistent basis for assigning overhead cost. Per-unit overhead will fluctuate because of short-term changes in the expected level of output. Also called planned capacity.</p> <p>(5) Operating capacity, similar to planned capacity except the time period is within a small slice of a single year (i.e., daily, monthly, and quarterly).</p> <p><i>"Capacity." Dictionary of Accounting Terms. Barron's Educational Series, Inc, 2005. Answers.com 18 Jun. 2007.</i> http://www.answers.com/topic/capacity</p>	
4.	Capital Improvement	Betterment to a building or equipment, which extends its life or increases its usefulness or productivity. The cost of a capital improvement is added to the basis of the asset improved and then depreciated, in contrast to Repairs and Maintenance, which are currently expensed. (see Betterment definition) <i>(Barrons)</i>	
5.	Class II Engineering	A change that does not affect the form, fit, or function of the item.	



	Term	Definition	Examples
6.	Consumables	Non-repairable items or repair parts which can be discarded more economically than they can be repaired or which are consumed in use.	<ul style="list-style-type: none"> • Munitions • Hydraulic Fuel • Nuts and Bolts • Filters
7.	Equipment	<p>Any item that is functionally complete for its intended purpose and that:</p> <ul style="list-style-type: none"> • Has an expected useful life of two or more years; • Is not intended for sale in the ordinary course of business; • Are intended to be used or available for use by the entity; and • Does not ordinarily lose its identity or become a component part of another article. <p>Includes General Equipment or Military Equipment.</p>	<ul style="list-style-type: none"> • See examples for General Equipment • See examples for Military Equipment
8.	General Equipment	<p>Any item that is functionally complete for its intended purpose and that:</p> <ul style="list-style-type: none"> • Has an expected useful life of two or more years; • Is not intended for sale in the ordinary course of business; • Are intended to be used or available for use by the entity; • Does not ordinarily lose its identity or become a component part of another article; and • Is not available for the use of the reporting entity in the performance of battlefield missions or to support related training. 	<ul style="list-style-type: none"> • Fork Lifts • Servers • Copying Machines • Trucks • Video Conferencing Equipment
9.	Increase Capabilities	See Betterment definition	
10.	Internal Use Software (IUS)	<p>Software that is purchased from commercial vendors “off-the-shelf,” internally developed or contractor-developed solely to meet the entity’s internal or operational needs.</p> <p>Software includes the application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program.</p> <p>Normally software is an integral part of an overall system(s) having interrelationships between software, hardware, personnel, procedures, controls, and data.</p> <p>This definition of internal use software encompasses the following:</p> <ul style="list-style-type: none"> • Commercial off-the-shelf (COTS) software: COTS software refers to software that is purchased from a vendor and is ready for use with little or no changes. • Developed software: <ul style="list-style-type: none"> ○ Internally developed software refers to software that employees of the entity are actively developing, including new software and existing or purchased software that are being modified with or without a contractor’s assistance. ○ Contractor-developed software refers to software that a federal entity is paying a contractor to design, program, install, and implement, including new software and the modification of existing or purchased software. 	<ul style="list-style-type: none"> • Commercial off-the-shelf software <ul style="list-style-type: none"> ○ Microsoft Office ○ SAP Financial ○ Oracle • Contractor-developed software, and Internally-developed software <ul style="list-style-type: none"> ○ Targeting software included in radar systems



	Term	Definition	Examples
11.	Inventory	Any item that is: <ul style="list-style-type: none"> • Held for sale, • In the process of production for sale, or • To be consumed in the production of goods for sale or in the provision of services for a fee. Includes Repairables and Consumables .	<ul style="list-style-type: none"> • See Repairables examples • See Consumables examples
12.	Item	A single hardware article or unit formed by a grouping of subassemblies, components, or constituent parts. (DFARS 252.211-7003(a))	
13.	Maintenance	For purposes of Standard No. 6 (i.e., SFFAS No. 6), maintenance is described as the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.	
14.	Military Equipment	Any item that is functionally complete for its intended purpose and that: <ul style="list-style-type: none"> Has an expected useful life of two or more years; Is not intended for sale in the ordinary course of business; Does not ordinarily lose its identity or become a component part of another article; and Is available for the use of the reporting entity in the performance of battlefield missions or to support related training. 	<ul style="list-style-type: none"> • Combat Aircraft • Pods • Combat Ships • Support Ships • Satellites • Combat Vehicles
15.	Modernize	To alter a property by installing up-to-date equipment, making contemporary cosmetic improvements, and deleting obsolete facilities.	
16.	Modification	A configuration change to a produced Configuration Item (CI). Any modification that is of sufficient cost and complexity that it could itself qualify as an Acquisition Category (ACAT) I or ACAT IA program will be considered as a separate acquisition effort for management purposes. (<i>DAU Glossary of Defense Acquisition Acronyms and Terms, 12th Edition</i>)	
17.	Operating Materials and Supplies (OM&S)	Any item to be consumed in normal operations. <p>Excluded are:</p> <ul style="list-style-type: none"> • Goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity, and • Inventory (items to be sold). <p>Included are Repairables and Consumables that are for sale.</p>	<ul style="list-style-type: none"> • See Consumables Examples • See Repairables examples
18.	Overhaul	The restoration of an item to a completely serviceable condition as prescribed by maintenance serviceability standards. (See Rebuild and Repair definitions) (<i>DoD</i>)	
19.	Procurement Cost	Equal to the sum of the procurement cost for prime mission equipment, the procurement cost for support items, and the procurement cost for initial spares. (<i>DAU Glossary of Defense Acquisition Acronyms and Terms, 12th Edition</i>)	



	Term	Definition	Examples
20.	Real Property	Land and improvements to land (i.e., facilities). It includes equipment affixed and built into the facility as an integral part of the facility (such as heating systems), but not movable equipment (e.g., plant equipment, industrial equipment, buoys, etc.). In many instances this term is synonymous with real estate.	<ul style="list-style-type: none"> • Office Buildings • Test Facilities • Air Craft Hangars
21.	Rebuild	The restoration of an item to a standard as nearly as possible to its original condition in appearance, performance, and life expectancy. (See Overhaul and Repair definitions) (DoD)	
22.	Repair	<p>The restoration of an item to serviceable condition through correction of a specific failure or unserviceable condition. (See Overhaul and Rebuild definitions) (DoD)</p> <p>The restoration or replacement of parts or components of real property or equipment as necessitated by wear and tear, damage, failure of parts or the like, in order to maintain it in efficient operating condition. (DAU Glossary of Defense Acquisition Acronyms and Terms, 12th Edition (plus updates since publication))</p>	
23.	Repairables	An item that is expected to be repaired when broken or worn out. This definition does not include equipment but does include component repair parts for equipment.	<ul style="list-style-type: none"> • Engines • Aircraft Radios • Avionics
24.	Reset	To set back to the initial state.	
25.	Service	The engagement of time and effort for which the primary purpose is to perform an identifiable task, or tasks, rather than to furnish an end item or supply.	<ul style="list-style-type: none"> • Systems Engineering • Program Management • Training • Aviation Operations
26.	Software	See Internal Use Software (IUS) .	
27.	Upgrade	To improve, usually applied to technology, generally by complete replacement of one or more components; to replace an existing object with something better (computing) to replace a program with a later version of itself, a version having a higher version number or marketed under a more recent product name.	
28.	Useful Life	The normal operating life of an end item in terms of utility to the owner.	

Links to Statement of Federal Financial Accounting Standards (SFFAS)

SFFAS No. 3 <<http://www.fasab.gov/pdffiles/sffas-3.pdf>>

SFFAS No. 6 <<http://www.fasab.gov/pdffiles/sffas-6.pdf>>

SFFAS No. 10 <<http://www.fasab.gov/pdffiles/fasab10.pdf>>



Example of a Procurement Request

This example provides an illustration of items and services properly structured on a procurement request.

Line No.	Supplies/Service	Quantity	Unit	Estimated Unit Cost	Total
PR0001	Air Vehicle (AV) XXX	10	EA	\$20,000,000	\$200,000,000
PR0002	Peculiar Support Equipment				
	Air Vehicle XXX Engine Tester	2	EA	\$500,000	\$1,000,000
	Air Vehicle XXX Avionics Tester	2	EA	\$135,000	\$270,000
PR0003	Air Vehicle XXX Tow Tractor	2	EA	\$250,000	\$500,000
PR0004	Operational/Site Activation	1,000	HR	\$100	\$100,000
PR0005	System Test and Evaluation	100,000	HR	\$100	\$10,000,000
PR0006	Spare Engine	1	EA	\$5,000,000	\$5,000,000
PR0007	Technical Publications	10	SET	NSP	NSP
PR0008	Systems Engineering/Program Management	100,000	HR	\$100	\$10,000,000
PR0009	Training	1,000	HR	\$100	\$100,000