



Department of Veterans Affairs

Financial Policy

Volume IV

Revenues and Expenses

Chapter 2

Expenses

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0201 Overview

This chapter establishes the Department of Veterans Affairs (VA) financial policies regarding VA expenses to include accounting for expenses, expense types, and presentation in VA’s consolidated financial statements.

Significant items covered in this chapter include:

- VA will follow the cost accrual basis of accounting as mandated by [31 U.S.C. § 3512\(e\)](#).
- VA will report expenses in the financial statements in accordance with [OMB Circular A-136, Financial Reporting Requirements](#).
- VA will utilize Budget Object Codes (BOCs) in accordance with [OMB Circular A-11, Preparation, Submission and Execution of the Budget](#) to record program and operating expenses.
- VA may allocate expenses over more than one reporting period, incur costs that are paid in total or in part by other entities, and recognize costs to be funded from future year appropriations in accordance with [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 4, Managerial Cost Accounting Standards and Concepts](#).

0202 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed 5-year review	OFP (047G)	Reorganized chapter layout	April 2018
0203 Definitions	Updated definitions	OFP (047G)	Enhance reader understanding	April 2018
0204 Roles and Responsibilities	Updated roles and responsibilities	OFP (047G)	Enhance reader understanding	April 2018
0205 Policies	Removed the “Presentation on Statement of Net Cost” section	OFP (047G)	Information provided in the Financial Reporting chapter	April 2018
0206 Authorities and References	Added additional authorities and references and updated links	OFP (047G)	Enhance reader understanding	April 2018

Section	Revision	Office	Reason for Change	Effective Date
Appendix A	Removed	OFP (047G)	Information available elsewhere	April 2018

0203 Definitions

Amortization – Refers to expensing the acquisition cost minus the residual value of intangible assets in a systematic manner over their estimated useful economic lives so as to reflect their consumption, expiration, obsolescence, or other decline in value as a result of use or the passage of time.

Appropriation – Provisions of law, enacted by Congress, authorizing the expenditure of funds for a given purpose.

Budgetary Account – Budgetary accounts are used to recognize and track budget approval and execution..

Budget Object Codes (BOC) – Categories in a classification system that present obligations and expenses by the purpose of the items or services. While the Office of Management and Budget establishes the standard codes, titles, and definitions of the object class, an agency may further define extensions for capturing additional detail to support internal information needs.

Capitalize – To record an expenditure or contribution for a tangible asset which may benefit a future period as an asset rather than to treat the cost as an expense of the period in which it occurs.

Consumption Method of Accounting –A method of accounting that recognizes an asset when an item is purchased and an expense when an item is used or consumed.

Depletion –Unlike depreciation and amortization, which mainly describe the deduction of expenses due to the aging of equipment and property, depletion is the actual physical depletion of natural resources.

Depreciation – The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

Expense – Outflows or use of assets and/or incurrence of liabilities (or a combination of both), for which the benefits do not extend beyond the present accounting period.

Imputed Costs – Costs incurred that may be reimbursed by another entity.

Obligation – A legally binding agreement that will result in outlays, immediately or in the future.

Operating Materials and Supplies – Consist of tangible personal property to be consumed in normal operations. Excluded are: 1) goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity, 2) stockpile materials, 3) goods held under price stabilization programs, 4) foreclosed property, 5) seized and forfeited property, and (6) inventory.

Proprietary Account – A series of accounts used to record the financial activity of an entity. These accounts include categories such as assets, liabilities, fund balances, revenues, and expenditures. They do not include budgetary accounts.

Purchase Method of Accounting –A method of accounting wherein operating materials and supplies are recorded as an expense immediately upon purchase.

0204 Roles and Responsibilities

Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants, and Other Key Officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

0205 Policies

020501 General Policies

- A. VA will follow the accrual basis of accounting as mandated by [31 U.S.C. § 3512\(e\)](#). VA will record expenses when they are incurred and in the period that services are received and utilized or an asset is consumed, even if an invoice has not been received and/or paid.
- B. VA will utilize Budget Object Codes (BOCs) in accordance with [OMB Circular A-11, Preparation, Submission and Execution of the Budget \(Refer to Section 83, Object Classification\)](#) in order to present obligations and expenses. BOCs reflect the nature of financial transactions when obligations are first incurred and are an expansion of the associated object classes. Object classes are categories or accounting identifiers that code the financial obligations according to the nature of the services or items purchased. More detailed information on BOCs is located in [Volume XIII, Chapter 2, Budget Object Codes](#).

- C. VA may allocate expenses over more than one reporting period, incur costs paid in total or in part by other entities, and recognize costs to be funded from future year appropriations. (Refer to [SFFAS No. 4, Managerial Cost Accounting Standards and Concepts](#)).
- D. VA will follow Treasury's Bureau of the Fiscal Service, Treasury Financial Manual, [United States Standard General Ledger \(USSGL\)](#) guidance regarding expense types and expense related USSGL accounts. For VA's general ledger accounts and appropriate reference tables, refer to [Volume II, Chapter 1, VA's Accounting Classification Structure](#).
- E. VA will recognize expenses in the proprietary accounts and the associated use of budgetary resources in the budgetary accounts. More information on the accounts used to record expenses is located in Treasury Financial Manual, USSGL. In addition, information on budgetary accounting and appropriations law is located in [Volume II, Chapter 7, Various Appropriations Law Related Topics](#). VA will not charge budgetary accounts for expenses that do not result in outlays such as depreciation expense, imputed costs, or future funded expenses.
- F. VA will record expenses for goods and services provided to other Federal Government programs as Intra-Governmental transactions, which will be reported separately from the expenses for goods and services provided to the public in accordance with [TFM, Volume I, Part 2, Chapter 4700: Agency Reporting Requirements for the Financial Report of the United States Government](#). (Refer to [Volume VII, Chapter 5, Intra-Governmental Activity and Reconciliations](#) for more information).

020502 Program Costs and Operating Expenses

- A. VA will track program costs and operating expenses related to carrying out specific programs or functions. Tracked costs will include but not be limited to personnel and contractual costs, as well as operating materials and supplies. (Refer to [SFFAS No. 4, Managerial Cost Accounting Standards and Concepts](#) for more information regarding tracking costs and expenses).
- B. In accordance with SFFAS No. 4, VA accounting systems must report program costs and operating expenses at the level necessary to support budget preparation and applicable cost accounting compliance requirements (Refer to [Volume XIII, Chapter 3, Managerial Cost Accounting](#) and [Volume XIII, Chapter 5, Cost Accounting Compliance](#) and [Volume I, Chapter 4, Financial Management Systems](#) for more information).

020503 Employee Benefit Expenses

- A. VA will record and report its share of expenses for contributions to employee benefit programs in accordance with SFFAS No. 4, and OMB Circular A-136 (Refer to sections II.4.4, Statement of Net Cost, II.4.9.13, Liabilities Not Covered by Budgetary Resources and II.4.9.15, Federal Employee and Veterans' Benefits for more information). Some of the benefit programs currently in place are listed below:
- Retirement;
 - Federal Employees Group Life Insurance (FEGLI);
 - Voluntary Separation Incentive Payment (VSIP);
 - Federal Employees' Compensation Act (FECA);
 - Unemployment for Federal employees;
 - Social Security (Old-Age, Survivors, and Disability Insurance);
 - Medicare; and
 - Imputed costs owed to the Office of Personnel Management for health benefits (refer to section [020506 Imputed Costs](#) for more information).
- B. VA will record and report its share of expenses for contributions to employee benefit programs administered by non-Federal entities (public cost) including health insurance and other miscellaneous fringe benefits using an attribute that designates the expenses as Non-Federal in the accounting system.

020504 Inventories, Cost of Goods Sold, and Operating Materials and Supplies

- A. VA will recognize and record Cost of Goods Sold in accordance with [SFFAS No. 3, Accounting for Inventory and Related Property](#), which includes tangible personal property:
- Held for sale (including raw materials and work in process);
 - In the process of production for sale or is to be consumed in the production of goods for sale; or
 - To be used in the provision of services for a fee.
- B. VA will recognize an expense for the cost of the inventory when it is removed from inventory (i.e., when title passes or the goods are delivered). (Refer to [Volume V, Chapter 8, Inventories, Supplies, and Materials](#)).
- C. In accordance with SFFAS No. 3, VA will utilize the consumption method of accounting for stockpile materials by recording them as an asset upon receipt of title or goods and as an expense upon disposal, use, or sale. (Refer to Volume V, Chapter 8, Inventories, Supplies, and Materials for more information).
- D. In accordance with SFFAS No. 3, VA will utilize the purchase method of accounting for operating materials and supplies by recording them as an expense immediately upon purchase. Operating materials and supplies are held for use rather than

resale. (Refer to Volume V, Chapter 8, Inventories, Supplies, and Materials for more information).

- E. VA will report inventory, cost of goods sold, and operating materials and supplies in accordance with OMB Circular A-136 (Refer to section II.4.9.9, Inventory and Related Property), and SFFAS No. 3.

020505 Depreciation, Amortization, and Depletion

- A. VA will record the depreciation, amortization, or depletion expense for the allocation of the cost of an asset over the period of time benefitted or the asset's useful life. (Refer to SFFAS No. 4 and [Volume V, Chapter 9, General Property, Plant and Equipment](#) for more information).
- B. Depreciation, amortization and depletion expense are reported as part of the financial statements in the Statement of Net Cost (SNC) and the Reconciliation of Net Cost to Budget footnote. (Refer to Volume V, Chapter 9, General Property, Plant and Equipment and OMB Circular A-136, Financial Reporting Requirements for more information).
- C. VA will expense maintenance costs to general property, plant, and equipment when incurred. However, in certain conditions, a maintenance or repair project may be deemed an improvement to the asset and may be capitalized if the costs meet VA's capitalization threshold. (Refer to Volume V, Chapter 9, General Property Plant and Equipment for more information).

020506 Imputed Costs

- A. VA will account for imputed costs in accordance with SFFAS No. 4, [FASAB Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4](#), and OMB Circular A-136, Financial Reporting Requirements (Refer to sections II.4.4, Statement of Net Cost and II.4.5, Statement of Changes in Net Position).
- B. VA will disclose its share of the cost of providing pension and post-retirement health benefits and life insurance to its employees as outlined in [Volume VI, Chapter 7, Federal Employees and Veterans Benefits Liability](#) and in accordance with OMB Circular A-136 (Refer to sections II.2.7, Analysis of Financial Statements and Stewardship Information; II.4.3.4, Liabilities; II.4.4.3, and Gross Program Costs).

020507 Future Funded Expenses

VA will recognize amounts for future funded expenses relating to accrued expenses required to be funded from future year appropriations. For example, accrued annual leave expense (covered in [Volume VI, Chapter 10, Other Liabilities](#)), accrued workers' compensation (covered in Volume VI, Chapter 7, Federal Employees and Veterans Benefits Liability), Veterans' benefits (compensation, burial, and education) and future cleanup costs associated with environmental and disposal liabilities (covered in [Volume VI, Chapter 8, Environmental and Disposal Liabilities](#)). Refer to OMB Circular A-136; section II.4.9.13, Liabilities Not Covered by Budgetary Resources for more information and [SFFAS No. 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates](#), and [SFFAS No. 51, Insurance Programs](#).

020508 Losses

- A. VA will record and report losses in accordance with OMB Circular A-136, SFFAS No. 4, and SFFAS No. 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation.
- B. In accordance with SFFAS No. 33, VA will record losses incurred from a change in long-term assumptions used to estimate Federal employee pension, other retirement benefits (ORB), and other postemployment benefit liabilities (OPEB), including Veteran's compensation. VA will recognize and report the losses on the statement of net cost, and include a disclosure of the components of the expense associated with federal employee pension, ORB, and OPEB liabilities in the notes to the financial statements.
- C. VA will record losses incurred on the disposition of VA-owned assets as well as losses from impairment. Losses of this nature should be recognized and reported in the Statement of Net Cost and may be included in program costs or costs not assigned to programs consistent with the requirements of SFFAS No. 4.

020509 Extraordinary Items

- A. VA will record extraordinary items when transactions are:
 - Unusual in Nature – The underlying event or transaction must possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates; and

- Infrequent in Occurrence – The underlying event or transaction must be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.
- B. VA will include extraordinary items as part of the Gross Cost line on the Statement of Net Cost. The nature and amount of each extraordinary item will be included in the Notes to the Financial Statements.

020510 Research and Development Costs

- A. In accordance with [SFFAS No. 6, Accounting for Property, Plant, and Equipment](#), research and development costs for property, plant, and equipment will be expensed in the period incurred, unless the expenses are associated with the development of an end item produced for operational use. When the end item is produced for operational use, the expenses will be capitalized if the cost and life expectancy meets VA's capitalization threshold. (Refer to Volume V, Chapter 9, General Property, Plant, and Equipment, for information on capitalization thresholds and accounting guidance for capitalizing, depreciating, or amortizing assets).
- B. In accordance with SFFAS No. 6, [SFFAS No. 10, Accounting for Internal Use Software](#), and [FASAB, Technical Release \(TR\) 16, Implementation Guidance for Internal Use Software](#), internal use software (IUS) research and development costs are included in the planning phase. Costs that occur in the IUS planning phase will be expensed in the period incurred. (Refer to [Volume V, Chapter 13, Accounting for Internal Use Software for more information](#)).

0206 Authorities and References

[31 U.S.C. § 1104\(b\) Budget and Appropriations Authority of the President](#)

[31 U.S.C. § 3512\(e\), Executive Agency Accounting and other Financial Management Reports and Plans](#)

[FASAB, Technical Release \(TR\) 16, Implementation Guidance for Internal Use Software](#)

[GAO Publication: A Glossary of Terms Used in the Federal Budget Process](#)

[OMB Circular A-11, Preparation, Submission and Execution of the Budget](#)

[OMB Circular A-136, Financial Reporting Requirements](#)

[Statement of Federal Financial Accounting Concepts \(SFFAC\) No. 1, Objectives of Federal Financial Reporting](#)

[SFFAC No. 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements](#)

[Statement of Federal Financial Accounting Standards \(SFFAS\) No. 3, Accounting for Inventory and Related Property](#)

[SFFAS No. 4, Managerial Cost Accounting Standards and Concepts](#)

[SFFAS No. 5 Accounting for Liabilities of the Federal Government](#)

[SFFAS No. 6, Accounting for Property, Plant, and Equipment](#)

[SFFAS No. 10, Accounting for Internal Use Software](#)

[SFFAS No. 21, Reporting Corrections of Errors and Changes in Accounting Principles](#)

[SFFAS No. 30, Inter-Entity Cost Implementation, Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts](#)

[SFFAS No. 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation](#)

[SFFAS No. 51, Insurance Programs](#)

[FASAB Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4](#)

[United States Standard General Ledger \(USSGL\)](#)

0207 Rescissions

Volume IV – Chapter 2, Expenses, August 2011

0208 Questions

Questions concerning these financial policies and procedures should be directed to the specific POC's and formatted as follows using the group email. Do not use proper names.

VHA
VHA

VHA CFO Accounting Policy (10A3A) (Outlook)
VAFSC Nationwide Accounting (Outlook)

VBA	VAVBAWAS/CO/FINREP (Outlook)
VBA	VAVBAWAS/CO/OPERATIONS (Outlook)
NCA	NCA Finance Group (Outlook)
NCA	NCA Budget Service (Outlook)
All Others	OFP Accounting Policy (Outlook)