BMC Module 7 -Financial Management

Every MWR Manager holds responsibility for managing the . nancial resources of the activity or program. As a caretaker of these resources, a manager is accountable for using these funds wisely and efficiently operating MWR programs to provide quality services to our customers. However, funding for MWR programs is somewhat complex since it generally involves a combination of funding from two major sources: Appropriated Funds (APFs) and Nonappropriated Funds (NAFs).

Each funding source is a unique system and has its own implementation process. Balancing APF and NAF processes, operating programs efficiently, and making wise business decisions are tough tasks. It is crucial for MWR Managers to know how to apply the processes to maximize business results and return on investment. Since all business decisions require a certain degree of risk, it is important to understand these aspects of financial management within MWR to reduce the risk.

This module will provide the information necessary for a manager to make smart business decisions and apply the appropriate processes in the activity's day-to-day operation. The module focuses on APF and NAF basics, the NAF accounting systems, and key NAF analysis and reporting tools.

1.1 Overview

Financial management is an integral part of a manager’s role. For a thorough understanding of financial management, managers need familiarity with financial goals, technical procedures, and the effects of budgeting. Just as important is understanding the broad organizational context in which appropriated funds (APF) budgets are prepared and executed.

At the end of this lesson, you will be able to:

1. Define the term "appropriated fund."
2. Explain the purpose of the Management Decision Package (MDEP).
3. Describe APF budget process.

1.2 APF Defined

APF Defined

Appropriated funds (APF) are funds made available to the Department of the Army (DA) as a result of an Act of Congress that permits the DA to incur obligations and to make payments for specific purposes.

Appropriated funds are taxpayer dollars entrusted to the Army to conduct its activities. The funds are appropriated by Congress and become part of the President's yearly budget. APF dollars support Family and MWR both directly and indirectly.

1.3 APF Budget Process

APF Budget Process

The budget process is a centralized process that begins with the activity manager’s budget, which is then forwarded through a centralized chain that leads to the President's annual budget once the annual budget is passed by Congress and signed by the President, funding streams back through the organization to the activity.

The Process Begins

The APF budget process begins at the activity level. Each activity manager must identify funding required to operate the Family and MWR activity for the coming year by taking a hard look at current programs and performance and then factoring in needs and requirements for the budget year.

Managers must also identify any new requirements for the out years. Personnel requirements, projected demographic information, and future program needs must be analyzed, and the results converted into a dollar figure.

Activity Manager

Each activity manager must identify the funding required to operate the MWR activity for the coming year.

Reviewed by the DFMWR

The manager forwards this budget information through the division chief to the DFMWR. At this level, all the budgets from the Directorate are reviewed, trimmed if necessary, approved, and consolidated for submission to the oce of the Director of Resource Management (DRM).

Consolidated and Condensed by the DRM

The DRM manages the APF resources on the garrison for the commander. The DRM consolidates and condenses all the garrison's Command Budget Estimates (CBE) into the Program Objective Memorandum (POM). This is the Garrison Commander's estimate of the nancial requirements needed to operate the installation during the budget year. This estimate is submitted to the IMCOM for further consolidation.

Reviewed and Changed by the IMCOM

The IMCOM reviews each CBE, keeping in mind the mission of each garrison. The IMCOM also reviews the ve-year projections for each garrison. It deliberates over all this information, makes necessary changes, and then sends the consolidated IMCOM budget to the next level for approval by the Army Material Command (AMC) and then the Secretary of the Army.

Evaluated by AMC and the Secretary of the Army

All the IMCOM budgets are forwarded through AMC to the Assistant Secretary of the Army (Financial Management and Comptroller) or ASA(FM&C). At this level, all the IMCOM budgets go through a rigorous process of evaluation and trimming. The ASA(FM&C) consolidates the IMCOM budgets into a total Army budget and sends this budget on to the DOD.

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Refined by the Office of Management and Budget (OMB)

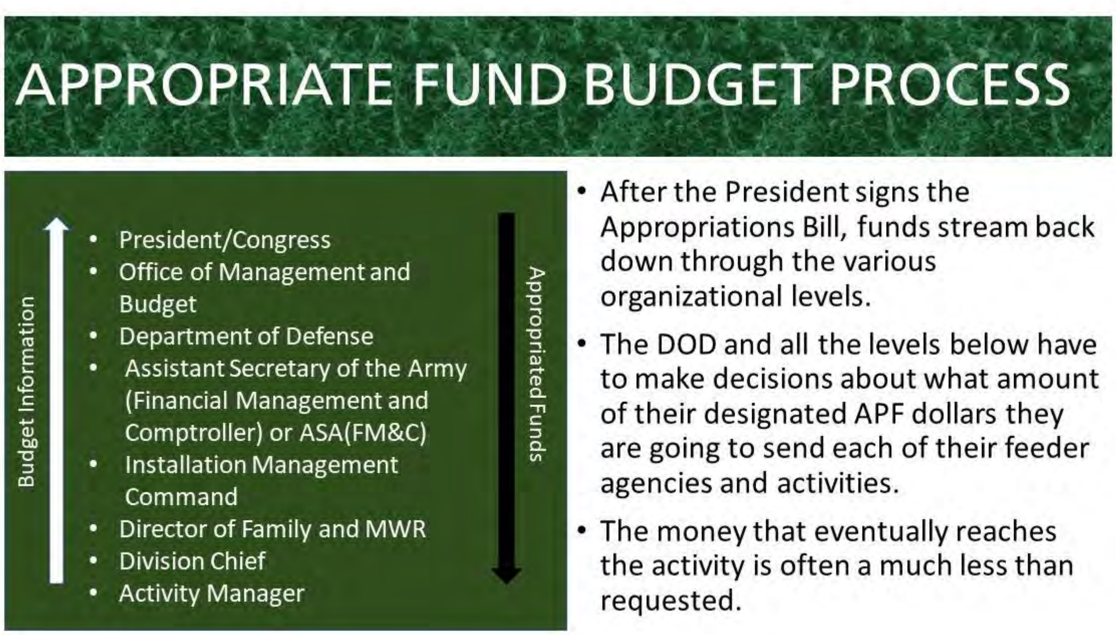
The OMB consolidates all the Federal agencies' budgets. For example, the Department of the Interior, the Department of the Treasury, the Department of Agriculture, etc., each submit an agency budget. OMB reviews the requirements against the President's scal goals and then evaluates, trims, and molds them into the President's budget.

Approved by Congress and President

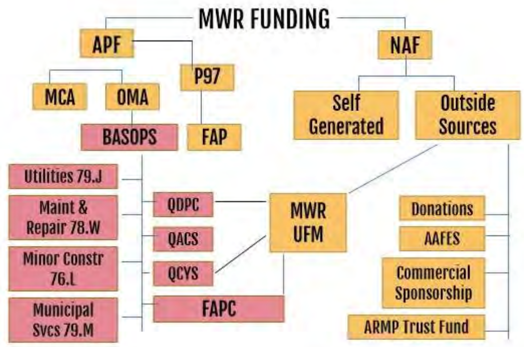
The President's budget nally reaches Congress. This document tells Congress the funding required to execute the President's programs for the next scal year. After much consideration and deliberation, Congress puts together what it considers a scally sound, acceptable budget. Congress then packages the budget into a legislative action call a Bill. When Congress passes the Bill, it goes to the President for his signature. Once signed by the President, it is approved and becomes law.

Summary

After the President signs the Appropriations Bill, funds stream back down through the various organizational levels. Because budget requirements are trimmed during the budget process at various levels of review due to differing priorities, the money that eventually reaches the activity is often a much



2.2 Appropriated Funding Streams



Appropriated Funding System

Funds that are appropriated by Congress reach the activity through different routes depending on their purpose. The major funding stream is through Operations Maintenance Army (OMA) Appropriations.

OMA Appropriations

The majority of appropriated funds reach the garrison through the Operations Maintenance Army (OMA) stream. OMA is a one-year appropriation that provides authorized funding for the operation and maintenance of all organizational equipment and facilities within the Army. At the end of the fiscal year, the authorization to spend those funds expires. How well we execute our APF budget has a direct bearing on our funding levels for the next fiscal year.

BASOPS Letter Accounts

BASOPS Letter Accounts

OMA dollars ow through Base Operations (BASOPS) accounts that help operate and maintain Army garrisons. These accounts designate the funds used to provide dierent functions of garrison support, such as real estate management, facility support services, maintenance and repair, minor construction, environmental compliance, and Family and MWR.

Special accounts have been set up to track the dollars used due to the Congressional funding requirements. These accounts, however, are part of BASOPS and are not fenced. It is important to understand that though dollars may be designated for a particular function or purpose, the Garrison Commander has the authority to reprogram those dollars to other areas that are deemed necessary.

While appropriated funds are intended for the operation of programs and activities identied in the budget process, the funds may be spent for another purpose that is deemed more critical. Fenced funds must be spent for the purpose for which they were appropriated. Fenced funds cannot be spent for any other purpose.

Family and MWR activities receive OMA funds through BASOPS either directly or indirectly.

Direct APF Dollars – are funds specically set aside for your programs' operation. Direct APF dollars cover the cost of personnel, equipment purchases, supplies, and so on. The 96.L* account within BASOPS contains funds
specically for Family and MWR recreation *(QDPC) support. Child and Youth Services *(QCYS) and Army Community Service (QACS) programs, though not part of the 96.L account, are part of the APF BASOPS funding.

Except for APF salaries and QACS funds, Direct APF Dollars are provided to the garrison Family and MWR program through the Uniform Funding and Management (UFM) process. This process will be covered in the next lesson.

Indirect APF Dollars - are funds from any account or fund used to support program activities. Indirect APF dollars cover such things as the costs of facility maintenance and repair, new construction, utilities, refuse, and custodial services. These dollars are used to provide services and support to program activities but are managed by other directorates, such as the Director of Public Works (DPW).

Examples of some of the indirect BASOP accounts are the accounts administered by the DPW:

Account 76.L

Is used for new work under $300,000.00. If you have a facility that needs a room-dividing wall built, the money for the construction of that wall comes out of the 76.L or new construction account.

Account 78.W

Is set aside for facility maintenance and repair totaling $1,000,000.00 or less. If you have an existing wall repaired, the money for the repair comes out of the 78.W or maintenance and repair account.

Account 79.M

Is for municipal services. Funding for refuse collection, snow removal, street sweeping, janitorial services, and pest control come from this account.

Account 79.J

Is used to pay cost of utilities. Examples include electricity or gas.

2.3 Other Appropriated Funding

In addition to OMA funding, Family and MWR programs receive funding and support through the Military Construction Army (MCA) and Oce of the Secretary of Defense (OSD). The MCA funds are used to build Family and MWR facilities, which are authorized to be funded with APF. OSD funds are received normally for designated purposes.

Additional guidance on Family and MWR military construction funding can be found in AR 215-1, Appendix E Construction Funding for Nonappropriated Fund Instrumentalities Facilities.

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Some funding comes directly from the **O ce of the Secretary of Defense (OSD)** in the P97 account for specic programs within Army Community Service. These funds are separate from OMA funding. The programs that receive OSD funds are Relocation Program (Relo) and the Family Advocacy Program (FAP). These funds are fenced and can only be used to operate these specic programs.

2.4 How APF's Are Tracked

Management Decision Package (MDEP)

The MDEP tracking system is used by Congress to convey approved program priorities into budget estimates and then to identify how APF funds are executed or spent.

This system tracks a program and nancial performance, from the time requirements for the program are identied through the budget and execution years.

MDEPs for Family and MWR programs begin with "Q" followed by a group of three additional letters relating to a specic program.

There is no way of avoiding APF accountability by MDEP. By incorporating the MDEP identier in the APF accounting-fund citation for all expenditures, DA can track the following:

- How the manager executed those APF dollars last year
- The level of execution for the current scal year
- The amount of funding requested for the program for the budget year
- The amount requested to fund the activity's programs over the next ve years

2.5 Uniform Funding and Management (UFM)

MWR APF, also better known as Uniform Funding and Management (UFM), is the process that enables APF to be combined with NAF for the purpose of providing MWR services under NAF nancial rules and procedures. Amounts received through the UFM process can only be used for APF authorized items/expenses.

UFM is designed to facilitate:

This support is primarily reected in Management Decision Evaluation Packages (MDEP), QDPC (Soldier MWR), and QCYS (Child and Youth Services).

Indirect APF support such as utilities and maintenance and repair will continue to be provided under current APF procedures. MWR APF is currently limited to operating support.

UFM may not be used for Military Construction, Army (MCA), or minor MCA initiatives.

The UFM Authority and Guidance include:

Authority to conduct UFM is contained in Section 323 Uniform Funding and Management of Morale, Welfare, and Recreation Programs, of Public Law 107-314, the “Bob Stump” National Defense Authorization Act for FY 2003.

The DOD implementing guidance is found in Department of Defense Instruction (DoDI) 1015.15, Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Documents, 31 Oct 07 and Change 1, 20 Mar 08.

UFM is limited to MWR as dened by the DoDI. Supplemental Mission NAF programs and other well-being programs such as Army Community Service (ACS) may not currently benet from UFM.

Authority for the Military Academy’s cadet athletic and recreational-curricular programs to operate under UFM is found in Section 544 of Public Law 108-375, the Ronald W. Reagan National Defense Authorization Act of FY 05.

APF converted to NAF through the UFM process is considered NAF for all purposes and remain available until expended.

The UFM will only be utilized for MWR programs authorized to receive APF support and then only for purposes that are authorized APF funding.

The basic steps of UFM are:

1. Memorandum of Agreement (MOA) between the APF resource manager and the Director, Family and MWR (DFMWR) outlining the APF authorized MWR service to be performed.

2. The MOA serves as the basis for creating the APF obligation and forwarding the money to the NAFI.

3. Management employs NAF rules and procedures in the execution of the MOA for APF authorized services.

4. The authorized APF income and expenses are recorded in specially coded departments on the NAF nancial` statements.

5. At year end, the authorized income should not exceed the reported expenses.

UFM Replaces MWR USA

Morale, Welfare, Recreation Utilization, Support, and Accountability (MWR USA) is the predecessor to UFM. Initiated by DoD in June 98, MWR USA laid the foundation for the development of UFM. UFM replaced MWR USA.

UFM APF dollars should be transferred to the NAFI up-front before expenses are incurred; however, due to the availability of APF, the transfer is delayed.

UFM is based on a single system of procedures as practical as can be achieved.

The annual NAF budget guidance provides NAF and UFM guidance on Army MWR priorities, requirements, and funding targets.

The annual NAF budget nancial plan for the garrisons' needs are reconciled with the Army MWR Program Management plans.

The UFM Budget schedules provide supporting documentation for the successful completion of the agreement between the Government and MWR. The schedules are the basis for the levels of service to be provided by Family and MWR.

3.1 Overview

Many Family and MWR programs generate income in the course of providing services to our customers. These funds are called nonappropriated funds (NAF). In addition to this locally generated income, other sources of NAF are available to Family and MWR for operating programs. All nonappropriated funds become part of the nonappropriated fund instrumentality (NAFI) single fund.

Funding for programs is determined by the categorization of Family and MWR activities. The criteria for categorization, thus the level of appropriated funds (APF) support authorized, are based on two criteria. Some activities have ties to the garrison Family and MWR program but do not fall within the criteria of Category A, B, or C. In addition, certain exceptions apply to funding activities according to their category.

At the end of this lesson, you will be able to:

1. Dene` nonappropriated funds (NAF).
2. List sources of NAF dollars.
3. Describe the NAFI.
4. Explain the NAF budget process.

3.2 NAF De ned

NAF dollars generally come from two sources: locally generated income (LGI) and outside sources. Locally generated income is earned through sales of merchandise and various services fees. It is also generated from concession operations where the Family and MWR program licenses other activities to operate on an installation and collects a commission or portion of the sales. Outside sources of income come from donations, Army and Air Force Exchange Service (AAFES) dividends, interest income, and UFM.

NAF dollars belong to the soldier. The purpose of generating this money is to provide needed services and facilities for Soldiers and their family members. All the NAF dollars generated by Family and MWR activities go back into the Family and MWR single fund to support current programs, provide new programs, or improve existing programs and facilities.

3.3 Sources of NAF Dollars

NAF dollars are generated through local Family and MWR program revenue and outside sources such as:

Donations

Donations can take the form of either cash or items such as supplies or equipment. Some examples of donations include money from the Combined Federal Campaign and gifts from private organizations or individuals.

AAFES Revenue

These funds are obtained from AAFES operations (main retail store, package beverage stores, gas stations, etc.) by way of AAFES Dividends and other limited AAFES-Family and MWR contractual relationships.

Commercial Sponsorship

Commercial sponsorship is a legally binding contract for a commercial rm to provide cash or goods to an installation-wide event in return for name recognition in the event advertisements.

ARMP

Installation Management Command (IMCOM) and installations outside the continental United States (OCONUS) receive a percentage of revenue from the Army Recreation Machine Program (ARMP). Revenues from ARMP are split in accordance with the contractual agreement with ARMP.

Interest Income

Interest income is monies from investments.

MWR APF a.k.a. UFM

MWR APF, a.k.a. UFM, is the conversion of APF to NAF for the purpose of providing MWR services under NAF rules and procedures. It is designed to facilitate:

The procurement of property and services for MWR.

The management of employees used to carry out the programs.

May not be used for Military Construction, Army (MCA), or minor

MCA initiative.

Nonappropriated Fund Instrumentality (NAFI)

A NAFI is a Federal scal` entity used by commanders and other authorized Department of the Army (DA) personnel to prudently administer, safeguard, and control NAF funds, equipment, facilities, and other resources.

NAFI Single Fund

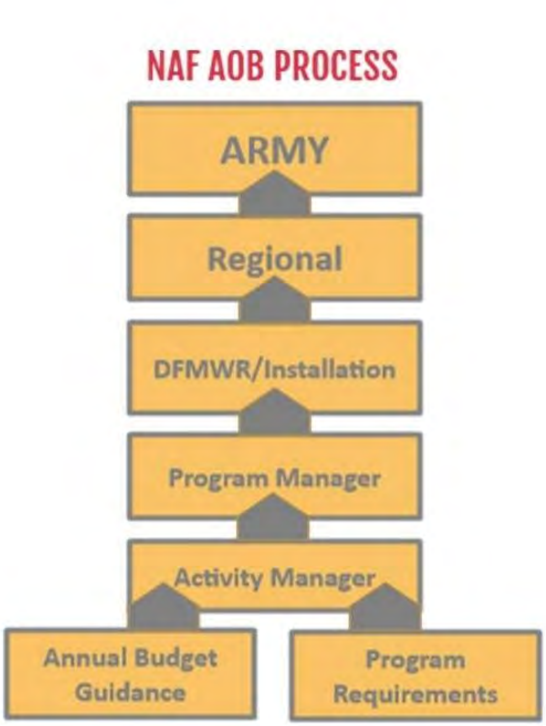
A garrison is an operating entity of the MWR Enterprise Single Fund at the IMCOM G9 or IMCOM Directorate level. The MWR Enterprise Single Fund reports all assets, liabilities, and fund equity for all the garrisons. The Garrison Operating Entity reports its nancial` performance and has a limited balance sheet. The MWR Enterprise Single Fund and Garrison Operating Entity are Federal scal` entities that perform essential government functions to provide Family and MWR and other programs for military personnel, their families, and authorized civilians.

NAFI single fund is a tool for commanders and other authorized Department of the Army (DA) personnel to prudently administer, safeguard, and control NAF and MWR APF funds, equipment, facilities, and other resources.

Other NAFIs include but are not limited to the Army Air Force Exchange Service funds (AAFES), Chaplains Funds, and Civilian Welfare Funds.

3.4 The NAF Budget Process

The Family and MWR NAF annual operating budget (AOB) process is different from the APF budget process because NAFs are not taxpayer dollars appropriated by Congress.



Developing the NAF Budget

The process to develop the NAF Annual Operating Budget (AOB) requires a bottom-up approach.
That means the Activity Manager submits a budget for the activity based on the program requirements and the Annual Budget Guidance issued by the IMCOM G-9 each year.

The budget is then approved and consolidated by the Program Manager and submitted to the Director, Family, and MWR. After approval at the garrison level, the total garrison Family and MWR AOB is forwarded for inclusion in the IMCOM Directorates (ID) AOB. In this way, the activity budget becomes part of the total Army Family and MWR AOB.

MONITORING AND TRACKING THE BUDGET

The Family and MWR Manager will begin to operate the program based on the approved NAF budget at the beginning of the scal` year, 01 October. Throughout the year (October through September), a manager is required to monitor and track budget execution. Variances between budgeted and actual amounts will occur.

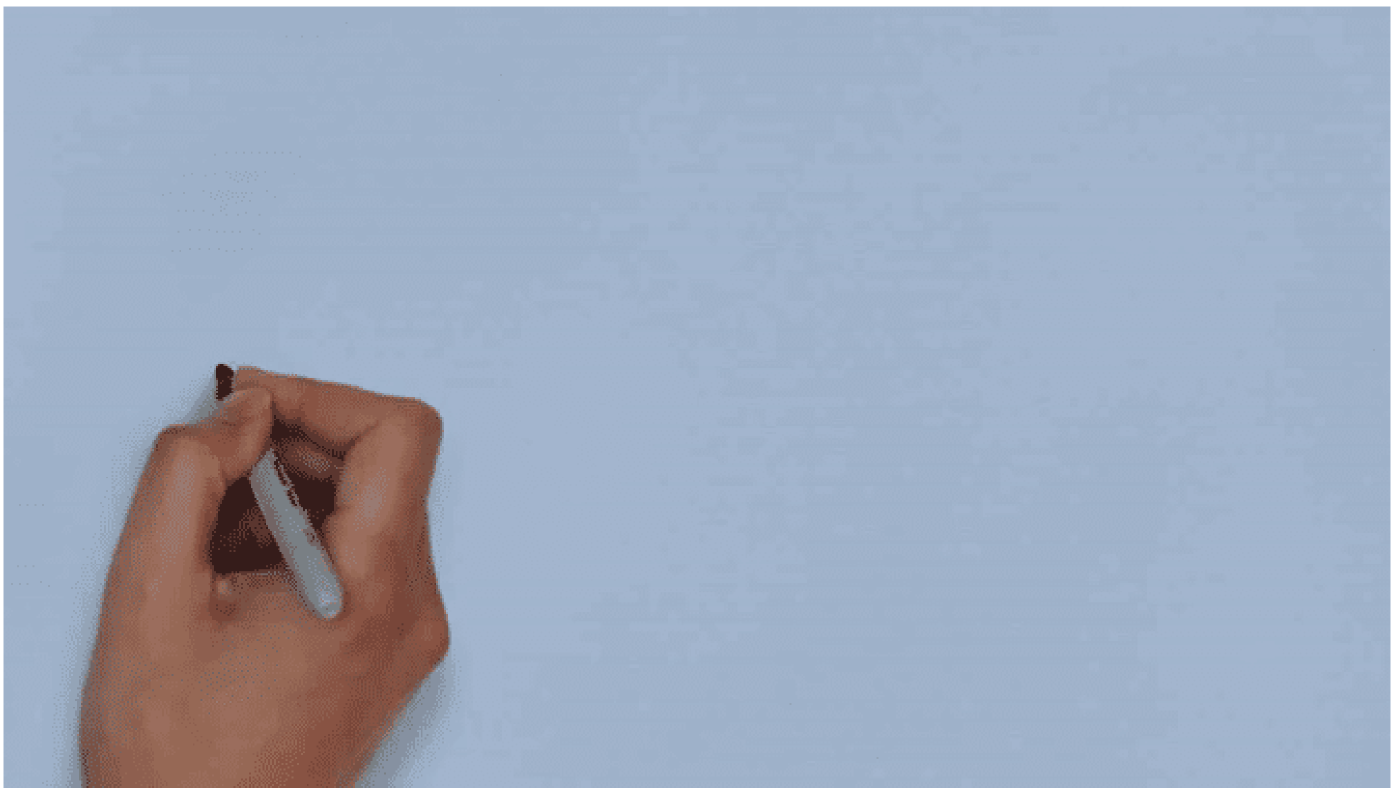
A one-month variance may not be particularly signicant,` but a sustained unfavorable variance may adversely affect the nancial` goals of the activity. If the variance is signicant` either in amount or duration, the activity manager should be able to detect the cause and explain. If the trend is negative, the manager must identify actions to correct it. A signicant` variance may require the manager to revise the budget at mid-year.

4.2 Family and MWR Categories

The categorization of Family and MWR activities is based on two things:

1. The relationship of the activity to readiness and retention.
2. The activity's ability to generate revenue.

DOD periodically assigns or reassigns each Family and MWR activity to a category based on the ability of the activity to meet these criteria. There are three Family and MWR activity categories: A, B, and C.



Categories of NAF

CATEGORY A	CATEGORY B	CATEGORY C
• Category A contains mission-sustaining activities considered most essential in meeting the organizational objectives of the military services. • These activities promote the physical and mental well-being of the soldier, a requirement that supports the accomplishment of the basic military mission and is critical for the readiness and retention of Soldiers. The activities in this category are authorized to be funded 100% with APF dollars. Authorization to use APF dollars, however, does not guarantee fund availability. • Category A activities have little or no ability to generate NAF dollars. Libraries, recreation centers, and . tness/sports operations are examples of Category A activities.	• Category B represents a marked crossover point between the two criteria of mission essentiality and capability to generate NAF revenue. Activities in this group have the potential to raise a limited amount of NAF dollars, but they lack the ability to sustain themselves based purely on their business activity. Additionally, these Category B activities are considered to provide for the readiness and retention of the soldier and contribute to the military mission by fostering a sense of community spirit and providing alternatives to less-wholesome off-duty pursuits. • The activities in this category are authorized to receive the majority of their funding from APF funds. The total amount received will depend upon the installation commander's priorities, agenda, and availability of funds. • Some examples of Category B activities are child and youth services, arts and crafts, auto crafts, bowling centers with 16 or fewer lanes, and outdoor recreation services.	• Category C contains activities considered nonessential from the perspective of the military mission but still highly desirable as a means of providing recreational activity, with the attendant morale benefit. Category C activities are business activities that have the highest capability of generating revenues. • Some examples of Category C activities are clubs, golf courses, and bowling centers with 17 or more lanes. These activities are similar to those found in any community's commercial business area and, as such, should be self-sustaining. While there are some exceptions for remote sites and OCONUS installations, they have the ability to be self-sufficient and, consequently, receive little or no direct APF support and are expected to generate a profit.

Documents that Record NAF Budget Information

Five documents record NAF budget information. The Family and MWR activity manager will have input to or be responsible for preparing the following documents:

- [ ] Manager's Narrative, which is developed rst in the budget process and outlines the Family and MWR Manager's plans for the next ve years. The narrative would include business operation goals and objectives, signicant changes from previous years; identication and discussion of signicant trends; explanation of anticipated cost savings; and an explanation of projected revenue increases or decreases.
- [ ] Capital Purchase and Minor Construction (CPMC) Budget.
- [ ] Annual Operating Budget (AOB) covers the upcoming year.
- [ ] APF/NAF 5-year Financial Plan.
- [ ] 5 Year Cash Projection.

Non-Category Support Activities

There are two non-category support activities that have ties to the IMWRF but do not fall within Category A, B, or C. They are:

Family and MWR Common Support

Non-Family and MWR supplemental Mission NAF

FAMILY and MWR Common support

Family and MWR, common support activities, include the Director of Family and Morale, Welfare and Recreation
(DFMWR), Division Chiefs, NAF Financial Management, Services Division, Information Technology Division, and NAF Civilian Personnel Oce (CPO).

Every government agency has certain positions designated as Executive Control and Essential Command Supervision (ECECS). ECECS positions provide common support. One of the major responsibilities of these individuals is to prevent and eliminate fraud, waste, and abuse. The Division Chiefs, as well as the DFMWR and NAF Financial Manager, are normally considered ECECS.

Non-Family and MWR Supplemental Mission NAF Activities

Non-Family and MWR supplemental mission NAF activities are those NAF activities established to provide adjuncts to ocial non-Family and MWR APF mission areas. Some examples of non-Family and MWR supplemental mission NAF activities are:

Army Community Service

School Meal Program

Recycling

Scouting (overseas)

Museums

Veterinary services

USMA Athletics and Cadet Activities

Fisher House

These adjunct activities are authorized with no direct APF support. This should not be confused with the required 100% APF support of their respective missions. The NAFs generated by non-Family and MWR supplemental mission NAF activities may not be used to subsidize Family and MWR, nor may Family and MWR subsidize these activities (AR 215-1, paragraph 5-10). Non-Family and MWR supplemental mission NAF activities may be part of the garrison Family and MWR single fund or maybe stand-alone NAFIs. When part of the Family and MWR single fund, the Non-Family and MWR supplemental mission NAF funds are deposited into the Family and MWR single fund for accounting purposes only.

4.3 NAF Exceptions

Public law, Chapter 147 of Title 10 of the United States Penal Code, emphasizes the importance of observing NAF regulations.

The Policy Execution Procedures, Chapter 32, Accounting Procedures for Army Nonappropriated Fund Instrumentalities, paragraph 32010305, Misrepresentation of Financial Data, explains all revenue and expenses are to be accurately reported under the appropriate program code within the correct MWR category. Revenues and expenses pertaining to a particular program and/or activity must be matched within the appropriate department, location, and program code. When nancial data is not properly reported due to the lack of clear guidance, the manager or accountant cannot be faulted for using his best judgment. However, deliberate manipulation or misrepresentation of nancial data may constitute a violation of 10 United States Code, Section 2783, which aords nonappropriated funds (NAFs) the same protection and requires the same penalties for substantial violations of regulations as those under provisions of Federal Law that governs the misuse of appropriations. Examples of misrepresentation include:

- Deliberately reporting activities in an unrelated program code, particularly in the wrong MWR category, could lead to unauthorized funding.
- Willfully transferring expenses to another activity to make one activity “look better.”
- Combining separate operations to report net operations to mislead or to misrepresent the nancial results of activities.
- Purposely not “matching” all income and expenses of an activity in the same period or the same department/location/program.

A Memorandum from the Assistant Secretary of the Army titled, "Defense Policy for the Nonappropriated Funds for Fiduciary Responsibility," dated September 24, 1993, states that inappropriate use of NAFs bears the same legal consequences as with APF. AR 215-1, paragraphs 5-13 and 5-14 lists the authorized and unauthorized uses of NAFs, respectively:

> "NAFs will not be used to pay costs in acquiring items or services authorized to be paid from APF when APF is available (except under DOD UFM funding practices, see paras 5-2 and 5-3)."

Non-Availability Statement

When APF is authorized but not available, NAF may be spent only after obtaining a written statement of non-availability. This authorization must be obtained even in emergency situations. There is no prescribed format, but it will state that APF is authorized. However, no APF funds are available. The non-availability statement usually is issued by the Garrison Commander, Director of Resource Management (DRM), or Director of Public Works.

For example, you operate a Child Development Center in Alaska, and the furnace stops running in the middle of winter. DPW determines that the problem is a broken part. DPW has no APF funds to buy the needed part, even though they have the ability to x it. The parts store in downtown Anchorage has it. If you buy the part with NAF funds, DPW will x the furnace for you tomorrow. You agree to do this if DPW will provide a statement of non-availability.

Authorized expenditures include personnel services, supplies, furniture, xtures` and equipment, routine maintenance, and other operating expenses. Appendix D of AR 215-1 is the source for determining whether an activity is authorized for APF support.

The next page is an excerpt of Table D-1 Funding Authorizations, from AR 215-1, Appendix D Appropriated Fund and Nonappropriated Fund Authorizations. Table D-1 will indicate if APF or NAF is authorized to be used for the general expense. You will notice that the Category (A, B, C) of the Program will affect if APF is authorized.

There are 21 elements in AR 215-1; Appendix D. These elements represent general expense items. Each element is described in greater detail in the body of its description. Read the entire element and associated footnotes before making a funding determination!

5.1 Overview

Management of NAF encompasses planning, controlling, evaluating, and accounting for those funds. Primary areas include safeguarding NAF assets through proper use of management controls, maximizing the use of capital through ecient` cash and capital budgeting, and identifying operating opportunities and problems through the preparation and use of budgets and nancial` analysis.

This lesson will identify the responsibilities for managing Family and MWR NAF by the IMCOM G-9, Defense Finance and Accounting Service (DFAS) Texarkana, Fund Managers, and Activity Managers.

At the end of this lesson, you will be able to:

1. Describe the functions of the IMCOM G-9 in managing NAF.
2. Dierentiate` between the responsibilities in managing NAF by DFAS Texarkana and the Fund Managers.
3. Identify the major responsibilities of the Activity Manager in managing NAF.

5.2 Roles & Responsibilities of IMCOM G-9 in Managing NAF

The Financial Management Division (FMD) at IMCOM G-9 carries out the scal` decisions. Its mission is financial management and oversight of the Army's non-appropriated (NAF) and appropriated funds (APF) resource acquisition and application to the Family and MWR program. IMCOM G9 provides nancial` management oversight and serves as the fund manager for several NAF instrumentalities, including the:

- Army Family and MWR Fund (AMWRF).
- Army NAF Retirement Plan Fund.
- Army Medical/Life Fund.
- Army NAF 401(k) Savings Plan Fund.

5.3 Responsibilities of DFAS Texarkana

DFAS Texarkana operates through a centralized of ce that works under the authority of AR 215-1 and Policy Execution Procedures (PEP), Chapter 32 (Accounting Procedures for Army Nonappropriated Fund Instrumentalities).

Major areas of responsibilities:

- Advises NAFIs and managers on accounting matters, such as which General Ledger Account Code (GLAC) to use for a particular situation or how to set up an additional department code for a specic` purpose.
- Ensures that garrison programs and activities follow the Department of the Army policy set forth in AR 215-1 and PEP, Chapter 32.
- Performs the accounting functions for the area of responsibility.

DFAS Texarkana

The major responsibility of DFAS Texarkana involves accounting-related tasks. The tasks involve recording information and preparing documents.

The oce`  makes sure the funds are maintained and recorded in compliance with nancial` regulations and provides services normally provided by any commercial accounting office.

Record Income & Payments

Income when reported by NAF activities.

Records approved budget in the automated accounting system.

Payments for resale merchandise, disbursements, and expense items.

Payment for . xed assets.

A xed asset is a tangible property that costs $2,500.00 or more and has a life expectancy of at least two years. A xed asset can be a single item purchased, such as a table costing $2,500.00, or it can be a bulk purchase, such as 25 chairs each costing $100.00 (minimum) for a total cost of$2,500.00. DFAS Texarkana records the following for xed assets. The description Purchase price, Depreciation schedule, Remaining amount of depreciation.

Purchase orders on contract.

Vendor's invoices with receiving.

Preparing Financial Documents

Disbursements upon receipt of each item's purchase order, vendor's invoice, and the receiving report.

Financial reports such as the financial statement, the balance sheet, the monthly variance analysis, and the accounts payable listing.

Accounts receivable at the request of the Fund Manager.

Another major task of DFAS Texarkana is signing checks that pay the bills.

Prepare Financial Reports:

Financial statements.

The balance sheets.

Monthly variance analysis and the accounts payable listing.

Accounts receivable at the request of the Fund Manager.

Signing checks that pay the bills!

5.4 Role and Responsibilities of the Installation Fund Manager

Fund Manager/Entity Administrator

The Fund Manager is appointed by the head of the organization that is responsible for the NAFI. In the case of most stand-alone NAFIs, this is the Garrison Commander. When there is a Single Fund, which combines the MWR programs from multiple garrisons under the umbrella of a single nancial organization such as an IMCOM Directorate's Single Fund, the Fund Manager is appointed by the Director of the IMCOM Directorate.

Entity Administrator

When there is a Single Fund organization, such as an IMCOM Directorate's Single Fund, the garrison MWR activities are organized under a Garrison Operating Entity, led by the Entity Administrator. The Entity Administrator is responsible for exercising Fund Manager functions at the garrison on behalf of the Fund Manager. The garrison's Entity Administrator is appointed by the Garrison Commander.

Legal and Fiduciary Responsibilities

AR 215-1 and Policy Execution Procedure, Chapter 32 provides the legal and responsibilities of the Fund Manager and Entity Administrator.

5.5 Role and Responsibilities of the Activity Manager

Activity Manager

The Activity Manager is the individual responsible for the operation of an MWR program/activity or a group of programs/activities. The legal and duciary responsibilities of the Activity Manager are described throughout AR 215-1 and Policy Execution Procedure, Chapter 32.

The Activity Manager . . .

Is responsible for the management of the overall program/activity. This includes responsibility for the program's/activity's planning, execution, review and analysis, and the integration and use of available APF and NAF resources into the program.

Normally reports to the Branch Manager, who works for either the Fund Manager/Entity Administer or the Director of Family and MWR.

Has the legal and duciary responsibilities for their program/activity to safeguard against fraud, waste, and abuse. Is responsible for protecting NAF assets by establishing and implementing adequate management controls.

Is responsible for nancial planning practices according to the annual budget guidance.

Is responsible for submitting purchase request forms to expend funds to support program/activity operations.

Schedules and supervises program/activity employees.

Performs monthly ending inventory and other physical inventories as required.

Is responsible for accounting for and securing all monies taken in by the program/activity through daily operations.

Is responsible for the preparation and approval of daily activity reports.

Prepares annual program/activity budgets, including Annual Operating Budget (AOB), CPMC budget, 5-Year Plan, and Manager's Narrative.

Acquires knowledge of nancial management and the Management Information Systems needed to execute programs.

Participates in MWR training reads relevant program regulations to further their knowledge and understanding of the program and nancial management responsibilities.

6.1 Overview

Accounting is dened as "the art of recording, classifying, and summarizing in a signicant manner and terms of money, transactions, and events which are, in part at least, of a nancial nature, and interpreting the results thereof." The primary use of accounting information is to aid decision-makers.

In this lesson, you will learn how the nancial information reported to Defense Finance and Accounting Service
(DFAS) Texarkana is recorded and displayed on the income statement. You'll learn what each line item on the income statement represents, where the numbers come from, and how to calculate the percentages that appear on the income statement.

At the end of this lesson, you will be able to:

1. Describe the nonappropriated funds (NAF) accounting system as a double-entry accrual system.

2. Identify the elements of a 12-digit standard NAFI Number (SNN) accounting classication code.

6.2 The NAF Accounting System

A Double Entry Accrual System

The accounting system used by the nonappropriated fund instrumentality (NAFI) is the double-entry accrual basis of accounting.

This system is widely used in the commercial or private sector.

The accounting period for the NAFI, as set by DOD, begins October 1 of each year and ends September 30 of the next year.

The term that describes this period is "scal year."

Double Entry Dened...

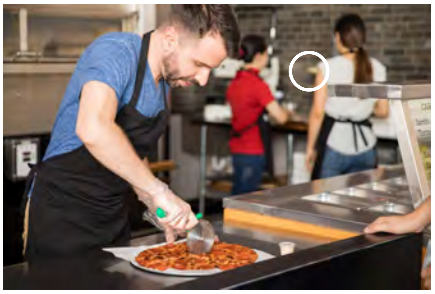
The NAF accounting system is a double entry accrual system for a 01 October to 30 September scal year.

Double entry means that whenever any nancial transaction takes place, there are at least two accounting actions involved.

Every recording of an entry must consist of a debit and an osetting credit. The total dollar amount of debits must always equal the total dollar amount of credits.

	DEBITS	CREDITS
INCOME & EXPENSE SUMMARY	($10,000)	
SALARIES & WAGES		$5,000
SUPPLIES EXPENSE		$500
UTILITIES EXPENSE		$2,000
FURNITURE, FIXTURES & EQUIPMENT DEPRECIATION		$1,000
BUILDING DEPRECIATION EXPENSE		$1,500

With a double entry system, there is a debit for every credit and a credit for every debit. These debits and credits are balanced using a "T" account method. The good news is that NFS does this for you.



Sales

Your activity generates $300.00 in cash sales for the day.

DFAS Texarkana

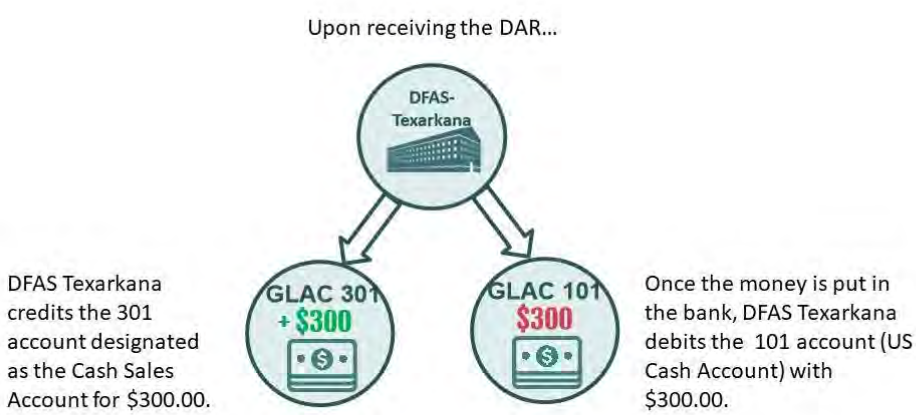
Send the DAR (and the bank deposit slip) to DFAS Texarkana.

DAR

Then you ll out a Daily Activity Report (DAR) for the $300.00 cash sales....

Bank Deposit

You deposit the $300.00 in the bank.



Policy Execution Procedure, Chapter 32, Attachment 2, *Appendix A, Attachment 2 contains a description of each General Ledger Accounting Code (GLAC), including whether the account normally has a debit or credit balance.*

ACCRUAL	EXPENSES
Revenues are recognized and reported when they are earned.	Revenues are recognized and reported when they are earned.
Accrual accounting emphasizes matching revenues and expenses associated with each other in the period in which they occur.	

Accrual De ned

In contrast, under a cash basis of accounting, revenue is recognized when cash is received from the customer or client, and expenses are recognized when cash is actually paid for the item or service received. This method makes it very dicult to identify the relationship between the revenues and associated expenses.

Cash received from the customer --> Revenue --> Expenses

Payday for your Bowling Center sta ended on 20 March.

When DFAS-Texarkana closes out the books for March, DFAS-Texarkana will calculate the Center's estimated labor costs for 1 through 30 March and expense them to the activity in March...

even though the employees won't get paid until the next pay period in April. (Under the cash basis of accounting, the labor expenses would be reported in April when the employees are paid.)

DFAS-Texarkana reports labor expenses to the same time period in which the employees earned the pay.

Community Club				
Date	GLAC		DR	CR
January	101	US Cash Account	$1,000.00	
February	101	US Cash Account	$1,000.00	
March	101	US Cash Account	$2,000.00	
January	261	Advanced Ticket Sales		$1,000.00
February	261	Advanced Ticket Sales		$1,000.00
March	261	Advanced Ticket Sales		$2,000.00

The community club's accounts will show the following entries for the advanced ticket sales. This accrual will remain in GLAC 261 until the event takes place. In April, the money will appear on the community club's income statement in GLAC 503, Special Events Income, and related expenses.

The Advantages of the Accrual System

Since you budgeted for this special event in April, the event's income and expenses should show up on the April income statement, so you don't have to explain why your actual performance is so dierent` from your budget. As shown, the accrual system allows for advance ticket sales by crediting GLAC 261 and debiting GLAC 101 with the advance ticket sales revenue until the event actually takes place.

Consequently, you will not have to explain why unexpected income appears on the income statement for the months when it wasn't budgeted; or why your event appears to have lost money when the expenses hit in April, but much of your income was reported in previous months. The accrual system follows a fundamental accounting principle that expenses are paired with the related revenue on income statements.

6.3 Standard NAFI Number

A uniform system for coding is used to ensure consistency in nancial` management procedures. According to AR 215-1, this Standard NAFI Number (SNN) code must be provided on all documents forwarded to DFAS-Texarkana to ensure that the income or expense is accurately recorded in the correct activity's account. The SNN indicates how to record each transaction and where to document the income and expense. Proper use of these codes will eliminate the accounting problems DFAS-Texarkana experiences when incoming paperwork either contains an incorrect code or no code at all.

> This code, consisting of 12 alpha/numeric characters, tells the DFAS-Texarkana where to record each transaction and what type of transaction it is. This 12-digit code identies` the:
>
> Garrison
>
> Fund Name
>
> Program Code
>
> Location Code (Assigned by the Installation)
>
> Department Code
>
> GLAC

Standard NAFI Number (SNN) Example

Smokebomb Grille at Fort Bragg, North Carolina

F	B	-	1	-	K	M	-	3	7	-	1	4	-	7	2	6
1	2		3		4	5		6	7		8	9		10	11	12

First and Second Characters (Garrison Code)	Third Characters (Fund Code)	Fourth and Fifth Characters (Program Code)	Sixth and Seventh Characters (Location Code)	Eighth and Ninth Characters (Department Code)	Tenth, Eleventh & Twelve Characters (General Ledger Accounting Code or GLAC)
Identify the garrison or other similar organization. Always represented by two letters. Garrison Codes are established by IMCOM G9 in coordination with DFAS-Texarkana. **FB represents Fort Bragg.** Other examples of Garrison Codes are (not a complete list): AC = Fort Buchanan AE = USAG Miami DM = Bluegrass Army Depot FC = Fort Campbell FK = IMCOM-Readiness MWR Office FL = Fort Irwin KL = USAG Daegu QJ = USAG Japan TB = Fort Benning TH = Fort Gordon VA = USAG Italy ZG = USAG Rheinland Pfalz	Identify the type of fund. Will be a single number or letter. Fund Codes are established by IMCOM G9 in coordination with DFAS-Texarkana. **1 represents MWR Fund.** Other examples of Fund Codes are (not a complete list): 2 = Post Restaurant Fund 3 = Civilian Welfare Fund 4 = Chaplains Fund D = Armed Forces Recreation Center Fund F = Army Lodging Fund N = Fisher House Fund V = Veterinarian Fund	Identify the type of program. Always represented by two letters. Program Codes are established by IMCOM G9 in coordination with DFAS-Texarkana. However, which Program Code to use is determined by the garrison. **KM represents Food, Beverage and Entertainment.** Other examples of Program Codes are (not a complete list): HB = Physical Fitness Facilities HD = Unit Activities HF= Parks and Recreation Areas HJ = Aquatics Training JG = Child Development Centers JH = Youth Sports & Fitness KA = Bowling (16 or less lanes) LE = Bowling (17 or more lanes) LW = Other Outdoor Rec Cat C Act RE = Services RF = Financial Management RP = Fund Administration	Identify the location or activity. Location Codes are established by the locally by the garrison. This code is used to identify each specific location or activity within the garrison's MWR program. Is represented by two characters. The characters may be two letters or two numbers, or a combination of letters and numbers. **37 represents Smokebomb Grille** Other examples of Location Codes from Fort Bragg are (not a complete list): 10 = Stryker Golf Course 15 = Ryder Golf Course 20 = Dragon Lanes 21 = Airborne Lanes 40 = SportsUSA 50 = All American Bingo 70 = McKellar's Lodge 71 = Clay Target Center A1 = Rodriquez Child Development Center AB = Marketing Y1 = Financial Management	Identify the department. A department is a work or activity area within a location. Department Codes are established by IMCOM G9 in coordination with DFAS-Texarkana. However, which Department Code to use is determined by the garrison. Is represent by two characters. The characters may be two letters or two numbers, or a combination of letters and numbers. **14 represents Snack Bar.** Other examples of Department Codes are (not a complete list): 01 = Regular Bar 11 = Dining Room 5G = Special Events 5J = Unit Activities 58 = Equipment Rental G1 = Administration GL = APF Normal (UFM)	Identify the GLAC. This code is used to describe the type of expense. This is similar to the APF Element of Expense (EOE) or Element of Resource (EOR). GLACs are established by IMCOM G9 in coordination with DFAS-Texarkana. However, which GLAC to use is determined by the garrison. Is represented by three characters. They are always three numbers. **726 represents Supplies Expense.** Other examples of GLACs are (not a complete list): 301= Cash Sales 545 = AAFES Dividend Income 601 = US Salaries & Wages Expense 663 = Bank Service Charge Expense 729 = Utilities Expense 733 = Insurance Premium Expense

7.1 Overview

Good nancial` management requires each Family and MWR Manager to track and monitor the operations of the activity over time and compare those gures` to the budget. DFAS-Texarkana provides documents for this purpose. The Family and MWR Manager must be procient` in reading these documents in order to determine trends, analyze variances, and evaluate the business results of his/her activity. Current and historical nancial` statements are available through Standard Management Information Reports for Finance (SMIRF).

At the end of this lesson, you will be able to:

1. Describe the MWR nancial` statement and its purpose.
2. Identify the major components of the Income Statement.
3. Associate revenue and expense categories with their GLACS.
4. Explain the term "depreciation."
5. Dierentiate` between Percentages on the Income Statement and Inventory Turnover Ratio.

7.2 Financial Statements

What is the Financial Statement?

The nancial` statement is mainly comprised of the balance sheet and the Income Statement. The balance sheet is a statement of the nancial` position of the Family and MWR Fund.

The Income Statement is historical documentation of a nancial` performance that compares revenues to expenses and reects` the net income or loss for the month at the installation, program, location, and department code levels.

The term nancial` statement, although often used interchangeably with the term Income Statement, is really made up of two parts:

- The balance sheet.
- The Income Statement.

7.3 Components of an Income Statement

As we have learned…the Income Statement is the formal documentation of . nancial performance at the installation, program, location, or department code level that compares revenues to expenses and reects the net income or loss for the month.
Unlike the balance sheet, which is only generated for the garrison and IMCOM Directorates fund level, DFAS-Texarkana generates Income Statements at the garrison, program, location, and department levels.

Exploring the Pluses & Minuses of an Income Statement

Revenue is the money an activity generates. The three major categories of revenue on the Income Statement are:

Net Sales Revenue.

Total Income from Other Activities.

Total Other Income.

Total Revenue is the sum of the three categories.

&

Expenses are the costs realized in the process of current operations. The ve` different expense categories on the Income Statement are:

Cost of Goods Sold (COGS).

Total Labor Cost.

Total Other Operating Expense.

Total Other Expense.

Total Depreciation.

Total Expenses is the sum of the . ve categories.

Revenue is generally considered a plus (+) on the Income Statement, while expenses are generally considered a minus (-).

Major categories of Revenue and Expense on an Income Statement

Net Sales Revenue + Total Income From Other Activities + Total Other Income = TOTAL REVENUE

Cost of Goods Sold + Total Labor + Total Other Operating Expense + Total Other Expense + Total Depreciation = TOTAL EXPENSES.

TOTAL REVENUE – TOTAL EXPENSES = NET INCOME (or NET LOSS)

Net Income (LOSS) Calculated

Once the Total Revenue and Total Expenses are calculated, the Net Income or Loss After Depreciation (NIAD) can be calculated.

The Income Statement actually calculates the Net Income or Loss in far more detail - section by section or component by component.

There are eight major components on an Income Statement, four revenue, and four expense components.

1	+	Net Sales	$ 7,000.00	
2	-	Cost of Good Sold	$ 4,900.00	70%
	=	Gross Income from Sales	$ 2,100.00	30%
3	+	Income from Other Activities	$ 500.00	6%
	=	Gross Income from Operations	$ 2,600.00	34%
4	-	Labor	$ 1,900.00	25%
5	-	Other Operating Expense	$ 200.00	3%
	=	Net Income from Operations	$ 500.00	6%
6	+	Other Income	$ 250.00	3%
7	-	Other Expense	$ 250.00	3%
	=	Net Income Before Depreciation (NIBD)	$ 500.00	8%
8	-	Depreciation	$ 27.00	0%
	=	Net Income After Depreciation (NIAD)	$ 473.00	7%
		Total Revenue	$ 7,750.00	
		Net Revenue	6,500.00	

Total Revenue = Net Sales + Income from Other Activities + Other Income
Net Revenue = Total Revenue – UFM Income GLACs

UFM Income GLACs = GLAC 508 + GLAC 526+GLAC 561+GLAC 562+GLAC 563+GLAC 564

The next several lessons will discuss each of the Income Statement's major components.

7.4 Net Sales

1	+	**Net Sales**	**$**	**7,000.00**	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

In this section, we will explore dierent types of sales revenue, such as sales and sales discounts.

Sales

The rst section or component of the Income Statement is Sales, which can be dened as the income collected when goods or products permanently change hands to the consumer.

Sales occur when an activity exchanges a tangible good for payment. A soda, a hamburger, craft supplies, golf clubs, and bowling shoes are examples of tangible items Family and MWR activities might sell to customers.

Sales are recorded using GLACS in the 300s.

There are seven possible General Ledger Accounting Code (GLAC) listings for Sales. The rst three are used to record sales income. The next three are used to record authorized reductions to sales. The seventh GLAC is used to record sales between activities within the same fund.

NOTE: Even if the activity does not sell anything, the Income Statement will still show the sales section, but there will be zeros representing the amount for Net Sales Revenue.

GLAC 301
Cash Sales

Used for both cash and commercial credit card (MasterCard, VISA, etc.) purchases.

1 of 7

GLAC 302
Credit Sales

Used for sales paid for with an in-house charge card such as a garrison card, a Family and MWR charge card, or an of cer's club card. These are not commercial credit cards like MasterCard or Visa. People can use in-house charge cards at garrison activities only.

GLAC 303
Layaway Sales

Used for sales in which the merchandise is removed from the stock offered for sale while the customer makes regular payments over a speci ed period of time. Once payment is made in full, the customer receives the merchandise.

GLAC 304
Sales Returns and Allowances

Used for amounts that were refunded, for example, when someone buys a product and later returns the product. The product's original sales price is refunded to the customer. The refund amount is listed as GLAC 304 and subtracted from the amount of sales. Unless otherwise reported to NFS, the item will be picked back up in inventory

GLAC 305 Customer Discounts	Used to capture amounts discounted to customers. For example, an activity has a sale of a 25% discount, and a customer buys an item that originally cost $100.00. With the sale, the customer would pay $75.00 for the item. The original $100 price is shown in GLAC 301 or 302. The $25 discount amount is shown as
GLAC 306 Employee Discounts	Used to report the discount given to employees for meals. This discount is only appropriate in food operations for employees on duty (per AR 215-1, Para. 7-38).
GLAC 307 Intrafund Sales	Used to record the amount of sales made to another activity of the same fund, when the items sold are from a resale inventory and are not transferred at cost. The sale will be recorded at a mutually agreed-upon price.

Net Sales

Net sales is the sum of GLACs 301 thru 307.

+	GLAC 301	Cash Sales	$ 2,600.00
+	GLAC 302	Credit Sales	$ 600.00
+	GLAC 303	Layaway Sales	$ 750.00
-	GLAC 304	Sales Returns & Allowances	$ 250.00
-	GLAC 305	Customer Discounts	$ 1,250.00
-	GLAC 306	Employee Discounts	$ 350.00
+	GLAC 307	Intrafund Sales	$ 1,100.00
	Total Net Sales		$ 2,100.00

BEGINNING INVENTORY

The rst` entry in this section on the Income Statement is beginning inventory.

This month's beginning inventory is last month's ending inventory. This year's beginning inventory is last year's ending inventory.

Beginning Inventory isn't assigned a specic` GLAC, but it is always included as part of the total goods available for sale.

PURCHASES

GLAC 401 is used when the activity purchases something from a vendor for resale.
The NFS records that dollar amount under GLAC 401 (Purchases).

When the activity requisitions merchandise from the warehouse or storeroom, the NFS records that dollar amount under GLAC 402 (Warehouse/Storeroom Requisitions).

TRANSFERS

Sometimes there is confusion about when to use GLAC 403 (Transfers from Other Funds) and GLAC 404 (Transfers from other Locations/Departments).

GLAC 403 (Transfers from Other Funds) occur when the activity transfers resale merchandise from one NAFI fund to another. They are listed in Appendix F of AR 215-1 and include the Chaplain's Fund and Transient Billeting Fund.

GLAC 404 (Transfers from Other Locations/Departments) occur when the activity transfers resale merchandise from one activity to another within the same fund or between departments in the same activity.

For example, if the post restaurant transfers some hot dog buns from its inventory to the child care center, GLAC 403 is used because the post restaurant belongs to a dierent` NAFI fund than the child care center.

On the other hand, if the bowling centers snack bar transfers the hot dog rolls from its inventory to the child care center, NFS would use GLAC 404. In this case, the bowling center and child care center are both parts of the installation Family and MWR fund, and this is a transfer from one location to another location. This transfer would be recorded under GLAC 404.

An example of a transfer between departments would be when the club kitchen transfers lemons to the club bar to use as garnish. This transfer would be recorded under GLAC 404.

ENDING INVENTORY

The ending inventory is the amount of goods and merchandise remaining in the facility and available for sale as determined by the monthly physical inventory.

NFS keeps a running total of all the purchases, warehouse requisitions, and transfers received by an activity each month. These running totals become part of the activity's inventory. When the activity takes the end of month inventory, any overages between the actual count and the running total at NFS is reported as GLAC 432 (Cost of Goods Sold, Inventory Overages).

The amounts listed for GLACs 401, 402, 403, 404, and 432 along with the beginning inventory are added to yield the total dollar amount for the goods the activity has available for sale this month.

TOTAL DEDUCTIONS

The other information the manager needs to know in order to calculate the COGS is the total deductions dollar amount. All the 400-series GLACs other than 401, 402, 403, 404, and 432 are used to gure` total deductions. These include:

Purchase returns and allowances.

Transfers to other funds and transfers to other locations/

departments. Deductions for spoilage, breakage,

obsolescence (SBO), etc.

Total Deductions on the Income Statement is the sum of all of these deductions. NFS subtracts Total Deductions from the total goods available for sale (i.e., Ending Inventory) to determine the COGS.

GROSS INCOME

After the Net Sales Revenue and COGS amounts are determined, the Income Statement displays the Gross Income from Sales.

7.5 Cost of Goods Sold (COGS)

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

REMEMBER! Always include freight costs in the COGS.

Cost of Goods Sold (COGS)

Once an item is sold, the amount originally paid for the merchandise, including shipping and handling costs, is labeled Cost of Goods Sold (COGS), which is an expense.

For example, an activity sells a shirt for $10.00. It is a cash sale and is listed on the Income Statement as GLAC 301. Assume the shirt cost the activity $7.00. This is the Cost of Goods Sold.

To determine the selling price of an item, it is necessary to include freight costs for that item. If you don't include freight costs, you will not be able to calculate an accurate break-even or prot margin. This may result in your activity losing money.

To calculate COGS, you must know the:

Dollar amount of goods available

for sale. Dollar amount of goods

not sold.

All the GLACs for Cost of Goods Sold begin with a "4."
Some of the 400-series GLACs identify all of the goods that were available for sale, and some identify goods that were not sold for various reasons.

Available for Sale				
		Beginning Inventory	$ 8,000	
	401	Purchases	$ 6,000	
	402	Warehouse/Storeroom Requisitions	$ 1,500	
	403	Transfer from Other Funds	$ 250	
	404	Transfer from Other Locations/Departments	$ 500	
	432	COGS - Inventory Shortage	$ 100	
+		Total Available for Sale		$ 16,350
Deductions				
	411	Purchase Returns	$ 225	
	412	Warehouse/Storeroom Issues	$ 300	
	413	Transfers to Other Funds	$ 375	
	414	Transfers to Other Locations/Departments	$ 1,100	
	416	Other Inventory Reductions	$ 200	
	452	Promotion Expense	$ 500	
	453	COGS - Customer Rejected Goods	$ 150	
	454	COGS - Resale Merchandise Spoilage, Breakage, and Obsolescence	$ 125	
	455	COGS - arehouse/Storeroom Spoilage, Breakage, and Obsolescence	$ 200	
	456	COGS - Inventory Shortage	$ 75	
		Ending Inventory	$ 8,200	
-		Total Deductions		$ 11,450
		Total Cost of Goods Sold (COGS)		$ 4,900

BEGINNING INVENTORY

The rst` entry in this section on the Income Statement is beginning inventory.

This month's beginning inventory is last month's ending inventory. This year's beginning inventory is last year's ending inventory.

Beginning Inventory isn't assigned a specic` GLAC, but it is always included as part of the total goods available for sale.

ENDING INVENTORY

The ending inventory is the amount of resale goods and merchandise remaining in the activity at the end of the month as determined by the monthly end-of-month physical inventory. While Ending Inventory does not have a GLAC, it is always the last item under the COGS section called Deductions.

This month's ending inventory is next month's beginning inventory. This year's ending inventory is next year's beginning inventory.

When the activity takes the end of month inventory and compares it to the Stock Record Cards or Bin Cards, any overage or shortage noted is reported in the GLAC 532 COGS – Inventory Overages or GLAC 564 COGS – Inventory Shortages.

AVAILABLE FOR SALE

The following items are added together to determine the goods available for sale.
Beginning Inventory. Beginning Inventory isn't assigned a GLAC, but is always included as part of the total goods Available for Sale.

GLAC 401 (Purchases). This GLAC is used when the activity purchases something from a vendor for resale. This includes shipping and handling. The dollar amount is recorded under GLAC 401.

GLAC 402 (Warehouse/Storeroom Requisitions. When the activity requisitions merchandise from the warehouse or storeroom, the dollar amount is recorded under GLAC 402.

GLAC 403 (Transfer from Other Funds). This GLAC is used when the activity receives transfers of resale merchandise from one NAFI fund to another. Example: The Post Restaurant (Post Restaurant Fund) transfers hot dog buns to the Community Club (MWR Fund). The Community Club will use this GLAC to record the dollar amount of the transfer because it is receiving the hot dog buns. This GLAC is used because the Post Restaurant Fund is a separate NAFI from the garrison's MWR Fund. NAFIs commonly found on a garrison include MWR Fund, Post Restaurant Fund, Civilian Welfare Fund, Chaplain's Fund, Army Lodging Fund, Fisher House Fund, and the Department of Defense Education Activity (DoDEA) Student Meal Program Funds.

GLAC 404 (Transfer from Other Locations/Departments). This GLAC is used when the activity receives transfers of resale merchandise from another activity within the same fund or between departments within the same activity. Example #1: The Bowling Center transfers hamburger buns to the Community Club. The Community Club uses this GLAC to record the amount of the transfer because it is receiving the hamburger buns. This GLAC is used because both the Bowling Center and the Community Club are part of the same NAFI. Example #2: The Community Club's Dining Room Department (which includes the kitchen) transfers olives to its Bar Department. The Bar Department will use this GLAC to record the dollar amount of the transfer because it is receiving the olives. This GLAC is used because both departments are within the same activity.

GLAC 432 (COGS – Inventory Overage). This GLAC is used to record the dollar amount of inventory overages which are discovered during the end-of-month inventory of resale merchandise. The activity maintains Stock Record/Bin Cards with a running total of all the purchases, warehouse requisitions, and transfers to or from other activities. These running totals become part of the activity's inventory. When the activity takes the end of month inventory, any overages between the actual count and the running total on the Stock Record/Bin is reported in GLAC 432.

Total Available For Sale. The total amount of resale goods and merchandise available for sale during the month are recorded on this line under COGS on the Income Statement. Total Available For Sale is the sum Beginning Inventory and GLACs 401, 402, 403, 404, and 432.

TOTAL AVAILABLE FOR SALE = BEGINNING INVENTORY + GLAC 401 + GLAC 402 + GLAC 403 + GLAC 404 + GLAC 432

DEDUCTIONS

The other information the manager needs to know in order to calculate the COGS is the total deductions dollar amount. All the 400-series GLACs other than GLACs 401, 402, 403, 404, and 432 are used to gure` total deductions. This includes purchase returns and allowances, transfers to other funds or other locations/departments, and deductions for spoilage, breakage, obsolescence (SBO) of resale goods and merchandise.

GLAC 411 (Purchases Returns). This GLAC is used to record the dollar amount resale merchandise returned by the customer or allowances taken. This could include damage things like golf shoes or bags returned because they are damage or allowance given to a customer who purchases a damage item.

GLAC 412 (Warehouse/Storeroom Issues. This GLAC is used to record the dollar amount of resale goods and merchandise are transferred from the activity's warehouse or storeroom to departments within the same activity or other activities/locations within the same NAFI.

GLAC 413 (Transfers to Other Funds). This GLAC is used to record the dollar amount of resale goods and merchandise to another NAFI.

GLAC 414 (Transfer to Other Locations/Departments). This GLAC is used to record the dollar amount of resale goods and merchandise transferred to another department within the same activity or to another activity/location within the same NAFI. Example #1: The Community Club's Dining Room Department (includes the Kitchen) transfers olives to its Bar Department. The Dining Room Department will use this GLAC because it is transferring (sending) the olives to the Bar. This GLAC is used because both departments are within the same activity. Example #2: The Bowling Center transfers hamburger buns to the Community Club. The Bowling Center uses this GLAC to record the amount of the transfer because it is transferring (sending) the hamburger buns to the Community Club. This GLAC is used because both the Bowling Center and the Community Club are part of the same NAFI.

GLAC 416 (Other Inventory Reductions). This GLAC is used infrequently. It is used to deduct the cost of unusual reductions in inventory from COGS. These include losses that result from a resale merchandise insurance claim or the cost of providing meals to employees free of charge.

GLAC 452 (COGS – Promotions Expense). This GLAC is used to deduct the cost of merchandise consumed during promotions within the NAFI from COGS. This cost should match the amount being reporting in the activity's GLAC 652 (Promotion Expense) which is in the Operating Expense section of the Income Statement.

GLAC 453 (COGS – Customer Rejected Goods). This GLAC is used to deduct the costs of meals and beverages rejected by customers before sales are consummated for COGS.

GLAC 454 (COGS – Resale Merchandise Spoilage, Breakage, and Obsolescence). This GLAC is used to deduct the cost of food and bar items or other resale merchandise broken or spoiled from COGS. The amount should match the amount recorded in GLAC 654 (Resale Merchandise Spoilage, Breakage, and Obsolescence Expense) which is in the Operating Expense section of the Income Statement.

GLAC 455 (COGS – Warehouse/Storeroom Spoilage, Breakage, and Obsolescence). This GLAC is used to deduct the cost of broke, or spoiled warehouse inventory items from COGS. This includes inventory obsolescence losses reported to the garrison commander. The dollar amount should match the amount recorded in GLAC 655
(Warehouse/Storeroom Spoilage, Breakage, and Obsolescence Expense) which is in the Operating Expense section of the Income Statement.

GLAC 456 (COGS – Inventory Shortage). This GLAC is used to deduct the cost of inventory shortage of resale merchandise discovered in physical inventory counts from COGS. The dollar amount should match the amount recorded in GLAC 656 (Inventory Shortage Expense) which is in the Operating Expense section of the Income Statement.

Ending Inventory. Ending Inventory isn't assigned a GLAC, but is always included as part of the total dollar amount of goods deducted from COGS.

Total Deductions. The total amount of resale goods and merchandise deducted from COGS during the month are recorded on this line under COGS on the Income Statement.
Total Deductions is the sum GLACs 411, 412, 413, 414, 416, 452, 453, 454, 455, 456 and Ending Inventory.

TOTAL DEDUCTIONS = GLAC 411 + GLAC 412 + GLAC 413 + GLAC 414 + GLAC 416 + GLAC 452 + GLAC 453 + GLAC 454 + GLAC 455 + GLAC 456 + ENDING INVENTORY.

Cost of Goods Sold Percentage (COGS %)

The COGS % tells you the cost of goods sold for each dollar of Net Sales generated.

Once you know the Net Sales income and the COGS, you can determine the COGS % by taking the COGS and dividing it by the Net Sales.

COGS / NET SALES = COGS %

7.6 Gross Income From Sales

Gross Income From Sales

After the Net Sales and COGS amounts are determined, the Income Statement displays the Gross Income From Sales.

Gross Income From Sales is the amount of money left after the COGS have been subtracted.

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	**Gross Income from Sales**	**$**	**2,100.00**	**30%**
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

Gross Income From Sales is calculated by taking the Net Sales and subtracting the COGS.

GROSS INCOME FROM SALES = NET SALES - COGS

Gross Income From Sales Percentage

Gross Income From Sales Percentage tells you the amount from each dollar of Net Sales which remain after the costs of goods have been subtracting.

Gross Income From Sales Percentage is calculated by taking the Gross Income From Sales and dividing it by Net Sales.

Gross Income From Sales % = Gross Income From Sales / Net Sales

The sum of COGS % and Gross Income From Sales % should always be 100%.

7.7 Income From Other Activities

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	**+**	**Income from Other Activities**	**$**	**500.00**	**6%**
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

Income From Other Activities

Income from Other Activities is the next major revenue component on the Income Statement.

Income from Other Activities refers to operating income generated from activities where no tangible goods are transferred to the customer. This income is generated with services are provided to the customer.

Examples of income from Other Activities are child care fees, bowling center lane fees, golf green fees, recreation or activity fees, special event income, and rental usage fee income.

All the GLAC's for Income from Other Activities are found in the 500's, ranging from 501 to 599. the Total Income from Other Activities line item is the sum of all the income amounts listed in this section.
The 500-series GLACs are reported under Income From Other Activities.

7.8 Gross Income From Operations

Gross Income From Operations

After determining Gross Income from Sales and Total Income From Other Activities, the Income Statement displays the Gross Income From Operations.

Gross Income From Operations is calculated by adding Gross Income from Sales and Total Income From Other Activities.

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	**Gross Income from Operations**	**$**	**2,600.00**	**34%**
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

Gross Income From Operations Percentage (%)

Gross Income From Operations % is calculated by taking the Gross Income From Operations and dividing it by Total Revenue. Total Revenue will be discussed later.

Gross Income From Operations % = Gross Income From Operations / Total Revenue

7.9 Operating Expenses

Expenses

Income is only half of the Income Statement. To calculate the net prot` or loss, you must account for Expenses. The rst` expense the Income Statement lists and calculates is Operating Expenses.

The Income Statement separates Operating Expenses into Labor costs and Other Operating Expenses. As Labor is the largest single group of Operating Expenses, its expenses are listed first.

Labor Costs

Labor costs are the expense for work performed by employees of an organization. Labor consists of employee salaries/wages and benets.` Benets` include such elements as:

- FICA (Federal Insurance Contributions Act - Social Security).
- Worker's compensation insurance.
- Health insurance.
- 401K plan.
- Life insurance. Annual
- Sick leave.

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

Also included in this total are performance bonuses and other monetary awards related to employee performance. The labor account codes range from 601 to 632.

ANNUAL LEAVE

Annual leave is accrued and listed on the Income Statement as GLAC 603 (US Annual Leave Expense) for US employees and GLAC 604 (Foreign Employee Annual Leave Expense) for foreign nationals. GLAC 604 is only used OCONUS.

The dollar amount of the accrued leave is reected` in the Income Statement every month as employees earn it.

Consequently, when an employee decides to take annual leave, the only expense reected` on the Income Statement that month is the expense of a substitute worker (if any) because the regular employee's salary or wages during leave have been set aside as they are accrued.

SICK LEAVE

On the other hand, sick leave is not accrued. Unlike annual leave, sick leave costs are not reected` on the Income Statement until it is taken.

Then the sick leave expense appears on the Income Statement as GLAC 605 (US Sick Leave Expense) for US employees or GLAC 606 (Foreign Employee Sick Leave Expense) for foreign nationals. GLAC 606 is only used OCONUS.

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	**-**	**Other Operating Expense**	**$**	**200.00**	**3%**
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

Other Operating Expense

The second group of operating expenses, identied` with GLACS 647-799, are Other Operating Expenses, which can be dened` as:

“Costs of operation not associated with the cost of goods sold or labor that are consumed to provide a product or service to the customer. This category includes every cost, except labor, associated with providing a service or product."

Total Operating Expense

Total Operating Expenses are the total of Labor and Other Operating Expenses.

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	**Total Operating Expense**	**$**	**2,100.00**	**27%**
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

The GLACs making up Total Operating Expense - Labor GLACs

601	US Salaries and Wages Expense	617	US Employee Bonuses and Awards
602	Foreign Salaries and Wages Expense (OCONUS Only)	618	Foreign Employee Bonuses and Awards Expense (OCONUS Only)
603	US Annual Leave Expense	619	Foreign Employee Separation Pay Expense (OCONUS Only)
604	Foreign Annual Leave Expense (OCONUS Only)	620	US Unemployment Insurance Expense
605	US Sick Leave Expense	621	US Employee Compensatory Time Expense
606	Foreign Sick Leave Expense (OCONUS Only)	622	Army Medical Life Assessment Expense
607	US Workers' Compensation Insurance Expense	623	Home Leave Expense
608	Foreign Workers' Compensation Insurance Expense (OCONUS Only)	624	Other Benefits – US Employees
609	US Retroactive Wage Increases Expense (OCONUS Only)	625	Other Benefits – Foreign Employees (OCONUS Only)
610	Foreign Retroactive Wage Increases Expense (OCONUS Only)	626	Employer's Share of 401K Expense
611	Employer's Share of FICA	627	Employer's Share of Thrift Savings Plan Expense
612	Employer's Share of Health and Life Insurance Expense	628	US Employee Severance Pay Expense
613	Employer's Share of Retirement Plan Contributions Expense	629	US Post-Retirement Medical Benefits Assessment
614	Foreign Unemployment Insurance Taxes Expense (OCONUS Only)	630	Post Allowance Expense (OCONUS Only)
615	Foreign Medical Insurance Taxes Expense (OCONUS Only)	631	****NOT USED****
616	Foreign Welfare and Pension Taxes Expense (OCONUS Only)	632	Non Discretionary Income Bonuses

7.10 Net Income From Operations

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	**Net Income from Operations**	**$**	**500.00**	**6%**
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

Net Income From Operations = Gross Income from Operations – Total Operating Expenses

NET INCOME FROM OPERATIONS

Net Income from Operations is the next major component displayed in the Income Statement. It is the sum of revenue and expenses from operations.

Net Income From Operations is calculated by taking together Gross Income from Operations less Total Operating Expenses.

Net Income From Operations Percentage (%)

Net Income From Operations % is calculated by taking the Net Income From Operations and dividing it by Total Revenue. Total Revenue will be discussed later.

Net Income From Operations % = Net Income From Operations / Total Revenue

7.11 Non-Operating Income and Expenses

Non-operating income and expenses come from sources unrelated to the core operations, which are not a direct result of operating the activity.

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	**+**	**Other Income**	**$**	**250.00**	**3%**
7	**-**	**Other Expense**	**$**	**250.00**	**3%**
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

OTHER INCOME

Other Income comes from activities not related to the core business operations. It can include interest from bank accounts and investments, income from the disposal of activity property, and contributions from charitable sources. Other Income includes GLACs 801 through 825.

Other Income GLACs

801	Interest Income
803	Gain or Loss on Disposal of Other Fund-Owned Property
805	ALF Payment for Guest House Investment Income
806	Non-operating Sources of Revenue
807	Contributions From Charitable Sources
808	NAF to APF Conversion Income
809	AMWRF Dividends
824	Discounts Earned
825	Miscellaneous Other Non-operating Income

OTHER EXPENSES

Other Expenses include all costs not related to normal core business operations. They can include interest expense, loss on disposal of activity property, loss/gain on foreign currency transactions, and losses due to business based closures. Other Expenses include GLACs 826 through 850.

Other Expenses GLACs

826	Interest Expense
827	Loss or Gain on Disposal of Fixed Assets
828	Loss or Gain on Foreign Currency Transactions
829	****NOT IN USE****
830	Isolated Unit Dividend Expense (IMCOM G-9 Only)
831	Reserve Component Dividend Expense
832	Loss Due to Closure – Business Based
833	APF to NAF Conversion Expense
834	Capital Reinvestment Assessment
850	Miscellaneous Other Non-operating Expenses

Other Income and Other Expenses Percentages (%)

Other Income % = Other Income / Total Revenue

Other Expenses % = Other Expenses / Total Revenue

7.12 Net Income Before Depreciation

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	**Net Income Before Depreciation (NIBD)**	**$**	**500.00**	**8%**
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

Net Income Before Depreciation (NIBD) is the primary gauge of financial performance. An NIBD which achieves nancial` standards and budgeted goals assures a nancially` successful operation. It measures the activity's prot` or loss before depreciation expenses are deducted.

If the NIBD matches the target amount on the approved budget, the activity is performing as expected, and the manager and employees should continue their winning ways. However, if the NIBD is more or less than the budgeted amount, the manager needs to analyze the monthly Income Statement to determine the causes of the activity's performance. Corrective actions may need to be taken if NIBD is less than the budgeted amount or if NIBD is more than budget due to errors. If the increase in NIBD from the budget is due to better control of income and expenses, continue the good work. However, be careful not to reduce quality and services to achieve a higher NIBD. This could have a long-term negative eect` on operations. A budget revision may be needed to reflect operational changes that cause the increase or decrease in NIBD.

NIBD is calculated by taking Net Income from Operations and adding Other Income, and subtracting Other Expenses.

NIBD = Net Income From Operations + Other Income – Other Expenses

Net Income Before Depreciation Percentage (NIBD %)

NIBD % is calculated by taking the NIBD and dividing it by Net Revenue. Net Revenue will be discussed later.

NIBD % = NIBD / Net Revenue

7.13 Depreciation

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	**-**	**Depreciation**	**$**	**27.00**	**0%**
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

Depreciation is a way to allocate the cost of a xed asset` over its expected useful life. Fixed assets are those items that cost $2,500 or more (or like items costs $100 or more with a total costs of $2,500 or more)" and have a useful life of two or more years.

THE FUND PAID FOR THE FIXED ASSET UPFRONT If the total cost were expensed against the activity during that month, the activity would take a big hit and may have a negative NIBD.

COST IS PRORATED Fixed assets have a useful life of two years or more, so we prorate the original cost over the course of its useful life on the Income Statement.

NOT A SAVINGS ACCOUNT It is not a savings account; it is a more accurate way to show expenses on financial statements.

The Army uses the straight-line method of depreciation. This method calculates the monthly depreciation by dividing the xed asset's` total cost by the number of months of life expectancy. The resulting gure` is identied` as depreciation on the Income Statement each month.

Straight Line Method of Depreciation

For example, an activity purchased a camper for $14,400, a xed asset` with a life expectancy of 5 years or 60 months. The manager would calculate the depreciation by dividing $14,400 by 60. The result of that calculation ($240) would be the depreciation expense for that item for each of the next 60 months. The depreciation expense, rather than the original purchase price, appears on the Income Statement

Depreciation begins the month after the item is received. For example, if an activity receives a piece of equipment and forwards the receiving report to DFAS Texarkana in October, the depreciation amount for this piece of equipment would begin to appear on the Income Statement for November.

Policy Execution Procedures (PEP), Chapter 32

Usually, the activity manager is responsible for determining how long a xed`  asset is going to last. The guidelines for establishing the depreciation schedule can be found in PEP, Chapter 32. This table lists depreciable xed` assets and gives a life expectancy range for each. For example, Table 4-1 tells the manager that he/she cannot depreciate the construction of a new building for less than 15 years or more than 40 years.

Table 4-1, Depreciation Periods

Description	Life Expectancy
Buildings	15-40 years
Building Improvements	5-30 years
Furniture, Fixtures, and Equipment	2-10 years
Vehicles, Aircraft, and Boats	2-7 years
Computer Hardware and Software	2-3 years
land Improvements	5-25 years

Depreciation is reported in GLACs 851 through 860

851	Buildings Depreciation Expense
852	Building Improvements Depreciation Expense
853	Furniture, Fixtures, and Equipment Depreciation Expense
854	Vehicles, Aircraft, and Boats Depreciation Expense
855	Land Improvements Depreciation Expense
856	Breeding Livestock Depreciation Expense
857	Other Government Titled Fixed Assets Depreciation Expense
858	Government Titled Buildings and Improvements Depreciation Expense
859	Maintenance and Repair of Facilities Depreciation Expense
860	APF Authorized Fixe Asset Depreciation Expense

7.14 Net Income After Depreciation

NET INCOME AFTER DEPRECIATION (NIAD)

Once Depreciation is determined, the Income Statement displays the Net Income After Depreciation (NIAD). NIAD is the prot` or loss after all revenue and expenses have been reported, including depreciation.

NIAD is calculated by taking NIBD and subtracting Depreciation.

NIAD = NIBD - Depreciation

Net Income After Depreciation Percentage (NIAD %)

NIAD % is calculated by taking the NIAD and dividing it by Net Revenue. Net Revenue is discussed in the next lesson.

NIAD % = NIAD / Net Revenue

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	**Net Income After Depreciation (NIAD)**	**$**	**473.00**	**7%**
		Total Revenue	$	7,750.00	
		Net Revenue		6,500.00	

7.15 Total Revenue and Net Revenue

1	+	Net Sales	$	7,000.00	
2	-	Cost of Good Sold	$	4,900.00	70%
	=	Gross Income from Sales	$	2,100.00	30%
3	+	Income from Other Activities	$	500.00	6%
	=	Gross Income from Operations	$	2,600.00	34%
4	-	Labor	$	1,900.00	25%
5	-	Other Operating Expense	$	200.00	3%
	=	Total Operating Expense	$	2,100.00	27%
	=	Net Income from Operations	$	500.00	6%
6	+	Other Income	$	250.00	3%
7	-	Other Expense	$	250.00	3%
	=	Net Income Before Depreciation (NIBD)	$	500.00	8%
8	-	Depreciation	$	27.00	0%
	=	Net Income After Depreciation (NIAD)	$	473.00	7%
		Total Revenue		**$ 7,750.00**	
		Net Revenue		**6,500.00**	

Total Revenue

Total Revenue is the amount of all sales and other income reported in the

Income Statement. Total Revenue is used to calculate percentages for:

Income from Other Activities•Gross Income from

Operations Labor

Other Operating Expenses

Total Operating Expenses

Net Income from Operations

Other Income

Other

Expenses

Depreciation

Total Revenue is the sum of Net Sales, Total Income from Other Activities, and Other Income.

Total Revenue = Net Sales + Income from Other Activities + Other Income

Net Revenue

Net Revenue is the amount of Total Revenue less UFM Income. Net Revenue is used to calculate percentages for:

Net Income Before Depreciation (NIBD)

Net Income After Depreciation (NIAD)

UFM Income is the sum of GLACs 508, 526, 561, 562, 563, and 564.

Net Revenue = Total Revenue – UFM Income

UFM Income GLACs

GLAC 508 UFM Income - Central MOA - Payroll

GLAC 526 UFM Income - Central MOA - Non-payroll

GLAC 561 UFM/USA Income - Local MOA - Payroll

GLAC 562 UFM/USA Income - Local MOA - Non-Payroll

GLAC 563 UFM Income - Special - Payroll

GLAC 564 UFM Income - Special - Non-Payroll