****

**COST CAPITALIZATION OFFSET**

**& FULL COST OF OUTPUTS**

**EFFECTIVE FISCAL YEAR 2025**

**PREPARED BY:**

**GENERAL LEDGER AND ADVISORY BRANCH**

**BUREAU OF THE FISCAL SERVICE**

**U.S. DEPARTMENT OF THE TREASURY**

|  |  |  |  |
| --- | --- | --- | --- |
| **Version Number** | **Date** | **Description of Change** | **Effective USSGL TFM** |
| 1.0 | 04/24/2025 | Original | TFM Bulletin No. 2025-06 |

**Background**

All direct costs that are commonly reported as expenses, along with some direct material costs (not meeting the entity’s capitalization threshold), should be first reported using the 600000-series USSGL expense accounts. This allows federal entities to accumulate their cost information, establish audit trails, and properly eliminate expenses for consolidation at the government-wide level.

**Cost Capitalization Offset Account**

The Cost Capitalization Offset provides agencies with a mechanism to offset direct labor, direct materials, and overhead costs from expense accounts when those costs are subsequently capitalized to an in-progress or completed product/job. SGL 661000 “Cost Capitalization Offset” captures the costs originally recorded into a 600000-series expense account and links those costs directly to a specific job or product. The accumulated costs of the asset from all expenses incurred during the production process are reclassified to an appropriate asset account (such as inventory-work-in-process or inventory finished goods) at one time.

Federal entities will offset expenses using SGL 661000 when the cost is capitalized into an Inventory, Operating Materials and Supplies, Leasehold Improvement, Equipment, Buildings, and/or Internal Use Software account. These asset accounts include “In Development”, “In Process”, and “In Progress” accounts, such as Construction-in-Progress, Internal-Use Software In Development, Operating Materials and Supplies in Development, etc. Please refer to Transaction Code D514 within the USSGL Treasury Financial Manual, Section III, for more details. Section III may be accessed at the USSGL Web site (<https://tfx.treasury.gov/tfm/supplements/ussgl>).

**Full Cost of Outputs**

“…reporting entities should measure and report the full costs of their outputs in general purpose financial reports. “Outputs” means products and services generated from the consumption of resources. The full cost of a responsibility center’s output is the total amount of resources used to produce the output. This includes direct and indirect costs that contribute to the output, regardless of funding sources. It also includes costs of supporting services provided by other responsibility segments or entities.” (SFFAS 4, Pars. 89-90)

**Direct Costs**

Direct costs are costs that can be specifically identified with an output. All direct costs should be included in the full cost of outputs. Typical direct costs in the production of an output include:

(a) Salaries/Wages and other benefits for employees who work directly on the output *(emphasis added)*;

(b) Materials and supplies used in the work *(i.e., production of output)*;

(c) Various costs associated with office space, equipment, facilities, and utilities that are used exclusively to produce the output; and

(d) Costs of certain goods or services received from other segments or entities that are used to produce the output. (SFFAS 4, Par. 90)

**Indirect Costs**

Indirect costs are the costs of resources that are jointly or commonly used to produce two or more types of outputs but are not specifically identifiable with any of the outputs. Typical examples of indirect costs include general administrative services, general research and technical support, security, rent, employee health and recreation facilities, and operating and maintenance costs for buildings, equipment, and utilities. (SFFAS 4, Par. 91)

There are two levels of indirect costs:

(a) Indirect costs incurred within a responsibility segment. These indirect costs should be assigned to outputs on a cause-and-effect basis, if such an assignment is economically feasible, or through reasonable allocations; and

(b) Costs of support services that a responsibility segment receives from other segments or entities. The support costs should be first directly traced or assigned to various segments that receive the support services. They should then be assigned to outputs. (SFFAS 4, Par. 91)

**Inter-Entity Costs**

The amount of costs incurred by a federal entity for goods and services provided and paid for in total, or in part, by other federal entities, should be recorded as part of full cost; Federal entities should recognize inter-entity costs supporting business-type activities, all personnel benefits, and all Treasury Judgment Fund settlements, unless otherwise directed by OMB. Entities may recognize imputed cost and corresponding imputed financing for other types of non-business-type activities if they elect to do so. (SFFAS 4, Pars. 110-111, as amended by SFFAS 55, Par. 4)

**Memorandum Accounts**

Federal entities use Memorandum SGL accounts 880100-880400 to capture purchases of current-year assets to facilitate the elimination of intragovernmental asset transactions. Respective memorandum accounts for asset purchases should be recorded when these costs are subsequently capitalized to an appropriate asset account, whether it is "in process" or a "finished” product.

Memorandum account balances reported within GTAS at the end of each fiscal year not only facilitate the proper elimination of intragovernmental balances but also prevent the overstatement of expenses and revenues on the Financial Report of the U.S. Government.

**Disclaimer**

The intent of this scenario is to illustrate the main concepts for the use of Cost Capitalization Offset through basic transactions. While it shows examples within the Inventory accounting series, the scenario also applies to the production of Operating Materials & Supplies, Equipment, Internal Use Software, and other General PP&E. The scenario is not intended to be all inclusive of the different types of revenues and/or expenses that may be recorded.

Budgetary and financial reports reflect the pertinent lines to be reported based on the main concepts illustrated. For full presentations of the reports and line descriptions, refer to the appropriate authoritative guidance (i.e. OMB Circular A-136: Financial Reporting Requirements, OMB Circular No. A-11: Preparing, Submitting, and Executing the Budget, Treasury Financial Manual references.)

**Listing of USSGL Accounts Used in This Scenario:**

|  |  |
| --- | --- |
| **Account Number** | **Account Title** |
| **Budgetary** |  |
| 411900 | Other Appropriations Realized |
| 445000 | Unapportioned - Unexpired Authority |
| 451000 | Apportionments |
| 461000 | Allotments – Realized Resources |
| 480100 | Undelivered Orders - Obligations, Unpaid |
| 490100 | Delivered Orders - Obligations, Unpaid |
| 490200 | Delivered Orders - Obligations, Paid |
| **Proprietary** |  |
| 101000 | Fund Balance With Treasury |
| 152500 | Inventory - Raw Materials |
| 152600 | Inventory - Work-in-Process |
| 152700 | Inventory - Finished Goods |
| 211000 | Accounts Payable |
| 221000 | Accrued Funded Payroll and Leave |
| 221300 | Employer Contributions and Payroll Taxes Payable |
| 222500 | Unfunded FECA Liability |
| 310000 | Unexpended Appropriations - Cumulative |
| 310100 | Unexpended Appropriations - Appropriations Received |
| 310700 | Unexpended Appropriations - Used - Accrued |
| 310710 | Unexpended Appropriations - Used - Disbursed |
| 331000 | Cumulative Results of Operations |
| 570000 | Expended Appropriations - Used - Accrued |
| 570010 | Expended Appropriations - Used - Disbursed |
| 578000 | Imputed Costs |
| 610000 | Operating Expenses/Program Costs |
| 640000 | Benefit Expense |
| 660000 | Applied Overhead |
| 661000 | Cost Capitalization Offset |
| 673000 | Imputed Costs |
| 685000 | Employer Contributions to Employee Benefit Programs Not Requiring Current-Year Budget Authority (Unobligated) |
| 880100 | Offset for Purchases of Assets |
| 880300 | Purchases of Inventory and Related Property |

**Cost Capitalization Accounting - Raw Materials, Direct Costs, Direct Labor, & Overhead**

|  |  |  |  |
| --- | --- | --- | --- |
| 1. The federal entity records the enactment of appropriations of $21,000. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  411900 Other Appropriations Realized  445000 Unapportioned – Unexpired Authority  **Proprietary Entry**  101000 (G) Fund Balance With Treasury  310100 (G) Unexpended Appropriations – Appropriations Received | 21,000  21,000 | 21,000  21,000 | A104  A104 |

|  |  |  |  |
| --- | --- | --- | --- |
| 2. The federal entity records budget authority apportioned by the Office of Management and Budget and available for allotment. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  445000 Unapportioned – Unexpired Authority  451000 Apportionments  **Proprietary Entry**  None | 21,000 | 21,000 | A116 |

|  |  |  |  |
| --- | --- | --- | --- |
| 3. The federal entity records the allotment of authority. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  451000 Apportionments  461000 Allotments – Realized Resources  **Proprietary Entry**  None | 21,000 | 21,000 | A120 |

|  |  |  |  |
| --- | --- | --- | --- |
| 4. The federal entity records current-year undelivered orders without an advance for the purchase of inventory raw materials. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  461000 Allotments – Realized Resources  480100 Undelivered Orders – Obligations, Unpaid  **Proprietary Entry**  None | 5,000 | 5,000 | B306 |

|  |  |  |  |
| --- | --- | --- | --- |
| 5a. The federal entity records the delivery of inventory component raw materials for manufacturing production. In this instance, the entity capitalizes the raw materials at the time of delivery, so no offset to expense accounts is necessary. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  480100 Undelivered Orders – Obligations, Unpaid  490100 Delivered Orders – Obligations, Unpaid    **Proprietary Entry**  152500 Inventory - Raw Materials  211000 Accounts Payable  310700 Unexpended Appropriations - Used - Accrued  570000 Expended Appropriations - Used - Accrued | 5,000  5,000  5,000 | 5,000  5,000  5,000 | B402  B402  B134 |

|  |  |  |  |
| --- | --- | --- | --- |
| 5b. As part of the purchase of raw materials for inventory, the federal entity records activity for current-year purchases of inventory and related property. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  880300 (N) Purchases of Inventory and Related Property  880100 (N) Offset for Purchases of Assets | 5,000 | 5,000 | G122 |

|  |  |  |  |
| --- | --- | --- | --- |
| 6. The federal entity records the raw materials used to produce Product A. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  152600 Inventory - Work-in-Process  152500 Inventory - Raw Materials | 5,000 | 5,000 | D516 |

|  |  |  |  |
| --- | --- | --- | --- |
| 7a. The federal entity records the salary/wages of production employees who manufacture Product A (accumulated direct labor incurred) during the reporting period. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  461000 Allotments - Realized Resources  490100 Delivered Orders – Obligations, Unpaid    **Proprietary Entry**  610000 (N) Operating Expenses/Program Costs  221000 (N) Accrued Funded Payroll and Leave  310700 Unexpended Appropriations - Used - Accrued  570000 Expended Appropriations - Used - Accrued | 10,000  10,000  10,000 | 10,000  10,000  10,000 | E102  E102  B134 |

|  |  |  |  |
| --- | --- | --- | --- |
| 7b. The federal entity capitalizes payroll expense to Inventory Work-in-Process by recording the reclassification of accumulated expenses to an asset account. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  152600 Inventory - Work-in-Process  661000 Cost Capitalization Offset | 10,000 | 10,000 | D514 |

|  |  |  |  |
| --- | --- | --- | --- |
| 7c. As a result of the payroll expenses incurred in manufacturing that were capitalized to Inventory in Transaction #7b, the federal entity records activity for current-year purchases of inventory and related property. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  880300 (N) Purchases of Inventory and Related Property  880100 (N) Offset for Purchases of Assets | 10,000 | 10,000 | G122 |

|  |  |  |  |
| --- | --- | --- | --- |
| 8a. The federal entity recognizes the $1,000 employee benefits (Retirement, Health, and Life) incurred by production workers during the reporting period for the manufacturing of Product A. Other benefits ($200) are considered “inter-entity costs for personnel benefits” per SFFAS 55 and are required to be recognized as an imputed cost for services received from other federal entities. The FECA liability ($500) billed to the entity will be funded by future years’ budgetary resources. All $1,700 in costs are included as part of accumulated expenses reclassified to an asset in Transaction #8b. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  461000 Allotments - Realized Resources  490100 Delivered Orders – Obligations, Unpaid    **Proprietary Entry**  640000 (N) Benefit Expense  221300 (N) Employer Contributions and Payroll Taxes Payable  685000 (F) Employer Contributions to Employee Benefit Programs Not Requiring Current Year  Budget Authority (Unobligated)  222500 (F) Unfunded FECA Liability  673000 (F) Imputed Costs[[1]](#footnote-1) (RC 25)  578000 (F) Imputed Financing Sources (RC 25)  310700 Unexpended Appropriations - Used - Accrued  570000 Expended Appropriations - Used - Accrued | 1,000  1,000  500  200  1,000 | 1,000  1,000  500  200  1,000 | E104  E104  B422  E402  B134 |

|  |  |  |  |
| --- | --- | --- | --- |
| 8b. The federal entity capitalizes accumulated benefit expenses to Inventory Work-in-Process by recording the reclassification of accumulated expenses to an asset account. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  152600 Inventory - Work-in-Process  661000 Cost Capitalization Offset | 1,700 | 1,700 | D514 |

|  |  |  |  |
| --- | --- | --- | --- |
| 8c. As a result of the accumulated benefit expenses incurred in manufacturing that were capitalized to Inventory in Transaction #8b, the federal entity records activity for current-year purchases of inventory and related property. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  880300 (N) Purchases of Inventory and Related Property  880100 (N) Offset for Purchases of Assets | 1,700 | 1,700 | G122 |

|  |  |  |  |
| --- | --- | --- | --- |
| 9a. The federal entity records the incurrence of actual factory overhead ($2,000 factory rent and factory utilities, and $3,000 indirect labor utilized) to manufacture product A. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  461000 Allotments - Realized Resources  490100 Delivered Orders – Obligations, Unpaid    **Proprietary Entry**  610000 (N) Operating Expenses/Program Costs  211000 (N) Accounts Payable  221000 (N) Accrued Funded Payroll and Leave  310700 Unexpended Appropriations - Used - Accrued  570000 Expended Appropriations - Used - Accrued | 5,000  5,000  5,000 | 5,000  2,000  3,000  5,000 | B406  B406  E102  B134 |

|  |  |  |  |
| --- | --- | --- | --- |
| 9b. The federal entity estimates overhead expense and applies it to Product A based on a budgeted overhead rate of $5.00/per hour. The direct labor hours for the accounting period were determined to be 900 hours. (900 hours x $5.00 direct labor rate = $4,500.) | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  152600 Inventory - Work-in-Process  660000 Applied Overhead | 4,500 | 4,500 | D514 |

|  |  |  |  |
| --- | --- | --- | --- |
| 9c. The federal entity identifies a difference between the estimated/applied and actual overhead amounts. The entity determines that estimated overhead was less than the actual, so it records an adjustment for underapplied overhead, which is deemed to be material.[[2]](#footnote-2) | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None    **Proprietary Entry**  660000 Applied Overhead  152600 Inventory - Work-in-Process[[3]](#footnote-3)  610000 (N) Operating Expenses/Program Costs | 4,500  500 | 5,000 | E114 |

|  |  |  |  |
| --- | --- | --- | --- |
| 9d. As a result of the factory overhead and accumulated indirect labor costs incurred in Transaction #9c, the federal entity records activity for current-year purchases of inventory and related property. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  880300 (N) Purchases of Inventory and Related Property  880100 (N) Offset for Purchases of Assets | 5,000 | 5,000 | G122 |

|  |  |  |  |
| --- | --- | --- | --- |
| 10. The federal entity records a disbursement for accrued salaries and benefits. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  490100 Delivered Orders – Obligations, Unpaid  490200 Delivered Orders – Obligations, Paid    **Proprietary Entry**  221000 (N) Accrued Funded Payroll and Leave  221300 (N) Employer Contributions and Payroll Taxes Payable  101000 (G) Fund Balance With Treasury  310710 Unexpended Appropriations - Used - Disbursed  570000 Expended Appropriations - Used – Accrued  310700 Unexpended Appropriations - Used – Accrued  570010 Expended Appropriations - Disbursed | 14,000  13,000  1,000  14,000  14,000 | 14,000  14,000  14,000  14,000 | B110  B110  B235 |

|  |  |  |  |
| --- | --- | --- | --- |
| 11. The federal entity records a disbursement for unpaid delivered orders previously accrued by the purchase of raw materials and factory overhead costs. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  490100 Delivered Orders – Obligations, Unpaid  490200 Delivered Orders – Obligations, Paid    **Proprietary Entry**  211000 (N) Accounts Payable  101000 (G) Fund Balance With Treasury  310710 Unexpended Appropriations - Used - Disbursed  570000 Expended Appropriations - Used – Accrued  310700 Unexpended Appropriations - Used – Accrued  570010 Expended Appropriations - Disbursed | 7,000  7,000  7,000  7,000 | 7,000  7,000  7,000  7,000 | B110  B110  B235 |

|  |  |  |  |
| --- | --- | --- | --- |
| 12. The federal entity reclassifies the fully manufactured Product A to Inventory - Finished Goods, as Product A is completed and ready to be sold. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  152700 Inventory - Finished Goods  152600 Inventory - Work-in-Process | 21,700 | 21,700 | D520 |

|  |  |  |  |
| --- | --- | --- | --- |
| **PRE-CLOSING TRIAL BALANCE** | | | |
| **Account** | **Description** | **Debit** | **Credit** |
| **Budgetary** | | | |
| 411900 | Other Appropriations Realized | 21,000 | - |
| 445000 | Unapportioned Authority | - | - |
| 461000 | Allotments – Realized Resources | - | - |
| 480100 | Undelivered Orders – Obligations, Unpaid | - | - |
| 490100 | Delivered Orders, Obligations Unpaid | - | - |
| 490200 | Delivered Orders – Obligations, Paid | - | 21,000 |
| **Total** | | **21,000** | **21,000** |
|  | |  |  |
| **Proprietary** | | | |
| 101000 (G) | Fund Balance With Treasury | - | - |
| 152700 | Inventory - Finished Goods | 21,700 | - |
| 222500 (F) | Unfunded FECA Liability | - | 500 |
| 310100 (G) | Unexpended Appropriations – Appropriations Received | - | 21,000 |
| 310710 (G) | Unexpended Appropriations – Used - Disbursed | 21,000 | - |
| 331000 (G) | Cumulative Results of Operations | - | - |
| 570010 (G) | Expended Appropriations – Used - Disbursed | - | 21,000 |
| 578000 (F) | Imputed Financing Sources | - | 200 |
| 610000 (N) | Operating Expenses | 10,000 | - |
| 640000 (N) | Benefits Expense | 1,000 | - |
| 661000 (N) | Cost Capitalization Offset | - | 11,700 |
| 673000 (F) | Imputed Cost | 200 | - |
| 685000 (F) | Employer Contributions to Employee Benefit Programs Not Requiring Current-Year Budget Authority (Unobligated) | 500 | - |
| 880100 (N) | Offset for Purchases of Assets | - | 21,700 |
| 880300 (N) | Purchases of Inventory and Related Property | 21,700 | - |
| **Total** |  | **76,100** | **76,100** |

**Closing Entries:**

|  |  |  |  |
| --- | --- | --- | --- |
| 13. The federal entity records the closing of expenses to cumulative results of operations. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None  **Proprietary Entry**  661000 Cost Capitalization Offset  578000 (F) Imputed Financing Sources  331000 Cumulative Results of Operations  610000 (N) Operating Expenses  640000 (N) Benefits Expense  673000 (F) Imputed Cost  685000 (F) Employer Contributions to Employee Benefit Programs Not Requiring  CY Budget Authority    570010 Expended Appropriations – Disbursed  331000 Cumulative Results of Operations  310000 Unexpended Appropriations – Cumulative  310710 Unexpended Appropriations - Used - Disbursed  310100 (G) Unexpended Appropriations – Appropriations Received  310000 Unexpended Appropriations - Cumulative | 11,700  200  21,000  21,000  21,000 | 200  10,000  1,000  200  500    21,000  21,000  21,000 | F336  F336  F342  F342 |

|  |  |  |  |
| --- | --- | --- | --- |
| 14. The federal entity records the closing of memorandum accounts for asset purchases. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  None    **Proprietary Entry**  880100 (N) Offset for Purchases of Assets  880300 (N) Purchases of Inventory and Related Property | 21,700 | 21,700 | F370 |

|  |  |  |  |
| --- | --- | --- | --- |
| 15. The federal entity records the closing of paid delivered orders to total actual resources. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  490200 Delivered Orders – Obligations, Paid  420100 Total Actual Resources, Collected    **Proprietary Entry**  None | 21,000 | 21,000 | F314 |

|  |  |  |  |
| --- | --- | --- | --- |
| 16. The federal entity records the consolidation of actual net-funded resources. | | | |
|  | **Debit** | **Credit** | **TC** |
| **Budgetary Entry**  420100 Total Actual Resources, Collected  411900 Other Appropriations Realized    **Proprietary Entry**  None | 21,000 | 21,000 | F302 |

|  |  |  |  |
| --- | --- | --- | --- |
| **POST-CLOSING TRIAL BALANCE** | | | |
| **Account** | **Description** | **Debit** | **Credit** |
| **Budgetary** | | | |
| 411900 | Other Appropriations Realized | - | - |
| 420100 | Total Actual Resources, Collected | - | - |
| **Total** | | **-** | **-** |
|  | |  |  |
| **Proprietary** | | | |
| 101000 (G) | Fund Balance With Treasury | - | - |
| 152700 | Inventory - Finished Goods | 21,700 | - |
| 222500 (F) | Unfunded FECA Liability | - | 500 |
| 331000 (G) | Cumulative Results of Operations | - | 21,200 |
| **Total** |  | **21,700** | **21,700** |

1. SGL accounts 673000 “Imputed Costs” and 578000 “Imputed Financing Sources” offset each other and should net to $0. These accounts do not have eliminating SGL accounts. [↑](#footnote-ref-1)
2. If the difference between the applied and the actual amount of overhead is immaterial, the underapplied/overapplied amount may be adjusted to Cost of Goods Sold (See Transaction Codes E110 & E112.) [↑](#footnote-ref-2)
3. If overhead is overapplied (applied overhead is budgeted more than the actual), the respective Inventory Asset accounts will be credited (See Transaction Code E116.) [↑](#footnote-ref-3)