



# **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**

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## **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.)

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

<b>Account Number</b>	<b>Account Title</b>
<b><u>Budgetary</u></b>	
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
<b><u>Proprietary</u></b>	
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
<b><u>Budgetary Entry</u></b> 411900 Other Appropriations Realized 445000 Unapportioned – Unexpired Authority	21,000	21,000	A104
<b><u>Proprietary Entry</u></b> 101000 (G) Fund Balance With Treasury 310100 (G) Unexpended Appropriations – Appropriations Received	21,000	21,000	A104
2. The federal entity records budget authority apportioned by the Office of Management and Budget and available for allotment.			
	Debit	Credit	TC
<b><u>Budgetary Entry</u></b> 445000 Unapportioned – Unexpired Authority 451000 Apportionments	21,000	21,000	A116
<b><u>Proprietary Entry</u></b> None			
3. The federal entity records the allotment of authority.			
	Debit	Credit	TC
<b><u>Budgetary Entry</u></b> 451000 Apportionments 461000 Allotments – Realized Resources	21,000	21,000	A120
<b><u>Proprietary Entry</u></b> None			

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4. The federal entity records current-year undelivered orders without an advance for the purchase of inventory raw materials.			
	Debit	Credit	TC
<b><u>Budgetary Entry</u></b> 461000 Allotments – Realized Resources 480100 Undelivered Orders – Obligations, Unpaid  <b><u>Proprietary Entry</u></b> 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
<b><u>Budgetary Entry</u></b> 480100 Undelivered Orders – Obligations, Unpaid 490100 Delivered Orders – Obligations, Unpaid  <b><u>Proprietary Entry</u></b> 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
<b><u>Budgetary Entry</u></b> None  <b><u>Proprietary Entry</u></b> 880300 (N) Purchases of Inventory and Related Property 880100 (N) Offset for Purchases of Assets	5,000	5,000	G122

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6. The federal entity records the raw materials used to produce Product A.			
	Debit	Credit	TC
<b><u>Budgetary Entry</u></b> None			
<b><u>Proprietary Entry</u></b> 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
<b><u>Budgetary Entry</u></b> 461000 Allotments - Realized Resources 490100 Delivered Orders – Obligations, Unpaid	10,000	10,000	E102
<b><u>Proprietary Entry</u></b> 610000 (N) Operating Expenses/Program Costs 221000 (N) Accrued Funded Payroll and Leave	10,000	10,000	E102
310700 Unexpended Appropriations - Used - Accrued 570000 Expended Appropriations - Used - Accrued	10,000	10,000	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
<b><u>Budgetary Entry</u></b> None			
<b><u>Proprietary Entry</u></b> 152600 Inventory - Work-in-Process 661000 Cost Capitalization Offset	10,000	10,000	D514



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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
<b><u>Budgetary Entry</u></b> None			
<b><u>Proprietary Entry</u></b> 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
<b><u>Budgetary Entry</u></b> 461000 Allotments - Realized Resources 490100 Delivered Orders – Obligations, Unpaid	1,000	1,000	E104
<b><u>Proprietary Entry</u></b> 640000 (N) Benefit Expense 221300 (N) Employer Contributions and Payroll Taxes Payable	1,000	1,000	E104
685000 (F) Employer Contributions to Employee Benefit Programs Not Requiring Current Year Budget Authority (Unobligated) 222500 (F) Unfunded FECA Liability	500	500	B422
673000 (F) Imputed Costs <sup>1</sup> (RC 25) 578000 (F) Imputed Financing Sources (RC 25)	200	200	E402
310700 Unexpended Appropriations - Used - Accrued 570000 Expended Appropriations - Used - Accrued	1,000	1,000	B134

<sup>1</sup> 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.

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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
<b><u>Budgetary Entry</u></b> None			
<b><u>Proprietary Entry</u></b> 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
<b><u>Budgetary Entry</u></b> None			
<b><u>Proprietary Entry</u></b> 880300 (N) Purchases of Inventory and Related Property 880100 (N) Offset for Purchases of Assets	1,700	1,700	G122

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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
<b><u>Budgetary Entry</u></b>			
461000 Allotments - Realized Resources	5,000		B406
490100 Delivered Orders – Obligations, Unpaid		5,000	
<b><u>Proprietary Entry</u></b>			
610000 (N) Operating Expenses/Program Costs	5,000		B406
211000 (N) Accounts Payable		2,000	E102
221000 (N) Accrued Funded Payroll and Leave		3,000	
310700 Unexpended Appropriations - Used - Accrued	5,000		B134
570000 Expended Appropriations - Used - Accrued		5,000	

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
<b><u>Budgetary Entry</u></b>			
None			
<b><u>Proprietary Entry</u></b>			
152600 Inventory - Work-in-Process	4,500		D514
660000 Applied Overhead		4,500	

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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.<sup>2</sup>

	Debit	Credit	TC
<b><u>Budgetary Entry</u></b> None			
<b><u>Proprietary Entry</u></b> 660000 Applied Overhead 152600 Inventory - Work-in-Process <sup>3</sup> 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
<b><u>Budgetary Entry</u></b> None			
<b><u>Proprietary Entry</u></b> 880300 (N) Purchases of Inventory and Related Property 880100 (N) Offset for Purchases of Assets	5,000	5,000	G122

<sup>2</sup> 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.)

<sup>3</sup> If overhead is overapplied (applied overhead is budgeted more than the actual), the respective Inventory Asset accounts will be credited (See Transaction Code E116.)

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10. The federal entity records a disbursement for accrued salaries and benefits.			
	Debit	Credit	TC
<b><u>Budgetary Entry</u></b> 490100 Delivered Orders – Obligations, Unpaid 490200 Delivered Orders – Obligations, Paid	14,000	14,000	B110
<b><u>Proprietary Entry</u></b> 221000 (N) Accrued Funded Payroll and Leave 221300 (N) Employer Contributions and Payroll Taxes Payable 101000 (G) Fund Balance With Treasury	13,000 1,000	14,000	B110
310710 Unexpended Appropriations - Used - Disbursed 570000 Expended Appropriations - Used – Accrued 310700 Unexpended Appropriations - Used – Accrued 570010 Expended Appropriations - Disbursed	14,000 14,000	14,000 14,000	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
<b><u>Budgetary Entry</u></b> 490100 Delivered Orders – Obligations, Unpaid 490200 Delivered Orders – Obligations, Paid	7,000	7,000	B110
<b><u>Proprietary Entry</u></b> 211000 (N) Accounts Payable 101000 (G) Fund Balance With Treasury	7,000	7,000	B110
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	B235

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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
<b><u>Budgetary Entry</u></b> None			
<b><u>Proprietary Entry</u></b> 152700 Inventory - Finished Goods 152600 Inventory - Work-in-Process	21,700	21,700	D520

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<b>PRE-CLOSING TRIAL BALANCE</b>			
<b>Account</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
<b>Budgetary</b>			
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
<b>Total</b>		<b>21,000</b>	<b>21,000</b>
<b>Proprietary</b>			
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	-
<b>Total</b>		<b>76,100</b>	<b>76,100</b>

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**Closing Entries:**

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

  

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



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

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

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<b>POST-CLOSING TRIAL BALANCE</b>			
<b>Account</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
<b>Budgetary</b>			
411900	Other Appropriations Realized	-	-
420100	Total Actual Resources, Collected	-	-
<b>Total</b>		-	-
<b>Proprietary</b>			
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
<b>Total</b>		<b>21,700</b>	<b>21,700</b>