

THE FMS TRIAL BALANCE

BY

MR. JOHN J. WILLIAMS

Instructor

Defense Institute of Security Assistance Management

INTRODUCTION

The recently published Foreign Military Sales Financial Management Manual (DoD 7290.3-M) sets forth a requirement for a case level trial balance to be prepared by the Security Assistance Accounting Center (SAAC) and to be analyzed periodically by case managers. This requirement was further articulated by OSD(C) during the 1981 FMS Financial Management Workshop held at DISAM in September 1981. The intent is that FMS accounting records be in balance and that errors be detected early. From time to time the equality of the debits and credits in the ledger must be verified. Standard commercial practice is to perform this verification at the end of every accounting period. This verification is also performed at the end of every fiscal year by DoD accounting activities as part of the year end closeout.

PURPOSE OF TRIAL BALANCE

The FMS trial balance is basically no different than any other trial balance. The commercial trial balance includes asset, liability, expense, revenue, and equity accounts. A Governmental trial balance will not include asset or equity accounts. The commercial trial balance is normally performed as one of the accounting steps leading to the preparation of the financial statements and the determination of profit or loss. Balances in asset and equity accounts are carried over to the following year and expense and revenue accounts are closed to the equity accounts. In Governmental accounting, although periodic budget/performance statements are issued, profit/loss is not determined. Balances in expiring appropriations are returned to the treasury. Unexpired appropriation balances are available for use in the new fiscal year. The focus of analysis in Government accounting is on revenues, expenses and accruals - often in the Governmental "language" of authorizations/allotments, reimbursable orders, commitments, obligations, and expenditures/disbursements. One objective of the FMS trial balance is to assure that local (implementing agency) records are reconciled to central (SAAC) FMS accounting records.

There are six reconciliations to be accomplished by case managers as a minimum on a case-by-case basis:

1. Ensure customer orders received amounts agree with DD Form 1513, 1513-1 and 1513-2 case values.

2. Ensure the sum of the amounts received from customers and amounts due from customers agree with the payment schedule or additional amounts required by quarterly RCS DD-Comp (Q) 1519 reports.

3. Ensure accounts payable to U.S. agencies is reconcilable to accounts receivable records maintained by those agencies. (Does your earned reimbursements agree with SAAC's records of amounts owed to your appropriations?)

4. Ensure programs authorized and released to implementing agencies by SAAC agrees with budget authority received by the case manager for the case.

5. Ensure work-in-process amounts recorded by SAAC agree with case management records.

6. Ensure that case closure actions have been or will be initiated when accrued expenditures representing delivery of items and or services on a given case are within \$100 of the case value (Program Authorized).

ANALYSIS OF TRIAL BALANCE

The analysis of the trial balance involves reconciliation of records maintained by the SAAC, program offices, budget functions, accounting functions, procurement functions, and logistics functions. How is one individual, the case manager, or even one command/activity going to accomplish the reconciliations on accounting records which are so widely dispersed? The answer is that the case manager, in most instances, will have to contact the organizations in the agency with responsibility for the given records. In some instances, the case manager may have a complete record within his or her office. In other instances, the case manager may have to contact a budget office or an accounting or disbursing office. As a minimum, the case manager must know which organizations and which individuals have records pertaining to the case for which he or she has responsibility.

In instances where the case is a large program involving a major procurement, the case manager, who may have little or no accounting expertise, should seek a qualified individual in the organization to appoint as the project officer to accomplish the reconciliation. In smaller programs conducted in organizations with very few personnel, outside assistance may be required to accomplish the reconciliation.

Complicating a Governmental trial balance is the status of reimbursements (work done for others and by others). The FMS trial balance at the detail level may also be complicated by the differences in accounting procedures practiced by the individual DoD departments conducting FMS. A trial balance prepared by SAAC under current accounting practice should accommodate each of the services. Since the intent is to prepare a trial balance on a case-by-case basis, it is very possible to involve more than one service and as a result more

than one system of accounting in the trial balance. However, at the aggregate level (SAAC), completion of the trial balance involves a summing of the case level ledger accounts maintained at SAAC and making appropriate adjustments thereto. Once accomplished at the SAAC level the intent is that subordinate records be reconciled to the SAAC level trial balance.

Since the trial balance is a summary of account balances of the Trust Funds general ledger, it is reasonable to expect that debits equal credits in those records. However, since the work is performed within the implementing activities and within civilian contractor plants, it becomes difficult if not impossible to determine the actual value of work-in-process. Commercial practice calls for stopping work and making a determination of the value of the three inventories - raw materials, work-in-process and finished goods. This is not practical in FMS. Therefore, with these difficulties in mind, why has a periodic review of a trial balance for each case been mandated? The answer is simply that it makes good business sense to keep the records in balance as each case is performed. As pointed out in Paragraph 30001 of DoD 7290.3-M, it is necessary to assure proper implementation of the DoD fiduciary responsibilities resulting from acceptance of an FMS case.

FINALE

While the trial balance cannot assure that all accounting records are correct, it can be another important management tool for the case manager. It has been standard practice in both the commercial and Government worlds and should be used in the conduct of every FMS case.

For a better understanding of the FMS trial balance shown in Figure 1 on the next page, the reader should refer to Chapter 3 of DoD 7290.3-M and the illustrations of the trust fund accounts contained in Appendix C. For those who are unfamiliar with the terms debit, credit, general ledger or trial balance, any good accounting text may be consulted.

ABOUT THE AUTHOR

Mr. John J. Williams joined the DISAM faculty in January, 1981. A retired Air Force Lieutenant Colonel, he has had extensive experience in cost analysis, financial management, and data processing. John holds an MBA from the University of Missouri, and has also worked in industry as an industrial engineer.

Case Designator _____
 Trial Balance
 September 30, 1980

Acct No.	Account Title	DR	CR
0500	Beneficial Interest in Cash Held in Commercial Banks	100,000	
1010	Cash Collections - Unreserved	330,000	
1011	Cash Collections - Reserved - EA	100,000	
1012	Cash Collections - Reserved - Contract Holdbacks	5,000	
1013	Cash Collections - Reserved - Potential Contract Termination	45,000	
1020	Cash Disbursements - Unreserved, Distributed		243,000
1021	Cash Disbursements Pursuant to EA		70,000
1022	Cash Disbursements for Contract Holdbacks		0
1023	Cash Disbursements for Contract Termination		0
1110	Accounts Receivable from FMS Customers	400,000	
1120	Disputed Accounts Receivable from FMS Customers	50,000	
1130	Accounts Receivable from U.S. Government Agencies	0	
1210	Advances to U.S. Government Agencies	0	
1220	Advances to Contractors	0	
2010	Accounts Payable - Public		50,000
2020	Accounts Payable - U.S. Government agencies		100,000
2030	Accounts Payable - FMS Customers		0
2310	Advances from FMS Customers (Non-Surcharge)		135,175
2320	Advances from FMS Customers (Surcharges)		1,325
2400	Anticipated FMS Cash Requirements		450,000
4010	Customer Orders Received	5,000,000	
4021	Uncommitted Acceptances Other Than Surcharges		2,013,107
4022	Uncommitted Acceptances - Surcharges		135,893
4031	Budget Authority Realized - Distributed		2,850,000
4041	Programs Authorized - IAs - Distributed - Released to IAs	2,850,000	
4042	Program Authorized - Undistributed	13,500	
4051	Uncommitted/Unobligated Program Authorization - Distributed		350,000
4061	Uncommitted Allotments - Distributed		100,000
4071	Outstanding Commitments - Distributed		150,000
4081	Undelivered Orders/Outstanding Obligations - Distributed		1,800,000
4091	Accrued Expenditures - Distributed - IA Work in Process		250,000
4092	Accrued Expenditures- Distributed - IA Delivered to Customers		200,000
4094	Accrued Expenditures - Distributed - SAAC Work in Process		7,500
4095	Accrued Expenditures - Distributed - SAAC Deliveries		6,000
	Totals	\$8,530,000	\$8,530,000

FIG. 1