# Issue

# Treatment of credit card transactions varies among the Services with some organizations recording transactions as cash and other organizations recording transactions as a type of receivable.

# Research

Below outlines the current treatment on how each service complies and what the regulations, accounting guidance and industry standards are for this area.

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| Credit Card Processing Treatment and Guidelines | Air Force | Army | Navy | Marines |
| Classification of credit card receivables as receivable or cash | Receivable | Both | Cash | Receivable |
| DoDI 1015.15, 6.9 Receivables: NAFIs may sell merchandise or services to authorized customers on credit through NAFI credit systems, merchants’ agreements with credit card processors, and/or negotiated universal commercial credit contracts. | Follows Alternative Guidance | Follows Alternative Guidance | Follows  Alternative Guidance | Follows Alternative Guidance |
| FMR Volume 13, Chapter 3. 030303 Receivables: Receivables are amounts owed to the NAFIs for sales of merchandise, services, or dues. Receivables may result from amounts owed by employees, members, customers, and organizations for dues, fees, charges, rentals, credit sales, or travel advances. Receivable records are maintained to ensure transactions accurately identify each debt and its respective debtor. Receivable subsidiary records are reconciled on a monthly basis to the general ledger control accounts. Refer to the NAFSGL for a complete listing of receivable accounts and their definitions. | Follows Alternative Guidance | Follows Alternative Guidance | Follows  Alternative Guidance | Follows Alternative Guidance |
| GAAP: ASC 310.10.55.14  GAAP identifies credit cards as financing receivables. Financing arrangements are defined in ASU 2010-20, paragraph 2.: A financing arrangement that has both of the following characteristics: It represents a contractual right to receive money in either of the following ways:  1. On demand  2. On fixed or determinable dates.  b. It is recognized as an asset in the entity’s statement of financial position.  GAAP 305.10.20 defines cash equivalents in FAS 095, paragraph 8-9, which states:  Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:  a. Readily convertible to known amounts of cash  b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates  Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations). | N/A | N/A | N/A | N/A |
| FASAB Handbook version 16: Silent on treatment | N/A | N/A | N/A | N/A |
| Industry Practice: Industry practice is to treat credit card processing transactions as a “Cash Equivalent Receivable”. Information obtained from a $1.2 billion lodging and entertainment industry company’s controller. | Follows Alternative Guidance | Follows Alternative Guidance | Follows  Alternative Guidance | Follows Alternative Guidance |

# Discussion

All DoD guidance and regulations indicate that sales of merchandise or services to an authorized customer using a credit card should be recorded as a receivable. Based on discussions with each Service, it is noted that the processing time for MasterCard and Visa transactions occur within 24 hours and are treated as cash, while transactions using American Express and Discover Card can take 2-4 business days for reimbursement and deposit into MWR bank accounts. Further discussions with Service members, particularly Navy, demonstrated that credit receivables over a four day period amount to less than 1% of all receivables.

GAAP does not explicitly state credit card receivables must be classified as accounts receivable. However, it is noteworthy that GAAP’s definition of financing receivables includes credit card receivables. The definition of cash equivalents does not list credit card receivables as a common example. This indicates that FASB prefers classification of credit card receivables as accounts receivables rather than cash, though the case can be made that credit card receivables which become cash in less than 24 hours may meet the cash equivalent definitions of “readily convertible to known amounts of cash” and “so near maturity that they present insignificant risks in changes in value.”

Additionally, the Certificates of Deposit paper concluded that certificates of deposit with a maturity date of 3 months or less should be considered cash equivalents

# Recommendation

Given the regularity with which the credit card receivable is paid, the short period of time in which the receivable would be outstanding, and the insignificant quantities involved when compared to the reporting effort, we recommend that all sales of merchandise or services using credit cards be recorded as cash at the time of sale. Additionally, the risk of failure to pay lies with the credit card company and not with the Services, and therefore we believe cash treatment is appropriate as a receivable implies the risk of not receiving payment. .

This recommendation requires the removal of the Merchant Receivable Account GLAC 115 in the NAFSGL.

NAFSGL definition for Merchant Card Receivables noted below:

**118. Merchant Card Receivables:** Amounts owed by banking companies for sales of goods, services, and/or special functions from credit companies. This account will be used for all credit card sales regardless of the credit card company involved.

Additionally, Volume 13, Chapter 3, para 030303 Receivables. in the FMR may require revision to either remove or insert an exception to credit card receivables.

# Service Concurrence

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| Service | Concurrence | Reason for Non-concurrence |
| Air Force | Concurrence in Oct 2014.**Re-concurred 9/20/2018.** |  |
| Army | Concurrence in Oct 2014. **Re-concurred 9/20/2018.** |  |
| Marines | Concurrence in Oct 2014. **Re-concurred 9/20/2018.** |  |
| Navy | Concurrence in Oct 2014. **Re-concurred 9/20/2018.** |  |

# USD(P&R)/MC&FP Disposition

Remove GLAC 118 from NAFSGL

**DFAS Disposition**

Revise DoD FMR Volume 13, Chapter 3, para 030303

# Forward to DoDIG?

No DoDIG equities.