

**VOLUME 4, CHAPTER 4: “INVENTORY AND RELATED PROPERTY”****SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [November 2017](#) has been archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Policy Memo	The Deputy Chief Financial Officer (DCFO) policy memorandum “Change in the Accounting Treatment for Long Range Ballistic Missiles (FPM24-02),” dated May 3, 2024, was incorporated into this chapter and canceled.	Cancellation
Policy Memo	The DCFO policy memorandum “Financial Reporting Guidance for Stockpile Materials (FPM 20-07),” dated October 22, 2020, was incorporated into this chapter and canceled.	Cancellation
Policy Memo	The DCFO policy memorandum “Accounting Treatment of Lateral Redistribution Activities (FPM 20-05),” dated June 29, 2020, was incorporated into this chapter and canceled.	Cancellation
1.1	Added overview. Moved General Ledger Accounting to this section because it applies to all items in this chapter.	Addition
2.0	Created “Valuation Concepts” section. Moved Historical Cost, Excess Obsolete and Unserviceable, Held for Repair, and Alternate Methods of Valuation to this section.	Revision
3.0	Revised Inventory section. Incorporated War Materiel Reserve and Work-In-Process into the Inventory section. Both are types of inventory. Revised the War Reserve Materiel section.	Revision
4.0	Revised the Supply Management Operations / Activities section to provide additional clarity.	Revision
5.0	Revised the Operating Materials and Supplies section to provide additional clarity.	Revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
5.4.6 (previous)	Removed Presidential Directed Drawdown section. This section will be incorporated into a new chapter within the Department of Defense Financial Management Regulation, Volume 15, Chapter 9, updated based on the contents of DCFO policy memoranda “Clarification of Presidential Drawdown Authority Valuation of Defense Articles,” dated March 31, 2023, and “Valuation and Reconciliation of Defense Articles Provided Under the Presidential Drawdown Authority (FPM24-11),” dated June 18, 2024.	Removal
6.0	Revised the Stockpile Materials section to provide additional clarity.	Revision

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## CHAPTER 4

### INVENTORY AND RELATED PROPERTY

#### 1.0 GENERAL

##### \*1.1 Overview

1.1.1. This chapter provides Department of Defense (DoD) accounting guidance for inventory, supply management activities, operating materials and supplies (OM&S), and stockpile materials. The DoD Components must record Inventory, OM&S and Stockpile Material transactions to general ledger accounts in the financial statements required by the Department of Treasury (Treasury) and other reporting requirements mandated by Congress and the Office of Management and Budget. The U.S. Standard General Ledger (USSGL) Transaction Library outlines detailed posting transactions, and the DoD Standard Chart of Accounts provides detailed account descriptions.

1.1.2. DoD Components may want to create subaccounts within their inventory or general ledger systems to track work-in-process at the detailed level; however, the internal subaccounts must summarize to one USSGL/DoD account.

1.1.3. Management must retain adequate supporting source documentation for entries such as contracts, invoices, receiving reports, payment vouchers, material-return documents, transfer documents, inventory documents, issue and shipping documents, sales records, and documented gains and losses.

1.1.4. Annex 2 provides the relationship between USSGL/DoD accounts and logistics supply condition codes and stratifications.

1.1.5. Tangible items with a useful life of two or more years that are not intended for physical consumption or sale in the ordinary course of operations and are intended to be used or are available for use (and reuse throughout their useful life) are general equipment. General equipment is discussed in Chapter 25, “General Equipment.”

#### 1.2 Purpose

1.2.1. This chapter establishes the accounting policy and requirements for financial control over DoD inventory, OM&S, and stockpile materials. The Standard Financial Information Structure (SFIS) website hosts the DoD Standard Reporting Chart of Accounts, which provides account descriptions and posting guidance for the general ledger accounts referenced in this chapter. The DoD Standard Chart of Accounts was developed from the USSGL, published by the Treasury. Refer to Volume 6B, Chapter 10, “Notes to the Financial Statements” for detailed requirements on preparing and presenting notes to the financial statements for Inventory and Related Property.

1.2.2. With the exception of provisions related to the National Stockpile Fund (NSF), all of the provisions in this chapter apply to the Working Capital Fund (WCF). Some provisions in this

chapter apply to the [General Fund \(GF\)](#) as illustrated in Table 4-1 or as otherwise separately referenced within the chapter.

Table 4-1. Applicability of Chapter Sections/Annexes

Section/Annex	Title	GF	WCF	NSF
1.0	General	X	X	X
<a href="#">2.0</a>	<a href="#">Valuation Concepts</a>	<a href="#">X</a>	<a href="#">X</a>	<a href="#">X</a>
<a href="#">3.0</a>	Inventory	-	X	-
<a href="#">4.0</a>	Supply Management Activities	-	X	-
<a href="#">5.0</a>	OM&S	X	X	-
<a href="#">6.0</a>	Stockpile Materials	-	-	X
Annex 1	Moving Average Cost (MAC) Example	X	X	-
Annex 2	Relationship of General Ledger Accounts to Logistic Supply Condition Codes and Stratifications	X	X	-
X = Section is Applicable to GF, WCF, and (or) NSF.				-

### 1.3 Authoritative Guidance

The GF, WCF, or NSF applicability in the list of authoritative guidance is specific to this chapter only. The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.3.1. Title 10, United States Code (U.S.C), [section 127](#), “Emergency and extraordinary expenses” – Applicable to GF and WCF.

1.3.2. [10 U.S.C. § 2208](#), “Working-capital funds”, – Applicable to WCF only.

1.3.3. [10 U.S.C. § 2551](#), “Equipment and barracks: national veterans’ organizations” – Applicable to WCF only.

1.3.4. [10 U.S.C. § 2552](#), “Equipment for instruction and practice: American National Red Cross” – Applicable to WCF only.

1.3.5. [10 U.S.C. § 2553](#), “Equipment and services: Presidential inaugural ceremonies” – Applicable to WCF only.

1.3.6. [10 U.S.C. § 2554](#), “Equipment and other services: Boy Scout Jamborees” – Applicable to WCF only.

1.3.7. [10 U.S.C. § 2556](#), “Shelter for homeless; incidental services”, – Applicable to WCF only.

1.3.8. [10 U.S.C. § 2557](#), “Excess nonlethal supplies, availability for humanitarian relief, domestic emergency assistance, and homeless veterans assistance” – Applicable to WCF only.

1.3.9. [10 U.S.C. § 2667](#), “Leases: non-excess property of military departments and Defense Agencies” – Applicable to WCF only.

1.3.10. [22 U.S.C. § 2318](#), “Special authority”, – Applicable to WCF only.

1.3.11. [22 U.S.C. § 2761](#), “Sales from stocks”, – Applicable to WCF only.

1.3.12. [40 U.S.C. § 503](#), “Exchange or sale of similar items” – Applicable to WCF only.

1.3.13. [50 U.S.C. Subchapter III](#), “Acquisition and development of Strategic Raw Materials” – Applicable to NSF only.

1.3.14. Federal Acquisition Regulation [Part 45](#) “Government Property” – Applicable to GF, WCF, and NSF.

1.3.15. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ([SFFAS](#)) [3](#), “Accounting for Inventory and Related Property” – Applicable to GF, WCF, and NSF.

1.3.16. FASAB [SFFAS 21](#), “Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources” – Applicable to GF, WCF, and NSF.

1.3.17. FASAB [SFFAS 48](#), “Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials” – Applicable to GF, WCF, and NSF.

1.3.18. FASAB Interpretation of Federal Financial Accounting Standards [Interpretation 7](#), “Items Held for Remanufacture” – Applicable to GF and WCF.

1.3.19. FASAB Statement of Federal Financial Accounting Concepts ([SFFAC](#)) [1](#), “Objectives of Federal Financial Reporting” – Applicable to GF, WCF, and NSF.

1.3.20. Federal Account Symbols and Titles ([FAST](#)) [Book](#) – Applicable to GF, WCF, and NSF.

1.3.21. DoD Directive ([DoDD](#)) [3025.18](#), “Defense Support of Civil Authorities (DSCA)” – Applicable to WCF only.

1.3.22. [DoDD 5100.46](#), “Foreign Disaster Relief (FDR)” – Applicable to WCF only.

1.3.23. [DoDD 5105.65](#), “Defense Security Cooperation Agency (DSCA)” – Applicable to both GF and WCF

1.3.24. DoD Instruction ([DoDI 1338.18](#)), “Armed Forces Clothing Monetary Allowance Procedures” – Applicable to WCF only.

1.3.25. [DoDI 3025.21](#), “Defense Support of Civilian Law Enforcement Agencies” – Applicable to WCF only.

1.3.26. [DoDI 3110.06](#), “War Reserve Materiel (WRM) Policy” – Applicable to WCF only.

1.3.27. [DoDI 4140.63](#), “Management of DoD Clothing and Textiles (Class II)” – Applicable to WCF only.

1.3.28. DoD Manual ([DoDM 4140.01, Volume 6](#)), “DoD Supply Chain Materiel Management Procedures: Materiel Returns, Retention, and Disposition” – Applicable to GF and WCF.

1.3.29. [DoDM 4140.26, Volume 4](#), “DoD Integrated Material Management for Consumable Items: Supply Support Requests (SSRs)” – Applicable to GF and WCF.

1.3.30. [DoDM 4160.21](#), “Defense Materiel Disposition Manual” – Applicable to GF and WCF.

## \*2.0 INVENTORY AND RELATED PROPERTY VALUATION CONCEPTS

### 2.1 Historical Cost and Cost of Goods Sold or Consumed

2.1.1. Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring items to their current condition and location and excludes abnormal costs. Abnormal costs refer to expenses that significantly exceed the standard cost to purchase and place a new item with similar features and useful life into service (e.g., excessive handling, expedited delivery, and costs associated with rework due to defects or errors). Expense abnormal costs in the period incurred. Donated, repaired, and remanufactured items are valued at their fair value at the time the item enters serviceable status. Recognize differences between fair value and any amounts surrendered in exchange for the item as a gain or loss

2.1.2. To determine ending balances and the cost of goods sold or consumed, apply the first-in, first-out (FIFO), Weighted Average Cost (WAC), or Moving Average Cost (MAC) flow assumptions. In addition, any other valuation method compliant with Generally Accepted Accounting Principles (GAAP) may be used if the results reasonably approximate those of one of the above historical cost methods.

2.1.2.1. FIFO assumes the oldest items (first-in) purchased or produced are the first items consumed (first-out).

2.1.2.2. WAC assumes an average cost of inventory items for multiple purchases at different prices by dividing the total cost by the number of items to provide an average weighted cost per item.



2.1.2.3. MAC assumes a revised value (weighted average) for inventory each time an item or items are placed into inventory. The MAC calculation requires dividing the cost of total units available at the time (inventory plus current purchases placed into inventory or remanufacturing costs incurred for items in inventory by the quantity of units available at that time). Annex 2 provides an example of the MAC cost assumption.

## 2.2 Net Realizable Value (NRV)

2.2.1. NRV represents the estimated amount you can recover from selling or disposing of an item after accounting for these costs.

2.2.2. DoD Components must write down the value of Excess, Obsolete, and Unserviceable (EOU) Inventory or OM&S to their expected NRV. Excess stock exceeds the demand or requirements that operations normally expect. Changes in technology, laws, customs, or operations render obsolete stock unusable. Damaged stock becomes unserviceable, and disposing of it is more economical than repairing it.

2.2.3. DoD Components must write down the value of Stockpile materials that suffer permanent decline, damage, or decay to their NRV.

2.2.4. DoD Components recognize the difference between the carrying amount of the item and its expected NRV as a loss (or gain), create a corresponding allowance for a WCF, and report or disclose it separately.

2.2.5. To estimate the NRV of the item, consider prior disposal proceeds for comparable items, obtain buyer quotes, or employ other reasonable methods for disposing of the item through a Qualified Recycling Program (QRP) or other means, rather than transferring it to Defense Logistics Agency (DLA) Disposition Services, if applicable.

2.2.5.1. Except for an item disposed of through a QRP, generally, the DoD Component will not receive any proceeds from the disposal of an item transferred to DLA Disposition Services, resulting in an NRV of zero.

2.2.5.2. See Defense Logistics Manual 4000.25, Defense Logistics Management Standards (**DLMS**) Volume 2 “Supply Standards and Procedures”, Chapter 16, “Disposition Services” for details on how to dispose of EOU using DLA Disposition services.

2.2.6. In all instances, prepare and retain documentation supporting the NRV calculations. Include the item in the respective line item on the face of the financial statements with separate disclosure in footnotes or shown within a separate line item on the face of the financial statements.

## 2.3 Held for Repair

2.3.1. Inventory or OM&S Held for Repair may be treated in one of two ways:

2.3.1.1. The Allowance Method. Components value items held for repair at the same amount as serviceable items. However, they establish a contra-asset allowance account for the estimated cost of repairs. As components make repairs, they charge the cost against the allowance account. Components must adjust the allowance account, at least annually, to reflect the current estimated cost of repairs.

2.3.1.2. The Direct Method. Components value items held for repair at the same amount as a serviceable item minus the estimated repair cost. As Components make repairs, they capitalize the repair costs up to the value of a serviceable item. Agencies debit or credit the repair expense account for any difference between the initial estimated repair cost and the actual repair cost.

2.3.2. Under both methods, management retains supporting documentation for the estimated repair costs initially recorded in accordance with Volume 1, Chapter 9, “Financial Records Retention.”

## 2.4 Alternative Valuation Methodologies for Establishing Opening Balances

2.4.1. The alternative valuation method for establishing opening balances for inventory, OM&S, and stockpile materials using the methodology described in the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) 48 “Opening Balances for Inventory, Operating Material & Supplies, and Stockpile Materials” and Technical Release 18 “Implementation Guidance for Establishing Opening Balances” is available only once per line item to each reporting entity. The valuation methodologies outlined in this section must be used only to establish and document opening balances. Therefore, prior to establishing opening balances DoD Component must validate that they are prepared to account for and comply with the recognition, measurement, presentation, and disclosure requirements identified in this chapter and FASAB pronouncements, including SFFAS 3, “Accounting for Inventory and Related Property”.

2.4.2. When a component cannot apply the initial amount measurement approach (historical cost) outlined in SFFAS 3, it is acceptable to use deemed cost as a substitute for initial amounts (historical cost) to establish the opening balances for inventory, OM&S, and stockpile materials. Deemed cost is an acceptable valuation method for the reporting period when the reporting entity makes an unreserved assertion that its financial statements, or one or more-line items within inventory, OM&S, and stockpile materials, is presently fairly in accordance with GAAP. An unreserved assertion is an unconditional statement. Deemed cost may be based on any one or a combination of the following allowable valuation methods:

2.4.2.1. Standard (Selling) Price. Standard price is the latest known representative acquisition cost plus authorized cost recovery rate for each item of inventory and related property. This price is established annually and is often referred to as selling price. Selling price and fair value may or may not be identical due to the intragovernmental nature of some sales.

2.4.2.2. Fair Value. Fair value is the amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

2.4.2.3. Latest Acquisition Cost (LAC). LAC assumes the latest acquisition inventory cost for all existing stock of the same product, regardless of older purchase prices. When applying the LAC valuation, management periodically revalues the inventory and establishes an allowance account for the unrealized holding gains and losses associated with ending inventory.

2.4.2.4. Replacement Cost. A replacement cost is an amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date, including the amount that the entity would receive from disposing of the asset at the end of its useful life.

2.4.2.5. Estimated Historical Cost (initial amounts). A reasonable estimate of historical cost may be based on cost of the same or similar assets at the time of acquisition, current cost of the same or similar assets discounted for inflation since the time of acquisition or other reasonable estimation methods, including methods based on information such as, but not limited to, budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended.

2.4.2.6. Actual Historical Cost (initial amounts). Actual Historical Cost (initial amounts) refers to the original cost of an asset or liability, typically recorded at the point of acquisition or initial recognition. It represents the price paid or other consideration given for the asset or liability at the time it was initially recognized in the financial records.

2.4.3. All methods used by a component must be identified and reported in its financial statement notes. In addition, components must perform the necessary sampling techniques to collect and retain documentation to support the valuation method while considering audit findings or other conclusions impacting the valuation method.

2.4.4. Any gains or losses in inventory, OM&S, and stockpile materials allowance accounts must be adjusted to zero when establishing an opening balance using deemed cost.

2.4.5. Once established, opening balances are to be considered consistent with SFFAS 3 requirements. Opening balances should be included in ongoing inventory balances and valuation calculations (e.g., the opening balance would be one component of a Moving Average Cost (MAC) calculation, along with any newly purchased inventory). No distinction of amounts arising from the opening balances is required.

2.4.6. Record the difference between the prior value adjusted for any related allowance account value and deemed cost as a prior period adjustment due to a change in accounting principles in accordance with the reporting requirements under paragraph 13 of FASAB SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources".

2.4.6.1. Report the cumulative effect of the change on prior periods as a “change in accounting principle”.

2.4.6.2. Make the adjustment to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made.

2.4.7. Disclose the nature of the changes in accounting principle and its effect on relevant balances in the current period. Describe the method used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items are presented fairly in accordance with GAAP. Financial statements of subsequent periods need not repeat this disclosure unless the statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of amount of deemed cost of inventory, OM&S, or stockpile materials included in the opening balance is required.

### \*3.0 INVENTORY - (Applicable to WCF Only)

Inventory is tangible personal property held for sale, currently being produced for sale, held to be consumed in the production of goods for sale, or held in the provisions of services for a fee.

#### 3.1 Inventory Types

3.1.1. Inventory Held for Sale. Supplies, and other items intended for sale to other DoD components, the Armed Forces, or other organizations.

3.1.2. Inventory Held In Reserve for Future Sale. Maintained because they are not readily available in the market or because there is a remote chance that they will eventually be needed.

3.1.3. EOU Inventory. Exceeds the expected demand in the normal course of operations because the amount on hand surpasses what can be sold in the foreseeable future and does not meet management’s criteria for holding in reserve for future sale. Changes in technology, laws, customs, or operations render obsolete inventory no longer needed. Damaged inventory becomes unserviceable, and it is more economical to dispose of it than to repair it.

3.1.4. Inventory Held for Repair. Purchased and held in stock for repair, including reparable components, subsystems, and assemblies, consumable repair parts, bulk items and material, subsistence, and expendable end items, such as clothing and other personal gear.

3.1.5. Inventory in Transit. In-transit from commercial and Government suppliers to the financial reporting entity; material that has not been received and accepted at the final designated destination but for which title has passed; or material in-transit between storage locations. For inventory in transit between different storage locations or from a supplier to the final recipient, the title of ownership for inventory passes to the buyer at the first location even though the goods are still physically moving. Inventory in-transit does not include material temporarily in use or on loan with contractors or schools.

### 3.2 Recognition of Inventory

DoD Components recognize inventory when they receive title or take delivery of the goods. The terms of the contract or agreement determine when the purchasing entity receives title. Under title transfer at origin, commonly associated with free-on-board (shipping point) terms, the entity receives title when the inventory ships. Under title transfer at destination, commonly associated with free-on-board (destination) terms, the entity receives title when the goods are delivered. Constructive delivery occurs when the contract terms regarding shipping and delivery indicate that the recipient has received title, even if the physical items have not yet been delivered.

### 3.3 Valuation of Inventory

3.3.1. DoD Components value inventory at historical cost or use a method that reasonably approximates historical cost. They must adjust valuations for EOU or expected repair. Additionally, DoD Components may use alternative valuation methodologies to establish beginning balances.

3.3.2. The specific identification method can be used for serially managed items, such as grocery and household product inventories. Specific identification directly links identifiable items with their associated costs.

### 3.4 Reconciliations

Activities must reconcile the inventory line item(s) in their general ledger with their detailed inventory accountability records at least quarterly. This reconciliation must include the multiple modules within Enterprise Resource Management systems when used (e.g., Warehouse Management module to Inventory Management module to Financial Management module). Reconciliations should also include inventory owned by the entity, not in the entity's custody, including inventory managed by contractors or DLA. Activities must research and resolve discrepancies in a timely manner and implement related system and business process controls to reduce future errors.

### 3.5 Adjustments for Physical Counts of Inventory

Activities must take physical counts of inventories at least annually (generally as of the fiscal year-end) in accordance with [DLMS Volume 2 "Supply Standards and Procedures."](#) Note: In accordance with the Financial Statement Audit Completion Checklist contained in Section 1003 of the U.S. GAO [FAM Volume 2](#), auditors are likely to attend and observe physical counts of inventories that have been deemed as material. Activities must adjust the general ledger for differences between the general ledger balances and the physical count. Supporting audit documentation must be developed and maintained to support adjustments to inventory physical count. Documentation for inventory held by contractors, including contractor receipt, shipment, loss and disposal of assets is available in the Procurement Integrated Enterprise Environment Government Furnished Property (GFP) Module.

### 3.6 Incoming Shipment Gains and Losses

Invoices occasionally list fewer or more items ordered than the actual count of inventory items received. If it is not economical to resolve the difference, [record a loss or gain](#).

### 3.7 War Reserve Materiel (WRM)

3.7.1. WRM [are](#) mission essential secondary items, principal end items, and munitions sufficient to attain and sustain operational objectives in scenarios authorized in the Secretary of Defense (SecDef) [guidance for Employment of the Force, necessary to equip and support the increase in military requirements forecasts in anticipation of a war, in addition to the peacetime assets normally available on any given date](#). War reserves sustain operations until resupply occurs. WRM inventories include peacetime operating stocks, training stocks, stocks available through industrial base partnerships, and WRM. [DoD components calculate war reserve requirements annually or as needed, based on duties](#).

3.7.2. WRM funding appropriations are made directly to the WCF. The appropriated amounts must be reflected as a separate goal within the annual operating budget letter of the applicable supply management or Commissary Resale activity. Components and Defense Agencies must fund items such as ammunition and major end items procured for war reserves through their procurement appropriations, not through the WCF.

3.7.3. [Acquisition of](#) WRM is indistinguishable from corresponding inventory items. WRM and inventory [may be](#) purchased at the same time from the same vendor, received at the same time in the same shipping container, and stored together in the same warehouse/bin.

3.7.4. DoD Components hold the WRM in reserve and make it available for transfer without reimbursement to satisfy mobilization requirements of the U.S. Armed Forces. Additionally, DoD Components may sell WRM if authorized.

3.7.5. [Accounting for purchases of](#) WRM occurs at the same level as the accounting for items procured for peacetime requirements. The standard inventory accounts record the value of war reserve items.

### 3.8 Work-In-Process

3.8.1. WCF manufacturing activities [routinely perform tasks that take more than a month and must record operating costs within a work-in-process account](#). Work-in-process accounts segregate these costs from current accounting period expenses, thus supporting accurate financial reporting in compliance with generally accepted accounting principles.

3.8.2. [The inventory work-in-process account is used for the direct labor, direct materials, direct purchase services, indirect labor, indirect materials, and general and administrative \(G&A\) expenses required to produce and complete a job order/customer order](#).

3.8.3. G&A costs are the costs of operations such as rent, utilities, and managerial salaries.

3.8.4. Related costs, regardless of the source of funding, should be accumulated using a job order when a WCF activity incurs costs to produce a customer order. Related costs attributed to an order may include:

3.8.4.1. Costs of additions, alterations, improvements, rehabilitations, and replacements of DoD fixed assets.

3.8.4.2. Costs of maintaining DoD equipment and inventory;

3.8.4.3. Costs of manufacturing or fabricating an end item or product; and

3.8.4.4. Costs of producing an output.

3.8.5. The application of indirect expenses to inventory work-in-process may be based on a formula that reasonably approximates actual indirect expenses. The allocated indirect expense amount is adjusted to the actual indirect expense amount, at least annually, to apply indirect expenses to the overhead account. Adjustments of over and under overhead are applied prior to the final billing on a completed customer order. The variance between actual indirect expenses and applied indirect expenses is accounted for as cost of goods sold.

3.8.6. The work-in-process account is reduced for the amount invoiced when a progress billings invoice is issued to the DoD purchasing component. The DoD purchasing component records the amount invoiced as inventory work-in-process. These entries occur when a DoD purchasing component uses a DoD component manufacturer or a manufacturer outside of DoD to acquire inventory where progress billings reflect the incremental costs incurred, billed by the manufacturer. Additional information relating to revenue recognition, progress billings to customers, and disputed bills may be found within Chapter 16, “Revenue, Other Financing Sources, Gains and Losses.”

3.8.7. Direct costs, indirect costs and G&A, recorded in inventory work-in-process accounts, transfer upon completion or termination of the customer order. No costs associated with the order must remain in the work-in-process account upon completion of a customer order. Billing occurs immediately regardless of customer acceptance of the finished work. WCF must transfer parts and supplies manufactured to the OM&S account upon completion.

3.8.7.1. Recognize a loss or a gain when costs incurred on a completed order differ from the funding provided by the customer. Probable losses (more likely than not) should be recognized in proportion to estimated total cost when goods and services are acquired to fulfill the contract. Thus, the loss should be recognized in proportion to total cost over the life of the contract/customer order.

3.8.7.2. Expense costs for a customer order terminated prior to completion.

3.8.8. WCF activities must review work-in-process account balances, at least annually, so appropriate actions may be taken to reduce significant balances in the work-in-process account. The review should focus on completed customer orders with costs incurred exceeding the funding



provided on the existing customer order where the costs have not been recognized as a loss. In addition, the review should evaluate the compliance with the accounts receivable policy and percentage of completion method for revenue recognition policy in accordance with Chapters 3 and 16.

#### \*4.0 SUPPLY MANAGEMENT ACTIVITIES - (Applicable to WCF Only)

Supply Management Activities manage inventory held for sale to other DoD Components or activities and items procured for sale to members of the Armed Forces and other individuals or organizations when authorized by legislation. Examples of items managed by supply management activities include food, military clothing, fuel, and preventive medicine. Supply Management Activities also cover Depot Maintenance or Industrial Operations activities that use items to produce goods or services for a fee.

#### 4.1 Roles, Responsibilities, and Applicability

4.1.1. The Under Secretary of Defense (Comptroller) (USD(C)) and the Under Secretary of Defense for Acquisition and Sustainment (USD(A&S)) may designate items for procurement by supply management and reassign management responsibility between DoD Components.

4.1.2. This section outlines the policy and accounting requirements for inventory in supply management activities, including the Army, Navy, Air Force, DLA, and the Defense Commissary Agency (DeCA) for commissary resale.

4.1.3. This section also applies to DLA Disposition Services, which handles redistribution or disposal of items, including sales to the public and other Federal customers.

#### 4.2 Supply Management Activity Types

4.2.1. Subsistence Items. Provide healthy, nutritious food items to Armed Forces members and other authorized persons. Subclasses of subsistence items include inflight and combat rations and refrigerated and nonrefrigerated subsistence. Supply management activities and the DeCA must plan, procure, manage, distribute, and ensure the wholesomeness of subsistence products.

4.2.2. Military Clothing Allowance. Sold by a military clothing resale activity, items sold in a ship's store, and personal items for health, comfort, and recreation. The Under Secretary of Defense for Personnel and Readiness oversees all matters concerning clothing monetary allowances for DoD Components. DoDI 1338.18 assigns management responsibility to the supply management activities for items procured primarily for sale to members of the Armed Forces and other individuals or organizations authorized by legislation. Allowance amounts are published in Volume 7A, Chapter 29 "Clothing Monetary Allowances."

4.2.3. Military Clothing and Textile Items and Individual Equipment. The Joint Clothing and Textiles Governance Board coordinates, advises, and recommends solutions for the development and fielding of DoD clothing and textile items, including Service-specific combat



and camouflage utility uniforms and families of uniforms. The USD(A&S) establishes DoD policy and develops implementing guidance on all matters relating to the DoD clothing and textiles supply chain. The Department authorizes military exchange systems to act as agents of the supply management activity to sell military clothing and textile items to members of the Armed Forces at standard prices. This supply activity also includes combat equipment, tentage, tool sets and kits, hand tools, and cleaning equipment and supplies.

4.2.3.1. The standard price is the price customers are charged which reflect DoD's stabilized price policy requiring item pricing that remains constant throughout a fiscal year for Inventory Control Point managed items. Exceptions to the requirement to maintain standard pricing throughout the fiscal year are outlined in Volume 11B, Chapter 15, "Supply Management Activities."

4.2.3.2. The standard price is calculated based the replenishment cost of the item plus charges to recover costs for transportation, inventory loss, obsolescence, maintenance, depreciation, and supply operations. See Volume 2B, Chapter 9 "Defense Working Capital Fund Budget Justification Analysis" for additional guidance on pricing.

4.2.4. Fuel. DoD Components must purchase fuel through DLA. The DLA bills DoD customers at standard prices and other Federal and Non-Federal government customers at cost plus the approved DLA surcharge. DLA may authorize DoD customers in remote locations to procure fuel on the local market, and DLA or the customer may pay for the fuel depending on the circumstances, in accordance with DoD 4140.25-M. If the DoD customer pays for the fuel, DLA will reimburse the customer for the actual cost of the fuel and bill for the fuel based on standard prices. The fuel supply class also includes preservatives, liquid and compressed gases, chemical products, coolants, deicing products, and antifreeze components.

4.2.5. Construction Materials. Supply management activities must manage installed equipment, and fortification and barrier materials, including construction materials such as wood, wire, cement, barrier materials, and sandbags.

4.2.6. Medical. The supply management activities must manage preventive medicine items, medical equipment, and other medical materials, including pharmaceutical, surgical, dental, laboratory, radiological, and optometric supplies.

4.2.7. Initial Spares. Initial spares are consumable or reparable spare and repair parts that support newly fielded weapons systems or equipment during its initial period of operation until the regular supply system can fully support the demand generated by the systems. Replenishment spares are spare and repair parts needed to maintain the system when it first enters service.

4.2.7.1. The component activity that owns the weapon system is responsible for funding the initial spares. Therefore, the program office or another acquisition office within the component Activity is responsible for acquiring initial spares and stock required to support a weapon system based on the material support date. Program managers must use their appropriated funds and may use supply management activities' contracting capabilities to acquire initial spares.

4.2.7.2. The component activity may purchase the initial spares and legally transfer ownership without reimbursement using DoD (DD) Form 1150, “Request For Issue/Transfer/Turn in.” The component activity must record the associated accounting budgetary and proprietary entries for the purchase of the initial spares as OM&S prior to their transfer to the supply management activity. The supply management activity will record the associated accounting budgetary and proprietary entries to add the initial spares to its WCF accounting records. The transfer of initial spares is fully documented, and the supporting audit documentation is retained.

4.2.8. Nonmilitary Programs. The supply management activities must manage materials used to support nonmilitary or civic action programs and sell these materials at standard prices. These programs aim to promote agricultural and economic development.

#### 4.3 Authorized Customers

A supply management activity is authorized to sell items to the following customers:

4.3.1. A Federal government funded activity or activity empowered to perform a Federal government legislative function;

4.3.2. A DoD sponsored nonappropriated funding program;

4.3.3. A State Department sponsored employee commissary located outside the United States;

4.3.4. A foreign government with an authorized and established contractual relationship;

4.3.5. A Federal government contractor with a contract to purchase items from the Government or using the Replenishment Parts Purchase or Borrow Program;

4.3.6. Members of the Armed Forces and other individuals authorized by law to purchase commissary and clothing items;

4.3.7. The private sector, state or local governments purchasing non-excess personal exchange/sale property as authorized by the Administrator for Federal Procurement Policy of 1974 as amended in 40 U.S.C. Chapter 5, Section 503; and

4.3.8. Other entities authorized by duly appointed officials.

#### 4.4 Issues Without Reimbursement

4.4.1. Issue or Transfer. DoD Components may not issue or transfer a supply management activity item without a funded customer order unless specifically authorized in the following section. DoD Components will not account for these events in the same manner as a normal sale, except when they need to establish an allowance for loss on accounts receivable. Refer to

Chapter 3, “Receivables” for additional guidance on establishing allowances for loss on accounts receivable.

4.4.2. Domestic Civil Emergency. A supply management activity item may be issued without immediate reimbursement when DoD officials provide an immediate response to save lives, prevent human suffering, or mitigate great property damage within the United States by temporarily employing the resources under their control in accordance with DoDD 3025.18. Funding is available to cover the costs of the relief effort; an accounts receivable is established for such amounts and the supply management activity is reimbursed for any outstanding accounts receivable.

4.4.3. Civil Disturbances. Upon specific authorization by the President in accordance with applicable law, a supply management activity item may be issued without immediate reimbursement when action is being taken to control a civil disturbance in accordance with the policies and procedures provided in DoDD 3025.18. Federal military commanders have the authority to engage temporarily in activities that are necessary to quell large-scale, unexpected civil disturbances where prior authorization by the President is impossible and local authorities are unable to control the situation. A receivable account is established for such amounts and the supply management activities is reimbursed for any outstanding accounts receivable based upon the procedures provided in Volume 11B, Chapter 11, “Reimbursements and Revenue Recognition - Defense Working Capital Funds.” Volume 16, “Department of Defense Debt Management” also provides guidance on the write-off of uncollectible receivables from the public.

4.4.4. Foreign Disaster Relief (FDR). A supply management activity item may be issued, without immediate reimbursement, when the State Department is responsible for initiating and financing foreign disaster relief efforts pursuant to the Foreign Assistance Act of 1961. The Director, Defense Security Cooperation Agency (DSCA) serves as the DoD lead for FDR program management and budget issues and identifies funds or resources to support potential FDR operations. DSCA must identify and report the estimated costs associated with potential DoD FDR operations and the DoD costs and resources committed to each FDR operation to the Assistant Secretary of Defense for Special Operations and Low-Intensity Conflict and the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD. The Commander, United States Transportation Command, must ensure that DoD activities support FDR transportation requirements and report estimated and actual costs to the appropriate geographic Combatant Command comptroller for inclusion in FDR cost reports. Procedures for issues of supply management activities materiel to assist with FDR are performed in accordance with DoDD 5100.46.

4.4.5. North Atlantic Treaty Organization (NATO) Country. A supply management activity item may be issued to a NATO country, without reimbursement, under a replacement-in-kind arrangement. Nonreimbursable issues under this authority are changed to a reimbursable activity within 12 months if not replaced by the NATO country.

4.4.6. Military Emergency. Under emergency provisions in 10 U.S.C. § 127, the SecDef, the Inspector General of the DoD, or the Secretary of a military department (within their department) may issue a supply management activity item without immediate reimbursement. The

issuing Secretary or the Inspector General may certify the amount of any advisable expenditure without specifying it, and this certificate suffices to cover the expenditure. Individual expenditures exceeding \$100,000 require a description of the purpose, amount, approving authority, and justification and a receivable account is established for these amounts. The SecDef may waive the description requirement due to extraordinary circumstances that affect the national security of the United States. When funding becomes available to cover the costs of the emergency, the supply management activity receives reimbursement for the outstanding accounts receivable.

4.4.7. War Reserve Assets (WRA). A supply management activity can issue an item designated as WRA, without a funded customer order, when it has approved the issuance to satisfy the requirements for mobilizing the U.S. Armed Forces.

4.4.8. Deficiencies in War Reserve Requirements. A supply management activity item may be issued, without reimbursement, when an item is issued to satisfy war reserve requirement deficiencies or between activities within the supply management activity. Items issued at any level to satisfy customer requisitions, wholesale, or retail, are reimbursable from war reserve reinvestment appropriations.

4.4.9. Items Nearing End of Shelf Life. If a supply management activity item is not a WRA, the item may be issued, at any price or without reimbursement, when the item has six months or less of remaining shelf life and the item manager grants approval for the item to be issued on a less than cost basis.

4.4.10. Logistical Management Transfers. Logistical management transfers or logistical reassignments occur when changes in the funding appropriation for an item take place. When the OUSD(C) and the USD(A&S) designate a logistical management transfer, the transferring entity records an increase to inventory at the value of the item being transferred from a GF appropriation entity to the supply management activity group. Typically, the transferring entity does not receive reimbursement for items transferred through a logistical management transfer. However, with prior approval from the OUSD(C), the transferring account may receive reimbursement for inventory transfers-in if the inventory was on order but undelivered at the time of the transfer, the transferring account is not financed by the WCF, and the transferring account ordered the inventory based on a reimbursable order from a customer.

4.4.11. Logistical Management Transfers Between Supply Management Activities. Volume 11B, Chapter 2, “Establishment of Defense Working Capital Fund Activities, Transfer of Fund Functions and Closure of Funds Activities,” outlines the procedures for transferring item management responsibility between WCF activities. The responsible parties handle the transfer of supply inventory as follows:

4.4.11.1. On Hand Inventory. Supply management activities transfer inventory on-hand without reimbursement. However, wholesale and retail supply activities are authorized to reimburse each other when on-hand retail inventory is transferred back to the wholesale item manager’s inventory control points based on DoD credit policies.

4.4.11.2. On Order Inventory. Wholesale item managers who send and receive must validate the inventory on order to ensure the supply pipeline is adequately filled. The receiving item manager is responsible for making payments to the vendors (through delivery order modification) or to the sending activity that funded the delivery order when the inventory is transferred, ensuring proper inventory and cash management.

## 4.5 Loans and Leases

4.5.1. Supply management activities may only lend, or lease items specified in this section for the stated purpose. The recipient must sign a receipt for the item and must include a statement of the intended purpose of the loan or lease. The accountable office of the accountable activity, or the comptroller (or equivalent), must approve each loan or lease of an item. Accountability for inventory on loan remains with the activity lending the material and is valued in the same manner as inventory on-hand.

4.5.2. Approvals. The accountable office or the comptroller (or equivalent), of the activity responsible for accountability over the item approves each loan or lease of an item. The approval must include a description of the item, including the price, condition, anticipated return date, and a certification that the loan of the item will not jeopardize the capability to support national defense requirements.

4.5.3. Expenses. The recipient must cover all transportation, packing, crating, and handling costs associated with borrowing or leasing the item. Additionally, the recipient must pay for all costs necessary to restore the item to its original condition when returning it or pay for the item if it is not returned within the approved loan or lease period.

4.5.4. Property may be lent or leased to the following recipients:

4.5.4.1. DoD Funded Customers. Supply management activities may lend an item to a DoD funded customer for a maximum of 120 days to support an approved training exercise, a military emergency, or a natural disaster.

4.5.4.2. U.S. Secret Service. Supply management activities may lend an item to the U.S. Secret Service for a maximum of 120 days for purposes prescribed under the policies and procedures in DoDD 3025.13.

4.5.4.3. Civilian Law Enforcement Officials. DoDI 3025.21, Defense Support of Civilian Law Enforcement Agencies, prescribes the DoD regulations to support civilian law enforcement agencies consistent with the needs of military preparedness of the United States, while recognizing and conforming to the legal limitations on direct DoD involvement in civilian law enforcement activities. The Under Secretary of Defense for Policy governs the defense support of civilian law enforcement agencies and coordinates policy with Federal departments and agencies, State, local, and tribal agencies, and DoD Components. Supply management activities may lend equipment, base facilities, or research facilities to a civilian law enforcement activity for a maximum of 120 days for purposes prescribed under the policies and procedures in DoDI 3025.21. Requests for loan or lease or other use of equipment or facilities are subject to

approval by the DoD Components, unless approval by a higher official is required by statute or DoD issuance. Requests for arms, ammunition, combat vehicles, vessels, and aircraft must be submitted to the SecDef for approval.

4.5.4.4. State and Local Governments. Supply management activities may lend an item to a state or local Government for a maximum of 120 days for a specific purpose, under the policies and procedures prescribed in DoDI 3025.21.

4.5.4.5. National Veterans' Organizations. Supply management activities may lend items (e.g., cots, blankets, pillows, mattresses, bed sacks, and other supplies) to a recognized national veterans' organization to support a national or state convention or a regional youth athletic or recreational tournament sponsored by the veterans' organization under the authority of 10 U.S.C. § 2551. The organization must secure a bond before granting the loan. This bond serves as a security deposit, set at the item's current standard price, to ensure that the organization has a financial incentive to return the item in the same condition as it was loaned. The bond will cover damages or loss if the organization does not return the item in good condition.

4.5.4.6. American National Red Cross. Supply management activities may lend an item to an organization formed by the American National Red Cross for instruction and practice needed to aid the Army, Navy, or Air Force in time of war under the authority of 10 U.S.C. § 2552. Supply management activities require the immediate return of equipment loaned. A bond equal to twice the value of the property is required for care and safekeeping for the loaned property before the item is loaned or leased.

4.5.4.7. Inaugural Committee. Supply management activities may lend an item to the Presidential and the congressional Joint Inaugural Committee to support an inauguration of the President of the United States for a maximum period of nine days beyond the inauguration ceremony under the authority of 10 U.S.C. § 2553. The committee must agree to a sufficient bond to return the property in good condition, indemnify the United States for any loss of, or damage to, the property, and pay any expense incurred for the delivery, return, rehabilitation, replacement, or operation of the property.

4.5.4.8. Boy Scout Jamborees. Supply management activities may lend cots, blankets, commissary equipment, flags, refrigerators, and other equipment to the Boy Scouts of America for the use of Scouts and officials who attend any national or world Boy Scout Jamboree under the authority of 10 U.S.C. § 2554. Services and expendable medical supplies, to the extent items are in stock and available, may be furnished without reimbursement. Items are returned after the close of the jamboree. A sufficient bond for the safe return of such property in good order and condition and without expense to the United States, including transportation costs, is obtained before the items are loaned.

4.5.4.9. Shelter for the Homeless, Incidental Services. The Secretary of a Military Department can make military installations available to provide shelter to the homeless in cooperation with state, local, and charitable organizations under the authority of 10 U.S.C. § 2556. Incidental services such as utilities, bedding, security, transportation, facility renovations, minor



repairs, and property liability insurance can also be provided, if it does not interfere with military preparedness. Excess DoD items can only be issued to shelters.

4.5.4.10. Humanitarian Relief. Supply management activities may make nonlethal excess supplies available for transfer to the Secretary of Homeland Security for its distribution for humanitarian relief, domestic emergency assistance, and homeless veterans' assistance under the authority of 10 U.S.C. § 2557. The term “nonlethal excess supplies” means property, other than real property, that is defined as excess, and that is not a weapon, ammunition, or other equipment or materiel that is designed to inflict serious bodily harm or death.

4.5.4.11. Foreign Countries or International Organizations. Supply management activities may lease or loan an item to an eligible foreign country or international organization under the authority of the Arms Export Control Act. The Director, DSCA provides general oversight of DoD worldwide security cooperation efforts focusing on the timely transfer of defense articles and services in support of DoD strategic and regional objectives. The Director, DSCA has a fiduciary responsibility to exercise financial management for activities related to the Foreign Military Sales Trust Fund and reporting functions for security cooperation programs for which DSCA has responsibility. Procedures for leasing or loaning an item to another foreign country or international organization are contained within Volume 15, Chapter 7, “Pricing” and DoDD 5105.65.

4.5.4.12. Other Leases. Supply management activities may lease or loan a non-excess supply management activity item to an organization when the SecDef or the Secretary of a Military Department has determined that the item is under control of the Secretary, not needed for DoD use during the proposed lease period and the lease will promote the national defense or public interest under the authority of 10 U.S.C. § 2667. The lease may not be for more than five years, unless the Secretary concerned determines that a lease for a longer period will promote the national defense or be in the public interest. Additional lease conditions are covered within Chapter 26, “Accounting for Leases” and Volume 12, Chapter 14, “Transferring, Disposing, and Leasing of Real Property and Personal Property.”

## 4.6 Government Furnished Material (GFM)

4.6.1. GFM is a subset of GFP that may be consumed or expended during the performance of a contract, component parts of a higher assembly, or items that lose their individual identity through incorporation into an end-item. GFM does not include equipment, special tooling, special test equipment or real property. GFM may be issued by the item manager to a contractor, other DoD, or Federal government activity to be maintained as stock for issue, or for consumption or repair. When issued to a contractor GFM is subject to the requirements of the Federal Acquisition Regulations and Defense Federal Acquisition Regulation Supplement.

4.6.2. Maintained as stock for issue. When GFM is provided to a third party that fulfills an inventory control or warehousing function on behalf of the supply management activity:

4.6.2.1. Continue to value inventory in appropriate accounts;

4.6.2.2. Ensure arrangements include terms and conditions to report actions to the owning Component to satisfy financial reporting requirements (e.g. participate in quarterly reconciliations); and

4.6.2.3. Adjust inventory accounts as necessary as items are issued for use to reflect actual amounts.

4.6.3. Consumption. When GFM is provided for consumption,

4.6.3.1. Record the value of items issued for the consumption and benefit of another supply management activity, as an expense;

4.6.3.2. Record the value of items issued for fabrication, assembly, or disassembly for the benefit of another supply management activity, as work-in-process. Work-in-process is further described within section 6.0;

4.6.3.3. The return of GFM items by a contractor is accounted for as a customer return of material without credit; and

4.6.3.4. Include the cost of forgings and castings used as GFM in the production and acquisition cost of the item. Assign a stock number to each forging, casting, and mold, and record them as assets in an appropriate account. Record the cost of any broken or lost forgings, castings, and molds as a current period operating expense. Store these items for use as GFM in future procurements.

4.6.4. Repair. Supply activities issuing items for repair continue to value the item as inventory held for repair by the stockage point in accordance with the valuation criteria. Upon receipt of the repaired item, the item is transferred to inventory held for sale.

#### 4.7 Supply Management Activity Transfers

4.7.1. Assistant Secretary of Defense for Sustainment oversees procedures to optimize supply support resources between providers and customers, establishes integrated materiel management processes to reduce redundant items, and provides timely support to customers.

4.7.2. Transfers In Without Reimbursement. A supply activity may assume management responsibility and capitalize supply inventories that were financed by other appropriations and funds as permitted by 10 U.S.C. § 2208 and DoDM 4140.26. The activity that ordered the item must pay bills for inventories on order at the time of the transfer. A supply management activity may receive capital from the SecDef by capitalizing inventories but not make credits to an appropriation funded activity for capitalized inventories as provided in 10 U.S.C. § 2208. However, stock withdrawal authorizations may be approved as detailed within section 4.6.3. The receiving supply management activity will reimburse the sending activity for inventories on order as the deliveries are made for transfers from other WCFs.



**4.7.3. Transfers of Reimbursable Procurements.** The supply management activity may record a liability for an item transferred from a non-WCF account only if (1) the item is undelivered at the time of the transfer, and (2) the transferring organization's obligation for the item resulted from a reimbursable order from a customer. The customer must transfer appropriated funds to the supply management activity to liquidate the liability.

**4.7.4. Stock Withdrawal Authorizations.** A transferring activity may not have funds to purchase an item after transferring an item from an appropriation funded activity to a supply management activity. Therefore, the transferring activity may request that the USD(C) approve an authorization for issues without reimbursement, as part of the formal budget submission to the Congress. The supply management activity may issue items to the specified customer up to a fiscal year, without reimbursement, upon receipt of an approved stock withdrawal authorization.

**4.7.4.1.** The authorized limit is calculated as the lesser of one quarter of the quantity transferred to the supply management activity or one year's quantity based on the average amount consumed for the previous three years.

**4.7.4.2.** The supply management activity must issue items on a reimbursable basis when the fiscal year has passed. The supply management activity must record a stock withdrawal authorization as a transfer-out, a reduction of inventory held for sale and the difference is reported as a realization of holding gain/ loss.

**4.7.5. Logistical Management Transfers.** Logistical management transfers occur when changes are made to the funding appropriation for an item. When the approval for the logistical management transfer of an item(s) is granted, an increase or decrease to inventory for a nonreimbursable transfer is recorded at the value of the item(s) being transferred.

## **4.8 Depot Level Reparables**

**4.8.1.** Reparables are items that have reached the end of their lifecycle but can be restored or remanufactured. Reparables are considered when meeting computed inventory level requirements. The Department's depot-level repair program for inventory replenishment and resale acts as a remanufacturing process for financial management and accounting purposes.

**4.8.2. Exchange Transaction.** Many DoD Components obtain items for remanufacturing through an exchange transaction. In this transaction, they sell a serviceable item at the standard price in exchange for (1) cash and (2) an item that needs rebuilding or repair (carcass). The supply management team may record two separate transactions to represent the financial event or bill the customer at the exchange price, which is the standard price minus any credit if the requisitioning activity states that a reparable item will be returned. If the impaired item (carcass) has not been received at the time of the exchange, the organization records the item as "Inventory Held for Repair (Remanufacture Due In)."

**4.8.2.1.** Serviceable Depot Level Reparables (DLR) are recorded at historical cost.

4.8.2.2. If the customer does not return a reparable item within 90 days of the exchange sale for continental United States (CONUS) customers or within 120 days for customers outside the continental United States (OCONUS), the supply management team must reverse the credit they previously allowed and bill the customer. The seller may bill the customer for any costs that they would not have incurred if the item had been received.

4.8.2.3. A carcass may be received before an exchange sale. The supply management activity must record the carcass in inventory and establish a liability upon receipt. When a serviceable item becomes available for issue, the activity will reverse the liability, and the exchange sale will proceed normally.

4.8.3. Supply management activities may place orders and obligate funds for repair/remanufacture work placed with a contractor or a government repair facility. The carcass will remain in the Supply Management activity “Inventory Held for Repair (Remanufacturing)” account while the item is repaired/remanufactured.

#### 4.9 Return of Items to the Supply Management Activity

4.9.1. A customer within the Federal Government, including DoD contractors, may return an item to a supply management activity according to 22 U.S.C. § 2761. The proceeds will credit current applicable appropriations and will be available for expenditure for the same purposes as those appropriations. Customers cannot receive inventory credits for returns due to the capitalization of inventories.

4.9.2. The Arms Export Control Act permits the return of defense articles from a foreign country or international organization under specified conditions if the defense article was previously transferred to that country or organization under 22 U.S.C. § 2761, is not significant military equipment (as defined in 22 U.S.C. § 2794) and is fully functioning without needing repair or rehabilitation.

4.9.3. According to 10 U.S.C. § 2208(g), a department, activity, or agency may return supplies to working-capital funds, and they can charge the appraised value to that working-capital fund.

4.9.4. An item manager may grant credit for a returned item after receipt, inspection, and classification of the item. A return that stratifies to a war reserve inventory requirement does not qualify for credit. Annex 3 provides the relationship between USSGL/DoD accounts and logistics supply stratifications.

4.9.4.1. The amount of the credit for the return of a fully serviceable consumable or reparable item or the return of a carcass when not part of an exchange transaction and within the approved acquisition objective (AAO) level must not exceed the current standard price of the returned item less the current fiscal year’s approved cost recovery elements. The AAO level is the quantity of an item authorized for peacetime and wartime requirements to equip and sustain U.S. and allied forces according to current DoD policies and plans.

4.9.4.2. If the supply management activity granted credit before taking ownership or receiving the returned item, and if the item is not received within 90 days from a CONUS customer or 120 days from an OCONUS customer, the supply management activity must bill the customer for the credit it previously recorded. Additionally, the stockage point may choose to bill the customer for costs incurred due to the non-receipt of the item.

4.9.4.3. The supply management activity may grant a credit to a customer at standard price for defective items when a customer's quality deficiency report has been validated, including specification defects.

4.9.4.4. Credits may be applied against future customer demands for items in the current fiscal year or directly credited to the current year available funds for the customer.

4.9.5. The supply management activity must fund transportation and other shipping costs for items approved for return from customers. Shipping costs include packing, crating, handling, transportation, port loading, and unloading. The supply management activity must not fund shipping and transportation costs for items that have not been approved for return from customers.

4.9.6. Return of an item, whether issuable or not issuable, reverses the sale's effect on the Cost of Goods Sold. Activities record receipt of a returned item regardless of whether the customer receives credit.

#### \*5.0 OM&S - (Applicable to GF and WCF)

OM&S consists of tangible personal property that organizations consume in their normal operations. Title 41, section 101-8.705 of the Code of Federal Regulations defines a normal operation as the "operation of a program or activity without significant changes that would inhibit meeting objectives". OM&S applies to GF and WCF. OM&S excludes inventory, stockpile materials and items acquired for use in constructing real property or in assembling equipment.

#### 5.1 OM&S Types

5.1.1. OM&S Held for Use. Tangible personal property that is available for immediate use and ready for consumption in normal daily operations.

5.1.2. OM&S Held in Reserve for Future Use. Items not readily available in the market and there is a remote chance that it will be needed. The criteria considered by management in identifying operating materials and supplies held in reserve for future use must be disclosed in the notes to the financial statements.

5.1.3. OM&S EOU Items That Cannot Be Effectively Used. EOU status may be due to aged technology, outdated laws, old customer preferences, or aged operations.

5.1.4. OM&S Held for Repair. Items awaiting repair due to damage or malfunction.

5.1.5. OM&S In Development. Costs, direct and indirect, for developing OM&S, including costs of tangible personal property consumed in normal operations part of development. Once development is complete, the costs are typically transferred to OM&S Held for Use.

5.1.6. OM&S In Transit. Items currently in shipping. OM&S In Transit includes items not yet accepted in the receiving process at their final designated destination. OM&S In Transit also includes material moved between storage locations or temporarily in use or on loan with contractors or schools. Constructive delivery occurs when a recipient receives title based on the terms of the contract regarding shipping and delivery, even though the physical items haven't been physically delivered.

5.1.7. Long Range Ballistic Missiles (LRBMs). Considered OM&S. DoD Components must classify LRBMs consumed in normal operations as held for use, held in reserve for future use, or EOU.

5.1.7.1. LRBMs are considered OM&S because these missiles are frequently used, are consumable and cannot be reused after consumption, are similar in nature to other missiles classified as OM&S and are broken down and stored as separate parts. In addition, nuclear warheads are critical components of LRBMs. Nuclear warheads remain the property of the Department of Energy (DOE). DOE reports the warheads as OM&S.

5.1.7.2. DoD Components must designate all missiles, including long-range ballistic variants such as Intercontinental Ballistic Missiles and Submarine Launched Ballistic Missiles, as OM&S for financial reporting purposes. DoD Components must promptly reclassify missiles as OM&S if they previously classified them as equipment and document the necessary prior period adjustments to their financial statements.

## 5.2 Recognition and Valuation of OM&S

5.2.1. The consumption method of accounting for the recognition of expenses shall be applied for OM&S. If OM&S (1) are not significant amounts, (2) are in the hands of the end user for use in normal operations, or (3) it is not cost-beneficial to apply the consumption method of accounting, then the purchases method may be applied to operating materials and supplies. An end user is any component of a reporting entity that obtains goods for direct use in the component's normal operations. Generally, material at an end user is not transferred to another location for consumption. Components of a reporting entity, including contractors, that maintain or stock OM&S for future issuance are not end users.

5.2.2. Consumption Method. Recognize and report OM&S as assets on the balance sheet when produced or purchased. "Purchased" is when title passes to the purchasing entity. The contract between the buyer and the seller determines when title passes. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. Delivery or constructive delivery is based on contract terms.

5.2.2.1. Under the Consumption method, OM&S are valued at historical cost or on a basis that reasonably approximates historical cost. Valuation must be adjusted for EOU or

expected repair. In addition, alternative valuation methodologies may be used to establish beginning balances.

5.2.2.2. Remove the cost of goods from the applicable OM&S asset account and report it as an operating expense in the period when they use or issue the items to an end user for consumption in normal operations.

5.3.2. Purchases Method. Expense OM&S when produced or purchased. DoD Components must maintain analyses and conclusions documenting the accounting position to use the purchases method. DoD Components must perform a review of their position at least once every three years and make it available to auditors from one fiscal year to the next.

#### \*6.0 STOCKPILE MATERIALS - (Applicable to Revolving Fund Only)

Stockpile materials are strategic and critical materials agencies held due to statutory requirements for national defense, conservation, or national emergencies. Stockpile materials exclude items held for sale or use in normal operations and items kept for use in the event of an agency's operating emergency or contingency. Accounting requirements and procedures for stockpile material transactions particular to the National Defense Stockpile Transaction Fund (NDSTF) and the Strategic National Stockpile (SNS) are included in this section.

### 6.1 Authorities, Roles, and Responsibilities

6.1.1. The National Defense Stockpile operates under the authority of the Strategic and Critical Stock Piling Act (50 U.S.C. Subchapter III). The Stockpiling Act provides that strategic and critical materials are held (stockpiled) in the interest of national defense, conservation, or to preclude a dangerous and costly dependence upon foreign sources of supply in times of a national emergency.

6.1.2. The National Defense Authorization Acts provide authority to buy and sell specific materials (including medicine), set quantity and revenue levels for selling material, and mandate programs to receive the revenue from the sales and collections. There is currently no authorization to buy (acquire) any material if over 99 percent of the inventory is authorized for sale.

6.1.3. The DLA Strategic Materials Directorate (DLA-SM) administers the acquisition, storage, management, and disposal of inventory (including medicine) currently maintained in the National Defense Stockpile. The NDSTF is a continuing fund that finances the operations of the National Defense Stockpile and DNSC. The NDSTF receives resources from diverse sources, including direct appropriations, transfers from other appropriations, transfers of physical assets, and disposal proceeds, and thus is not strictly a revolving fund. The NDSTF's Treasury Federal account symbol is 97X4555.

6.1.4. DLA records and reports stockpile materials within the NDSTF. Annually DLA compiles the NDSTF Agency Financial Report (AFR). The AFR reports the financial position and NDSTF operating results in the form of financial statements and is consolidated into the DoD's agency-wide financial statements.

6.1.5. The Defense Finance and Accounting Service (DFAS) maintains accounting requirements and procedures, performs financial and general ledger accounting, and prepares external accounting reports for the NDSTF. DFAS provides accounting reports and additional supporting supplemental financial information to DLA-SM for preparation of the DoD, “Strategic and Critical Materials Report to the President and Congress”.

6.1.6. The DNSC and DFAS are jointly responsible for reconciling the inventory records.

## 6.2 Recognition and Valuation of Stockpile Materials

Stockpile materials are accounted for using the consumption method and are reported as assets when produced or purchased. The cost of stockpile materials is removed and reported as an operating expense when issued for use or sale. The value of stockpile materials is based on historical cost or on a basis that reasonably approximates historical cost. The financial inventory balance of the National Defense Stockpile is maintained on a historical cost basis as supported by “laid-in cost”. In accounting terms, laid-in cost is used by wholesalers or suppliers and includes additional costs incurred to place the goods in inventory (e.g., a manufacturer's invoice price and freight). In addition, alternative valuation methodologies may be used to establish beginning balances.

## 6.3 Material Acquisition

6.3.1. All acquisitions of material for the National Defense Stockpile are proposed in the Annual Materials Plan, which is subject to approval by Congress and the subsequent authorization of funding. Funding authorization may be in the form of new appropriations, an authorization to spend from the available balance of the Transaction Fund, or from sales proceeds from authorized disposals.

6.3.2. Material purchase contracts are recorded as obligations against the current year acquisition program and reflect the date of the contract. When the material is received, it is recorded in the inventory accounting system and the general ledger inventory account, accounts payable, and as a decrease to undelivered orders.

6.3.3. Additional costs, including initial testing, increase the cost of the material for inventory valuation purposes. The inventory accounting system must be reconciled to the general ledger inventory account each month. A physical inventory count should be conducted at least annually.

## 6.4 Material Upgrade

The Annual Material Plan includes the program for upgrading existing National Defense Stockpile material. Contractors perform the upgrading services, and DoD Components obligate funds from the current year budget for the program. When DoD Components deliver material to a contractor for upgrading, management transfers it from the stockpile inventory to the contractor. Upon returning the upgraded material, the DoD Components determine a new unit cost by adding the upgrading costs to the original inventory value. Management then transfers the upgrading cost

and the original cost of the material from the contractor account to the on-hand stockpile inventory account.

## 6.5 Material Disposals

Various materials in the National Defense Stockpile may become obsolete or in excess of current defense stockpiling needs. The National Defense Stockpile Act authorizes the disposal of such material within the Annual Material Plan and as authorized within the budget program for the NDSTF. Disposal sales of marketable commodities are offered on a bid auction or negotiated sales basis. Material disposals are accounted for as sales, and the original cost of the material is removed from inventory and recorded as cost of sales.

## 6.6 Exchange Transactions

6.6.1. Materials can be offered as like material or as payment in kind or exchange for other material for amounts due for material upgraded or acquired. These transactions are accounted for as exchange disposals and the original cost of the material is removed from inventory and recorded as the cost of exchange disposals. Exchange settlements liquidate an obligation for material upgrade and acquisition and must be accounted for within the budgetary accounts to affect the liquidation of the original contractual obligation within the accounting records.

6.6.2. All sales and disposals are billed shortly after the sales agreement is made or as of the scheduled time for delivery or pickup of the material. Bid deposits received are held as advances until returned or recorded to sales proceeds upon delivery of material to successful buyers. The purchaser of the material is allowed a specified number of days in which to pick up the material, after which time storage charges are assessed. Any such storage charges are billed to the purchaser.

6.6.3. Credits earned for material received and accepted by DNSC are used as payment for material shipped when material is disposed of during an exchange settlement. Additional billings for delayed pickup of material are also applicable to the exchange settlement disposals. Collections are received by the DNSC via electronic fund transfer. A DD Form 1131, "Cash Collection Voucher" and confirmed deposit are sent to the DFAS Accounting and Finance Office for recording in the accounting records upon receipt of the funds.

## 6.7 Inventory Adjustments

Inventory adjustments are made whenever there is evidence that an adjustment is required. Such instances include periodic count or measurement of material, movement of material, and complete disposal of material from a storage location. All adjustments are documented and are approved before recording in the inventory accounting system and the general ledger inventory account. Approval is granted by the DNSC Administrator, delegated inventory officials, or the board of survey depending on the nature and the size of the adjustment.

## 6.8 Research Grants

The NDSTF receives appropriations for the award of grants to universities, colleges, and research institutions. The designated recipient of the grant is included in the appropriation act or requisite legislation. The Administrator, DNSC, is the grant administering official. See [Volume 12, Chapter 5](#), “Grants and Cooperative Agreements” for additional guidance on accounting for [research](#) grant funds.



## Annex 1. Moving Average Cost (MAC) Example

In the MAC calculation, include the repaired units at the lower value between their repaired value and the current purchase price for a new unit of inventory. If the repaired value exceeds the current purchase price, expense the difference. Table A1-1 details an example of the MAC valuation method.

Table A1-1 MAC Valuation Method

Event	Transaction Quantity	Transaction Value	Ending Quantity	Ending Value
1. Beginning Balance MAC=\$10,000/10=\$1,000			10	\$10,000
2. Consumption / Sale of 2 items @ \$1,000 per item MAC=\$8,000/8=\$1,000	-2	(\$2,000)	8	\$8,000
3. Purchase of 4 items at \$1,600 per item MAC=\$14,400/12=\$1,200	+4	\$6,400	12	\$14,400
4. Sale of 1 item @ \$1,200 per item MAC=\$13,200/11=\$1,200	-1	(\$1,200)	11	\$13,200
5. Repair of 4 items at \$1,675. Current Purchase Price is \$1,500. MAC=\$19,200/15=\$1,280	+4	\$6,000	15	\$19,200
6. Sale of 1 item at MAC \$1,280 (\$19,200/15 items = \$1,280 per item)	-1	(\$1,280)	14	\$17,920

1. Beginning balance for 10 items is \$10,000. Each item is valued at \$1,000.
2. Two items are consumed or sold. Each item is still valued at \$1,000. Ending value is \$8,000.
3. Four items were purchased for \$1,600 each or \$6,400 total. Ending value is now \$14,400 (\$8,000 + \$6,400). Each item is now valued at \$1,200 (\$14,400 / 12 items).
4. One item is consumed or sold. Each item is still valued at \$1,200. Ending value is \$13,200.
5. Four items previously Held for Repair, now repaired, enter Held for Use or Held for Sale. Value of items for transfer is \$1,675 per item or \$6,700 total. Current purchase price is \$1,500 per item or \$6,000 total. The four items are transferred to inventory at the current purchase price of \$1,500 per item or \$6,000 total. The remaining \$700 associated cost of the repaired item, \$175 per item, is expensed. Ending value is now \$19,200 (\$13,200 + \$6,000). Each item is now valued at \$1,280 (\$19,200 / 15 items).
6. One item is consumed or sold. Each item is still valued at \$1,280. Ending value is \$17,920.

## Annex 2. Relationship of General Ledger Accounts to Logistic Supply Condition Codes and Stratifications

A supply condition code is an alphabetic designation that classifies material according to its readiness for issue and use or identifies any change in the material's status. The financial value is represented by the general ledger amounts, while the logistic supply condition code categorizes the physical inventory condition. The supply condition codes dictate the general ledger account postings based on the inventory item's condition. Current DoD supply condition codes are defined in **DLMS** Volume 2 “Supply Standards and Procedures”, Appendix 2.5.

Further, the DoD collects, maintains, and reports on inventory data to provide visibility of retail and wholesale requirements, demand, overages, and shortfalls using inventory stratification categories. **DoD Manual 4140.01, Volume 10**, “DoD Supply Chain Materiel Management Procedures: Supply Chain Reporting and Metrics” details the inventory and materiel stratification process. Additionally, information on supply management of EOU and potential reutilization stock is available in DoD Manual 4140.01, Volumes 6 and 10.

The tables A2-1 through A2-3 illustrate the relationship between USSGL/DoD accounts and logistics supply condition codes and stratifications. For questions about logistics supply condition codes and inventory stratification categories, contact **DEDSO.Supply@dla.mil**.

[Table A2-1](#) Logistics Inventory Stratification vs General Ledger Accounts

Category	Serviceable	Unserviceable	Repair	Retain
Excess	USSGL 152400	USSGL 152400	No	No
Contingency Retention	USSGL 152200	USSGL 152300	No	Yes
Economic Retention	USSGL 152200	USSGL 152300	No	Yes
Approved Acquisition Objective (AAO)	USSGL 152100	USSGL 152300	No	Yes
Requirement	USSGL 152100	USSGL 152300	Yes	Yes

Table A2-2 Relationship of Inventory USSGL Accounts to Logistic Condition Codes

USSGL Account	Supply Condition Codes
152100 Inventory Purchased for Resale	<p>A Serviceable (Issuable Without Qualification)  B Serviceable (Issuable With Qualification)  C Serviceable (Priority Issue)  D Serviceable (Test/Modification)  T Serviceable (Ammunition Suitable for Training Use Only)  U Serviceable (Limited Remaining Life Before Failure)</p> <p>Use this account to record amounts for inventory with condition codes A-D and T up to the AAO.</p> <p><b>[Excludes Excess, Economic Retention and Contingency Retention Inventory]</b></p>
152200 Inventory Held in Reserve for Future Sale	<p>E Unserviceable Repairable (Limited Cost to Restore)  K Suspended (Returns)  L Suspended (In Litigation)  N Suspended (Ammunition Suitable for Emergency Combat Use Only)  Q Suspended (Product Quality Deficiency)</p> <p>Use this account to record amounts for inventory with condition codes A-D and T that is <b>greater than</b> the AAO and is retained for economic or contingency purposes. Include all inventory designated as E, J, K, L, N, and Q in this account.</p> <p><b>[Excludes Excess Inventory]</b></p>
152300 Inventory Held for Repair	<p>F Unserviceable (Repairable)  G Unserviceable (Incomplete)  M Suspended (In Work)  R Suspended (Reclaimed Items, Awaiting Condition Determination)  X Suspended (Repair Decision Delayed)</p> <p>Use this account to record amounts for all inventory with condition codes F, G, M, and R that is <b>greater than</b> the AAO and is retained for economic or contingency purposes.</p> <p><b>[Excludes Excess Inventory]</b></p>
152400 Inventory – Excess, Obsolete, or Unserviceable	<p>H Unserviceable (Condemned)  P Unserviceable (Reclamation)  S Unserviceable (Scrap)  V Unserviceable (Waste Military Munitions)</p> <p><b>[Includes Serviceable and Unserviceable Excess Inventory]</b></p>

Table A2-3 Relationship of OM&amp;S USSGL Accounts to Logistic Condition Codes

U.S. Standard General Ledger Account	Supply Condition Codes
151100 OM&S Held for Use	<p>A Serviceable (Issuable Without Qualification)  B Serviceable (Issuable With Qualification)  C Serviceable (Priority Issue)  D Serviceable (Test/Modification)  T Serviceable (Ammunition Suitable for Training Use Only)</p> <p>Use this account to record amounts for OM&amp;S with condition codes A-D and T up to the AAO.</p> <p><b>[Excludes Excess, Economic Retention and Contingency Retention OM&amp;S]</b></p>
151200 OM&S Held in Reserve for Future Use	<p>E Unserviceable Reparable (Limited Restoration)  J Suspended (In Stock)  K Suspended (Returns)  L Suspended (In Litigation)  N Suspended (Ammunition Suitable for Emergency Combat Use Only)  Q Suspended (Product Quality Deficiency)</p> <p>Use this account to record amounts for OM&amp;S with condition codes A-D and T that is greater than the AAO and is retained for economic or contingency purposes. Include all inventory designated as E, J, K, L, N and Q in this account.</p> <p><b>[Excludes Excess OM&amp;S]</b></p>
151300 OM&S – Excess, Obsolete, or Unserviceable	<p>H Unserviceable (Condemned)  P Unserviceable (Reclamation)  S Unserviceable (Scrap)  V Unserviceable (Waste Military Munitions)</p> <p><b>[Includes Serviceable and Unserviceable Excess OM&amp;S]</b></p>
151400 OM&S Held for Repair	<p>F Unserviceable (Reparable)  G Unserviceable (Incomplete)  M Suspended (In Work)  R Suspended (Reclaimed Items, Awaiting Condition Determination)</p> <p>Use this account to record amounts for all OM&amp;S with condition codes F, G, M, and R.</p> <p><b>[Excludes Excess OM&amp;S]</b></p>