

CHAPTER 4

OPERATING MATERIALS AND SUPPLIES AND STOCKPILE MATERIALS0401 GENERAL

040101. Purpose. This chapter prescribes the accounting policy and related requirements necessary to establish financial control over DoD materials and supplies including stockpile materials. The applicable general ledger accounts are included in the DoD Uniform Chart of Accounts in [Chapter 7, Volume 1](#), of this Regulation, and the use of the operating materials and supplies and stockpile materials account is illustrated in this chapter.

040102. Operating Materials and Supplies Inventory. Operating materials and supplies consist of tangible personal property to be consumed in normal operations. Excluded are (a) goods that have been acquired for use in constructing real property, (b) stockpile materials, and (c) inventory.

040103. Distinction between Operating Materials and Supplies Inventory. The term "Inventory" is defined as tangible personal property, titled to the government, that is on hand or intransit (e.g., accepted at origin from a vendor, or moving between DoD activities) and is held for sale, future sale, repair, or pending transfer to disposal. Inventory excludes some other assets held for sale, such as (1) stockpile materials (including war reserve material), (2) seized and forfeited property, (3) foreclosed property, and (4) goods held under price support and stabilization programs. These goods may sold; the purpose, however, of acquiring them is not to provide a product or a service for a fee. Guidance relating to inventory held for sale in the course of normal operations will be included within [Volume 11B](#) of this Regulation.

040104. Stockpile Materials. Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business. The following items are specifically excluded from stockpile materials: (a) items that are held by an agency for sale for use in normal operations, (b) items that are held for use in the event of an agency's operating emergency or contingency, and (c) materials acquired to support market prices [that is, commodities specifically acquired, held, sold, or otherwise disposed of to satisfy or help satisfy economic goals].

040105. Recognition of Assets and Expenses. The consumption method of accounting for the recognition of expenses shall be applied for stockpile materials. The consumption method of accounting for the recognition of expenses shall ordinarily be applied for operating materials and supplies. However, in some instances, as noted below, the purchases method of accounting for the recognition of expenses may be used. Operating materials and supplies shall be recognized and reported as assets when produced or purchased. "Purchased" is defined as when title passes to the purchasing entity. 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 shall be based on the terms of the contract regarding shipping and/or delivery.

A. Consumption Method of Accounting. The cost of goods shall be removed from the applicable operating materials and supplies asset account and reported as an operating expense in the period they are issued for consumption in normal operations.

B. Purchase Method of Accounting. The purchase method of accounting provides that operating materials and supplies be expensed when purchased. The purchase method may be used only for those operating materials and supplies that have a general use, are not significant in dollar amount, and are in the hands of the end user (e.g., performing cost center) for use in normal operations.

040106. Valuation of Stockpile Materials. Stockpile materials, except for war reserve material, shall be valued on the basis of historical cost. Historical cost shall include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period. The first-in, first-out (FIFO); weighted average; or moving average cost flow assumptions shall be applied in arriving at the historical cost of stockpile materials. The last-in, first-out (LIFO) is not permitted as an acceptable valuation method due to the stale values that would result. Stockpile materials, other than war reserve materials, are discussed in this chapter. War reserve materials are discussed in [Volume 11B](#) of this Regulation.

040107. Categorization and Valuation of Operating Materials and Supplies. Operating materials and supplies shall be categorized as (a) operating materials and supplies held for use, (b) operating materials and supplies held in reserve for future use, or (c) excess, obsolete and unserviceable operating materials and supplies. Each of the categories shall be valued as described below.

A. Operating Materials and Supplies Held for Use. Ordinarily, items carried in a supply management business area, procurement appropriation, or other appropriated account shall not be drawn from that source until the need for those operating materials and supplies, considering processing leadtime, arises. Similarly, operating materials and supplies procured from commercial sources should not ordinarily be procured for delivery prior to the need for those materials and supplies. Items classified as "Operating Materials and Supplies Held for Use," shall not exceed the amount expected to be used within 30 days unless justifying documentation supporting a supply in excess of 30 days is developed and maintained for review. Operating materials and supplies shall be valued on the basis of historical cost. Historical cost shall include all appropriate purchase and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period. Donated operating materials and supplies shall be valued at their fair value at the time of donation. The first-in, first-out (FIFO); weighted average; or moving average cost flow assumptions shall be applied in arriving at the historical cost of ending operating materials and supplies and cost of goods consumed. The last-in, first-out (LIFO) is not permitted as an acceptable valuation method due to the stale values that would result.

B. Operating Materials and Supplies Held in Reserve for Future Use. As a rule, operating materials and supplies shall not exceed the amount expected to be used within 30

days unless justifying documentation supporting a supply in excess of 30 days is developed and maintained for review. Within reason and normal prudence, items in excess of current needs shall be returned to the supplier and credit requested. Operating materials and supplies maintained because they are not readily available in the market or because it is likely they will be needed subsequently shall be classified as Operating Materials and Supplies Held in Reserve for Future Use. Operating materials and supplies held in reserve for future use shall be valued using the same basis as operating materials and supplies held for use in normal operations.

C. Excess, Obsolete, and Unserviceable Operating Materials and Supplies

1. Excess operating materials and supplies are operating materials and supplies that exceed the amount on hand that can be used within one year.

2. Obsolete operating materials and supplies are operating materials and supplies that are no longer needed due to changes in technology, laws, customs, or operations.

3. Unserviceable operating materials and supplies are operating materials and supplies that are physically damaged and cannot be consumed in operations.

4. Excess, obsolete, or unserviceable materials and supplies shall be valued at their estimated net realizable value. The difference between their carrying amount before identification as excess, obsolete or unserviceable and their estimated net realizable value shall be recognized as a loss in GLA 7293, "Other Miscellaneous Losses," at the time the determination is made even though the disposition of the materials and supplies may not occur until a later period. Any subsequent adjustments to its net realizable value upon disposal shall also be recognized as a loss.

040108. Financial Statement Disclosure Requirements for Operating Materials and Supplies. Notes accompanying financial statements shall include:

A. General composition of operating materials and supplies.

B. Basis for determining operating materials and supplies values; including valuation method and any cost flow assumption.

C. Changes from prior year accounting methods, if any.

D. Balances for each of the categories of operating materials and supplies described above.

E. Restrictions on the use of materials.

F. Decision criteria for identifying the category to which operating materials and supplies are assigned.

G. Changes in the criteria for identifying the category to which operating materials and supplies are assigned.

0402 ACCOUNTING POLICY

040201. The acquisition cost of DoD supplies and material represents a substantial investment. It is important to bring this cost under financial control and to carry it forward until the inventory is issued for use or transferred out of the Department of Defense. Any item purchased by a DoD Component shall be brought under financial accounting control and recorded in the applicable general ledger account until issued to a user or consumer.

040202. Acquisition price means the price paid for the item net of any discounts determined to be economically feasible to take. [Chapter 2](#) of this Volume provides guidance on determining when to take discounts.

040203. The general ledger accounts discussed in this chapter contain summary dollar amounts that shall be reported in the financial statements required by the Treasury and in other reporting requirements mandated by OMB and the Congress. Each account shall be updated based on applicable source documents.

0403 ACCOUNTING FOR OPERATING MATERIALS AND SUPPLIES

040301. A discussion of the operating materials and supplies accounts is provided in paragraphs 040302 through 040306, below.

040302. Operating Materials and Supplies (Account 1510)

A. "Operating Materials and Supplies" consist of tangible personal property to be consumed in normal operations. Operating materials and supplies shall be categorized as (1) operating materials and supplies held for use, (2) operating materials and supplies held for future use, or (3) excess, obsolete and unserviceable operating materials and supplies.

B. This account is a summary account used for financial statement purposes. No transactions are posted to this account.

040303. Operating Materials and Supplies Held for Use (Account 1511)

A. "Operating Materials and Supplies Held for Use" is used to record supplies and materials received and subsequently issued for use. As such this account is intended to be used by any DoD Component that maintains supplies and materials.

B. Table 4-1 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1511 -
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OPERATING MATERIALS AND SUPPLIES HELD FOR USE

1. Dr 1511 Operating Materials and Supplies Held for Use
 Cr 2111 Accounts Payable-Government-Current
 Cr 2113 Accounts Payable-Public-Current

 To record receipt of supplies and material recorded into inventory.

2. Dr 6121 Supplies and Materials
 Cr 1511 Operating Materials and Supplies Held for Use

 To record the issue of supplies and material from inventory

3. Dr 1511 Operating Materials and Supplies Held for Use
 Cr 1581 Inventory-Work in Process-In-House
 Cr 1721 Construction in Progress-In-House
 Cr 6121 Supplies and Materials

 To record the return of supplies and material to inventory.

4. Dr 1511 Operating Materials and Supplies Held for Use
 Cr 3220 Transfers In from Others-Without Reimbursement

 To record supplies and material received without reimbursement by the Department

5. Dr 1511 Operating Materials and Supplies Held for Use
 Cr 7193 Other Miscellaneous Gains

 To record an increase in the inventory of supplies and material discovered by physical inventory.

6. Dr 3231 Transfers Out to Government Agencies-Without
 Reimbursement
 Dr 3232 Transfers Out to Others-Without Reimbursement
 Cr 1511 Operating Materials and Supplies Held for Use

 To record the transfer of supplies and material from inventory without reimbursement.

7. Dr 7293 Other Miscellaneous Losses
 Cr 1511 Operating Materials and Supplies Held for Use

<p>2. Dr 6121 Cr 1511</p>	<p>Supplies and Materials Operating Materials and Supplies Held for Use</p>
<p>To record the use of operating materials and supplies.</p>	
<p>3. Dr 1513 Unserviceable Cr 1511 for Future Use</p>	<p>Operating Materials and Supplies-Excess, Obsolete and Operating Materials and Supplies Held in Reserve</p>
<p>To reclassify operating materials and supplies.</p>	

TABLE 4-2

D. Sources for entries to this account include receiving reports, inspection reports, material release orders, and reports of survey.

040305. Operating Materials and Supplies - Excess, Obsolete and Unserviceable (Account 1513)

A. "Operating Materials and Supplies -Excess, Obsolete and Unserviceable" is used to record the value of stocks of materials and supplies maintained because they are not readily available in the market or because there is more than a remote chance they will eventually be needed, although not necessarily in the normal course of operations.

B. This account is intended for use by all DoD activities, including Defense Business Operations Fund activities.

C. Table 4-3 illustrates the most common entries used for this account.

<p>ACCOUNTING ENTRIES FOR ACCOUNT 1513 - OPERATING MATERIALS AND SUPPLIES - EXCESS, OBSOLETE AND UNSERVICEABLE</p>	
<p>1. Dr 1513 Unserviceable Dr 7293 Cr 1511 Cr 1512 for</p>	<p>Operating Materials and Supplies - Excess, Obsolete and Other Miscellaneous Losses Operating Materials and Supplies Held for Use Operating Materials and Supplies Held in Reserve Future Use</p>

To record excess, obsolete, or unserviceable operating materials and supplies at its estimated net realizable value. The difference between the carrying amount before identification as excess, obsolete, or unserviceable and their estimated net realizable value shall be recognized at a loss in GLA 7291.2, "Excess/Obsolescence/Spoilage Loss," at the time the determination is made even though the disposition of the materials and supplies may not occur until a later period. Any subsequent adjustments to net realizable value upon disposal shall also be recognized as a loss.

2. Dr 7293 Other Miscellaneous Losses
 Cr 1513 Operating Materials and Supplies-Excess, Obsolete
 and Unserviceable
 To record remaining loss upon final disposal of excess, obsolete or unserviceable items.

TABLE 4-3

040306. Operating Materials and Supplies In Transit (Account 1514)

- A. "Operating Materials and Supplies In Transit" is used to record the value of supplies and materials in transit that have not been received.
- B. This account shall be used to record the initial acceptance of items when title has passed but the items have not been received and accepted.
- C. Items in transit between DoD accounting entities shall be kept under financial accounting control at all times. Entries to this account shall not be reversed at the beginning of the subsequent accounting period.
- D. Table 4-4 illustrates the most common entries used for this account.

**ACCOUNTING ENTRIES FOR ACCOUNT 1514 -
 OPERATING MATERIALS AND SUPPLIES IN TRANSIT**

1. Dr 1514 Operating Materials and Supplies In Transit
 Cr 2111 Accounts Payable-Government-Current
 Cr 2113 Accounts Payable-Public-Current
 To record the value of operating materials and supplies in transit.
2. Dr 1511 Operating Materials and Supplies Held for Use
 Dr 1512 Operating Materials and Supplies Held in Reserve for Future Use
 Cr 1514 Operating Materials and Supplies In Transit
 To record the receipt of operating materials and supplies in transit

TABLE 4-4

E. Sources of entries to this account include receiving reports, inspection reports, invoices, and documented estimates indicating source of estimates.

0404 ACCOUNTING FOR STOCKPILE MATERIALS

040401. Stockpile Materials (Account 1570)

A. "Stockpile Materials" are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business.

B. This account is a summary account used for financial statement purposes. No transactions are posted to this account.

040402. Stockpile Materials Held in Reserve (Account 1571)

A. "Stockpile Materials Held in Reserve" is the account commonly used to account for the value of stockpiled materials as stockpile materials are not held with the intent of selling in the ordinary course of business.

B. Table 4-5 illustrates the most common entries used for this account.

ACCOUNTING ENTRIES FOR ACCOUNT 1571 - STOCKPILE MATERIALS HELD IN RESERVE													
1.	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Dr 1571</td> <td style="width: 35%;">Stockpile Materials Held in Reserve</td> <td style="width: 50%;"></td> </tr> <tr> <td></td> <td style="text-align: right;">Cr 2111</td> <td style="text-align: left;">Accounts Payable-Government-Current</td> </tr> <tr> <td></td> <td style="text-align: right;">Cr 2113</td> <td style="text-align: left;">Accounts Payable-Public-Current</td> </tr> <tr> <td colspan="3">To record receipt of stockpile material.</td> </tr> </table>	Dr 1571	Stockpile Materials Held in Reserve			Cr 2111	Accounts Payable-Government-Current		Cr 2113	Accounts Payable-Public-Current	To record receipt of stockpile material.		
Dr 1571	Stockpile Materials Held in Reserve												
	Cr 2111	Accounts Payable-Government-Current											
	Cr 2113	Accounts Payable-Public-Current											
To record receipt of stockpile material.													
2.	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Dr 6121</td> <td style="width: 35%;">Supplies and Materials</td> <td style="width: 50%;"></td> </tr> <tr> <td></td> <td style="text-align: right;">Cr 1571</td> <td style="text-align: left;">Stockpile Materials Held in Reserve</td> </tr> <tr> <td colspan="3">To record issue of stockpile material.</td> </tr> </table>	Dr 6121	Supplies and Materials			Cr 1571	Stockpile Materials Held in Reserve	To record issue of stockpile material.					
Dr 6121	Supplies and Materials												
	Cr 1571	Stockpile Materials Held in Reserve											
To record issue of stockpile material.													

TABLE 4-5

040403. Stockpile Materials Held For Sale (Account 1572)

A. "Stockpile Materials Held For Sale" is used to account for stockpile materials that have been authorized for sale. The materials authorized for sale shall be valued using the same basis used before they were authorized for sale. Any gain (or loss) upon sale shall be recognized as a gain (or loss) at that time.

B. Table 4-6 illustrates the most common entries used for this account.

040404. Allowance for Loss on Stockpile Materials (Account 1579.1)

A. "Allowance for Loss on Stockpile Materials" is used to adjust for reasonably predictable and recurring events that although not known in advance can nevertheless be estimated with a fair degree of precision. Predictable and recurring events include losses due to causes such as deterioration, breakage, and theft.

ACCOUNTING ENTRIES FOR ACCOUNT 1579.1 - ALLOWANCE FOR LOSS ON STOCKPILE MATERIALS	
1.	Dr 7293 Other Miscellaneous Losses
	Cr 1579.1 Allowance for Loss on Stockpile Materials
To record the estimate of loss due to shrinkage or other causes. (The estimate of loss may be subsequently valued higher or lower if it becomes obvious that the original estimate was significantly different from currently expected events.)	
2.	Dr 1579.1 Allowance for Loss on Stockpile Materials
	Cr 1571 Stockpile Materials Held in Reserve
	Cr 1572 Stockpile Materials Held For Sale
To record actual loss of stockpile materials. (If this entry would result in abnormal (debit) balance in account 1579.1, then the entry illustrated in (1.) above should be made for the abnormal portion.)	

TABLE 4-7

ACCOUNTING ENTRIES FOR YEAR-END CLOSING/ADJUSTING ENTRY	
	Dr 1579 Allowance for Loss on Stockpile Materials
	Cr 7293 Other Miscellaneous Losses
To adjust loss estimates to actual loss at fiscal year end when the loss estimate is greater than the actual loss.	
	Dr 7293 Other Miscellaneous Losses
	Cr 1579 Allowance for Loss on Stockpile Materials
To adjust loss estimates to actual loss at fiscal year-end when the loss estimate is less than the actual loss.	

TABLE 4-8

0405 ACCOUNTING FOR WORK IN PROCESS

040501. Four "Work in Process" subsidiary accounts control applicable work, payments, and property that receive special attention. "Work in Process-In-House," "Work in Process-Contractor," and "Work in Process-Other Government Activities," identify the performing activity. "Work in Process-Government-Furnished Material," identifies that portion of Government property (including other Federal Agencies) furnished to contractors and subcontractors performance of DoD contracts for other than real property. Government property, in this case,

includes all personal property acquired directly by the Department of Defense made available for incorporation into personal property and products to be delivered under DoD contracts or to be consumed or expended in the performance of those contracts.

040502. Work in Process general ledger accounts may be used by any DoD Component or activity within those Components. However, since activities within the Defense Business Operations Fund (predominantly those within the Depot Maintenance business area) more commonly use the work in process general ledger accounts, the description and use of the work in process accounts is contained in [Volume 11B](#) of this Regulation.

Error! Bookmark not defined. ACCOUNT NO. 1510	
OPERATING MATERIALS AND SUPPLIES	
<p>DESCRIPTION: The amount of tangible personal property to be consumed in normal operations. Operating materials and supplies shall be categorized as (1) operating materials and supplies held for use, (2) operating materials and supplies held for future use, or (3) excess, obsolete and unserviceable operating materials and supplies.</p>	
DEBIT	CREDIT
<p>This is a summary account Do not post to this account</p>	
<p>NORMAL BALANCE: DEBIT</p>	
FIGURE 4-1	

ACCOUNT NO. 1511

OPERATING MATERIALS AND SUPPLIES HELD FOR USE

DESCRIPTION: The amount of tangible personal property to be consumed in normal operations within a reasonable period and which is ordinarily readily available in the marketplace or other source of supply or is not being held for other contingency reasons. Includes items acquired for use or consumption in the production of goods and services prior to the issue of those items to work in process.

DEBIT	CREDIT
1. Receipt of operating supplies and materials. Contra:2111 Accounts Payable-Government 2113 Accounts Payable-Public 3220 Transfers In from Others- Without Reimbursement	1. Issue of operating supplies and materials. Contra:6121 Supplies and Materials

NORMAL BALANCE: DEBIT

FIGURE 4-2

Error! Bookmark not defined.ACCOUNT NO. 1512	
OPERATING MATERIALS AND SUPPLIES HELD IN RESERVE FOR FUTURE USE	
DESCRIPTION: The amount of materials and supplies maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations.	
DEBIT	CREDIT
<p>1. Receipt of operating materials and supplies.</p> <p>Contra: 2111 Accounts Payable-Government 2113 Accounts Payable-Public 3220 Transfers In from Others- Without Reimbursement</p> <p>2. Reclassification of Materials and Supplies.</p> <p>Contra: 1511 Operating Materials and Supplies Held for Use</p>	<p>1. Issue of operating materials and supplies.</p> <p>Contra: 6121 Supplies and Materials.</p> <p>2. Reclassification of Materials and Supplies.</p> <p>Contra: 1511 Operating Materials and Supplies Held for Use</p>
NORMAL BALANCE: DEBIT	
FIGURE 4-3	

ACCOUNT NO. 1513

**OPERATING MATERIALS AND SUPPLIES - EXCESS, OBSOLETE
AND UNSERVICEABLE**

DESCRIPTION: Excess operating materials and supplies are operating materials and supplies that exceed the amount expected to be used in normal operations because the amount on hand is more than can be used in the foreseeable future and that do not meet the criteria to be held in reserve for future use. Obsolete operating materials and supplies are operating materials and supplies that are no longer needed due to changes in technology, laws, customs, or operations. Unserviceable operating materials and supplies are operating materials and supplies that are physically damaged and cannot be consumed in operations.

DEBIT	CREDIT
<p>1. Reclassification of operating materials and supplies as excess, obsolete, or unserviceable.</p> <p>Contra: 1511 Operating Materials and Supplies Held for Use 1512 Operating Materials and Supplies Held in Reserve for Future Use</p>	<p>1. Sale or other disposal of excess, obsolete, or unserviceable operating materials and supplies.</p> <p>Contra: 1011 Funds Collected 7291.2 Excess/Obsolescence/ Spoilage Loss</p>

NORMAL BALANCE: DEBIT

FIGURE 4-4

ACCOUNT NO. 1514	
OPERATING MATERIALS AND SUPPLIES IN TRANSIT	
DESCRIPTION: Represents the value of inventory which has not been received.	
DEBIT	CREDIT
1. Value of operating materials and supplies in transit. Contra: 2111 Accounts Payable-Government-Current 2113 Accounts Payable-Public-Current	1. Receipt of operating materials and supplies. Contra: 1511 Operating Materials and Supplies Held for Use 1512 Operating Materials and Supplies Held in Reserve for Future Use
NORMAL BALANCE: DEBIT	
FIGURE 4-5	

ACCOUNT NO. 1570

STOCKPILE MATERIALS

DESCRIPTION: Strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies.

DEBIT

CREDIT

This is a summary account
Do not post to this account

NORMAL BALANCE: DEBIT

FIGURE 4-6

ACCOUNT NO. 1571	
STOCKPILE MATERIALS HELD IN RESERVE	
DESCRIPTION: Strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies.	
DEBIT	CREDIT
1. Receipt of materials. Contra: 2111 Accounts Payable- Government-Current 2113 Accounts Payable-Public- Current	1. Issue of inventory. Contra: 6121 Supplies and Materials
NORMAL BALANCE: DEBIT	
FIGURE 4-7	

ACCOUNT NO. 1572

STOCKPILE MATERIALS HELD FOR SALE

DESCRIPTION: Stockpile materials held that have been authorized for sale.

DEBIT	CREDIT
1. Reclassification of stockpile materials. Contra: 1571 Stockpile Materials Held in Reserve	1. Sale of stockpile materials. Contra: 6500 Cost of Goods Sold 7293.1 Other Miscellaneous Losses

NORMAL BALANCE: DEBIT

FIGURE 4-8

ACCOUNT NO. 1591.1	
ALLOWANCE FOR LOSS ON STOCKPILE MATERIALS	
<p>DESCRIPTION: An allowance account used to adjust for reasonably predictable and recurring events such as losses due to causes such as deterioration, breakage, and theft that although not known in advance can nevertheless be estimated with a fair degree of precision.</p>	
DEBIT	CREDIT
<p>1. Incurrence of actual loss.</p> <p>Contra: 1571 Stockpile Materials Held in Reserve 1572 Stockpile Materials Held for Sale</p>	<p>1. Establish an estimate of losses.</p> <p>Contra: 7293.2 Shrinkage/Deterioration Losses</p>
<p>NORMAL BALANCE: DEBIT</p>	
<p>FIGURE 4-9</p>	