

CHAPTER 56

OPERATING MATERIALS AND SUPPLIES

A. GENERAL

1. General Information. General information on materials and supplies may be found in [Volume 4](#), "Accounting Policy and Procedures," [chapter 4](#), "Materials and Supplies," prescribes the accounting policy and related requirements necessary to establish financial control over DoD materials and supplies, including stockpile materials. This chapter includes information specific to the operation of the Defense Business Operation Fund and its activities.

2. Definition. Operating materials and supplies consist of tangible personal property to be consumed in normal operations. Excluded from "operating materials and supplies" are (a) goods that have been acquired for use in constructing real property, (b) stockpile materials, and (c) inventory. [See following distinction between operating materials and supplies and inventory.]

3. Distinction between Operating Materials and Supplies and Inventory. "Inventory" consists of items acquired for the specific purpose of sale to others. The Supply Management business area and Defense Commissary Agency are the only DBOF business areas that should hold inventory. All DBOF activities, including those within the Supply Management and Defense Commissary Agency business areas, generally hold operating materials and supplies for use in their normal day-to-day operations. As an example of the distinction, items when held by the Supply Management business area for sale are classified as "Inventory." Those same items, when sold to, for example, a Depot Maintenance activity for use in the process of repair or other operations of the activity are classified as "Operating Materials and Supplies." DBOF business area should as operating materials and supplies items purchased both commercially and from the supply system including "office" supplies and other materials consumed in the performance of mission.

4. Acceptance and Utilization of Customer-Furnished Material. Customer-furnished material shall be accepted and utilized only in those instances in which it is the general policy of the customer to furnish the materials involved. Customer-furnished materials shall be accounted for and reported to customers separately and shall be related to specific end products in such a manner as may be required by those customers.

B. CATEGORIES OF OPERATING MATERIALS AND SUPPLIES

1. The categories of operating materials and supplies are discussed in [Volume 4, Chapter 4](#), of this Regulation. A summarization of those categories are:

a. Account 1511 - Operating Materials and Supplies Held for Use. Materials and supplies that do 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. A typical accounting entry to record Operating Materials and Supplies Held for Use is:

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

If the materials and supplies were originally recorded as “in transit,” (see subparagraph d. below) the following entry is applicable:

Dr 1511 Operating Materials and Supplies Held for Use
Cr 1514 Operating Materials and Supplies in Transit

b. Account 1512 - Operating Materials and Supplies Held for Future Use. Materials and supplies maintained because they are not readily available in the market or because it is likely they will be needed subsequently. While it is possible that items may be procured for direct placement in this category, it is more likely that items will migrate from Operating Materials and Supplies Held for Use. A typical accounting entry to record Operating Materials and Supplies Held for Use is:

Dr 1512 Operating Materials and Supplies Held for Future Use
Cr 1511 Operating Materials and Supplies Held for Use

c. Account 1513 - Excess, Obsolete, and Unserviceable Operating Materials and Supplies. This consists of:

(1) Operating materials and supplies that exceed the amount on hand that can be used within one year.

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

(3) Operating materials and supplies that are physically damaged and cannot be consumed in operations.

A typical accounting entry to record Excess, Obsolete, and Unserviceable Operating Materials and Supplies is:

Dr 1513 Operating Materials and Supplies - Excess, Obsolete
and Unserviceable
Dr 7293 Other Miscellaneous Losses
Cr 1511 Operating Materials and Supplies Held for Use
Cr 1512 Operating Materials and Supplies Held for Future Use

d. Account 1514 - Operating Materials and Supplies in Transit. Materials and supplies for which an invoice has been received prior to physical receipt of the invoiced materials and supplies. A typical accounting entry to record Operating Materials in Transit is:

Dr 1514 Operating Materials and Supplies in Transit
Cr 2111 Accounts Payable-Government-Current

When the materials and supplies are received, the following accounting entry should be recorded:

Dr 1511 Operating Materials and Supplies Held for Use
Cr 1514 Operating Materials and Supplies in Transit

e. Account 1515 - Operating Materials and Supplies Under Development - DBOF.

This account is used by the Defense Business Operations Fund to accumulate the cost of non-capital assets in the process of development or manufacture for use and retention by the performing activity. Upon completion of the asset, its value is transferred to account 1511. (Capital assets in the process of development or manufacture for use and retention by the performing business area activity are accounted for within account 1725.). A typical accounting entry to record Operating Materials Under Development is:

Dr 1515 Operating Materials and Supplies Under Development
Cr 6000 Series of Operating Program/Expenses

When the asset is completed, account 1515 shall be relieved through the following accounting entry:

Dr 1511 Operating Materials and Supplies Held for Use
Cr 1515 Operating Materials and Supplies Under Development

C. CONSUMPTION OF OPERATING MATERIALS AND SUPPLIES

1. Items to be Used or Consumed in Operations. Items purchased by DBOF activities to be consumed in the performance of their missions shall be recorded and reported as "Operating Materials and Supplies," (Account Series 1510) versus "Inventory," (Account Series 1520). "Operating Materials and Supplies" shall be valued and reported at historical cost.

2. Items Used or Consumed in Operations

a. Operating Expense. Operating materials and supplies consumed by DBOF activities in the performance of their missions shall be recorded and reported as an operating expense in the period they are issued for consumption (this is termed the "consumption method of accounting"). In certain cases, operating materials and supplies may be reported as an operating expense when purchased (this is termed the "purchase method of accounting"). The purchase method of accounting may be used within the Defense Business Operations Fund only for those operating materials and supplies that 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 (as an example, pre-expended bin supplies). A typical accounting entry to record the consumption or issuance for consumption of operating materials and supplies is:

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

Entry to record consumption or issue for consumption of operating materials and supplies.

b. Work In Process. Some DBOF activities, primarily those involved in the provision of service-type operations, recognize operating materials and supplies as an expense of the period in which the materials and supplies are used or issued for use and, as a result, do not use a "work in process" general ledger account. Other DBOF activities, primarily those involved in depot maintenance or other industrial-type operations, who routinely perform tasks that take more than a month, transfer the expense to a work in process account so that costs may be matched to

revenue upon completion of the task. Guidance relating to accounting for work in process is included within chapter 57 of this volume. Items to be used or consumed in the production of goods and services for sale shall not be recorded within a work in process account until such time as they are issued for use or consumption in response to a customer order. Prior to such release, those items shall be classified as "Operating Materials and Supplies." A typical accounting entry to record the assignment of operating materials and supplies cost to work in process is:

Dr 1581 Work in Process - In House
Cr 6121 Supplies and Materials

Entry to record assignment of supplies and materials cost to work in process.

3. Disposition of Completed Products. Completed products in response to a customer order may not be retained as assets (i.e., finished goods) of DBOF activities. Upon completion, goods and services resulting from customer orders shall be billed promptly to customers. Delay or deferment of billing pending customer acceptance of finished work is not authorized. Parts and supplies manufactured for internal DBOF use shall be transferred, upon completion, to the operating materials and supplies account." A typical accounting entry to record the completion of a task previously recorded in work in process is:

Dr 6500 Cost of Goods Sold
Cr 1581 Work in Process - In House

Entry to transfer of work in process to cost of goods sold upon completion of a task previously recorded in work in process.

D. DISPOSAL OF EXCESS MATERIALS

1. Policy. It is DBOF policy that each business area record all of its costs and develop billing rates to recover its costs. In certain circumstances, however, exceptions may be granted to the policy that all costs must be recovered through billing rates. Exceptions are granted in the following ways:

a. Annual budget guidance provided by the Under Secretary of Defense (Comptroller) for the formulation of budgets and rates will identify specific gains or losses, if any, that may not need to be returned or recouped in the DBOF rate structure for the applicable budget year.

b. Additional gains and losses, beyond those specified by the Under Secretary of Defense (Comptroller) in budget formulation guidance, also may be propose as part of the Components annual budget submission. All such amounts must be approved by the Office of the Under Secretary of Defense (Comptroller) prior to being included in the Component's congressional/President's budget submission, and implemented.

c. Specific request that realized gains or losses be excepted from the requirement to be returned or recouped in DBOF rates should be submitted individually, on a case-by-case basis, and will be favorably considered only if the DoD Component can demonstrate that not recouping the loss through DBOF rates would be in the best interest of the Department of Defense and would not adversely affect the DBOF.

2. Application of Policy. DBOF activities shall, in all instances, account for the loss resulting from the disposal of excess materials. However, if approved by the Office of the Under Secretary of Defense (Comptroller), the loss resulting from that disposal need not be included in subsequent year stabilized billing rates. As stabilized billing rates are developed to result in an Accumulated Operating Result of $\$-0-$, the following entries shall be made:

Dr 1513 Operating Materials and Supplies - Excess, Obsolete and Unserviceable

Dr 7293 Other Miscellaneous Losses

Cr 1511 Operating Materials and Supplies Held for Use

Cr 1512 Operating Materials and Supplies Held for Future Use

Entry to recognize loss resulting from disposal of excess, obsolete, or unserviceable operating materials and supplies.

Dr 3321 Net Results of Operations - DBOF

Cr 7293 Other Miscellaneous Losses

Entry to close loss on excess operating supplies and materials to Net Operating Results.

Dr 3311.2 Cumulative Results of Operations-DBOF-Deferred

Cr 3321 Net Results of Operations - DBOF

Entry to close Net Operating Results to Cumulative Results of Operations (aka Accumulated Operating Results). Note that general ledger account 3311, "Cumulative Results of Operations," is subdivided into two subsidiary accounts. Account 3311.1 is the account on which stabilized rates are developed to result in a $\$-0-$ balance. Account 3311.2 is the account in which losses and gains are recorded that are not, in the immediate future, to be included in stabilized rate development.

E. VALUATION OF OPERATING MATERIALS AND SUPPLIES

Operating materials and supplies shall be valued on the basis of historical (i.e., the amount paid for the materials and supplies by the receiving activity) cost. Donated operating materials and supplies shall be valued at their fair value at the time of donation. Excess, obsolete, or unserviceable operating materials and supplies shall be valued at their estimated net realizable value. The difference between the carrying amount of the operating materials and supplies before identification as excess, obsolete or unserviceable and their estimated net realizable value shall be recognized as a loss (or gain) in current period operations. Any subsequent adjustments to net realizable value shall also be recognized as a loss (or gain).

F. FINANCIAL STATEMENT DISCLOSURE REQUIREMENTS FOR OPERATING MATERIALS AND SUPPLIES. Notes accompanying financial statements shall include:

1. General composition of operating materials and supplies.

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

3. Changes from prior year accounting methods, if any.
4. Balances for each of the categories of operating materials and supplies described above.
5. Restrictions on the use of materials.
6. Decision criteria for identifying the category to which operating materials and supplies are assigned.
7. Changes in the criteria for identifying the category to which operating materials and supplies are assigned.