

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 [May 2009](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Policy Memo	The Deputy Chief Financial Officer (DCFO) policy memorandum “Inventory and Related Property Policy Requirements,” dated November 13, 2015, was incorporated into the chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum “Accounting Policy Update for Expense Recognition of Operating Materials and Supplies,” dated September 4, 2015, was incorporated into the chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum, “Alternative Valuation Methodologies for Establishing Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials,” dated August 28, 2015, was incorporated into the chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum “Accounting Treatment of Long Range Ballistic Missiles,” dated September 12, 2016, was incorporated into the chapter and cancelled.	Cancellation
Policy Memo	The DCFO policy memorandum “Accounting Policy Update for Inventory and Related Property” dated March 1, 2013, was cancelled and was not incorporated into the chapter because it has been superseded by the revised policy in the chapter.	Cancellation
1.1 (040101)	Added a paragraph relating to the applicability of this chapter to the General Fund, the Working Capital Fund (WCF), and the National Stockpile Fund.	Addition
1.2 (040102)	Added an “Authoritative Guidance” paragraph.	Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
2.0 (0402)	Updated the definition section to include additional language/definitions.	Revision
3.2 (040302)	Added guidance for determining when the use of the purchases method recognition is appropriate for Operating Materials and Supply (OM&S).	Addition
3.3.3. (040303.C)	Revised guidance to require Department of Defense (DoD) Components with excess, obsolete, and unserviceable (EOU) inventory and OM&S to adjust the recorded value of EOU to its expected Net Realizable Value (NRV).	Revision
3.4.1. (040304.A)	Added additional General Ledger Accounts descriptions related to OM&S.	Addition
3.5 (040305)	Added guidance for minor items not meeting the definition of OM&S.	Addition
3.6 (040306)	Added guidance on accounting treatment for long-range ballistic missiles.	Addition
4.3 (040403)	Updated guidance for valuation of inventory.	Revision
4.4.1. (040404.A)	Revised guidance on the use of subaccounts, which must aggregate to one United States Standard General Ledger (USSGL) account in the DoD Standard Chart of Accounts.	Revision
5.2.4. (040502.D)	Added guidance for new or modified model of military clothing items and individual equipment.	Addition
5.2.8. (040502.H)	Added the policy for funding initial spares for newly fielded weapon systems.	Addition
5.8.2. (040508.B)	Added policy regarding supporting documentation and reconciliation regarding Depot Level Repairables.	Addition
5.10 (040510)	Added additional guidance for excess items disposition.	Addition
7.1 (040701)	Added requirement to record work-in-process for progress billings.	Addition
7.2.2.3. (040702.B.3)	Added the policy that progress billings from a supply management activity for manufacture of inventory must be recorded as inventory work-in-process.	Addition
7.2.3.1. (040702.C.1)	Deleted the policy that costs recorded in work-in-process accounts must be transferred to operating expenses/cost of goods sold upon completion or termination of a customer order. Established the policy that work-in-process costs of completed customer orders must be transferred to inventory-finished goods, and that work-in-process costs of terminated customer orders be transferred to operating expenses/program costs.	Revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
7.2.3.2. (040702.C.2)	Deleted the policy that “all losses should be recognized no later than 120 days after the customer order was completed or the end of the fiscal year in which the order was completed, whichever is sooner, unless an existing funded customer order supports these costs.” This subparagraph is revised to require that upon completion of a customer order, no costs associated with that customer order must remain in the work-in-process account.	Revision
7.2.3.3. (040702.C.3)	Added the policy that probable losses on customer orders must be recognized proportionately over the life of the contract.	Addition
7.2.3.5. (040702.C.5)	Added criteria for transfer of inventory work-in-process to inventory held for sale.	Addition
7.3 (040703)	Revised the requirement of WCF activities to capture costs at a more detailed level than the USSGL.	Revision
0408 (Deleted)	Deleted the section related to the Defense Reutilization and Marketing Service's instructions and format for estimating the NRV of EOU. The Defense Logistics Agency (DLA) policies for estimating NRV are applicable only to DLA.	Deletion
Annex A1	Added an example template for cost benefit analysis for supporting the use of the purchases method of recognition for certain OM&S items.	Addition
Annex A2	Established a Generally Accepted Accounting Principles compliant method for establishing opening balances of inventory, OM&S, and stockpile materials.	Addition

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CHAPTER 4

INVENTORY AND RELATED PROPERTY

1.0 GENERAL (0401)

*1.1 Purpose (040101)

1.1.1. This chapter prescribes the accounting policy and related requirements necessary to establish financial control over Department of Defense (DoD) inventory, operating materials and supplies (OM&S) and stockpile materials. The DoD Standard Chart of Accounts, which is located on the Deputy Chief Management Officer Standard Financial Information Structure ([SFIS](#)) website, provides detailed account descriptions of each of the general ledger accounts referenced in this chapter. The DoD Standard Chart of Accounts was developed from the United States Standard General Ledger ([USSGL](#)) published by the Department of Treasury. Posting guidance outlined in the DoD USSGL Transaction Library is also located on the SFIS website. For detailed requirements on financial statement disclosure for Inventory and Related Property (I&RP), refer to Volume 6B, Chapter 10.

1.1.2. 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	National Stockpile Fund
1.0 (0401)	General	X	X	X
2.0 (0402)	Definitions	X	X	X
3.0 (0403)	OM&S	X	X	-
4.0 (0404)	Inventory	-	X	-
5.0 (0405)	Supply Management Operations	-	X	-
6.0 (0406)	War Reserve Material (WRM)	-	X	-
7.0 (0407)	Work-In-Process	-	X	-
8.0 (0408)	Stockpile Materials	-	X	X
Annex 1	Cost Benefit Template Example	X	X	-
Annex 2	Alternative Valuation Methodologies for Establishing Opening Balances for Inventory, OM&S, and Stockpile Materials	X	X	-
X = Section is Applicable				-

*1.2 Authoritative Guidance (040102)

The references to 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:

1.2.1. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Concepts (*SFFAC* 1, “Objectives of Federal Financial Reporting,” – Applicable for GF, WCF, and NSF.

1.2.2. FASAB Statement of Federal Financial Accounting Standards (*SFFAS* 3, “Accounting for Inventory and Related Property,” – Applicable for GF, WCF, and NSF.

1.2.3. FASAB *SFFAS* 7, “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,” – Applicable for GF, WCF, and NSF.

1.2.4. FASAB *SFFAS 21*, “Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources,” – Applicable for GF, WCF, and NSF.

1.2.5. FASAB *SFFAS 48*, “Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials,” – Applicable for GF, WCF, and NSF.

1.2.6. FASAB Interpretation of Federal Financial Accounting Standards (*Interpretation* 7, “Items Held for Remanufacture,” – Applicable for WCF only.

1.2.7. Title 10, United States Code (U.S.C), *section 127*, “Emergency and extraordinary expenses,” – Applicable for both GF and WCF.

1.2.8. *10 U.S.C. § 2208*, “Working-capital funds,” – Applicable for WCF only.

1.2.9. *10 U.S.C. § 2551*, “Equipment and barracks: national veterans’ organizations,” – Applicable for WCF only.

1.2.10. *10 U.S.C. § 2552*, “Equipment for instruction and practice: American National Red Cross,” – Applicable for WCF only.

1.2.11. *10 U.S.C. § 2553*, “Equipment and services: Presidential inaugural ceremonies,” – Applicable for WCF only.

1.2.12. *10 U.S.C. § 2554*, “Equipment and other services: Boy Scout Jamborees,” – Applicable for WCF only.

1.2.13. *10 U.S.C. § 2556*, “Shelter for homeless; incidental services,” – Applicable for WCF only.

1.2.14. [10 U.S.C. § 2557](#), “Excess nonlethal supplies, availability for humanitarian relief, domestic emergency assistance, and homeless veterans assistance,” – Applicable for WCF only.

1.2.15. [10 U.S.C. § 2667](#), “Leases: non-excess property of military departments and Defense Agencies,” – Applicable for WCF only.

1.2.16. [22 U.S.C. § 2318](#), “Special authority,” – Applicable for WCF only.

1.2.17. [22 U.S.C. § 2761](#), “Sales from stocks,” – Applicable for WCF only.

1.2.18. [40 U.S.C. § 503](#), “Exchange or sale of similar items,” – Applicable for WCF only.

1.2.19. [50 U.S.C. Subchapter III](#), “Acquisition and development of Strategic Raw Materials,” – Applicable for NSF only.

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

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

1.2.22. Defense Logistics Manual ([DLM 4000.25](#), Chapter 16, “Disposition Services” – Applicable for WCF only.

1.2.23. DoD Manual ([DoDM 4160.21](#), “Defense Materiel Disposition Manual,” – Applicable for WCF only.

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

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

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

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

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

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

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

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

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

1.2.33. Defense Logistics Manual ([DLM](#)) [4000.25-2](#), “Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP).” – Applicable for both GF and WCF.

*2.0 DEFINITIONS - (Applicable to GF, WCF and NSF) (0402)

2.1 Abnormal Costs (040201)

Abnormal costs include any costs that are in excess of the cost to purchase and place in service a new item with similar features and useful life (e.g. excessive handling, expedited delivery and rework costs). Abnormal costs should be charged to operations in the period incurred. Abnormal costs, as mentioned in this chapter, should not be confused with expenses with an abnormal balance (that is, a credit value).

2.2 Acquisition Cost (040202)

Acquisition cost is the amount, net of both trade and cash discounts, paid for the property, plus transportation costs and other ancillary costs to bring the items to their current condition and location.

2.3 Approved Acquisition Objective (040203)

A logistics term, the Approved Acquisition Objective (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.

2.4 Construction in Progress (040204)

Construction in Progress is the amount of direct labor, direct material, and overhead incurred in the construction of General Property, Plant, and Equipment (PP&E) for which the acquiring DoD agency will be accountable for financial reporting purposes. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. Construction in Progress is not to be used for information technology software. The Internal Use Software in Development account is used for information technology software.

2.5 Consumable Items (040205)

A logistics term, a consumable item is an item of supply or an individual item that is normally expended or used up beyond recovery in the use for which it is designed or intended.

2.6 Consumption Method of Accounting (040206)

The consumption method of accounting requires that **OM&S be recognized and reported as assets when they** are produced or purchased. The cost of goods must be removed from the applicable **OM&S** asset account and reported as an operating expense in the period **in which** the items are issued to an end user for consumption in normal operations.

2.7 Contingency Retention Stock (040207)

A logistics term, Contingency Retention Stock is stock above the AAO and Economic Retention Stock (ERS) levels that is held to support specific contingencies. The materiel manager must be able to provide documented rationale to warrant contingency retention.

2.8 ERS (040208)

A logistics term, ERS is the level of stock above the AAO level that it is more economical to retain than to dispose and then potentially repurchase if subsequently needed.

2.9 End User (040209)

An end user is any component of a reporting entity that obtains goods for direct use in that component's normal operations. Any component of a reporting entity, including contractors, that maintain or stock OM&S for future issuance should not be considered an end user with respect to that OM&S.

2.10 Excess Inventory (040210)

Excess inventory (serviceable and unserviceable) is the amount of inventory above the sum of the AAO and inventory retained for economic and/or contingency purposes. See **DoDM 4140.01, Volume 6**, which calls this potential reutilization stock.

2.11 FASAB (040211)

FASAB is the Board that promulgates the accounting standards for use in the Federal Government. **The Office of Management and Budget (OMB), the Department of the Treasury, and the Government Accountability Office (GAO) sponsor FASAB.**

2.12 Government Furnished Material (040212)

A sub-category of Government Furnished Material (**GFM**) consists of inventory or OM&S that **is physically transferred to the possession or custody of** a contractor as Government property. **GFM may be** consumed or expended during the performance of a contract.

2.13 Historical Cost (040213)

Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring items to their current condition and location. Historical cost excludes abnormal costs, which should be expensed in the period incurred rather than capitalized as inventory. See the definition of Abnormal Costs.

2.14 Inventory (040214)

Inventory is defined as tangible personal property that is held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provisions of services for a fee.

2.15 Inventory in Transit (040215)

Inventory in Transit is material 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. (Note: Inventory in transit does not include material temporarily in use or on loan with contractors or schools.)

2.16 Latest Acquisition Cost (040216)

Latest Acquisition Cost (LAC) is the last invoice price paid. Valuing inventory at LAC requires multiplying the last invoice price paid by the quantity of all like units held, including those units acquired through donation or nonmonetary exchange. When LAC valuation is used, the inventory is revalued periodically and an allowance account is established for the unrealized holding gains and losses associated with ending inventory. (Note: for the remanufactured items, the LAC value of an item will be the cost of a fully functional item with an allowance account equal to the estimated costs necessary to repair the item.) For financial accounting purposes, this method is only approved for use by the Defense Commissary Agency (DeCA) in valuing its inventory of grocery and household products.

2.17 Moving Average Cost (040217)

The Moving Average Cost (MAC) is a cost flow assumption methodology used to value inventory. Under MAC, the inventory value is recalculated each time costs are incurred for a purchase, or a reparable item is repaired/remanufactured and placed back in 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 in inventory at that time. As illustrated in Table 4-2, increases in quantity typically CHANGE the MAC value while decreases in quantity typically USE the MAC value. MAC is the standard cost flow assumption used for DoD inventory and OM&S, with the exception of DeCA grocery and household products inventories (which are valued using LAC) and serially-managed items (which may be costed using the specific identification method).

Table 4-2. Calculating MAC

Event	Quantity	Transaction Value	Quantity	Ending Value
Beginning Balance MAC=\$10,000/10=\$1,000			10	\$10,000
Sale of 2 units @ MAC=\$1,000 per unit	(2)	(\$2,000)	8	\$8,000
Purchase of 4 units at \$1,600 MAC=\$14,400/12=\$1,200 per unit	4	\$6,400	12	\$14,400
Sale of 1 unit MAC=\$1,200 per unit	(1)	(\$1,200)	11	\$13,200
Repair of 4 units at \$1,675	4	\$6,000*	15	\$19,200
*The repaired units would be brought into the MAC calculation at the lesser of their repaired value or the current purchase price for a new unit of inventory. If the repaired value is in excess of the current purchase price, the difference would be expensed. For example, assume that the current purchase price for the inventory item is \$1,500 and the repaired value is \$1,675. Since the current purchase price is less than the repaired value the difference of \$175 per unit must be expensed and the \$1,500 current purchase price will be used to value the repaired inventory items. The total to be expensed in this example is 4 * \$175 = \$700 and the amount to be brought into the MAC calculation would be 4 * \$1,500 = \$6,000.				
Sale of 1 unit at MAC \$1,280 (\$19,200/15 units = \$1,280 per unit)	(1)	(\$1,280)	14	\$17,920

2.18 NRV (040218)

The FASAB defines NRV as the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding and disposal.

2.19 Normal Operations (040219)

Normal operations are operations of a major program or activity without significant changes that would inhibit meeting objectives.

2.20 Obsolete Inventory and OM&S (040220)

Obsolete Inventory and OM&S is material that is no longer needed due to changes in technology, laws, customs, or operations.

2.21 OM&S (040221)

OM&S consist of tangible personal property to be consumed in normal operations. Items excluded are: (a) goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity, (b) stockpile materials, and (c) inventory. (Note: the DoD does

not possess/retain goods held under price stabilization programs, foreclosed property, or seized and forfeited property, which are listed as additional exclusions in SFFAS 3.) Additionally, items meeting the definition of PP&E should be excluded from OM&S. The following items should be classified and recognized as equipment and not OM&S:

2.21.1. Not intended for sale;

2.21.2. Not held in anticipation of physical consumption;

2.21.3. Durable and have a useful life of two years or more;

2.21.4. Expected to be returned or transferred after use with the intent of reuse for their useful life; and

2.21.5. Functionally complete and ready to use for their intended purpose.

2.22 OM&S in Development (040222)

OM&S in Development are costs incurred in developing the OM&S or the value of tangible personal property that will be consumed in normal operations upon completion of development.

2.23 OM&S in Transit (040223)

OM&S in transit **includes** material in transit from commercial and Government suppliers; material **that** has not been accepted in the receiving process at the final designated destination **but for which title has passed**; material **being moved** between storage locations; or material temporarily in use or on loan with contractors or schools.

2.24 Purchases Method of Accounting (040224)

The purchases method of accounting **is an accounting method whereby** OM&S are expensed when purchased. The purchases method may be applied to OM&S if:

2.24.1. OM&S are not significant amounts,

2.24.2. They are in the hands of the end user for normal operations, or

2.24.3. It is not cost beneficial to apply the consumption method of accounting.

2.25 Repairables (040225)

A **logistics term**, repairables are inventory items that can be repaired economically and for which repair **of the item** (at either field or depot level) is considered in meeting computed inventory requirements. The Department authorizes supply management activities to finance repairable items, including their transportation, acquisition, overhaul, progressive maintenance, renovation, rework, repair, manufacture, reclamation, alteration, and/or software support. Repairables in an

unserviceable condition, such as items returned from operating units or furnished to the contractor for repair, modification, or overhaul, are often referred to as “carcasses.”

2.26 Significant Amount (040226)

Significant amounts are those that do not rise to the level of being material but are important enough to merit attention by those responsible for oversight of the Component’s financial reporting. Materiality is defined in the GAO Financial Audit Manual (FAM) as “the magnitude of an item’s omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.”

2.27 Standard Price (040227)

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. The standard price is calculated based on factors that include the replenishment cost of the item plus surcharges to recover costs for transportation; inventory loss, obsolescence and maintenance; depreciation; and supply operations. See Volume 2B, Chapter 9 for additional guidance on pricing.

2.28 Stockpile Materials (040228)

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 for sale in the ordinary course of business. Items specifically excluded from stockpile materials are items that are:

2.28.1. Held by an agency for sale or use in normal operations, and

2.28.2. Held for use in the event of an agency’s operating emergency or contingency.

2.29 Supply Condition Code (040229)

A supply condition code is an alphabetic code designation used to classify material in terms of readiness for issue and use, or to identify action underway to change the status of material.

2.30 Unserviceable Inventory (040230)

Unserviceable inventory is damaged inventory that is more economical to dispose of than to repair.

2.31 WRM (040231)

WRM items are those materials that, in addition to peacetime assets normally available on any given date, are necessary to equip and support the increase in military requirements forecasts contingent on an outbreak of war. War reserves sustain operations until resupply can be affected.

2.32 Work-In-Process (040232)

Work-in-process is the term used to describe products that are being manufactured or fabricated but are not yet complete. The book value of work-in-process consists of the costs of direct materials, direct labor, direct purchased services, and indirect costs, including general and administrative (G&A) costs, used in producing or repairing an end item (customized equipment or personal property), whether fabricated by the DoD or by a non-DoD organization under contract. G&A costs pertain to the costs of operations such as rent, utilities, and managerial salaries, in contrast to costs that are directly related to the production of goods and services. Work-in-process accounts segregate these costs from current accounting period expenses, thus supporting accurate financial reporting in compliance with generally accepted accounting principles.

3.0 OM&S - (Applicable to GF and WCF) (0403)

3.1 Recognition of OM&S (040301)

3.1.1. The consumption method of accounting for the recognition of expenses must be applied for OM&S unless the conditions set forth in subparagraph 040301.B apply. Under the consumption method, OM&S must be recognized and reported as assets when produced or purchased. When they are issued to an end user for consumption in normal operations, the cost of the goods must be removed from the applicable OM&S asset account and reported as an operating expense (see subparagraph 040302.C for further explanation of an end user). “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 must be based on the terms of the contract regarding shipping and/or delivery.)

3.1.2. Under the purchases method of accounting, OM&S will be expensed (and not recorded as an asset) when purchased. The purchases method may be applied to OM&S if:

3.1.2.1. OM&S are not significant amounts,

3.1.2.2. The OM&S is in the hands of the end user for use in normal operations, or

3.1.2.3. It is not cost-beneficial to apply the consumption method of accounting.

*3.2 Determining Eligibility for Purchases Method Recognition (040302)

3.2.1. Purchases Method Evaluation. This paragraph provides guidance for evaluating the three criteria as identified in subparagraphs 040302.B through 040302.D that allow for the use of

the purchases method of accounting or for determining the point in the supply chain at which OM&S should be removed from the applicable OM&S asset account and reported as an operating expense. While each criteria will be explained individually, the general rules applicable to all three criteria are:

3.2.1.1. This guidance does not replace or omit logistics, supply chain, or asset management requirements that already exist.

3.2.1.2. The OM&S under consideration must be viewed in aggregate for each DoD Component's stand-alone financial statements. Although the value of an individual local or National Item Identification Number may not be significant when assessed individually, the aggregate value could be significant.

3.2.1.3. Analyses and conclusions performed by DoD Components to support a particular accounting position must be documented, and that documentation should be retained in such a manner as to be easily available to an auditor. Such analyses must be updated and kept current from one fiscal year to the next.

3.2.2. Criteria 1: Determination of Significant Amount. Significant amounts are those that do not rise to the level of being material but are important enough to merit attention by those responsible for oversight of the entity's financial reporting. Materiality is defined in the GAO FAM as "the magnitude of an item's omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item." Each DoD reporting entity that is considering the use of the purchases method because the amounts are not significant must perform the provided test steps 1 to 5 at their entity's consolidated statement level (e.g., the U.S. Department of the Navy would perform the test steps based on the Navy Financial Statements rather than on an individual Navy Command level). Note that the DoD Component must perform these steps in the sequence in which they are listed. For purposes of calculating the amounts in the test, the DoD Component must use the most recent fiscal year annual amounts from their general ledger and corresponding annual financial statements. If the DoD Component does not have access to the financial information necessary to perform the tests, it has no basis to support that the OM&S amounts are not significant, and thus cannot use the purchases method to record OM&S amounts.

3.2.2.1. Test Step 1. Determine the aggregate value of the OM&S categories for which the purchases method is being considered. A combination of general ledger balances, acquisition data, and expense data may be used to determine the aggregate value of the OM&S under consideration.

3.2.2.2. Test Step 2. Compare the aggregate value of the OM&S under consideration to 1 percent of the Component's Gross Cost.

3.2.2.2.1. Multiply the "Gross Cost" amount from the Component's Statement of Net Cost by 1 percent.

3.2.2.2.2. If the aggregate value of the OM&S being considered is greater than or equal to 1 percent of Gross Cost, the amount is significant and the significant amount exception cannot be used to justify the use of the purchases method for the OM&S under consideration.

3.2.2.2.3. If the aggregate value of the OM&S is less than 1 percent of Gross Cost, proceed to Test Step 3.

3.2.2.3. Test Step 3. Compare the aggregate value of the OM&S under consideration to 1 percent of Total Assets.

3.2.2.3.1. Multiply the “Total Assets” amount from the Component’s Balance Sheet by 1 percent.

3.2.2.3.2. If the aggregate value of the OM&S being considered is greater than or equal to 1 percent of Total Assets, the amount is significant; the significant amount exception cannot be used to justify the use of the purchases method for the set of OM&S being considered.

3.2.2.3.3. If the aggregate value of the OM&S is less than 1 percent of Total Assets proceed to Test Step 4.

3.2.2.4. Test Step 4. Compare the aggregate value of the OM&S under consideration to 3 percent of the lesser of the financial statement line I&RP (Balance Sheet) or Operations, Readiness, and Support (OR&S) (Statement of Net Cost).

3.2.2.4.1. Select a base for performing Test Step 4. The base is the lesser of the I&RP amount from the Balance Sheet or the OR&S amount from the Statement of Net Cost.

3.2.2.4.2. Multiply the selected base by 3 percent.

3.2.2.4.3. If the aggregate value of the OM&S under consideration is greater than or equal to 3 percent of the selected base, the amount is significant and the significant amount exception cannot be used to justify the use of the purchases method for the OM&S being considered.

3.2.2.4.4. If the aggregate value of the OM&S is less than 3 percent of the selected base, the amount is not significant and the significant amount exception can be used to justify the usage of the purchases method of expense recognition for the OM&S under consideration.

3.2.2.5. Re-Performance. Components using the purchases method for a subset of OM&S under the significant amount exception (i.e., item classes that have cumulatively passed each of the provided tests) must re-perform and document the significant amount tests at least annually.

3.2.3. Criteria 2: OM&S in the Hands of the End User for Use in Normal Operations.

3.2.3.1. Under the purchases method of accounting, OM&S will be expensed (and not recorded as an asset) when purchased, if the OM&S are purchased and delivered directly to the end user for use in normal operations. SFFAS 3, paragraph 41, defines an end user as “any component of a reporting entity that obtains goods for direct use in the component’s normal operations. Any component of a reporting entity, including contractors, that maintains or stocks OM&S for future issuance shall not be considered an end user.” For the purposes of identifying end users, DoD Components should map their supply point structures to those described in DoDM 4140.01, Volume 2, which are:

3.2.3.1.1. Wholesale. These supply points are the highest level of organized DoD supply and conduct typical wholesale operations such as bulk receipt, repairs, and storage of OM&S. Wholesale locations maintain stocks to resupply retail supply points and to issue to the field. Depots, contractor-controlled depots, warehouses, and storage facilities are examples of wholesale sites. Wholesale locations are not considered end users, except for OM&S that is held and managed for consumption within the wholesale activity itself.

3.2.3.1.2. Retail. These supply points stock inventory below the wholesale level, either at the consumer level (directly supporting customers) or at the intermediate level (supporting a geographical area). Retail locations are not considered end users, except for OM&S that is held and managed for consumption within the retail activity itself.

3.2.3.1.3. Field. These locations are receiving organizations that are authorized to use supply items and only requisition quantities sufficient to satisfy their own immediate requirements. Receiving organizations do not reissue OM&S to other organizations; they use or consume OM&S within their normal operations. Examples of field supply points include but are not limited to ships (e.g. shipboard storage), submarines, aircraft wings, field units, and missile wings. OM&S at a field supply point can be considered to be in the hands of the end user. (Note: this does not include prepositioned stock, which can be stored in remote and field locations but is held for future issue).

3.2.3.2. In general, material furnished to contractors is not considered in the hands of an end user. If the material is stored in anticipation of being incorporated into an end item, it no longer meets the definition of OM&S and should be accounted for as construction-in-progress, work-in-process, or OM&S in development. If the material is held for further issuance, the contractor location is equivalent to a wholesale or retail location and cannot be considered an end user. Government furnished material as described in this subparagraph is different from Government furnished equipment which is a category of general equipment.

3.2.3.3. 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 used in normal operations are goods necessary for DoD Components to meet their objectives. Examples of evidence that OM&S is used in normal operations can be, but are not limited to, recurring requirements, high inventory turnover rates, or significant purchases activity.

3.2.3.4. Other indications that OM&S is in the hands of the end user for use in normal operations include:

3.2.3.4.1. The user only requisitions quantities sufficient to satisfy its own immediate requirements (includes regular supply levels plus emergency/safety stock);

3.2.3.4.2. The user does not requisition large quantities of OM&S to issue to other organizations outside of its own;

3.2.3.4.3. The user is not a forwarding agent – the OM&S is requisitioned for the intent of use, not to resupply other supply points;

3.2.3.4.4. The user has the right to consume the OM&S; or

3.2.3.4.5. The user is permitted to carry only certain levels of OM&S.

3.2.4. Criteria 3: Not Cost Beneficial to Apply the Consumption Method of Accounting. Under the purchases method of accounting, OM&S is expensed (and not recorded as an asset) when purchased, if it is not cost-beneficial to apply the consumption method of accounting. This is referred to as the cost benefit exception. Each DoD Component considering using the cost benefit exception should conduct an analysis comparing estimated costs and benefits for applying the consumption method. If the cost exceeds benefits, the purchases method may be used. The cost benefit analysis should be unbiased, fully documented (i.e. supporting documents for cost estimates), reviewed, and approved by the Component's management. See Annex 1 for an example of how a cost benefit analysis may be structured. If the cost benefit analysis is used to support the purchases method of accounting, it must be updated and documented at least annually.

3.3 Valuation of OM&S (040303)

3.3.1. OM&S accounted for under the consumption method of accounting must be valued at historical cost using the MAC flow assumption or the specific identification cost flow method (which may only be used for serially managed items). Historical cost must 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 must be charged to operations of the period. Donated OM&S must be valued at their fair value at the time of donation.

3.3.2. OM&S that are maintained because they are not readily available in the market or because it is likely they will be needed in the future should be classified as OM&S Held in Reserve for Future Use. OM&S held in reserve for future use must be valued using the same basis as OM&S held for use in normal operations. The value of OM&S held for future use should be separately disclosed in the notes to the financial statements.

* 3.3.3. EOU OM&S must be valued at their estimated NRV. DoD Components are responsible for identifying inventory (including inventory held as OM&S) that is EOU. Upon identification of inventory as EOU, the DoD Component must adjust the value of the EOU inventory to its NRV as described in paragraph 040403.B.

3.3.4. SFFAS 3 does not address OM&S held for repair. Disclosures in Interpretation 7 “Items Held for Remanufacture” state that valuation methods prescribed for inventory held for repair may be reasonably applied to OM&S.

3.3.4.1. The Department's policy for accounting and reporting for Inventory Held for Repair is to use the allowance method as described in SFFAS 3 Paragraph 32. For purposes of inventory accountability and the type of inventory repairs generally made at the DoD, the Department has determined that use of the allowance method is the appropriate accounting treatment to be used among the alternatives presented in paragraphs 20 through 22, and paragraphs 32 and 33, in SFFAS 3 (and as further addressed in Paragraph 10 of FASAB Interpretation 7).

3.3.4.2. Under the allowance method, OM&S held for repair must be valued at the same value as a useable item, (i.e., at historical cost using the MAC flow assumption or specific identification). An allowance for repairs contra asset account (i.e. repair allowance) must be established. The annual (or other period) credit(s) required to bring the repair allowance to the current estimated cost of repairs must be recognized as current period operating expenses. As the repairs are made, the cost of repairs must be charged (debited) to the allowance for repairs account. Supporting documentation must be retained for the estimated repair costs used in establishing the allowance. In addition, the Component should reconcile the allowance account to the physical quantities of items held for repair on at least an annual basis.

3.4 Accounting for OM&S (040304)

* 3.4.1. General Ledger Accounts. The general ledger accounts discussed in this chapter must be reported in the financial statements required by the Treasury and for other reporting requirements mandated by Congress and OMB. Transactions/entries recorded to general ledger accounts must have adequate supporting source documentation. Source documents include contracts, invoices, receiving reports, payment vouchers, material return documents, transfer documents, inventory documents, issue and shipping documents, sales records, and documented gains and losses. Detailed posting transactions are outlined in the DoD USSGL Transaction Library. Examples of the USSGL accounts for OM&S are provided in this paragraph. Detailed account descriptions are found in the DoD Standard Chart of Accounts.

3.4.1.1. OM&S Held for Use (Account 151100). This account is used to record the value of materials and supplies held for use in normal operations. This account is also used to record the initial acceptance of materials and supplies in transit when title has passed but the items have not been received and accepted. Items in transit between DoD accounting entities must be kept under financial accounting control at all times. Activities may want to create subaccounts within the general ledger systems to record and track items in transit; however, the internal subaccounts must aggregate to one USSGL account in the DoD Standard Chart of Accounts. This account is intended to be used by any DoD Component that maintains OM&S.

3.4.1.2. OM&S Held in Reserve for Future Use (Account 151200). This account is used to record the value of stocks of materials and supplies maintained because they are not readily available in the market and there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations.

3.4.1.3. OM&S – Excess, Obsolete and Unserviceable (Account 151300). This account is used by DLA Disposition Services and other DoD Components to record the value of OM&S (serviceable or unserviceable) that exceed the amount expected to be used in normal operations and do not meet management's criteria to be held in reserve for future use. Obsolete OM&S include stocks that are no longer needed due to changes in technology, laws, customs or operations. Unserviceable OM&S are items that are physically damaged and cannot be consumed in operations. DoD Components are responsible for identifying inventory (including inventory held as OM&S) that is EOU. Upon identification of inventory as EOU, the DoD Component must write down the value of EOU inventory to its NRV as described in subparagraph 040403.B.

3.4.1.4. OM&S Held for Repair (Account 151400). This account is used to record the value of materials and supplies that are not in usable condition, but can be economically repaired. The objective is to rebuild items as an alternative and rotating source of supply. Once rebuilt, the items will be returned to OM&S Held for Use. Components with immaterial amounts of OM&S held for repair may report these amounts in USSGL account 151100, "OM&S Held for Use."

3.4.1.5. O&MS in Development (Account 151600). This account is used to record costs incurred or the value of tangible personal property, such as operating materials and supplies in development that will be consumed in normal operations upon completion of development. Upon completion, these costs will be transferred to USSGL account 151100, "Operating Materials and Supplies Held for Use," or USSGL account 151200, "Operating Materials and Supplies Held in Reserve for Future Use."

3.4.1.6. OM&S – Allowance (Account 151900). This account is used to record the amount of estimated repairs needed for damaged OM&S and the estimated gain or loss on the value of OM&S due to unrealized holding gains and losses.

3.4.1.7. Other Actual Business Type Collections From Nonfederal Sources (Account 426600). This account is used to report the amount collected during the fiscal year from nonfederal sources for which a specific USSGL account does not exist. These collections result from business type transactions such as the disposition of demilitarized or scrap EOU sold through a commercial venture resulting in a gain.

3.4.1.8. Financing Sources Transferred In Without Reimbursement (Account 572000). This account is used to record the amount of the increase of financing sources of a reporting federal entity that occurs as a result of an asset being transferred in.

3.4.1.9. Financing Sources Transferred Out Without Reimbursement (Account 573000). This account is used to record the amount of the decrease of financing sources of a reporting federal entity that occurs as a result of an asset being transferred out. The amount of the asset is recorded at book value as of the transfer date.

3.4.1.10. Other Expenses Not Requiring Budgetary Resources (Account 679000). This account is used to record other costs that do not require budgetary resources (such as accounting for the issue of operating materials and supplies when the consumption method is used).

3.4.1.11. Gains on Disposition of Assets - Other (Account 711000). This account is used to record the gain on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

3.4.1.12. Other Gains (Account 719000). This account is used to record the gain on assets resulting from events other than disposition.

3.4.1.13. Losses on Disposition of Assets - Other (Account 721000). This account is used to record the loss on the disposition (such as sale, exchange, disposal, or retirement) of assets not associated with investments or borrowings/loans.

3.4.1.14. Other Losses (Account 729000). This account is used to record the loss on assets resulting from events other than disposition.

3.4.2. Relationship of General Ledger OM&S Accounts to Logistic Supply Condition Codes. OM&S recorded in [the](#) financial records should be identifiable to OM&S recorded in logistic records and vice versa.

3.4.2.1. Supply Condition Codes. Supply condition codes classify material in terms of readiness for issue and use or identify action underway to change the status of [the](#) material. Supply condition codes currently in use within the DoD are defined in DLM 4000.25-2, “Military Standard Transaction Reporting and Accountability Procedures.”

3.4.2.2. Relationship of Logistic Categories to Accounting Classifications for OM&S. Table [4-3](#) shows the relationship of logistics supply categories to general ledger OM&S accounts.

Table 4-3. Relationship of Logistic Supply Categories

U.S. Standard General Ledger Account	Supply Condition Codes
151100 OM&S Held for Use	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 Use this account to record amounts for OM&S with condition codes A-D and T up to the AAO. [Excludes Excess, Economic Retention and Contingency Retention OM&S]
151200 OM&S Held in Reserve for Future Use	E Unserviceable Repairable (Limited Cost to Restore) 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) Use this account to record amounts for OM&S with condition codes A-D and T that is above 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. [Excludes Excess OM&S]
151400 OM&S Held for Repair (Remanufacturing)	F Unserviceable Repairable G Unserviceable Incomplete M Suspended (In Work) R Suspended (Reclaimed Items, Awaiting Condition Determination) Use this account to record amounts for all OM&S with condition codes F, G, M, and R. [Excludes Excess OM&S]
151300 OM&S – Excess, Obsolete, or Unserviceable	H Unserviceable (Condemned) P Unserviceable (Reclamation) S Unserviceable (Scrap) V Unserviceable (Waste Military Munitions) [Includes Serviceable and Unserviceable Excess OM&S]

*3.5 Classification of Minor Items Not Meeting the Definition of OM&S (040305)

3.5.1. Components have expressed difficulty in classifying stocked tangible personal property such as infantry helmets or hand tools that do not meet the definition of OM&S established in SFFAS 3. SFFAS 6 defines PP&E as tangible assets that:

3.5.1.1. Have an estimated useful life of two or more years;

3.5.1.2. Are not intended for sale in the ordinary course of operations; and

3.5.1.3. Are intended to be used or available for use by the reporting entity.

3.5.2. Tangible personal property such as infantry helmets and hand tools meet all of the criteria listed in 040305.A, and therefore will be classified as equipment. Equipment will be expensed in the period purchased unless its historical cost exceeds the Component's capitalization threshold, in which case the equipment will be capitalized and depreciated over its useful life.

3.5.3. Components must analyze items in their stores to identify items that meet the criteria in 040305.A, and are encouraged to leverage system data and functions where appropriate to perform the analysis in a cost and time-efficient manner. The analysis must be documented and retained in accordance with Component audit needs and relevant document retention policies.

3.5.4. This guidance does not replace or omit existing logistics, supply chain, or asset management requirements regardless of the assets' accounting classification.

*3.6 Accounting Treatment for Long Range Ballistic Missiles (040306)

3.6.1. The DoD defines the mission of the nuclear arsenal solely as one of deterrence. Under this mission, the useful life of nuclear assets is expected to exceed two years. Therefore, nuclear long range ballistic missiles (including, but not necessarily limited to, Intercontinental Ballistic Missiles and Submarine Launched Ballistic Missiles) which are fully configured and armed in support of this mission should be classified/recorded as general equipment.

3.6.2. Long range ballistic missiles which are not a part of a fully configured nuclear armed long range ballistic missile should be classified/recorded as OM&S.

4.0 INVENTORY - (Applicable to WCF Only) (0404)

4.1 General (040401)

This section sets forth the policies for recognition, valuation, and procedures for accounting for inventory and is applicable for WCF only.

4.2 Recognition (040402)

Inventory must be recognized when title passes to the purchasing entity. Title passes to the purchasing entity based on the terms of the contract. For free on board (shipping point), title passes when the inventory is shipped. If the terms of sale are free on board (destination), title passes when the goods are delivered to the purchasing entity.

*4.3 Valuation of Inventory (040403)

The Department's policy is that inventory must be valued at historical cost using the MAC flow assumption. However, the Department has also approved the specific identification method for use with serially managed items, and the LAC flow assumption for the valuation of DeCA grocery and household product inventories. (Note: When LAC valuation is used, the inventory is revalued periodically and an allowance account is established for the unrealized holding gains and losses so that the LAC method approximates historical cost.) SFFAS 3 defines each of the methods as a means for arriving at historical cost. In addition, FASAB Interpretation 7, addresses the valuation of items held for repair that, once repaired/remanufactured/upgraded, are returned to Inventory Held for Sale. For inventory valuation of items held for repair where credit is given to the customer, the credit defines the value of the item to the WCF. Therefore, the inventory valuation is calculated as the cost to buy a new item minus the cost to repair, which would approximate the value of the credit given. When credit is not given, another valuation methodology must be employed. See Volume 2B, Chapter 9 for additional guidance. Supply management activities are not required to issue credit on any given transaction. The MAC cost flow assumption will be used as the remanufacture takes place to record appropriate production costs (normal costs to bring the item to a serviceable or upgraded condition).

4.3.1. Entities must use the MAC flow assumption to value inventory held for repair/remanufacture at historical cost. Components should value the receipt of a carcass at MAC and record a repair allowance in the allowance account. The repair allowance is calculated as the ratio of the latest representative repair cost adjusted for inflation to the latest representative acquisition cost. For example, if the latest representative repair cost adjusted for inflation is \$100 and the latest representative acquisition cost is \$500 and the MAC value is \$490, the amount of the allowance would be \$98 $[(100/500) * 490]$. If there is no repair history, entities will develop and document an engineering estimate of the cost to repair. The documentation should be retained for audit purposes. Upon completion of the repair, the item will be moved to Inventory Held for Sale at MAC. If the total of the carcass value plus the costs incurred to repair it exceeds MAC, the difference must be charged to the current period as an expense. The capitalized item is treated as if it was a purchase for calculating the historical cost of inventory using the MAC flow assumption as illustrated in Table 4-2. In addition, the entities should reconcile the allowance account to the physical quantities of items held for repair on at least an annual basis.

4.3.2. EOU inventory must be valued at its expected NRV. DoD Components are responsible for identifying inventory and OM&S that is excess, obsolete and unserviceable. Upon identification of inventory as EOU, the DoD Component must determine the NRV of its EOU and adjust the recorded value of the EOU to its estimated NRV by recording a gain or loss (as applicable) and a corresponding inventory allowance (for a WCF) or operating materials and

supplies allowance (for a General Fund or WCF). EOU that will be transferred to DLA Disposition Services for disposition generally will not result in the DoD Component receiving any proceeds from the disposal, other than EOU that will be disposed of through a Qualified Recycling Program (QRP), and therefore, the NRV would be zero. For EOU to be disposed of through a QRP or by means other than a transfer to DLA Disposition Services, the DoD Component should estimate the NRV of the EOU based on prior disposal proceeds for comparable EOU, buyer quotes or other reasonable means. In all instances, documentation supporting the NRV calculation of the EOU must be prepared and retained by the DoD Component.

4.3.3. Supply Management activities must calculate and report the costs of all inventory sold, i.e., cost of goods sold at historical cost using the MAC flow assumption. Cost of goods sold is the balance of USSGL 650000, *Cost of Goods Sold*. USSGL 650000 may be verified by using this formula. Note that the inventory historical cost and increases in goods for sale include direct (e.g. labor or materials) costs and indirect costs (e.g. overhead).

Beginning Inventory at historical cost
 Plus: Increases in Goods for Sale (Purchases, Remanufacturing Costs,
 Capitalized Inventory, Other Gains)
 Less: Disposals or Other Decreases in Goods for Sale (Including Other
 Losses) at historical cost
 Equals: Cost of Goods Available for Sale at historical cost
 Less: Ending Inventory at historical cost
 Equals: Cost of Goods Sold at historical cost*

* If variances between actual indirect expenses and applied indirect expenses are accounted for as cost of goods sold in accordance with paragraph 040702.A.2, this would need to be factored into the calculation.

4.4. Accounting for Inventory (040404)

4.4.1. General Ledger Accounts. Detailed posting transactions are outlined in the DoD USSGL Transaction Library. Inventory accounts are authorized for use by activities that hold items for resale, use items in the process of production for sale, and consume items in the production of goods for sale or in the provision of services for a fee. Entities that hold supplies and materials for issue without reimbursement or for use without earning a fee own OM&S rather than inventory and should refer to section 0403. Refer to section 0407 for inventory accounts for work-in-process. This paragraph provides examples of the applicable inventory accounts. Additional USSGL accounts which may be relevant to inventory can be located in the DoD Standard Chart of Accounts and the USSGL.

* 4.4.1.1. Inventory Purchased for Resale (Account 152100). This account is used to record the value of inventory purchased for resale that is in a usable condition and is available for immediate resale. The DoD USSGL Transaction Library includes entries to record receipt of material purchases, sale of inventory items at cost, issue without reimbursement, reclassification of inventory, and gains or losses when inventory is revalued. Activities may want to create subaccounts within their inventory or general ledger systems to record and track inventory in

transit; however, the internal subaccounts must aggregate to one USSGL account in the DoD Standard Chart of Accounts. See paragraph 19 of SFFAS 3.

4.4.1.2. Inventory Held in Reserve for Future Sale (Account 152200). This account is used to record the value of inventory held in reserve for future sale and includes items that have been suspended in the logistical system and are currently not available for sale. Typical entries for use of this account include entries to reclassify inventory items, record the delivery of goods and services, and record transfers in or out without reimbursement.

4.4.1.3. Inventory Held for Repair (Remanufacturing) (Account 152300). This account is used to record the inventory items currently not in a usable condition but which can be economically remanufactured. Remanufacturing is a process by which carcasses are overhauled, rebuilt, refurbished, repaired, or restored to a usable condition for sale to a customer. Under remanufacturing, repair expenses are capitalized to the cost of inventory and expensed as Cost of Goods Sold.

4.4.1.4. Excess, Obsolete, and Unserviceable Inventory (Account 152400). This account is used to record the value of inventory (serviceable and unserviceable) that exceeds the amount expected to be used in normal operations and does not meet management's criteria to be held in reserve for future use, i.e., characterized as potential reutilization stock in DoDM 4140.01-V6. Obsolete inventory includes stocks that are no longer needed due to changes in technology, laws, customs or operations or items for which the shelf life cannot be extended. Unserviceable inventory are items that are physically damaged and cannot be consumed in operation. DoD Components are responsible for identifying inventory that is EOU. Upon identification of inventory as EOU, the DoD Component must adjust the value of its EOU inventory to its NRV as described in paragraph 040403.B.

4.4.1.5. Inventory – Raw Materials (Account 152500). This account is used to record the cost or value of raw materials purchased or donated for use as a component part of inventory.

4.4.1.6. Inventory – Work-In-Process (Account 152600). This account is used to record the accumulated cost or value of inventory used in the production process. Work-in-process inventory includes the cost of raw materials, direct labor, and overhead.

4.4.1.7. Inventory – Finished Goods (Account 152700). This account is used to record the accumulated cost or value of completed products.

4.4.1.8. Inventory – Allowance (Account 152900). This account is used to record:

4.4.1.8.1. The estimated cost to repair damaged inventory;

4.4.1.8.2. The estimated gain or loss on the value of inventory because of unrealized holding gains or losses; and

4.4.1.8.3. The difference when restating the inventory from historical to standard cost (see Volume 11B, Chapter 15).

The account is either a **contra asset** account or an **adjunct** asset account depending on whether repair costs are increasing or decreasing for the subsequent fiscal year. This account is used to reflect the purchase cost variance for inventory transactions.

4.4.1.9. Cost of Goods Sold (Account 650000). This account is used to record the total cost of inventory sold including raw materials, direct labor, and overhead.

4.4.2. Relationship of General Ledger Inventory Accounts to Logistic Supply Condition Codes. Inventory recorded in financial records should be identifiable to inventory recorded in logistic records and vice versa. Table 4-4 displays the relationship of logistic supply categories to general ledger financial inventory accounts.

4.4.2.1. Supply Condition Codes. Supply condition codes classify material in terms of readiness for issue and use or to identify action underway to change the status of material. Supply condition codes currently in use within the DoD are defined in DLM 4000.25-2, “Military Standard Transaction Reporting and Accountability Procedures.”

4.4.2.2. Relationship of Logistic Categories to Accounting Classifications for Inventory. Table 4-4 shows the relationship of supply condition codes to general ledger inventory accounts.

Table 4-4. General Ledger Inventory Accounts vs Supply Condition Codes

U.S. Standard General Ledger 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</p> <p>Use this account to record amounts for inventory with condition codes A-D and T up to the AAO. [Excludes Excess, Economic Retention and Contingency Retention Inventory]</p>
152200 Inventory Held in Reserve for Future Sale	<p>E Unserviceable Repairable (Limited Cost to Restore) 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 inventory with condition codes A-D and T that is above 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. [Excludes Excess Inventory]</p>
152300 Inventory Held for Repair (Remanufacturing)	<p>F Unserviceable Repairable G Unserviceable Incomplete M Suspended (In Work) R Suspended (Reclaimed Items, Awaiting Condition Determination)</p> <p>Use this account to record amounts for all inventory with condition codes F, G, M, and R that is above the AAO and is retained for economic or contingency purposes. [Excludes Excess Inventory]</p>
152400 Inventory – Excess, Obsolete, or Unserviceable	<p>H Unserviceable (Condemned) P Unserviceable (Reclamation) S Unserviceable (Scrap) V Unserviceable (Waste Military Munitions)</p> <p>[Includes Serviceable and Unserviceable Excess Inventory]</p>

4.4.2.3. Logistics Inventory Categories. Table 4-5 illustrates the relationship between the logistics inventory stratification categories and the general ledger accounts.

Table 4-5. Logistics Inventory Stratification vs General Ledger Accounts

Category	Inventory			
	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

4.5 Reconciliations (040405)

Activities must reconcile the inventory line item(s) in their general ledger with their detailed inventory accountability records at least quarterly. Activities may require reconciliations more frequently in order to improve accuracy of the general ledger line item(s) and to help reduce the risk of material misstatement. This reconciliation must include the multiple modules within Enterprise Resource Management systems, when they are being used (e.g. Warehouse Management module to Inventory Management module to Financial Management module). This reconciliation must be designed to identify errors between the quantities reported in the warehouse management system with the quantities reported in the financial management system. When errors are identified, they must be researched and resolved timely.

4.6 Adjustments for Physical Counts of Inventory (040406)

Activities must take physical counts of inventories at least annually (generally as of the fiscal year end), in accordance with the procedures prescribed in DLM 4000.25-2, "Military Standard Transaction Reporting and Accountability 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. Adjustments must be supported by appropriate documentation.

4.7 Inventory Gains and Losses (040407)

4.7.1. Disposal. Disposal of an inventory item must result in

4.7.1.1. A reduction in the associated inventory account equal to the valuation of the item; and

4.7.1.2. A loss amount equal to the historical cost of the item.

4.7.2. Incoming Shipment Gains and Losses. Invoices occasionally list fewer items than (inventory loss) or more items than (inventory gain) the actual count of inventory items received. If it is not economical to resolve the difference, record the difference as a gain/loss. In such instances, debit the incoming shipment losses to USSGL 729000; credit incoming shipment gains to USSGL 719000.

5.0 SUPPLY MANAGEMENT OPERATIONS - (Applicable to WCF Only) (0405)

5.1 Description (040501)

This section prescribes the policy and accounting requirements relating to inventory applicable to the supply management activities (i.e. Department of the Army, Department of the Navy, Department of the Air Force and the DLA) and to the DeCA for commissary resale. The policy for inventory valuation and classification is also applicable to the DLA Disposition Services, which holds items for redistribution or disposal including sales of excess materiel to the public and other federal customers. It is also applicable to the Depot Maintenance or Industrial Operations activities that hold and consume items in the production of goods for sale or in the provision of services for a fee, i.e. direct material expense.

5.2 Items to be Included in Supply Management Activities (040502)

5.2.1. General. The supply management activities manage inventory held for sale to other DoD Components or activities within a Component and, when authorized by legislation, items procured for sale to members of the Armed Forces and other individuals or organizations. The Under Secretary of Defense (Comptroller) (USD(C)) and the Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L)) may designate an item to be procured by the supply management activity and may reassign the management responsibility of any item from one DoD Component to another DoD Component.

5.2.2. Subsistence Items. The [supply management activities](#) and the DeCA must plan for, procure, manage, distribute, and insure wholesomeness of subsistence products throughout the supply chain. Subsistence items must be procured to provide healthy, wholesome, nutritious food items to members of the Armed Forces and other [authorized](#) persons. Subclasses of subsistence items include inflight rations, combat rations, refrigerated subsistence and non-refrigerated subsistence.

5.2.3. Military Exchange Items. DoDI 1338.18, “Armed Forces Clothing Monetary Allowance Procedures,” 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. These items include clothing sold by a military clothing resale activity and items sold in a ship's store. They also include personal items for health, comfort, and recreation.

* 5.2.4. Military Clothing Items and Individual Equipment. The Department authorizes military exchange systems to act as agents of the [supply management activity](#) to sell military clothing items to members of the Armed Forces. The DLA must procure military clothing requirements for the DoD and bill [customers](#) at standard prices. This supply class also includes combat equipment, tentage, tool sets and kits, hand tools, and cleaning equipment and supplies. When a [Military Service](#) directs the implementation of a new or modified model of these items that makes the previous model obsolete, the Military Service must reprogram resources to DLA based on DLA’s estimate of the requirement to fund procurement of the item including required safety stock levels, before DLA incurs any obligations for the item. Further, the Military Service must purchase DLA’s remaining stock of the obsolete model. Alternatively, the Military Service may direct DLA to dispose of the obsolete stock and pay DLA for disposal costs. See DoDM 4140.01 and DoDI 4140.63 for related materiel management guidance.

5.2.5. Fuel. DoD Components must buy their fuel through DLA. The DLA must bill DoD customers at standard prices and other federal and nonfederal government customers at cost plus the approved DLA surcharge. In isolated locations, where DLA has authorized a DoD customer to procure fuel on the local market, payment may be made by DLA or the customer depending on local circumstances. If payment is made by the DoD customer, then DLA will reimburse the customer for the actual cost of the fuel and bill for the fuel based on standard prices. Other items in this supply class are preservatives, liquid and compressed gases, chemical products, coolants, deicing, and antifreeze components.

5.2.6. Construction Materials. The [supply management activities](#) must manage construction materials including installed equipment, fortification materials, and barrier materials. This includes such items as wood, wire, [cement](#), [barrier materials](#), and sandbags.

5.2.7. Medical. The [supply management activities](#) must manage medical materials supported in the medical supply chain. This materiel includes pharmaceutical, medical-surgical, dental, medical laboratory, [radiological](#), and [optometric](#) supplies. It also includes preventive medicine items and medical equipment.

* 5.2.8. Initial Spares. Initial spares are consumable or reparable spare and repair parts that support newly fielded weapons systems during the initial period of operation until the supply system can support the demand generated by the systems. Replenishment spares are spare and repair parts resupplying initial stocks.

5.2.8.1. The Component activity that owns the weapon system is responsible for funding the initial spares. Therefore, acquisition of the initial spares and stock level increases required to support a weapon system are the responsibility of the program office. The program office must acquire initial and inventory augmentation spares based on the materiel support date. Program managers must use their appropriated funds and may use supply management activities' contracting capabilities to acquire initial spares. Therefore, acquisition of initial spares required to support a weapon system are the responsibility of the program office, i.e. the office within the Component Activity that performs this acquisition function.

5.2.8.2. The Component activity may purchase the initial spares and transfer them to the supply management activity via a title transfer without reimbursement using DoD (DD) Form 1150, Request For Issue/Transfer/Turn in. The Component activity must record the associated entries (budgetary and proprietary) for the purchase of the initial spares as OM&S prior to their transfer to the supply management activity. The Component activity will initiate a title transfer without reimbursement to legally transfer ownership and will remove the initial spares from its accounting records. The supply management activity will add the initial spares to its WCF accounting records. The transfer of initial spares must be fully documented and the documentation must be retained.

5.2.9. Nonmilitary Programs. The supply management activities must manage material used to support nonmilitary or civic action programs and sell these materials at standard prices. These programs are intended for agricultural and economic development.

5.3 Authorized Customers (040503)

A supply management activity is authorized to sell items to:

5.3.1. A federal government funded activity or an activity empowered to perform a federal government legislated function;

5.3.2. A DoD sponsored nonappropriated fund instrumentality;

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

5.3.4. A foreign government when an authorized contractual relationship has been established;

5.3.5. A federal government contractor, when the contract specifically provides for the purchase of items by the contractor from the Government or when using the Replenishment Parts Purchase or Borrow Program;

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

5.3.7. The private sector, state or local governments when purchasing non-excess personal exchange/sale property as authorized by the Federal Property and Administrative Services Act of 1949 as amended in 40 U.S.C. Chapter 5, Section 503; and

5.3.8. Other entities, when authorized by duly appointed officials.

5.4 Issues Without Reimbursement (040504)

A [supply management activity](#) item may not be issued or transferred without a funded customer order except as specifically authorized in [this paragraph](#). Events for which an issue is authorized without receipt of a funded customer order must be accounted for in the same manner as a normal sale with the exception that an allowance for loss on accounts receivable may be established when necessary. [See Chapter 3 for additional guidance on establishing allowances for loss on accounts receivable.](#)

5.4.1. Domestic Civil Emergency. A [supply management activity](#) item may be issued without immediate reimbursement when action is being taken to provide civil emergency relief assistance in accordance with the policies and procedures provided in DoDD 3025.18. However, an accounts receivable must be established for such amounts. Subsequently, funding should be made available to cover the costs of the relief effort, and the [supply management activity](#) be reimbursed for any outstanding accounts receivable.

5.4.2. Civil Disturbances. 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. A receivable account must be established for such amounts. Subsequently, the [supply management activities must](#) be reimbursed for any outstanding accounts receivable based upon the procedures provided in [Volume 11B](#), Chapter 11. [Volume 16](#) also provides guidance on the write-off of uncollectible receivables from the public.

5.4.3. Foreign Disaster. The State Department is responsible for initiating and financing foreign disaster relief efforts pursuant to the Foreign Assistance Act of 1961. Procedures for issues of [supply management activities](#) material to assist in the event of a foreign disaster and reimbursements must be in accordance with DoDD 5100.46.

5.4.4. 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 must be changed to a reimbursable issue within 12 months if not replaced by the NATO country.

5.4.5. Military Emergency. A [supply management activity](#) item may be issued without immediate reimbursement when a federal official or military officer has certified that an emergency exists under emergency provisions in the current DoD Appropriations Act or 10 U.S.C. § 127. A receivable account must be established for such amounts. When funding is made available to cover the costs of the emergency, the [supply management activity](#) must be reimbursed for any outstanding accounts receivable.

5.4.6. Presidential Directed Drawdown. A [supply management activity](#) item may be issued to a foreign country without reimbursement when the President has directed a drawdown of defense articles from stocks under authority of 22 U.S.C. § 2318. The standard price of such issues must be reported to the Director, Defense Security Cooperation Agency for inclusion in subsequent foreign assistance budget requests and to the [Office of the Under Secretary of Defense \(Comptroller\)](#) (OUSD(C)), [Operations Directorate](#), in order to determine the cash impact of such issues. The cash impact must be added to the economic adjustment cost recovery element.

5.4.7. War Reserve Assets (WRA). A [supply management activity](#) item may be issued without reimbursement when an item is designated as a WRA and the issue has been approved to satisfy requirements of a mobilization of U.S. Armed Forces.

5.4.8. Deficiencies in War Reserve Requirements. A [supply management activity](#) item may be issued without reimbursement when an item is issued to satisfy deficiencies in war reserve requirements or between activities within the [supply management activity](#). Items issued at any level, wholesale or retail, to satisfy customer requisitions must be reimbursable from war reserve reinvestment appropriations.

5.4.9. Disposal of Excess Inventory or OM&S. Disposals will be made in accordance with DoDM 4160.21, Volume 2 which includes disposals of excess inventory through the DLA for which no reimbursement will be received.

5.4.10. Items Nearing End of Shelf Life. A [supply management activity](#) item may be issued at any price or without reimbursement when the item is not a WRA, it 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.

5.4.11. Logistical Management Transfers. Logistical management transfers ([also known as logistical reassignments](#)) result from changes in the funding appropriation for an item. If the OUSD(C) and the [Office of the Under Secretary of Defense \(Acquisitions, Technology and Logistics\)](#) (OUSD(AT&L)) designate a logistical management transfer of an item from a GF appropriation entity to the supply management activity group, an increase to inventory for a nonreimbursable transfer must be recorded at the value of the item being transferred. Normally, an item transferred as a result of a logistical management transfer is transferred without reimbursement. However, with prior approval from the OUSD(C), transfers-in of inventory may be with reimbursement to the transferring account under [these](#) conditions:

5.4.11.1. The inventory was on order but undelivered to the transferring account at the time of the transfer;

5.4.11.2. The transferring account is not [financed by the WCF](#); and

5.4.11.3. The inventory was ordered by the transferring account as a result of a reimbursable order from a customer of that account.

5.4.12. Logistical Management Transfers between Supply Management Activities. Procedures for transferring item management responsibility between WCF activities are outlined in Volume 11B, Chapter 2. The transfer of supply inventory is handled as:

5.4.12.1. On hand inventory. Stock on hand is transferred between [supply management activities](#) without reimbursement. Reimbursement is authorized, based on DoD credit policies, between wholesale and retail supply activities when on-hand retail inventory is transferred back to the wholesale item manager's inventory control points.

5.4.12.2. On order inventory. The gaining and losing wholesale item managers must validate [the](#) on order inventory requirements to ensure the supply pipeline is adequately filled. As the gaining activity receives pipeline deliveries, the gaining item manager is responsible for payment either directly to the vendors (delivery order modification), or to the losing activity that funded the delivery order, thus ensuring cash neutrality across the WCF.

5.5 Loans and Leases (040505)

5.5.1. Authorized Activities. Supply management activities may only lend or lease items to activities specified in [this](#) paragraph for the stated purpose. The recipient must sign a receipt for the item. This receipt must include a statement of the intended purpose of the loan or lease. The accountable office, or the comptroller (or equivalent), of the accountable activity for the item must approve each loan or lease of an item. Accountability for inventory on loan remains with the activity lending the material. Inventory on loan must be valued in the same manner as is inventory on hand. Property may be lent to:

5.5.1.1. 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.

5.5.1.2. 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.

5.5.1.3. Civilian Law Enforcement Officials. [Supply management activities may lend an item](#) to a civilian law enforcement activity for a maximum of 120 days for purposes prescribed under the policies and procedures in DoDI 3025.21.

5.5.1.4. 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.

5.5.1.5. National Veterans' Organizations. Under the authority of 10 U.S.C. § 2551, [supply management activities may lend an item](#) (e.g., cots, blankets, pillows, mattresses, bed sacks, and other supplies) to a recognized national veterans' organization for a maximum of 120 days to support a national or state convention or a regional youth athletic or recreational tournament sponsored by the veterans' organization. A bond equal to the current standard price of the item must be obtained before the item is loaned.

5.5.1.6. American National Red Cross. Under the authority of 10 U.S.C. § 2552, [supply management activities may lend an item](#) to an organization formed by the American National Red Cross for a maximum of 120 days for the purpose of instruction and practice needed to aid the Army, Navy, or Air Force in time of war. A bond equal to twice the value of the property is required for the care and safekeeping of the loaned property before the item is lent.

5.5.1.7. Inaugural Committee. Under the authority of 10 U.S.C. § 2553, [supply management activities may lend an item](#) to an Inaugural Committee to support an inauguration of the President of the United States for a period not to exceed [nine](#) days beyond the inauguration ceremony. A bond equal to the current standard price of the item must be obtained before the item is lent.

5.5.1.8. Boy Scout Jamborees. Under the authority of 10 U.S.C. § 2554, [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. In addition, services and expendable medical supplies, as may be necessary or useful to the extent that items are in stock and items or services are available may be furnished without reimbursement. Items may be lent for a maximum of 120 days. A bond equal to the value of the loaned items must be obtained before the items are loaned.

5.5.1.9. Shelter for the Homeless, Incidental Services. Under the authority of 10 U.S.C. § 2556, the Secretary of a Military Department may provide without reimbursement bedding for support of shelters for the homeless that are operated by entities other than the DoD, but only to the extent that the Secretary determines that the provisions of such bedding will not interfere with military requirements. In addition, incidental services and other items (such as medical supplies) may be provided without reimbursement to the extent that the provision of incidental services or other items [does](#) not interfere with military preparedness or ongoing military functions. To satisfy these requirements, a [supply management activity](#) may issue to a shelter for the homeless only items that have been declared excess to the needs of the DoD.

5.5.1.10. Humanitarian Relief. Under the authority of 10 U.S.C. § 2557, [supply management activities may make](#) nonlethal excess supplies available for transfer to the Department of State for its distribution for humanitarian relief. The term "nonlethal excess supplies" means property, other than real property, of the DoD that is excess property as defined in regulations of the DoD; and that is not a weapon, ammunition, or other equipment or material that is designed to inflict serious bodily harm or death.

5.5.1.11. 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. Policy and procedures for the lease of material to foreign countries and international organizations is contained in [DoDD 5105.65](#) and in Volume 15, Chapter 7. Refer to these references for approval channels and expense requirements.

5.5.1.12. Other Leases. Under the authority of 10 U.S.C. § 2667, [supply management activities may lease or loan](#) a nonexcess [supply management activity](#) item to an organization when the Secretary of Defense or the Secretary of a Military Department has determined that the item is not needed for DoD use during the proposed lease period and the lease will promote the national defense or otherwise be in the public interest.

5.5.2. Approvals. Each loan or lease of an item must be approved by the comptroller, or equivalent, of the activity responsible for accountability over the 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.

5.5.3. Expenses. The recipient must pay for [all](#) transportation, packing, crating, and handling costs associated with the loan or lease of the item. At the time of return of the item, the recipient must be required to pay [all](#) costs necessary to restore the item to its original condition or to pay for any item the recipient does not return within the approved period of the loan or lease.

5.6 GFM (040506)

GFM may be provided to a contractor or other government agency for consumption or repair.

5.6.1. Business Rules. When GFM is provided for consumption, the business rules [prescribed by this subparagraph](#) must be followed.

5.6.1.1. [Record as an expense the value of items](#) issued by the item manager to a contractor or to another DoD or other federal government activity for consumption or incorporation in the repair, alteration, or modification of another [supply management activity](#) item for the benefit of the [supply management activity](#).

5.6.1.2. Record as work-in-process [the value of items](#) issued by the item manager to a contractor or to another DoD or other federal government activity for fabrication, assembly, or disassembly of another [supply management activity](#) item for the benefit of the [supply management activity](#). The use of the work-in-process account is described at section [0407](#).

5.6.1.3. The return of GFM items by a contractor must be accounted for in the same manner as a customer return of material without credit ([see subparagraph 040403.A](#)).

5.6.1.4. The cost of forgings and castings used as GFM should be included as a part of the acquisition cost of the item that includes the forging and casting in its production.

5.6.2. Items Issued for Repair and Return. Issuing supply activities must account for reparable or other items of inventory issued by the direction of an item manager to either a DoD activity or a contractor for repair, alteration, or modification as USSGL 152300, “Inventory Held for Repair.” Such items will continue to be valued as inventory held for repair in accordance with the valuation criteria applicable to inventory held for repair that is held by the stockage point. Upon receipt of the repaired item, it must be accounted for in USSGL 152100, “Inventory Held for Sale.”

5.7 Capitalized Inventory (040507)

5.7.1. Logistics Management Reassignment Transfers In Without Reimbursement. A supply management activity may capitalize, when it undertakes management responsibility for items, supply inventories that were financed by other appropriations and funds, as permitted by 10 U.S.C. § 2208 and consistent with guidance in the DoDM 4140.26. The activity that ordered the item must pay bills for inventories on order at the time of the transfer. As provided in 10 U.S.C. § 2208, a supply management activity may not make credits to an appropriation funded activity for capitalized inventories. However, stock withdrawal authorizations may be approved as provided in subparagraph 040507.C. Note, for transfers from other WCFs, the gaining supply management activity will reimburse the losing activity for any inventories on order as the deliveries are made.

5.7.2. 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 liability must be liquidated by a payment to the transferring appropriation or fund based upon a payment to the supply management activity by the customer.

5.7.3. Stock Withdrawal Authorizations. After transferring an item from an appropriation funded activity to a supply management activity, the transferring activity may not have sufficient funds to purchase the item when needed. The transferring activity may request, as part of the formal budget submission to the Congress, that the USD(C) approve an authorization for issues without reimbursement. The supply management activity must issue items, upon receipt of an approved stock withdrawal authorization, to the specified customer without reimbursement up to the authorized limit for a fiscal year. 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. When the fiscal year has passed, the supply management activity must issue items on a reimbursable basis. The supply management activity must not record a stock withdrawal authorization as a liability.

5.7.4. Logistical Management Transfers. Logistical management transfers result from changes in the funding appropriation for an item. When an approved logistical management transfer of item(s) is implemented, an increase or a decrease to inventory for a nonreimbursable transfer must be recorded at the value of the item being transferred.

5.8 Depot Level Repairables (040508)

5.8.1. General. For material management purposes, “reparables” are items of supply subject to economical repair and for which the [repaired items](#) are considered in satisfying computed requirements at any inventory level. For financial management and accounting purposes, the Department’s depot level repair program for inventory replenishment and resale is considered to be a remanufacturing process. [See Volume 11B for more information on Depot Level Repairables.](#)

* 5.8.2. Financial Reporting of Depot Level Repairables (DLR). Serviceable DLR will be reported on DoD financial statements at historical cost using the MAC flow assumption. [DoD will use the allowance method when accounting for DLR. Under the allowance method, the reparable must be valued at the same value as a serviceable item. However, an allowance for repairs contra asset account must be established. The annual \(or other period\) credit\(s\) required to bring the repair allowance to the current estimated cost of repairs must be recognized as current period operating expense. As the repairs are made, the cost of repairs must be charged \(debited\) to the allowance for repairs accounting. Supporting documentation must be retained for audit purposes. In addition, the Component should reconcile the allowance account to the physical quantities of items held for repair on at least an annual basis.](#)

5.8.3. Exchange Transaction. [Many](#) items held for remanufacturing are obtained as the result of an exchange transaction. An exchange transaction is the sale of a serviceable item at standard price in exchange for (1) cash and (2) an item that needs rebuilding or repair (carcass). [The supply management activity may record two separate transactions to represent the complete event or may bill the customer at the exchange price, that is, the standard price less credit allowed if the requisitioning activity states a reparable will be returned. If the impaired item \(carcass\) has not been received at the time of the exchange, it must be recorded in USSGL 152300 “Inventory Held for Repair \(Remanufacture Due In\).”](#)

5.8.4. Business Rules. Remanufacturing costs must be capitalized according to the business rules [prescribed by this subparagraph](#):

5.8.4.1. Remanufacture of items currently available from new procurement. Capitalize all costs except costs that exceed the current replacement cost [and](#) abnormal costs such as excessive rework or costs of an unusual nature that occur infrequently. Abnormal costs should be expensed as period costs without regard to current replacement cost.

5.8.4.2. Remanufacture of items not available from new procurement. Capitalize all costs except abnormal costs such as excessive rework or costs of an unusual nature that occur infrequently. Abnormal costs should be expensed as period costs without regard to current replacement cost.

5.8.5. Time Limit for Receipt of Exchange Item. If a reparable is not received [from a continental United States \(CONUS\) customer](#) within 90 days of the exchange sale or 120 days for a [customer](#) outside the continental United States (OCONUS), the [supply management activity must reverse the](#) credit previously allowed and [bill](#) the customer for that amount. Additionally, at the

discretion of the seller, the customer may be billed for costs that would not have been otherwise incurred except for non-receipt of the item.

5.8.5.1. Carcass Received Before an Exchange Sale. Occasionally, a carcass may be received before an exchange sale when a like issue item is not available at the time the requisition is received. When this occurs, [the supply management activity must record](#) the carcass into inventory and [establish](#) a liability. When a serviceable item becomes available for issue, the liability must be reversed and the exchange sale will proceed normally.

5.8.5.2. Carcass Sent to Contractor or to Repair Facility for Repair/Remanufacture. Supply management activities [may](#) place orders and obligate funds for repair/remanufacture work placed with contractor or at a government repair facility. While being repaired/remanufactured, the carcass will remain in the inventory of Supply Management activity. Activities may continue to account for carcasses as “Inventory Held for Repair (Remanufacturing).”

5.9 Return of Items to the Supply Management Activity (040509)

5.9.1. Customers Who May Return Items. A customer within the federal government, including DoD contractors, may return an item to a [supply management activity](#). Additionally, the Arms Export Control Act allows the return of defense articles from a foreign country or international organization under specified conditions. See 22 U.S.C. § 2761(m) [for these conditions](#). In addition, 10 U.S.C. § 2208(g) states that the appraised value of supplies returned to working capital funds by a department, activity, or agency may be charged to that fund. The proceeds thereof shall be credited to current applicable appropriations and are available for expenditure for the same purposes that those appropriations are so available. Credits may not be made to appropriations under this subsection as a result of capitalization of inventories.

5.9.2. Customers Who May Not Return Items. A customer outside of the federal government [that](#) does not meet the conditions specified in [subparagraph 040509.A](#) may not return an item to a DoD [supply management activity](#).

5.9.3. Credit Options. 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 requirement does not qualify for credit.

5.9.3.1. Return of a Fully Serviceable Consumable or Repairable Item When Not Part of an Exchange Transaction. If approved by an item manager, a credit [may](#) be granted to federal government customers and to nonfederal government customers who meet the requirements specified in [subparagraph 040509.A](#). The amount of the credit for the return of an item that is within the AAO must not exceed the current standard price of the returned item less the current fiscal year’s approved cost recovery elements.

5.9.3.2. Return of a Carcass When Not Part of an Exchange Transaction. An item manager may approve credit for the return of a carcass from a federal government funded customer or a nonfederal government customer who meets the requirements specified in [subparagraph 040509.A](#) without an exchange when the returned item is within the AAO. The credit [may](#) be in

the amount of the value of the reparable to the supply management activity but not more than the current [exchange price](#).

5.9.3.3. [Billing](#). The supply management activity must bill the customer for the credit previously allowed if it granted credit before taking ownership or receipt of the returned item and the item is not received within 90 days from a CONUS customer or 120 days for an OCONUS customer. The customer also may be billed, at the discretion of the stockage point, for costs incurred due to non-receipt of the item.

5.9.3.4. [Return of Defective Items](#). The supply management activity [may](#) grant a credit to a customer at standard price for defective items issued by a supply management activity, including specification defects, when a customer's quality deficiency report has been validated.

5.9.3.5. [Credits Applied Toward Future Requirements](#). Credits granted may be applied against future customer demands in the current fiscal year for items or directly credited to the current year available funds of the customer.

5.9.3.6. [Shipping Costs](#). Shipping costs include packing, crating, handling, transportation, port loading, and unloading. The supply management activity must fund transportation and other shipping costs only for items approved by an item manager for return from customers. Shipping and transportation cost for items that have not been approved by an item manager for return from customers must not be paid by the supply management activity.

*5.10 Excess Items Disposition (040510)

5.10.1. [Identification and Transfer of EOU](#). Once the DoD Components have identified inventory as EOU and adjusted the EOU to its NRV, if they are using DLA Disposition Services to execute the disposition of the EOU, they should expeditiously transfer the EOU inventory to DLA Disposition Services using a [DD Form 1348-1A](#) (or its successor form as applicable). As described in subparagraph [040403.B](#), with the exception of EOU disposals by DLA Disposition Services that fall under the QRP, Components will generally have adjusted the value of this EOU to zero. The transfer to DLA Disposition Services may be a physical transfer or a "transfer receipt in place" if the EOU inventory is too large or bulky to physically transfer. When a "transfer receipt in place" occurs, the Component should physically segregate and mark the item as having been transferred in place and the inventory records should also be adjusted accordingly.

5.10.2. [DLA Receipt of EOU](#). In accordance with DLM 4000.25, Volume 2, Chapter 16, paragraph C16.7.1.1, the DLA Disposition Services Field Office will send a Turn in Receipt Acknowledgement to the Component. This action provides confirmation to the Component that DLA Disposition Services processed the receipt transaction to record DLA Disposition Services materiel accountability and ownership for the material turned in.

5.10.3. [DLA Recording of EOU](#). After DLA Disposition Services receives the DD Form 1348-1A, they will record an estimated NRV in their accounting system for each item of EOU inventory transferred. On a periodic basis (at least annually for the fiscal year end), DLA

Disposition Services will recalculate the NRV factor and will adjust its EOU inventory by the new recalculated factor for accounting and financial statement reporting purposes.

5.10.4. Processing EOU Classified as Explosives. DLA Disposition Services does not hold, process or dispose of EOU that are explosives, which includes ammunitions, classified items, and hazardous waste. Components possessing EOU that are explosives must arrange for their disposal through the Joint Munitions Command (JMC) of the Department of the Army unless the disposal is part of a QRP. In the case of a QRP, the Component may elect to use a third party for the disposal. In the same manner as for non-explosives EOU, the Components and JMC must adjust the EOU explosives to their NRV based on prior disposal proceeds for comparable EOU, buyer quotes or other reasonable means.

5.10.5. Issues of Excess Items to Reutilization and Marketing. An Integrated Materiel Manager (IMM) may authorize transfer without reimbursement of excess [supply management activity](#) items to [DLA Disposition Services](#). The [DLA Disposition Services](#) must issue an item without reimbursement to a [supply management activity](#) when the item is required to satisfy a [supply management activity](#) requirement.

5.10.6. Transfer of Inventory Item. Losses for inventory items are taken at the time an item is determined to be EOU beyond repair. Both the inventory item and its related allowance are removed from the accounting records of the [supply management activity](#).

5.10.7. Issues of Excess Items to Other DoD Activities. When the IMM directs and controls the lateral redistribution of an item excess to the immediate needs of a retail activity, [supply management activities](#) will record the event without direct reimbursement to the issuing (sending) activity from the receiving activity. Further, the IMM must bill the receiving activity for the standard price of the material and reimburse the issuing activity for the standard price of the item and its standard packing, crating, handling, and transportation costs.

5.10.8. Transfers of Excess Property from [DLA Disposition Services](#). When an IMM or Primary Inventory Control Activity (PICA) determines that needed material is available within the disposal system, [the DLA Disposition Services](#) must provide the material to the requiring IMM/PICA without reimbursement. The [supply management activity](#) must reimburse [the DLA Disposition Services](#), however, for costs incurred for packing, crating, handling (PCH), and transportation, [if applicable or when conditions warrant](#). Reimbursement for PCH will be at the rate of 3.5 percent of the acquisition price of consumable material and 1 percent of the acquisition price of reparable material. Reimbursement to [the DLA Disposition Services](#) for transportation of consumable or reparable items will be at the cost recovery rate in effect for transportation by the shipping [the DLA Disposition Services](#) location. Activities must account for transfers of material from [the DLA Disposition Services](#). Refer to the [DoD Standard Chart of Accounts and DoD USSGL Transaction Library](#) for detailed account descriptions and posting guidance for each of the general ledger accounts referenced.

5.10.9. Accounting for Customer Returns. Customer returns may have a significant impact on current period revenue and inventory for the [supply management activities](#). Customers may or may not receive credit for returned items. Return of an item, whether issuable or not

issuable, reverses the sale's effect on the Cost of Goods Sold because the sale with return brings the [supply management](#) activity back to the original level of inventory. Regardless of whether the customer does or does not receive credit, activities will record receipt of a returned item.

6.0 WRM - (Applicable to WCF Only) (0406)

6.1 Description (040601)

WRM is mission essential secondary items, principal end items, and munitions sufficient to attain and sustain operational objectives in scenarios authorized in the Secretary of Defense [guidance](#) and Joint [Staff](#) scenarios for committed forces. The WRM inventories must include peacetime operating stocks, training stocks, stocks available through industrial base partnerships, and WRM. (See DoDI 3110.06.) Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. National Defense Stockpile materials, discussed in Section [0408](#), are accounted for within the National Defense Stockpile Transaction Fund.

6.2 Funding for WRM (040602)

The WRM must be funded from appropriations made [directly](#) to the WCF. Such appropriated amounts must be reflected as a separate goal within the applicable supply management or Commissary Resale activity's annual operating budget letter. Items such as ammunition and/or principal and major end items procured for war reserve must not be funded through a WCF, but must be funded through amounts available to Component/Defense Agency procurement appropriations.

6.3 Accounting for WRM (040603)

Purchases of WCF war reserve items must be accounted for at the same level of detail as items procured for peacetime requirements. The value of war reserve items must be recorded in the standard inventory accounts.

6.4 Acquisition of WRM (040604)

The WRM is indistinguishable from corresponding inventory items. The WRM and inventory are, or can be, purchased at the same time, purchased from the same vendor, received at the same time and in the same shipping container, and stored together in the same warehouse/bin. As a result, the accounting for the acquisition of WRM and inventory, at the time of acquisition, is the same.

6.5 Disposition of WRM (040605)

The WRM is held in reserve to be available for transfer without reimbursement when the issuance of a WRA has been approved to satisfy requirements of a mobilization of U.S. Armed Forces. However, if authorized, war reserve and other stockpile materials may be sold.

7.0 WORK-IN-PROCESS - (Applicable to WCF Only) (0407)

*7.1 General (040701)

The WCF manufacturing activities, primarily those involved in depot maintenance or other industrial-type operations, who routinely perform tasks that take more than a month, must record operating costs within a work-in-process account. When the WCF manufacturing activity issues a progress invoice to the DoD purchasing component it will relieve its work-in-process for the amount invoiced. A work-in-process account must also be used by the DoD purchasing component to record any incremental amount billed to it by the DoD manufacturing activity for manufactured inventory. Additional information relating to revenue recognition, progress billings to customers, and disputed bills may be found at Chapter 16.

7.2 Accounting for Work-In-Process (040702)

7.2.1. This section describes the applicable USSGL accounts for recording transactions that map to the Inventory – Work-in-process account. Detailed posting transactions are outlined in the [DoD USSGL Transaction Library](#). The USSGL accounts for work-in-process are described in this subparagraph.

7.2.1.1. [Inventory–Raw Materials \(Account 152500\)](#). All supplies and material purchased by a WCF activity for the purpose of providing goods or services to a customer must be accounted for in this account. Supplies and materials issued to a specific job must be recorded as a direct cost. Supplies and materials issued for the general use of a cost center (production indirect) or for G&A of an activity must be recorded as an indirect cost.

7.2.1.2. [Inventory–Work-In-Process \(Account 152600\)](#). This account is used to capture all costs relating to products that are in the process of being [manufactured, remanufactured, repaired, or fabricated](#) but are not yet complete. Periodically, but not less than monthly, adjust the allocated indirect expense amount to the actual indirect expense amount to record the assignment (allocation) of indirect expenses to work-in-process. The application of indirect expenses to inventory – work-in-process may be based on a formula that, over time, provides a reasonably close approximation of actual indirect expenses. Periodically, but not less than annually, adjust the allocated indirect expense amount to the actual indirect expense amount [and adjust](#) the applied overhead account. Adjustments of over and under applied overhead must be accomplished prior to the final billing on a completed customer order. Variances between actual indirect expenses and applied indirect expenses are accounted for as cost of goods sold.

7.2.1.3. [Inventory–Finished Goods \(Account 152700\)](#). This account is used to record the liquidation of inventory work-in-process when related work is completed and will be accepted for delivery to a customer in response to its order.

7.2.1.4. [Applied Overhead \(Account 660000\)](#). This account is used to record the amount of overhead cost distributed to work-in-process, construction in process or OM&S in development.

7.2.1.5. Cost Capitalization Offset (Account 661000). This account is used to record the amount of any costs originally recorded into another expense account that are directly linked to a specific job or product. These costs are transferred to an “in progress” asset account such as inventory work-in-progress, O&MS in Development, internal use software in development, and/or a completed asset account.

7.2.2. Work-in-process general ledger accounts may be used by any DoD Component or activity within those Components.

7.2.2.1. When a WCF activity incurs costs to produce a customer order, the related costs, regardless of the source of funding, should be accumulated by the use of a job order. Related costs attributed to an order may include:

7.2.2.1.1. Costs of additions, alterations, improvements, rehabilitations, and replacements of DoD fixed assets exclusive of construction in progress. Accounting guidance on construction in progress can be found in Chapter 6;

7.2.2.1.2. Costs of maintaining DoD equipment and inventory;

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

7.2.2.1.4. Costs of producing an output.

7.2.2.2. Actual cost of direct labor, direct materials, indirect labor, indirect materials and G&A expenses used in the production and completion of a job order/customer order must be recorded in inventory work-in-process.

* 7.2.2.3. Progress billings to a DoD purchasing component for manufacture of inventory must be recorded as inventory work-in-process by the DoD purchasing component. These costs occur when a DoD purchasing component uses an organic (i.e. DoD component manufacturer) or a private sector manufacturer (i.e. a manufacturer outside of DoD) to acquire inventory where progress billings reflect the incremental costs incurred being billed by the manufacturer. If a DoD component is the manufacturer, it will record an accounts receivable and reimbursable revenue for the amount of the progress billing.

7.2.3. Relief of Work-in-Process

* 7.2.3.1. Cost Transfer. Direct costs, indirect costs and G&A expenses recorded in inventory work-in-process accounts must be transferred upon completion or termination of the customer order to:

7.2.3.1.1. An Inventory-Finished Goods account and will then be expensed as cost of goods sold upon delivery to the customer. Costs incurred in excess of funding provided by the customer order must be recognized as a loss in proportion to the total estimated cost as costs are incurred to fulfill the order, such that the loss is recognized in proportion to total cost over the life of the order;

7.2.3.1.2. An applicable asset account, if the completed work is to be retained by the producing activity;

7.2.3.1.3. An expense account, if the completed work retained for use by the producing activity does not meet the DoD capitalization criteria; or,

7.2.3.1.4. Operating expenses/program costs upon termination of a customer order prior to completion.

* 7.2.3.2. Order Completion. Completion of a customer order occurs when all work requested on a customer order has been completed. Upon completion of a customer order, no costs associated with that customer order must remain in the work-in-process account.

* 7.2.3.3. Recognizing Losses. The costs incurred on a customer order may be more or less than the revenue earned depending upon whether costs incurred exceed or are less than the funded amount on the customer order. Therefore, a gain or loss may occur on the work performed on a customer order. Probable (more likely than not) losses 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.

7.2.3.4. Disposition of Completed Products. Completed products in response to a customer order may not be retained as assets (i.e., finished goods) of WCF activities. Upon completion, goods and services resulting from customer orders must be billed promptly to customers. Billing must not be delayed or deferred pending customer acceptance of finished work. Parts and supplies manufactured for internal WCF use must be transferred, upon completion, to the OM&S account.

* 7.2.3.5. Progress Billed Manufacture. Costs that have been accumulated in inventory work-in-process because of progress or incremental billing to a supply management activity must be transferred to Inventory Held for Sale upon completion and receipt of the manufactured end items.

7.2.4. Review of Work-In-Process. Periodically, but at least annually, WCF activities must review work-in-process account balances so that appropriate actions may be taken, if necessary, to reduce significant balances in the work-in-process account. The review should focus on completed customer orders where costs incurred exceed the funding provided on the existing customer order and these costs have not been recognized as a loss. In these cases, the activity should transfer the amount of costs incurred that exceeds the funding provided on the customer order from the work-in-process account to a loss account in the period in which the costs were incurred. In addition, the review should evaluate the compliance with the accounts receivable policy and percentage of completion method for revenue recognition policy in Chapter 3 and Chapter 16.

*7.3 Inventory Work-In-Process Accounts (040703)

Due to reporting requirements, many WCF activities are required to capture costs at a [more detailed level than the USSGL or DoD Standard Chart of Accounts](#). The inventory work-in-process should identify the performing activity and the portion of government property furnished to contractors and subcontractors for the performance of DoD contracts for other than real property. Activities may want to create subaccounts [within their inventory or general ledger systems](#) to track work-in-process at the detail level; however, [the internal subaccounts must aggregate to one USSGL/DoD account](#). The inventory work-in-process subaccounts [suggested](#) for use by the WCF are described in [this](#) paragraph:

7.3.1. Inventory Work-In-Process (In-House). Inventory work-in-process (in-house) is used to record the cost of work-in-process performed by DoD personnel. A subsidiary account must be maintained to accumulate the costs of each job/customer order and facilitate the transfer of costs to the [applicable asset or expense](#) account. Sources of entries to this account include billings under contracts for material, supplies, and equipment; documented assignments of costs accumulated in cost pools; issue and transfer documents; receiving and shipping reports; invoices; payment vouchers; payroll records; reports of completed work-in-process; and documented losses.

7.3.2. Inventory Work-In-Process (Contractor). [Inventory work-in-process \(contractor\) is used to record the cost of work performed by a contractor](#). If the work is accepted and will be incorporated into in-house work, it should be recorded to work-in-process. It should be recorded to inventory available for sale [upon acceptance if it will not be incorporated into in-house work](#).

7.3.3. Inventory Work-In-Process (Other Government Activities). Inventory work-in-process (other government activities) is used to record the cost of work-in-process performed by other federal government agencies. A subsidiary account must be maintained for each contract to track the value of work performed as represented by progress payments. Sources for entries to this account include interagency agreements, invoices, payment vouchers, and property acceptance documents.

7.3.4. Inventory Work-In-Process (GFM)

7.3.4.1. Inventory work-in-process (GFM) is used to record the value of that portion of government [property](#) furnished to contractors and subcontractors (including other federal agencies) for the performance of DoD contracts.

7.3.4.2. [Details of government furnished material must be maintained for each contract where the contractor is provided material by DoD. This can be accomplished either using separate Accountable Property System of Record entries or using USSGL subsidiary accounts. For example, a subsidiary account could be maintained for each contractor that is furnished government material for use in performance of a contract\(s\) and that is to be returned upon completion of the contract. The subsidiary accounts should be subdivided by contract. In addition, any increases to this account must be supported by documentation evidencing issuances of government material to contractors, whether from inventory or from another contractor in accordance with DoDIs. Decreases to this account only occur when the end item is accepted by](#)

the DoD and received into inventory, or the material is returned to inventory or otherwise disposed of at DoD's direction.

7.3.4.3. Periodically, but at least annually, this account must be reconciled with the property accountability records maintained by the contractor. This reconciliation involves coordination with the assigned property administrator for the contract. Property administrators must be provided financial data on the value of GFM for use in completing contract close out or termination. On contract completion or termination, the account must be adjusted to reflect the disposition of unused GFM provided to the contractor.

7.3.4.4. Sources for entries to this account include shipping and issue documents, property acceptance documents and property administrator reports, material-return documents, collection and deposit documents, settlement agreements, and documented losses.

8.0 STOCKPILE MATERIALS - (Applicable to Revolving Fund Only) (0408)

8.1 Description (040801)

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 stockpiled in the interest of national defense to preclude a dangerous and costly dependence upon foreign sources of supply in times of a national emergency. The National Defense Authorization Acts provide authority to buy and sell specific materials, 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. Only accounting requirements and procedures for stockpile material transactions particular to the National Defense Stockpile Transaction Fund (NDSTF) are included in this section.

8.1.1. Operations. The Defense National Stockpile Center (DNSC) administers the acquisition, storage, management, and disposal of inventory 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 [Department of the Treasury Federal](#) account symbol is 97X4555.

8.1.2. Responsibilities. [The DNSC will initiate all transactions obligating funds and accounting for inventory of the NDSTF](#). The Defense Finance and Accounting Service (DFAS) will establish accounting requirements and procedures, [perform financial and general ledger accounting, and prepare external accounting reports](#) for the NDSTF. [The DFAS will also provide accounting reports and additional supporting supplemental financial information to the DNSC for preparation of the DoD, "Strategic and Critical Materials Report to the President and Congress."](#)

8.2 Recognition of Stockpile Materials (040802)

The consumption method of accounting must be applied for stockpile materials. The materials must be recognized as assets and reported when produced or purchased. The cost of stockpile materials must be removed from stockpile materials and reported as an operating expense when issued for use or sale.

8.3 Valuation of Stockpile Materials (040803)

Stockpile materials must be valued based on historical cost. Historical cost must include all appropriate purchase, transportation, and production costs incurred to bring the items to their current condition and location. Abnormal costs must be charged to operations of the period. The DoD standard of using the MAC flow assumption must be applied in arriving at the historical cost of stockpile materials. 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).

8.4 Accounting for Stockpile Materials (040804)

Because of some unique transactions used in accounting for National Defense Stockpile material (e.g., acquisitions and sales), additional breakout of information is required below the USSGL account level. When information is required for separate identification and inclusion in financial statements, combining with other accounts in the several financial statements, or preparation of notes to the financial statements, financial systems should allow for the information to be segregated in a form that would permit user analysis. The unique use of select general ledger accounts of the NDSTF is included in the discussion of each particular accounting area. Detailed posting transactions are outlined in the [DoD USSGL Transaction Library](#). Also, see Chapter 16.

8.4.1. Stockpile Materials Held In Reserve (Account 157100). Stockpile Materials Held In Reserve 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.

8.4.2. Stockpile Materials Held For Sale (Account 157200). This account is the account used to maintain the stockpile materials that have been authorized for sale. The materials authorized for sale must be valued using the same basis used before they were authorized for sale. Any gain (or loss) upon sale must be recognized as a gain (or loss) at that time.

8.4.3. The two USSGL inventory accounts [described in subparagraphs 040804.A and 040804.B](#) are classified in several lower level subdivisions of this account, which are used for the National Defense Stockpile inventory as shown at Table 4-6.

Table 4-6. National Defense Stockpile Inventory

A.	157100	Stockpile Materials Held In Reserve – Goal Material (Strategic and Critical Materials)
B.	157100	Stockpile Materials Held In Reserve – Inventory Custodial Transfer or Pending Survey
C.	157100	Stockpile Materials Held In Reserve – Inventory In Process Government Facility
D.	157100	Stockpile Materials Held In Reserve – Inventory In Process Contractor Facility
E.	157200	Stockpile Materials Held For Sale

8.5 Reconciling Inventory Records (040805)

The [inventory accounting system](#) maintained by the DNSC supports the value of inventory as shown in these accounts. The DNSC and DFAS are jointly responsible for reconciling the inventory records.

8.5.1. Material Acquisition. 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. Material purchase contracts are recorded as obligations against the current year acquisition program on the date of the contract. When material is received, it is recorded in the [inventory accounting system](#) and the general ledger inventory account, accounts payable, and a decrease in undelivered orders. Any other cost, such as initial testing, increases the cost of the material for inventory valuation. The [inventory accounting system](#) must be reconciled to the general ledger inventory account [each month](#). [In addition, a physical inventory should be conducted at least annually.](#)

8.5.2. Material Upgrade. Also included in the Annual Material Plan is the program for upgrading existing National Defense Stockpile [material](#). This work is accomplished by contracts for the value of the upgrading services. These amounts are obligated against the current year program. When material is delivered to the contractor for upgrading it is transferred on the records from the stockpile inventory to material in the hands of a contractor. When upgraded material is returned, a new unit cost is determined by adding the upgrading costs to the original inventory value. The amount of the upgrading cost and original cost of the material are transferred to the on hand stockpile inventory account from the material in the hands of a contractor account.

8.5.3. Exchange Transactions. Materials can be disposed of by offering like material as payment in kind or other material in exchange as settlement of amounts due for material upgraded or acquired. These are accounted for as exchange disposals and the original cost of the material is

removed from inventory and recorded as cost of exchange disposals. Exchange settlements liquidate an obligation for material upgrade and acquisition, as would payment in cash, and is accounted for through the budgetary accounts to effect the liquidation of the original contractual obligation in the accounting records.

8.5.4. Material Disposals. Various materials in the National Defense Stockpile may become obsolete or excess to current defense stockpiling needs. The National Defense Stockpile Act authorizes the disposal of such material. These materials can be disposed of when included in the Annual Material Plan and authorized in 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.

8.5.5. Billing and Collection. 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 additional billings to the purchaser. When material is disposed of by exchange settlements, credits earned for material received and accepted by DNSC are used as payment for material shipped. 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 or paper check (deposited to a local banking facility). Upon receipt of the funds, 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 and financial reporting.

8.5.6. 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 approved before recording in the inventory accounting system and general ledger inventory account. Depending on the nature and size of the adjustment, approval is granted by the Administrator of the DNSC, delegated inventory officials, or board of survey.

8.6 Research Grants (040806)

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 for additional guidance on accounting for grant funds.

*Annex A1. Cost Benefit Template Example
(Applicable to both General Fund and Working Capital Fund)

Costs	Source/ Support	\$	Additional Benefits Beyond Current Process/System	Source/ Support	\$
System/Technology Costs <ul style="list-style-type: none"> • Locations/instances that need to be purchased and installed • Interfaces that need to be built • Near term sunset of current systems and implementation of new systems • Additional bandwidth or connectivity requirements • Additional hardware requirements 			Management <ul style="list-style-type: none"> • More comprehensive enterprise view of location, status of OM&S • Reduction in effort for OM&S returning to supply chain • Purchasing decisions • Better financial stewardship and oversight of OM&S balances 		
Human Capital Costs <ul style="list-style-type: none"> • Additional training required at field locations • Additional FTEs / Contractors 			Users of the Financial Statements <ul style="list-style-type: none"> • Fuller picture of true OM&S and asset balances 		
Process Costs <ul style="list-style-type: none"> • Contract modifications (for GFM) • Process reengineering, including internal controls and financial reporting 			Process Benefits <ul style="list-style-type: none"> • Improved business processes and internal controls 		
Total			Total		

*Annex A2. Alternative Valuation Methodologies for Establishing Opening Balances

This annex is applicable for inventory, operating materials and supplies (OM&S), and stockpile materials of both the General Fund, Working Capital Fund, and Revolving Fund.

1.0 Alternative Valuation Methodologies for Opening Balances (A20101)

This policy guidance sets out how Components should establish 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". All Components must establish their opening balances for inventory, OM&S, and stockpile materials in alignment with established Financial Improvement and Audit Readiness milestones. The valuation methodologies outlined in this policy must be used only to establish and document opening balances. After establishing opening balances, the Components must 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."

2.0 Valuation of Opening Balances (A20102)

2.1 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 may be based on any one or a combination of the following allowable valuation methods:

2.1.1. Standard (Selling) Price or Fair Value

2.1.2. Latest Acquisition Cost

2.1.3. Replacement Cost

2.1.4. Estimated Historical Cost (initial amounts)

2.1.5. Actual Historical Cost (initial amounts)

2.2 All methods used by a Component must be identified and reported in its financial statement notes. In addition, Components must retain documentation to support deemed cost values (e.g., invoices or contracts to demonstrate latest acquisition cost; catalog price to determine fair value; basis of estimates). Further, Components should select the most cost effective method(s) to apply in arriving at a supportable balance based on deemed cost.

2.3 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. 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 Deemed cost can only be used once by a Component to establish a beginning balance. The alternative valuation methods permitted in this guidance may not be applied to transactions or events that increase the value or quantity of inventory, OM&S, and stockpile materials after opening balances are established. Components must be prepared to comply with the recognition, measurement, presentation, and disclosure requirements of SFFAS 3 and this chapter (e.g., MAC, Specific Identification) going forward.

2.5 Where deemed cost is used to value the opening balance for inventory, OM&S, or stockpile materials, the existing values in the DoD Component accounting systems will need to be adjusted by eliminating the gross inventory, OM&S, or stockpile materials value and any related allowance account value and recording the deemed cost value. The difference between the gross value, any related allowance account value and deemed cost will be recorded to prior period adjustments due to changes 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." Any adjustments must be properly documented and supported to assist ongoing audit efforts.

2.6 DoD Components who apply the deemed cost methodology to adjust their opening balances for inventory, OM&S, or stockpile materials, must disclose in their financial statements that a deemed cost methodology was applied in establishing their opening balances and 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. An unreserved assertion is an unconditional statement. No disclosure of the distinction or breakout of the amount of deemed cost of inventory, OM&S, or stockpile materials included in the opening balances is required.

3.0 Relevant Guidance (A20103)

3.1 SFFAS 3, "Accounting for Inventory and Related Property";

3.2 SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources";

3.3 SFFAS 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials";

3.4 Statements of Federal Financial Accounting Concepts 7, "Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording"; and

3.5 Technical Release 18 "Implementation Guidance for Establishing Opening Balances".

4.0 Definitions (A20104)

4.1 Deemed Cost. Deemed cost is an amount used as a substitute for initial amounts that otherwise would be required by SFFAS 3 to establish opening balances.

4.2 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.

4.3. Opening Balances. Opening balances are account balances that exist at the beginning of the reporting period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

4.4 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.

4.5. Specific Identification. Specific identification is an inventory costing methodology that directly links specifically identifiable items (e.g., serially managed items) with their associated costs.

4.6 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.

4.7 Additional Definitions. See section 0402 for additional definitions.