



OFFICE OF THE UNDER SECRETARY OF DEFENSE
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COMPTROLLER

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Policy Change to Account for In-Transit Inventory Assets (FPM19-10)

This memorandum changes DoD policy regarding revenue recognition guidelines for sales of inventory and related property between DoD Components, and recognition of in-transit inventory assets. In order to properly account for inventory in a manner that is both aligned with current DoD supply policy and generally accepted accounting principles (GAAP), revenue recognition must occur at the point of acceptance of the inventory by the customer. Policy implementation is effective for Fiscal Year 2021.

The attachment provides implementation guidance and suggested United States Standard General Ledger accounting entries to account for inventory and revenue recognition in a GAAP-compliant manner for both the Working Capital Fund organizations and their customers. In order to best achieve this policy objective, DoD Components are encouraged to pursue information technology-based solutions. This policy will be incorporated into the Department of Defense Financial Management Regulation Volume 4, Chapter 16 and Volume 11B, Chapter 11.

My point of contact for this subject is Ms. Glenys Vasquez-Banchon. She may be reached at glenys.j.vasquez-banchon.civ@mail.mil or 703-695-9265.

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

cc:
Deputy Chief Management Officer
Deputy Inspector General for Auditing, DoD Office of Inspector General.
Assistant Secretary of Defense for Logistics and Materiel Readiness



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I. Introduction

Inventory is defined in the Statement of Federal Financial Accounting Standards (SFFAS) 3, paragraph 17 as:

“Tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be used in the provision of services for a fee.”

Inventory in-transit is inventory that was shipped and is in route from commercial and government suppliers to a Department of Defense (DoD) entity (includes from one DoD entity to another DoD entity). This includes inventory that has not been received and accepted at the final designated destination, but for which title has passed. It also includes inventory in-transit between storage locations. Accounting policy for the sales of inventory, and recognition of in-transit inventory assets will be updated in accordance with the guidance herein. In order to properly account for Inventory in a manner that is both aligned with current DoD supply policy and generally accepted accounting principles (GAAP), revenue recognition must occur at the point of acceptance of the inventory by the customer.

II. Scope

This document provides new policy and suggested USSGL accounting entries to account for Inventory and revenue recognition in a GAAP-compliant manner given current DoD Accountability and Billing regulations for both the Working Capital Fund (WCF) organizations and their customers. This document discusses accounting entries for two separate WCF scenarios that include a Reimbursable Authority and a Contract Authority where the WCF activity charges their customer prior the customer receiving the inventory assets.

This policy does not affect how inventory in-transit is accounted for when there is not a sale transaction (e.g., movement of inventory held for sale between two WCF warehouses).

III. The Issue: Relationships Between Inventory Accountability, Billing, Collection, and Revenue Recognition

DoD Manual 4140.01 establishes that Materiel Managers have ownership/accountability of Inventory until the materiel is received by another Materiel Manager who assumes ownership (Vol. 11) and that using (i.e., customer) organizations should receive either a financial credit or free replacement of any defective materiel (Vol. 6). Current DoD billing guidance (DLM 4000.25) instructs WCF organizations to bill their customers upon shipment. This billing action also results in accounting entries for revenue and cost of goods sold, to include the reduction of the WCF Inventory Held for Sale balance. However, because title does not transfer until receipt by the customer, current revenue recognition practices are not consistent with GAAP. As such, as long as the WCF activities continue the current practice of billing before receipt of the materiel by the customer, the accounting must reflect that title remains with the WCF activity until receipt.

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IV. New Accounting Scenarios for Billing and Collection Prior to Receipt of Materiel by Customer.

The below scenarios are designed to illustrate the timing of shipment, billing, collection, and revenue recognition that is consistent with current DoD Supply Management policy, and GAAP. This change in accounting policy is not intended to change current DoD business practices. The intent is to record these activities correctly in the accounting records in accordance with GAAP. Because title to the materiel does not transfer away from the WCF until receipt of the materiel by the customer, the WCF should not recognize revenue and cost of goods sold, and should not reduce their inventory balance until receipt by the customer occurs. Therefore, if billing and collection happens prior to receipt by the customer, the funds received by the WCF must be recorded as an unearned revenue liability. Upon confirmation of receipt, the WCF will recognize revenue earned, relieve the liability, reduce inventory, and recognize cost of goods sold.

The customer must record complementary accounting entries: Payment prior to receipt of materiel must be recorded as an advance payment, with a corresponding credit to Fund Balance with Treasury (FBWT). Upon receipt of the materiel, the customer will relieve the advance and debit either an appropriate asset account (e.g., Operating Materials and Supplies held for use) or recognize an expense, if applicable. Both the WCF and the customer must also make or adjust any budgetary accounting entries to maintain Treasury tie points.

The table below demonstrates the USSGL accounting entries to account for in-transit inventory sold by a WCF under a **reimbursable agreement**.

Reimbursable Authority (with advances; WCF Scenario 1)			
#	WCF /Seller Side (Performing Agency)		Customer /Buyer Side (Ordering Agency)
S-1	ANTICIPATION - To record anticipated reimbursements (beginning of year expected total orders)		
TC A702		<u>Amount</u>	
	Debit 421000 Anticipated Reimbursements & Other Income	250,000	
	Credit 445000 Unapportioned Authority	(250,000)	

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<p><u>S-2</u></p> <p>TC A118</p>	<p>APPORTIONMENT OF ANTICIPATED RESOURCES - To record anticipated resources apportioned but not available (beginning of year expected total orders)</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 445000 Unapportioned Authority 250,000</p> <p>Credit 459000 Apportionments - Anticipated Resources - Programs Subject to Apportionment (250,000)</p>	<p><u>B-1</u></p> <p>TC B302</p>	<p>COMMITMENT - To record a commitment of unobligated amounts in programs subject to apportionment</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 461000 Allotments – Realized Resources 100,000</p> <p>Credit 470000 Commitments – Programs Subject to Apportionment (100,000)</p>
<p><u>S-3</u></p> <p>TC A706</p>	<p>ORDER PREVIOUSLY ANTICIPATED – To record in the performing agency (the Seller) a reimbursable agreement without an advance that was previously anticipated.[Also post TC A122] (specific order)</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 422100 Unfilled Customer Orders Without Advance 100,000</p> <p>Credit 421000 Anticipated Reimbursements and Other Income (100,000)</p>	<p><u>B-2</u></p> <p>TC B306</p>	<p>OBLIGATION - To record current year undelivered orders without an advance, where a commitment was previously recorded</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 470000 Commitments – Programs Exempt From Apportionment From Apportionment 100,000</p> <p>Credit 480100 Undelivered Orders - Obligations, Unpaid (100,000)</p>
<p><u>S-4</u></p> <p>TC A122</p>	<p>To record the realization of previously anticipated and apportioned authority for programs subject to apportionment. [Posted along with TC A706]</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 459000 Apportionments – Anticipated Resources – Programs Subject to Apportionment 100,000</p> <p>Credit 461000 Allotments – Realized Resources (100,000)</p>		
<p><u>S-5</u></p> <p>TC C182</p>	<p>Shipment of inventory, billing and collection - To record funds collected by the seller after shipping inventory to buyer.</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 422200 Unfilled Customer Orders With Advance 100,000</p> <p>Credit 422100 Unfilled Customer Orders Without Advance (100,000)</p>	<p><u>B-3</u></p> <p>TC B308</p>	<p>To record current-year undelivered orders with an advance</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 480100 Undelivered Orders – Obligations, Unpaid 100,000</p> <p>Credit 480200 Undelivered Orders - Obligations, Prepaid/Advanced (100,000)</p> <p>Debit 141000 Advances and Prepayments 100,000</p>

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	Debit 1010 Fund Balance with Treasury 100,000 Credit 231000 Liability for Advances and Prepayments (100,000)		Credit 101000 Fund Balance With Treasury (100,000)
<u>S-6</u> TC A710	To record earned revenue in the performing agency related to a reimbursable agreement or other income. <u>Amount</u> Debit 425200 Reimbursements and Other Income Earned – Collected 100,000 Credit 422200 Unfilled Customer Orders With Advance (100,000) Debit 231000 Liability for Advances and Prepayments 100,000 Credit 510000 Revenue From Goods Sold (100,000)	<u>B-4</u> TC B604	Ordering agency (the Buyer) records asset as inventory (record current-year expended authority where undelivered order was prepaid or advanced. The current year authority is the same as the original order). [Also post TC G122 to track purchases] <u>Amount</u> Debit 480200 Undelivered Orders – Oblig, Prepaid/Advanced 100,000 Credit 490200 Delivered Orders – Oblig, Paid (100,000) Debit 152700 Inventory – Finished Goods 100,000 Credit 141000 Advances and Prepayments (100,000)
<u>S-7</u> TC E408	Sale of Inventory - To record cost of goods sold for inventory purchased for resales. <u>Amount</u> Debit 650000 Cost of Goods Sold 100,000 Credit 152100 Inventory Purchased for Resale (100,000)	<u>B-5</u> TC B134	To record appropriations used during current fiscal year (if direct funds). [Posted with B604] <u>Amount</u> Debit 310700 Unexp Approp – Used 100,000 Credit 570000 Expended Appropriations (100,000)
		<u>B-6</u> TC G122	To record activity for current-year purchase of inventory and related property. [Posted with B604] <u>Amount</u> Debit 880300 Purchases of Inventory and Related Property 100,000 Credit 880100 Offset for Purchases of Assets (100,000)

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V. Contract Authority

The table below demonstrates the USSGL accounting entries to account for in-transit inventory sold by a WCF under a **contract authority**.

Contract Authority (with advances; WCF Scenario 2)			
#	Seller Side (Performing Agency)		Buyer Side (Ordering Agency)
<u>S-1</u>	To record the anticipated indefinite contract authority to cover anticipated obligations for the current year. (beginning of year expected total orders)		
	<u>Amount</u>		
TC	Debit 413100 Current-Year Contract Authority 400,000		
A166	Realized		
	Credit 445000 Unapportioned Authority (400,000)		
<u>S-2</u>	To record budgetary authority apportioned by the OMB and available for allotment. (beginning of year expected total orders)	<u>B-1</u>	To record anticipated resources apportioned but not available for use until they are realized for anticipated resources in programs subject to apportionment.
	<u>Amount</u>		<u>Amount</u>
TC	Debit 445000 Unapportioned Authority 400,000	TC	Debit 445000 Unapportioned Authority 250,000
A116	Credit 451000 Apportionments (400,000)	A118	Credit 459000 Apportionments – (250,000)
			Anticipated Resources – Programs Subject to Apportionment
<u>S-3</u>	To record the allotment of authority.	<u>B-2</u>	COMMITMENT - To record a commitment of unobligated amounts in programs subject to apportionment
	<u>Amount</u>		<u>Amount</u>
TC	Debit 451000 Apportionments 400,000		Debit 461000 Allotments – Realized Resources 150,000
A120	Credit 461000 Allotments – Realized (400,000)	TC	Credit 470000 Commitments – Programs (150,000)
	Resources	B302	Subject to Apportionment

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		<u>B-3</u>	OBLIGATION - To record current year undelivered orders without an advance, where a commitment was previously recorded
		TC B306	<p style="text-align: right;"><u>Amount</u></p> <p>Debit 470000 Commitments – Programs 150,000</p> <p style="padding-left: 40px;">Subject to Apportionment</p> <p>Credit 480100 Undelivered Orders - (150,000)</p> <p style="padding-left: 40px;">Obligations, Unpaid</p>
<u>S-4</u>	ORDER RECEIVED UNDER CONTRACT AUTHORITY – To record in the performing agency a reimbursable agreement that was not previously anticipated (specific order)	<u>B-4</u>	To record current-year undelivered orders with an advance
TC A704	<p style="text-align: right;"><u>Amount</u></p> <p>Debit 422200 Unfilled Customer Orders 150,000</p> <p style="padding-left: 40px;">With Advance</p> <p>Credit 413200 Substitution of Contract (150,000)</p> <p style="padding-left: 40px;">Authority</p> <p>Debit 101000 Fund Balance with Treasury 150,000</p> <p>Credit 231000 Liability for Advances (150,000)</p> <p style="padding-left: 40px;">and Prepayments</p>	TC B308	<p style="text-align: right;"><u>Amount</u></p> <p>Debit 480100 Undelivered Orders – 150,000</p> <p style="padding-left: 40px;">Obligations, Unpaid</p> <p>Credit 480200 Undelivered Orders - (150,000)</p> <p style="padding-left: 40px;">Obligations, Prepaid/Advanced</p> <p>Debit 141000 Advances and Prepayments 150,000</p> <p>Credit 101000 Fund Balance With Treasury (150,000)</p>
<u>S-5</u>	To record earned revenue in the performing agency related to a reimbursable agreement or other income.	<u>B-5</u>	Ordering agency (the Buyer) records asset as inventory (record current-year expended authority where undelivered order was prepaid or advanced. The current year authority is the same as the original order). [Also post TC G122 to track purchases]
TC A710	<p style="text-align: right;"><u>Amount</u></p> <p>Debit 425200 Reimbursements and Other 150,000</p> <p style="padding-left: 40px;">Income Earned – Collected</p> <p>Credit 422200 Unfilled Customer Orders (150,000)</p> <p style="padding-left: 40px;">With Advance</p> <p>Debit 231000 Liability for Advances and 150,000</p> <p style="padding-left: 40px;">Prepayments</p> <p>Credit 510000(F) Revenue From Goods (150,000)</p> <p style="padding-left: 40px;">Sold</p>	TC B604	<p style="text-align: right;"><u>Amount</u></p> <p>Debit 480200 Undelivered Orders – 150,000</p> <p style="padding-left: 40px;">Oblig, Prepaid/Advanced</p> <p>Credit 490200 Delivered Orders – (150,000)</p> <p style="padding-left: 40px;">Oblig, Paid</p> <p>Debit 152700 Inventory – Finished Goods 150,000</p> <p>Credit 141000 Advances and (150,000)</p> <p style="padding-left: 40px;">Prepayments</p>

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<u>S-6</u> TC E408	<p>Sale of Inventory - To record cost of goods sold for inventory purchased for resales.</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 650000 Cost of Goods Sold 150,000</p> <p style="padding-left: 40px;">Credit 152100 Inventory Purchased for Resale (150,000)</p>	<u>B-6</u> TC B134	<p>To record appropriations used during current fiscal year (if direct funds).</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 310700 Unexp Approp – Used 150,000</p> <p style="padding-left: 40px;">Credit 570000 Expended Appropriations (150,000)</p>
<u>S-7</u> TC A187	<p>CONTRACT AUTHORITY LIQUIDATED – To record the liquidation of contract authority for collections against reimbursable customer orders that were substituted for contract authority and have been earned</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 413200 Substitution of Contract Authority 150,000</p> <p style="padding-left: 40px;">Credit 413500 Contract Authority Liquidated (150,000)</p>	<u>B-7</u> TC G122	<p>To record activity for current-year purchase of inventory and related property. [Posted with B604]</p> <p style="text-align: right;"><u>Amount</u></p> <p>Debit 880300 Purchases of Inventory and Related Property 150,000</p> <p style="padding-left: 40px;">Credit 880100 Offset for Purchases of Assets (150,000)</p>

VI. References

Applicable Requirements and Guidance:

- SFFAS 3, *Accounting for Inventory and Related Property*
- SFFAS 7, *Accounting for Revenue and Other Financing Sources*
- DoD Financial Management Regulation 7000.14-R, Volume 4
- DoD Manual 4140.01, Volume 11, *DoD Supply Chain Materiel Management Procedures: Inventory Accountability and Special Management and Handling*, November 2017
- DoD Manual 4140.01, Volume 6, *DoD Supply Chain Material Management Procedures: Materiel Returns, Retention, and Disposition*
- Defense Logistics Management System 4000.25, Volume 4, *Military Standard Billing System - Finance*