

## **Illustrative Use of Proposed New General Ledger Accounts for Operating Materials and Supplies**

**Account Title:** Operating Materials and Supplies Held For Repair

**Account Number:** 1514

**Normal Balance:** Debit

**Definition:** The cost/value of damaged personal property held as operating materials and supplies, which is more economical to repair than to dispose.

**Account Title:** Operating Materials and Supplies - allowance

**Account Number:** 1519

**Normal Balance:** Credit

**Definition:** The amount of estimated repairs needed for damaged operating materials and supplies and the estimated gain or loss on the value of inventory due to unrealized holding gains and losses.

### **Background**

The Department of Defense purchases reparable components, subsystems, and assemblies, consumable repair parts, bulk items and material, subsistence, and expendable end items, including clothing and other personal gear to hold in stock. The Department of Defense also purchases munitions ranging from tactical missiles and bombs to small caliber ammunition. If items are purchased with working capital funds and held in stock for sale to end users, then the stock is reported as inventory on the financial statements of the pertinent working capital fund entity. If items are purchased with procurement funds and held for issue without reimbursement to end users, then the stock is reported as operating materials and supplies (OM&S) on the financial statements of the pertinent general fund entity.

The material in stock is held for sale or issue, held for future sale or future issue, held for repair, or held as excess, obsolete or condemned pending transfer to disposal. As shown below, five United States Government Standard General Ledger (SGL) accounts exist for inventory but only three for OM&S.

<u>Account Title</u>	<u>Inventory Account</u>	<u>OM&amp;S Account</u>
Held for sale or issue	1521	1511
Held for future sale or future issue	1522	1512
Held for repair	1523	none
Excess, obsolete, unserviceable	1524	1513
Allowance	1529	none

Although there is presently no SGL account for OM&S held for repair, the Department of Defense does have OM&S items that are held for repair. For instance, if the tail fin of a bomb is bent, the bomb is not thrown away. Replacing the damaged tail fin repairs the bomb. Similarly, spare parts for certain aircraft (e.g., the C-17) are stocked in the general fund and issued to replace broken parts. The broken parts are then repaired and returned to stock as serviceable assets. Therefore, the Department of Defense is proposing account 1514 for OM&S held for repair and account 1519 for an OM&S allowance. Sample transactions and further details follow.

Note that the illustrative transactions above use the allowance account. Statement of Federal Financial Accounting Standard # 3, Accounting for Inventory and Related Property, permits use of either the direct method or the allowance method with inventory held for repair. The Department of Defense has opted for the allowance method. To be consistent, the allowance method also will be used for OM&S.

**Sample Transactions: Proposed SGL accounts 1514 and 1519**

Year A

Transactions for an exchange of a serviceable spare part for a reparable one so a broken end item can be fixed.

Year A Opening Trial Balance:

1511	Operating Materials & Supplies Held For Use	4,000	
3310	Cumulative Results of Operations	<u>4,000</u>	
		<u>4,000</u>	<u>4,000</u>

To record the issue of the serviceable item:

Debit 6790	Other Expenses Not Requiring Budgetary Resources	1,000	
	Credit 1511 Operating Materials & Supplies Held for Use		1,000

To record the turn-in of the broken part and to revalue the part based on the estimated repair costs:

Debit <b>1514 Operating Materials &amp; Supplies Held for Repair</b>		1,000	
	Credit 6790 Other Expenses Not Requiring Budgetary Resources		1,000

- and -

Debit 6790	Other Expenses Not Requiring Budgetary Resources	400	
	Credit <b>1519 Operating Materials &amp; Supplies-Allowance</b>		400

Year A Preclosing Trial Balance

1511	Operating Materials & Supplies Held for Use	3,000	
<b>1514</b>	<b>Operating Materials &amp; Supplies Held for Repair</b>	1,000	
<b>1519</b>	<b>Operating Materials &amp; Supplies – Allowance</b>	400	
3310	Cumulative Results of Operations	4,000	
6790	Other Expenses Not Requiring Budgetary Resources	<u>400</u>	
		<u>4,400</u>	<u>4,400</u>

Year A Closing Entry:

Debit 3310 Cumulative Results of Operations	400	
Credit 6790 Expenses Not Requiring Budgetary Resources		400

Year A Postclosing Trial Balance

1511 Operating Materials & Supplies Held for Use	3,000	
<b>1514 Operating Materials &amp; Supplies Held for Repair</b>	1,000	
<b>1519 Operating Materials &amp; Supplies – Allowance</b>	400	
3310 Cumulative Results of Operations	<u>3,600</u>	
	<u>4,000</u>	<u>4,000</u>

**BALANCE SHEET – YEAR A**

ASSETS

1B5. Inventory and Related Property, Net	<u>3,600</u>	
3. Total Assets		<u>3,600</u>

SGL crosswalks

1511, **1514**, **1519**  
Calc

NET POSITION

8. Cumulative Results of Operations	<u>3,600</u>	
9. Total Net Position	3,600	
10. Total Liabilities and Net Position		<u>3,600</u>

3310  
Calc  
Calc

**STATEMENT OF NET COST – YEAR A**

PROGRAM COSTS

Public

1B1. Production	400	6790
1C. Total Program Costs	<u>400</u>	Calc
1E. Net Program Costs	400	Calc
4. Net Cost of Operations	<u>400</u>	Calc

**STATEMENT OF CHANGES IN NET POSITION – YEAR A**

1. Net Cost of Operations	<u>400</u>	Statement of Net Cost
3. Net Results of Operations	400	Calc
8. Net Position – Beginning of Period	<u>4,000</u>	3310 (B)
9. Net Position – End of Period	<u>3,600</u>	Calc

**STATEMENT OF BUDGETARY RESOURCES – YEAR A**

N/A: No budgetary activity or balances

**STATEMENT OF FINANCING – YEAR A**

1J. Total Obligations as Adjusted and Nonbudgetary Resources	0	
Components of Costs of Operations That Do Not Require Or Generate Resources		
3E. Other	<u>400</u>	6790
5. Net Cost of Operations	<u>400</u>	Calc

**Year B**

Transactions to record the repair of the broken item and its return to stock as a serviceable asset.

To record the receipt, apportionment, and allotment of an appropriation with a Treasury warrant (abbreviated entry)

Debit 1010 Fund Balance with Treasury	500	
Credit 3100 Unexpended Appropriations		500
Debit 4119 Other Appropriations Realized	500	
Credit 4610 Allotments – Realized Resources		500

To record the obligation for repair contract:

Debit 4610 Allotments – Realized Resources	400	
Credit 4801 Unexpended Obligations – Unpaid		400

To record the repair of the broken part:

Debit 6100 Operating expenses/program costs	400	
Credit 2110 Accounts Payable		400
Debit 4801 Undelivered Orders Unpaid	400	
Credit 4901 Expended Authority Unpaid		400
Debit 3100 Unexpended Appropriations	400	
Credit 5700 Appropriations used		400

To record the item's return to stock as a serviceable item:

Debit 1511 OM&S held for use	1,000	
Credit <b>1514 OM&amp;S held for repair</b>		1,000
Debit <b>1519 OM&amp;S-Allowance</b>	400	
Credit 6790 Other Expenses Not Requiring Budgetary Resources		400

To reclassify allotments to unapportioned authority at year-end:

Debit 4610 Allotments – Realized Resources	100	
Credit 4450 Unapportioned Authority		100

Year B Adjusted Preclosing Trial Balance

1010 Fund Balance with Treasury	500	
1511 Operating Materials & Supplies Held for Use	4,000	
2110 Accounts Payable		400
3100 Unexpended Appropriations		100
3310 Cumulative Results of Operations		3,600
4119 Other Appropriations Realized	500	
4450 Unapportioned Authority		100
4901 Expended Authority – Unpaid		400
5700 Appropriations Used		400
6100 Operating Expenses	400	
6790 Other Expenses Not Requiring Budgetary Resources		400
	<u>5,400</u>	<u>5,400</u>

Year B Closing Entries:

4201 Total Actual Resources – Collected	500	
4119 Other Appropriations Realized		500
-and-		
3310 Cumulative Results of Operations		400
5700 Appropriations Used	400	
6100 Operating Expenses		400
6790 Other Expenses Not Requiring Budgetary Resources	400	

Year B Postclosing Trial Balance:

1010 Fund Balance with Treasury	500	
1511 Operating Materials & Supplies Held for Use	4,000	
2110 Accounts Payable		400
3100 Unexpended Appropriations		100
3310 Cumulative Results of Operations		4,000
4201 Total Actual Resources - Collected	500	
4450 Unapportioned Authority		100
4901 Expended Authority – Unpaid		400
	<u>5,000</u>	<u>5,000</u>

**BALANCE SHEET – YEAR B****ASSETS**

1A1. Fund Balance with Treasury	500	
1B5. Inventory and Related Property, Net	<u>4,000</u>	
3. Total Assets		<u>4,500</u>

SGL crosswalks

1010  
1511  
Calc

**LIABILITIES**

4B1. Accounts Payable	<u>400</u>	
4C. Total Liabilities Covered by Budgetary Resources	400	
6. Total Liabilities		400

2110  
Calc  
Calc

**NET POSITION**

7. Unexpended Appropriations	100	
8. Cumulative Results of Operations	<u>4,000</u>	
9. Total Net Position		4,100
10. Total Liabilities and Net Position		<u>4,500</u>

3100  
3310  
Calc  
Calc

**STATEMENT OF NET COST – YEAR B****PROGRAM COSTS**

## Public

1B1. Production	<u>0</u>	6110, 6790
1C. Total Program Costs	<u>0</u>	Calc
1E. Net Program Costs	<u>0</u>	Calc
4. Net Cost of Operations	<u>0</u>	Calc

**STATEMENT OF CHANGES IN NET POSITION – YEAR B**

1. Net Cost of Operations	0	Statement of Net Cost
2A. Appropriations Used	<u>400</u>	5700
3. Net Results of Operations	400	Calc
6. Increase/Decrease in Unexpended Appropriations	100	3100 (E-B)
8. Net Position – Beginning of Period	<u>3,600</u>	3310 (B)
9. Net Position – End of Period	4,100	Calc



**STATEMENT OF BUDGETARY RESOURCES – YEAR B**  
**BUDGETARY RESOURCES**

1A. Appropriations	<u>500</u>	4119
5. Total Budgetary Resources	500	Calc

**STATUS OF BUDGETARY RESOURCES**

6. Obligations Incurred	400	4901 (E-B)
7. Unobligated Balances Available	<u>100</u>	4610
9. Total, Status of Budgetary Resources	500	Calc

**OUTLAYS**

10. Obligations Incurred	400	4901 (E-B)
14D. Accounts Payable	<u>(400)</u>	4901 (E)
15. Total Outlays	0	Calc

**STATEMENT OF FINANCING – YEAR B**

1A. Obligations Incurred	<u>400</u>	4901 (E-B)
1J. Total Obligations as Adjusted and Nonbudgetary Resources	400	Calc
Components of Costs of Operations That Do Not Require Or Generate Resources:		
3E. Other	<u>(400)</u>	6790
5. Net Cost of Operations	<u>0</u>	Calc