

**SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 4, CHAPTER 4
“INVENTORY AND RELATED PROPERTY”**

All changes are denoted by **blue font**

**Substantive revisions are denoted by a ★ preceding the section,
paragraph, table, or figure that includes the revision**

Hyperlinks are denoted by underlined, bold, italic, blue font

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
040101 040203.A 040304.A 040702.A	Updated reference from United States General Ledger (USSGL) Treasury Financial Manual to USSGL Standard Financial Information Structure (SFIS) Transaction Library.	Update
040102.C	Adds a definition of approved acquisition objective.	Update
040102.E	Adds a definition of excess inventory.	Update
040102.N	Adds a definition of net realizable value (NRV).	Update
040102.O	Describes the NRV factor for determining the NRV of excess, obsolete, and unserviceable inventory.	Update
040102.M	Deletes the policy that net realizable value for material in condition codes H, P, or S must be zero. Establishes the policy that all excess, obsolete, and unserviceable inventory and operating materials & supplies must be reported at its net realizable value.	Compliance
Table 4-2	Deletes the policy that excess OM&S must be reported at full value.	Compliance
040303.D	Changes the policy that the value of inventory with condition codes H, P, or S is deemed to be \$0 to require that all excess, obsolete, or unserviceable inventories be reported at net realizable value.	Compliance
040304.E	Modifies the definition of Excess, Obsolete, and Unserviceable Inventory (Account 1524).	Update
Table 4-3	Deletes the policy that excess inventory must be reported at full value.	Compliance

**SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 4, CHAPTER 4
“INVENTORY AND RELATED PROPERTY”**

All changes are denoted by **blue font**

**Substantive revisions are denoted by a ★ preceding the section,
paragraph, table, or figure that includes the revision**

Hyperlinks are denoted by underlined, bold, italic, blue font

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Table 4-4	Displays the linkage between inventory stratification categories and USSGL Accounts.	Update
040402.D	Restores the requirement for billing for the cost of residual stocks of uniforms when there is a change to the uniform.	Restoration
040406.A.4	Restores the policy for the cost of forgings and castings becoming part of the acquisition cost.	Restoration
0408	Adds a section with instructions about how to calculate a net realizable value factor and assigns responsibility for the calculation.	Compliance Tool

TABLE OF CONTENTS**INVENTORY AND RELATED PROPERTY**

0401	General	
★ 040101	Purpose	4-5
★ 040102	Definitions	4-5
040103	Financial Statement Disclosure.....	4-9
0402	Operating Materials and Supplies	
040201	Recognition of Operating Materials & Supplies	4-9
★ 040202	Valuation of Operating Materials & Supplies	4-9
040203	Accounting for Operating Materials & Supplies.....	4-10
0403	Inventory	
040301	General.....	4-13
040302	Recognition.....	4-13
★ 040303	Valuation of Inventory	4-13
040304	Accounting for Inventory	4-14
040305	Reconciliations	4-18
040306	Adjustments for Physical Counts of Inventory	4-18
040307	Inventory Gains and Losses	4-18
0404	Supply Management Operations	
040401	Description	4-18
040402	Items to be Included in the Supply Management Activity Group	4-19
040403	Authorized Customers.....	4-20
040404	Issues without Reimbursement	4-21
040405	Loans and Leases.....	4-23
040406	Government Furnished Material	4-25
040407	Capitalized Inventory	4-26
040408	Depot Level Repairables	4-27
040409	Return of Items to the Supply Management Group Activity	4-28
040410	Excess Items Disposition	4-30
0405	War Reserve Material	
040501	Definition.....	4-31
040502	Funding for War Reserve Material	4-31
040503	Accounting for War Reserve Material.....	4-31
040504	Acquisition of War Reserve Material	4-31
040505	Disposition of War Reserve Material	4-31
0406	Stockpile Materials	
040601	Description	4-31
040602	Recognition of Stockpile Materials	4-32

040603	Valuation of Stockpile Materials	4-32
040604	Accounting for Stockpile Materials	4-32
040605	Reconciling Inventory Records.....	4-33
040606	Research Grants.....	4-35
0407	Work in Process	
040701	General.....	4-35
040702	Accounting for Work in Progress	4-35
040703	Inventory Work-in-Progress Accounts	4-38
★ 0408	Determining Net Realizable Value	
★ 040101	Net Realizable Value Factor	4-39
★ 040802	Factor Availability.....	4-40
★ 040803	Instructions for Calculation of NRV Factor	4-40
★ 040804	Template for Calculating Net Realizable Value Factor.....	4-43

CHAPTER 4

INVENTORY AND RELATED PROPERTY0401 GENERAL★ 040101. Purpose

A. This chapter prescribes the accounting policy and related requirements necessary to establish financial control over DoD inventory, materials and supplies including stockpile materials. The chapter describes the applicable United States Government Standard General Ledger (USSGL) accounts as prescribed in [Volume 1, Chapter 7](#), of this Regulation for use in accounting for inventory, operating materials and supplies, and stockpile materials. Posting transactions are in accordance with the SFIS transaction library at [United States Standard General Ledger Standard Financial Information Structure \(SFIS\) Transaction Library](#).

B. Accounting requirements and procedures relating to Operating Materials and Supplies, Inventory, and Stockpile Materials addressed in this chapter are in accordance with the Statement of Federal Financial Accounting Standards [SFFAS Number 3](#), “Accounting for Inventory and Related Property,” and [Interpretation 7](#), “Items Held for Remanufacture,” as published by the Federal Accounting Standards Advisory Board. This chapter addresses the unique accounting and reporting requirements for these different types of inventories. The provisions of this chapter apply to all DoD activities, including the Defense Working Capital Fund (DWCF) activities, unless otherwise noted.

★ 040102. Definitions

A. Abnormal Costs. 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, such as excessive handling and rework costs.

B. Acquisition Cost. 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.

C. Approved Acquisition Objective. See [DoD 4140.1-R](#), “DoD Supply Chain Material Management Regulation,” for authoritative definitions of the terms approved acquisition objective, economic retention stock, and contingency retention stock.

D. Consumption Method of Accounting. The consumption method of accounting requires that when operating materials or supplies are produced or purchased they must be recognized and reported as assets. The cost of goods must be removed from the applicable operating materials and supplies asset account and reported as an operating expense in the period the items are issued to an end user for consumption in normal operations.

E. Excess Inventory. For the purposes of this chapter, excess inventory (serviceable and unserviceable) is the amount of inventory above the sum of the Approved Acquisition Objective and inventory retained for economic and/or contingency purposes. See DoD 4140.1-R, “DoD Supply Chain Materiel Management Regulation,” which calls this potential reutilization stock.

F. First In, First Out (FIFO). First in, first out is a flow assumption for arriving at the historic cost of inventory whereby the first units purchased are assumed as the first units sold.

G. Federal Accounting Standards Advisory Board (FASAB). The Board that promulgates the accounting standards for use in the Federal Government.

H. Government Furnished Material (GFM). A sub-category of Government Furnished Property, consists of inventory or operating materials and supplies furnished to a contractor as Government property. GFM is typically consumed or expended during the performance of a contract. In the case of GFM, the contractor is considered the end-user. When furnished to a contractor, inventory and operating materials and supplies are considered GFM. See Federal Acquisitions Regulations Part 45. Federal Acquisition Regulation

I. Historical Cost. 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.

J. Inventory. 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.

K. Inventory In Transit. Inventory In Transit is material in transit from commercial and government suppliers; material whose title has passed but the material has not been received and accepted at the final designated destination; material between storage locations; or material temporarily in use or on loan with contractors or schools.

L. Latest Acquisition Cost. The latest acquisition cost (LAC) provides that the last invoice price must be applied to all like units held including those units acquired through donation or non-monetary exchange.

M. Moving Average Cost. Moving average cost (MAC) is determined each time costs are incurred for a purchase or a reparable item is repaired/remanufactured by dividing the cost of total units available at the time (inventory plus current purchase or remanufacturing costs) by the number of total units available at that time as illustrated in Table 4-1.

EVENT MAC	TRANSACTION		INVENTORY	
	Qty	Value	Qty	Value
Beginning Balance \$1,000			10	\$10,000
Sale of 2 units \$1,000	(2)	(\$2,000)	8	\$8,000
Purchase of 4 units @ \$1600 \$1,200	4	\$6,400	12	\$14,400
Sale of 1 unit \$1,200	(1)	(\$1,200)	11	\$13,200
Remanufacture of 4 units @ \$1575 \$1,300	4	\$6,300	15	\$19,500
Sale of 1 unit \$1,300 \$1,300	(1)	(\$1,300)	14	\$18,200

Table 4-1

N. Net Realizable Value (NRV). The FASAB defines net realizable value as the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding and disposal.

O. Net Realizable Value Factor. The net realizable value of excess (serviceable and unserviceable), obsolete, or unserviceable (EOU) inventory or operating materials and supplies (I&OM&S) must be determined by multiplying the value of the I&OM&S by a factor developed annually by the Defense Reutilization and Marketing Service (DRMS). All Components must use this DRMS developed factor for estimating net realizable value for the annual Department of Defense, "Supply Systems Inventory Report." See Section 0408.

P. Obsolete Inventory and Operating Materials and Supplies. Material that is no longer needed due to changes in technology, laws, customs, or operations.

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

R. Operating Materials and Supplies In Transit. Operating materials and supplies in transit is material in transit from commercial and government suppliers; material whose title has passed but the material has not been received and accepted at the final designated destination; material between storage locations; or material temporarily in use or on loan with contractors or schools.

S. Purchases Method of Accounting. The purchases method of accounting provides that operating materials and supplies are expensed when purchased. The purchase method

may be applied to operating materials and supplies if: (1) operating materials and supplies are not significant amounts, (2) they are in the hands of the end user for normal operations, or (3) it is not cost beneficial to apply the consumption method of accounting.

T. Reparables. Reparables are inventory items that can be repaired economically and for which repair (at either field or depot level) is considered in meeting computed inventory requirements. The Department authorizes Supply Management Activity Groups (SMAG) to finance repairable items, including their transportation, acquisition, overhaul, progressive maintenance, renovation, rework, repair, manufacture, reclamation, alteration, and/or software support. Reparables can also be in an unserviceable condition, when furnished to the contractor for repair, modification, or overhaul. Unserviceable Reparables are often referred to as carcasses.

U. Standard Price. The price customers are charged, which for a DoD Inventory Control Point managed item (excluding subsistence), remains constant throughout a fiscal year except for the correction of significant errors. The standard price is calculated based on various factors which include the replenishment cost of the item plus surcharges to recover costs for transportation; inventory loss, obsolescence and maintenance; depreciation; and supply operations. The formula for determining standard price is latest acquisition cost plus overhead cost recovery.

V. Stockpile Materials. Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business. The following items are specifically excluded from stockpile materials: (a) items that are held by an agency for sale for use in normal operations and (b) items that are held for use in the event of an agency's operating emergency or contingency.

W. War Reserve Material. War reserve/mobilization 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.

X. Work-in-process. Work-in-process consists of products that are being manufactured or fabricated but are not yet complete. Work-in-process consists of the costs of direct materials, direct labor, direct purchased services, and indirect costs, including general and administrative costs, used in producing or repairing an end item (customized equipment or personal property), whether fabricated by the Department of Defense (DoD) or by a non-DoD organization under contract. Work-in-process accounts bring costs under financial control and segregate them from current accounting period expenses.

040103. Financial Statement Disclosure. For detailed requirements on financial statement disclosure, refer to [Volume 6B, Chapter 10](#) of this Regulation.

0402 OPERATING MATERIALS AND SUPPLIES040201. Recognition of Operating Material and Supplies

A. The consumption method of accounting for the recognition of expenses must be applied for operating materials and supplies unless the conditions set forth in the following paragraph apply. Operating materials and supplies must be recognized and reported as assets when produced or purchased. Purchased is defined as when title passes to the purchasing entity. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. Delivery or constructive delivery must be based on the terms of the contract regarding shipping and/or delivery. The cost of goods must be reported as an operating expense in the period they are issued to an end user for consumption in normal operations.

B. The purchases method provides that operating materials and supplies be expensed when purchased. If (1) operating materials and supplies are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost-beneficial to apply the consumption method of accounting, then the purchases method may be applied to operating materials and supplies.

040202. Valuation of Operating Materials and Supplies

A. Operating materials and supplies must be valued at historical cost using the moving average cost (MAC) flow assumption for arriving at historical cost. 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 operating materials and supplies must be valued at their fair value at the time of donation.

B. Operating materials and supplies that are maintained because they are not readily available in the market or because it is likely they will be needed in the future must be classified as Operating Materials and Supplies Held in Reserve for Future Use. Operating materials and supplies held in reserve for future use must be valued using the same basis as operating materials and supplies held for use in normal operations.

C. Excess, obsolete, or unserviceable operating materials and supplies must be valued at their estimated net realizable value (NRV). The difference between the value before identification as excess, obsolete or unserviceable and the estimated net realizable value must be recognized as a loss (or gain) when the determination that it is excess, obsolete, or unserviceable is made even though the disposition of the operating materials and supplies may not occur until a later period. [At the time of actual disposal, recognize any subsequent changes to the net realizable value.](#)

D. SFFAS Number 3 does not address operating materials and supplies held for repair. [SFFAS No. 3](#) Disclosures in [Interpretation 7](#) “Items Held for Remanufacture” state that

valuation methods prescribed for inventory held for repair may be reasonably applied to operating materials and supplies.

1. **Serviceable** operating materials and supplies will be valued at historical cost using the MAC flow assumption.

2. Under the allowance method, operating materials and supplies held for repair must be valued at the same value as a serviceable item. However, 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. The Department of Defense has decided to use the allowance method when accounting for Operating Materials and Supplies Held for Repair.

3. Under the direct method, operating materials and supplies held for repair must be valued at the same value as a serviceable item less the estimated repair costs. When the repair is actually made, the cost of the repair must be capitalized in the inventory account up to the value of a serviceable item. Any difference between the initial estimated repair cost and the actual repair cost must be either debited or credited to the repair expense account.

040203. Accounting for Operating Materials And Supplies

★ A. 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. Each account must be updated based on applicable source documents. Source documents includes contracts, invoices, receiving reports, payment vouchers, material-return documents, transfer documents, inventory documents, issue and shipping documents, sales records, and documented gains and losses. A discussion of the operating materials and supplies accounts is provided in the following paragraphs. Detailed posting transactions are outlined in the SFIS transaction library at [United States Standard General Ledger Standard Financial Information Structure \(SFIS\) Transaction Library](#). Descriptions of the USSGL accounts for operating materials and supplies are provided in the following paragraphs.

B. Operating Materials and Supplies Held for Use (Account 1511). This account is used to record the value of materials and supplies held for use in normal operations. Materials and supplies should not exceed the amount expected to be used within normal business operations unless documentation justifying an excess supply is developed and maintained for review. This account is 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 a sub-account to track these items in transit (e.g. 1511.1); however, on the financial statements the balance in this account will be reflected at the summary level. As such this account is intended to be used by any DoD Component that maintains supplies and materials.

C. Operating Materials and Supplies Held in Reserve for Future Use (Account 1512). 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.

D. Operating Materials and Supplies – Excess, Obsolete and Unserviceable (Account 1513). This account is used to record the value of operating materials and supplies (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 operating materials and supplies include stocks that are no longer needed due to changes in technology, laws, customs or operations. Unserviceable operating materials and supplies are items that are physically damaged and cannot be consumed in operations.

E. Operating Materials and Supplies Held for Repair or Remanufacturing (Account 1514). 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 Operating Materials and Supplies Held for Use

F. Relationship of General Ledger OM&S Accounts to Logistic Supply Condition Codes. OM&S recorded in financial records should be identifiable to OM&S recorded in logistic records and vice versa. Table 4-2 displays the relationship of logistic supply categories to general ledger financial inventory accounts.

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 material. Supply condition codes currently in use within the DoD are defined in DoD 4000.25-2-M, “Military Standard Transaction Reporting and Accounting Procedures.”

2. Relationship of Logistic Categories to Accounting Classifications for OM&S. Table 4-2 shows the relationship of logistics supply categories to general ledger OM&S accounts.

U.S. Standard General Ledger Account	Supply Condition Codes
1511 Operating Materials and Supplies Held for Use	<p>A Serviceable Issuable Without Qualification B Serviceable Issuable With Qualification C Serviceable Priority Issue D Serviceable Test/Modification</p> <p>Use this account to record amounts for OM&S with condition codes A-D up to the approved acquisition objective (AAO).</p> <p>[Excludes Excess, Economic Retention and Contingency Retention OM&S]</p>
1512 Operating Materials and Supplies Held in Reserve for Future Use	<p>E Unserviceable Repairable (Limited Cost to Restore) J Suspended (In Stock) K Suspended (Returns) L Suspended (In Litigation) Q Suspended (Quality Deficient Exhibits)</p> <p>Use this account to record amounts for OM&S with condition codes A-D, E, J, K, L, and Q. that is above the AAO and is retained for economic or contingency purposes.</p> <p>[Excludes Excess OM&S]</p>
1514 Operating Materials and Supplies 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 OM&S with condition codes F, G, M, and R.</p> <p>[Excludes Excess OM&S]</p>
1513 Operating Materials and Supplies – Excess, Obsolete, or Unserviceable	<p>Use this account to record amounts for OM&S that is NOT reportable in USSGL accounts 1511, 1512, or 1514. The OM&S reported using this account must be valued at its NRV.</p> <p>[Includes Serviceable and Unserviceable Excess OM&S]</p>
<p>Note 1: Condition Code N is for Ammunition Stocks only, which are classified as OM&S. Condition Code V is for Condemned Ammunition.</p> <p>Note 2: Condition Codes do not distinguish War Reserve/Mobilization items from inventory items.</p>	

★Table 4-2

G. Operating Materials and Supplies – Allowance (Account 1519). This account is used to record the amount of estimated repairs needed for damaged operating materials and supplies and the estimated gain or loss on the value of OM&S due to unrealized holding gains and losses.

0403 INVENTORY

040301. General. This section sets forth the policies for recognition, valuation, and procedures for accounting for inventory.

040302. Recognition. Inventory must be recognized when title passes to the purchasing entity or when the goods are delivered to the purchasing entity.

040303. Valuation of Inventory. The Department's policy is that inventory must be valued at historical cost using the MAC flow assumption. However, the Department has also approved, for specific use, the first in, first out (FIFO) and latest acquisition cost (LAC) flow assumptions for calculating historical cost. Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property," SFFAS 3 defines each of the three assumptions as means for arriving at historical cost. In addition, FASAB Interpretation 7, "Items Held for Remanufacture," Interpretation 7 addresses the valuation of items held for repair that, once repaired/remanufactured/upgraded, are returned to Inventory Held for Sale and must be valued at historical cost using the MAC assumption.

A. The Defense Logistics Agency will value its fuels inventory held for sale at historical cost using the first in, first out cost flow assumption.

B. The Defense Commissary Agency will value its inventory consisting of grocery and household products using latest acquisition cost adjusted for holding gains and losses.

C. Entities must use MAC flow assumption to value inventory held for repair/remanufacture at historical cost. The historical cost of repairable carcass (carcass) is the amount paid for the carcass, generally the credit given to the customer for returning it. The amount to credit for the carcass is the latest acquisition cost less the latest repair cost. Once the carcass is repaired the cost to return the item to a usable condition (repair cost) is added to the cost of the carcass and the item is capitalized. 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 4-1. Abnormal costs, such as excessive handling or rework costs, over the cost of available new items must be charged as an operations expense of the period and cannot be capitalized.

★ D. Excess, obsolete, and unserviceable inventory must be valued as its expected net realizable value. The difference between the value before identification as excess, obsolete, or unserviceable and the estimated net realizable value must be recognized as a loss (or gain) when a determination that it is excess, obsolete, or unserviceable is made even though the

disposition of the inventory may not occur until a later period. At the time of actual disposal, recognize any subsequent changes to the net realizable value.

E. 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 6500. USSGL 6500 may be verified by using the following formula:

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

040304. Accounting for Inventory.

★ A. Detailed posting transactions are outlined in the SFIS transaction library at [United States Standard General Ledger Standard Financial Information Structure \(SFIS\) 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 operating materials and supplies rather than inventory and should refer to section 0402 of this chapter. Refer to section 0407 for inventory accounts for work-in-process. A description of the applicable inventory accounts follow:

B. Inventory Purchased for Resale (Account 1521). This account is used to record the value of inventory purchased for resale which are in a usable condition and are available for immediate resale. The USSGL account includes entries to record receipt of material purchases, sale of inventory items at cost, issue without reimbursement, reclassification of inventory, and to record a gain when inventory is revalued. Activities may need to create a sub-account to record inventory in transit (e. g., 1521.1). However, on the financial statements the balance in this account will be reflected at the summary level. See paragraph 19 of SFFAS No. 3.

C. Inventory Held in Reserve for Future Sale (Account 1522). This account is used to record the value of inventory held in reserve for future sale and includes items which have been suspended in the logistical system and are currently not available for use, or items that are not available for use because they require limited restoration such as cleaning, painting, or repackaging. 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.

D. Inventory Held for Repair (Remanufacturing) (Account 1523). This account is used to record the inventory items currently not in a usable condition but 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. The Department's policy for accounting and reporting for Inventory Held for Repair/Remanufacture will be in accordance with paragraph 10 of FASAB Interpretation, "Items Held for Remanufacture," [Interpretation 7](#) and paragraphs 21 and 22 of SFFAS No. 3, "Accounting for Inventory and Related Property." [SFFAS Number 3](#) Although paragraph 10 of [Interpretation 7](#) offers options for valuing items held for remanufacture, the Department's policy is that such items must be valued in accordance with paragraphs 21-22 rather than paragraphs 32-33 of SFFAS No. 3.

★ E. Excess, Obsolete, and Unserviceable Inventory (Account 1524). This account is used to record the value of inventory (serviceable an 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 [DoD 4140.1 R](#). 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.

F. Inventory – Allowance (Account 1529). This account is used to record: (1) the estimated cost to repair damaged inventory, (2) the estimated gain or loss on the value of inventory because of unrealized holding gains or losses, and (3) the difference when restating the inventory from historical to standard cost. The account is either an asset contra account or an asset adjunct account depending on whether repairable costs are increasing or decreasing for the subsequent fiscal year. This account is used to reflect the purchase cost variance for inventory transactions.

G. 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 4-3 displays the relationship of logistic supply categories to general ledger financial inventory accounts.

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 material. Supply condition codes currently in use within the DoD are defined in DoD 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures." [DoD Publications](#)

2. Relationship of Logistic Categories to Accounting Classifications for Inventory. Table 4-3 shows the relationship of [supply condition codes](#) to general ledger inventory accounts.

U.S. Standard General Ledger Account	Supply Condition Codes
1521 Inventory Purchased For Resale	<p>A Serviceable Issuable Without Qualification B Serviceable Issuable With Qualification C Serviceable Priority Issue D Serviceable Test/Modification</p> <p>Use this account to record amounts for inventory with condition codes A-D up to the approved acquisition objective (AAO).</p> <p>[Excludes Excess, Economic Retention and Contingency Retention Inventory]</p>
1522 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) Q Suspended (Quality Deficient Exhibits)</p> <p>Use this account to record amounts for inventory with condition codes A-D, E, J, K, L, and Q.</p> <p>[Excludes Excess Inventory]</p>
1523 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.</p> <p>[Excludes Excess Inventory]</p>
1524 Inventory - Excess, Obsolete, or Unserviceable	<p>Use this account to record amounts for inventory that is NOT reportable in USSGL accounts 1521, 1522, or 1523. The inventory reported using this account must be valued at its NRV.</p> <p>[Includes Serviceable and Unserviceable Excess Inventory]</p>
<p>Note 1: Condition Code N is for Ammunition Stocks only, which are classified as OM&S. Condition Code V is for Condemned Ammunition.</p> <p>Note 2: Condition Codes do not distinguish War Reserve/Mobilization items from inventory items.</p>	

★Table 4-3

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

Category	Inventory			
	Serviceable	Unservicable	Repair	Retain
Excess	USSGL 1524	USSGL 1524	No	No
Contingency Retention	USSGL 1522	USSGL 1523	No	Yes
Economic Retention	USSGL 1522	USSGL 1523	No	Yes
Approved Acquisition Objective (AAO)	USSGL 1521	USSGL 1523	No	Yes
Requirement	USSGL 1521	USSGL 1523	Yes	Yes

Table 4-4

040305. Reconciliations. Activities must reconcile line item accountability records to balances recorded in the general ledger inventory accounts at least quarterly. Activities may require reconciliations more frequently. Activities must investigate the differences between line item accountability records and general ledger balances to determine the cause(s) of the difference(s). Activities must then correct errors found during the investigation.

040306. Adjustments for Physical Counts of Inventory. Activities must take physical counts of inventories in accordance with the procedures prescribed in [DoD 4140.1 R](#), “DoD Materiel Management Regulation.” Activities must adjust the general ledger for differences between the general ledger balances and the physical count.

040307. Inventory Gains and Losses.

A. Disposal. Disposal of an inventory item must result in (a) a reduction in the associated inventory [account](#) equal to the historical cost of the item; and (b) a loss amount equal to the historical cost of the item.

B. Inventory Issued For Consumption in Repair or Fabrication of Other Items. The item manager may issue material to a contractor or to another federal or DoD activity. If the item is issued for fabrication, assembly, or disassembly of another [SMAG](#) item, it must be recorded as Work-in-Process. If the item is issued for consumption or incorporation in the repair, alteration, or modification, of a Supply Management group item, the Supply Management activity must expense the material when it is issued. If an item issued for consumption subsequently is returned in a usable condition, the Supply Management activity must account for the item in the same manner as a customer return of material. The issue of an inventory item must result in (a) a reduction in the associated inventory equal to the historical cost of the item(s) issued and (b) a loss amount equal to the historical cost of the item(s) issued.

C. Incoming Shipment Gains and Losses. Invoices occasionally list less than (inventory gain) or more than (inventory loss) the inventory received. If it is not economical to resolve the difference, record the difference as an expense. In [such instances](#), debit the incoming shipment losses to [USSGL 7290](#); credit incoming shipment gains to [USSGL 7190](#).

0404 SUPPLY MANAGEMENT OPERATIONS

040401. Description. This section prescribes the policy and accounting requirements relating to inventory applicable to the [SMAGs](#) (i.e. Department of the Army, Department of the Navy, Department of the Air Force and the Defense Logistics Agency) and to the Defense Commissary Agency for commissary resale. The policy for inventory valuation and classification is also applicable to the Defense Reutilization and Marketing Service (DRMS), which holds items for redistribution or disposal including sales of excess materiel to the public and other federal customers, and to the Depot Maintenance or Industrial Operations activity groups who 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.

040402. Items to be Included in the Supply Management Activity Group

A. General. The [SMAGs](#) 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 [SMAG](#) and may reassign the management responsibility of any item from one DoD Component to another DoD Component.

B. Subsistence Items. The **SMAGs** and the Defense Commissary Agency 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 Armed Forces and other persons being fed by the DoD Components. Sub-classes of subsistence items include in-flight rations, combat rations, refrigerated subsistence and non-refrigerated subsistence.

C. Military Exchange Items. [DoD Instruction 1338.18](#), “Armed Forces Clothing Monetary Allowance Procedures,” assigns management’s responsibility to the **SMAGs** 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.

★ D. Military Clothing Items and Individual Equipment. The Department authorizes military exchange systems to act as agents of the **SMAG** to sell military clothing items to members of the Armed Forces. The Defense Logistics Agency (DLA) must procure military clothing requirements for the DoD, and bill users at standard prices. Besides uniforms, this supply class also includes combat equipment, tentage, tool sets and kits, hand tools, and cleaning equipment and supplies. [When these items are replaced, the wholesale item manager must prepare a billing to make an expenditure transfer from the applicable military personnel appropriation account or operation and maintenance appropriation to the wholesale inventory account. The billing amount must cover the cost of the residual stocks only for those items above the initial buy and safety levels of the item being replaced.](#)

E. Fuel. DoD Components must buy their fuel through DLA. The DLA must bill DoD customers at standard prices and other federal and non-federal 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.

F. Construction Materials. The **SMAGs** must manage construction materials including installed equipment, fortification materials, and barrier materials. This includes such items as wood, wire, and sandbags.

G. Medical. The **SMAGs** must manage medical materials supported in the “medical supply chain.” This materiel includes pharmaceutical, medical-surgical, dental, medical laboratory, radiology and optometry supplies. It also includes preventive medicine items and medical equipment.

H. Initial Spares. Initial spares are 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. The **SMAGs** will acquire initial and replenishment spares based on the materiel support date.

I. Nonmilitary Programs. The **SMAGs** must manage material used to support nonmilitary or civic action programs. These programs are intended for agricultural and economic development. Sales of these materials will be made at standard prices.

040403. Authorized Customers. A **SMAG** is authorized to sell items to:

A. A Federal Government-funded activity or an activity empowered to perform a Federal Government-legislated function.

B. A DoD-sponsored non-appropriated fund instrumentality.

C. A State Department-sponsored employee commissary located outside the United States.

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

E. A Federal Government contractor, when the contract specifically provides for the purchase of items by the contractor from the Government.

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

G. 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. [United States Code](#)

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

040404. Issues Without Reimbursement. A **SMAG** item may not be issued or transferred without a funded customer order except as specifically authorized in the following subparagraphs. 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.

A. Domestic Civil Emergency. A **SMAG** 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 [DoD Directive 3025.1](#), "Military Support to Civil Authorities." 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 **SMAG** must be reimbursed for any outstanding accounts receivable.

B. Civil Disturbances. A **SMAG** 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 [DoD Directive 3025.12](#), “Military Assistance for Civil Disturbances.” A receivable account must be established for such amounts. Subsequently, the **SMAG** should be reimbursed for any outstanding accounts receivable based upon the procedures provided in [Chapter 11](#) of this Regulation. Volume 4, [Chapter 3](#) also provides guidance on the write-off of uncollectible receivables from the public.

C. 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 **SMAG** material to assist in the event of a foreign disaster and reimbursements must be in accordance with [DoD Directive 5100.46](#), “Foreign Disaster Relief.”

D. North Atlantic Treaty Organization Country. A **SMAG** item may be issued to a North Atlantic Treaty Organization (NATO) country without reimbursement under a replacement-in-kind arrangement. Non-reimbursable issues under this authority must be changed to a reimbursable issue within 12 months if not replaced by the NATO country.

E. Military Emergency. A **SMAG** 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 United States Code ([10 U.S.C. 127a](#)). A receivable account must be established for such amounts. When funding is made available to cover the costs of the emergency, the **SMAG** must be reimbursed for any outstanding accounts receivable.

F. Presidential Directed Drawdown. A **SMAG** 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 OUSD(C), Revolving Funds Directorate, in order to determine the cash impact of such issues. The cash impact must be added to the economic adjustment cost recovery element.

G. War Reserve Assets. A **SMAG** item may be issued without reimbursement when an item is designated as a war reserve asset and the issue has been approved to satisfy requirements of a mobilization of U.S. Armed Forces.

H. Deficiencies in War Reserve Requirements. A **SMAG** item may be issued without reimbursement when an item is issued under the policies of [DoD 4140.1-R](#), “DoD Supply Chain Materiel Management Regulation,” to satisfy deficiencies in war reserve requirements or between activities within the **SMAG**. Items issued at any level, wholesale or retail, to satisfy customer requisitions must be reimbursable from war reserve reinvestment appropriations.

I. Disposal of Excess Inventory or Operating Materials and Supplies. Disposals will be made in accordance with [DoD 4160.21-M](#), “Defense Materials Disposition Manual.”

J. Items Nearing End of Shelf Life. A **SMAG** item may be issued at any price or without reimbursement when the item is not a war reserve asset, 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.

K. Logistical Management Transfers. Logistical management transfers result from changes in the funding appropriation for an item. If the USD(C) and the USD(AT&L) designate a logistical management transfer of an item from a general fund appropriation entity to the supply management activity group, an increase to inventory for a non-reimbursable transfer must be recorded at the value of the item being transferred. Normally, an item transferred as a result of a logistical management transfer are transferred without reimbursement. However, with prior approval from the OUSD(C), transfers-in of inventory may be with reimbursement to the transferring account under the following conditions:

1. The inventory was on order but undelivered to the transferring account at the time of the transfer; and
2. The transferring account is not an activity group within a working capital fund; and
3. The inventory was ordered by the transferring account as a result of a reimbursable order from a customer of that account.

L. Logistical Management Transfers between Supply Management Activities. Procedures for transferring item management responsibility between working capital fund activities are outlined in [Volume 11B, Chapter 2](#), section 0204 (Transfer of DWCF Functions) of this Regulation. The transfer of supply inventory is handled as follows:

1. On-hand inventory. Stock on-hand is transferred between **SMAGs** 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.
2. On-order inventory. The gaining and losing wholesale item managers must validate on-order inventory requirements to ensure the supply pipeline is adequately filled. As the gaining Supply Management activity receives pipeline deliveries, the gaining item manager is responsible for payment either directly to the vendors (delivery order modification), or to the losing Supply Management activity that funded the delivery order, thus ensuring cash neutrality across the DWCF.

040405. Loans and Leases

A. Authorized Activities. Supply Management activities may only lend or lease items to activities specified in the following paragraphs 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:

1. DoD Funded Customers. An item may be lent to a DoD funded customer for a maximum of 120 days to support an approved training exercise, a military emergency, or a natural disaster.

2. U.S. Secret Service. An item may be lent to the U.S. Secret Service for a maximum of 120 days for purposes prescribed under the policies and procedures in [DoD Directive 3025.13](#), “Employment of Department of Defense Resources in Support of the United States Secret Service.”

3. Civilian Law Enforcement Officials. An item may be lent to a civilian law enforcement activity for a maximum of 120 days for purposes prescribed under the policies and procedures in [DoD Directive 5525.5](#), “DoD Cooperation with Civilian Law Enforcement Officials.”

4. State and Local Governments. An item may be lent to a state or local government for a maximum of 120 days for a specific purpose, under the policies and procedures prescribed in [DoD Directive 3025.1](#), “Military Support to Civil Authorities.”

5. National Veterans' Organizations. Under the authority of [10 U.S.C. 2551](#), an item (e.g., cots, blankets, pillows, mattresses, bed sacks, and other supplies) may be lent 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.

6. American National Red Cross. Under the authority of [10 U.S.C. 2552](#), an item may be lent 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.

7. Inaugural Committee. Under the authority of [10 U.S.C. 2553](#), an item may be lent to an Inaugural Committee to support an inauguration of the President of the United States for a period not to exceed 9 days beyond the inauguration ceremony. A bond equal to the current standard price of the item must be obtained before the item is lent.

8. Boy Scout Jamborees. Under the authority of [10 U.S.C. 2554](#), cots, blankets, commissary equipment, flags, refrigerators, and other equipment may be lent 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.

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 do not interfere with military preparedness or ongoing military functions. To satisfy these requirements, a **SMAG** may issue to a shelter for the homeless only items that have been declared excess to the needs of the DoD.

10. Humanitarian Relief. Under the authority of [10 U.S.C. 2557](#), nonlethal excess supplies may be made 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.

11. Foreign Countries or International Organizations. An item may be leased 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 Chapter 11 of [DoD 5105.38-M](#), “Security Assistance Management Manual,” and in Volume 15, “Security Assistance Policy and Procedures,” [Chapter 7](#), Section 0713. Refer to these references for approval channels and expense requirements.

12. Other Leases. Under the authority of [10 U.S.C. 2667](#), a non-excess **SMAG** item may be leased 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.

B. 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.

C. Expenses. The recipient must pay for any 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 any 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.

040406. Government-Furnished Material (GFM.) Government furnished material may be provided to a contractor or other government agency for consumption or repair.

A. Business Rules. When government furnished material is provided for consumption the following business rules must be followed.

1. An expense item 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 **SMAG** item for the benefit of the **SMAG**.

2. Record as work-in-process 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 **SMAG** item for the benefit of the **SMAG**. The use of the work-in-process account is described at section 0407 of this chapter.

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.

★ 4. Forgings and Castings. The cost of forgings and castings used as GFM shall be included as a part of the acquisition cost of the item that includes the forging and casting in its production.

B. 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 1523, "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 1521, "Inventory Held for Sale."

040407. Capitalized Inventory

A. Transfers-In Without Reimbursement. The Supply Management activity may capitalize, when it undertakes management responsibility for items, supply inventories on hand and on order that were financed by other appropriations and funds, as permitted by 10 U.S.C. 2208. The appropriation that ordered the item must pay bills for inventories on order at the time of the transfer. 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. Note, for transfers from other working capital funds, the

gaining Supply Management activity will reimburse the losing activity for any inventories on order as the deliveries are made. As provided in 10 U.S.C. 2208, a **SMAG** may not make credits to an appropriation for capitalized inventories. However, stock withdrawal authorizations may be approved as provided in 040407.C of this chapter.

B. Transfers of Reimbursable Procurements. The **SMAG** may record a liability for an item transferred from a non-DWCF account only if (1) 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 **SMAG** by the customer.

C. Stock Withdrawal Authorizations. After transferring an item from an appropriated account 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. **When the fiscal year** has passed, the Supply Management Activity Group must issue items on a reimbursable basis. The Supply Management Activity Group must not record a stock withdrawal authorization as a liability.

D. 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 non-reimbursable transfer must be recorded at the value of the item being transferred.

040408. Depot Level Reparables

A. General. For material management purposes, "reparables" are items of supply subject to economical repair and for which the repair is 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.

B. Financial Reporting of Depot Level Reparables. Serviceable depot level reparables (DLR) will be reported on DoD financial statements at historical cost using the MAC flow assumption. Unserviceable reparables (carcasses) will be reported at historical cost using the MAC flow assumption less the average repair cost without the cost recovery elements. In **practice**, the amount paid to the customer or the amount allowed to the customer for the carcass is the reportable cost of the unserviceable repairable.

C. Exchange Transaction. Most items held for remanufacturing are obtained as the result of an exchange transaction. An exchange transaction is the sale of a serviceable item at a standard price in exchange for (1) cash and (2) an item that needs rebuilding or repair (carcass). The customer must will be billed the exchange price i.e., the established repair cost plus the appropriate cost recovery elements at the time of issue if the requisitioning activity states a repairable will be returned. If the impaired item (carcass) has not been received at the

time of the exchange, it must be recorded USSGL 1523 “Inventory Held for Repair (Remanufacture-Due In).”

1. Standard Price. The price customers are charged which, for DoD inventory control point (ICP) managed item (excluding subsistence), remains constant throughout a fiscal year except for the correction of significant errors. The standard price is computed based on various factors which include the replenishment cost of the item plus surcharges to recover costs for transportation; inventory loss, obsolescence and maintenance; depreciation; and supply operations.

2. Exchange Price. The price charged to customers exchanging a depot repairable item (DLR) for a serviceable one (new or repaired). It equates to the latest repair price plus wash out costs per item plus the surcharges necessary to recover other operating costs in the supply management activity group, i.e., latest average repair cost plus overhead cost recovery plus condemnation material expense cost recovery.

D. Business Rules. Remanufacturing costs must be capitalized according to the following business rules:

1. Remanufacture of items currently available from new procurement. Capitalize all costs except: (a) Costs that exceed the current replacement cost; (b) 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.)

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.)

E. Time Limit for Receipt of Exchange Item. If a reparable is not received within 90 days of the exchange sale from a continental United States (CONUS) customer or 120 days for an outside the continental United States (OCONUS) customer, the credit previously allowed must be reversed and the customer billed 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.

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 carcass must be recorded into inventory and a liability established. When a serviceable item becomes available for issue, the liability must be reversed and the exchange sale will proceed normally.

2. Carcass Sent to Contractor or to Repair Facility for Repair/Remanufacture. Supply Management activities will 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)”.

040409. Return Of Items to the Supply Management Activity Group. 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.

A. Customers Who May Return Items. A customer within the federal government, including DoD contractors, may return an item to a **SMAG**. Additionally, on July 21, 1996, section 21 of the Arms Export Control Act was amended to allow the return and exchange of defense articles from a foreign country or international organization under specified conditions. For these conditions see DoD [5105.38-M](#).

B. Customers Who May Not Return Items. A customer outside of the federal government, who does not meet the conditions specified in paragraph 040409.A, may not return an item to a DoD **SMAG**.

C. 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.

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 must be granted to federal government customers and to nonfederal government customers who meet the requirements specified in paragraph 040409.A of this chapter. 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.

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 paragraph 040409.A without an exchange, when the returned item is within the AAO. The credit must be in the amount of the value of the reparable to the Supply Management activity but not more than the current standard price less the exchange price.

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.

4. Return of Defective Items. The Supply Management activity must 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. 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.

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.

040410. Excess Items Disposition

A. Issues of Excess Items to Reutilization and Marketing. An Integrated Materiel Manager (IMM) may authorize transfer without reimbursement of excess **SMAG** items to DRMS. DRMS must issue an item without reimbursement to a **SMAG** when the item is required to satisfy a **SMAG** requirement.

B. Transfer of Inventory Item. Losses for inventory items are taken at the time an item is determined to be excess, obsolete, or unserviceable beyond repair. When an item is transferred to DRMS both the inventory item and its related allowance are removed from the accounting records of the Supply Management activity.

C. Issues of Excess Items to Other DoD Activities. A lateral redistribution of an item excess to the immediate needs of a retail activity, when directed and controlled by an Integrated Material Manager (IMM), must be without direct reimbursement to the issuing (sending) activity from the receiving activity. Rather, 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.

D. Transfers of Excess Property from DRMS. When an IMM or Primary Inventory Control Activity (PICA) determines that needed material is available within the disposal system, DRMS must provide the material to the requiring IMM/PICA without reimbursement. The Supply Management activity must reimburse DRMS, however, for costs incurred for packing, crating, handling (PCH), and transportation. 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 DRMS for transportation of consumable or reparable items will be at the cost recovery rate in effect for transportation by the shipping DRMS location. Activities must account for transfers of material from DRMS.

E. Accounting for Customer Returns. Customer returns may have a significant impact on current period revenue and inventory for the **SMAG**. Customers may or may not receive credit for returned items. Return of an item, whether issuable or not issuable,

reverses the sales' 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.

F. Billing. The Supply Management activity must bill the customer for the credit previously allowed if the Supply Management activity grants credit prior to taking ownership or receipt of the returned item and the item is not received within 90 days from a CONUS 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.

0405 WAR RESERVE MATERIEL

040501. Definition. War Reserve Material (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 GDF and Joint Strategic Capabilities Plan scenarios for committed forces. WRM inventories must include peacetime operating stocks, training stocks, stocks available through industrial base partnerships, and WRM. [See also [DODI 3110.06](#), "War Reserve Materiel (WRM) Policy"] 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 0406 of this chapter, are accounted for within the National Defense Stockpile Transaction Fund.

040502. Funding for War Reserve Materiel. War reserve materiel must be funded from appropriations made direct to the DWCF. Such appropriated amounts must be reflected as a separate goal within the applicable Supply Management or Commissary Resale activity group annual operating budget (AOB) letter. Items such as ammunition and/or principal and major end items procured for war reserve must not be funded through a DWCF, but must be funded through amounts available to Component/Defense Agency procurement appropriations.

040503. Accounting for War Reserve Materiel. Purchases of DWCF 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.

040504. Acquisition of War Reserve Materiel. War Reserve Materiel is indistinguishable from corresponding inventory items. War Reserve Materiel 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 war reserve materiel and inventory, at the time of acquisition, is the same.

040505. Disposition of War Reserve Materiel. War Reserve materiel is held in reserve to be available for transfer without reimbursement when the issue of a war reserve asset 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.

0406 STOCKPILE MATERIALS

040601. Description. National Defense Stockpile operates under the authority of the Strategic and Critical Stock Piling Act (50 U.S.C. Chapter 98). United States Code 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.

A. 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 dedicated to financing the operations of the National Defense Stockpile and DNSC. While the NDSTF has some aspects of a revolving fund, it is not strictly such a fund, as resources are received from diverse sources including direct appropriations, transfers from other appropriations, transfers of physical assets, and disposal proceeds. The Treasury Federal Account and Symbol Title FAST Book, reflects the NDSTF account symbol is 97X4555.

B. Responsibilities. The Defense Finance and Accounting Service (DFAS) will establish accounting requirements and procedures for the NDSTF. All transactions obligating funds of the NDSTF will be initiated by the DNSC. Inventory accounting for the NDSTF is performed by the DNSC. Financial and general ledger accounting for the NDSTF will be performed by DFAS. External accounting reports of the NDSTF are prepared by the DFAS. Accounting reports and additional supporting supplemental financial information is provided by DFAS to the DNSC for preparation of the Department of Defense, “Strategic and Critical Materials Report to the President and Congress.”

040602. Recognition of Stockpile Materials. 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.

040603. Valuation of Stockpile Materials. Stockpile materials must be valued on the basis of 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, freight, state and local taxes).

040604. Accounting for Stockpile Materials. 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 because of necessity for separate identification and inclusion in financial statements, it is needed for combining with other accounts in the several financial statements, or visibility is necessary for preparation of notes to the financial statements, financial systems should allow for the information to be segregated in a form which 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 SFIS transaction library at [United States Standard General Ledger Standard Financial Information Structure \(SFIS\) Transaction Library](#). Also see Volume 4, [Chapter 16](#) of this Regulation.

A. Stockpile Materials Held in Reserve (Account 1571). 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.

B. Stockpile Materials Held For Sale (Account 1572). [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.

C. The two preceding USSGL inventory accounts are classified in several lower level Subdivisions of this account used for the National Defense Stockpile inventory are shown at table 4-5.

A.	1571	Stockpile Materials Held in Reserve- Goal Material (Strategic and Critical Materials)
B.	1571	Stockpile Materials Held in Reserve – Inventory Custodial Transfer or Pending Survey
C.	1571	Stockpile Materials Held in Reserve – Inventory In Process Government Facility
D.	1571	Stockpile Materials Held in Reserve - Inventory In Process Contractor Facility
E.	1572	Stockpile Materials Held for Sale

Table 4-5

040605. Reconciling Inventory Records. The Defense Working Capital Fund Accounting System-Web module 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.

A. Material Acquisition. All acquisitions of material for the National Defense Stockpile are proposed in the Annual Materials Plan that 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 Defense Working Capital Accounting System (DWAS)-Web module 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. Each month the DWAS-Web module must be reconciled to the general ledger inventory account.

B. Material Upgrade. Also included in the Annual Material Plan is the program for upgrading existing material of the National Defense Stockpile. 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.

C. 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.

D. 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 removed from inventory and recorded as cost of sales.

E. 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 the material is to be picked up 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 1131, "Collection Voucher," and confirmed deposit, is sent to the DFAS Accounting and Finance Office for recording in the accounting records and financial reporting.

F. 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 DWAS-Web module 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.

040606. Research Grants

A. General. Appropriations made into the NDSTF are 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.

B. Grant Accounting. Grant funds appropriated to the NDSTF are apportioned to DoD/DLA and allotted by DLA Financial Operations to the DNSC. Grant awards are processed by DNSC and funds are obligated by the Notice of Financial Assistance Award and SF 424, "Application for Federal Assistance." Grant funds periodically disbursed are based on requests by the grant recipient and approval by the grant administrator. Disbursed funds are recorded in the accounting records as accrued expenditures, and obligation liquidations, in the budgetary accounts, and as costs and expenditures against the grant appropriated funds in the proprietary accounts.

0407 WORK-IN-PROCESS

040701. General. The DWCF 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. Additional information relating to revenue recognition, progress billings to customers, and disputed bills may be found in Volume 4, [Chapter 16](#) of this Regulation.

040702. Accounting for Work-in-process

★ A. 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 SFIS transaction library at [United States Standard General Ledger Standard Financial Information Structure \(SFIS\) Transaction Library](#). The USSGL accounts for work-in-process are described in the following paragraphs.

1. Inventory–Raw Materials (Account 1525). All supplies and material purchased by a DWCF 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.

2. Inventory–Work-in-process (Account 1526). This account is used to capture all costs relating to products that are in the process of being manufactured 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 to 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.

3. Inventory–Finished Goods (Account 1527). This general ledger 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.

B. Work-in-process general ledger accounts may be used by any DoD Component or activity within those Components. However, activities within the Defense Working Capital Fund (predominantly those within the Depot Maintenance business area) more commonly use the work-in-process general ledger accounts.

1. When the costs are incurred by a DWCF activity, the related costs, regardless of the source of funding, should be accumulated by the use of a job order.

a. Costs of additions, alterations, improvements, rehabilitations, and replacements of DoD fixed assets exclusive of construction in progress. Accounting guidance on construction in progress may be found in, [Chapter 6](#), “Property, Plant and Equipment,” of this volume.

b. Costs of maintaining DoD equipment and inventory.

c. Costs of manufacturing or fabricating an end item or product.

d. Cost of producing an output.

2. Actual cost of direct labor, direct materials, indirect labor, indirect materials and general and administrative (G&A) expenses used in the production and completion of a job order/customer order must be recorded in inventory-work-in-process. If a DWCF

activity incurs costs in performance of a customer order in excess of funding provided by the customer order, the DWCF activity must record those excess costs in inventory-work-in-process. These excess costs will be transferred to operating expenses/program costs or cost of goods sold upon completion of the job order or customer order.

C. Relief of Working-in-Process

1. 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:

a. Operating expenses/program costs or cost of goods sold (costs incurred in excess of funding provided by the customer order must also be transferred to the operating expenses/program costs or cost of good sold account upon completion or termination of the customer order); or

b. An applicable asset account, if the completed work is to be retained for use by the producing activity; or

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

2. Recognizing Losses. Upon completion of a customer order, no costs associated with that customer order must remain in the work-in-process account longer than 120 days. In other words, costs will not be retained in a work-in-process account to avoid recording operational losses. 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.

3. Order Completion. Completion of a customer order occurs when all work requested on a customer order has been completed or the funded amount authorized on the existing customer order has been recognized under the percentage of completion method of revenue recognition. The costs incurred on a customer order may be more or less than the revenue earned depending upon whether costs incurred exceed the funded amount on the customer order or whether costs incurred 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. Any gain or loss will be recognized in the accounting period the customer order is completed.

4. Disposition of Completed Products. Completed products in response to a customer order may not be retained as assets (i.e., finished goods) of DWCF activities. Upon completion, goods and services resulting from customer orders must be billed promptly to customers. Delay or deferment of billing pending customer acceptance of finished work is not authorized. Parts and supplies manufactured for internal DWCF use must be transferred, upon completion, to the operating materials and supplies account.

D. Review of Work-in-process. The DWCF activities must establish appropriate procedures for the not less than yearly review of 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 transferred to operating expenses/program costs or cost of goods sold. In these cases, the amount of costs incurred that exceeds the funding provided on the customer order should be transferred from the work-in-process account to operating expenses/program costs or cost of goods sold account. In addition, the review should evaluate the compliance with the accounts receivable policy and percentage of completion method for revenue recognition policy in Volume 4, [Chapter 3](#) and [Chapter 16](#) of this Regulation.

040703. Inventory Work-in-process Accounts

A. Due to reporting requirements, many DWCF activities are required to use sub-accounts to capture costs at detail level. 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 sub-accounts to track work-in-process at the detail level (i.e., 1526.1). However, on the financial statements the balance in these accounts will be reflected at the summary level. The inventory work-in-process sub-accounts for use by the DWCF are described in the following paragraphs:

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 cost of goods sold 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.

2. Inventory Work-in-process (Contractor). Record the cost of work performed by a contractor to this account only after the work is accepted and when the work performed by the contractor is to be incorporated into in-house work. All other payments to contractors before acceptance of the work must be recorded as advances and prepayments until accepted in accordance with [Chapter 5](#) of this volume. If the work is accepted and will be incorporated into in-house work it should be recorded to work in progress. If it will not be incorporated into in-house work it should be recorded to inventory available for sale.

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, property acceptance documents, and documented losses.

4. Inventory Work-in-process (Government-Furnished Material (GFM))

a. Inventory Work-in-process (GFM) is used to record the value of that portion of government material furnished to contractors and subcontractors (including other federal agencies) for the performance of DoD contracts. For the purposes of this chapter, this requirement also extends to property furnished to other Federal agencies and third-parties.

b. A subsidiary account must be maintained for each contractor that is furnished government property for use in performance of a contract(s) and that is to be returned upon completion of the contract. The subsidiary accounts must be subdivided by contract. Increases to this account must be supported by documentation evidencing issues of government material to contractors, whether from inventory or from another contractor in accordance with DoD instructions. 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.

c. 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 for use in meeting contractual requirements.

d. 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.

★ 0408 DETERMINING NET REALIZABLE VALUE

040801 Net Realizable Value Factor. The Defense Reutilization and Marketing Service (DRMS) must annually calculate the factor for estimating the net realizable value of excess, obsolete, and unserviceable (EOU) inventory or OM&S using the instructions at 040803 and the format at 040804. The calculation must be as of September 30 of the fiscal year just completed. DRMS will base the factor on experience for the fiscal year just ending plus the 2 years preceding the fiscal year ending September 30, 20XX. DRMS must submit the factor, along with supporting documentation, to the Office of the Under Secretary of Defense(Comptroller), Accounting and Finance Policy and to the Office of the Under Secretary of Defense (Logistics and Material Readiness) by the 6th working day of October—followed by a hard copy that is certified correct by the DLA Comptroller.

040802 Factor Availability. For financial statement reporting, the factor will be posted with the financial reporting instructions on the OUSD(Comptroller) web site. (*Financial Reporting Guidance*) The same factor must be used for reporting the value of excess, obsolete, and unserviceable inventory for the first three quarters of the subsequent fiscal year. Steps 1-11 apply only to DRMS while Steps 12 and 13 apply to all Military Departments and Components.

040803. Instructions for Calculation of Net Realizable Value Factor. Instructions (Steps) for performing the calculations using the template at 040804 are set forth in steps.

A. **Step 1:** For the current and two previous years, obtain DRMS' Sales Revenue and DRMS' combined expense amount for DoD Reutilizations, Transfers & Donations and Foreign Military Sales. Each of the amounts called for in the subsequent steps will be the sum of the current and previous two years data.

B. **Step 2:** Obtain the cumulative acquisition values of the major disposition activities as described in B1-B5, excluding from these activities the categories of Abandoned or Destroyed, Ultimate Disposals and Other Dispositions. (See *Acquisition Values*, "Net Realizable Value (NRV) Queries for J8" to obtain these values.)

1. DoD Reutilization
2. Transfers and Donations
3. Foreign Military Sales
4. Sold and Removed – Usable Property
5. Expended to Scrap

B. **Step 3:** Sum the acquisition values of the major disposition activities listed in B1 through B5 of Step 2 to arrive at Total Dispositions Excluding Liabilities and enter the result.

C. **Step 4:** Obtain the cumulative acquisition values by condition code for the three unilateral or non-exchange disposition activities in D1-D3.

1. DoD Reutilization
2. Transfers and Donations
3. Foreign Military Sales

D. **Step 5:** Next, pool the acquisition values for each condition code (E1-E5) in accordance with the classifications contained in the FMS Pricing Regulation (*FMR Volume 15, Chapter 7* , paragraph 070304).

1. A-1 (serviceable, unused)
2. A-4 (serviceable, used)
3. B-1, B-4, C-1, C-4, D-4 (serviceable with qualification)
4. D-7, E-7, F-7, G-7 (serviceable with qualification)
5. H-7 (serviceable or unserviceable, in poor condition)
6. F-X, G-X, H-X (unserviceable, requiring major repairs)

E. **Step 6:** Subtract the sum of the condition code data for DoD Reutilization, Transfers and Donations, and Foreign Military Sales from the corresponding year-end totals of these dispositions. That is, subtract the step 4 amounts from the step 2 amounts and enter the results.

F. **Step 7:** DoD Reutilizations, Transfers and Donations, and Foreign Military Sales should be valued at fair value. The fair value of excess, obsolete, and unserviceable (EOU) inventory to DLA should be no less than the revenue that DoD could have received for the EOU item by directing it to Foreign Military Sales. (See [FMR Volume 15, Chapter 7](#), paragraph 070304)

1. Use the latest acquisition cost as fair value of serviceable used and unused materiel (A-1, A-4) under Reutilization, Transfers and Donations, and Foreign Military Sales.

2. Use the FMS percentage factor for condition codes (B-1, C-1, D-1, B-4, C-4, D-4) ([FMR Volume 15, Chapter 7](#), paragraph 070304) apply the factor to the acquisition cost under the Reutilization, Transfers and Donations, and Foreign Military Sales headings.

3. Use the FMS percentage factor for condition codes (D-7, E-7, F-7, G-7) ([FMR Volume 15, Chapter 7](#), paragraph 070304) apply the factor to the acquisition cost under Reutilization, Transfers and Donations, and Foreign Military Sales.

4. Use the FMS percentage factor for condition code (H-7) ([FMR Volume 15, Chapter 7](#), paragraph 070304) apply the factor to the acquisition cost under the Reutilization, Transfers and Donations, and Foreign Military Sales headings.

5. Using the FMS percentage factor for condition codes (F-X, G-X, H-X) ([FMR Volume 15, Chapter 7](#), paragraph 070304) apply the factor to the acquisition cost under the Reutilization, Transfers and Donations, and Foreign Military Sales headings.

G. **Step 8:** Allocate DRMS' Sales Revenue from Step 1 by the ratio of acquisition cost of Sold and Removed to Expended to Scrap.

H. **Step 9:** Sum all recoveries from Steps 7 and 8 within each major disposition activity, e.g., "DoD Reutilization," and across all major disposition activities.

I. **Step 10:** Subtract DRMS' Expenses (RTDS) from the sum of all recoveries computed in Step 8 to arrive at DRMS' Net Recovery.

J. **Step 11:** Divide Net Recovery from Step 10 by Total Dispositions Excluding Liabilities from Step 3 to generate the NRV Factor.

K. **Step 12:** Obtain the EOU inventory balance on September 30, 20XX. (Each reporting entity will have to use the factor derived in step 11 to calculate the value of its EOU.)

L. **Step 13:** Compute the NRV of the EOU inventory held at year-end by multiplying the NRV Factor in Step 11 the EOU inventory held at year-end in Step 12. (Each reporting entity will have to use the factor derived in step 11 to calculate the value of its EOU.)

040804. The Template for Calculating Net Realizable Value Factor—is shown on the next page.

Methodology for Calculating Net Realizable Value

NRV TEMPLATE

Data Source	Part 1: Expenses and Recovery		
EBS - GLAC 457912	DRMS Sales Revenue	Step 1	
EBS - 80001R, T & S	DRMS Expenses -- Receiving, RTD, and Sales		

	Cumulative Acquisition Values of Dispositions		Recoveries from Dispositions		
	Major Dispositions	Acquisition Value*	Foreign Military Sales Percent**	Sales Revenue or Cost Avoidance**	Recoveries by Type
DRMS 1143 Ln. D0100	DoD Reutilization	Step 2			
	DAISY Adjustment	Step 6			
Decision Support System (DSS) Cumulative Reutilizations by Condition Code	Serviceable, unused (A-1)	Steps 4 & 5	Step 7	Step 7	
	Serviceable, used (A-4)				
	Serviceable with qualification (B-1, C-1, D-1, B-4, C-4, D-4)				
	Serviceable with qualification (D-7, E-7, F-7, G-7)				
	Serviceable, in poor condition (H-7)				
	Unserviceable, requiring major repairs (F-X, G-X, H-X)				Step 9
DRMS 1143 Ln. D0130	Transfers and Donations	Step 2			
	DAISY Adjustment	Step 6			
Decision Support System (DSS) Cumulative Transfers and Donations by Condition Code	Serviceable, unused (A-1)	Steps 4 & 5	Step 7	Step 7	
	Serviceable, used (A-4)				
	Serviceable with qualification (B-1, C-1, D-1, B-4, C-4, D-4)				
	Serviceable with qualification (D-7, E-7, F-7, G-7)				
	Serviceable, in poor condition (H-7)				
	Unserviceable, requiring major repairs (F-X, G-X, H-X)				Step 9
DRMS 1143 Ln. D0110	Foreign Military Sales	Step 2			
	DAISY Adjustment	Step 6			
Decision Support System (DSS) Cumulative Foreign Military Sales by Condition Code	Serviceable, unused (A-1)	Steps 4 & 5	Step 7	Step 7	
	Serviceable, used (A-4)				
	Serviceable with qualification (B-1, C-1, D-1, B-4, C-4, D-4)				
	Serviceable with qualification (D-7, E-7, F-7, G-7)				
	Serviceable, in poor condition (H-7)				
	Unserviceable, requiring major repairs (F-X, G-X, H-X)				Step 9
DRMS 1143 Ln. D0160	Sold and Removed -- Usable Property	Step 2		Step 8	
DRMS 1143 Ln. D0190	Expended to Scrap				Step 9
	Total Dispositions Excluding Liabilities	Step 3	Total Recoveries		Step 9

Part 2: NRV Calculation

Total	Step 9	* See link at Step 2. ** See link at Step 7 (Cost Avoidance = Acquisition Value x FMS Percent).
Total Expenses	Step 1	
Net Recovery (=Total Recoveries - Total	Step 10	
Total Dispositions Excluding Liabilities	Step 3	
NRV Factor (=Net Recovery / Total Dispositions)	Step 11	
EOU Inventory, Component Balance Sheet, 9/30/XX	Step 12	
NRV (=NRV Factor x Ending EOU Inventory)	Step 13	