

Inventory and Related property

1. **REASON FOR ISSUE:** To establish the accounting policy for "Inventory and Related Property" for the Department of Veterans Affairs (VA).
2. **SUMMARY OF CONTENTS/MAJOR CHANGES:** This Directive contains the accounting policy for defining, classifying, and recording "Inventory and Related Property."
3. **RESPONSIBLE OFFICE:** The Accounting Policy Division (047GA1), Office of the Deputy Assistant Secretary for Financial Management (047) is responsible for the material contained in this Directive.
4. **RELATED HANDBOOK:** None.
5. **RESCISSION:** None

CERTIFIED BY:

**BY DIRECTION OF THE SECRETARY
OF VETERANS AFFAIRS:**

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**Distribution: RPC
FD**

Inventory and Related property

1.PURPOSE.

This Directive establishes the accounting policy for "Inventory and Related Property" for VA.

2. POLICY.

The Department's "Inventory and Related Property" includes inventory held for sale; inventory held for repair; excess, obsolete or unserviceable inventory; and foreclosed property.

a. Inventory and Related Property will be recognized in VA's accounting records when title passes or when the goods are delivered to VA. The cost of the inventory will be removed from inventory upon sale (when title passes or the goods are delivered) or upon use in the provision of a service and the related expense will be recognized.

b. This Directive covers Foreclosed Property, Operating Materials and Supplies, and Inventory (i.e., items held for sale.) The accounting and reporting provisions of this Directive need not be applied to immaterial items. The determination of whether an item is immaterial is based on consideration of specific facts and circumstances.

c Foreclosed property is any real property asset received in satisfaction of defaulted loan receivables or as a result of payment of a claim under a guaranteed or insured loan. All properties included in foreclosed property are assumed to be held for sale. Post-1991 foreclosed property will be valued at the property's net present value of the projected future cash flow. Pre-1992 property will be recorded at cost and adjusted to the lower of the cost or net realizable value. Upon sale, any difference between the net proceeds of the sale and the recorded amount will be recognized as a gain or loss.

d. Operating Materials and Supplies consist of tangible personal property to be consumed in normal operations. VA's Operating Materials and Supplies are recorded using the purchase method of accounting and are expensed when purchased.

e. Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. Excluded are day-to-day operating materials and supplies.

f. Inventory Categories and Valuation.

(1) Inventory held for sale will be recorded at cost and will include appropriate purchase, transportation, and production costs incurred to obtain the inventory item. Donated inventory will be valued at its fair value at the time of donation. The weighted-average cost method will be used to determine ending inventory values and the cost of inventory sold.

(2) Inventory held for repair will be valued at its net book value less the estimated costs to perform repairs. When the repair is actually made, the cost of the repair will be capitalized in the inventory account up to the value of a serviceable item. Any difference between the renovated or new service value and the book value before repair will be recognized as a gain or loss.

(3) Inventory that is excess, obsolete, or unserviceable will be carried in the inventory at its estimated net realizable value. Upon disposal, any difference between the inventory's recorded amount and the value received for the inventory will be recognized as a gain or loss.

3. RESPONSIBILITIES. Administration Heads, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, and Chief Accountants are responsible for ensuring control over the "Inventory and Related Property" of the Department.

4. REFERENCES: Accounting for Inventory and Related Property, Statement of Federal Accounting Standards, Number 3.

5. DEFINITIONS

a. Excess Inventory -- Inventory stock that exceeds expected demand in the normal course of operations.

b. Fair Value -- The estimated amount that can be realized by disposing of an item through "arm's length transactions" in the marketplace; the price at which bona fide sales have been consummated for products of like kind, quality, and quantity in a particular market at any moment in time.

c. Foreclosed Property -- Foreclosed property is any real property asset received in satisfaction of defaulted loan receivables or as a result of payment of a claim under a guaranteed or insured loan.

d. Obsolete Inventory -- Inventory that is no longer needed due to changes in technology, laws, customs, or operations.

e. Real Property - Real property includes all land, buildings, and other structures whether leased or owned by VA.

f. Unserviceable inventory - Inventory that is more economical to dispose of than to repair.

g. Weighted Average Cost Method -- An inventory costing method used in conjunction with a perpetual inventory system. An average cost per unit is computed at the end of an accounting period (determined by dividing the total cost of all units available for sale by the number of units) and then extended to all units in the ending inventory. The cost of the goods sold is recorded at the most recent average cost.