BRIEF

Policy Summary
This policy describes the requirements for accounting for inventories at Berkeley Lab to ensure adherence to DOE inventory accounting requirements.

Who Should Read This Policy
This policy applies to all employees who establish, monitor, or report on inventories at Berkeley Lab.

To Read the Full Policy, Go To:
The POLICY tab on this wiki page

Contact Information
General Accounting Manager

POLICY

A. Purpose
This policy describes the requirements for accounting for inventories at Berkeley Lab to ensure adherence to DOE inventory accounting requirements.

B. Persons Affected
This policy applies to all employees who establish, monitor, or report on inventories at Berkeley Lab.

C. Exceptions
This policy does not apply to assets accounted for as property, plant, and equipment. See the Property, Plant and Equipment (PP&E) and Internal Use Software (IUS) Policy.

D. Policy Statement
Berkeley Lab accounts for inventory as an asset on the balance sheet, in compliance with DOE Financial Management Handbook, Chapter 9. There are three primary types of inventory: precious metals, nuclear materials, and operating materials. For operating materials, only those operating materials meeting the materiality threshold will be accounted for as an asset on the Laboratory's financial statements.
The materiality threshold for inventory has been established as follows:

<table>
<thead>
<tr>
<th>Total Value Held at the Division Level and</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500,000</td>
<td></td>
</tr>
<tr>
<td>Per Unit Value of the Items and</td>
<td>$10,000 or more</td>
</tr>
<tr>
<td>Materials That Will Be Consumed Over a Period Which Exceeds 90 days</td>
<td>90 days</td>
</tr>
</tbody>
</table>

1. Inventory Types
   a. Precious Metals
      i. DOE: Precious metals and other rare materials having a high monetary value in relation to volume or weight are accounted for in this category. DOE specifically defines the following as precious materials: gold, iridium, osmium, palladium, platinum, rhodium, ruthenium, and silver. This category is procured through an inter-DOE procurement process and does not carry obligated balances/B&R ceilings at the Berkeley Lab contract level. Inventory is held in reserve at DOE and transferred among DOE elements, including national laboratories. Precious Metals/DOE are accounted for as an asset on the Lab's financial statements, regardless of whether the materiality threshold is met.
      ii. Non-DOE: In some instances, Berkeley Lab is unable to obtain the needed quantities of previous metals from the DOE process, and must procure them from external sources. This type of inventory purchase is known as Precious Metals/Non-DOE. Since these purchases are usually immaterial, the purchase method is used to account for them. Under the purchase method, costs are recognized when an item is purchased. General Accounting will monitor precious metal purchases from non-DOE sources on an annual basis, prior to fiscal year-end, to validate that the Precious Metals/Non-DOE purchases do not have a material impact on the precious metal inventory balance carried on the balance sheet.
   b. Nuclear Materials Inventory. Berkeley Lab has accountability for the counting and reporting of materials on hand to the National Nuclear Security Administration Service Center (NNSA) in Albuquerque, New Mexico. Berkeley Lab's Environment/Health/Safety (EHS) Division maintains a Materials Control and Accountability Plan that outlines the Laboratory program for the physical management of nuclear materials inventory. Based on Berkeley Lab inputs, NNSA calculates the inventory value and provides Berkeley Lab with the necessary accounting entries to properly state the inventory balance. Nuclear materials are accounted for as an asset on the Laboratory's financial statement regardless of whether the materiality threshold is met.
   c. Operating Materials
      i. Operating materials consist of tangible personal property to be consumed in operations. Examples include stockroom supplies as well as spare parts inventories. Operating materials meeting the threshold are accounted for using the consumption method which requires inventory balances be accounted for on the Lab's balance sheet as an asset.
      ii. Operating materials exclude items that meet the criteria to be classified as plant, property, or capital equipment. See the Property, Plant, and Equipment (PP&E) and Internal Use Software (IUS) Policy.
      iii. Operating materials that do not meet the materiality threshold are accounted for by using the purchase method, which allows items to be expensed when purchased. However, if operating materials pose a danger to the environment, or are subject to pilferage, misuse, or destruction, Laboratory divisions are responsible for ensuring that the necessary physical controls are in place to protect the items with consideration for cost-benefit, risk, and other factors.

2. Establishment of Inventory Balances on the Financial Statements
   a. DOE requires that inventory must be funded from a specific appropriation established to support missions specified for that appropriation. That is, all inventories (even an inventory funded to support indirect activities) must be associated with a direct funded Budget and Reporting (B&R) code.
   b. For direct funded projects/operations, the funding source for the project/operations will be the funding source for the inventory balance. For indirect funded activities, an appropriate funding source must be identified for the inventory balance. If one cannot be identified, then the inventory balance must be maintained below the materiality threshold established by this policy.
      i. Establishing an Inventory. To establish an inventory balance on the balance sheet, contact General Accounting to help establish a plan and schedule to track inventory.
      ii. Acquisition Valuation
         1. Acquisitions to inventory are valued at historical cost. Historical costs include the net purchase price (gross billing less discounts) plus packing, transportation, docking, and related charges required to place the inventory or material in storage ready for issue.
         2. Transferred inventory is recorded at actual cost or standard transfer value when a standard transfer value has been established.

3. Consumption. Inventory consumption is valued on a weighted average method.

4. Return of Previously Issued Items
   a. New items previously issued from inventory that are returned in new/unused condition are valued at the current unit cost for like items at the time of return.
   b. If used items that have been returned to inventory can be reused without being reworked, the returned items are valued at their fair value at the time of return. If they are reworked, value the items as new items and expense any excess rework cost.

5. Physical Inventory Requirements
   a. Inventory carried on the balance sheet is counted at intervals documented by the inventory holder in a financial physical inventory plan approved by the Controller. Physical inventories will occur no less than annually and 90 days prior to fiscal year-end. When appropriate, and with consideration for cost-benefit, risk, and other factors, a perpetual inventory system may be employed.
   b. Physical inventory records will include item descriptions, location of items, dollar values, and quantity for the items being controlled. Records of physical inventory counts and related reconciliations, when completed, will be forwarded by the Laboratory division/inventory owner to General Accounting. If necessary the divisional will also provide General Accounting with support to
make any adjusting entries to bring physical and financial records into agreement.

6. **Excess, Obsolete, and Unserviceable Inventory.** Inventory identified as excess, obsolete, or unserviceable should be revalued at an expected net realizable value. The difference between the carrying amount of the inventory and its expected net realizable value is recognized as a gain or loss and separately reported. Any subsequent adjustments to the net realizable value or any gain or loss upon disposal will also be recognized as a gain or loss.

7. **Allowance for Loss or Valuation.** Allowances will be booked to recognize reasonably anticipated, material financial losses in inventory. The inventory and operating materials allowance accounts will be separately reported on financial statements.

8. **Liquidation of Inventory Balances on the Financial Statements.** Should inventory values fall below the materiality threshold, the Laboratory division will meet with Controller’s Office personnel to determine a path forward. If the decrease in value is considered to be temporary and there is an expectation that the inventory value will meet the materiality threshold within the next 12-month period, the Controller’s Office can approve a continuation of the balance as an asset in the financial statements. If the decrease in value is permanent and there is no reasonable expectation that the value will again exceed the materiality threshold, the Controller’s Office will work with the division to develop a plan for liquidating the inventory balance in the financial statements.

9. **Reporting**
   a. Berkeley Lab must also make required financial statement disclosures applicable to inventory when maintained on the balance sheet including:
      i. General composition of the inventory and materials
      ii. Basis for determining values (valuation method and cost flow assumptions)
      iii. Changes from prior year’s accounting methods
      iv. Balances for specified inventory types and subcategories
      v. Restrictions on the sale or use of inventory and materials
      vi. Decisions criteria (and changes in these criteria) for identifying the category (or subcategory) to which inventory and materials are assigned
   b. Inventory when maintained on the balance sheet must be broken down into the following subcategories when applicable:
      i. Inventory held in reserve for future sale
      ii. Excess items
      iii. Obsolete and unserviceable items
      iv. Inventory held for repair
      v. Operating materials held for future use

### E. Roles and Responsibilities

<table>
<thead>
<tr>
<th>Role</th>
<th>Responsibility</th>
</tr>
</thead>
</table>
| Division                  | • Procure items of inventory through the appropriate procurement channel.  
|                           | • Operating Materials  
|                           | • If materials not meeting the inventory threshold do not pose a danger to the environment or are subject to pilferage misuse or destruction, the division is responsible for ensuring the necessary physical controls are in place to protect the items with consideration for cost benefit, risk, and other factors.  
|                           | • If materials meet the inventory threshold, the division is responsible for contacting General Accounting to ensure the appropriate financial accounting entries are recorded to ensure the balance is captured on Laboratory financial statements. Additionally, General Accounting will help set a plan and schedule for tracking.  
|                           | • Physical Inventory  
|                           | • Prepare and submit a financial physical inventory plan that is approved by the Controller.  
|                           | • Count inventory at intervals documented in the inventory plan, and forward results of the count to General Accounting.  
|                           | • Identify any excess, obsolete, or unserviceable inventory and communicate inventory amounts and associated net realizable value.  
|                           | • Should operating materials’ inventory values fall below the materiality threshold, inform the Controller’s Office so that a path forward can be determined.  
| Property Management       | • Precious Metals Physical Inventory  
|                           | • Prepares and submits a financial physical inventory plan that is approved by the Controller.  
|                           | • Facilitates inventory count at intervals documented in the inventory plan, and forwards results of the count to General Accounting.  
| Environment/Health/Safety (EHS) Division | • Nuclear Materials Inventory  
|                           | • Maintains a Materials Control and Accountability Plan outlining physical management of inventory  
|                           | • Counts materials on hand, and reports what is on hand to the NNSA.  

Controller's Office/General Accounting

- Ensures the Laboratory's financial policy for inventory is up to date with DOE Financial Management Handbook requirements and generally accepted accounting principles, and modifying Laboratory policy as appropriate.
- Overall responsibility for the appropriate accounting of Laboratory inventories on the balance sheet:
  - Performs monthly reconciliation of balance sheet accounts.
  - Analyzes the results of physical inventory counts and makes appropriate adjusting entries.
  - For nuclear materials inventory, receives and processes NNSA adjusting entry.
- Operating Materials Inventory
  - Works with division personnel to determine whether operating materials meet the threshold and require use of the consumption method.
  - Works with division personnel when operating materials inventories drop below the threshold criteria and require liquidation.
  - Works with division personnel to make appropriate adjustments for excess, obsolete, or unserviceable inventory.
- Primary responsibility for financial statement reporting, with inputs from divisions as needed.

F. Definitions/Acronyms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical costs</td>
<td>Costs including the net purchase price (gross billing less discounts) plus packing, transportation, docking, and related charges required to place the inventory or material in storage ready for issue. Depending upon the cost method used, this can be the average cost, FIFO (first in, first out) cost, LIFO (last in, first out) cost, etc.</td>
</tr>
<tr>
<td>Allowance for Loss or Valuation</td>
<td>A contra inventory account carrying a credit balance to recognize reasonably anticipated material financial losses in inventory from shrinkage, deterioration, damage, obsolescence, or loss of utility. The inventory and operating materials allowance accounts will be separately reported on financial statements.</td>
</tr>
<tr>
<td>Consumption Method</td>
<td>Requires inventory balances be accounted for on the Laboratory balance sheet as an asset. Upon use of the inventory, the related cost shall be removed from inventory and charged to the project.</td>
</tr>
<tr>
<td>Excess Inventory</td>
<td>Inventory stock that exceeds the demand expected in the normal course of operations because the amount on hand is more than can be sold in the foreseeable future and that does not meet management's criteria to be held in reserve for future sale.</td>
</tr>
<tr>
<td>Weighted Average</td>
<td>The Weighted Average method is a costing method under which an average unit cost is computed periodically. It is an inventory or material costing method under which an average unit cost is computed periodically by dividing the sum of the cost of beginning inventory or materials, plus the cost of acquisitions, by the total number of units included in these two categories.</td>
</tr>
<tr>
<td>Inventory</td>
<td>Inventory is an asset on the balance sheet. At Berkeley Lab, this includes three primary types: precious metals, nuclear materials, and operating materials.</td>
</tr>
<tr>
<td>Net Realizable Value</td>
<td>The estimated amount that can be recovered from selling, or another method of disposing of an item, less estimated costs of completion, holding, and disposal.</td>
</tr>
<tr>
<td>Obsolete Inventory</td>
<td>Inventory that is no longer needed due to changes in technology, laws, customs, or operations.</td>
</tr>
<tr>
<td>Operating Materials</td>
<td>Tangible personal property to be consumed in operations. Examples include stockroom supplies as well as spare parts inventories. Excluded are goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity.</td>
</tr>
<tr>
<td>Precious Metals/DOE</td>
<td>Precious metals and other rare materials having a high monetary value in relation to volume or weight. Examples are raw materials for gold, silver, and platinum, etc. These metals are procured through an inter-DOE procurement process.</td>
</tr>
<tr>
<td>Precious Metals/Non-DOE</td>
<td>Precious metals and other rare materials having a high monetary value in relation to volume or weight. Examples are materials other than in their raw form (i.e., blended or sculptured forms) for gold, silver, and platinum, etc. These metals are procured from non-DOE sources such as outside vendors.</td>
</tr>
<tr>
<td>Perpetual Inventory System</td>
<td>A perpetual inventory system provides a highly detailed view of changes in inventory and allows real-time reporting of the amount of inventory in stock, and hence accurately reflects the level of goods on hand.</td>
</tr>
</tbody>
</table>
### Purchase Method

Method that charges inventory as an expense when purchased, rather than accounting as an asset on the balance sheet. Upon purchase, the related expense shall be immediately recognized.

### Unserviceable Inventory

Damaged inventory that is more economical to dispose of than to repair.

### G. Recordkeeping Requirements

None

### H. Implementing Documents

None

### I. Contact Information

General Accounting Manager

### J. Revision History

<table>
<thead>
<tr>
<th>Date</th>
<th>Revision</th>
<th>By whom</th>
<th>Revision Description</th>
<th>Section(s) affected</th>
<th>Change Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/3/2016</td>
<td>0</td>
<td>M. Beedle</td>
<td>New policy</td>
<td>all</td>
<td>Major</td>
</tr>
</tbody>
</table>

### Document Information

**DOCUMENT INFORMATION**

<table>
<thead>
<tr>
<th>Title:</th>
<th>Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document number</td>
<td>11.01.020.000</td>
</tr>
<tr>
<td>Revision number</td>
<td>0</td>
</tr>
<tr>
<td>Publication date:</td>
<td>5/3/2016</td>
</tr>
<tr>
<td>Effective date:</td>
<td>5/3/2016</td>
</tr>
<tr>
<td>Next review date:</td>
<td>4/30/2017</td>
</tr>
<tr>
<td>Policy Area:</td>
<td>Accounting</td>
</tr>
<tr>
<td>RPM Section (home)</td>
<td>Financial Management</td>
</tr>
<tr>
<td>RPM Section (cross-reference)</td>
<td>none</td>
</tr>
<tr>
<td>Functional Division</td>
<td>OCFO</td>
</tr>
<tr>
<td>Prior reference information (optional)</td>
<td></td>
</tr>
</tbody>
</table>

### Source Requirements Documents

- DOE Financial Management Handbook, Chapter 9

### Implementing Documents

None