



Standard Practice for Establishing the Full Valuation of the Loss/Overage Population Identified During the Inventory of Moveable, Durable Property¹

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1. Scope

1.1 This practice covers the assignment of a value to categories and complete populations of lost or destroyed property assets for the purpose of determining the composite cost of all such losses on a periodic basis. This practice does not address the valuation of individual property assets.

1.2 The reason for assigning a loss or destruction value is to establish an economic basis for the allocation of resources to manage property efficiently and in a cost effective manner.

1.3 The direct cost of lost, damaged or destroyed (LDD) property has little to do with the acquisition, book or market value of such assets. While in many organizations, the value of LDD property is reflected at acquisition cost in the General Ledger accounts this approach is only appropriate for the financial reporting of property assets.

1.4 The calculation of the cost of loss or destruction of property for the purposes of computing a necessary factor to be used in the equation applied under Practice E 2219 is to be based upon the consideration of both the risk of an inventory shortage as well as the benefits of inventory control and overage management.

1.5 The valuation of property for the purposes of management and control is to be based upon the consideration of both the risk of an inventory shortage and benefits of inventory management as contained in this standard.

2. Referenced Documents

2.1 ASTM Standards:

E 2219 Practice for the Valuation and Management of Moveable, Durable Property²

3. Terminology

3.1 Definitions of Terms Specific to This Standard:

¹ This practice is under the jurisdiction of ASTM Committee E53 on Property Management Systems and is the direct responsibility of Subcommittee E53.03 on Financial Management.

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² *Annual Book of ASTM Standards*, Vol 04.12.

3.1.1 *acquisition cost*—the purchase price paid for property and any subsequent improvements to it.

3.1.2 *agency*—government organization, regardless of level (federal, state, or local).

3.1.3 *company*—a for-profit organization.

3.1.4 *institution*—a not-for-profit, non-governmental organization.

3.1.5 *loss*—the consequence of failing to account for property on-hand when compared with the applicable historical records.

3.1.6 *organization*—an agency, company, or institution.

3.1.7 *overage*—the accumulation and maintenance of unneeded property assets as a consequence of ineffective utilization/reutilization practices, inadequate acquisition planning, record keeping, or other management system inadequacies.

3.1.8 *profit equivalent*—indicia of success in lieu of profit for an agency or institution.

3.1.9 *property*—moveable, durable assets as opposed to realty.

3.1.10 *risk-based management*—applying the underlying principles of risk, recognizing where the instances of risk are overstated and acting to balance the likelihood of the risk of non-availability against the costs of control.

3.1.11 *shortage*—property that is unavailable for use.

4. Significance and Use

4.1 The calculated cost of property loss and destruction in combination with the cost of overages presents a logical foundation for the development of alternative models which can be used to evaluate the effectiveness of property management systems and provide relevant information to management useful for the distribution of resources to the task of property utilization and control.

4.2 The understanding of an organization's loss, destruction and overage cost of inventory is a necessary prerequisite to the development of cost effective systems for the management of movable, durable assets.