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MEMORANDUM FOR: Study Group on PPA/PRA Procedures

SUBJECT : Pricing Policy

1. BACKGROUND

Attachments A and B establish this Agency's current pricing policy with relation to items carried in the materiel inventory. Attachment C takes cognizance of unit price maintenance within the requirements subsystem of the Inventory Control System (ADP). Attachment D defines Department of Defense policy for pricing of stock fund materiel.

2. DISCUSSION

It has long since been recognized that inventory control demands a single standard price at any given time for each item within the inventory. Policy direction in the establishment of this standard price within the Agency's logistics system is clearly defined and promulgated.

The indication is that it is not unreasonable to apply different criteria to different categories of materiel; as a matter of fact, this premise, in some cases, might be most desireable. For example, the application of a surcharge on allocated "captive" stock versus "open" stock. Current policy does not provide for transportation costs in the standard price, while it does provide for obsolescence. In certain instances, the budgeting process reflects a separate item for obsolescence. A direct reference, albeit not the reason for separate budget entry, could be the obsolescent factor which may run as high as 30 to 40 percent in lieu of the present 5 percent surcharge. It is reasonable to assume that the standard price in effect at the time final budget review is made should be the basis for budget estimates.

It can be anticipated that direct deliveries to overseas stations and bases will result in losses which cannot be traced and located. Replacement items should be provided at no cost to the requisitioner. Consequently, revenue from surcharge would be used to underwrite this added expense to the PPA.

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3. CONCLUSION

The percentage surcharge can vary by commodity or allocation. A more exacting surcharge should be established by inventory managers subsequent to reorganization of the Supply Division. Finally, all costs for obsolescence should be included in the standard price.

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Deputy Chief, Supply Division, OL

cc: DD/L
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ATTACHMENT A

REFERENCE: Memo for DDS, dtd 2 May 1966; File: OL 6 2861, subj: Report of Ad Hoc Committee Designated to Study Agency Property Procurement Funding

Recommendation contained in paragraph 3c(1) of referent memorandum is quoted below.

"c. To make appropriate provision in the system against inventory losses due to breakage, spoilage, or obsolescence of property:

(1) A factor of not to exceed five percent be added in establishing the fixed unit prices for issuance of property."

REFERENCE: Memo for D/L, from DDS, dtd 25 June 1966; File: OL 6 4225, same subj

Paragraph 2 approved above recommendation.

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ATTACHMENT B

REFERENCE: OFHB, dtd 1 March 1973, Para 109b(3)

"(a) Inventory will be priced for carrying value purposes and for cost purposes at time of issue at a fixed unit price for each line item. These fixed prices will be established by the Office of Logistics and will be examined at least annually and adjusted to conform with replacement prices."

"(b) Since property acquisitions are required to be recorded in inventory at fixed unit prices, any difference between fixed unit price and actual acquisition cost of the property will be written off to the appropriate cost account."

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ATTACHMENT C

REFERENCE: Memo for D/SIPS Task Force, from D/L, dtd 23 October 1970; File: OL 0 6098, subj: Unit Price Maintenance

OL position (not coordinated with Office of Finance) on unit price maintenance within the requirements subsystem of the Inventory Control System.

ATTACHMENT TO MEMORANDUM

"The Agency's cataloged unit price is defined as the cost of materiel passed on to the requisitioners which includes accessorial charges plus a five percent surcharge.

The acquisition price of nonstandard reportable property shall be used to cost issuances of direct procurement.

The unit price utilized in the requirements subsystem shall incorporate a five percent surcharge to recover funds for the repair and/or replacement of damaged, pilfered, lost, or obsolescent materiel.

Decision rules associated with the administration of surcharges and maintenance of unit prices on a current basis are determined internally and may be modified at the direction of management personnel."

REFERENCE: Memo for D/SIPS Task Force, from AD/L, dtd 30 April 1971; File: OL 1 2305, same subj, ref: OL 0 6098, dtd 23 October 1970

ATTACHMENT TO MEMORANDUM

"Unit prices would be adjusted on the basis of latest acquisition price without regard to variance between fixed and actual acquisition price.

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ATTACHMENT D

REFERENCE: DOD Policy for Pricing (DOD Directive 7420.1)

1. Each item shall have a single standard price which shall be used for inventory accounting.

2. Standard prices will be reviewed on a continuing basis, and revised price lists shall be published normally not oftener than once a year. Revisions and connections will be limited to significant changes.

3. Items, for which operating stocks are not maintained, shall not be given standard prices. Transactions will be processed at actual procurement costs.

4. Standard prices shall include:

   a. Procurement cost

   b. Transportation cost (1st & 2nd destination)

      (1) Producers to Depots

      (2) Between Depots

      (3) Producers or Depots to base level

   c. Surcharge for normal operating losses:

      (1) Pilferage

      (2) Damage

      (3) Deterioration

      (4) Physical inventory shortages

      (5) Excess arising from obsolescence or other causes

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ATTACHMENT D

REFERENCE: DOD Policy for Pricing (DOD Directive 7420.1)

5. The expense of procurement, warehousing, repacking and handling, or any other function of supply administration, will not be financed in the standard price of the items.

6. Separate standard prices may be established on a regional or local basis.

7. Standard prices may be used for procurement in budget program data and corresponding estimates of customer budgets.



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