# Issue

# Treatment of consignment ticket sales (when a Service has not purchased the tickets from a third party but rather sells the tickets owned by the third party) vary among the Services with some Services recording transactions as a sales of inventory and other Services recording transactions as a commission sale on consignment.

# Treatment of tickets purchased for resale also varies amongst the Services. Some Services capitalize the tickets purchased as part of inventory and expense the tickets purchased as a cost of goods sold once resold to a third party. Other Services do not capitalize tickets purchased for resale as part of inventory when the tickets are purchased.

# Research

Below outlines the current treatment on how each service complies and what the regulations, accounting guidance and industry standards are for this area.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Classification and Handling of Ticket Sales Guidance | Air Force | Army | Navy | Marines |
| Classification of tickets held for consignment | Sale of ticket inventory as if owner of tickets | Consignment sale of third party’s inventory | Consignment sale of third party’s inventory | Consignment sale of third party’s inventory |
| Classification of tickets purchased for resale | Does not include in inventory | Includes in inventory; expense when sold | Includes in inventory; expense when sold | Does not include in inventory |
| DoDI 1015.15: Silent of Treatment. Does not address treatment of tickets purchased on consignment or tickets purchased for resale | N/A | N/A | N/A | N/A |
| FMR Volume 13, Chapter 3. 030304. Inventories: Inventory is merchandise or supplies on hand or in transit at a particular point in time. Inventory held for sale or resale consists of goods to be sold in the normal course of business. A value is assigned, which represents the cost of acquisition. When the goods are sold, the value assigned is used to determine profit for the accounting period, as shown on the income statement, and to properly report assets on the balance sheet at the end of the accounting period.  FMR Volume 13, Chapter 3, 030304.A.4. Consigned Merchandise and Tickets: Merchandise held on consignment is maintained and accounted for by the consignor. NAFIs only maintain inventory of consigned merchandise for accountability purposes. These items are physically inventoried monthly or at the end of an event for tickets (whichever comes first). In accordance with ASC 605-15-25-1, this inventory is not recorded in the general ledger. Tickets purchased for resale are to be recorded as inventory in the general ledger.  FMR Volume 13, Chapter 3, para. 030304.B.6: Inventories of merchandise held on consignment are separate from NAFI-owned merchandise. Inventory lists are prepared for each owner of the goods.  FMR Volume 13, Chapter 5, 050401. Recognition: Cost elements are included in inventory and expensed when the items are sold and income from the sale is recognized. | Follows alternative guidance for all ticket sales | Follows current guidance for all ticket sales  No service level consignment ticket inventory for accountability purposes | Follows current guidance for all ticket sales | Follows current guidance for consignment sales |
| GAAP: FASB 605-15-25-1: If an entity sells its product but gives the buyer the right to return the product, revenue from the sales transaction shall be recognized at time of sale only if…The buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product. If the buyer does not pay at time of sale and the buyer's obligation to pay is contractually or implicitly excused until the buyer resells the product, then this condition is not met… Sales revenue and cost of sales that are not recognized at time of sale because the foregoing conditions are not met shall be recognized either when the return privilege has substantially expired or if those conditions subsequently are met, whichever occurs first. In addition, GAAP defines inventory as "the aggregate of those items of tangible personal property that have any of the following characteristics: a. Held for sale in the ordinary course of business" | Follows alternative guidance for all ticket sales | Follows current guidance for all ticket sales | Follows current guidance for all ticket sales | Follows current guidance for consignment sales    Follows alternative guidance for resale tickets |
| FASAB Handbook version 12: Silent on consignment treatment.  Appendix A – 133: The Board concluded that goods held on consignment were not within the scope of this standard.  Statement of Federal Financial Accounting Standards 3-  Accounting for Inventory and Related Property: Defines inventory as items held for sale | Consignment tickets – N/A  Follows alternative guidance for resale tickets | Consignment tickets – N/A  Follows current guidance for resale tickets | Consignment tickets – N/A  Follows current guidance for resale tickets | Consignment tickets – N/A  Follows alternative guidance for resale tickets |
| Industry Practice: Industry and accounting practice is for consignees to treat consignment sales as revenue only after a sale is completed between the consignee and a third party ticket buyer. It is also industry practice to capitalize tickets purchased as inventory and expense the inventory when the tickets are resold. | Follows alternative guidance for all ticket sales | Follows current guidance for all ticket sales | Follows current guidance for all ticket sales | Follows current guidance for consignment sales  Follows alternative guidance for resale tickets |

# Discussion

All relevant DoD guidance and regulations indicate that tickets held on consignment are treated as only the consignor’s inventory. Therefore, the consignee should not include the tickets as part of its inventory. The consignee makes no accounting entry on its books for tickets it holds on consignment. Revenue is recognized by the consignee once the consignee sells the consignment tickets to a third party purchaser. At that time, the consignee expenses its costs of selling the tickets to the third party and expenses its costs due to the consignor.

According to relevant DoD guidance and regulations, tickets purchased by an organization for resale must be capitalized as inventory when purchased. When the tickets are subsequently resold to a third party, the organization should book sales revenue for the tickets sold and should expense the inventory as a cost of goods sold.

# Recommendation

## **Tickets held on consignment**

Given the nature of tickets held on consignment, it is recommended that Services do not include consignment tickets as part of their inventory. Services should recognize revenue only when the consignment tickets are sold by the Service to a third party. At that time, the appropriate expenses should be debited.

Additionally, in accordance with FMR Volume 13, Chapter 3, NAFIs should maintain an inventory of consigned tickets for accountability purposes. This inventory, however, should not be recorded in the general ledger. The tickets are to be physically inventoried monthly or at the end of the ticketed event (whichever comes first).

FMR Volume 13, Chapter 3. 030304.A.4. “Consigned Merchandise and Tickets” be restated as follows:

Merchandise held on consignment is maintained and accounted for by the consignor. Revenue is to be recognized only once the consignment tickets have been sold to a third party purchaser. At that time, any selling costs and any costs due to the consignor are expensed. NAFIs only maintain inventory of consigned merchandise for accountability purposes. These items are physically inventoried monthly or at the end of an event for tickets (whichever comes first). In accordance with ASC 605-15-25-1, this inventory is not recorded in the general ledger. Tickets purchased for resale are to be recorded as inventory in the general ledger.

## **Tickets purchases for resale**

For tickets purchased for resale, in accordance with GAAP and other relevant DoD regulations, it is recommended that tickets purchased by a Service for resale be recorded in the general ledger as inventory at the time of purchase. Once the tickets are resold to a third party, the Service should record the transaction as sales revenue of the tickets sold and as an expense of the inventory as a cost of goods sold.

FMR Volume 13, Chapter 3. 030304. “Inventories” should be restated as follows:

Inventory is merchandise or supplies on hand or in transit at a particular point in time. Inventory held for sale or resale consists of goods to be sold in the normal course of business. Merchandise held on consignment is not included as part of inventory. A value is assigned, which represents the cost of acquisition. When the goods are sold, the value assigned is used to determine profit for the accounting period, as shown on the income statement, and to report assets on the balance sheet at the end of the accounting period.

# Service Concurrence

|  |  |  |
| --- | --- | --- |
| Service | Concurrence | Reason for Non-concurrence |
| Air Force | Concurrence on 10/01/2014. **Re-concurred 9/20/2018.** |  |
| Army | Concurrence on 10/01/2014. **Re-concurred 9/20/2018.** |  |
| Marines | Concurrence on 10/01/2014. **Re-concurred 9/20/2018.** |  |
| Navy | Concurrence on 10/01/2014. **Re-concurred 9/20/2018.** |  |

# USD(P&R)/MC&FP Disposition

No further action.

**DFAS Disposition**

Revise DoD FMR Volume 13, Chapter 3, para. 030304 “Inventories” and para. 030303.A.4. “Consigned Merchandise and Tickets”.

# Forward to DoDIG?

No DoDIG equities.