

10 Spare/Service Parts Issue Transaction Types: A Review Of Their Impact Upon Equipment Maintenance Financial Reporting by Ron Giuntini

Most equipment maintainers, when it comes to parts, focus on obtaining the right part, at the right time, in the right condition, in the right quantity and in the right configuration. During the process of obtaining parts, most maintainers employ several different transactions types; each one of these transactions has an impact on the cost of a maintenance work order, as well as upon the balance sheet of the maintainer.

Below we will discuss 10 transactions processed by maintainers in issuing parts and how they impact financial reporting. Note that the financial reporting of maintenance expenditures and investment are poor at best; most maintainers are so focused on problem solving, that they rarely delve into the financial issues that flow in parallel with their every physical action.

It is the experience of the author that the financial reporting complexity of maintenance transactions are 5-fold greater than that of manufacturing, and if you also include the condition and configuration of parts, maintenance financial reporting is maybe 10-fold more complex than that of manufacturing (the author has been on both sides of the fence)...but most manufacturing organizations dedicate only 10% of their cost accounting resources to support maintenance financial reporting...and that is why the financial reporting of maintenance departments is usually in shambles. Also note that most outside financial auditors do terrible jobs in reviewing maintenance financial statements; maintenance is often not financially "material" for the auditors, so if they "don't get what's happening," it's OK, because in the "big picture" maintenance is not really "important"...NOT!!

1. **Sale with no planned return:**

A sale transaction is primarily for non-repairable parts: hardware, wiring, cables, etc. When the transaction is processed, current asset inventory is relieved from the balance sheet and no future liabilities will be encountered by the organization. In many organizations the parts are period expensed on the income statement. The material usually flow into the normal waste stream

2. **Sale with planned return:**

Again for non-repairables, but the difference is that an impaired unit is to be returned for its disposition through the HazMat waste stream. A liability account should be established on the balance sheet to fund the cost of disposition. Also reserve accounts may have to be established for fines imposed by governmental agencies for the maintenance organization "behaving badly;" poor record keeping, disposing HazMat into normal waste stream and others

3. **Supplier-forward like-kind exchange:**

The supplier ships a repairable part upon the demand of a maintainer and expects an impaired like-kind part to be returned to the supplier. The part received, nor and the part shipped, are ever reflected upon the balance sheet; note that part numbers may change, serial numbers will change, and configurations may change for the part retained by the maintainer. The income statement is impacted as a period expense for the cost of the exchange service. The balance sheet may also be impacted if the part's remaining life has changed

4. **Customer-forward like-kind exchange:**

Same as supplier-forward, but the maintainer initially sends unit to supplier, and upon

receipt, the supplier sends a non-impaired like-kind part to the maintainer

5. **Operating lease:**
Maintainer has possession of a part, but does not own the part; the part is not on the balance sheet. Usually planned by the maintainer as a parts supply strategy. The maintainer is charged a fee per period for access to the part. After a contractual period, the part is returned to the owner. This type of transaction is often utilized for parts that are required in an emergency and they are needed on-site for rapid access; used as a form of a business interruption insurance policy
6. **Daily rental:**
Same as an operating lease but for a very short period and usually not originally planned by maintainer. Often used during a short period where the maintainer's internal repair capabilities are insufficient to rapidly turn a part around, thus requiring a temporary unit to be installed and then removed upon the impaired part's repair
7. **Repair/Loaner/Return:**
Maintainer sends a part to a supplier to be repaired, the supplier provides a daily rental unit until maintainer's part is repaired, then the supplier ships the repaired unit to the maintainer, and once received and installed, the maintainer returns the supplier's part. The supplier's loaner part never is reflected upon the maintainer's balance sheet; it is all bundled as a period service
8. **Fixed fee per period service contract:**
When a maintainer has a service contract for maintenance and the service organization performs work, there is no impact upon the balance sheet unless the work is to be capitalized for a part that is on the balance sheet as a fixed asset; remember that all long-lived repairable parts must be reflected on the balance sheet as fixed assets
9. **Original warranty:**
Part is received, most of the time, at no cost to the maintainer, as a result of a new product warranty claim; receipt not reflected upon the balance sheet or income statement. Note that supplier may want the impaired part returned for reliability analysis purposes. Also note that less than 25% of eligible warranty parts are obtained at no cost
10. **Extended warranty:**
Same as an original warranty, but terms may be different in order to get a no-cost part

As can be seen from the above, there are many ways that a maintainer can obtain a part, and each choice leads to a different set of financial transactions. Being aware of how the balance sheet and the income statement are impacted will make a maintainer one of those rare breeds in industry that can say, "I can fix stuff, but I can also tell you how much it "really" costs to fix and how much of an investment I "really" carry to enable me to perform my work!"