

Inventories

UC Accounting Manual

II. General

I-581 (8/1/73)

INVENTORIES

"The primary basis of accounting for inventories is cost, which has been defined generally as the price paid or consideration given to acquire an asset. As applied to inventories, cost means in principle the sum of the applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location."

--American Institute of Certified Public Accountants, Bulletin 43, Chapter 4

I. INTRODUCTION

The chapter sets forth accounting policy and controls for University supply inventories. Business and Finance Bulletin BUS-54 focuses primarily on the operating considerations of supply inventories.

II. DEFINITIONS

Accounting entries and procedures included in this chapter cover the two categories of inventories defined below:

A. SUPPLY INVENTORIES

1. For Issue Within the University.

Inventories included in this category are central stores, departmental storerooms, production facilities, etc., and similar functions in those cases where the combined inventory value of new and unissued material in a department exceeds \$50,000 at one or more locations on a campus, or exceeds \$50,000 at an off-campus location. (Reference should be made to BUS-54 for greater detail.) Those supply inventories which serve or are related to a single organizational unit are to be established within the account structure of those units. If the recharges to other organizational units exceed 25% of the recharge volume (in number of transactions), a separate activity within the function "Institutional services" will be established.

B. OTHER INVENTORIES

1. For Use Primarily Outside the University.

Continuing Education of the Bar Publications, Agricultural Extension Publications, other publications inventories, etc. are examples of types of inventories in this classification. Inventories in this category valued in excess of \$50,000 are to be established within the account structure of those units.

2. For Use Primarily Inside the University.

Regularly established business type enterprises having supply inventories will continue to account for their inventories within their respective functions. Included in this category are maintenance and Operation of Plant, Hospital inventories, and Student Health Center Hospitals. The very nature of these types of operations precludes their classification as Institutional Services functions.

III. INVENTORY VALUATION

Inventory values are to be based on cost. If cost cannot be readily determined, any other method consistently applied which reflects renewable valuation should be used. If at some future date a department process to change the method of developing the inventory value, the reasons for changing should be fully documented by the department and forwarded to the accounting officer for approval.

IV. ACCOUNTING ENTRIES

The following entries pertain to establishing inventories:

A. FINANCIAL

1)	Dr. Inventories X-114XXX-XXXXX	XXXXX
	Cr. Unexpended Balances Specific Funds	
	X-119850-XXXXX-0-0120	XXXXX

To establish a supply or other inventory based on a physical inventory taken on _____ and to establish a fund balance to properly account for this inventory.

2)	Dr. Department Expense	
	X-XXXXXX-XXXXX-7-7200	XXXXX
	Cr. Inventories X-114XXX-XXXXX	XXXXX

To establish the inventory during the fiscal year in the appropriate expense account. (Subaccount 7 is generally used as the Cost of Goods Sold subaccount, although subs 3 and 5 may also be used.)

3) At June 30 of each year the following reversing type of financial journal is prepared:

Dr.	Inventories	
	X-114XXX-XXXXX	XXXXX
Cr.	Department Expense	
	X-XXXXXX-XXXXX-7-7200	XXXXX

To record the inventory value in the above department based on the physical inventory taken 6/30/XX. Some campuses lien the inventory amount simultaneously with this financial entry. This method allows for easy reappropriation on the closing worksheets.

Note: Concerning entries 1, 2, and 3 above--if the initial inventory is taken during the fiscal year, entries 1 and 2 are prepared simultaneously and entry 3 is prepared the subsequent June 30. If the initial inventory is taken at June 30, only entry 1 is prepared for that fiscal year, and entry 2 will be prepared for the new year (July or August entry). Also, entry 3 (reversing) will not be used until the following June 30. Some enterprises prefer to reflect their inventory throughout the year in the same manner as a June 30; therefore item (3) above would be recorded as a permanent entry

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rather than a reversing type entry.
Each year the entry is increased or
decreased based on the actual inventory
count.

B. BUDGETARY

1) Dr. Unexpended Balances Specific Funds
X-119850-XXXXX-0 XXXXX
Cr. Department Expense
X-XXXXXX-XXXXX-7 XXXXXX

To appropriate funds to cover inventory during the
fiscal year.

2) Dr. Department Expense Recharges
X-XXXXXX-XXXXX-9 XXXXX
Cr. Department Expense
X-XXXXXX-XXXXX-1,2,3,4,5,6,7 XXXXXX

To establish an estimate of recharges to other
funds and to appropriate the estimate to various
subs to cover salaries, supplies and expense and
costs of the goods to be recharged.

Inventories established in the foregoing manner
have been built up over the years from several
fund sources and expensed in the year purchased.
No attempt should be made to credit these prior
funding sources, except as required by certain
contracts and grants. See BUS-54, section IX, for
specific guidelines.

V. ACCOUNTING CONTROL

Business and Finance Bulletin BUS-54 indicates that
operating procedures are to be developed and maintained
by the materiel manager for supply inventories within
the guidelines of that bulletin.

Because of the division of responsibilities for
operating and accounting procedures and controls, and
particularly since these procedures and controls are
not mutually exclusive, the materiel manager and
accounting officer shall coordinate their efforts and
work closely together whenever inventory procedures are
initiated for changed.

In the development of operating procedures the
following accounting controls should be considered and
those that are reasonable in the circumstances should
be included. Some of the accounting controls overlap
operating controls referred to in Business and Finance
Bulletin BUS-54.

- 1) A signed report of inventory will be sent to the
accounting office.
- 2) Accounting control over inventory values will be
maintained by the accounting office.
- 3) Differences between book inventory and physical
inventory values will be determined; the necessary
adjustments will be noted in the accounting records,
and the write-off or gain will be reported in any
statements prepared for management.
- 4) Significant differences discovered between physical
inventory counts and perpetual inventory records will
be investigated by supervisory personnel. Unresolved
differences will be reported to the next higher
administrative level and to the accounting officer.
- 5) Significant differences between physical inventory
and book inventory valuations will be investigated by
the accounting office.
- 6) Someone independent of the inventory operation
should verify physical counts, prices, extensions, and
totals. This may be accomplished by sampling
techniques. The verifiers should report results of

verification tests directly to the materiel manager and the accounting officer.

VI. RESPONSIBILITIES

Chancellors are responsible for ensuring that physical inventories of departmental supply inventories are conducted in accordance with the guidelines set forth by Business and Finance Bulletin BUS-54 and this Accounting Manual chapter.

Accounting officers are responsible for establishing accounts and recording entries as appropriate to establish accounting control over departmental supply inventories and to record these inventories based on a physical count, at June 30 of each fiscal year.

Since operating procedures and controls and accounting procedures and controls are not mutually exclusive, the coordinate efforts of the accounting officer and materiel manger are required in providing procedural guidance to all concerned.

VIII. REFERENCE

The publication listed below proves the fundamental guidelines for maintenance and control of supply inventories within the University.

Business and Finance Bulletin:

BUS-54 Operating Policy for University
 Supplies Inventories

Historically Note: Original Accounting Manual chapter first published 06/01/73. Analysts: Gerry Plaggert and Frank Wick.

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