

# Inventory Guidelines

The following procedures are offered by Financial Services as a guide to all University departments responsible for inventory. Some modification of specific procedures may be necessary in individual instances.

## **General Principles**

1. Definite plans should be developed concerning the date of the physical inventory, who is to supervise the count, the personnel of the counters and checkers, and the sequence of the counting.
2. One person having knowledge of all phases of department operations should be assigned responsibility for planning, coordinating, and supervising the entire inventory operation.
3. Written instructions should be prepared and each person connected with the inventory-taking thoroughly acquainted with them. A meeting of all persons involved in the counts should be held prior to the inventory-taking to review instructions and answer questions.
4. The complete personnel of the inventory group should be selected and their duties fixed. The personnel should include persons familiar with all materials, products, and processes. Supervisors should be persons independent of purchasing, storekeeping, and maintenance of perpetual inventory records.

## **Specific Procedures**

### **A. Preliminary to count**

1. Receiving and shipping areas should be cleared of merchandise before counting is begun, and the receiving and shipping documents which are prepared near the date of the inventory count should clearly indicate the date goods were received or shipped. The document for incoming goods should be marked "include in inventory" or "exclude from inventory". Please note that all inventory to which the University has title at June 30, 20XX, should be included in the inventory valuation. Thus, goods received or shipped/sold subsequent to the taking of the physical inventory, but prior to July 1, 20XX, must be reflected in the year-end inventory valuation. In other words, if the physical inventory count occurs prior to June 30, 2008, said inventory count should include goods received and/or exclude goods shipped/sold subsequent to the taking of the physical inventory, but prior to July 1, 2008.
2. The dates and numbers of the last invoice, last receiving report, and last shipping document written in the period must be noted.

3. The inventory premises should be put into good order prior to starting the count. Consignment, obsolete, damaged or defective goods, or any item(s) not to be included should be placed together, if possible, before counting begins. Only goods to which the University has title should be considered part of its inventory. Questions of title should be resolved before the count begins.
  
4. Pre-numbered inventory sheets should be prepared and pre-numbered count tags or tickets obtained. The inventory sheets will provide space for recording the data on the count tags, plus prices, extensions, and totals. Two-section or carbon-type count tags or tickets should be used (three-part if plans provide for double counts) so that one part can be affixed to the items inventoried and the other part turned in for recording on the inventory sheets. Where use of tags is for some reason inadvisable, the use of inventory sheets alone, with one person calling the items, codes, description, and count while a second person records the data, may be substituted. All inventory counts are to be made without reference to the underlying perpetual inventory records.

## B. Count Procedures

1. Counting should not be done exclusively by the same employee(s) who are responsible for physical custody of the inventory; nor should counting be done by the individual(s) who maintain the accounting records.
  
2. If counting is to be done simultaneously by two or more individuals or teams, specific inventory areas should be assigned to each counting unit to assure that all inventory items will be counted only once.
  
3. Items counted will be recorded on both parts of the pre-numbered two-part tag (or both original and carbon if carbon duplicate type is used); the original will be affixed to the items inventoried and the second part retained by the counter to be turned in to the inventory coordinator at the end of the count. If tags are not used, a sticker or other means of identifying inventory already counted should be affixed.

4. The counters should work in teams of two, one counting, weighing, or measuring the items and calling the results and description to the other who will record the information on the pre-numbered tickets or sheets. The second person should then indicate in some manner on the materials that they have been counted. After the count, all pre-numbered tags and sheets should be carefully checked as to the numbers and all accounted for including those unused or voided.

### C. **Verification**

1. Supervisors should observe the counting process and make certain that instructions are being followed. A supervisor should check each area to verify that counting has been completed.
2. A "blind" second count by another individual or team provides the best assurance that counting has been accurately performed. The two count totals should be compared and any difference reconciled immediately.
3. Original tags should be retained, together with the summary sheets, until the auditor has completed his verification of the inventory.

### D. **Pricing and Accounting Procedures**

1. After inventory counts have been prepared and checked, the individual items should be priced and extended and inventory totals determined for comparison with the general ledger control and adjustment of that department. Pricing of inventories should be made by employees familiar with current prices.
2. In general, inventory items should be priced at cost, if ascertainable. Obsolete, damaged, or unusable items should be priced at cost or fair market value, whichever is lower, but not at an amount which exceeds net realizable value (i.e., estimated selling price less reasonably predictable costs of disposition).

3. As noted previously, the final inventory valuation should include goods received and/or exclude goods shipped/sold subsequent to the taking of the physical inventory, but prior to July 1, 20XX