

## Fiscal Year-end Closing - Inventories

### I. Purpose

To describe the proper use of and documentation required to account for inventories as assets of the University at the end of each fiscal year.

### II. Definitions

- *Certification Form*: The official document used to record counts of physical inventories.
- *Obsolete/Surplus Inventory Form*: The official document used to write off any old, damaged, or unusable items.
- *Inventory*: Inventory includes merchandise for sale (e.g., resale items for food service and University Press publications), supplies in general storerooms (e.g., office supplies, fuel, maintenance and goods not yet expensed), and animal and feed supplies for farm operations.

### III. Responsibilities

#### A. Department/College

1. Prepare detailed instructions for counting and checking inventory.
2. Assign qualified personnel to take the physical inventory.
3. Take the inventory count and submit the Certification Form and Obsolete/Surplus Inventory Form as appropriate to Accounting and Financial Reporting Services according to the fiscal year-end closing schedule.

#### B. Accounting and Financial Reporting Services (AFRS)

Implement year-end closing procedures to ensure that all inventories are counted, valued and properly recorded in the financial records of the University.

### IV. Policy

- A. In order to properly account for inventories as assets of the University at the end of each fiscal year, it is necessary to make a complete and accurate physical count of all inventory items as of June 30. Consistent with Business Procedures Manual, Appendix 4. Service Centers and Recharge Operations, inventories must be valued and counted when the cost of goods on hand exceeds \$50,000.
- B. Items that have been charged as expense, such as basic office supplies, should not be included in inventory even though they may be on hand in limited quantities in departments.
- C. A complete schedule for taking physical inventories shall be issued by University Financial Services several weeks in advance of the fiscal year-end. In order to reduce complications of cut-off procedures, inventories shall be scheduled close to the end of the fiscal year and should be accomplished in as brief a time period as possible.
- D. Each inventory area shall be responsible for calculating the inventory extensions and totals.
- E. The University's Internal Audit Division may conduct on-site visits to inventory areas to verify adherence to procedures and to observe inventory taking.

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- F. Each inventory area shall complete an Inventory Certification Form and submit with the completed inventory to AFRS.
- G. If the inventory dates, as scheduled, cannot be observed, or if compliance with the general instructions is not possible, Accounting and Financial Reporting Services should be notified immediately.

**V. Procedures**

- A. Areas where inventory shall be counted should be arranged, prior to inventory date, in such manner as to expedite the physical count and to insure accuracy. Count sheets with a description of inventory items, stock number, unit cost, etc., should be prepared prior to the inventory date.
- B. All inventory items must be counted. It is recommended that items of high unit value be recounted or checked, preferably by a separate individual, to ascertain that a proper count has been made.
- C. Variances in the value of inventory counted versus the book value of the inventory shall be recorded to the departmental cost center.
- D. Obsolete inventory should be segregated and counted separately. Please provide a complete description of such items, and indicate whether damaged or obsolete. The cost of obsolete inventory should not be included in the inventory valuation. Some examples of obsolete inventory are chemicals that are past the expiration date, items such as software that have been superseded by a new version, and parts for equipment that is no longer used.
- E. Items leased or on loan from extramural organizations should be listed on a separate count sheet, with value assigned. Be certain not to list these items as University owned inventory.
- F. University departments should be informed of the dates each location shall be closed for inventory, so that they may anticipate and provide for their needs for this time period in advance. Once the physical count begins, there should be no movement of inventory items until the count of all items has been completed and approved by the individual responsible for that particular inventory. (The only exception to this shall be emergency requisitions.)
- G. Merchandise received prior to July 1, but after the physical count begins, shall be segregated and not commingled with other inventory. After completion of count, this merchandise should be opened, inspected, counted and included in the physical inventory count sheets.
- H. Receiving for all merchandise delivered prior to the close of the fiscal year must be posted no later than the document cut-off date established by University Financial Services.
- I. Issues and/or sales of merchandise made prior to July 1, but after the physical count is completed, should be deducted from the physical inventory before submission to AFRS.
- J. Cash receipts for sales made through June 30 must be deposited by July 1. Journal vouchers and billings for all issues and/or sales made prior to the close of the fiscal

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year should be prepared, dated, and processed prior to the cutoff date established by University Financial Services.

- K. Inventory count sheets should be footed, extended, totaled, and checked for accuracy. These count sheets should be submitted to Accounting and Financial Reporting Services by the deadline established by University Financial Services.
- L. Inventories should be priced at the lower of average cost or market.