

WASHINGTON STATE UNIVERSITY
Business Services/Controller

PHYSICAL INVENTORY PROCEDURES

POLICY

All merchandise and consumable inventories are to be maintained on either a perpetual or periodic inventory method with a periodic or revolving physical count completed at least annually. Consumables are to be valued and counted when the balance on hand is estimated to exceed \$25,000 in value. In calculating balances on hand, departments may exclude those items sometimes referred to as benchstock items (characterized by high turnover rate and extremely low cost) such as nuts, bolts, screws, washers, etc., unless it would materially misstate inventory value.

DEFINITIONS

- A. Merchandise Inventory - An asset account which reflects the cost of merchandise for sale to other agencies or the public.
- B. Consumable Inventory - An asset account which reflects the cost of goods and supplies on hand in central storerooms or under the control of the central storeroom subject to requisition for subsequent use in operations.

PROCEDURES

I. ADVANCE PREPARATION

- A. Location - Areas must be clean, straightened, and orderly. Similar items should be arranged together. A map or blueprint of the area to be inventoried should be prepared.
- B. Prior to the actual counting, the department will give complete instructions to all personnel participating in the inventory. The State Auditor's Office and the Internal Auditor's Office will be notified by the Director, Business Services/Controller as to the time and location by the use of the form in Appendix A delivered **at least two weeks prior** to the start of the counting process.
- C. Inventory sheets or tags **must be pre-numbered**. Inventory count sheets or tags may be prepared in advance if they are completed and arranged by inventory locations, i.e., bin number, floor area, etc., and the descriptions of the items in those areas, bins, etc. can be listed on inventory sheets or tags. NOTE: No quantities will be entered until the actual count.
- D. Obsolete, defective or other items not to be counted must be removed or segregated, and those items will be clearly marked "*Non-inventory item.*"

II. PHYSICAL COUNT INSTRUCTIONS

A. Proper Cut-off

1. Ideally, all activities of the department should be closed during the count. However, if all activities of the department cannot be halted during the inventory counting, arrangements must be made to obtain a proper cut-off to insure that items issued during the count are counted, but items received during the count are not. A receipt or requisition book, numerically controlled, or similar documentation must be maintained within the control of the supervisor.
2. To insure a proper cut-off between the items of inventory to be counted and the items received or issued during the inventory count, all documents for items received one day prior to inventory and placed into inventory will be clearly marked "Before Inventory." For all items received during the inventory count, the document will be clearly marked "After Inventory," and physically segregated from the inventory being counted until the completion of the physical count.
3. Items issued during the physical count can only be issued through a receipt or requisition form and recorded by item number, description and location. Also, a tag or label with the item number, description and location (marked "Removed During Count") will be placed in the bin or at the area location at the time the item is physically removed.
4. For financial statement purposes, the amount of inventory as of the end of the fiscal year, June 30, is required. When the physical inventory is taken on other than June 30 and is not a perpetual inventory, a detailed reconciliation of the inventory on the date of the count to June 30 is necessary. If the inventory is taken before June 30, all inventory purchases through June 30 should be added and all issuances from stock should be subtracted from the physical counts to result in the inventory amount at June 30. If the inventory is taken after June 30, purchases after June 30 will be subtracted and issuances from stock added back. This reconciliation must be available for evaluation of compliance with cut-off procedures.

B. The Actual Count

1. Count teams (the counter and recorder) should have one person not directly involved with the inventory on a daily basis.
2. Count teams will be assigned specific inventory locations and they will count only that inventory in specified areas.
3. All items must be counted, even if they do not belong in that area. EXCEPTION: Those items marked "non-inventory." If the count sheets have been prepared in advance and an item is listed at a location but is not present, "zero" will be entered for quantity amount. If inventory sheets are prepared prior to the count, any items not included on the sheets should be added to the inventory sheet.

4. The supervisor(s) will control the pre-numbered assigned physical inventory count sheets or tags. The names of the counter and recorder will be placed on the sheets or tags. When the count is complete in each assigned location, the count team will return the count sheets or tags to the supervisor. The supervisor will check off the turned-in sheets to be certain all sheets are accounted for. In addition, the floor plan should be marked as areas are counted.
5. As each item is counted, the items or bins will be clearly marked. Therefore, each item or bin, as counted, will be marked using a standard symbol (chalk or sticker). This will help the count team, supervisor, and the auditors when rechecking or test counting an area to "catch" any missed or duplicated items.
6. The supervisor(s) will also be on hand to observe the counting process and to be certain that instructions are followed and questions answered. Each location will be inspected and signed off by the supervisor upon completion of the team's count.
7. Upon completion of the count, the premises will be toured to assure that all items have either been counted or have markings as to why they were not counted.

C. The Final Step - Pricing and Extensions

When the count is complete, checked, and sheets signed off as covered in the above instructions, the perpetual or current inventory records will be adjusted. All unit prices must be verified prior to performing extensions and totaling. The individual items **must be priced and extended and sheets totaled**. A recap of inventory in memo form should then be submitted to the Business Services/Controller's Office. Final verification that all count sheets are accounted for must be done. In addition, it should be noted that all count sheets should be retained for review.

III. OBSERVATION

The State Auditor's Office, as part of their annual audit, may observe and investigate inventory controls, physical inventory procedures, and make physical tests of the inventory quantities to ensure they are presented fairly in related statewide financial statements and WSU's own financial statement.

IV. CONCLUSION

Inventory is the department head's responsibility and directly affects the financial position and results of your operation. A proper inventory control is not only required of your department, but the accounting control over inventory transactions and balances must be of sufficient strength to satisfy accounting procedures.

MEMORANDUM

TO: Tami Bidle, Property Inventory (Zip 1025)

FROM: _____
Department Head

DATE:

SUBJECT: Physical Inventory

I have read and understand the procedures concerning the physical inventory. I also understand that when the inventory is to be taken, the State Auditors and/or Internal Auditors may be present to observe the count.

Our inventory will begin on _____, and will be completed
(Date)

by _____. Department contact is _____,
(Date) (Name)

telephone number _____.

Signature

Department

PLEASE NOTE: THIS FORM MUST BE RETURNED BY JUNE 15, 2007

MEMORANDUM

TO: Tami Bidle, Property Inventory (Zip 1025)

FROM: _____
Department Head

DATE:

SUBJECT: Physical Inventory Value

This form is used for both the WSU and state financial reports and is subject to audit by the State Auditor's Office.

Department contact is _____, telephone number _____.
(Name)

A. SUBFUND: _____

B. INVENTORY AMOUNT: \$ _____

C. **CIRCLE** METHOD* USED TO ACCOUNT FOR INVENTORY:

FIFO LIFO OTHER**

** _____

* DEFINITION OF METHODS:

FIFO - First-in, first out; costs are allocated between inventory on hand and goods sold based on the assumption that goods are used in the order in which they are purchased. In other words, the first goods purchased are assumed to be the first used or sold. Thus, inventory remaining, is assumed to represent the most recent purchases.

LIFO - Last-in, first-out; this method allocates costs on the assumption that the last units acquired are the first units sold. Thus, the units in the ending inventory are assumed to come from earlier acquisitions.

OTHER - Please define the inventory method used if it differs from those described above.

Signature

Department

PLEASE NOTE: THIS FORM MUST BE RETURNED BY JULY 31, 2007.