

From:

Subject: Physical Inventory of Goods for Resale, Manufacture or Repair

1. PURPOSE

This PS prescribes the guidelines to be followed by University of Houston - Downtown (UHD) employees regarding standardized procedures for the taking of physical inventory of goods held for resale, manufacture, or repair by departments, for the valuation of those goods, and to facilitate year-end financial statement preparation.

Departments required to conduct inventories are those that maintain stocks of consumable items for resale, or stocks of consumable items used in the manufacture, repair, or maintenance of goods or equipment. The cost of goods held for resale is to be recorded as an asset in the University financial system.

2. POLICIES/PROCEDURES

2.1 Any department that maintains a stock of goods for the described purposes must complete and submit an inventory of such stock held as of the end of the fiscal year. Additional physical inventories are considered prudent and may be required by the Business Affairs Office.

2.2 A complete inventory report includes:

1. A transmittal memo, approved by the responsible manager and certifying signature (See Addendum A).
2. A request for inventory adjustment.
3. A summary sheet with valuation of the goods held for resale (See Addendum B).
4. The count sheet used in conducting the inventory, including the certification of those conducting the inventory (See Addendum C).
5. A report of obsolete inventory items (See Addendum D).
6. A location diagram of the resell inventory (See Addendum E).
7. The Review of Inventory Reasonableness forms (See Addendum F).

2.3 All inventories will be taken as close to the end of the fiscal year as possible. Departments desiring to take an early inventory must have prior approval of the Vice President of Administration and Finance or designee who will assist the requesting college and department in selecting a date and proper accounting procedures to be followed. Inventories taken early, but without prior approval, will be recounted.

2.4 Each inventory must be completed by two university employees whose duties do not constitute a conflict of interest with the conducting of the inventory.

2.5 Departments purchasing goods for the purpose of reselling those goods must forward all purchasing information to the Business Affairs Office. The Business Affairs Office will record the value of goods held for resale in the university's accounting system at the time of purchase. The value of these goods is an asset and will be classified in the appropriate account.

2.6 The Business Affairs Office will prepare entries to accurately record the cost of goods sold. The University of Houston System has adopted the First In/First Out inventory valuation method. Inventory on hand at the end of the fiscal year may be valued using this method or another appropriate method for the operation of the individual department.

2.7 The Business Affairs Office will reconcile at least once each fiscal year the sales and purchase records and the physical inventory. Any variance in the quantity of goods on hand and those shown on the department's inventory records must be reported as shrinkage and adjusted from the department's cost of goods sold.

2.8 Goods held in inventory, judged to be obsolete, should be returned to the supplier for credit or replacement, if possible. Approval from the Business Affairs Office is required to proceed with any disposals.

3. REVIEW AND RESPONSIBILITIES

Responsible Party (Reviewer): Vice President for Administration

Review: Biennial