KFS Departmental Inventory Accounting Guidelines

Overview:
Inventory accounts are required for departments receiving revenue (internal and/or external) for selling products to customers.

Inventory tracking system:
There should be an inventory accounting system to track purchases and sales to the units’ inventory. This will track the purchases and sales and allow the units to calculate “cost of goods sold” to transfer to the operating account. Inventory purchases are recorded on the operating account with an inventory object code, sales are recorded on the operating account with the appropriate sales object code and a Cost of Goods Sold transaction is used to transfer the inventory cost of goods sold to the operating account.

“Cost of goods sold” is the value (cost) of what you have sold and is calculated as such:
+ Beginning inventory
+ Purchases
- Ending inventory
Cost of Good Sold

“Profit” is the difference between sales and cost and is calculated as such:
+ Sales
- Cost of goods sold
Gross Profit

The time period for these calculations needs to be the same. This can be done monthly, quarterly or yearly depending on the volume of your transactions, however, an entry must be done by June 30th.

Purchasing/Receiving:
- Follow purchasing procedures.
- Ensure that packing/receiving slip matches invoice and materials received.
- Reconcile inventory object code for materials received compared to received invoices.

Sales/Shipping:
- Properly record transactions.
- Ensure correct items are billed and shipped.
- For internal customers process an Internal Billing (IB) edoc to credit interdepartmental income on your operating account and debit an interdepartmental expense in the purchasing department account.
- For external customers, credit sales tax and external income on your operating account and debit cash or accounts receivable object code.

Physical Inventory:
- A physical inventory must be done annually.
- Safeguard inventory.
- Limit access to inventory supply and institute procedures for receiving and shipping.
- Label and store inventory in a manner as to have easy access to items and awareness of quantity on hand.

Performing a Physical Inventory:
- Ensure all inventory items are counted.
- Use inventory tracking sheets to make counts. These sheets should include items that have zero counts.
- Two individuals should conduct all physical inventory counts. Completed inventory sheets should be spot-checked by a third.
- After an item has been counted it should be marked as such to ensure that it is not counted twice.
• Temporarily suspend receiving and shipping operations during physical inventory. If items have been sold and not shipped, or received and not recorded, ensure that these items are kept separate and not included in the physical count.
• Conduct a physical inventory annually and send an electronic copy of the Physical Inventory to DFA-General Accounting.
• Send complete reconciliation of Physical Inventory to General Ledger to DFA-General Accounting within four weeks of completing the inventory.
• Record adjusting entry to General Ledger within four weeks.

After Physical Inventory Consider the Following:
• Overage- what occurred to make the physical inventory value greater than book inventory?
  ▪ When items were received/recorded their value was greater than that recorded.
  ▪ When items were sold/shipped their value was less than that recorded.
• Shortage- what occurred to make the physical inventory value less than book inventory?
  ▪ When items were received/recorded their value was less than that recorded.
  ▪ When items were sold/shipped their value was greater than that recorded.
  ▪ Theft. Historically the greatest amount of shrinkage comes from employee theft.
• Corrective Actions
  ▪ Limit access to inventory to limit mistakes and shrinkage.
  ▪ Implement procedures that require controls on items received and shipped.
  ▪ Ensure that all employees responsible for inventory control and accounting entries are knowledgeable about the products and units inventoried.
Establishing an Sales Operating Account: (Current Fund, GINDEPT)
Used to record sales of inventory to customers account, reconcile inventory value after a physical inventory is performed, and record other expenses related to sales and operation of the inventory.

Use an Inventory Object Code: (Asset)
Used to record inventory value, reconcile inventory value after a physical inventory is performed and transfer cost of goods sold to inventory operating account.

Purchase inventory: goods for resale.
Done through a purchase order.
<table>
<thead>
<tr>
<th>Sales Operating Acct (Cr)</th>
<th>4020</th>
<th>$150</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers Acct (Dr)</td>
<td>6xxx</td>
<td>$150</td>
</tr>
</tbody>
</table>

Sell inventory: Record this to the operating account.
- Internal sales- This will show income to the operating account and an expense to the customers account that is receiving the inventory. Process on an Internal Billing (IB) edoc.
| Sales Operating Acct (Cr) | 4010 | $150 |
| Sales Tax object code (Cr)| 2025 | $12  |
| Customers Acct (Dr)       | 6xxx | $150 |

- External sales: Selling inventory to a non-Cornell entity and receiving cash/check through a bank deposit or recording an accounts receivable.
| Sales Operating Acct (Cr) | 4010 | $150 |
| Sales Tax object code (Cr)| 2025 | $12  |
| Accounts Receivable (Dr)  | 1200 | $162 |

Cost of Goods Sold: Reduces the inventory object code for products sold and charges the cost of goods sold object code in the operating account.
| Inventory object code (Cr) | 1600 | $100 |
| CoG Sold (Dr)              | 60XX | $100 |

Inventory Devaluation: Reduces the inventory account for the devaluation of goods not sold over time and charges the operating account.
| Inventory object code (Cr) | 1600 | $100 |
| CoG Sold object code (Dr)  | 60XX | $100 |

Inventory Adjustment after Physical Inventory: After each physical inventory, the General Ledger inventory account balance is adjusted to the physical “actual” inventory balance. There should be an inventory tracking system in place to track the accounts book balance.
- Inventory shortage: There are fewer inventories on hand than your records indicate. You have not charged enough to the operating account through CGS. Need to reduce the balance in the inventory account and charge the operating account.
| Inventory object code (Cr) | 1600 | $10  |
| Inv. Over/Short object code (Dr) | 6405 | $10 |

- Inventory overage: There are more inventories on hand than your records indicate. You have charged too much to the operating account through CGS. Need to increase the balance in the inventory account and credit the operating account.
| Inventory object code (Dr) | 1600 | $10  |
| Inv. Over/Short object code (Cr) | 6405 | $10 |

Object Code Descriptions

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Account Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1600</td>
<td>Purchases and Inventory Transactions</td>
<td>Increase/Decrease Inventory (Asset)</td>
</tr>
<tr>
<td>6405</td>
<td>Inventory Over/Short</td>
<td>Adjust inventory</td>
</tr>
<tr>
<td>6000</td>
<td>Cost of Sales</td>
<td>Record Cost of Sales</td>
</tr>
<tr>
<td>6005</td>
<td>Cost of Sales</td>
<td>Record Cost of Sales</td>
</tr>
<tr>
<td>6010</td>
<td>External Revenue</td>
<td>Record External Sales</td>
</tr>
<tr>
<td>402X</td>
<td>Interdepartmental Revenue</td>
<td>Record Internal Revenue</td>
</tr>
<tr>
<td>1200</td>
<td>Increase Accounts Receivable</td>
<td>Book Accounts Receivable</td>
</tr>
</tbody>
</table>