



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Current Assets
Sub-section: Inventories

Effective Date: 07/01/1999

Revision Date: 07/01/2004

Georgia Laws

- OCGA 50-5-51(4): Power, authority, and duty of department
- OCGA 50-5-59: State agencies to furnish department estimates and inventories

General Procedures

Inventories must be accounted for in accordance with generally accepted accounting principles (GAAP). Significant supply inventories must be maintained on the consumption method.

Method Used for Recognizing Expenditures

Materials and supplies inventories are defined as financial resources. The acquisition of inventory is considered to be a change in type of financial resources, from cash to inventory, and not a use of financial resources. Inventories should be charged to operations when consumed. Unless the amount of supplies purchased is insignificant, the purchase method (charged to expenditures when purchased) should *not* be utilized. The following journal entries will illustrate how supply inventories should be accounted for under the consumption method.

		<u>Debit</u>	<u>Credit</u>
150001	Inventories – Supplies and Materials	\$ xxx	
200001	Accounts Payable		\$ xxx

(This entry should be used when supplies are purchased and received).

		<u>Debit</u>	<u>Credit</u>
614xxx	Supplies and Materials (Expenditure/Expense)	\$ xxx	
150001	Inventories – Supplies and Materials		\$ xxx

(This entry should be used when supply inventory is consumed).

Costing Methods

The primary basis of evaluating inventory is cost. However, there are several acceptable methods for determining cost which are referred to as costing methods. The four most common costing methods to determine valuation are: (1) specific identification, (2) first-in, first-out (FIFO), (3) last-in, first-out (LIFO), and (4) average (weighted and moving).

- (1) *Specific Identification* - This method requires the tracking of the purchase price of each individual inventory item and recording the expenditure at cost when the inventory is consumed. (Inventory refers to each “different” item in inventory).
- (2) *First-In, First-Out (FIFO)* - This method requires that the cost of the first inventory acquired be expended first and that the last inventory acquired becomes ending inventory (if any). Of all the

methods, FIFO comes closest to approximating the results that would be obtained under specific identification.

(3) *Last-In, First-Out (LIFO)* - This method requires that the cost of the last inventory acquired be expended first and leaves the cost of the first inventory acquired to be included in ending inventory.

(4) *Average*

Weighted-Average - Using this method, the expenditures are recorded at the average cost of the inventory available to date. The weighted-average method uses the total units in inventory (beginning inventory plus purchases) divided into total cost for determining average cost.

Moving Weighted-Average - This method can be utilized only with a perpetual inventory system. It involves a recalculation of the average cost per unit after each purchase adjusted for each withdrawal from inventory (total units in inventory available less withdrawals divided into total cost of the inventory less withdrawals). Expenditures are recorded at this “moving” average when consumed.

Basis of Maintaining Inventory

Perpetual Inventory System

Inventory records are maintained in detail and updated on a regular basis with this system. Maintenance of the system requires a full set of inventory records with posting of each individual transaction. In addition, a physical check of perpetual records should be made periodically.

Periodic Physical Counts

Under this system, inventory is determined by a physical count as of a specific date. The extent of records maintained depends upon the frequency of the counts. The inventory at year-end is determined by the physical count and is valued in accordance with the inventory (costing) used. The periodic inventory system is aligned with the purchases method for recording accounting activity since detailed inventory records are not needed until recording ending inventory. The periodic system is generally not compatible with the consumption method.