State of Georgia
CAFR – Materials and Supplies Inventory
Instructions

In order to ensure appropriate financial reporting, each State organization must provide information on the amount of materials and supplies inventory on hand at June 30th.

The instructions for each subtitle below correspond to the column numbers provided in the *Materials and Supplies* tab of the Form_ General Information.

1) GL Account

Using the general ledger enter the account number(s) for inventories of materials and supplies.

- Account numbers for Materials and Supplies per the State Chart of Accounts are 150XXX – 153XXX.

2) Balance June 30th

Using the general ledger enter the ending balance for each applicable account number.

3) Inventory Method

There are two methods for maintaining inventories of materials and supplies; periodic or perpetual.

- In a periodic inventory system the agency performs a physical count of its inventory at least annually at fiscal year end. It does not maintain detailed records of physical inventory on hand during the period.
- In a perpetual inventory system the quantities and values for all purchases and disbursements are recorded directly in the inventory system as they occur.

➢ *Click the cell in the Inventory Method column, click the drop down arrow and click on periodic or perpetual.*

4) Valuation Basis

Valuation of inventories may vary depending upon the type of materials and supplies. The following are the most common valuation basis:

- Cost
  - The historical cost of materials and supplies.
- Average – Moving
  - Moving average is the cost per unit after each purchase. This is typically used with perpetual inventory systems.
- Average - Weighted
  - Weighted average is the total cost of goods available divided by the total number of units available during the period. This is typically used with periodic inventory systems.
- Fair Market Value
  - Typically the replacement cost, except:
    - where replacement cost is greater than the ceiling (market defined as ceiling value)
    - where replacement cost is less than the floor (market defined as floor value)
- Lower of Cost or Market
  - A basis whereby inventory is stated at the lower of cost or market.

➢ *Click the cell in the Valuation Basis column, click the drop down arrow and click on one of the valuation basis.*

5) Flow Assumption

The flow of inventory used for materials and supplies may not match their actual flow and is unrelated to the flow of costs. The flow assumption is only related to the valuation of materials and supply. The following are the most common inventory flow assumptions:

- First-In, First Out (FIFO)
  - FIFO is based on the assumption that costs of the first items acquired should be assigned to the first items sold or used. The cost of goods on hand at the end of the period are assumed to be from the most recent purchases and the cost of the goods that have been sold or used are assumed to be from the earliest purchases.
- Last-In, First Out (LIFO)
  - LIFO is based on the assumption that costs of the last items purchased should be assigned to the first items sold or used and the cost of ending inventory reflects the cost of merchandise purchased earlier.
- Average – Moving
  - Moving average is the cost per unit after each purchase. This is typically used with perpetual inventory systems.
- Average - Weighted
  - Weighted average is the total cost of goods available divided by the total number of units available during the period. This is typically used with periodic inventory systems.
- Specific Identification
  - Units in the inventory can be identified as coming from a specific purchase.

➢ *Click the cell in the Flow Assumption column, click the drop down arrow and click on one of the flow assumptions.*

6) Timing of Cost Recognition

There are two methods to recognize the cost inventories for materials and supplies; consumption or purchase.

- The consumption method first records purchase transactions in the inventory account, then, when the inventory is actually used, an entry is posted to the appropriate expenditures account to reflect the use of inventory.
- The purchase method first records inventory as an expenditure when purchased and then adjusted at the end of the period to reflect the value of inventory at the period end.

➢ *Click the cell in the Timing of Cost Recognition column, click the drop down arrow and click on either consumption or purchase.*

➢ **If there are no inventories for materials and supplies, enter an “X” in the cell for No Inventory.**