

OREGON ACCOUNTING MANUAL

SUBJECT: Accounting and Reporting	Number: 15.50.00
DIVISION: State Controller's Division	Effective date: July 1, 2011
Chapter: Accounting and Financial Reporting	
Part: Inventories	
Section:	
APPROVED: John Radford, State Controller	Signature on file at SCD

PURPOSE: This policy provides guidance on accounting and financial reporting for inventories.

AUTHORITY: [ORS 293.590](#)
 NCGA Statement No. 1
 GASB Statement No. 34
 GASB Statement No. 54

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by [OAM Policy 01.05.00](#).

DEFINITIONS: **Inventories** generally consist of materials and supplies on hand for future consumption. Inventories may also include goods held for resale.

Under the **purchases method** of accounting for inventory, inventory is recorded as an expenditure when the items are purchased. Significant amounts of inventory on hand at yearend must be reported as an asset on the balance sheet.

Under the **consumption method** of accounting for inventory, inventory is recorded as an asset when purchased and the recognition of an expense is deferred until the period the inventory is actually used.

POLICY:

101. Agency management is responsible for the proper accounting and reporting of inventories.
102. Agencies must conduct an annual physical inventory of all significant materials, supplies, and goods held for resale. A record of the physical inventory must be maintained. Significant discrepancies between the physical inventory and the agency's accounting records must be investigated and documented for audit purposes.
103. Upon completion of the physical inventory, agencies must adjust the general ledger to reflect the value of the inventories on hand using the first in, first out (FIFO) costing method. The computations to value inventory must be retained for audit purposes.

PROCEDURES:

Governmental Funds

- 104. In governmental funds, account for materials and supplies inventories using the purchases method. Report significant amounts of inventories on hand at fiscal yearend in governmental funds as an asset, offset by nonspendable fund balance.
- 105. If the proceeds from the sale of inventories held for resale are restricted, committed, or assigned to a specific purpose, do not offset this inventory account by nonspendable fund balance. Instead, report the related fund balance in the applicable fund balance classification (see OAM 15.85.00).
- 106. Account for materials and supplies on hand for future consumption in GL 0600 – Inventories-Materials and Supplies. Account for inventories held for resale in GL 0601 – Inventories-Stores for Resale.
- 107. Use transaction code 502 to record and adjust inventories in a governmental fund.

TC 502: To adjust inventories of materials and supplies and inventories held for resale (where the sales proceeds are not restricted, committed, or assigned to a specific purpose) using comptroller object 7500 – Increase/Decrease in Governmental Inventories.

DR 0600 Inventories-Materials and Supplies	2,000	
or 0601 Inventories-Stores Held for Resale		
DR 3075 Change in Reserves	2,000	
CR 3031 Nonspendable FB-Inventory		2,000
CR 3600 GAAP Expenditure Offset (C/O 7500)		2,000

- 108. Use transaction code 500 in a governmental fund *only* in the following situation.

TC 500: To adjust inventories held for resale (where the sales proceeds are restricted, committed or assigned to a specific purpose) using the same comptroller object used to record the initial purchase.

DR 0601 Inventories-Stores Held for Resale	2,000	
CR 3600 GAAP Expenditure Offset (C/O XXXX)		2,000

Proprietary Funds

- 109. In proprietary funds, account for inventories using the consumption method.
- 110. Use transaction code 500 to record and adjust inventories in a proprietary fund.

TC 500: To adjust inventories held for resale (where proceeds are restricted, committed or assigned) using the same comptroller object used to record the initial purchase.

DR 0600 Inventories-Materials and Supplies	2,000	
or 0601 Inventories-Stores Held for Resale		
CR 3600 GAAP Expenditure Offset (C/O XXXX)		2,000

Physical Inventories

111. Conduct a physical inventory at least annually of supplies held for resale or used in production to verify their existence and the quantity on hand. For office supplies, conduct an annual physical inventory only if the dollar amount of the inventory is significant. Investigate significant discrepancies between the physical count and the agency's accounting records, document the reasons, and take corrective action. For audit purposes, retain documentation in the agency's central accounting office of the results and location of all physical inventories taken.
112. Upon completion of the physical inventory, adjust the general ledger to reflect the cost of the inventories on hand using the FIFO costing method. If inventories vary significantly over time, prepare a worksheet to analyze the change between the physical inventory date and June 30 and adjust the accounting records to reflect the estimated change. For audit purposes, retain all costing documentation to substantiate the inventory values reported at June 30.

Perpetual Inventory Systems

113. If a perpetual inventory system is used, at a minimum, maintain the following records:

- Quantity on hand
- Quantity received
- Invoice unit price
- Vendor
- Date received
- Quantity issued
- Date issued
- Requisition number

Update the inventory records daily. Do not receive or dispense inventory in the stock room unless documented in writing, with a copy retained as part of the agency's records. If an electronic authorization is used, retain the records for audit purposes.