

UNIVERSITY *of* HOUSTON  
MANUAL OF ADMINISTRATIVE POLICIES AND PROCEDURES

**SECTION: Finance and Accounting**  
**AREA: Finance and Accounting - General**

**Number: 05.04.03**

<b>SUBJECT: Physical Inventory of Goods for Resale, Manufacture, or Repair</b>
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**I. PURPOSE AND SCOPE**

To accurately record the value of assets held by the University of Houston, specifically the value of goods held by the University for resale, manufacture, or repair. To minimize the risk of loss of those assets, an inventory of goods must be conducted annually.

**II. POLICY STATEMENT**

This document sets forth guidelines for the University to follow in developing inventory procedures.

**III. GENERAL PROVISIONS**

- A. Departments purchasing goods for the purpose of reselling those goods must 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.
- B. Departments selling goods are responsible for preparing entries to accurately record cost of goods sold (COGS) with the approval of General Accounting. Inventory on hand at the end of the fiscal year will be valued using the first in/first out (FIFO) inventory method, unless the department has a valid business purpose for using the last in/first out (LIFO) or average inventory method.
- C. Goods held in inventory, judged to be obsolete, should be returned to the supplier for credit or replacement, if possible.
- D. Each University department that maintains a stock of goods for resale must complete an inventory of goods held on the last business day of the fiscal year and submit the inventory report to General Accounting by the declared deadline. Alternate inventory dates, resulting from business practices, must be reported to General Accounting with the annual inventory report. 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.

- E. Each inventory will be completed by two University employees, or an independent company with expertise in conducting physical inventories, whose duties do not constitute a conflict of interest with the conducting of the inventory.
  
- F. A complete inventory report includes:
  - 1. A transmittal memo, approved by the responsible manager and certifying signature.
  - 2. A request for adjustment to inventory.
  - 3. A summary sheet with valuation of the goods held for resale.
  - 4. The count sheets used in the conducting of the inventory, including the certification of those conducting the inventory.
  - 5. A report of obsolete inventory items.
  - 6. A location diagram of the stockrooms, storerooms, and/or sales areas where goods are held for resale.
  - 7. A test for reasonableness of the inventory balance, comparing the inventory beginning balance, purchases, returns, and sales to the actual year-end balance.
  
- G. The conducting of inventories is subject to observation and/or review by the University's accounting offices and System Internal Auditing.

IV. REVIEW AND RESPONSIBILITY

Responsible Party: Associate Vice President for Finance

Review: Every three years, on or before March 1

V. APPROVAL

Carl P. Carlucci  
Executive Vice President for Administration and Finance

Renu Khator  
President

Date of President's Approval: June 9, 2009

Addendum A

Example Transmittal Memorandum



Memorandum

TO: General Accounting
FROM: College/Division Administrator
Name of College/Division

DATE:

RE: Resale Inventory as of August 31, 200X

The goods held for resale by the Department of (department name) as of August 31, 200X was inventoried by (employee counting) and (employee recording) on (inventory date).

(Note: Additional paragraph is required if inventory date is other than August 3X, 20XX. This paragraph describes the steps that were taken to track receipt and/or sale of goods since the completion of the count. Attach additional statement if appropriate.)

Valuation Method Used: (FIFO, LIFO [explanation], Average [explanation])

My signature below indicates my review and approval of this inventory as an accurate report of the quantities and values of the items held by this department.

PS Cost Center and Account: \_\_\_\_\_

Net Dollar Value of Ending consumable inventory: \$ \_\_\_\_\_

Attachments:
\_\_\_\_\_ Journal Entry
\_\_\_\_\_ Review of Inventory Reasonableness
# \_\_\_\_\_ Inventory Count Sheets
# \_\_\_\_\_ Inventory Summary Sheets
# \_\_\_\_\_ Obsolete Inventory Sheets
# \_\_\_\_\_ Inventory Diagram Sheets

Department Head Signature and Title \_\_\_\_\_ Date \_\_\_\_\_

Certifying Signature and Title \_\_\_\_\_ Date \_\_\_\_\_







**Addendum E**

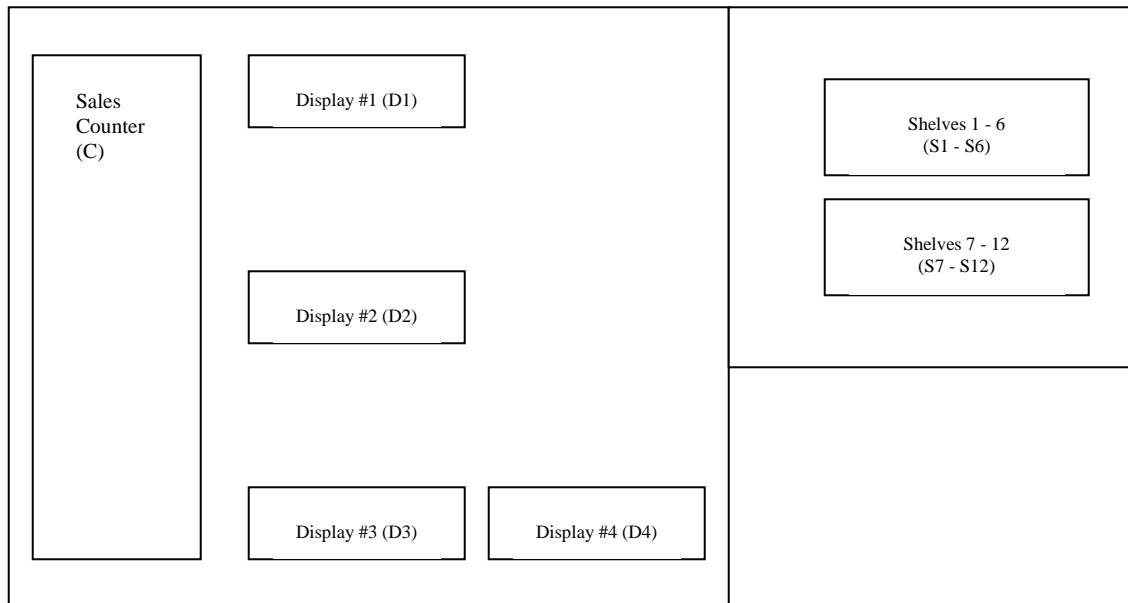
**Example Location Diagram**

**Inventory Location**

**Dept.** \_\_\_\_\_

**Room** \_\_\_\_\_

**Cost Center** \_\_\_\_\_



**Addendum F****Example Review of Inventory Reasonableness**

As of: \_\_\_\_\_

Department of \_\_\_\_\_

Cost Center: \_\_\_\_\_

1. Ending Inv. In PS GL @ 8/31/xx = Begin Inv @ 9/1/XX	_____	A
2. Add: Purchases for Resale, 9/1/xx - 8/31/xx	_____	B
3. <b>Subtotal: Available Inventory</b>	_____	<b>(A+B) = C</b>
4. Deduct: Costs of Goods Sold, 9/1/xx - 8/31/xx	_____	D
5. Deduct: Costs of Goods Disposed Of, 9/1/xx - 8/31/xx	_____	E
6. <b>Calculated Inventory Value – 8/31/XX:</b>	_____	<b>(C-D-E) = F</b>
7. <b>Actual Inventory 8/31/XX – From Actual Count</b>	_____	<b>G</b>
8. <b>Variance</b>	_____	<b>(F-G) = H</b>

Calculation of COGS:

Explanation of variance:

Analysis prepared by: \_\_\_\_\_  
 (signature, date)

Analysis approved by: \_\_\_\_\_  
 (signature, date)

