

**UNIVERSITY OF HOUSTON SYSTEM
ADMINISTRATIVE MEMORANDUM**

SECTION: Fiscal Affairs

NUMBER: 03.E.01

AREA: Physical Property

SUBJECT: Physical Inventory of Goods for Resale, Manufacture, or Repair

1. PURPOSE

The purpose of this administrative memorandum is to prescribe standardized procedures for the taking of physical inventory of goods held for resale, manufacture, or repair by departments of the University of Houston System, for the valuation of those goods, and to facilitate year-end financial statement preparation.

Departments required to conduct inventories are those that maintain stocks of consumable items for resale, or stocks of consumable items used in the manufacture, repair, or maintenance of goods or equipment. The cost of goods held for resale by the component universities of the System is to be recorded as an asset in the System financial records.

2. POLICY

2.1. Any department or college that maintains a stock of goods for the described purposes must complete and submit an inventory of such stock held as of the end of the fiscal year. Additional physical inventories are considered prudent and may be required by the component university's accounting offices for those departments maintaining an inventory of items with a high per unit value or with a cyclical turnover of staff or part-time employees.

2.2. Component university accounting offices responsible for final inventory reporting will issue specific guidelines for the inventory and valuation process. Each component university of the System will designate an office responsible for working with the various units to coordinate schedules. Colleges and departments are responsible for arranging, taking, and submitting inventories in a timely manner.

2.3. All inventories will be taken as close to the end of the fiscal year as possible. Colleges and departments that expect significant transactions due to the beginning of the fall semester may take their inventory at an earlier date and track inventory transactions between the inventory date and the end of the fiscal year. Colleges and departments desiring to take an early inventory must have prior approval of the chief financial officer or designee who will assist the requesting college or department in selecting a date and proper accounting procedures to be followed. Inventories taken early, but without prior approval, will be recounted.

- 2.4. Each component university accounting office will provide specific guidelines to ensure internal control and maintain the integrity of the inventory. These guidelines should address the personnel and documentation requirements for the conducting of the inventory and the level and independence of review of the inventory.
- 2.5. Departments purchasing goods for the purpose of reselling those goods to other component university departments or external customers must record the value of goods held for resale into the System's accounting system (GL). The value of goods should be classified as either an asset or Cost of goods sold (COGS) with the appropriate GL account.
- 2.6. The value of goods purchased for resale will be added to the inventory balance at the time of purchase. Cost of goods sold will be recorded as recommended by each component university's accounting office as appropriate for the operation of the individual department. The inventory valuation method should be consistent and appropriate to the types of goods being sold and the business model.
- 2.7. Goods held in inventory may be judged to be obsolete due to expiration date, in the case of chemicals or biological supplies, or the issuing of superseding versions of the item, in the case of computers and textbooks. Reselling departments must make every effort to return obsolete goods to the supplier for credit or replacement if at all possible. The component university's accounting office will provide guidelines for the authority to proceed with disposal and the appropriate accounting for such disposals.
- 2.8. The sales and purchase records and the physical inventory must be reconciled at least once each fiscal year. Any variance in the quantity of goods on hand and those shown on the department's inventory records must be reported as shrinkage and the department's cost of goods sold must be adjusted to reflect this variance. Excessive shrinkage since the last physical inventory, as determined by the department's management based on standard measures for the type of operation and items held, must be reported to the component university's accounting offices and System Internal Auditing.

3. REVIEW AND RESPONSIBILITY

Responsible Party: Associate Vice Chancellor for Finance

Review: Every two years, on or before March 1

4. APPROVAL

Approved: Carl P. Carlucci
Executive Vice Chancellor for Administration and Finance

Renu Khator
Chancellor

Date: June 9, 2009