



Campus Administrative Policy

Policy Title: Inventories

Policy Number: 2024 Functional Area: Finance

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Applies to: CU Anschutz Medical Campus
CU Denver Campus

A. INTRODUCTION

This policy sets forth guidelines for maintaining a system of internal controls for inventories, keeping inventory records that accurately reflect the valuation of the inventory, and conducting annual physical inventories.

This policy is applicable to all supplies, parts, and goods held for sale or consumption by a CU Denver | CU Anschutz (“university”) department with an aggregate value of \$35,000 or greater. If a department elects to record items as inventory when the aggregate value is less than \$35,000, this policy is applicable except that there is no requirement for the annual physical inventory to be audited by Finance.

Each university department head is responsible for safeguarding, maintaining, recording, and performing physical inventories as described in this policy. It is the responsibility of

the Finance Office to audit the annual physical inventory, audit the costing method, and ensure the general ledger agrees with the resulting cost.

B. DEFINITIONS

1. Annual Physical Inventory is the verification of inventory existence and value for the final financial statements for the fiscal year. The programs/projects in the financial system shall be adjusted to reflect the annual physical inventory.
2. Inventory. Goods held for consumption or sale.
3. Variance is the difference between a planned or calculated amount or value and an actual or counted amount or value. Variances can be favorable or unfavorable, and are recorded as expense adjustments in the financial system.

C. POLICY STATEMENT

1. Internal Controls

Each department is responsible for safeguarding the university's assets, whether those assets are in the form of cash, merchandise, or supplies. A system of internal control is needed to assure that appropriate management of these assets occurs. Good inventory internal controls will incorporate the following:

- a. Written departmental inventory management policy and procedures. Staff must be trained on departmental policy and procedures.
- b. Adequate separation of duties between those responsible for the physical inventory (ordering, receiving, distributing/selling) and those responsible for the inventory accounting records (approving payments, charging departments/customers, maintaining the perpetual inventory balance in the financial system and reconciling to the financial system).
- c. An internal inventory system that records all inventory activity, including acquisitions, sales, returns and adjustments.
- d. Adjusting the financial system inventory value for all inventory activity, including acquisitions, sales, returns and adjustments.
- e. Securing the inventory in such a manner so that inventory may not be removed or otherwise affected without a record being made of the event.
- f. Conducting a periodic count and costing of the inventory. This must be done at least annually for June 30 fiscal year-end close. More frequent counts should be made depending on the size and vulnerability to misappropriation of the inventory. Compare the physical count and costing to the inventory record system and the financial system. All differences should be investigated, explained, and recorded in the inventory subsystem and in the Finance System as an adjustment.

2. Accounting for an Inventory

Contact the Finance Office for accounting guidance specific to your situation.

- a. All inventories on hand at June 30 are to be recorded as assets using account codes 030000 (purchases for external sale) or 040000 (purchases for internal sale or consumption).
- b. Purchases of inventory may be accounted for by either of two methods:
 - i. Record to an expense account code (such as 450200 Cost of Goods Sold) when purchased then make a journal entry at June 30 to adjust the asset to the counted cost with the offset to expense. This is usually the easiest method.
 - ii. Record purchases to the asset account and expense the goods when they are sold.
- c. Each department with inventory is required to keep inventory records which clearly and accurately show the actual inventory count and valuation at any given date. These records can be as sophisticated as an inventory software package or as simple as a card file system.

3. **Valuing the Inventory**

Several methods exist for valuing the inventory on hand. Methods used by the university are “First-In, First-Out” (FIFO), “Weighted Average”, “Last-In, First-Out” (LIFO), and “Specific Identification”. Other methods may be used with approval of Finance. There are advantages and disadvantages to these methods, but each assigns a value to the goods remaining in inventory. The method chosen must be applied consistently from year to year. Changing methods must be approved by the Finance Office.

a. FIFO

The assumption under FIFO is that the first items purchased are sold or used first; therefore, the cost of items in inventory is assumed to be that of the most recent purchases. This method results in maximizing the value of the inventory asset and minimizing cost of goods sold expense. Documentation showing the cost of those purchases should be maintained and easily accessible.

b. LIFO

The assumption under LIFO is that the most recent purchases are sold or used first, therefore the inventory is valued using the oldest costs. This method results in maximizing the cost of goods sold expense and minimizing the inventory asset.

Documentation showing the cost of those purchases should be maintained and easily accessible.

c. Weighted Average

The assumption under the weighted average method is that the average cost of the inventory is influenced or "weighted" by the number of units acquired at each price. It is computed by dividing the total cost of beginning inventory

plus purchases by the total number of units in these two categories, then multiplying the result by the number of units in ending inventory. This method is generally associated with periodic inventories. This method is easiest to calculate manually, and it results in a compromise between maximizing the inventory asset and maximizing the cost of goods sold. Documentation supporting the average cost calculation of each inventory item should be maintained and easily accessible.

d. **Specific Identification**

The specific identification method involves tracking the cost of the specific item being sold. It is usually used for large, unique, or tightly controlled items. Documentation supporting the specific cost of each inventory item should be maintained and easily accessible.

4. **Year-End Physical Inventory**

Each department with an inventory is required to take a physical count at least once a year at June 30 to ensure that an accurate asset value is reported in PeopleSoft. This physical count may alternately be completed on another day in late June as approved by the Finance Office if circumstances warrant not completing it on June 30.

Prior to a physical inventory count, each department supervisor or responsible person needs to:

- a. Write or review and update as needed procedures for conducting physical count appropriate to the nature of the inventory and in keeping with the inventory subsystem.
- b. Schedule the physical count.
- c. Establish “cutoff” count control procedures.
- d. Coordinate the plan with the Finance Office accountant coordinating inventory audits.
- e. Supervise participants during the physical inventory process and prepare or review the inventory adjustments and amounts that will appear in the fiscal year-end PeopleSoft account balances.
- f. Submit physical count documentation and inventory adjustment journal entries to Finance.

The university Finance Office will audit the inventory, process or approve adjusting journal entries, and retain copies of physical inventory records for a period of five years.

Notes

1. Dates of official enactment and amendments:

March 1, 2000: Adopted by Associate Vice Chancellor for Finance and Administration

July 1, 2010: Updated

March 4, 2019: Updated

2. History:

March 4, 2019: Modified to reflect a 2018 Campus-wide effort to recast and revitalize Campus policy sites into a standardized and more coherent set of chaptered policy statement organized around the several operational divisions of the university. Article links, University branding, and formatting updated by the Provost's office.

April 1, 2022: Formatting and position updates.

3. Initial Policy Effective Date: July 1, 2010

4. Cross References/Appendix:

- State of Colorado Fiscal Rules and Year-end Closing Instructions