Annual Inventory Policy

Subject:	Financial Affairs
Revised:	N/A
Effective Date:	February 1, 2012
Review Date:	February 2015
Responsible Party:	MSU-Bozeman Vice President for Administration & Finance

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I. Introduction

It is necessary for departments with resale inventories to conduct a yearly inventory for financial statement reporting purposes. In order to provide consistency from year to year in recording, valuation, and reporting of inventories, this guideline has been developed for use as a reference. Adherence to these procedures will help ensure that each inventory will be properly conducted, valued, and reported.

II. Planning

The inventory should be conducted as close to June 30th fiscal year-end as possible. Regardless of when it is conducted, schedule a sufficient amount of time to properly conduct the inventory. Keep in mind that a sufficient number of qualified people must also be available during that time to conduct the inventory. An inventory contact person or inventory supervisor who will be ultimately responsible for planning, coordinating, conducting, and reporting the inventory should be appointed. All inventory items on hand should be properly located prior to the actual beginning of the inventory count.

If possible, the area where the inventory is to be conducted should be closed during the actual inventory. This will necessitate prior notification to persons who may use products being inventoried. Once the inventory dates have been decided upon, two-person inventory counting teams should be established. Persons who participate in the inventory count should not also have continuing regular responsibility for that inventory.

At least 30 days prior to the actual inventory, the inventory supervisor should notify Property Management and Institutional Audit & Advisory Services, in writing, of the locations and times of the planned inventory. The inventory supervisor should also prepare the inventory count sheets to be used, categorize the inventory by physical location or by major classification, and schedule the two-person inventory teams.

III. Procedures

If the area is closed during the inventory, signs to that effect should be clearly posted. Sales or receipts of new goods should not occur during the inventory if possible. Inventory should not be moved during the process, so as to prevent double counting the inventory or exclusion from the count.

Inventory teams should proceed methodically according to plan, with one person calling out the item and quantity from the shelf, and other person recording the information on the count sheet. The items should be marked as they are counted to ensure that all items are included without duplication.

Opened containers are not generally included as inventory. For example, a box of paper contains paper reams which should be included, but open reams should not be included. The inventory supervisor should clearly document the criteria used to determine what is and is not included. Items which are not included should be clearly marked.

After the inventory count is completed, the inventory supervisor should inspect the facility to ensure all items are marked as included or excluded. Persons who did not participate in the counting should then be instructed to cost each inventory item at lower of cost or market value. The entire inventory listing can then be extended to lower of cost or market to arrive at the total inventory valuation as of the inventory date.

The inventory recorded should then be compared with the perpetual inventory records if they are kept, and any material adjustments should be recorded for the inventory supervisor's approval. The perpetual records should be adjusted to reflect the periodic records exactly, as of the inventory date.

IV. Reporting

The final inventory report is to be prepared by the inventory supervisor and is to reflect the inventory as of June 30th. The final report will take into account adjustments for:

1. Additions to the inventory (at cost) for goods received since the inventory was conducted, but prior to June 30th, and
2. Deletions from the inventory (at cost) for sales and use of goods since the inventory was conducted, but prior to June 30th.

The final report will reflect the general types or categories of goods inventoried, the costs of each category, the method used to value the inventory if not the lower of cost or the market value, and the total inventory value. The final inventory report should be prepared by the inventory supervisor and approved by the department head. Copies are to be sent to Property Management by the established deadline. The report will be used to adjust financial records to reflect an accurate valuation of inventory. The inventory count sheets should be retained by the department for three fiscal years then may be destroyed.

V. Livestock

Livestock inventories are handled as outlined above, with a few exceptions. Ideally, Livestock should be inventoried when gathered in a central location rather than attempting to obtain an accurate count while they are on the range.

Annually, Property Management will request non-capital livestock inventory information from those departments with livestock. The inventory will include the fair market value of one head, based on the most likely market for that particular department, the number of head, and the total fair market value of all livestock. The inventory report will include purchased and gifted livestock.

Departments are to advise Property Management and Institutional Audit & Advisory Services of when they will be conducting the annual livestock inventory. The completed inventory report is to be signed by the department head or station superintendant and returned to Property Management. The report will be used to adjust financial records to reflect an accurate valuation of inventory. The report should reflect the inventory as of June 30th.

VI. Conclusion

All inventories are subject to audit at any time by either internal or external auditors. Adherence to established inventory procedures and guidelines is necessary to ensure accurate financial reporting.

Contact Property Management or Institutional Audit & Advisory Services if you should have questions.