

University of Tennessee – Knoxville Campus
Office of Budget and Finance
PHYSICAL INVENTORY GENERAL PROCEDURES

All merchandise and consumable inventories are to be maintained on either a perpetual or periodic inventory method with a physical count completed at least annually. Consumables are to be valued and counted when the balance on hand is estimated to exceed \$5,000 in value. In calculating balances on hand for consumables, departments may exclude those items sometimes referred to as benchstock items (characterized by high turnover rate and extremely low cost) such as nuts, bolts, screws, washers, etc., unless it would materially misstate inventory value.

DEFINITIONS

- A. Merchandise Inventory – Cost of merchandise for resale to the university community and the general public.
- B. Consumable Inventory – Cost of goods and supplies on hand in central storerooms or stockrooms for subsequent use in operations.
- C. Cost – price paid to acquire inventory, including charges directly and indirectly incurred to bring the item to its existing condition and location (i.e. freight-in).

PHYSICAL COUNT INSTRUCTIONS

1. For financial statement purposes, a physical count to determine the amount of inventory as of the end of the fiscal year, June 30, is required to be reported to the Office of Budget and Finance. It is a best practice for departments with more than \$10,000 in inventory to periodically count inventory throughout the year in order to *timely* identify shortages that may occur (such as from inaccurate records, theft, etc.). Periodically can be interpreted as quarterly or semi-annually.
2. When feasible, operations should shut down to ensure proper cut-off for the sales and cost of goods sold valuations.
3. Departments with merchandise or consumable inventory are responsible for developing detailed, written inventory procedures for all phases of the inventory process.
4. For the physical count, a general map of the inventory area should be attached to the written instructions given to each person connected to counting the inventory.
5. Individual duties should be assigned. For example, one person should count the inventory and another individual should check the count.
6. Obsolete items should be itemized separately and not listed on the inventory.
7. To facilitate the count, inventory should be arranged in a neat and orderly fashion.
8. Inventory should be double-checked after the original count is made.
9. Pre-numbered count sheets should be assigned to specific individuals and must be accounted for in sequence by the Supervisor when the inventory is completed.
10. All items received after the cut-off date for inventory should be placed in an area separate from the regular inventory. If the invoice has been processed for payment (or recorded as a payable before June 30), the item should be included in year-end inventory.
11. The counter and the checker should both initial the inventory sheets after the count.
12. All inventory sheets and tabs (if applicable) should be accounted for before an area is closed.
13. Inventory of items for sale should be priced at cost and submitted to Audit and Consulting Services (Internal Audit). As part of the year end close process, the Office of Audit and Consulting Services will select a sample of physical inventories to observe at VolShop only.