5-0600.00 SUPPLIES

5-0610.00 INTRODUCTION

5-0610.10 DEFINITIONS

"Supplies" are items which:

(1) Are consumed in use, usually within one year; or
(2) Are expendable, that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to replace the item than to repair it; or
(3) Lose their identity through incorporation into a different or more complex unit or substance; or
(4) Have a cost which does not make it worthwhile to tag items, since the cost of tagging them would be a significant portion of the cost of the item; or
(5) Are relatively inexpensive, as compared to an item of equipment.

5-0610.20 BASIC ACCOUNTING PROCEDURES

GAAP requires that the supplies inventory be reported as an asset on the financial statements of governmental funds of an entity if the amount is significant. Districts may use one of two methods for accounting for supplies: (1) Purchases Method; or (2) Consumption Method. The methods are described in the following sections. **The district must use the chosen method consistently from year to year.**

The **Purchases Method** treats supply purchases as expenditures in the year the goods are received. The **Consumption Method** treats supply purchases as additions to inventory, and the cost of supplies is recorded as an expenditure in the year the supplies are used. Supplies may be considered to have been used or "consumed" in the year they are moved from the district's central supply storehouse into the area in which the supplies will be used.

Textbook and library book purchases are generally recorded using the purchases method. That means the expenditure is recorded the year the books are received. When material, most districts record the cost of books, computers, etc. as Supply Inventory and Reserve for Inventory on the Trustees' Financial Summary for governmental-type funds. Instead of reporting these assets as Supply Inventory, school districts may also capitalize these assets as groups and report them on the Fixed Asset Schedule.

OPI agrees with ASBO's recommendation that, if these items were purchased with debt proceeds, they should be capitalized as groups and added to the fixed assets inventory. This will make sure that the debt will be offset with the corresponding asset on the Statement of Net Assets.

Under either the Purchases Method or the Consumption Method, the district must record the fiscal year-end supply inventory as an asset on the accounting records if the amount is significant. Determining the amount to be considered significant is subject to the judgement of the district and its auditors. OPI suggests that a supply inventory value of 10% or more of current assets should be considered "significant." The value of the inventory, based on a physical count at June 30, is recorded as a reserve of fund balance at fiscal year-end under the purchases method. (NOTE: Notify your auditor of the date you plan to count inventories. The auditor may need to observe the count for the audit report on the financial statements.)

Districts require written requisitions for supplies when using the consumption method and perpetual/inventory system. Requisitions may also be required when districts use either method with a periodic inventory system. See the following discussion.

5-0610.30 VALUING THE SUPPLY INVENTORY

The value of the supply inventory will normally be determined based on the actual cost (specific cost) of the items on hand at fiscal year-end. Alternatively, districts may value inventories based on one of several cost flow assumptions, including first-in, first-out (FIFO), last-in, first- out (LIFO), or average cost. **Districts must use the chosen method consistently from year to year.**

The common valuation methods are listed below:

a. Specific Cost - Items on hand are valued at their actual costs.

b. First-In, First-Out (FIFO) - Items on hand are assumed to be the items of that kind most recently purchased. Items on hand are valued at the most recent cost.

c. Last-In, First-Out (LIFO) - Items on hand are assumed to be the earliest purchased items of that kind. Items on hand are valued at the earliest cost.

5-0620.00 METHODS FOR ACCOUNTING FOR SUPPLIES

5-0620.10 PURCHASES METHOD

Under the Purchases Method of recording supplies inventories the district will record an expenditure when the supplies are purchased.

Assume the beginning (i.e., July 1) inventory of supplies on hand is $450,000.

To record the purchase of supplies: For example, assume the district purchased $200,000 of supplies during the year. This entry would be made each time supplies are purchased.

Debit:	802	Expenditures	$200,000
Credit:	620 or 101	Warrants Payable or Cash	$200,000
Expenditures Subsidiary Ledger			
XXX-XXX-XXXX-610		Supplies	$200,000

(To record purchase of inventory.)

At year-end, to accrue the expenditure for supplies received but not paid for by June 30: For example, assume $1,500 of supplies are received but the invoice has not been paid at June 30.

Debit:	802	Expenditures	$1,500
Credit:	621	Accounts Payable	$1,500
Expenditures Subsidiary Ledger			
XXX-XXX-XXXX-610		Supplies	$1,500

(To record an expenditure accrual for items received by June 30 for which the district has not paid.)

5-0620.10 PURCHASES METHOD (Cont'd)

At fiscal year-end, if the inventory amount on hand is significant, to record the supply inventory:
For example, assume the inventory amount on hand on June 30 is $500,000, which is considered significant. The inventory balance at the previous fiscal year-end was $450,000. Assuming the balances of the 220 and 951 accounts carried over from the prior year, adjust the inventory account to the current fiscal year balance.

Debit:	220	Inventories for Consumption	$50,000
Credit:	951	Reserve for Inventories	$50,000

(To record the year-end supply inventory value on the purchases method. **If the inventory decreased**, adjust the inventory account balance by debiting 951 and crediting 220 for the amount of the decrease.)

To record the payment in July or August for the expenditure accrual:

Debit:	621	Accounts Payable	$1,500
Credit:	620 or 101	Warrants Payable or Cash	$1,500

(To record the payment for the accrued expenditures recorded the previous fiscal year-end. See section 5-0340.00, "RECORDING THE DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS.")

5-0620.20 CONSUMPTION METHOD

Under the Consumption Method of recording inventories, the district will record an asset when the supplies are purchased. This method treats the acquisition of supply inventories as a conversion of financial resources rather than as a use of financial resources. Expenditures are recorded when supplies are consumed, or used in operations.

For simplicity, the entries shown in this section assume the initial inventory on the records is based on the physical inventory count on June 30, 20X1. For example, assume the 6/30/X1 balance of the supply inventory in the central storehouse is $38,000 Teaching and Instructional Supplies, $5,000 Administrative Supplies, $45,000 Custodial Supplies, and $12,000 Athletic Supplies. The supplies were purchased with General Fund money. The beginning inventory is $100,000.

Districts may record the expenditures for consumption of supplies once each year ("Periodic Inventory") or continually as supplies are requisitioned from the central supplies storehouse ("Perpetual Inventory"). Both methods are discussed below.

5-0620.21 CONSUMPTION METHOD—PERIODIC (ANNUAL) INVENTORY

Using the consumption method on a periodic inventory basis, the district will normally record the purchase of supplies as an expenditure but will adjust expenditures at year-end to reflect the amount of supplies used during the year.

To record the purchase of inventory: For example, assume $200,000 of supplies are purchased during the year.

General Fund (01)

Debit: 802	Expenditures	$200,000
Credit: 620 or 101	Warrants Payable or Cash	$200,000
Expenditures Subsidiary Ledger		
X01-XXX-XXXX-610	Supplies	$200,000

(To record the purchase of inventory.)

To record supplies received but not yet paid for by June 30: For example, assume supplies were received and the invoice for $1,500 has not been paid by June 30.

General Fund (01)

Debit: 802	Expenditures	$1,500
Credit: 621	Accounts Payable	$1,500
Expenditures Subsidiary Ledger		
X01-XXX-XXXX-610	Supplies	$1,500

(To accrue the expenditure for supplies received but not paid as of fiscal year-end.)

At fiscal year-end, make a physical count of unused supplies in the central storage area. Use the count to determine the cost of supplies used during the year. For example:

Beginning of the year inventory	$100,000
Plus Purchases	201,500
Total Available	$301,500
Less Ending Inventory (Based on year-end count)	($110,000)
Amount used this year	$191,500

At fiscal year-end, to adjust expenditures to equal the amount of inventory used during the year:

General Fund (01)

Debit: 220	Inventories for Consumption	$10,000
Credit: 802	Expenditures	$10,000
Expenditures Subsidiary Ledger		
X01-XXX-XXXX-610	Supplies	$10,000

(To adjust expenditures to reflect the amount consumed during the year. The expenditures to date were $201,500. The amount used this year was $191,500, so expenditures were reduced by $10,000 in this entry. The beginning inventory account balance was $100,000. This entry increases the balance to $110,000, which is the correct ending inventory balance.)

5-0620.21 CONSUMPTION METHOD—PERIODIC (ANNUAL) INVENTORY (Cont'd)

At fiscal year-end, to adjust the fund balance reserve for inventories: Because inventories are an asset (even though they do not represent expendable resources) it is necessary to reserve fund balance by an amount equal to the carrying value of the inventories at fiscal year-end if the inventory amount is significant. For example, assume the ending inventory value is $110,000. The balance of the 951 account carried over from the prior year is $100,000 before adjustment.

General Fund (01)

Debit:	970	Unreserved Fund Balance	$10,000
Credit:	951	Reserve for Inventory	$10,000

(To adjust the fund balance reserve for inventory to equal the balance of the inventory 220 account. The adjustment amount is $10,000 ($110,000 ending inventory less $100,000 previous account balance). Debit account 970 for governmental funds and 940 for proprietary funds. If the inventory decreased, debit 951 and credit 970 or 940 for the amount of the decrease.)

To record the payment in July or August for the expenditure accrual:

General Fund (01)

Debit:	621	Accounts Payable	$1,500
Credit:	620 or 101	Warrants Payable or Cash	$1,500

(To record the payment for the accrual. This entry reduces the payable recorded at the previous fiscal year-end. See section 5-0340.00, "RECORDING THE DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS.")

5-0620.22 CONSUMPTION METHOD—PERPETUAL INVENTORY

Using a perpetual inventory system, the inventory is recorded as an asset when purchased and as an expenditure when requisitioned from the central storage area. Inventory records are maintained and updated regularly during the year. This system has the advantage of providing information on a timely basis. However, it requires the maintenance of extensive perpetual inventory records. GAAP require that a physical inventory count be made periodically to check the accuracy of the perpetual inventory valuation.

To record the purchase of inventory: For example, assume $200,000 of supplies are purchased during the year.

General Fund (01)

Debit:	220	Inventories for Consumption	$200,000
Credit:	620 or 101	Warrants Payable or Cash	$200,000

When supplies are consumed (requisitioned from central storage area) during the year:

General Fund (01)

Debit:	802	Expenditures	$191,500
Credit:	220	Inventories for Consumption	$191,500

Expenditures Subsidiary Ledger

X01-XXX-XXXX-610	Supplies	$191,500

(To record the expenditure for supplies consumed, or issued to the area in which they will be used.)

5-0620.22 CONSUMPTION METHOD—PERPETUAL INVENTORY (Cont'd)

To record supplies received but not yet paid for by June 30: For example, assume supplies were received and the invoice for $1,500 has not been paid by June 30.

General Fund (01)

Debit:	220	Inventories for Consumption	$1,500
Credit:	621	Accounts Payable	$1,500

(To record the cost of supplies received but not paid as of fiscal year end.)

At fiscal year-end, make a physical count of unused supplies in the central storage area. Use the count to verify the ending inventory value shown on the accounting records. For example:

Beginning of the year inventory	$100,000
Plus Purchases	201,500
Total Available	$301,500
Amount used this year	($191,500)
Ending Inventory	$110,000

During the year, requisitioned supplies costing $191,500 were recorded as expenditures when issued. The expenditures balance does not need adjustment because it accurately reflects the amount of supplies used during the year. The balance of the inventory account equals the beginning inventory of $100,000 plus the purchases of $200,000 recorded as inventory, plus the addition of $1,500 for the expenditure accrual. The inventory balance in the account therefore matches the ending inventory of $110,000.

At fiscal year-end to adjust the fund balance reserve for inventories: Because inventories are an asset (even though they do not represent expendable resources) it is necessary to reserve fund balance by an amount equal to the carrying value of the inventories at fiscal year-end if the inventory amount is significant. For example, assume the reserve account has a balance of $100,000 carried over from the prior year before adjustment.

General Fund (01)

Debit:	970	Unreserved Fund Balance	$10,000
Credit:	951	Reserve for Inventory	$10,000

(To record a fund balance reserve in the amount of ending inventory. Debit account 970 for governmental funds. Proprietary funds don't use reserve for inventory. The adjustment amount is $10,000 ($110,000 ending inventory value less $100,000 beginning reserve account balance.)

To record the payment in July or August for the expenditure accrual:

Debit:	621	Accounts Payable	$1,500
Credit:	620 or 101	Warrants Payable or Cash	$1,500

(To record the payment of an accrual. This entry reduces the liability. See section 5-0340.00, "RECORDING THE DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS.")