

### Accounting for Inventory Transactions

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#### Overview

The purpose of this document is to assist departments/units in implementing [Policy 4210 Valuation of Inventory](#).

The basic guidelines for inventory entries are:

- Inventory should be recorded in an expenditure type code beginning with 103xxx.
- At the end of each month the dollar value of inventory in the general ledger should agree with the dollar value of inventory in the system used to manage stock levels.
- Whenever practical, the pass-through sale of inventory to internal customers should be a one-step process that allows for the appropriate charging of user departments and the reduction of inventory balances.
- Outside of these pass-through inventory sales, Internal Service Providers selling inventory to other Yale departments must use a two-step process that follows ISP billing guidelines by recording revenue using an Internal Revenue expenditure type (ex: 5xxxxx) and also reduces inventory balances. External sales of inventory (to customers who are not part of Yale University) should follow a similar two-step process but record revenue using an External Revenue expenditure type (ex: 4xxxxx).
- Expenditure type 821800 Inventory Adjustment/Loss shall be used to record:
  - differences noted during a physical inventory and/or
  - write-offs of unusable items that have become damaged or obsolete during storage.

Any deviations from these basic concepts need approval from the Controller's Office.

#### Typical Journal Entries

The entries below are examples of typical inventory entries. The expenditure type codes may vary for your department.

#### Typical entries for a stockroom supplying Yale laboratories:

##### 1. Inventory is purchased:

103xxx (Inventory)	debit	to one project and one department organization
201001 Vendors (Accounts Payable)	credit	to one central project and one central organization

**2. Inventory is sold – Reduce inventory and charge departments:**

821200 Supplies – Laboratory	debit	to the various projects, tasks, awards, and organizations of the end users
103xxx (Inventory)	credit	to the project and department organization used in step 1

**3. Inventory is adjusted based on physical inventory counts or damaged/obsolete items:**

**a. Inventory balance needs to be decreased:**

821800 Inventory Adjustment	debit	to the project and department organization used in step 1
103xxx (Inventory)	credit	to the project and department organization used in step 1

**b. Inventory balance needs to be increased**

103xxx (Inventory)	debit	to the project and department organization used in step 1
821800 Inventory Adjustment	credit	to the project and department organization used in step 1

### Typical entries for Yale stores such as the Health Plan Pharmacy and Museum shops:

**1. Inventory is purchased:**

103xxx (Inventory)	debit	to one project and one department organization
201001 Vendors (Accounts Payable)	credit	to one central project and one central organization

**2. Inventory is sold:**

**a. Record sale and cash receipt:**

011001 Operating Cash	debit	to one central project and one central organization
4xxxxx (External Sales)	credit	to the project and department organization used in step 1

**b. Reduce inventory and record cost of goods sold:**

910300 Materials for Resale	debit	to the project and department organization used in step 1
103xxx (Inventory)	credit	to the project and department organization used in step 1

**3. Inventory is adjusted based on actual counts:**

**a. Inventory balance needs to be decreased:**

821800 Inventory Adjustment	debit	to the project and department organization used in step 1
103xxx (Inventory)	credit	to the project and department organization used in step 1

**b. Inventory balance needs to be increased**

103xxx (Inventory)	debit	to the project and department organization used in step 1
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821800 Inventory Adjustment	credit	to the project and department organization used in step 1
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### Typical entries for Dining Halls:

**1. Inventory is purchased:**

8208xx – Cost of Sales for dining or other for supplies	debit	to one project and one department organization Monthly accounting process books inventory balances (ET 103xxx)
201001 Vendors (Accounts Payable)	credit	to one central project and one central organization

**2. Inventory is sold to students** (monthly allocation of annual amount, not contingent upon actual usage) – record sale and charge student receivables:

Cash or 032101 Student Receivables	debit	to one project and one department organization
471101 Food & Food Services	credit	to the project and department organization used in step 1

Note that this is just one example of the type of sales performed by Dining Services, and is not intended to provide detailed transaction guidelines for all types of sales.

**3. Inventory is adjusted based on actual counts:**

**a. Inventory balance needs to be decreased:**

821400 Supplies - Food Service	debit	to the project and department organization used in step 1
103xxx (Inventory)	credit	to the project and department organization used in step 1

**b. Inventory balance needs to be increased**

103xxx (Inventory)	debit	to the project and department organization used in step 1
821400 Supplies - Food Service	credit	to the project and department organization used in step 1

It is not efficient for Dining Halls to reduce inventory at the time that inventory is sold. This would add a great deal of complexity to the accounting transactions. The transaction to adjust inventory should be based on actual counts made at the end of the fiscal year. Other controls such as accounting for physical quantities from the bill of lading to the final consumption or disposal are present to ensure that losses are detected.

### ***Stockroom Inventory Default***

(applies to most stockrooms)

If stockroom inventory purchases are made with an invalid PTAE0, the invoice or payment request is placed on unpaid hold. The stockroom billing staff charges the purchasing department on a University-wide default/holding project. An example of the PTAE0 is as follows:

Project	Task	Award	Expenditure Type	Organization
1072345.	00.	0001AM.	TBD based on item purchased	purchasing department's org

When the stockroom hold project (#1072345) appears on a purchasing department's Account Holder Report (or other monthly account statement), the department designee should research the transaction and prepare an adjusting journal entry to relieve the hold.

Example:

Charge appears on departmental report in the following PTAE0:

Debit - 1072345.00.0001AM.821200.690112

Departmental designee prepares an adjusting journal entry as follows:

Debit – 123xxx.00.0001AM.821200.690112

Credit - 1072345.00.0001AM.821200.690112

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