



85.56 Inventories

Section	Title	Effective Date	Page Number
85.56.10	Inventory management and control procedures are in Chapter 35	May 1, 1999	793
85.56.20	Consumable inventories	June 1, 2014	794
85.56.30	Merchandise inventories in proprietary fund type accounts	May 1, 1999	794
85.56.40	Donations of consumable inventories	Jan. 1, 2014	795

85.56.10 Inventory management and control procedures are in Chapter 35

May 1, 1999

Agencies are to comply with the OFM prescribed inventory policies and procedures in [Chapter 35](#) of this manual.

85.56.20 Consumable inventories

June 1, 2014

When the fiscal year-end balance of [consumable inventories](#) on-hand at an [inventory control point](#) is estimated to exceed \$50,000 in value, agencies are to select, and consistently apply, one of the following two accounting alternatives.

85.56.20.a Periodic Inventory Method

1. Purchases of consumable inventories during the year are recorded by debiting GL Code 6510 "Cash Expenditures/Expenses" using Object E and crediting cash. Refer to [Subsection 85.65.38.a](#) for an illustrative entry.
2. No entry is required to record the use of consumable inventories during the year.
3. An annual adjustment is recorded to reflect the actual inventory balance as determined by a physical inventory count. Refer to [Subsection 85.65.38.c](#) for an illustrative entry.
4. In governmental fund type accounts, an additional entry is required at year-end to adjust the nonspendable portion of fund balance to indicate that the amount of consumable inventories is not available for appropriation.
 - If consumable inventories increased during the year, the additional adjusting entry is recorded by debiting the appropriate fund equity GL code and crediting GL Code 9120



State Administrative and Accounting Manual

"Nonspendable Consumable Inventories" for the amount of the increase. Refer to [Subsection 85.65.38.c](#) for an illustrative entry.

- This entry is reversed if consumable inventories decreased during the year.
- The balance in GL Code 9120 "Nonspendable Consumable Inventories" at year end is to equal the balance in GL Code 1410 "Consumable Inventories."

85.56.20.b Perpetual Inventory Method

1. Purchases of consumable inventories during the year are recorded as assets by debiting GL Code 1410 "Consumable Inventories" and crediting the appropriate cash or payable GL code. Refer to [Subsection 85.65.40.a](#) for an illustrative entry.
2. To record the use of consumable inventories during the year, GL Code 6510 "Cash Expenditures/ Expenses" is debited and GL Code 1410 "Consumable Inventories" is credited. Refer to [Subsection 85.65.40.b](#) for an illustrative entry.
3. An adjustment may be required to reflect the actual ending inventory balance as determined by performing a physical inventory count.
4. In governmental fund type accounts, an additional adjusting entry is required at year-end to adjust the nonspendable portion of fund balance to indicate that the amount of consumable inventories is not available for appropriation.
 - If GL Code 1410 "Consumable Inventories" increased , the adjusting entry is recorded by debiting the appropriate fund equity GL code and crediting GL Code 9120 "Nonspendable Consumable Inventories" for the amount of the increase.
 - This entry is reversed if GL Code 1410 "Consumable Inventories" decreased.
 -
 - The balance in GL Code 9120 "Nonspendable Consumable Inventories" at year end equals the balance in GL Code 1410 "Consumable Inventories."

85.56.30 Merchandise inventories in proprietary fund type accounts

May 1, 1999

Agencies are to select, and consistently apply, one of the following alternatives to account for merchandise inventories in proprietary fund type accounts.

85.56.30.a Periodic Inventory Method

1. Purchases of merchandise during the year are recorded as expenses by debiting GL Code 6516 "Cost of Goods Sold" using Object F and crediting the appropriate cash or payable GL code. Refer to [Subsection 85.65.42.a](#) for an illustrative entry.



State Administrative and Accounting Manual

2. Sales of merchandise are recorded by debiting the appropriate receivable or cash GL code and crediting GL Code 3205 "Accrued Revenues" or GL Code 3210 "Cash Revenues" as appropriate with Revenue Source Code 0450. Refer to [Subsection 85.65.42.b](#) for an illustrative entry.
3. An annual adjustment is required to reflect the actual ending inventory balance as determined by performing a physical inventory count. If merchandise inventories increased during the year, this adjustment is accomplished by debiting GL Code 1420 "Merchandise Inventories" and crediting GL Code 6516 "Cost of Goods Sold" using the same object codes that were used in (1) above to purchase the merchandise. If merchandise inventories decreased during the year, this entry would be reversed. Refer to [Subsection 85.65.42.c](#) for an illustrative entry.

85.56.30.b Perpetual Inventory Method

1. Purchases of merchandise during the year are recorded as assets by debiting GL Code 1420 "Merchandise Inventories" and crediting the appropriate cash or payable GL code. Refer to [Subsection 85.65.44.a](#) for an illustrative entry.
2. Sales of merchandise are recorded by debiting the appropriate receivable or cash GL code and crediting GL Code 3205 "Accrued Revenues" or GL Code 3210 "Cash Revenues" as appropriate with Revenue Source Code 0450. An additional entry is required to reflect the change in inventory. This entry debits GL Code 6516 "Cost of Goods Sold" using Object F and credits GL Code 1420 "Merchandise Inventories" for the cost of the merchandise sold. Refer to [Subsection 85.65.44.b](#) for illustrative entries.
3. An adjustment is also usually required to reflect the actual inventory balance as determined by performing a physical inventory count. If the merchandise inventories count discloses an increase over the Merchandise Inventory amount (in GL Code 1420), an adjustment is necessary and is accomplished by debiting GL Code 1420 "Merchandise Inventories" and crediting GL Code 6516 "Cost of Goods Sold" using the same object code used in (2) above upon sale of the merchandise. If the merchandise inventories count discloses an amount less than the balance in GL Code 1420, the preceding entry would be reversed. Refer to [Subsection 85.65.42.c](#) for an illustrative entry.

85.56.40 Donations of consumable inventories

Jan. 1, 2014

85.56.40.a

Record the receipt of donated consumable inventories, **other than federally donated consumable inventories**, in GL Code 1415 "Donated Inventories" and recognize revenue in GL Code 3220 "Noncash revenue" with Revenue Source Code 0441 "Contributions and Grants."

In governmental fund type accounts, an additional entry is required to adjust the nonspendable portion of fund balance to indicate that the donated consumable inventories on hand are no longer available for appropriation. This entry is recorded by debiting the appropriate fund equity GL code and crediting GL Code 9120 "Nonspendable Consumable Inventories."



State Administrative and Accounting Manual

To record the use or distribution of donated consumable inventories during the year, debit GL Code 6525 "Expenditure Adjustments/Eliminations (GAAP)," or if non-appropriated GL Code 6510 "Cash Expenditures/ Expenses," with an appropriate subobject and credit GL Code 1415 "Donated Inventories." An additional entry in governmental funds is required to adjust the nonspendable portion of fund balance.

85.56.40.b

The following revenue and expenditure/expense examples illustrate the perpetual method approach for recording the receipt and use of **federally donated consumable inventories**. The end result of the entries is that the balance in GL Code 1415 "Donated Inventories," which represents the value of [donated inventories](#) on hand, is exactly offset by GL Code 5190 "Unearned Revenues." Also, the amount of donated inventory revenue recognized during the year, GL Code 3225 "Revenue Adjustment/ Elimination (GAAP)," is exactly offset by GL Code 6525 "Expenditure/Expense Adjustment/ Elimination (GAAP)," the amount of donated inventory used or distributed during the year.

Revenue. The fair value of federally donated consumable inventories is recorded by debiting GL Code 1415 "Donated Inventories" and crediting GL Code 5190 "Unearned Revenue." If shipping costs were incurred by the state, they are to be recorded by debiting GL Code 1410 "Consumable Inventories," offset by a credit to the appropriate cash or payable GL code. Refer to [Subsection 85.65.46.a](#) for an illustrative entry.

Expenditures/expenses. To record the use or distribution of federally donated consumable inventories during the year, GL Code 6525 "Expenditure Adjustments/ Eliminations (GAAP)" with an appropriate subobject is debited and GL Code 3225 "Revenue Adjustments/ Eliminations (GAAP)" with an appropriate revenue source code is credited for the previously recorded fair value of the donated consumable inventories used or distributed.

The amount of shipping costs, if any, applicable to the used or distributed donated consumable inventories is to be removed (credited) from GL Code 1410 "Consumable Inventories" and GL Code 6510 "Cash Expenditures/ Expenses" is to be debited. Refer to [Subsection 85.65.46.b](#) for an illustrative entry.

Year-end adjustment. At year-end, an entry to GL Code 1415 is required to adjust its balance to the federally donated inventory on hand. The offsetting entry is recorded to GL Code 5190 "Unearned Revenues."

Shipping costs (if applicable) of donated consumable inventories on hand at fiscal year-end is to be included in the ending balances of GL Code 1410 "Consumable Inventories."

In governmental fund type accounts, an additional entry is required to adjust the nonspendable portion of fund balance to indicate that the shipping costs expended on donated consumable inventories on hand are no longer available for appropriation.

This entry is recorded by debiting the appropriate fund equity GL code and crediting GL Code 9120 "Nonspendable Consumable Inventories" for the amount of the increase in shipping costs in GL Code 1410. This entry would be reversed for a decrease in shipping costs in GL Code 1410. Refer to [Subsection 85.65.46.c](#) for an illustrative entry.



State Administrative and Accounting Manual

85.56.40.c

Transfers between agencies. If donated inventory is transferred between agencies, the sending agency records the transfer by reversing the entry made when the inventory was received. Because the sending agency is not consuming the inventory, it does not record an expenditure for inventory transferred to other agencies. The receiving agency is to record the receipt and use of the donated inventory.