



Chapter 35

Inventories



35.10 Inventories

Section	Title	Effective Date	Page Number
35.10.10	Policies in this chapter are minimum standards	May 1, 1999	276
35.10.15	Authority for these policies	May 1, 1999	276
35.10.20	Applicability	May 1, 1999	277
35.10.25	Agency responsibilities	June 1, 2014	277
35.10.35	Agencies may select among inventory alternatives	May 1, 1999	278
35.10.40	Reporting requirements for inventories	June 1, 2014	278
35.10.45	Inventory valuation methods	June 1, 2005	278
35.10.50	Inventory systems	May 1, 1999	279
35.10.55	Who should conduct the physical inventory?	May 1, 1999	280
35.10.60	Physical inventory instructions	May 1, 1999	280
35.10.65	Physical inventory reconciliation and documentation	May 1, 1999	280
35.10.70	Retaining inventory records	May 1, 1999	280
35.10.75	Lost or stolen property	May 1, 1999	281

35.10.10 Policies in this chapter are minimum standards

May 1, 1999

The purpose of an inventory system is: 1) to provide control and accountability over inventories, and 2) to gather and maintain information needed for the preparation of financial statements.

The policies and procedures in this chapter are the minimum requirements for inventories that state agencies must meet. An agency may maintain its inventory system in greater detail, or use additional supporting documentation, as long as the agency meets the required minimum standards.



35.10.15 Authority for these policies

May 1, 1999

The Office of Financial Management (OFM) is required by the Budget and Accounting Act ([RCW 43.88.160\(1\)](#)) to establish a Generally Accepted Accounting Principles (GAAP)-based accounting system and procedures to ensure the state's assets, including inventories, are properly accounted for.

35.10.20 Applicability

May 1, 1999

All agencies of the state of Washington must comply with this chapter, unless otherwise exempted by statute. [RCW 43.88.020](#) defines the term "Agency" to mean and include "every state office, officer, each institution, whether educational, correctional or other, and every department, division, board and commission, except as otherwise provided."

Agencies may request a waiver from complying with specific requirements of this chapter. Refer to [Subsection 1.10.40](#) for information on how to request a waiver.

35.10.25 Agency responsibilities

June 1, 2014

The agency head must designate, in writing, one or more Agency Inventory Officers to be responsible for maintaining and safeguarding the agency's inventories. These responsibilities include:

- Selecting appropriate inventory accounting methods and systems from acceptable alternatives (refer to [Subsection 35.10.35](#) and [Section 85.56](#));
- Developing and implementing policies and procedures to safeguard, control, and account for inventories;
- Defining inventory control point in the agency's written internal policies;
- Planning, conducting, and reconciling the physical inventory with inventory records;
- Documenting selected inventory valuation methods;
- Documenting physical inventory procedures; and
- Performing other duties necessary to account for and report inventories.



35.10.35 Agencies may select among inventory alternatives

May 1, 1999

This chapter, in conjunction with [Section 85.56](#), offers alternatives for the accounting and reporting of inventories. Agencies may:

1. Adopt an inventory valuation method from the methods defined in [Subsection 35.10.45](#),
2. Use either the periodic or perpetual inventory system as defined in [Subsection 35.10.50](#), and
3. Use either manual or automated inventory systems.

Refer to [Section 85.56](#) for instructions on accounting for inventories by fund type.

35.10.40 Reporting requirements for inventories

June 1, 2014

35.10.40.a

All [merchandise](#), livestock, and [donated inventories](#) must be physically counted, valued, and recorded in the general ledger.

35.10.40.b

[Consumable inventories](#) must be physically counted, valued, and recorded in the general ledger when the fiscal year-end balance on-hand at an [inventory control point](#) exceeds \$50,000. In calculating the balance on-hand, agencies may exclude those items sometimes referred to as bench stock items-- (characterized by high turnover rate and extremely low unit cost) such as nuts, bolts, screws, washers, etc.--as defined in writing by the agency inventory officer.

35.10.45 Inventory valuation methods

June 1, 2005

35.10.45.a

Donated consumable inventories are to be recorded at fair value. Except as noted above, an agency may select different inventory valuation methods for different inventories. The selected methods must be applied consistently to the inventories for which they are chosen. Agencies must document the method(s) selected for accounting and reporting for inventories to help ensure it is consistently applied.

35.10.45.b

Agencies must include changes in inventory valuation methods, and the financial effects of those changes on an agency's financial statements, in fiscal year end financial disclosures reported to OFM.



State Administrative and Accounting Manual

Acceptable inventory valuation methods include:

35.10.45.c

[First-in, First-out \(FIFO\)](#) - This method allocates costs on the assumption that goods are consumed/sold in the order in which they were acquired. In other words, the first goods purchased are assumed to be the first used or sold. Thus, inventory on-hand is assumed to represent the most recent acquisitions.

35.10.45.d

[Last-in, First-out \(LIFO\)](#) - This method allocates costs on the assumption that the last units acquired are the first units consumed/sold. Thus, inventory on-hand is assumed to come from earlier acquisitions.

35.10.45.e

[Weighted Average \(W.A.\)](#) - In general, this method values ending inventory based on the average cost per unit for the period.

35.10.45.f

Other - An agency may use an inventory valuation method other than those described above as defined in writing by the agency inventory officer.

35.10.50 Inventory systems

May 1, 1999

35.10.50.a Perpetual Inventory System

A [perpetual inventory](#) system is one in which the inventory quantities and values for all purchases and issues are recorded directly in the inventory system as they occur. Perpetual inventory system balances are verified by means of periodic physical counts. A revolving physical count, where segments of inventories are counted at different times, may be used, provided all inventories are counted at least every other fiscal year.

The agency inventory officer is responsible for developing and implementing procedures for recording inventory additions as received and reductions as used.

35.10.50.b Periodic Inventory System

A [periodic inventory](#) system avoids the necessity of accounting for each addition to and deletion from inventory. Instead, the agency performs a physical count of its inventory at least annually at fiscal year end. It then costs the inventory according to generally accepted accounting principles, and adjusts the accounting records to reflect this cost. When this system is used, the agency must maintain a system for documenting the inventory unit costs used in determining the cost.



35.10.55 Who should conduct the physical inventory?

May 1, 1999

The physical inventory, or inventory count, should be performed by persons with no direct responsibility (custody and receipt/issue authority) for the inventory. If it is not feasible to use such personnel for any part of the inventory, those parts are, at least, to be tested and verified by a person with no direct responsibility for the stock.

35.10.60 Physical inventory instructions

May 1, 1999

Physical inventory instructions must be documented and distributed to those personnel involved in the physical count. They should be specific and anticipate as many questions as possible considering the circumstances of the inventory.

35.10.65 Physical inventory reconciliation and documentation

May 1, 1999

35.10.65.a

Perpetual inventory records must be reconciled with the physical count. The agency must investigate and explain differences, take corrective action when necessary, and adjust the accounting records per [Section 85.56](#). When the reconciliation is complete, the agency inventory officer must certify in writing that the inventory was verified by counting and reconciliation.

35.10.65.b

Under the **periodic inventory** system, the physical inventory listing resulting from the physical count constitutes adequate documentation of the inventory. After the count is complete, the process is one of calculation rather than reconciliation. The inventory units are to be assigned a cost according to the method selected, the total cost of the inventory is to be calculated, and the appropriate accounting adjustments are to be made as per [Section 85.56](#). The agency inventory officer must certify in writing that the inventory was verified by an actual count.

35.10.70 Retaining inventory records

May 1, 1999

The inventory reconciliation and certification must be retained by the agency as documentary support for its inventory. The agency should retain this documentation in accordance with agency-approved records-retention schedules.



35.10.75 Lost or stolen property

May 1, 1999

When suspected or known losses of inventories occur, agencies should conduct a reasonable search for the missing inventory. If the missing items are not found:

- Follow the loss procedures identified in [Section 70.75](#), and
- Remove the lost or stolen items from the inventory and accounting records.