

UNIVERSITY of HOUSTON
MANUAL OF ADMINISTRATIVE POLICIES AND PROCEDURES

SECTION: Finance and Accounting
AREA: Finance and Accounting - General

Number: 05.04.03

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| SUBJECT: Physical Inventory of Goods for Resale, Manufacture, or Repair |
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I. PURPOSE AND SCOPE

This document provides guidelines to accurately record the value of assets held by the University of Houston, specifically the value of goods held by the University for resale, manufacture, or repair. To minimize the risk of loss of those assets, an inventory of goods must be conducted annually.

II. POLICY STATEMENT

University departments with goods for resale are responsible for developing inventory procedures in accordance with this policy.

III. GENERAL PROVISIONS

- A. Departments purchasing goods for the purpose of reselling those goods must record the value of goods held for resale in the University's accounting system at the time of purchase. The value of these goods is an asset and will be classified in the appropriate account.
- B. Departments selling goods are responsible for preparing entries to accurately record cost of goods sold (COGS) with the approval of General Accounting. Inventory on hand at the end of the fiscal year will be valued using the first in/first out (FIFO) inventory method, unless the department has a valid business purpose for using the last in/first out (LIFO) or average inventory method.
- C. Goods held in inventory, judged to be obsolete, should be returned to the supplier for credit or replacement, if possible. If goods are rendered obsolete by the issuance of superseding versions, departments may offer the obsolete goods at a discounted price.
- D. Each University department that maintains a stock of goods for resale must complete an inventory of goods held on the last business day of the fiscal year and submit the inventory report to General Accounting by the declared deadline. Alternate inventory dates, resulting from business practices, must be reported to General Accounting with the annual inventory report. Any variance in the quantity of goods on hand and those shown on the department's inventory records must be reported as shrinkage and adjusted from the department's cost of goods sold.
- E. Each inventory will be completed by two University employees, or an independent company with expertise in conducting physical inventories, whose duties do not constitute a conflict of interest with the conducting of the inventory.

- F. A complete inventory report includes: A Transmittal Memo, approved by the responsible manager and certifying signature, Summary of Merchandise inventory, Count of Merchandise Inventory, Obsolete Inventory, and Review of Inventory Reasonableness. Forms are available in Word and Excel Formats at [Forms - University of Houston Merchandise Inventory Forms \(Word format\)](#) and [Forms - University of Houston Merchandise Inventory Forms \(Excel format\)](#).
- G. The conducting of inventories is subject to observation and/or review by the University's accounting offices and System Internal Auditing.

IV. REVIEW AND RESPONSIBILITY

Responsible Party: Associate Vice President for Finance

Review: Every five years

V. APPROVAL

/Raymond Bartlett/

Senior Vice President for Administration and Finance

/Renu Khator/

President

Date of President's Approval: December 17, 2021