

SECTOR: BUSINESS SERVICES

SUBSECTOR: ACCOUNTING

RTQF LEVEL 4



ACCIS401 MONITORING INVENTORY SYSTEM

LU:1. ENTER DATA INTO INVENTORY SYSTEM

- 1.1 Adequate entering the physical inventory data of organizational's equipment
- 1.2 Adequate entering the physical inventory data of operational stock
- 1.3 Adequate entering of data for breakages for both equipment and operational stock
- 1.4 Adequate entering of report according to the requirements

LU:2. UPDATE INVENTORY

- 2.1 Regular monitoring of requisition forms according to workplace policies and procedures
- 2.2 Appropriate comparison of stock to the requisition forms
- 2.3 Regular ensuring of requisition procedures are followed according to workplace policies and procedures
- 2.4 Proper making of an adjustment where required
- 2.5 Regular removal of any out-of-date information from the inventory within designated timelines

LU:3. PROVIDE INVENTORY INFORMATION

- 3.1 Proper preparation of inventory information and briefings within required timelines
- 3.2 Appropriate provision of assistance to co-workers on inventory-related matters.
- 3.3 Regular distribution of reports and inventory information to within designated timelines according to organization procedures.

L.U.1. ENTER DATA INTO INVENTORY SYSTEM

Learning Outcome 1.1: Enter The Physical Inventory Data Of Organizational's Equipment

Description Of Physical Inventory

Inventory is an accounting term that refers to goods that are in various stages of being made ready for sale.

Physical inventory is a process where a business physically counts its entire inventory.

What is physical inventory?

A physical inventory is an actual count of all the products that a business stocks. This is a coordinated process, which includes separating, counting items and recording the results.

Description of types of physical inventory system

1. Periodic inventory system

Periodic inventory is a system of inventory in which updates are made on a periodic basis.

Under periodic inventory system, inventory account is not updated for each purchase and each sale. All purchase is debited to purchases account. At the end of the period, the total in purchases account is added to the beginning balance of the inventory to compute cost of goods available for sale.

Advantages of periodic inventory system

- Much time and even labor costs are saved as continuous records need to be maintained
- A generally simpler system to administer as compared with the perpetual inventory system.

Disadvantages of periodic system

- It involves additional times, cost and disruption to normal business routines.
- As inventory value is only determined at the end of the period so there is very little control over inventory movements. The value of lost, stolen or spoiled goods therefore is difficult to ascertain. This may significantly affect profits and net worth
- Short term (monthly or quarterly) profit and loss statement cannot be prepared unless an inventory count is taken at the end of each period.

2. Perpetual inventory system

Perpetual inventory system is a method of accounting for inventory that records the sale or purchase of inventory immediately through the use of computerized point-of-sales systems and enterprise asset management software.

In business and accounting, perpetual inventory or continuous inventory describes systems of inventory where information on inventory quantity and availability is updated on a continuous basis as a function of doing a business.

Advantages of perpetual inventory system

- There is a great control over inventories through periodical comparison of inventory records with physical inventory
- Short term financial statements can be prepared as the values of cost of sales and inventory balances are readily available
- The inventory ledger cards help to maintain optimum level of inventory or have too much money tied up in inventory.

Disadvantages of perpetual inventory system

- Continuous maintenance of inventory movements involves additional cost
- In case of use of manual accounting system, maintenance of inventory ledger cards is a very time consuming job. However, this may not be such a disadvantage for firms with a computer.
- Prevents stock outs ;a stock out means out means that a product is out of stock
- Give business owners a more accurate understanding of customer preferences
- Allows business owners to centralize the inventory management system for multiple locations.
- Provides greater accuracy due to each inventory item being recorded on each ledger
- Gives valuable information to business owners, such as discounts, purchases and returns
- Reduces physical inventory counts.

Identification of inventorying documents

Inventory VS Identification

Inventory

Inventories are detailed, itemized lists, reports or records of objects, monuments, buildings and cultural sites and landscapes. They serve to identify, protect, interpret and physically preserve the registered items.

An inventory aims at listing and organizing all the information regarding a cultural artifact, its history and its context. An inventory should therefore contain a complete identification of the object, which can be compared to an ID card, and all the related documentation. It is always accompanied by a numbering system which facilitates the search of an object.

We can distinguish four types/levels of inventories in business:

- ✓ **Raw materials:** goods which are not yet committed to the production process but have been received by the business.
- ✓ **Work in progress /in process:** these are goods that are still in the production process and are yet to be completed.
- ✓ **Finished goods:** are the goods that have been produced but have not yet sold
- ✓ **Office supply:** are materials which are used to support the production process.

The inventory can be operated by hand, but the use of computers and computer backup systems are highly recommended. Moreover, they should be duplicated on various supports in order to ensure the safeguarding of the data. States are also encouraged to use a common system for public inventories, and to centralise them in a national database.

Inventorying a collection falls under the responsibility of its public or private owner. It requires rigor and scientific knowledge, in order to ensure a precise description and documentation.

Identification

The identification of an object contains a reduced number of information, which is actually limited to the physical description of the object. The ID of an object will actually provide the minimum amount of information required for investigation purpose, which can also be used as a first step for the further development of a professional inventory, or the simple listing of cultural property for individual owners.

Every cultural object, in public or private hands, should be identified, for its own safety. Proper identification of an object will at least combine its description and a good photography. Further documents can also be added to the description to help the identification of the object (sketches, catalogue references, etc.).

Identification of physical inventory data to be recorded

The identification of physical inventory includes the following:

- **Commodity code**

The commodity codes are digits used to classify goods for import and export .the aim is to pay the right tax and duty and follow regulations.

The code is an eight digits number for export outside the European Union or goods moving within EU, but is a ten –digit number for imports outside the EU. Once you know the commodity code you can look up other important information such as duty rates and any import or export restrictions.

The harmonized system is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes. At the international level, the Harmonized System (HS) for classifying goods is a six-digits code system.

- **Manufacturer**

Manufacturing is the making of goods by vendor by machine that upon completion the business sells to a customer. Items used in manufacturing may be raw materials or component parts of a large product

The manufacturing usually happens in large -scale production line of machinery and skilled labor.

The 4 main types of manufacturing process are:

- Machining
- Joining
- Shearing and
- Forming

- **Model number**

An item's model number helps identify the type of product issued by manufacturer. It is used to identify a group of items made in a production run.

- **Serial number**

A **serial number** is a unique, identifying number or group of number and letters assigned to an individual piece of items. A serial number is often used on products where it is important to track warranty and service issues after a sale.

- **Condition code**

When completing a physical inventory, you will need to note the physical condition of the equipment.

For example ,The codes below are the ones that should be used to indicate the condition of the equipment:

Asset Condition Code	Asset Condition Name
N1	New, Excellent
N2	New, Good
N3	New, Fair
N4	New, Poor
R1	Repairs Needed, Excellent
R2	Repairs Needed, Good
R3	Repairs Needed, Fair
R4	Repairs Needed, Poor

- **Description**

Description is the aspects, characteristics or features of a subject matter or something sees, heard, or otherwise experienced or known.

- **Title to code**

In inventory system, tiles may have codes to identify them in the system.

Example :

Title codes	Title names
001	GENERAL MANAGER
002	BRANCH MANAGER
003	CASHIER

- **Location code**

Location code is a way of encoding location into a form that is easier to use than showing coordinates in the usual form of latitude and longitude.

Example:

A2: street 2

A3: street 3

- **Entity code**

It is a unique identifier assigned to suppliers to various government or defense agencies, as well as to government or defense themselves and various organizations.

- **Character entity**

Character entity reference refers to a character by the name of an entity which has the desired character as its replacement text.

There are private entity like companies, nonprofit organizations or any other entities or natural persons and government entities.

L.O.1.2. Enter the Physical Inventory Data of Operational Stock

Same as L.O.1.1

L.O.1.3. Enter data for breakages for both equipment and operational stock

Identification of specifications of breakages of Equipment and operational stock

A good technical specification of equipment will give suppliers scope to provide the best offer, but will also include any requirements that must be met in order to be fit for purpose. This is important because if the equipment is broken must not be included in the equipments required.

Identification of store cards

A store card is a credit card that is given out by a store and that can be used to buy goods at that store.

It is basically a credit card you can use to buy things on credit and pay them off at the end of the month.

L.O.1.4.Enter report data according to the requirements

Preparation of the report

Identification of inventory report contents

For the success of the business, it is essential to manage the inventory stock as accurately and optimally as possible. To do this is by using and understanding the right inventory management report.

An inventory report is a summary of items belonging to a business, industry, organization or home. It provides a comprehensive account of the stock or supply of various items. They can be written in various forms and lengths.

A good inventory report should always be clear, simple and exhaustive.

How to write an inventory report?

1. List your inventory items

- List every item that you have in stock.
- List items that are no longer available

2. List them in an organized fashion

When listing your items, think a good way that will help you search for items, on your inventory report. Try listing them alphabetically or by serial number.

3. Keep a space for description

The space for description will help you keep track of differences in items.also you can mark down if an item is damaged or missing in your description.

4. Assign a price to each item

Depending on the kind of inventory you have, list prices. The price may be what you paid for the item, what price you sell the item at, your expenses, or your bottom earnings from the item.

5. Make a column to list stock remains

Next to the list of your items, make a column where you can list the amount of stock you have per item.

Key inventory management reports

-overall inventory performance report: this report will tell how much merchandise sold over a given time period as well as a summary of items sold per month or per a week.

A good overall performance report should tell the date when you first sold an item as well as the date the last sale for that product.

-inventory control report: inventory control or stock control is defined as the activity of checking a shop's stock.

-inventory forecasting report: is a process of predicting inventory in future time periods. It is a scientific approach of predicting sales during a specified future period based on the proposed marketing plan and a set of uncontrollable and competitive forces.

-ABC analysis report: ABC analysis is an inventory into three categories

A items with very high value

B items with less value

C items with very simple value

-inventory valuation summary report: summarizes the quantity, average cost and extended value of each of the inventory.

The report must be presented to the business owners and other stakeholders who may need it.

LU2. UPDATE INVENTORY

2.1. Monitor stock requisition forms according to workplace policies and procedures

1. Description of stock requisition policy/ procedures

A requisition refers to the process of formally requesting a service or item, usually using a **purchase requisition form**.

The requisition process is a standardized way of keeping track of and accounting for all requisitions made within a business.

Purchase requisition procedures

Each organization has its own purchasing requisition procedure. The following is an example:

1. Staff person of department decides on the purchase
2. The approval of purchase must be verified by the internal accounting department in order to make sure there are sufficient funds to cover the purchase and it is in compliance in the contract and department mission.
3. If the purchase is office equipment, the staff person may consult with the information technology for technical expertise on what the best purchase and price would be in order to meet the needs for the specific department.
4. The internal accounting department initiates the purchase procedure by completing a telephone quotation sheet .This form requires the department to obtain quotes from three different vendors and to inquire if they are catalog vendors of a small business, minority business, or woman owned business .If the department choose not to purchase the item from a catalog vendor, then a justification in memo form must be generated to the purchasing department explain why one was not used.
5. When the purchase has been verified ,the internal accounting department prepares the requisition form (in triplicate)
6. The document is routed in the office of accountant for signature; copies are made for files, and then are sent to appropriate department to get funds to purchase it.

Purchasing procedure

For every organization, there is a purchasing department which is headed by purchasing manager. The importance of the purchasing department varies according to the nature of a business.

* In service organizations, the purchasing department plays a minor role.

* In manufacturing concerns, a purchasing department will be responsible for obtaining raw materials

Components, consumable stores, stores and spare parts of machinery.

* In selling concerns, purchases may be classified und purchases of equipment, raw material, spare parts and goods for resale.

Purchases control is exercised to ensure that goods are purchased at right time, of right quality and in right quantity. It very important to avoid:

- Purchasing in great quantity
- Purchasing in small quantity
- purchasing of inferior quality

The purchasing policy of any organization should be helpful to achieve the following objectives:

- i) To buy goods at the lowest prices
- ii) To buy goods at the right time
- iii) To use the method of purchasing which is most appropriate
- iv) To buy the most appropriate quantities

Purchasing procedure adopted by various organizations is explained as under:

- 1) Purchases requisitions
- 2) Letter of inquiry
- 3) Quotation
- 4) The purchase order
- 5) Receipt of goods
- 6) Rejection or return of goods (if any)
- 7) Invoice
- 8) Payments recording of purchases.

Purchases requisition

Purchases requisitions are the written requests prepared and sent by all departments for goods required by them to the purchasing department.

These purchasing requisition contain: - The description of goods required

- Quantity required
- Time when required

The format of purchase requisition is given as under:

BESTWAY MANUFACURING LTD PURCHASES REQUISITION				
No:				
DATE:.....				
Dept/ Section:.....				
Please arrange to purchase the following items:				
Quantity	Description	Code No	Date required	Supplier
Prepared by..... Approved by:				

Letter of Inquiry

The letter of inquiry is a letter written by the purchasing department and sent to various suppliers requesting them some information concerning the prices, conditions and quality of goods which can be supplied.

Quotations

Quotation is an offer to supply goods according to the terms and conditions stated.

These terms and conditions include for what period the prices stated are valid, rates of discount offered, mode of delivery, terms of payments, etc

Quotations are received from different suppliers in response to letter of inquiry

Purchase Order

A purchase order is a commercial document written and signed by buyer to be sent to a seller indicating merchandises or goods to be sold and the delivery and payment's conditions.

After receiving the quotations, the purchasing department will select the supplier from whom the goods are to be bought.

Normally, the selected supplier is the one whose price is lowest or terms and conditions are most favorable.

A purchase order indicates the description and quantity of goods ordered

If a purchase order is issued to supplier within a country then it may be called as “**Local Purchase order**” (L.P.O)

**BESTWAY MANUFACTURING LTD
PURCHASE ORDER**

TO.....

No:

.....

DATE:.....

Please supply the following goods:

Quantity	Description	Code No	Unit price	VALUE

Discount as per your catalogue

Prepared by.....

Authorized by:

Receipt of goods

The Goods Received Note (GRN) is a document issued by a receiver (buyer) of goods to record receiving of goods purchased or ordered.

After receiving the purchases order, the supplier makes the arrangement to deliver those goods. On receipt of goods in the buying organization, a Goods Received Note is prepared.

This document shows the name of the supplier, the details of goods received and so on.

BESTWAY MANUFACURING LTD

GOODS RECEIVED NOTE

From..... G.R No:

..... DATE:

Description	Quantity	Package	Purchase order	Rate	VALUE

Purchase Requisition No.....	Bin card No.....	Store ledger No	Supplier's Delivery No.....	Rate	Invoice No.....

The buying organization also signs the delivery Note which is sent by the supplier together with goods. It proves that the goods have already been received by the buyer organization.

If goods are being delivered through public transport then an Advice Note may be prepared by the supplier and sent direct to the buying organization. The main purpose of an advice note is to inform to the buyer that the goods have been dispatched.

Rejection or Return of goods

If goods received are of inferior quality or these goods are not according to description given in the purchase order then the receiving department can refuse to accept these goods. In this case, a Rejection Note may be prepared giving the reasons for rejection.

If the goods are accepted first and these goods are returned at a later date then a Goods Returned Note may be prepared. This note contains the reasons for the return of those goods.

Invoice

After delivering the goods, the supplier sends an invoice to the buying firm.

Invoice is a document which gives the quantity, quality, unit price, total value of goods dispatched, any discount allowed, transport charges if any etc.

***Payments**

After receiving the invoice, the buyer checks the amount due to the supplier.

If he finds that amount owing to the supplier is correct then he makes arrangements to remit money or the cheque to the supplier.

When money is received by the supplier from the buyer, he issues a receipt to him showing the details of cash or cheques received.

These receipts are the proof of this thing that the money owing to seller has already been received by him.

Recording of purchases

The goods purchases are recorded in the accounting books of any organization.

The entries in the cost accounts are made from the Goods Received Notes

The entries in the financial accounts are made from invoices.

It is essential to reconcile the entries in the cost accounts with the entries in the financial accounts

Issue of material

Purchased materials are passed **into the custody of the storekeeper**.

Later on, these materials are issued by the storekeeper to the production department or some other departments.

Materials are issued by storekeeper only on the presentation of an authorized document.

This document is called "**Material Requisition Note**"

Material Requisition Note

The Material Requisition Note is an authorization to the storekeeper to issue raw materials, finished parts or other items of stores. It is signed by a responsible person of the department that requires this material.

If the raw material is required by the production department then it is signed by the foreman or works manager.

The material requisition note contains the name of the department that needs this material.

The details of material required the purpose for which the material is required and signatures of the persons who prepare and authorize this requisition note.

BESTWAY MANUFACURING LTD

MATERIAL REQUISITION NOTE

**Requesting
Department**

.....
.....

No:
DATE:

Quantity	Description	Code No	To be charged to job No:

Requested by..... **Approved by:**

Material Issue Note

A material Issue Note is a document which is prepared by the stores department showing the details of material issued, material requisition number and signatures of the persons who issue and receive the materials.

The Material Issue Note is also used to charge the value of materials issued and the job or account number to which it is charged

**BESTWAY MANUFACTURING LTD
MATERIAL ISSUE NOTE**

Issued to..... No:

..... DATE:.....

MRNote No	Quantity	Details	CodeNo	Rate	Value	Charged to jobAccount No

Returned by..... Approved by:

Received by..... Checked by:

Material Transfer Note

A Material Transfer Note is a document which is used to transfer the material from one job to another job or from one department to another department.

This document contains the details of material transferred, the job numbers involved and the signature of the person who transfers and the person who receives this material.

BESTWAY MANUFACURING LTD

MATERIAL TRANSFER NOTE

Issuing Dept.....
Receiving Dept.....

No:
DATE:.....

To job No

Quantity	Details	Code No	Rate	Value

Issued by..... **Coasted by:**

Received by....n..... **Checked by:**

2. Identification of requisition processing methods

✓ **Demand on vendor**

Vendor is responsible for sending stock as and when inventory levels reach a certain .Deliveries to each vender management inventory customer are undertaken on a regular basis. They are able to manage customer demand

✓ **Demand on stock**

The law of supply and demand affects the stock market by determining prices of the individuals stocks that makes up the market.

The major factors that affect demand for stocks are economic data, interest rates and corporate results.

Factors affecting stock price

The factors affecting the stock price include the following:

1. Demand and supply
2. Interest rates
3. Investors
4. Dividends
5. Management
6. Economy
7. Political climate
8. Short term and long term investors.

3. Description of requisition process

The requisition process is an example of a workflow process that is initiated when you create a new requisition to purchase an item

What is the difference between purchase order and requisition?

Purchase requisition are document used when an employee need to make a purchase or an order request on behalf of their company.

They are documents sent from a buyer to a supplier with a request for an order, and are a legally binding document.

What is requisition order?

Document generated by a user department or storeroom personnel to notify the purchasing department of items it needs to order, their quantity and the timeframe. It may also contain the authorization to proceed with the purchase. Also called purchase request or request or requisition.

What is the purpose of requisition form?

A material requisition form lists the item to be picked from stock or inventory and used in the production process or in the provision of a service to a customer, usually for job.

The key points to note about a purchase requisition are as follows:

1. A purchase requisition is a request that is made to purchasing organization to procure a certain list of materials
2. It is an internal document and remains within the organization
3. Purchase requisition needs approval from the purchasing organization
4. If a purchase requisition has already been approved, then .it can be modified only to a limited extent.

Learning Outcome2.2. Compare Stock to the Requisition Forms

Reconciliation of Actual Stock Record and Requisition Forms

To reconcile inventory, it is necessary to compare the inventory counts in the company's records to the actual amounts on the warehouse shelves, figure out why there are differences between the two amounts, and make adjustments to the records to reflect this analysis. Inventory reconciliation is an extremely important part of cycle counting, since the warehouse staff uses it to continually update the accuracy of its inventory records. Inventory record accuracy is needed to ensure that replacement items are ordered in a timely manner, that inventory is properly valued, and that parts are available for sale or production when needed. Inventory reconciliation is also needed to ensure that the actual and recorded inventory amounts are the same at the end of the year, so that there will be no issues when the inventory is audited.

Inventory reconciliation is not as simple as adjusting the book balance to match the physical count. There may be other reasons why there is a difference between the two numbers that cannot be corrected with such an adjustment. In particular, you should consider following any or all of these steps:

- **Recount the inventory.** It is entirely possible that someone incorrectly counted the inventory. If so, have a different person count it again (since the first counter could make the same counting mistake a second time). Further, if the physical count appears to be significantly lower than the book balance, it is quite possible that there is more inventory in a second location - so look around for a second cache of inventory. Recounting

is the most likely reason for a variance, so consider this step first.

- ***Match the units of measure.*** Are the units of measure used for the count and the book balance the same? One might be in individual units (known as "eaches"), while the other might be in dozens, or boxes, or

pounds, or kilograms. If you have already conducted a recount and there is still a difference that is orders of magnitude apart, it is quite likely that the units of measure are the problem.

- **Verify the part number.** It is possible that you are misreading the part number of the item on the shelf, or guessing at its identification because there is no part number at all. If so, get a second opinion from an experienced warehouse staff person, or compare the item to the descriptions in the item master records. Another option is to look for some other item for which there is a unit count variance in the opposite direction - that could be the part number that you are looking for.
- **Look for missing paperwork.** This is an unfortunately large source of inventory reconciliation issues. The unit count in the inventory records may be incorrect because a transaction has occurred, but no one has yet logged it. This is a massive issue for cycle counters, who may have to root around for unentered paperwork of this sort before they feel comfortable in making an adjusting entry to the inventory records. Other examples of this problem are receipts that have not yet been entered (so the inventory record is too low) or issuances from the warehouse to the production area that have not been entered (so the inventory record is too high).
- **Examine scrap.** Scrap can arise anywhere in a company (especially production), and the staff may easily overlook its proper recordation in the inventory records. If you see a modest variance where the inventory records are always just a small amount higher than the physical count, this is a likely cause.
- **Investigate possible customer ownership.** If you have no record of an inventory item at all in the accounting records, there may be a very good reason for it, which is that the company does not own it - a customer does. This is especially common when the company remodels or enhances products for its customers.
- **Investigate possible supplier ownership.** To follow up on the last item, it is also possible that you have items in stock that are on consignment from a supplier, and which are therefore owned by the supplier. This is most common in a retail environment, and highly unlikely anywhere else.
- **Investigate backflushing records.** If your company uses backflushing to alter inventory records (where you relieve inventory based on the number of finished goods produced), then the bill of materials and the finished goods production numbers had better both be in excellent condition, or the reconciliation process will be painful. Backflushing is not recommended unless your manufacturing record keeping is superb.
- **Accept the variance.** If all forms of investigation fail, then you really have no choice but to alter the inventory record to match the physical count. It is possible that some other error will eventually be found that explains the discrepancy, but for now you cannot leave a variance; when in doubt, the physical count is correct.

Learning Outcome 2.3. Ensure Requisition Procedures Are Followed According To Workplace Policies And Procedures

Checking requisition form, you must check the following details :

- ✓ Delivery date
- ✓ Vendor information
- ✓ Shipping
- ✓ Item number
- ✓ Quantity
- ✓ Unit Price
- ✓ Discount
- ✓ Additional amount
- ✓ Approval

Learning Outcome 2.4 Make an Adjustment Where Required

Identification of discrepancies

An inventory discrepancy happens when the actual on-hand inventory stock is different from the item quantity recorded in an inventory system. Discrepancies are not uncommon and can have a substantially negative impact on

any business operation. Undetected stock discrepancies can result in lost sales, overstocking and poor customer service.

Causes of inventory discrepancy

9 Common Reasons for Stock take Discrepancies and How to Resolve Them

The whole reason why stock take is important is that it reveals discrepancies between inventory records and the number of stock you actually have on hand.

Discovering these issues helps you move your business in a more profitable direction and eliminate anything that may have been attributing to stock loss or incorrect counts. After all of the hard work of completing a physical count, your stock take is not really complete unless you complete this part of the process.

In this article we're going to cover the most common reasons for discrepancies and what you can do to resolve them.

What causes stock take discrepancies?

The following list highlights some of the most common reasons why business owners see discrepancies in their stock take numbers. Bear in mind that there are many more reasons, which aren't necessarily listed here, as causes can vary greatly depending on industry and inventory record keeping methods.

1. Stock loss due to damage
2. Stock is in the incorrect location
3. Human error during stock take process
4. Stock loss due to theft
5. Stock is labeled with incorrect identification
6. Stock mistaken for similar product
7. Inbound stock not recorded accurately _____
8. Faulty inventory management software or stock take equipment
9. Incorrect unit of measurement was counted

Resolving your stock take discrepancies: A checklist

Are you seeing some discrepancies in your numbers? Take a look at this checklist and see if you can resolve them.

- **Re-count the stock in question.** This should be your first step if numbers aren't matching up. It could be something as simple as a mistake during the original counting process
- **Check if the stock exists in another location.** If a large number of items appear to be missing, double check that they aren't in another part of your storeroom, or maybe a different storeroom altogether. There's even the chance that you've purchased the stock but it has not yet arrived from your supplier
- **Make sure the correct unit of measurement was used.** Ideally, all people participating in the count should be trained on the procedure. However, there is still a chance that someone may have counted in liters or pounds, instead of boxes or individual units
- **Verify that the SKU or product identification number is correct.** Though uncommon, it's not unheard of for products to be labelled with the incorrect SKU, thus upsetting your inventory records. Check that the description in your inventory management system actually matches the product you're counting. If it doesn't, you've found your problem
- **Ensure the product has not been mistaken for a similar product.** This is a common error in stock takes

when counting staff may not realize that a variation in size or color is technically a different product with different identification

- **Scan your inventory records for errors.** Sometimes a discrepancy can come down to a simple mathematical error
- **Confirm that there is no missing paperwork.** Sales which have been unaccounted for can often throw off your count. Go in search of any missing paperwork, which may not have been entered into your system yet
- **Investigate whether employees or customers have been stealing stock.** This is one of the least pleasant steps to tackle, but it's necessary if you can't find any other logical reason for loss of stock. Consider implementing tighter security measures in store, such as CCTV cameras or security tags on products.
- **Speak to your warehouse/storeroom managers.** A slip up in the usual procedure for processing stock may have occurred. Have a chat with your managers to see if there are any kinks in the chain. If so, some staff may need retraining or your entire procedure may need to be revised.

Updating your inventory levels

It's important to update your inventory records to reflect the results of your physical count, whether you've uncovered the reason for the discrepancy or not. This will allow you to view the correct levels of stock going forward, which you can then use to alter your profit margins and financial forecasts.

Learning Outcome 2.5. Remove items from the inventory within designated timelines

Verification of stock items conditions

What is stock audit and verification?

Whereas "**stock audit or inventory check**" is a physical verification of quantities and condition of items held in warehouse. The intention behind this check is to provide an audit or to know the position of the existing stock. It is also a source of discrepancy information.

What is physical verification of stock?

Objective of stock verification.

Physical stock verification which involves actual counting, measuring, weighing of all items in stock is necessary for the following reasons:

- ✓ to support the value of stock shown in the balance sheet through physical verification
- ✓ to verify the accuracy of stock records

How do you physically verify inventory?

Here are some of the inventory audit procedures that they may follow:

1. cutoff analysis
2. observe the physical inventory count
3. reconcile the inventory count to the general ledger
4. test high-value items
5. test error-prone items
6. test inventory in transit
7. test item costs
8. review freight costs

L.U3. PROVIDE INVENTORY INFORMATION

Learning Outcome 3.1: Prepare Inventory Information and Briefings within Required Timelines

- **Identification Of Information From Stock Cards**

Stock card or bin card is a document which records the quantity of material received by, issued to and remained in the stores. It is different from a store ledger which is a ledger account (accounting record) that maintains the records of the transit of goods in quantitative and monetary terms.

- **Re-order levels and re-order quantities**

What is Reorder Level?

Reorder level, also called the '**reorder point**,' is the inventory level at which a company would place a new order for a stock of raw materials for production. Theoretically, it was assumed that there should not be a time gap between ordering and obtaining the raw materials. Thus, the company can order new raw materials once the current stock level drops to zero and the suppliers will instantly deliver the raw materials. However, it is practically almost impossible and excessively costly to operate such a perfect procurement system. Thus, companies understand the importance of maintaining a buffer (excess) stock and the new stock will be ordered once the current inventory levels reach a predetermined level.

How to Calculate the Reorder Level?

Reorder level is calculated as,

$$\text{Reorder level} = \text{Average daily usage rate} \times \text{lead time in days}$$

E.g. DEF Company is a manufacturing company that has an average daily usage rate of material is 200 units and the lead time is 12 days. Thus,

$$\text{Reorder level} = 200 \times 12 = 2,400 \text{ units}$$

When the inventory level reaches 2,400 units, the new order for raw materials should be placed.

Reorder level works as a warning of the consequences such as delays in production, as such delays can be minimized and the new order can be placed on time.

What is Reorder Quantity?

Reorder quantity is the number of units that should be included in the new order. This is decided upon finalizing the reorder level where the decision is made regarding how much of new inventory should be ordered. It is equally important as deciding when to place the new order since if sufficient quantity of raw materials are not ordered it will disrupt the production.

How to Calculate the Reorder Quantity?

To calculate the reorder quantity, '**economic order quantity**' calculation is used. Here, the number of units that should be ordered that minimizes total inventory costs is arrived at,

Economic order quantity = $\sqrt{2 \times \text{Quantity} \times \text{Cost per Order} / \text{Carrying Cost per Order}}$

Continuing from the above example,

E.g. DEF Company uses a quantity of 15,000 units of raw materials per annum. Its cost per order is \$250 with a carrying cost per order is \$10. Thus,

$$\text{Economic order quantity} = \text{SQRT} (2 \times 15,000 \times 250 / 10) = 866 \text{ units}$$

DEF has to place 17 orders (demand per annum 15,000 divided by order size of 866 units).

What is the difference between Reorder Level and Reorder Quantity?

Reorder Level vs Reorder Quantity	
Reorder level is the inventory level at which a company would place a new order for a batch of raw materials for production.	Reorder quantity is the number of units that should be included in the new order.
Nature	
Reorder level decides when to order a new stock of raw materials.	The number of units to be ordered is decided based on the reorder quantity.
Calculation	
Reorder level can be calculated as (Average daily usage rate x lead time in days).	Reorder quantity can be calculated as- $\text{SQRT} (2 \times \text{Quantity} \times \text{Cost per Order} / \text{Carrying Cost per Order})$.

Summary – Reorder Level vs Reorder Quantity

The difference between reorder level and reorder quantity is that while reorder level signals the company when to place a new order for raw material, reorder quantity demonstrates the size of the respective order. Large scale companies who produces a number of products uses many components, thus reorder level and reorder quantity will have to be calculated for each of the different types of raw materials and orders should be placed with suppliers on time.

Learning Outcome 3.2: Provide Assistance To Co-Workers On Inventory-Related Matters

For providing assistance to co-worker on inventory related matter you can follow the following steps:

- Listening co-workers problems
- Identification of problems-matters
- Resolving the matters
- Referring the matter to the supervisor

Learning Outcome 3.3: Distribute reports and inventory information to within designated timelines according to organization procedures requisition.

Providing reports:

- ✓ **Inventory reports to supervisors**

An **inventory report** is a summary of items belonging to a business, industry, organization or home. It provides a

comprehensive account of the stock or supply of various items .They can be written in various forms and lengths. Good inventory report should always be clear, simple and exhaustive.

Inventory employees must be trained and supervised so that they retrieve stock in the proper order. The supervisor must also make sure employees enter the retrieved item in the inventory control software system. This makes sure the software has the data to provide inventory level reports and reordering notices.

What is the difference between inventory and stock?

Inventory and stock are valuable assets for any company. However, both terms are used interchangeably despite differences between them.

Inventory includes raw materials, goods in production, and finished goods that are all considered to be part of a company's assets. This is because they will be ready for sale and will generate revenue for the company.

Stock refers to those products ready to be delivered to the customers. Stock pertains to all raw material or finished goods in warehouses.

Accountants often use the word inventory to discuss goods for sale, but even those businesses that don't have stock to sell might have inventories to maintain. The inventory of a retailer exists in shops where it is accessible to customers, yet the inventory of wholesalers and distributors exists in warehouses.

Another point of difference is that inventory includes stock and other assets such as plant facilities and machinery. On the other hand, stock pertains to goods only whether it is in the form of raw material or finished goods.

What does an inventory supervisor do?

An inventory supervisor monitors the completeness, accuracy and compliance during inventory transactions .Oversees purchase orders data entry, and shipping and receiving. Lead and supervise inventory team, resolving problems, conducting training and setting schedules.

✓ Damaged and lost items reports to supervisors

The following procedures shall be adopted when property is noticed lost, destroyed, damaged stolen or missing:

1. Immediately determine that the property is truly lost, stolen or missing and not simply moved to another area
2. Immediate contact your coordinator or administrator and report your observation regarding the property in question
3. Stolen or missing property must be reported immediately to the facilities supervisor or any number of the security staff.
4. Obtain a property loss report from either the facilities supervisor or storekeeper ,central stores
5. Complete the property loss report; Forward a copy to administrator in charge of your area, with the original to the storekeeper, central stores.
6. Upon receipt of the completed report , the storekeeper shall adjust the capital asset inventory and as necessary and forward a copy of the report to the director of financial services, the director of supplies and services ,and institution's insurance agent.

7. The director of supplies and services shall contact the institution insurance agent regarding application of insurance coverage and finalization of a claim as applicable.

8. All inquiries regarding the status of any claim should be directed to accounting department.

Incident report and investigation form

Damage /loss/theft-reported by	
Employee name:	Employee number :
Position /title	Department :
Company phone:	Company e-mail
Incident information	
Incident date:	Time of incident:
Reported on :	Time reported:
Supervisor:	Building area: specific location:
Equipment information	
List of equipment damaged/lost/stolen	
Equipment identification	
Equipment location at time of damage/loss	

Additional notes

. METHODS OF VALUING MATERIAL ISSUES

When the materials are issued by the storekeeper, they are valued in order to determine the material cost of different jobs or products and the balance

They are many methods of valuing material issues and ending inventory; some important methods of valuing material issues are as under: 1) First In, First Out (FIFO) (In French is: premier entré, premier sorti)

2) Last In, First Out (LIFO) (In French is: dernier entré, premier sorti)

3) Weighted Average Cost (AVCO)

a) FIRST IN, FIRST OUT (FIFO)

This method assumes that goods issued are those which have been longest on hand and that those remaining in stock represent the latest purchases or production.

The stocks whose cost is to be carried forward were acquired most recently.

Under this method, the materials are issued at the cost price of that consignment which was received first.

When this consignment is finished then cost price of next consignment is charged to value the material issues. This procedure is followed continuously.

Advantage: This method is more simple, realistic and gives fair valuation of goods.

Disadvantage: This method does not reflect the current economic values in the presence of big price

Fluctuations.

EX1 : BOUGHT: 5/2/2006: 600 units at 1 800Rwf each SOLD: 6/4/2006: 480 units at 2 760Rwf each

8/3/2006: 600 units at 2 040Rwf each 20/12/2006: 720 units at 3 360Rwf each

2/9/2006: 1 200 units at 2 400Rwf each 25/12/2006: 700 units at 3 500Rwf

i) Prepare the stores ledger card for above information using the FIFO method (opening stock: 100 units at

1 600Rwf each).

ii) Determine the value of:

Closing stock, cost of goods sold and gross profit

STORE LEDGER CARD(FIFO METHOD)

DATE	RECEIPT (IN)			ISSUED (OUT)			BALANCE		
	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL
1/ 2/ Bal. b/d							100	1 600	160 000
5/ 2 Purchases	600	1 800	1 080 000	-----	-----	-----	100	1 600	160 000
							600	1 800	1 080 000
8/ 3 Purchases	600	2 040	1 224 000	-----	-----	-----	100	1 600	160 000
							600	1 800	1 080 000
							600	2 040	1 244 000
6/ 4 Sales	-----	-----	-----	100	1 600	160 000	220	1 800	396 000
				380	1 800	684 000	600	2 040	1 244 000
2 / 9 Purchases	1 200	2 400	2 880 000	-----	-----	-----	220	1 800	396 000
							600	2 040	1 244 000
							1 200	2 400	2 880 000
20 / 12 Sales	-----	-----	-----	220	1 800	396 000	100	2 040	204 000
				500	2 040	1 020 000	1 200	2 400	2 880 000
25 / 12 sales	-----	-----	-----	100	2 040	204 000	600	2 400	1 440 000
				600	2 400	1 440 000			
Total	2 400	-----	5 184 000	1 900	-----	3 904 000			

Closing inventory: 1 440 000Rwf

Cost of goods sold : 3 904 000Rwf ;

Gross profit : Sales revenues – Cost of goods sold

Sales revenues: (480units x 2 760) + (720units x 3 360) + (700units x 3 500) = 6 194 000Rwf

Gross Profit: 6 194 000 – 3 904 000 = 2 290 000 Rwf

b) LAST IN, FIRST OUT

This method assumes that goods issued on any particular date are those which were more recently acquired and therefore stocks whose cost is to be carried forward are those which were acquired earliest.

been longest on hand and that those remaining in stock represent the latest purchases or production. The stocks whose cost is to be carried forward were acquired most recently.

Under this method, the materials are issued at the cost price of that consignment which was received most recently.

Advantage: This method reflects the current economic values of goods charged to production. **Disadvantage:** This method is not realistic that the stock left in the store is valued at those prices which were Paid first and these prices are sometimes far below current market prices.

EX1 : January: 1. Balance in stock 500 units at 150 Rwf;

2. Bought 300 units at 165 Rwf each;

8. Sold 173 units at 195 Rwf

12. Bought 200 units at 170 Rwf

19. Sold 294 units at 200 Rwf

24. Sold 400 units at 210 Rwf

i) Prepare stores ledger card forr above using the LIFO method.

ii) Determine the value of: Closing stock, cost of goods sold and gross profit

STORE LEDGER CARD (LIFO METHOD)

DATE	RECEIPT (IN)			ISSUED (OUT)			BALANCE		
	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL
1/ 1/ Bal. b/d							500	150	75 000
2/ 1 Purchases	300	165	49 500	-----	-----	-----	500	150	75 000
							300	165	49 500
8 / 1 Sales	-----	-----	-----	173	165	28 545	500	150	75 000
							127	165	20 955
12/ 1 Purchases	200	170	34 000	-----	-----	-----	500	150	75 000
							127	165	20 955
							200	170	34 000
19 / 1 Sales	-----	-----	-----	200	170	34 000	500	150	75 000
				94	165	15 510	33	165	5 445
24/ 1 Sales	-----	-----	-----	33	165	5 445	133	150	19 950
				367	150	55 050			
Total	500	-----	83 500	867	-----	138 550			

Closing inventory: **19 950Rwf**

Cost of goods sold : **138 550 Rwf** ;

Gross profit : Sales revenues – Cost of goods sold

Sales revenues: (173units x 195) + (294units x 200) + (400units x 210) = **176 535Rwf**

Gross Profit: 176 535 – 138 550 = **37 985 Rwf**

c) WEIGHTED AVERAGE

Weighted average means weighted average price. Under this method, the total value of goods in stock is divided by the number of units of stock. The resultant figure is weighted average price

This method is simple and logical but it is not close to current value of goods. Under this method also, profit or loss may arise on the materials issued.

January: 1. Balance in stock 600 units at 250 Rwf;

2. Bought 400 units at 260 Rwf each;

8. Sold 300 units 300 Rwf

9. Bought 100 units at 270 Rwf

10. Sold 600 units at 300 Rwf

14. Sold 150 units at 300 Rwf

- i) Prepare stores ledger cards for above using the weighted average price method. ii) Determine the value of: Closing stock, cost of goods sold and gross profit

STORE LEDGER CARD (Weighted average price methods)

DATE	RECEIPT (IN)			ISSUED (OUT)			BALANCE		
	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL
1/ 1/ Bal. b/d							600	250	150 000
2/ 1 Purchases	400	260	104 000	-----	-----	-----	1 000	254	254 000
8 / 1 Sales	-----	-----	-----	300	254	76 200	700	254	177 800
9/ 1 Purchases	100	270	27 000	-----	-----	-----	800	256	204 800
10/ 1 Sales	-----	-----	-----	600	256	153 600	200	256	51 200
14/ 1 Sales	-----	-----	-----	150	256	38 400	50	256	12 800
Total	500	-----	83 500	867	-----	268 200			

The following information was extracted from the stores ledger of A.B.C limited

RECEIPTS		ISSUES	
JULY 1.	1 000 units at 25 \$ each	July 7.	800 units at 30 \$ each
10.	600 units at 24\$ each	15.	700 units at 30 \$ each
20.	900 units at 26\$ each	30.	1 300 unitsat 30 \$ each
25.	600 units at 30\$ each		

- Required: i) Write up the stores ledger account under FIFO, LIFO and Weighted Average price methods of stock valuation
 ii) Determine the gross profit for each method

3) The following data were obtained from Pappy’s books:

Purchasing: 1/7/2005.....1 000 units at 250 Rwf each
 6/7/2005.....2 500 units at 240 Rwf each

Selling: 2/7/20052 000 units at 300Rwf each

7/7/20051 000 units for 270 000Rwf

Beginning Stock: 1 500 units at 250 Rwf each

You are required to determine; (using FIFO and LIFO methods)

i) Cost of goods Available (Available for sales) ii) Cost of goods sold

iii) Closing stock

ANSWER

2)STORE LEDGER CARD:FIFO METHOD

DATE	RECEIPT (IN)			ISSUED (OUT)			BALANCE		
	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL
1/ 7, purchases	1 000	25	25 000				1 000	25	25 000
7/7 Sales				800	25	20 000	200	25	5 000
10/7 Purchases	600	24	14 400	-----	-----	-----	200	25	5 000
							<u>600</u>	24	<u>14 400</u>
							800		19 400
15/7 Sales	-----	-----	-----	200	25	5 000	100	24	2 400
				<u>500</u>	24	<u>12 000</u>			
				700		17 000			
20/7 Purchases	900	26	23 400	-----	-----	-----	100	24	2 400
							<u>900</u>	26	<u>23 400</u>
							1 000		25 800
25/7 Purchases	600	30	18 000				100	24	2 400
							900	26	23 400
							<u>600</u>	30	<u>18 000</u>
							1 600		43 800

30/7 Sales	-----	-----	-----	100	24	2 400	300	30	9 000
				900	26	23 400			
				<u>300</u>	30	<u>9 000</u>			
				1 300		34 800			
Total	3 100	-----	80 800	2 800	-----	71 800			

Gross profit: (800 + 700 + 1 300) x 30 – 71 800 = 12 200 Rwf

STORE LEDGER CARD: LIFO METHOD

DATE	RECEIPT (IN)			ISSUED (OUT)			BALANCE		
	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL
1/ 7, purchases	1 000	25	25 000				1 000	25	25 000
7/7 Sales				800	25	20 000	200	25	5 000
10/7 Purchases	600	24	14 400	-----	-----	-----	200	25	5 000
							<u>600</u>	24	<u>14 400</u>
							800		19 400
15/7 Sales	-----	-----	-----	600	24	14 400	100	25	2 500
				<u>100</u>	25	<u>2 500</u>			
				700		16 900			
20/7 Purchases	900	26	23 400	-----	-----	-----	100	25	2 500
							<u>900</u>	26	<u>23 400</u>
							1 000		25 900
25/7 Purchases	600	30	18 000				100	25	2 500
							900	26	23 400
							<u>600</u>	30	<u>18 000</u>
							1 600		43 900
30/7 Sales	-----	-----	-----	600	30	18 000	100	25	2 500
				<u>700</u>	26	<u>18 200</u>	<u>200</u>	26	<u>5 200</u>
				1 300		36 200	300		7 700
Total	3 100	-----	80 800	2 800	-----	73 100			

b) Gross profit: $(800 + 700 + 1\,300) \times 30 - 73\,100 = 10\,900$ Rwf

STORE LEDGER CARD:WEIGHTED AVERAGE PRICE METHOD

DATE	RECEIPT (IN)			ISSUED (OUT)			BALANCE		
	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL
1/ 7, purchases	1 000	25	25 000				1 000	25	25 000
7/7 Sales				800	25	20 000	200	25	5 000
10/7 Purchases	600	24	14 400	-----	-----	-----	800	24.25	19 400
15/7 Sales	-----	-----	-----	700	24. 25	16 975	100	24.25	2 425
20/7 Purchases	900	26	23 400	-----	-----	-----	1 000		25 825
25/7 Purchases	600	30	18 000				1 600	27.39	43 825
30/7 Sales	-----	-----	-----	1 300	27.39	35 607.812	300	27.39	8 217.1875
Total	3 100	-----	80 800	2 800	-----	72 582.812			

Gross profit: (800 + 700 + 1 300) x 30 – 72 582. 8125 = 11 417.1875 Rwf

3. FIFO METHOD

Explanation	RECEIPT (IN)			ISSUED (OUT)			BALANCE		
	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL
Balance							1 500	250	375 000
1Received	1 000	250	250 000	-----	-----	-----	2 500	250	625 000
2Issued	-----	-----	-----	2 000	250	500 000	500	250	125 000
6Received	2 500	240	600 000			-----	500	250	125 000
							2 500	240	<u>600 000</u>
							3 000		725 000
7Issued				500	250	125 000	2 000	240	480 000
				<u>500</u>	240	120 000			
				1 000		245 000			
TOTAL	3 500	---	850 000	3 000	---	745 000	-----	---	-----

LIFO METHOD

Explanation	RECEIPT (IN)			ISSUED (OUT)			BALANCE		
	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL	QNTY	P.U	TOTAL
Balance							1 500	250	375 000
1Received	1 000	250	250 000	-----	-----	-----	2 500	250	625 000
2Issued	-----	-----	-----	2 000	250	500 000	500	250	125 000
6Received	2 500	240	600 000				500	250	125 000
							2 500	240	<u>600 000</u>
							3 000		725 000
7Issued				1000	240	240 000	500	250	125 000
							1 500	240	<u>360 000</u>
							2 000		485 000
TOTAL	3 500	---	850 000	3 000	---	745 000	-----	-----	-----

EXERCISES

- 1) Explain briefly the various methods of valuing material issues
- 2) Discuss the relative advantages and disadvantages of the FIFO and LIFO methods of valuing material issues.
- 3) The following details were extracted from the stores ledger card of a small manufacturing company during the month of November 2007:

Date			
2	Opening stock: 400 units valued at \$ 1 600	4	Received 200 units at \$ 5 each
10	Issued 500 units	16	Received 300 units at \$ 6 each
20	Issued 300 units	24	Received 400 units at \$ 7 each
30	Issued 200 units.		

Prepare a stores ledger cards show the value of closing stock on 30 November 2007 under the following:

- i) FIFO method;
- ii) LIFO method;
- iii) Weighted average price.

- 4) The following information was extracted from the stores ledger of A.B.C limited

Beginning stock: 1 400 units valued at \$ 20 each

purchases		Sales	
April 2.	1 000 units at 25 \$ each	April 3.	800 units
6.	800 units at 24\$ each	12.	600 units
14.	200 units at 26\$ each	30.	500 units
15.	450 units at 30\$ each		

- i) Calculate stock available for sale and cost of goods sold, according FIFO, AVCO, LIFO
- ii) Determine total selling value if gross profit rate is 20%
- 8) During the year, JACKY sells 8 000 units of stock at 42.50Rwf each.

The gross profit on each unit is 17.50Rwf. She purchased stock at a total cost of 197 300Rwf and still had 17 400Rwf in stock at the year end. You are required to find:

- i) Jacky's total sales;
- ii) Jacky's gross profit;
- iii) Costs of goods sold;
- iv) Costs of goods available
- v) Jacky's opening stock

9) The following data were obtained from MUNYESHURI's books:

Purchasing: 1/7/2005.....1 000 units at 250 Rwf each	Selling : 3/7/2005.....800 units
6/7/2005.....700 units at 240 Rwf each	12/7/2005.....600 units

Determine Closing stock and cost of goods sold using: i) FIFO ii) LIFO iii) AVCO