

**The University of Arizona  
Financial Services Office**

**Special Fiscal Year End Reporting:  
Inventory, Accounts Receivable,  
Deferred Revenues, Prepaid Expenses & Deposits**

**INFORMATION & INSTRUCTIONS**

**May 23, 2011**

## **Contacts for Assistance with Accounts Receivable and Inventory Procedures**

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# Special Fiscal Year End Reporting: Inventory, Accounts Receivable, Deferred Revenues, Prepaid Expenses & Deposits

The Financial Services Office prepares the University's annual financial report each year. An important component of the financial report is the accurate accounting for and reporting of inventories, accounts receivable, deferred revenues, prepaid expenses and deposits. These categories are defined below. Each unit is required to determine if these categories exist as of the close of the accounting period – June 30, 2011. If these categories exist, the unit must report the required information to the Financial Services Office by Tuesday, July 5, 2011.

**Accounts Receivable:** Accounts Receivable is the amount of money owed to a department for goods or services sold to outside parties. The amount should be recorded as an asset and the revenue recognized in the proper fiscal year. NOTE: Amounts owed by other departments are not considered as Accounts Receivable for financial statement purposes because these funds will remain within the University.

**Credit Balances in Accounts Receivable:** Amounts due to be returned to a customer outside the University, either as a result of a customer over paying an invoice or as a result of a refund due to the customer for returned goods, should be reclassified as a liability (Accounts Payable – Other).

**Deferred Revenues:** If a unit has received amounts for services not completely performed or goods not yet received by the customer at the close of the accounting period, these amounts should be reclassified as Deferred Revenues. Some units record the cash receipts directly to Deferred Revenue and therefore, do not have to reclassify the amounts as they are correctly recorded. Because all steps in the revenue recognition process have not been completed, we cannot record the cash receipts as revenue.

**Deposits:** Amounts held with the expectation that the funds will be returned to the customer upon completion of an agreed-upon condition. Example: Deposits on equipment rentals. If the funds were recorded as revenue when received, they should be reclassified to a liability (Deposits). If recorded directly to a Deposit liability, no reclassification is necessary.

**Inventories:** Items held for sale as part of a department's normal operations (goods for resale) OR items to be incorporated into or consumed in the production of goods and services for sale (raw materials), should be reclassified from expense to an asset. NOTE: Office supplies are NOT inventory because these will not be sold to customers or used in the production of goods or services. Capital equipment is also not resale inventory.

**Prepaid Expenses:** Substantial amounts that are paid in this fiscal year for services to be provided in the next fiscal year should be recognized as prepaid expenses. Common examples include maintenance contracts, rent of building space and insurance premiums.

Instructions for accounting for and reporting information in these categories are provided on the following pages, and sample formats are provided in the attachment.

# Reporting Accounts Receivable

Each unit is required to provide a Cover Memo and supporting schedules to report the unit's Accounts Receivable as of June 30, 2011 to the Financial Services Office / Accounts Receivable Coordinator. This is due by Tuesday, July 5, 2011. Sample formats are provided in the attachment.

- ◆ The Cover Memo should summarize the total dollar value of the Aged Accounts Receivable by Account Number and Account Control (*Required*). The department head must sign this cover memo to attest to the accuracy of the balances.
- ◆ Schedule 1: Receivables by FRS account number, customer name and age of invoices. (*Required*).
- ◆ Schedule 2: Customers with credit balances, noting the nature of the credit balance. Depending on the amount of the balance, our office may reclassify the balances for financial statement reporting. In general, amounts under \$5,000 will not be reclassified. Use the following to describe the credit balances:
  - Refunds Due – may be reclassified as a Miscellaneous Payable
  - Deposits – may be reclassified as a liability
- ◆ Schedule 3: Amounts to be written off as of June 30, 2011. List by customer name, amount and substantiate the reasons for the write-off.
- ◆ Schedule 4: Amounts written off during the course of the year. List by customer name, amount and substantiate the reasons for the write-off. Also indicate the accounting treatment used.
  - A journal entry was submitted to increase bad debt expense and reduce accounts receivable.
  - A journal entry was submitted to reduce revenues and accounts receivable.
  - If a receivable was never posted to FRS, it does not need to be written off. However, you should provide a list of amounts that have been determined to be uncollectible.

Note: Any account with over a \$100,000 balance will be a candidate for an Allowance for Bad Debt.

- ◆ Schedule 5: Analysis of write-offs for the prior three fiscal years (*Required*).

## IMPORTANT:

Do not record receivables from other University of Arizona departments!

## Reporting Deferred Revenue, Prepaid Expenses & Deposits

Each unit is required to provide a Cover Memo and supporting schedules to report the unit's Deferred Revenue, Prepaid Expenses and Deposits as of June 30, 2011 to the Financial Services Office / Accounts Receivable Coordinator. This is due by Tuesday, July 5, 2011. Sample formats are provided in the attachment.

- ◆ The Cover Memo should summarize the total dollar values by Account Number and Account Control (*Required*). The department head must sign this cover memo to attest to the accuracy of the balances.
- ◆ Schedule 1: Customers who have prepaid for future services or customers who have paid deposits. These amounts will be recorded as Deferred Revenue or Deposits.
- ◆ Schedule 2: Amounts that have been prepaid to vendors for future services. The amounts will be recorded as Prepaid Expenses.

Units that record these balances on a regular basis should provide the cover memo and appropriate supporting schedules to validate the balances in FRS as of June 30. Other units should provide this information so that balances can be recorded by FSO.

# Reporting Inventory Valuations

Each unit is required to provide a Cover Memo, copies of inventory sheets, and supporting schedule for inventory write-downs to report the unit's inventory valuations as of June 30, 2011. This information is due to the Financial Services Office by Tuesday, July 5, 2011. Sample formats, and guidelines for inventory taking and recording are included.

1. Identify areas where separate inventories are needed. For example, inventories purchased with State funds must be identified separately from those purchased with Local funds.
2. Physically count inventories (see Inventory Procedures attached). If an independent agency is used, a copy of their procedures and a sample inventory sheet must be submitted to our office (Accounts Receivable-Inventory Coordinator: Financial Services Office).
3. Price inventory using the First-In, First-Out method (FIFO). Any freight charges paid for delivery must be included in the cost.
  - ◆ **IMPORTANT:** If your unit wishes to use an alternate method, the Financial Services Office must approve the alternate method in advance.
  - ◆ **IMPORTANT:** Any unit that takes inventory at **retail** (current selling price of items) or some other method **must convert to cost** using the FIFO method. A copy of this conversion must be kept on file for the auditor's review. Exact procedures for this conversion must accompany your submitted inventory package.
4. Correctly price, extend, and foot each inventory sheet and attach the adding machine tape to the left hand corner of each page. This does not pertain to computer generated inventory sheets.
5. Recap total inventory and attach the adding machine tape of all the pages to the left hand side of the inventory cover memo.
6. The Cover Memo should summarize the total dollar value of the Inventory by Building Number. The department head must sign this cover memo as well as indicating the valuation method used in determining cost. (*Required*)
7. Provide a separate list (Schedule 1) of obsolete items to be written down or written off from inventory, including a full description, number of items, unit cost at FIFO and new unit cost at market value. To price the inventory at the lower of cost (FIFO) or market, extend these totals. This procedure adjusts the cost of slow moving and obsolete items to recoverable amounts. Submit an explanation of how this new inventory value was calculated to the Accounts Receivable & Inventory Coordinator-Financial Services Office.
8. Provide a history (Schedule 2) of inventory values and write-offs for the prior three fiscal years. This form is required even if there is no history of write-offs or write-downs.

# Inventory Taking Procedures

1. Assign one person the responsibility and commensurate authority for the physical inventory.
2. Clear written procedures should be provided to the inventory teams and arrangements made to conduct a training session to review the written procedures. Be sure that everyone participating in the inventory process clearly understands their responsibilities.
3. Identify items to be inventoried. Be sure the material to be included in the inventory is arranged for efficient and fast work. Put inventory items in order. **If more than one S/L account number and/or object code is involved, use a separate sheet for each one.**
4. **Do not conduct business in the area in which the physical inventory is taking place.**
5. The specific units of measurement should be those that are both practical and accurate and which can be priced either directly or by application of reasonably accurate conversion factors. It is absolutely necessary that all inventory "counts" indicate which unit of measure was counted: i.e., box, ream, dozen, pound, gallon, etc. Likewise these items must be priced using the correct unit of measure.
6. Determine FIFO cost for items to be included in the inventory. In general, the invoice price paid for the items, after consideration for obsolescence or damage, will be used.
7. The "pricer" or the other person "in charge" must state, in narrative form, how cost was determined on the cover memo from the Department Head.
8. If items in bins are controlled and are counted prior to inventory date, "in and out" cards attached to the bins should be used to record increases and decreases. On the inventory date, prove that the cards have been marked correctly by test counting some of the bins. If the test counts disclose substantial discrepancies, make immediate arrangements to count all bins containing items of more than nominal value.
9. Establish cut-off procedures for processing incoming shipments and issuing items occurring between the inventory date and June 30. During the time inventory is being taken, segregate any incoming shipments and inventory them in a separate group. Invoices covering items to be included for this year's inventory must be included in the current year's disbursements or accounts payable.
10. We recommend that two-person inventory teams be used - one person counts and the other records the information on the inventory ticket or list. Both people should initial the inventory forms in the Counted By section. Supervisory personnel should test the counts and initial the ticket evidencing that a test count was performed. Work should be recounted if errors are excessive. Testing includes verifying that all inventory groups have inventory tags and checking to determine that counts are reasonable.
11. Discrepancies between perpetual inventory records and the physical count should be investigated and corrected.

# Inventory Recording Procedures

1. Use pre-numbered inventory forms provided by FSO. Any department wishing to use their own forms must contact the A/R-Inventory Coordinator (621-6748) for clearance. Those departments that have already received permission from FSO in prior years may continue to do so without contacting FSO.
2. Only one person should be assigned the responsibility for issuing the inventory forms to the teams in numerical sequence. Every sheet must be turned in and accounted for including spoiled and unused forms. No forms should be mutilated or destroyed. Inventory forms should not be issued in excessively large batches. If your department is using its own inventory forms, it is not necessary to duplicate the information on FSO standard, pre-numbered inventory forms.
3. Do not transfer inventory forms between departments. Protect forms at all times.
4. **Use ink for all work.** When a change is made, cross it out so that the writing remains legible. Initial all changes on the forms. **Each line should be used. Unused lines should be crossed out.** Only one side of the inventory form may be used. Both members of the counting team must initial each of the inventory forms that are used.
5. Have supervisory personnel inspect forms and initial items test counted before considering the count complete.
6. Inventory forms are to remain with materials until the inventory has been completed. If you are selected for an audit, keep the forms with the materials until the auditors have inspected them for accuracy of quantities and descriptions. After inspection, the forms may be removed and arranged in numerical order. **Account for all numbers.** Remember all inventory forms must be turned in.
7. Review forms for items that should be reduced in value. List these items on separate forms (Schedule 1) showing: a) original sheet and line number, b) description, c) number of items, d) inventory cost at FIFO, and e) new inventory value at the lower market value. Extend the totals and list the reason for reduction (damage, obsolescence, defects, etc.).
8. Procedures may be altered for your department and are not necessarily limited to these recommended procedures. Any significant modifications to these procedures must be approved by the A/R-Inventory Coordinator, FSO before the inventory is taken.
9. Please insert the account number and object code where inventory purchases were originally charged in the appropriate block on the pre-numbered inventory forms.
10. The physical location of items – building, room numbers, etc. must be noted on all inventory forms (including each department's own inventory forms).

**Example:**

**Determining Inventory Values with the First-In, First-Out (FIFO) Method**

**Plywood Sheets Inventory**

Given the following purchase history, compute the inventory value if inventory is 80 sheets on 6/30/XX.

**Purchase History:**

Purchase Reference	Purchase Date	Quantity	Unit Price
( a )	6/20/XX	50	\$10.00
( b )	6/25/XX	40	\$12.00
( c )	6/29/XX	25	\$15.00

**Calculation of inventory value:**

Purchase Reference	Purchase Date	Quantity	Unit Price	Value
( c )	6/29/XX	25	\$15.00	\$375.00
( b )	6/25/XX	40	\$12.00	\$480.00
( a )	6/20/XX	15	\$10.00	\$150.00
Total Value using FIFO		80		\$1,005.00

**IMPORTANT:**

The unit must retain a copy of the invoice supporting each item's cost until the audit **following** the fiscal year in which all such items have been sold or written off.

In the above example, assuming all items were sold in FY 11, all the invoices listed must be maintained on file until September 2012.

## Examples: Inventory To Be Written-Off Or Written-Down (Schedule 1)

### Example 1: Obsolete Inventory – Inventory value will be written off

Inventory		Description	Quantity	Cost @ FIFO		Cost @ CMV		Reason
Sheet #	Line #			Unit Cost	Extended Cost	Unit Cost	Extended Cost	
1	15	Journals	10	\$1.00	\$10.00	\$ 0.00	\$ 0.00	Obsolete
Totals this Account # / Control					\$10.00		\$ 0.00	

**A**

**B**

Amount to **Write Off**: Difference between **A** (Cost) and **B** (Current Market Value)

\$10.00
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### Example 2: Decrease in Market Value – Inventory value will be written down

Inventory		Description	Quantity	Cost @ FIFO		Cost @ CMV		Reason
Sheet #	Line #			Unit Cost	Extended Cost	Unit Cost	Extended Cost	
1	18	Journals	10	\$30.00	\$300.00	\$10.00	\$100.00	Reduction in Market Value
Totals this Account # / Control					\$300.00		\$100.00	

**A**

**B**

Amount to **Write Down**: Difference between **A** (Cost) and **B** (Current Market Value)

\$200.00
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# Worksheet

## Determining Inventory Values With The First-In, First-Out (FIFO) Method

Use the following purchase history to answer question 1 below.

**Purchase History:**

<b>Purchase Reference</b>	<b>Purchase Date</b>	<b>Quantity</b>	<b>Unit Price</b>
( a )	5/1/XX	50	\$1.00
( b )	5/15/XX	100	\$1.50
( c )	6/1/XX	101	\$1.25
( d )	6/15/XX	49	\$2.00

**Questions:**

1. **Compute the FIFO inventory value if inventory balance on 6/30/XX is:**
  - a. 20
  - b. 100
  - c. 180
2. **If a department has ten widgets on consignment with a value of \$5.00, and another 15 in stock in inventory, also at a cost of \$5.00, what is the inventory value?**
3. **If a department completed physical inventory on June 15, then receives a shipment of merchandise for resale on June 26, how is this handled?**

## Worksheet Answers

### Determining Inventory Values With The First-In, First-Out (FIFO) Method

1.a. If the inventory balance on 6/30/XX were 20, the value would be:

Purchase Reference	Purchase Date	Quantity	Unit Price	Value
( d )	6/15/XX	20	\$2.00	\$40.00
Total Value using FIFO		20		\$40.00

1.b. If the inventory balance on 6/30/XX were 100, the value would be:

Purchase Reference	Purchase Date	Quantity	Unit Price	Value
( d )	6/15/XX	49	\$2.00	\$98.00
( c )	6/1/XX	51	\$1.25	\$63.75
Total Value using FIFO		100		\$161.75

1.c. If the inventory balance on 6/30/XX were 180, the value would be:

Purchase Reference	Purchase Date	Quantity	Unit Price	Value
( d )	6/15/XX	49	\$2.00	\$98.00
( c )	6/1/XX	101	\$1.25	\$126.25
( b )	6/1/XX	30	\$1.50	\$45.00
Total Value using FIFO		180		\$269.25

2. Units on consignment are not considered inventory. There are a total of 15 widgets in inventory (15 in stock) valued at a cost of \$5 each. The inventory value is \$75. Consignments should be inventoried separately but not included in the total of on-hand inventory.

3. The inventory balances must be adjusted to include shipments and issues between the inventory date and June 30.

## Frequently Asked Questions (FAQs)

	Question	Answer
1.	When should Accounts Receivable and Inventory be recorded?	Accounts Receivable and Inventory can be recorded monthly or yearly depending on the department.
2.	How are Inventories and Accounts Receivable reflected in FRS?	Each department has general ledger accounts. The Inventories and Accounts Receivable are posted to those accounts and can be viewed on-line or in reports.
3.	When should Inventory or Accounts Receivable be written off or written down?	Inventory is written off or down when items lose value due to damage or obsolescence. Accounts Receivable are written off when they are deemed uncollectible.
4.	What is an allowance for doubtful accounts? When do you record it?	Allowance for doubtful accounts is an estimate of the uncollectible Accounts Receivable and is usually determined as a percentage of sales based on past experience. This allowance is recorded annually.
5.	What is the difference between allowance for doubtful accounts and writing off an Accounts Receivable?	An allowance for doubtful accounts is an estimate of the Accounts Receivable that will not be collected. A write off records the reduction of the Accounts Receivable by specific amounts determined to be uncollectible.
6.	What if we receive cash for a receivable that has already been written off?	Record it as revenue.
7.	Why shouldn't we record a receivable that is due from another University department?	The University is seen as one entity for financial statement purposes; therefore, we cannot owe ourselves.
8.	When we have written off inventory, what can we do with it? Can we give it away? What if we sell the written off Inventory?	Written off inventory must go to surplus property; therefore, it cannot be given away. If surplus property sells the written off inventory, the sale is recorded as revenue. If you sell your written off inventory yourself (as in a "sale"), then record it as revenue.
9.	How soon can I take Inventory?	When you feel that you have control of the inventory count.
10.	I have thousands of semi-conductors. Do I have to count every one?	No. You may weigh count them.
11.	We sell animals. Is the food that we feed them Inventory?	Yes, items to be incorporated into or consumed in the production of goods and services for resale are considered inventory.
12.	If I counted my Inventory on June 15 <sup>th</sup> and received a shipment on June 20 <sup>th</sup> , is this June 20 <sup>th</sup> shipment counted as part of Inventory for this fiscal year?	Yes, the receipt should be added to the inventory quantities. Make sure that these invoices are forwarded immediately to Accounts Payable.
13.	Our unit received a donation of posters worth \$10,000 and will be selling them. Should the posters be recorded as inventory?	Because they were a gift and your cost was zero, these items will not have value in the inventory reporting. However, the posters should be recorded on the inventory sheets for control purposes. Note "gift" and a cost of zero.