



Finance Policies and Procedures

AUTHORITY				
Federal	State Statutes	La. Admin Code	LSU-HSC	HCS D

CITATION:

POLICY NAME: Accounting for Inventory NON-PeopleSoft Inventories

PURPOSE: This policy is being promulgated to provide direction and guidelines for Inventory Accounting purposes only.

Only HCS D Business Units not using the PeopleSoft Inventory Subsystem are addressed in this Policy. A companion Policy addresses those Inventories accounted for using the PeopleSoft Inventory subsystem.

Policy Statement

It will be the policy of the LSU Health Care Services Division to maintain a Perpetual Weighted-Average Inventory system for those Inventories identified and previously established as PeopleSoft Inventory Business Units and using the PeopleSoft Inventory System. All other areas in which stock is accumulated for the purposes of maintaining an inventory will be charged directly to the appropriate expense account and department at the time of purchase. At Fiscal Year End for Financial Statement Purposes, an adjusting entry will be made to establish a balance in the Inventory Asset Account and reduce the expenses recognized for the period based on the amount of goods on hand. This adjustment will be made in conjunction with the physical count done at fiscal year end.

The Fiscal Year End adjusting entry will be reversed on the first day of the new Fiscal Year to reestablish the recognition of the expenses.

At Month End for Interim Reporting Purposes, an adjusting entry may be made in the same manner if the adjustment is material to the interim Financial Statements and a physical count is done at that time.

Conversion of Non-PeopleSoft Inventories maintained on side-systems or manually to PeopleSoft IBU's is encouraged to strengthen internal controls and improve reporting processes.

The PeopleSoft Expense Accounts of Stores Increase 545240 and Stores Decrease 545245 will no longer be used for any HCS D Business Unit.

Any deviations from this policy must have prior written approval from LSU HCS D Finance Section.



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Definitions

Consumption Method – This Inventory Accounting Method charges the cost of procuring Inventory Items during the Fiscal Year to the Inventory Asset Account. As goods are used or issued to other Departments, the Inventory Asset Account is credited and the appropriate department expense account is debited. The consumption method recognizes the expense when the goods are consumed, or issued. The Consumption method also assumes that a perpetual inventory system is maintained. A perpetual system means that each and every transaction updates the Inventory Account Balance.

Direct Expense Method – This Inventory Accounting Method charges the cost of procuring Inventory Items during the Fiscal Year to an expense account and then establishes a Balance Sheet Account at Fiscal Year End. Using this method, at Fiscal Year End, the expense account is reduced (credited) for the amount of goods on hand based on a Physical Count. The Balance sheet Account is the debited for the same amount. A reversing entry is made for this same amount at the end of Period 12 of the next Fiscal Year.

Interim/Monthly/Quarterly Physical Cycle Count – Refers to physical counts of inventory items taken at other than Fiscal Year End. The purpose of these counts is to monitor internal controls of Inventory Balances and usage.

Inventory Asset Account / DeptID Combination – This refers to the PeopleSoft chart fields for the Asset and the DeptID to which the Inventory belongs. Both the Asset Account and the DeptID define the Inventory.

Inventory Asset Account – The Balance Sheet Accounts used in PeopleSoft to record the balances of a specific Inventory. An example would be Account 117030 – Inv – Dietary.

The Inventory Accounts to be used for HCSD Business Units are listed below. These Accounts are to be used for the adjustments made at fiscal year end or for interim financial statement presentation.

Account Number	Account Name
117025	Inv – Pharmacy
117030	Inv – Dietary
117035	Inv – Warehouse
117040	Inv – Medical – Central Supply
117041	Inv – Medical – Central Supply 2
117045	Inv – Operating Room
117255	Inv – Print Shop
117260	Inv – Other
117265	Inv – Housekeeping



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117270 Inv – Office
117275 Inv – Engineering

Materiality – The concept of materiality is used to determine if an adjusting entry is necessary for Interim Financial Statements. In applying the concept of materiality, the question asked is: If an adjustment is not made for Interim Financial Statements, will the unadjusted balances influence the users of the financial statements in an adverse manner? If the answer is “Yes”, then the adjustment is material to the interim financial statements. If the answer is “No”, then the adjustment is immaterial and not needed.

Non-PeopleSoft Inventory – An entity that has not been established in PeopleSoft Financials as an Inventory Business Unit and does not maintain a perpetual Inventory Balance, but takes periodic physical counts. An example would be Pharmacy Inventories, Account 117025 Inv-Pharmacy.

PeopleSoft Inventory Business Unit – An entity established within PeopleSoft Financials defining a location that receives and issues Items that are kept in stock within the Hospital.

Periodic Inventory – This method of accounting for Inventory only updates the Inventory Asset Balance at certain points in time, either at month end or after a physical count. The asset account and the expense accounts are updated from time to time to reflect the usage (issue) of the asset. The accounting focus of this method is Balance Sheet presentation at a point in time, rather than the Income Statement focus.

Perpetual Inventory – This method of accounting for Inventory updates the Inventory Asset balance and the associated expenses perpetually, that is, the Inventory balance should, at any time, reflect the amount of inventory on hand. Every transaction is immediately recorded, updating both the Asset and the corresponding expense. A physical inventory count is done at either Fiscal Year end or at month end and compared to the system maintained balance. If necessary, accounting adjustments are made to bring the Inventory Asset account into balance with the physical count. This accounting method is an Income Statement focus presentation of inventory transactions rather than a Balance Sheet focus.

Year End Physical Count – Refers to the Year End count of an Inventory at a specific location. A physical count not only includes counting the number of items on hand but also extending the cost of the items to total cost, therefore establishing the value of the inventory on the premise.

Accounting Entries using Non-PeopleSoft Inventory Business Units

The purchase of goods for a Non-PeopleSoft Inventory should be accounted for in the following manner:



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A. Requisitions

If a requisition is used to begin the procurement process, the following accounting template will be used. The PeopleSoft procurement subsystem will generate the second line of the Accounting Transaction, Reserve for Pre-Encumbrances, Account 334001, using the template for Pre-Encumbrances. The end user will determine the Expense/DeptID combination for which the goods are being purchased. The accounting entries for Requisitions are:

Non-PeopleSoft Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Pharmacy	544200	Hospital Drugs	2067340	Pharmacy	DR	
	334001	Resv For Pre-Encum-Non Salary	2067340	Pharmacy		CR
Radiology	545720	Medical Supplies	2067250	Radiology	DR	
	334001	Resv For Pre-Encum-Non Salary	2067250	Radiology		CR
Emergency Department	545720	Medical Supplies	2047100	Emergency	DR	
	334001	Resv For Pre-Encum-Non Salary	2047100	Emergency		CR

These are just examples. The most appropriate Expense/DeptID Combination should be used at the time of the purchase.

Requisitions would start the procurement process if the item has been identified and an estimated price for the item was determined. A vendor may or may not have been identified at the time of the requisition. The requisition is then sent to Purchasing for approval and the bid process if the item is not covered by any of the state contracts established with Vendors.

A purchase order would be used to begin the procurement process if items have been bid or the item requested has been specifically identified as a State Contract item.

B. Purchase Orders

1. If a purchase order is used to begin the procurement process, the following accounting template will be used. The PeopleSoft procurement subsystem will generate the second line of the Accounting Transaction, Reserve for Encumbrances, Account 334002, using the template for Encumbrances. The end user will determine the Expense/DeptID combination for which the goods are being purchased. Examples of accounting entries for Purchase Orders are:



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Non-PeopleSoft Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Pharmacy	544200	Hospital Drugs	2067340	Pharmacy	DR	
	334002	Resv For Encumbrances-Non Sala	2067340	Pharmacy		CR
Radiology	545720	Medical Supplies	2067250	Radiology	DR	
	334002	Resv For Encumbrances-Non Sala	2067250	Radiology		CR
Emergency Department	545720	Medical Supplies	2047100	Emergency	DR	
	334002	Resv For Encumbrances-Non Sala	2047100	Emergency		CR

These are just examples. The most appropriate Expense/DeptID Combination should be used at the time of the purchase.

2. If a Purchase Order has been sourced from a Requisition, the following accounting entries will be generated to reverse the Pre-encumbrance. The PeopleSoft procurement subsystem will generate the Pre-Encumbrance Reversal lines for this Accounting Transaction. The reversal of the Pre-Encumbrance is necessary to eliminate the accounting transaction of the pre-encumbrance, since the transaction has now become a purchase order. The reversal reduces pre-encumbrance commitments and increases encumbrance commitments. Therefore, the net impact on available budget is the difference between the requisition amount and the purchase order amount. The Purchase Order accounting template is the same as B. Purchase Order number #1 above. Examples of accounting entries for the reversal of the Pre-Encumbrance are:

Non-PeopleSoft Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Pharmacy	334001	Resv For Pre-Encum-Non Salary	2067340	Pharmacy	DR	
	544200	Hospital Drugs	2067340	Pharmacy		CR
Radiology	334001	Resv For Pre-Encum-Non Salary	2067250	Radiology	DR	
	545720	Medical Supplies	2067250	Radiology		CR
Emergency Department	334001	Resv For Pre-Encum-Non Salary	2047100	Emergency	DR	
	545720	Medical Supplies	2047100	Emergency		CR

These are just examples. The most appropriate Expense/DeptID Combination should be used at the time of the purchase.



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C. Vouchers

1. If an express voucher or a purchase order voucher is used to set up the accounts payable entry for non-PeopleSoft Inventory items, the following accounting template will be used. The PeopleSoft Accounts Payable module will generate the second line of the Accounting Transaction, Accounts Payable, Account Number 221005, for the vouchers. The end user will either enter the Expense/DeptID combination on an Express Voucher or bring in the line of coding for a Purchase Order Voucher from the purchase order. Examples of accounting entries for a Voucher are:

Non-PeopleSoft Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Pharmacy	544200	Hospital Drugs	2067340	Pharmacy	DR	
	221005	A/P-Vendor	2067340	Pharmacy		CR
Radiology	545720	Medical Supplies	2067250	Radiology	DR	
	221005	A/P-Vendor	2067250	Radiology		CR
Emergency Department	545720	Medical Supplies	2047100	Emergency	DR	
	221005	A/P-Vendor	2047100	Emergency		CR

These are just examples. The most appropriate Expense/DeptID Combination should be used at the time of the purchase.

2. With the posting in PeopleSoft Financials of a Purchase Order Voucher, the following entries will be generated by PeopleSoft procurement subsystem to liquidate the encumbrance:

Non-PeopleSoft Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Pharmacy	334002	Resv For Encumbrances-Non Sala	2067340	Pharmacy	DR	
	544200	Hospital Drugs	2067340	Pharmacy		CR
Radiology	334002	Resv For Encumbrances-Non Sala	2067250	Radiology	DR	
	545720	Medical Supplies	2067250	Radiology		CR
Emergency Department	334002	Resv For Encumbrances-Non Sala	2047100	Emergency	DR	
	545720	Medical Supplies	2047100	Emergency		CR



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These are just examples. The most appropriate Expense/DeptID Combination should be used at the time of the purchase.

The reversal of the encumbrance is necessary to eliminate the accounting transaction of the encumbrance, since the transaction has now become an accounts payable voucher. The reversal reduces encumbrance commitments and increases actual expenses. Therefore, the net impact on available budget is the difference between the purchase order amount and the expense voucher amount.

Note: Payment of the Voucher does not have any impact on the accounting for Inventory, therefore, the accounting entries will not be discussed in this policy.

D. Expense Accounts for Year End Adjusting Entries

In order to simplify the Adjusting Entry for Inventory on Hand at Fiscal Year End, instead of crediting each of the original Expense Accounts, credit the accounts listed below (selecting the most appropriate account).

Account Number	Account Name
545250	Inv – Office Supplies – Book to Physical Adj.
545251	Inv – Medical Supplies – Book to Physical Adj.
545252	Inv – Dietary Supplies – Book to Physical Adj.
545253	Inv – Household Supp – Book to Physical Adj.
545254	Inv – Pharmacy Supp – Book to Physical Adj.
545255	Inv – Operating Room – Book to Physical Adj.

E. Year End Adjusting Entries

To adjust the Balance Sheet at Fiscal Year End for the amount of Inventory on Hand, the following entry should be made at 06/30/20XX in the HCSA_ACCRU Ledger:

Non-PeopleSoft Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Pharmacy	545254	Inv – Pharmacy Supp – Book to Physical Adj.	2067340	Pharmacy	DR	
	117025	Inv – Pharmacy	2067340	Pharmacy		CR
Radiology	545251	Inv – Medical Supplies – Book to Physical Adj.	2067250	Radiology	DR	
	117260	Inv – Other	2067250	Radiology		CR
Emergency	545251	Inv – Medical Supplies – Book to	2047100	Emergency	DR	



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Department Physical Adj.
117260 Inv – Other 2047100 Emergency CR

The adjustment should equal the amount of the Physical Count Sheets, summarized for the Inventory that is being adjusted.

F. Reversal for Previous Year End Entries in New Fiscal Year

To reverse the entries made to the Balance Sheet at the end of the prior Fiscal Year to Inventory on Hand, the following entry should be made at 06/30/20X1 in the HCSD_ACCRU Ledger:

Non-PeopleSoft Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Pharmacy	117025	Inv – Pharmacy	2067340	Pharmacy	DR	
	545254	Inv – Pharmacy Supp – Book to Physical Adj.	2067340	Pharmacy		CR
Radiology	117260	Inv – Other	2067250	Radiology	DR	
	545251	Inv – Medical Supplies – Book to Physical Adj.	2067250	Radiology		CR
Emergency Department	117260	Inv – Other	2047100	Emergency	DR	
	545251	Inv – Medical Supplies – Book to Physical Adj.	2047100	Emergency		CR

Any questions or issues about this Accounting for Inventory Non-PeopleSoft Inventory policy should be addressed to the Comptroller's Office at HCSD Headquarters.