



**Finance Policies and Procedures**

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

**CITATION:**

**POLICY NAME:** Accounting for Inventory PeopleSoft Inventory Subsystem

**PURPOSE:** This policy is being promulgated to provide direction and guidelines for Inventory Accounting. Only PeopleSoft Inventory Business Units using the PeopleSoft Inventory Subsystem are addressed in this Policy.

A companion Policy addresses Non-PeopleSoft Inventories.

**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 not identified as PeopleSoft Inventory Business Units 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 for PeopleSoft Inventory Business Units as of 06/30/xx and reduce the expenses recognized for the fiscal year 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 purpose of this adjustment is to recognize only the amount of Inventory consumed or used up during the fiscal year. The reason for this entry is that the Asset Account may not reflect the appropriate balance at fiscal year end even with system adjustments, issues, and purchases.

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.

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



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

### 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.

**Inter-Business Unit (IBU) Transfers** – Inter-Business Unit Transfers (IBU Transfers) refer to movement of Inventory Items between two PeopleSoft Inventory Business Units within a single General Ledger Business Unit. An example of this would be goods received in a Warehouse and then moved to Central Supply. Transfers to other General Ledger Business Units are not included in this definition.

**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 Receipts** – Inventory Receipts are defined as taking ownership of goods or items within a defined Inventory Unit.



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**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 interim financial statements.

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
117270	Inv – Office
117275	Inv – Engineering

Other Inventory Asset Accounts to be used for HCSD Business Units by the PeopleSoft Inventory subsystem are listed below. These Accounts are to be used as temporary adjusting entries during the year and should be reduced to \$-0- by the end of the fiscal year. The accounts will be analyzed and values posted to the appropriate asset or expense account, depending on the analysis. The accounts are:

Account Number	Account Name
117490	Inv – Return Clearing
117495	Inv – Adjustment Clearing
117498	Inventory – IBU Clearing

For the procurement of Goods for a PeopleSoft Inventory Business Unit, please see **Accounting Entries using PeopleSoft Inventory Business Units.**

**Issues** – An issue for these purposes is the exit point of the goods from PeopleSoft Inventory. In most instances, the issue would be to the end user, with the appropriate Expense Account / DeptID combination. But, with some HCSD Business Units having both PeopleSoft and Non-PeopleSoft Inventory within the same General Ledger Business Unit, if goods were transferred from a PeopleSoft to a Non-PeopleSoft Inventory, the goods should be expensed to the Non-PeopleSoft Inventory.



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**Item Group** – The Item Group chart field within the PeopleSoft Inventory sub-system refers to the definition of the expense account an inventory item will be expensed to when it is used (consumed) by a department. When an Item is established in PeopleSoft Inventory, the Item Group is determined by its characteristics such as Medical Supplies (545720) or Hospital Drugs (544200). This Item Group is used to match the accounting templates with the Inventory Transactions to build the accounting lines in the general ledger.

**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.



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### Accounting Entries using PeopleSoft Inventory Business Units

The purchase of goods for a PeopleSoft Inventory Business Unit should be accounted for in the following manner.

#### 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 Inventory/DeptID combination for which the goods are being purchased. Examples of accounting entries for Requisitions are:

Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Dietary	117030	Inv – Dietary	2068390	Nutritional Services	DR	
	334001	Resv For Pre-Encum-Non Salary	2068390	Nutritional Services		CR
Warehouse	117035	Inv – Warehouse	2059370	Warehouse	DR	
	334001	Resv For Pre-Encum-Non Salary	2059370	Warehouse		CR
Central Supply	117040	Inv – Medical – Central Supply	2069400	Central Supply	DR	
	334001	Resv For Pre-Encum-Non Salary	2069400	Central Supply		CR
Central Supply 2*	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2	DR	
	334001	Resv For Pre-Encum-Non Salary	2069401	Central Supply 2		CR
Operating Room	117045	Inv – Operating Room	2037020	Operating Room	DR	
	334001	Resv For Pre-Encum-Non Salary	2037020	Operating Room		CR

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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.



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**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 Inventory/DeptID combination for which the goods are being purchased. Examples of accounting entries for Purchase Orders are:

Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Dietary	117030	Inv – Dietary	2068390	Nutritional Services	DR	
	334002	Resv For Encumbrances-Non Sala	2068390	Nutritional Services		CR
Warehouse	117035	Inv – Warehouse	2059370	Warehouse	DR	
	334002	Resv For Encumbrances-Non Sala	2059370	Warehouse		CR
Central Supply	117040	Inv – Medical – Central Supply	2069400	Central Supply	DR	
	334002	Resv For Encumbrances-Non Sala	2069400	Central Supply		CR
Central Supply 2*	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2	DR	
	334002	Resv For Encumbrances-Non Sala	2069401	Central Supply 2		CR
Operating Room	117045	Inv – Operating Room	2037020	Operating Room	DR	
	334002	Resv For Encumbrances-Non Sala	2037020	Operating Room		CR

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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 Orders number #1 above. The accounting entries for the reversal of the Pre-Encumbrance are:

Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Dietary	334001	Resv For Pre-Encum-Non Salary	2068390	Nutritional Services	DR	
	117030	Inv – Dietary	2068390	Nutritional Services		CR
Warehouse	334001	Resv For Pre-Encum-Non Salary	2059370	Warehouse	DR	
	117035	Inv – Warehouse	2059370	Warehouse		CR
Central Supply	334001	Resv For Pre-Encum-Non Salary	2069400	Central Supply	DR	
	117040	Inv – Medical – Central Supply	2069400	Central Supply		CR
Central Supply 2*	334001	Resv For Pre-Encum-Non Salary	2069401	Central Supply 2	DR	
	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2		CR
Operating Room	334001	Resv For Pre-Encum-Non Salary	2037020	Operating Room	DR	
	117045	Inv – Operating Room	2037020	Operating Room		CR

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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 items purchased for Inventory, 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 Account/DeptID combination on an Express Voucher or bring in the line of coding for a purchase order voucher from the purchase order. The accounting entries for a Voucher are:



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Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Dietary	117030	Inv – Dietary	2068390	Nutritional Services	DR	
	221005	A/P-Vendor	2068390	Nutritional Services		CR
Warehouse	117035	Inv – Warehouse	2059370	Warehouse	DR	
	221005	A/P-Vendor	2059370	Warehouse		CR
Central Supply	117040	Inv – Medical – Central Supply	2069400	Central Supply	DR	
	221005	A/P-Vendor	2069400	Central Supply		CR
Central Supply 2*	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2	DR	
	221005		2069401	Central Supply 2		CR
Operating Room	117045	Inv – Operating Room	2037020	Operating Room	DR	
	221005	A/P-Vendor	2037020	Operating Room		CR

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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:

Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Dietary	334002	Resv For Encumbrances-Non Sala	2068390	Nutritional Services	DR	
	117030	Inv – Dietary	2068390	Nutritional Services		CR
Warehouse	334002	Resv For Encumbrances-Non Sala	2059370	Warehouse	DR	
	117035	Inv – Warehouse	2059370	Warehouse		CR
Central Supply	334002	Resv For Encumbrances-Non Sala	2069400	Central Supply	DR	
	117040	Inv – Medical – Central Supply	2069400	Central Supply		CR
Central Supply 2*	334002	Resv For Encumbrances-Non Sala	2069401	Central Supply 2	DR	
	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2		CR
Operating Room	334002	Resv For Encumbrances-Non	2037020	Operating Room	DR	



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	117045	Inv – Operating Room	2037020	Operating Room	CR
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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: The payment of the Voucher does not have any impact on the accounting for Inventory Items, therefore, the accounting entries will not be discussed in this policy.**

D. Inventory Receipts

The PeopleSoft Inventory subsystem generates a Receipt Transaction (Stocking 020) to move goods to the Inventory Business Unit. The PeopleSoft Inventory subsystem was designed for both manufacturing and other type Inventories. If this were a manufacturing business, the purchase of the goods would debit an account similar to “Goods Purchased for Manufacturing” and then would be moved to the Inventory Account after completion. Since these items are not for a manufacturing entity and are, for the most part, complete, the items go directly to the following Inventory Asset Accounts.

Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Dietary	117030	Inv – Dietary	2068390	Nutritional Services	DR	
	117030	Inv – Dietary	2068390	Nutritional Services		CR
Warehouse	117035	Inv – Warehouse	2059370	Warehouse	DR	
	117035	Inv – Warehouse	2059370	Warehouse		CR
Central Supply	117040	Inv – Medical – Central Supply	2069400	Central Supply	DR	
	117040	Inv – Medical – Central Supply	2069400	Central Supply		CR
Central Supply 2*	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2	DR	
	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2		CR
Operating Room	117045	Inv – Operating Room	2037020	Operating Room	DR	
	117045	Inv – Operating Room	2037020	Operating Room		CR
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Business Unit	Number	Account Title	Number	Name	Debit	Credit
Central Supply	117498	Inventory – IBU Clearing	2069400	Central Supply	DR	
	117040	Inv – Medical – Central Supply	2069400	Central Supply		CR
Central Supply 2*	117498	Inventory – IBU Clearing	2069401	Central Supply 2	DR	
	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2		CR
Warehouse	117498	Inventory – IBU Clearing	2059370	Warehouse	DR	
	117035	Inv – Warehouse	2059370	Warehouse		CR

**Central Supply 2\* - MCLNO UHCMS Only**

The following examples are for those Inventory Business Units most likely to receive transfers in such as the Dietary, Central Supply and possibly Operating Room.

Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Dietary	117030	Inv – Dietary	2068390	Central Supply	DR	
	117498	Inventory – IBU Clearing	2059370	Warehouse		CR
Central Supply	117040	Inv – Medical – Central Supply	2069400	Central Supply	DR	
	117498	Inventory – IBU Clearing	2059370	Warehouse		CR
Central Supply 2*	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2	DR	
	117498	Inventory – IBU Clearing	2059370	Warehouse		CR
Central Supply*	117040	Inv – Medical – Central Supply	2069400	Central Supply	DR	
	117498	Inventory – IBU Clearing	2069401	Central Supply 2		CR
Central Supply 2*	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2	DR	
	117498	Inventory – IBU Clearing	2069400	Central Supply		CR
Operating Room	117045	Inv – Operating Room	2037020	Operating Room	DR	
	117498	Inventory – IBU Clearing	2059370	Warehouse		CR

\* - MCLNO GL Business Unit Only – This takes into account transfers between CHCMS and UHCMS.

These transfers have been identified based on the most likely flow of goods.

If there is a specific instance that is not covered by the templates above, please notify the Financial Reporting Manager at HCSDA Headquarters (mrobic2@lsuhsc.edu) in writing with the scenario not covered. Guidance and assistance will be provided to address the best solution for the scenario identified.

G. Adjustments – Inventory Returns



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Adjustment transactions within the Inventory subsystem for goods returned from departments (Customer Returns 024) to Inventory Business Units have been setup up with the following accounting entries:

Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Dietary	117030	Inv – Dietary	2068390	Nutritional Services	DR	
	117490	Inv – Return Clearing	20XXXXXX			CR
Warehouse	117035	Inv – Warehouse	2059370	Warehouse	DR	
	117490	Inv – Return Clearing	20XXXXXX			CR
Central Supply	117040	Inv – Medical – Central Supply	2069400	Central Supply	DR	
	117490	Inv – Return Clearing	20XXXXXX			CR
Central Supply 2*	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2	DR	
	117490	Inv – Return Clearing	20XXXXXX			CR
Operating Room	117045	Inv – Operating Room	2037020	Operating Room	DR	
	117490	Inv – Return Clearing	20XXXXXX			CR

**Central Supply 2\* - MCLNO UHCMS Only**

HCSD Finance will prepare the correcting journal entries for these adjustments as part of month-end close procedures. This is not an automatic process. Manual intervention by HCSD Finance staff is required at month end to accurately reflect these transactions. The HCSD Finance staff will send an e-mail notification that the corrections have been completed and documentation of the specific journals. HCSD Finance will retain the documentation on these correcting entries.



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H. Adjustments – Ordinary Adjustments

Adjustment transactions for ordinary adjustments such as spoilage, missing inventory, damaged goods, etc, made in the normal course of business within the PeopleSoft Inventory subsystem have been setup up with the following accounting entries:

Inventory Business Unit	Account Number	Account Title	Department Number	Department Name	Debit	Credit
Dietary	117030	Inv – Dietary	2068390	Nutritional Services	DR	
	117495	Inv – Adjustment Clearing	2068390	Nutritional Services		CR
Warehouse	117035	Inv – Warehouse	2059370	Warehouse	DR	
	117495	Inv – Adjustment Clearing	2059370	Warehouse		CR
Central Supply	117040	Inv – Medical – Central Supply	2069400	Central Supply	DR	
	117495	Inv – Adjustment Clearing	2069400	Central Supply		CR
Central Supply 2*	117041	Inv – Medical – Central Supply 2	2069401	Central Supply 2	DR	
	117495	Inv – Adjustment Clearing	2069401	Central Supply 2		CR
Operating Room	117045	Inv – Operating Room	2037020	Operating Room	DR	
	117495	Inv – Adjustment Clearing	2037020	Operating Room		CR

**Central Supply 2\* - MCLNO UHCMS Only**

The PeopleSoft Adjustment Transactions include several types of transactions including:

- 040 Physical Accounting transactions
- 041 Cycle Count Adjustments
- 050 Adjustments
- 205 Average Cost Adjustments

Currently, HCSD Finance is developing monthly procedures that will be distributed to HCSD facilities. The procedures will include queries and reports needed to prepare and analyze these adjustment transactions. The standards of documentation for these entries will be identified in the procedure and approval (where appropriate) will be identified and required.



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### I. Adjustments – Fiscal Year End

After Fiscal Year End counts are completed and processed in PeopleSoft Inventory, HCSD Finance will determine any appropriate correcting entries to be posted to the PeopleSoft General Ledger. The correcting entries will be used to adjust the Asset account to its Physical Count and/or adjust supply expenses based on the Item group of the detailed transactions. The HCSD Finance staff will send an e-mail notification that the corrections have been completed and documentation of the specific journals. HCSD Finance will retain the documentation on these correcting entries. Hospital CFO acknowledgement of these adjusting entries may be required.