

Inventory accounting

3 course 6 semester

Normative documents

Order of the Ministry of Finance of Russia
dated November 15, 2019 N 180n "On
approval of the Federal Accounting Standard
5/2019" Reserves "

- ▶ **Inventories** are assets used in the production of products, performance of work and provision of services, or for the management needs of the organization for a period not exceeding 12 months or an operating cycle of up to 12 months.
- ▶ They belong to the **current assets** of the pharmacy

Conditions for the recognition of reserves in accounting :

- ▶ a) the costs incurred in connection with the acquisition or creation of reserves will ensure that the organization receives economic benefits in the future (the achievement by the non-profit organization of the goals for which it was created);
- ▶ b) the amount of costs incurred in connection with the acquisition or creation of reserves, or an amount equivalent to it, is determined.
- ▶ For accounting purposes, inventories are assets that are consumed or sold in an entity's normal operating cycle, or used for a period of up to 12 months.

Stocks are :

- ▶ a) **raw materials, materials** , fuel, spare parts, components, purchased **semi-finished products** intended for use in the manufacture of products, performance of work, provision of services;
- ▶ b) **tools, inventory, special clothing** , special equipment (special devices, special tools), **containers** and other similar objects used in the production of products, the sale of goods, the performance of work, the provision of services, except when these objects are considered for accounting purposes fixed assets;
- ▶ c) **finished products** (the end result of the production cycle, assets completed by processing (picking), the technical and qualitative characteristics of which comply with the terms of the contract or the requirements of other documents, in cases established by law), intended for sale in the course of the ordinary activities of the organization;
- ▶ d) **goods** purchased from others and intended for sale in the ordinary course of business of the organization;

inventory unit

- ▶ The inventory unit is established by the organization independently in such a way as to ensure the formation of complete and reliable information about the reserves in accounting, as well as proper control over their availability and movement. Depending on the type of reserves, the nature and procedure for the acquisition (creation) and (or) consumption (sale, use), the organization sets the item number, inventory number, batch, homogeneous group, separate object or other unit as the inventory accounting unit.
- ▶ After the recognition of reserves in accounting, subsequent changes in their accounting units are allowed.

Assessment at recognition

- ▶ Stocks are recognized in accounting at **actual cost** .
- ▶ The actual cost of inventories, except for work in progress and finished goods, includes the actual costs of acquiring (creating) inventories, bringing them into the condition and location necessary for consumption, sale or use.
- ▶ For the purposes of this Standard, costs are considered to be the disposal (decrease) of the organization's assets or the emergence (increase) of its liabilities associated with the acquisition (creation) of inventories. Advance payment to the supplier (contractor) until the moment he fulfills his contractual obligations to provide supplies, perform work, and provide services is not considered an expense.

The actual cost of inventory includes:

- ▶ a) amounts paid and (or) payable by the organization to the supplier upon acquisition (creation) of stocks;
- ▶ b) the cost of procurement and delivery of stocks to the place of their consumption (sale, use);
- ▶ c) the cost of bringing stocks to a state in which they are suitable for use for planned purposes. These costs include the cost to the organization of finalizing, sorting, packaging and improving the technical characteristics of stocks.

The amounts paid and (or) payable by the organization when acquiring (creating) inventories are included in the actual cost of inventories:

- ▶ a) net of refundable amounts of taxes and fees;
- ▶ b) taking into account all discounts, concessions, deductions, bonuses, benefits provided to the organization, regardless of the form of their provision.

Assessment at recognition

In the event that tangible assets remaining from the disposal (including partial) of non-current assets or recovered in the process of current maintenance, repair, modernization, reconstruction of non-current assets are recognized as inventories, the costs included in the actual cost of inventories are considered to be the smallest of the following values:

- ▶ a) the cost at which similar inventories acquired (created) by the organization as part of the normal operating cycle are taken into account;
- ▶ b) the amount of the book value of assets written off and the costs incurred in connection with the dismantling of objects, the extraction of material assets and bringing them into the condition necessary for consumption (sale, use) as reserves.

The cost of acquired (created) stocks does not include:

- ▶ a) costs incurred in connection with natural disasters, fires, accidents and other emergencies;
- ▶ b) management expenses, except when they are directly related to the acquisition (creation) of stocks;
- ▶ c) the cost of storing stocks, except when storage is part of the technology for preparing stocks for consumption (sale, use) or is due to the conditions for acquiring (creating) stocks

Assessment at recognition

- ▶ When carrying out retail trade, purchased goods are allowed to be valued at the selling price with a separate allowance for markups. The amount of markups is subject to regular review in accordance with the current conditions for the purchase and sale of goods.
- ▶ When carrying out retail trade, purchased goods are allowed to be valued at the selling price with a separate allowance for markups. The amount of mark-ups is subject to regular review in accordance with the current conditions for the purchase and sale of goods.
- ▶ When carrying out trading activities, it is allowed to include in the composition of sales expenses the costs of procurement and delivery of goods to central warehouses (bases), made before they are transferred for sale.
- ▶ Inventories owned by the organization, but in transit, or transferred to the buyer on bail, are valued in accounting in the amount stipulated in the contract, with the subsequent determination of their actual cost.

Assessment at recognition

The actual cost of finished products includes the costs associated with the production of products, the performance of work, the provision of services. These costs include:

- ▶ a) material costs;
- ▶ b) labor costs;
- ▶ c) contributions for social needs;
- ▶ d) depreciation;
- ▶ e) other expenses.

The actual cost of finished products includes costs directly related to the production of a specific type of product, work, service (direct costs), and costs that cannot be directly attributed to the production of a specific type of product, work, service (indirect costs).

The actual cost of finished products does not include:

- ▶ a) costs incurred in connection with the improper organization of the production process (excessive consumption of raw materials, materials, energy, labor, losses from downtime, marriage, violations of labor and technological discipline);
- ▶ b) costs incurred in connection with natural disasters, fires, accidents and other emergencies;
- ▶ c) depreciation of other assets, regardless of whether these assets were used in the production of products, performance of work, provision of services;
- ▶ d) management expenses, except when they are directly related to the production of products, performance of work, provision of services;
- ▶ e) storage costs, except for cases where storage is part of the production technology (performance of work, provision of services);
- ▶ e) expenses for advertising and promotion of products;
- ▶ g) other costs, the implementation of which is not necessary for the production of products, performance of work, provision of services

Issue and inventory write-off

- ▶ When stocks are released into production, finished products are shipped, goods are shipped to the buyer, stocks are written off, the cost of stocks is calculated in one of the following ways :
- ▶ a) at the cost of each unit;
- ▶ b) at the average cost;
- ▶ c) at the cost of the first time receipt of units (FIFO method).

Issue and inventory write-off

For the calculation of the cost of inventories having similar properties and patterns of use, the same method of calculating the cost must be consistently applied.

The average cost method involves calculating the cost of an inventory accounting unit by dividing the total cost of a type of inventory by their quantity, which is made up, respectively, of the cost and the amount of the balance at the beginning of the period (a month or another period determined by the organization) and the inventory received during this period. The average cost can be calculated periodically at regular intervals or as each new batch of inventory arrives.

The FIFO method is based on the assumption that inventories are used in the order in which they are received, that is, the inventories that are the first to enter production (sale) should be valued at the cost of acquisitions first in time. When applying this method, the estimate of the stocks available at the reporting date corresponds to the estimate of the most recently received stocks.

Issue and inventory write-off

Stocks are written off:

- ▶ a) simultaneously with the recognition of proceeds from their sale;
- ▶ b) upon disposal in cases other than sale;
- ▶ c) in the event of circumstances in connection with which the organization does not expect the receipt of economic benefits in the future from the consumption (sale, use) of stocks (a non-profit organization cannot use stocks for the purposes of its activities).

Operations that lead to a change in the type of inventories (release of inventories for production, release of products, shipment of finished products, goods to the buyer before revenue is recognized) are not grounds for derecognizing inventories as assets.

The carrying amount of decommissioned inventories is recognized as an expense of the period:

- ▶ a) in which revenue from the sale of those inventories is recognized;
- ▶ b) in which this disposal (write-off) occurred, in cases other than the sale of inventories

▶ Analytical accounting of materials (receipt and disposal):

- ▶ Suppliers – according to waybills and invoice
- ▶ for accounting within the organization by departments and financially responsible person – "Requirement-waybill".
- ▶ When buying for cash – cash and sales receipt (primary documents), non-cash – payment order.
- ▶ "Material Accounting Card" (the form of the card M-17), is started for each type, variety, records are kept by the financially responsible person on the basis of primary income and expenditure documents.
- ▶ "Act of write-off of materials"
- ▶ "Turnover sheet", compiled at the end of the month by an accountant (the movement in quantity and amount is reflected).

Synthetic accounting of materials

- ▶ Account 10 "Materials" is intended to summarize information on the availability and movement of raw materials, materials, fuel, spare parts, inventory and household supplies, containers, etc. values of the organization (including those in transit and processing).
- ▶ To account 10 "Materials" sub-accounts can be opened:
 - ▶ 10-1 "Raw materials and supplies";
 - ▶ 10-2 "Purchased semi-finished products and components, structures and parts";
 - ▶ 10-3 "Fuel";
 - ▶ 10-4 "Containers and packaging materials";
 - ▶ 10-5 "Spare parts";
 - ▶ 10-6 "Other materials";
 - ▶ 10-7 "Materials transferred for processing to the side";
 - ▶ 10-8 "Building materials";
 - ▶ 10-9 "Inventory and household supplies";
 - ▶ 10-10 "Special equipment and special clothing in stock";
 - ▶ 10-11 "Special equipment and special clothing in operation", etc.

Synthetic accounting of materials

- ▶ Account 10 is active, the balance is initial and final debit.
- ▶ + Debit turnover reflects the acceptance of received materials for accounting
- ▶ – Credit turnover reflects the disposal of material from accounting (expenditure, sale, write-off as unusable)

Materials are recorded on account 10 "Materials" at the actual cost of their acquisition (procurement). The account corresponds with accounts with active 50 "Cashier", 51 "Settlement account" 44 "Sale expenses", with active-passive 60 "Settlements with suppliers and contractors", 71 "Settlements with accountable persons"