

1310 Inventories Held for Consumption

A. Overview

Inventories form part of a government's financial position because they provide economic resources, normally in the form of unconsumed service potential, that a government can employ in the future to accomplish its objectives.

Inventory includes a diverse group of assets such as equipment maintenance and airplane parts, lab supplies and vaccines, pastures maintenance supplies, fire-fighting equipment, park maintenance supplies and aggregate supplies.

Inventories held for consumption are non-financial assets that will be used or consumed in the normal course of business. They are not intended for sale in the ordinary course of business.

Inventories held for resale are financial assets that will be sold or used to produce a product that will be sold in the normal course of business. Refer to the Public Sector Accounting Handbook PS 1201.055 Financial Statement Presentation for additional guidance.

B. Accountability

Inventories are a significant economic resource managed by governments and a key component in the delivery of many services and programs. Information about inventories is useful for understanding and assessing a government's accountability for and management of its asset base and future requirements for replacement.

Ministries are required to:

- acquire and manage inventories to provide effective, efficient and economical program delivery;
- establish and maintain accounting systems to collect, record and report information on their inventories; and
- establish and maintain adequate internal control systems to ensure the safeguarding of inventory and the accuracy and reliability of inventory information and reports.

Ministries are required to appropriate funds for inventory purchases. Any significant changes in the value of inventories and write-downs should be budgeted for and displayed in the Estimates.

Each ministry is responsible for recording transactions for its own inventories in the Government's central financial system and maintaining a supporting detailed subsidiary ledger, which contains sufficient information to meet reporting and internal control requirements.

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B. Accountability *(continued)*

Ministries should at least annually agree the cost information in the subsidiary ledger to the inventory balance recorded in the central financial system and compare physical quantities to detailed inventory records. Inventory counts and comparisons should be conducted by persons independent of the inventory custodians or alternative controls should be implemented. Any differences should be followed up and any required accounting entries made.

Ministries are responsible for maintaining source documents, working papers and files supporting inventory expenses and inventory asset balances for internal and external audit and review.

Where inventories are excluded from this policy or are below the minimum thresholds, ministries should ensure sufficient records are kept to meet reporting needs and to mitigate risks of theft or other loss.

C. Procedures

Accounting procedures for inventories held for consumption are based on guidance outlined in the Public Sector Accounting Handbook section PS3210 Assets. Refer to PS3210 Assets for further guidance.

Inventories should be assigned to the appropriate inventory category as outlined in Schedule A based on their nature and characteristics. Inventories are reported within the following broad categories:

- equipment maintenance, airplane parts and other supplies
- lab supplies and vaccines
- pastures maintenance supplies
- fire-fighting equipment
- park maintenance supplies
- aggregate
- inventory for distribution

Inventories should be recorded at cost, which includes the purchase price of the inventory items and other acquisition costs such as shipping and handling charges, insurance costs and duties. The method selected for determining cost should be one that results in the fairest matching of costs with program delivery activity.

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C. Procedures *(continued)*

Several common methodologies used to determine cost are:

- specific identification – the cost of each item in the inventory is identified on an item-by-item basis;
- average cost – the cost of an item is determined from the weighted average of the cost of similar items purchased during the year; and
- first in first out – the cost of the first items purchased is the cost assigned to the first goods sold or consumed.

C1. Throughout the Year

Inventory purchases are initially expensed and are subject to appropriation when the expense is incurred. Ministries cannot code invoices directly to the 175000 to 175600 Inventory asset accounts. Ministries may choose to adjust the Inventory asset accounts either at year end or throughout the year.

Changes in inventory balances including inventory returns and write-downs, are recorded through account 588900 Change in Inventory Held for Consumption. Transactions recorded in account 588900 Change in Inventory Held for Consumption do not affect appropriation but do adjust total expense.

Inventory purchases are disclosed by supplier in Volume 2 of the Public Accounts in the year the expense is incurred.

Account 588900 Change in Inventory Held for Consumption is used to adjust the inventory balance. Transactions recorded in this account do not affect appropriation but do adjust total expense. All adjustments to inventory are recorded through account 588900, including the following:

- increases in inventory:
 - the initial recording of new inventory;
 - the initial recording of donated inventory; and
 - purchases.
- decreases in inventory:
 - inventory usage;
 - inventory returns; and
 - write-downs.

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C. Procedures *(continued)*

C1. Throughout the Year *(continued)*

Example 1.1

Ministry X purchases replacement parts and oil for the maintenance of its vehicle fleet for \$27,000. Their inventory of equipment maintenance items is currently recorded at \$2.2 million. The Ministry chooses to adjust the Inventory asset accounts immediately.

Debit	524030 Repairs – Passenger Vehicles	27,000	
Credit	25xxxx Accounts Payable		27,000

* invoice or debit memo to record the purchase of replacement parts and oil for maintenance; expense recorded and subject to appropriation

Debit	175000 Equipment Maintenance and Airplane Parts	27,000	
Credit	588900 Change in Inventory Held for Consumption		27,000

* journal entry for the initial recording of inventory; no impact to appropriation.

Inventory items returned in the same year they are purchased should be recorded as refunds to vote in accordance with FAM [Section 3005 Refunds to Vote](#).

Example 1.2

In November, Ministry X determines that equipment with a cost of \$100,000, that was purchased and set up as inventory in October, is defective and returns the equipment for a refund.

Debit	107000 Accounts Receivable - General	100,000	
Credit	524040 Repairs – Miscellaneous Machinery and Equipment		100,000

* debit memo to record the refund to vote (to the same account used to record the original expense); expense and charge to appropriation reversed

At the same time the inventory balance is updated for the return. This entry is only required if the Inventory asset account was adjusted to include the inventory.

Debit	588900 Change in Inventory Held for Consumption	100,000	
Credit	175000 Equipment Maintenance and Airplane Parts		100,000

* journal entry to record the change in inventory balance as a result of the refund; expense recorded but no impact to appropriation

Inventory items returned in subsequent years should be recorded in account 486905 Changes in Previous Years' Estimates to avoid inappropriately increasing the available appropriation in the new year.

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C. Procedures *(continued)*

C1. Throughout the Year *(continued)*

Example 1.3

In May, Ministry X determines that an airplane part with a cost of \$400,000, that was purchased and set up as inventory in the previous fiscal year, is defective and returns the airplane part for a refund.

The accounts receivable, refund and change in inventory can be recorded as one journal entry, or the change in inventory can be recorded separately as part of the normal process to adjust inventory.

Debit	107000 Accounts Receivable - General	400,000	
Credit	486905 Changes in Previous Years' Estimates		400,000
* journal entry to record the refund; no impact to appropriation			
Debit	588900 Change in Inventory Held for Consumption	400,000	
Credit	175000 Equipment Maintenance and Airplane Parts		400,000
* journal entry to record the change in inventory balance as a result of the refund; expense recorded but no impact to appropriation			

Donated Inventory

Inventory donated to a Ministry from an entity within the government reporting entity is recorded as inventory and revenue at the inventory's carrying value at the date of contribution.

Inventory donated to a Ministry from outside the government reporting entity is recorded as inventory and revenue at the inventory's fair value at the date of contribution. Fair value of donated inventory may be estimated using market or appraised value. Refer to FAM [Section 3525 Receipt of Donations](#).

The receipt of donated inventory is recorded to account 588900 Change in Inventory Held for Consumption and does not require an appropriation. If the fair value of the donated inventory is significant, the ministry may wish to record the entry to move the donated inventory to the 175xxx asset account at the time of the donation.

Example 1.4

In October, a retiring farmer donated a large number of fence posts, fencing wire and other items for maintaining pastures to the Ministry of Agriculture. The fair market value of the donation totaled \$85,000.

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C. Procedures *(continued)*

C1. Throughout the Year *(continued)*

Example 1.4 (continued)

Debit	588900 Changes in Inventory Held for Consumption	85,000	
Credit	485100 Casual Revenue		85,000

* journal entry to record the revenue and the donated inventory; no impact to appropriation

At the same time, or as part of a journal entry to record other changes to inventory throughout the year or at year-end, the inventory balance is updated for the donation (after the Ministry confirmed total pastures maintenance supplies value is over the \$100 thousand threshold).

Debit	175200 Pastures Maintenance Supplies	85,000	
Credit	588900 Change in Inventory Held for Consumption		85,000

* journal entry to record the change in inventory as a result of the donation; no impact to appropriation

Capitalized Inventory

Inventories should be capitalized when they are a direct cost of a constructed or developed asset. Ministries initially record the inventory costs as an expense through the normal process and then later the expense is adjusted by journal entry to record the inventory.

To capitalize the costs, ministries record a debit memo using the reimbursement expense natural account and the generic supplier called 'Capitalized Inventory'. This process allows for inventory cost details to remain in the original expense category for reporting in Public Accounts. Amounts for 'Capitalized Inventory' will be disclosed in Volume 2 of the Public Accounts if it is in excess of the disclosure threshold identified in the [Overview](#).

Example 1.5

Ministry X constructs a short-term building and capitalizes inventory costs as a part of the capital project that is completed within one year. The inventory costs of \$250,000 have been recorded as expenses by the ministry through the normal processes throughout the year.

Ministry X records the following debit memo as at March 31 to capitalize the inventory costs of the project.

Debit	199210 Buildings – Short-term – Current Year Additions	250,000	
Credit	542886 Reimbursement – Supplies and Services		250,000

* debit memo using 'Capitalized Inventory' supplier 106293; no net impact to appropriation

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C. Procedures *(continued)*

C1. Throughout the Year *(continued)*

Although appropriation is required to capitalize inventory, the credit recorded to the reimbursement account offsets the additional charge to appropriation resulting in a net impact of zero to the ministry's appropriation.

C2. Quarter end

Record an adjustment at quarter end where there has been a significant change in inventory asset account balances. For the purposes of quarter-end accruals, significant is deemed to be amounts in excess of \$1 million.

C3. Year end

Ministries must code inventory purchases to expense and then, either at year-end or throughout the year, process a journal entry to adjust the inventory to its year-end balance based on inventory counts.

Example 3.1

Ministry X has a park maintenance supplies inventory balance at April 1 of \$145,000. At year-end, it is determined that actual inventory on hand is \$150,000.

Debit	175400 Park Maintenance Supplies	5,000	
Credit	588900 Changes in Inventory Held for Consumption		5,000
* journal entry to record the year-end adjustment of inventory; no impact to appropriation			

Example 3.2

Ministry X has an equipment inventory balance at April 1 of \$2.3 million. Throughout the year a number of transactions occurred including purchases, inventories being used to provide services, inventories being used in the creation of capital assets, returns and the write-down and sale of obsolete inventory.

Some of these transactions were recorded in the inventory for consumption accounts when they occurred, others were not. At year-end, the ministry had an inventory balance of \$2.1 million, however an inventory count performed on March 31 noted total inventory on hand to be \$1.5 million.

Debit	588900 Changes in Inventory Held for Consumption	600,000	
Credit	175000 Equipment Maintenance and Airplane Parts		600,000
* journal entry to record the year-end adjustment of inventory to actual inventory on hand; no impact to appropriation			

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C. Procedures *(continued)*

C3. Year end *(continued)*

Inventories held for consumption should be written down when a reduction in the value of their service potential can be measured and the reduction is expected to be permanent. Ministries may also need to consider a write-down when they hold obsolete inventory, slow moving inventory or damaged items, or when inventory levels are expected to be surplus to needs.

All write-downs should be approved by the permanent head or delegate. Documentation for write-downs should be submitted to the Provincial Comptroller for review.

Write-downs of inventory should be accounted for as an expense of the current period, and generally, a write-down should not be reversed. Note, the write-down of inventory will have no impact on appropriation.

Example 3.3

In July, Ministry X reviewed its inventory of lab supplies and vaccines. Staff determined that a shipment of glass beakers purchased last year worth \$24,000 is missing. This inventory category is currently recorded by the Ministry at \$2.8 million.

Debit	588900 Change in Inventory Held for Consumption	24,000	
Credit	175100 Lab Supplies and Vaccines		24,000

* journal entry to record the write-down of inventory; no impact to appropriation. The public loss and write-down are to be reported to the Provincial Comptroller

Example 3.4

Ministry X purchases new pumps for forest fire fighting. As a result, none of the hoses currently recorded in inventory fit and they have no other use to the Ministry. The old hoses have a cost of \$78,000.

Debit	588900 Change in Inventory Held for Consumption	78,000	
Credit	175300 Firefighting Equipment		78,000

* journal entry to record the write-down of obsolete inventory; no impact to appropriation

C4. Inventory Thresholds

A threshold represents the minimum cost an individual category of inventory must have before it is to be recorded on the statement of financial position. A threshold of \$100,000 per category should be applied on a ministry-by-ministry basis.

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C. Procedures *(continued)*

C4. Inventory Thresholds *(continued)*

Inventories that meet the definition of inventory but are under the threshold should be expensed in the year in which they are purchased.

Example 4.1

Ministry X purchases replacement parts and oil for its new operating equipment for \$65,000. Prior to this purchase, no maintenance equipment or supplies were owned by the Ministry.

Debit	524040 Repairs – Miscellaneous Machinery and Equipment	65,000	
Credit	25xxxx Accounts Payable		65,000

* journal entry for the purchase of inventory, no further entry necessary as total inventory amount in this category is below the threshold of \$100,000; expense recorded and subject to appropriation

Example 4.2

Ministry X reviews its records of lab supplies and vaccines at year-end and determines the cost is \$1.3 million. This is a new category of inventory for the Ministry and has never been recorded before.

Debit	175100 Lab Supplies and Vaccines Inventory	1,300,000	
Credit	588900 Change in Inventory Held for Consumption		1,300,000

* journal entry for the initial recording of inventory; no impact to appropriation

Example 4.3

Ministry X reviews its records of equipment maintenance at year-end and determines the cost is \$90,000 which is now less than the threshold of \$100,000. This category of inventory had previously been recorded at \$110,000.

Debit	588900 Change in Inventory Held for Consumption	110,000	
Credit	175000 Equipment Maintenance and Airplane Parts		110,000

* journal entry to remove inventory as it is now under the threshold; no impact to appropriation

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C. Procedures *(continued)*

C4. Inventory Thresholds *(continued)*

Example 4.4

Ministry X reviews its records of park maintenance supplies at year-end and determines the cost is \$4 million. This category of inventory had previously been recorded at \$3.5 million.

Debit	175400 Park Maintenance Supplies	500,000	
Credit	588900 Change in Inventory Held for Consumption		500,000

* journal entry to record the adjustment of inventory to actual inventory on hand; no impact to appropriation

Example 4.5

Ministry X reviews its records of stationery at year-end and determines its cost is \$121,000.

No entry required. Office supplies are expensed when purchased and not recorded as inventory.

D. Definitions

Cost is the amount of consideration given up to acquire, construct or develop inventories, and includes all costs directly attributable to acquisition, construction or development.

Inventories represent items that are purchased or produced and are not immediately consumed. They are recorded as an asset until they are issued for consumption or sale, at which time they are expensed. There are two main types of inventories: Inventories Held for Consumption and Inventories Held for Resale.

Inventories Held for Consumption are non-financial assets that will be used or consumed in the normal course of operations. Because the primary purpose of a government's operations is to provide services, the future economic benefit of inventories held for consumption is embodied in their capacity to render service that furthers the government's objectives. They are not intended for sale in the ordinary course of operations.

Inventories Held for Resale are financial assets that will be sold or used to produce a product that will be sold in the ordinary course of operations.

Threshold is the minimum cost an individual category of inventory must have before it is recorded as an asset in the financial records. Thresholds are applied on a category-by-category basis individually by ministry.

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E. References

[Appendix A - General Revenue Fund Year-end Procedures and Schedules](#)

Financial Administration Manual

[3005 Refunds to Vote](#)

[3525 Receipt of Donations](#)

[3805 Management of Inventories](#)

Public Sector Accounting Handbook

PS 1201 Financial Statement Presentation

PS 3210 Assets

PS 3420 Inter-Entity Transactions

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Part II – Accounting Standards for Private Enterprises - 3031 Inventories

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Schedule A

Inventory Categories

The following table lists the inventory categories and the types of items to include in each category of inventory held for consumption.

Inventory Category	Items to Include
Equipment maintenance, airplane parts and other supplies	<ul style="list-style-type: none"> includes the entire inventory to maintain equipment, airplanes and other capital assets included in heavy equipment, operating equipment, vehicles, bridges, ferries – vessels and towers and buildings and related equipment. this category includes items such as replacement parts, fuel, grease, oil, bridge timbers, signs, building material and parts for security systems, heating, ventilation and air conditioning systems and building operations.
Lab supplies and vaccines	<ul style="list-style-type: none"> includes water bottles, gases, chemicals, reagents, general lab supplies and vaccines.
Pastures maintenance supplies	<ul style="list-style-type: none"> includes fence posts, wire, feed, lubricants and other items used to maintain the pastures.
Fire-fighting equipment	<ul style="list-style-type: none"> includes all of the general equipment used to fight forest fires, including such items as stoves, tents, hoses, shovels, water bladders and fuel.
Park maintenance supplies	<ul style="list-style-type: none"> includes firewood and park equipment maintenance supplies held in the government-managed parks.
Aggregate	<ul style="list-style-type: none"> includes gravel, seal and base aggregate and asphalt mix used for highway maintenance.
Inventory for distribution	<ul style="list-style-type: none"> includes office, janitorial and other supplies purchased by the Ministry of SaskBuilds and Procurement for distribution primarily to other ministries.

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The following inventory categories are excluded from this policy. All items in these categories should be expensed when purchased.

Inventory Category	Items to Expense when Purchased
Office supplies	▪ includes pens, paper, pencils, post-its and other office supplies.
Institutional supplies	▪ includes food, medicine, linens and health clinic supplies.
Election readiness	▪ includes forms, maps, booklets, pens, paper, clipboards, buttons and ballot paper.
Other highway maintenance	▪ includes salt and calcium, culverts, paint and asphalt.