ASSESSMENT OF INVENTORY AMOUNTS

Determinations as to the reasonableness of amounts shown in the general ledger accounts and reported in financial statements shall be based on a top-down approach. This approach is necessary because the size of DoD inventories normally precludes a 100 percent physical inventory.

a. As a first step, the balance in the inventory general ledger account shall be compared to logistic records. This comparison shall reconcile differences resulting from inventory receipts and issues that were not posted to the general ledger accounts but that were recorded in logistic records or vice versa. The purpose of this reconciliation is to support a management determination that the balances in the accounting system and the logistics system are in substantial agreement.

b. When the reconciliation of the logistic records to the general ledger account balances is completed, physical inventories shall be taken to ensure that the number of items reflected in logistic records are reasonably accurate. The reconciliation process is displayed in illustrations 1 through 4 of this addendum. Illustration 4 is a work sheet intended to demonstrate the overall reconciliation of the general ledger accounts with the logistic records. As such it is usable for both stages of the reconciliation process.

c. Physical counts of DoD inventories shall be taken periodically and must be designed to provide a reasonable assurance that logistic records accurately reflect on hand quantities. The sizes of these inventories preclude a 100 percent count except in unusual circumstances such as a major breakdown in internal controls. Therefore, it is frequently necessary to use statistical sampling techniques. Acceptable statistical sampling techniques are widely prescribed and any acceptable technique may be used so long as every item included in inventory has a probability of selection. When a DoD Component elects to use statistical sampling techniques the results must be such as to provide reasonable assurance that the general ledger accounts are accurate with a 90 percent level of confidence and a precision level of + or - 2.5 percent.

d. Care must be taken to consider infloat documentation, i.e., receipts and issues before reaching any conclusions that property records are not accurate.

e. Adjustments to logistic records and financial records shall be made only for those specific items where the physical counts or supporting documentation (e.g., receiving reports, inventory records, issue documents) disclose overages or underages. However, there should be a statistical projection of the dollar impact on the financial records. If the dollar value is material, the sample size should be increased and another estimate of the impact made. If this estimate also discloses a material impact then a complete inventory shall be taken or the financial statements qualified to disclose the fact that the reported inventory values are inaccurate. Failure to conduct required physical inventories shall be disclosed as a material weakness in Section 4 of the Federal Managers' Financial Integrity Act statement if the inventory dollar value is significant.
f. Adjustments to the general ledger accounts and the item logistic records shall be supported by a DD Form 200 "Report of Survey," prepared in accordance with DoD Manual 7200.10-M, "Department of Defense Accounting and Reporting for Government Property Lost, Damaged, or Destroyed." DD Form 200 is used for preparing the government property lost, gained, damaged or destroyed report on inventory.
INVENTORY RECONCILIATION PROCESS - SUMMARY

Select G/L inventory Account

Select same logistic records

Select each item record

Extend dollar value (Qty times Unit Price)

Add all extended dollar values

Compare extended values with G/L acct bal.

Equal?

Yes

Perform reconciliation process (Illustration 2)

No

Select inventory for physical count

Count items selected

Compare physical count with qty on item record

Equal?

Yes

Reconciliation complete

No

Perform reconciliation process

Prepare journal entries to adjust the G/L acct.
INVENTORY RECONCILIATION PROCESS -
GENERAL LEDGER/ITEM PROPERTY ACCOUNTABILITY RECORDS

Compute difference

List all transactions posted in acct since last phys inv.

List transactions posted in phys inv

Compare above two lists

Compare all receipts in item records not posted to G/L accts

Compute receipt total and add to G/L acct balance

List all MROs in item rcds not posted to G/L accts

Compute MRO total and subtract from G/L acct bal

Compute adjusted G/L account balance

Compare G/L bal with item rcd extd dollar value

Agree?

Yes

Reconciliation complete

No

Illustration 3

Complete physical inv before adjusting G/L

Adjust G/L account balance

Reconciliation complete

Determine if difference due to price changes

Compare G/L bal with item rcd extd dollar value

Agree?

Yes

Reconciliation complete

No

Illustration 3

Make corrections

Reconciliation complete

Transposition

Yes

No

No
INVENTORY RECONCILIATION PROCESS - PHYSICAL COUNT PROCEDURE

1. Compute sample size
2. Select items to be counted
3. Count & tag items Rcd on worksheet
4. Reconcile count to item rcd
5. 1st count?
6. 2nd count?
7. Document & change prop rcds
8. Acctg. adj?
9. Advise acctg of necessary adjmts
10. Physical inventory reconciled to prop. rcds complete
11. Conduct 100% inventory
12. Agree?
13. Error > .10?
14. Yes
15. No
16. Yes
17. No
18. Illustration 2
19. Illustration 3
INVENTORY RECONCILIATION PROCESS –
GENERAL LEDGER/ITEM ACCOUNTABILITY RECORDS WORK SHEET

Balance in G/L acct $_____

DD:
- Inventory receipts not recorded in G/L acct $_____
- Price increases not recorded in G/L acct $_____
- Other increases to inventory not recorded in G/L acct (List on separate sheet) $_____
  Total additions $_____

ADD:
- Increases to G/L acct not made to item accountability records (List on separate sheet) $_____

SUBTRACT:
- Decreases to G/L acct not made to item accountability records (List on separate sheet) $_____
- Other decreases to inventory not recorded in G/L acct (List on separate sheet) $_____
  Total subtractions $_____

Adjusted item accountability records balance $_____

Adjusted G/L acct balance $_____

Illustration 4