

INVENTORY ACCOUNTING

BIHAR SKILL DEVELOPMENT MISSION

TRAINING MODULE

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Inventory means

Inventory represents finished goods or goods in different stages of production that a company keeps at its premises or at third-party locations with ownership interest retained until goods are sold. It is on the balance sheet under the “current assets” category. When the finished goods get sold and get converted into revenue, the carrying cost of the inventory is also reported on the income statement of the company under the item “cost of goods sold”

Types of Inventory

#1 – Raw Material Inventory

Raw materials are the basic materials that a manufacturing company buys from its suppliers and that are used by the former to convert them into the final products by applying a set of manufacturing processes

#2 – Work in Progress (WIP) Inventory

Also be called semi-finished goods. They are the raw materials that have been taken out of the raw materials store and are now undergoing the process of their conversion into the final products. These are the partly processed raw materials lying on the production floor. And they have also not reached the stage where they have been converted into the final product.

#3 – Finished Goods Inventory

Finished goods are indeed the final products obtained after the application of the manufacturing processes on the raw materials and the semi-finished goods. They are saleable and their sale contributes fully to the revenue from the core operations of the company.

UoM(Unit of Measure)

Unit of measure in which stocks are managed. UoM is generally assigned to all inventory items and should be defined before a product can be added. Different types of inventory have different UoM. Some times different types of inventory may have different type of UoM.

UQC (Unit Quantity Code)

UQC (Unit Quantity Code) in GST. UQC stands for Unit Quantity Code. The intent of using UQC in GST returns is to maintain a standardised terminology for units of measure.

Inventory Valuation

Inventory valuation is the cost associated with an entity's inventory at the end of a reporting period. The costs that can be included in an inventory valuation are:

- Direct labor
- Direct materials
- Factory overhead
- Freight
- Handling
- Import duties

Inventory Valuation Methods

- The specific identification method, where you track the specific cost of individual items of inventory
- The first in, first out method, where you assume that the first items to enter the inventory are the first ones to be used
- The last in, first out method, where you assume that the last items to enter the inventory are the first ones to be used
- The weighted average method, where an average of the costs in the inventory is used in the cost of goods sold

Inventory Register

The Inventory Register is a database where each item is identified by a **unique number**. The register records detailed information about each item, which is updated on an on-going basis. The purpose of stock register is to keep track of companies **in and out** of stocks and assist in inventory management.

Inventory Reports

- Displaying Stock Summary
- Displaying Stock Items
- Location / Godown Summary
- Movement Analysis
- Stock Ageing Analysis

Configuration of Inventory Accounting

Gateway of Tally > F11: features > Inventory features > Integrate accounts with inventory > Yes

Master Configuration In Inventory

Gateway of Tally > F12: Configure > Accts/Inventory Info

- Allow Advanced entries in Masters to specify the behaviour of the Stock Item
- Use Part Numbers for Stock Items
- Use Description for Stock Items
- Use Remarks for Stock Items
- Use Alternate Units for Stock Items
- Allow Std. Rates for Stock Items
- Specify Default Ledger Allocation for Invoicing
- Allow Component list details (Bill of Materials)
- Use Addresses for Godowns

Steps For Inventory Accounting

Create a stock group

Gateway of Tally > Inventory Info > Stock Group > Create

- Under the Stock group name type “ABC” and
- Assign the group under primary category

Create a stock item

Gateway of Tally > Inventory Info > Stock Item > Create

- Under the Stock item name type “X”
- And assign the stock item to stock group created “ABC”
- Select/ Create Units/ Unique Quantity Code to “PCS”
- Under GST Rate Classification fill in the Description/ HSN Code and then enable GST tax classification.
- To enable GST tax classification, set the Tax details to taxability and then tax type feed the GST rates applicable to the product
- Set Valuation method

Voucher Entry for Purchase

Gateway of Tally > accounting voucher > F9 (Purchase Voucher)

- F2 select the date
- Feed Suppliers Invoice No.
- Create Suppliers ledger by pressing Alt + C from voucher creation screen and feed all particulars including suppliers GSTIN
- Now under purchase ledger select purchase ledger.
- Under Name of the Item select “X” stock item ledger and feed in the quantity and rate particulars and
- Finally select the GST tax ledgers for example for Intra state purchase select CGST and SGST ledger and for Inter State purchase select IGST Tax ledger and press enter to create the voucher

Voucher Entry for sales

Gateway of Tally > accounting voucher > F8 (Sales Voucher)

Pass entry in similar way as in case of purchase voucher with a only change that you will be selecting sales ledger instead of purchase ledger

Stock Journal Voucher

Gateway of Tally > Inventory Vouchers

Stock journal is a journal in which all types of stock adjustments are entered. The stock adjustment may be due to the following reasons:

- ***Manufacturing Process:*** If you are involved in the manufacturing process in which raw materials are consumed and finished goods are produced
- ***Inter-Godown Transfer:*** This is useful to transfer the goods from one location to another. The quantity of stock remains the same, but the location changes.
- ***Additional Cost/Expenses involved in the Transfer of goods:*** You can also account the additional cost incurred in connection of transfer of materials from one location to another.
- ***Accounting for Wastage of stock or shortage of stock:*** There may be a shortage or wastage of stock items, the quantity may have got changes. In such cases, you have to enter a stock journal to account for the increase or decrease in the Stock Item.

Source (Consumption)

Name of Item > Godown > Quantity, Rate, and Amount

Destination (Production)

Name of Item > Godown > Quantity, Rate, and Amount

THANKING YOU