

Twelfth axis: Inventory accounting

1-Definition of stocks and its types

Inventories are current assets that are purchased or produced for the purpose of selling them during the exploitation cycle.

Inventories are divided into:

- goods, raw materials, supplies and other provisions that have been purchased;
- all products that have been produced in the entity;
- inventories derived from fixed assets;
- and inventories abroad.

2-Accounting classification of inventories

Inventories can be classified into:

- **Goods (Account 30)**, which are the goods that the entity buys and resells as they are, without making any changes to them.
- **Raw materials and supplies (Account 31)**, which are the materials and supplies purchased in order to transform them, and which are included in the composition of processed or manufactured products.
- **Other supplies (Account 32)**, which are materials and things that contribute to processing, manufacturing, or exploitation without being included in the composition of processed or manufactured products. It branches into:
 - Consumables materials (Account 321) such as cleaning materials...
 - Consumable supplies (Account 322) such as office supplies...
 - Packaging or Damaged packaging (Account 326) such as plastic bags...
- **Goods under production (Account 33)**
- **Services under production (Account 34)**
- **Inventory of products (Account 35)**, it is divided into:
 - Intermediate Products (Account 351)
 - Manufactured Products (Account 355)
 - Remaining products (Account 358) (waste and waste)
- **Inventories derived from fixed assets (Account 36)**
- **Stocks Abroad (Account 37)**
- **Stored Purchases (Account 38)**, it is divided into:
 - Stored Goods (A 380)
 - Stored Raw materials and supplies (A 381)
 - Stored Other Supplies (A 382)

3-Methods for evaluating and inventorying the stocks

3-1-Evaluation of stocks (or inventories)

Inventories are evaluated, upon entry into or exit from warehouses, at **purchase cost** if purchased and at production cost if produced, as:

Purchase cost = purchase price outside the tax after deducting various discounts + all expenses attached to the purchase process.

Expenses attached to the purchase process are transportation, freight, unloading, insurance and various non-refundable taxes.

Production cost = The sum of all production costs

3-2-Stocks inventory methods

We distinguish two types of stocks inventory methods, one of which entities can follow:

- **permanent (continuous) inventory system**: According to this system, the entity records the movement of inventory (entry or exit) daily and after each operation using an inventory card for each type of inventory;

-**The final (periodic) inventory system**: According to this system, the institution does not record the movement of inventory (entry or exit) daily, but waits until the end of the accounting cycle to record the movement of inventory.

4- Accounting for the purchase process according to the permanent inventory method

The purchasing process is part of the current operations carried out by entities, whether commercial, industrial or service. It is represented in the purchase of goods, the purchase of raw materials and supplies, and the purchase of other supplies. Entities may also purchase studies and services, purchase equipment and supplies that are not considered fixed assets, and purchase non-stocked materials and supplies. we try, in the following, to clarify the accounting entry for each of the purchases mentioned above

4-1-Accounting registration for purchasing goods (or merchandises)

The business entity purchases the goods and resells them as they are without any change to them. The accounting treatment of the purchase

process goes through two stages if the purchase is in cash or check, and in three stages if the purchase is on account, namely:

- **First stage: Receiving goods purchase invoice:** it expresses the transfer of ownership of the goods from the supplier to the buyer: this is done by recording:

		Date		
380 4456	401	Stocked merchandises deductible v.a.t Stocks and sevice suppliers, (Merchandise purchase Invoice no...)	xx x	xxx

- **Second stage : Receiving goods** or entering them into the warehouses (or storing them): this is done by recording:

		Date		
30	380	merchandise stocks Stocked merchandises (Merchandise receipt no...)	xx	xx

- **Third stage : Stock suppliers payment.** this is done by recording:

		Date		
401	512 or 53	Stocks and sevice suppliers, Bank or cashbox (Check no... or cashbox receipt no...)	xx	xx

4-2-Accounting registration for purchasing raw materials and supplies

The production entity purchases raw materials and supplies in order to convert them into products, and the accounting treatment of the purchase of raw materials and supplies goes through two stages if the purchase is in cash or check, and in three stages if the purchase is on account, namely:

- **First stage: Receiving raw materials purchase invoice:** it expresses the transfer of ownership of the raw materials and supplies from the supplier to the buyer: this is done by recording:

		Date		
381 4456	401	Stocked raw materials and supplies deductible v.a.t Stocks and sevice suppliers,	xx x	xxx

		(Raw materials and supplies purchase Invoice no...)		
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- **Second stage : Receiving raw materials and supplies** or entering them into the warehouses (or storing them): this is done by recording:

		Date		
31	381	raw materials and supplies Stocked raw materials and supplies (Raw materials and supplies receipt no...)	xx	xx

- **Third stage : Stock suppliers payment.** this is done by recording:

		Date		
401	512 or 53	Stocks and services suppliers, Bank or cashbox (Check no... or cashbox receipt no...)	xx	xx

4-3-Accounting registration for purchasing other supplies

The commercial, production or service entities purchases other supplies represented in the materials and things that contribute to the exploitation process or the production process (consumables or packaging, for example).

The accounting treatment for the purchase of **other supplies** goes through two stages if the purchase is in cash or check, and in three stages if the purchase is on account, namely:

- **First stage: Receiving Other Supplies purchase invoice:** it expresses the transfer of ownership of the **Other Supplies** from the supplier to the buyer: this is done by recording:

		Date		
382 4456	401	Stocked Other Supplies deductible v.a.t Stocks and services suppliers, (Other supplies purchase Invoice no...)	xx x	xxx

- **Second stage : Receiving Other Supplies** or entering them into the warehouses (or storing them): this is done by recording:

		Date		
32	382	Other supplies Stocked Other supplies (Other Supplies receipt no...)	xx	xx

➤ **Third stage : Stock suppliers payment.** this is done by recording:

401	512 or 53	Stock suppliers, Bank or cashbox (Check no... or cashbox receipt no...)	Date	xx	xx
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Example 1: During the month of April 2018, an entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.

On 04/02/2018: Goods purchased for 300 000 DZD on account arrived on the same day.

On 04/03/2018: Bought damaged packaging for 40 000 DA in cash, arrived on the same day

On 04/15/2018: purchase on account of raw materials for 119,000 DZD, including tax, arrived the next day

On 04/30/2018: All dues of inventory suppliers for the month of April 2018 have been paid, by bank check.

The solution

			04/02/2018		
380 4456	401	Stocked merchandises deductible v.a.t Stocks and sevice suppliers, (Merchandise purchase Invoice no...)		300 000 57 000	357 000
			//		
30	380	merchandise stocks Stocked merchandises (Merchandise receipt no...)		300 000	300 000
			04/03/2018		
382 4456	53	Stocked Other Supplies deductible v.a.t Cashbox (Other supplies purchase Invoice no...)		40 000 7 600	47 600
			//		
32	382	Other supplies Stocked Other supplies (Other Supplies receipt no...)		40 000	40 000
			04/15/2018		
381 4456		Stocked raw materials and supplies deductible v.a.t		100 000 19 000	

	401	Stocks and services suppliers, (Raw materials and supplies purchase Invoice)		119 000
		04/16/2018		
31	381	raw materials and supplies Stocked raw materials and supplies (Raw materials and supplies receipt no...)	100 000	100 000
		04/30/2018		
401	512	Stocks and services suppliers, Bank or cashbox (Check no... ...)	476 000	476 000

4-4-Accounting registration of purchases studies and services performed

These are the studies and services provided by third parties for the benefit of the entity, which are included in the cost of manufactured works or products. **they are recorded directly** in its consumed purchases account, as follows:

		Date		
604 4456		purchases of studies and services deductible v.a.t	xx x	
	401	Stocks and services suppliers, (purchase invoice of studies and provision of services no...)		xx

4-5-Accounting record of purchases of materials, equipments, and works

When purchasing **materials or equipments** of low value (less than 30,000 DZD), they are not included in the fixed assets, but are considered as if they were completely consumed in the fiscal year in which they were used, and accordingly, they are recorded directly in account 605" Purchases of **materials, equipments, and works**" as follows:

		Date		
605 4456		purchases of materials, equipments, and works deductible v.a.t	xx x	
	401	Stocks and services suppliers, (purchase invoice of studies and provision of services no...)		xx

4-6-Accounting recording of non-stocked purchases of materials and supplies

These are non-stored purchases, such as water, electricity, gas, etc., or materials and supplies that are not stored by the entity and are consumed directly, and for this reason they are recorded directly in their consumed purchases account, as follows:

		Date		
607 4456	401	non-stocked purchases of materials and supplies deductible v.a.t Stocks and services suppliers, (purchase invoice of studies and provision of services no...)	XX X	XX

5- Accounting for the production process according to the permanent inventory method

The production process goes through two main stages:

- **First stage:** taking out the raw materials and supplies from warehouses and bringing them into the workshops for manufacturing or conversion, this is done by recording:

		Date		
601	31	Raw materials Raw materials and supplies (stock exit receipt no...)	XX	XX

Note : If Other supplies are taking out with raw materials and supplies from warehouses and entering into the workshops for manufacturing or conversion, their accounting recording is as follows

		Date		
601 602	31 32	Raw materials Other supplies Raw materials and supplies Other supplies (packaging for exemple Account 326) (stock exit receipt no...)	XX XX	XX XX

- **Second stage:** After a period of time, various products are taking out from the workshops and entering into the product stores waiting to be sold. These are recorded at their production cost as follows:

		Date		
351 355 358	724	Intermediate Products Manufactured Products Remaining products Product stock variations (stock entry receipt no...)	X X X	XXX

Example2: 1° During the month of June 2018, an entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.

On 06/02/2018: Purchase on account raw materials 200,000 and packaging 30,000, all arrived on the same day.

On 06/08/2018: Taking out half of the raw materials and a third of the (previous) packaging from the warehouses and bringing them into the workshops for manufacturing.

On 06/15/2018 Obtained from manufacturing: finished products 100,000, intermediate products 40,000 and remaining products 20,000

On 06/20/2018: Suppliers debts have been paid by bank check.

The solution

		06/02/2018		
381 382 4456	401	Stocked raw materials and supplies Stocked Other supplies deductible v.a.t Stocks and services suppliers, (purchase Invoice no...)	200 000 30 000 43 700	273 700
//				
31 326	381 382	Raw materials and supplies Packaging (or damaged pakaging) Stocked raw materials and supplies Stocked Other supplies (stock entry receipt no...)	300 000	300 000
		06/08/2018		
601 602	31 326	Raw materials Other supplies Raw materials and supplies Packaging (or damaged pakaging) (stock exit receipt no...)	150 000 10 000	150 000 10 000
		06/15/2018		
351 355 358	724	Intermediate Products Manufactured Products Remaining products Product stock variations (stoc 06/20/2018 no...)	40 000 100 000 20 000	160 000
401	512	Stocks and services suppliers, Bank or cashbox (Check no... ...)	273 700	273 700