Stock Provision, Write Off and Disposals Policy

University of Oxford

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# Purpose

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1.1 This document sets out the policy to be implemented by departmental inventory holders to safeguard the proper use of the University’s finances and resources, including those of its subsidiary companies, against over-inflated or inaccurate stock valuations recorded in the University’s accounts and to ensure compliance with the law and relevant regulations.

# Background

2.1 The University holds a significant amount of inventory stock and each individual inventory holding department has a responsibility to manage risk and economic benefit by ensuring optimal stock holdings are held to support operations.

2.2 This policy for dealing with the provision for stock write off and disposal, forms part of the University’s internal control and corporate governance arrangements.

# Regulatory framework and responsibilities

3.1 The Council has a statutory responsibility for the proper control of the finances of the University. Accordingly it has approved Financial Regulations to ensure the proper use of finances and resources in a manner, which satisfies the University's requirements for accountability, internal control, and the management of financial risk; and also fulfils any legal or financial obligations laid down by HM Revenue & Customs, the Office for Students and Research England, and other government agencies.

3.2 Compliance with the Financial Regulations is a requirement for all employees and officers of the University, irrespective of whether their appointment is financed by general University funds, research grants and contracts, or trust or other funds; and for all those neither directly employed by nor officers of the University who have responsibility for the administration or management of University funds.

3.3 The policy has been informed by FRS 102 (The financial reporting standard applicable in the UK). If there is uncertainty about the existence of stock, the net realisable value of the stock is less than the cost, or there are concerns that the stock will not be sold, then a stock provision should be set up. There are various methods that can be applied to help calculate the stock provision. It is recommended that calculations are based on predetermined criteria to produce the provisions to reduce stock from cost to net realisable value and for those calculations to take account of, as appropriate, the following circumstances of the stock:

* Age
* Movements during the last year
* Expected future movements
* Estimated scrap values

# Current financial regulations

4.1 Heads of Units are responsible for compliance with the Financial Procedures for the management of stock, and for ensuring that stocks are adequately protected against loss or misuse, which therefore must be considered when stock disposal is undertaken. A Head of Unit may authorise the writing off of stock in his or her Budgetary Unit.

# Authorisation policy

5.1 The policy for authorising the provision and write off of stock is: -

* Up to £1k – Approved member of Staff (i.e. Administrator)
* Up to £50k – Head of Department
* Over £50k – Divisional Financial Controller

# Stock provision

6.1 A provision should be made at the end of each financial year to provide for excessive loss in the value of stock held, likely to be incurred in the coming year, through obsolescence, damage, expired shelf life, or lack of historic and future expected movement.

6.2 Three factors that need to be considered when an inventory department calculates their provision for the year are:

* Any stock older than 12 months
* Any stock with no movement over the last 12-month period
* Any stock known to be obsolete or with an expired shelf life

6.3 These figures are intended as an initial calculation to work from and not a definitive answer. It will still be necessary for the results to be reviewed by the Store Supervisor, Administrator, and ultimately by the Head of Department, if material, in the light of any special circumstances which cannot be anticipated in the formulae, such as slow moving items that still sell at a profit, for example jewellery and pottery sold in trading departments.

6.4 Some departments will carry stock that does not fall into the normal stock lines and will cause exceptions to the use of the above formulae, such as publications – see Appendix 1. In these instances the basic principles and financial authority remain the same, only the method of calculation changes. Departments should be aware of the distinction between the policy for calculating stock provisions, writing off the stock and the disposal of stock. There may not necessarily be a requirement to dispose of stock at year-end when there is a provision for it or it is been written off, please refer to section 6.1 for further guidance on this point.

6.5 The Process Owner should be forwarded details of this provision as a courtesy, to record for future reference and for auditing purposes.

# Stock write off

7.1 The same calculations that were made for the provision should also be made for the write off, with the same reviews made for special circumstances. In addition to this a decision has to be made whether the stock item is still usable by the department but has no value. If this is the case the item can be written off but remain in stock in a separate area. This is only reasonable if there is sufficient space in the store and the item is sufficiently small to still keep in stock. It can then be issued out over a longer period of time or it can be written back in to stock if a future need is identified.

7.2 As with the provision guidance, some departments will carry stock that does not fall in to the normal stock lines and will cause exceptions to the use of the formulae, such as publications – see Appendix 1. In these cases the basic principles and financial authority remain the same, only the method of calculation changes.

7.3 The Process Owner should be forwarded details of this write off as a courtesy, to record for future reference and for auditing purposes.

7.4 The Departmental Administrator must retain evidence that the stock written off has been properly approved including the reason for the decision stated.

# Disposal of stock

8.1 As the Financial authority lies with the Head of Department, so does the ultimate responsibility for disposal of written off and unusable items of stock. However, the Store Supervisor, overseen by the Departmental Administrator, will undertake the actual physical disposal.

8.2 If the item of stock is still usable but no longer required by the department then it should be offered to other similar departments before disposal takes place. Other alternatives should be considered such as school or charity donations prior to disposal.

8.3 Once disposal has been agreed, the item should be removed from the physical stock location and counted to compare with the quantity held on the stock management system and any adjustments to the quantity accounted for. The stock should be updated to reflect the write off deduction in stock held and possible deletion of identification line number.

8.4 The item should then be disposed of in accordance with the department’s local recycling procedures. If the item is a hazardous substance or a chemical then the Health and Safety Executive guidelines should be adhered to (see ‘References’ for link). For future reference and auditing purposes the Head of Department should retain documentation of these types of disposals.

8.5 There may be costs incurred for disposal of an item and pooling these types of disposals at regular pre-determined intervals with other departments should be considered wherever possible.

8.6 If the item has an attractiveness or resale value outside of the University, but it is not appropriate for the department to keep it any longer, the items of stock should be defaced, ripped, etc so they have no resale value outside of the University.

8.7 ‘In-house’ checking of all disposals should be administered by the Head of Department to ensure compliance, which should be available for review by the Process Owner and/or auditors on a regular basis.

# References

[Oxford University: Financial Regulations](http://www.admin.ox.ac.uk/finance/financialregulations/)

[Oxford University: Financial Control Indicators](http://www.admin.ox.ac.uk/finance/processes/assurance/financialcontrolindicators/)

[Health & Safety Executive: COSHH Guidelines](http://www.hse.gov.uk/coshh/index.htm)

**If further information or guidance is required, please contact the Process Owner:**
Louise Stratton, Fixed Asset Accountant, telephone: 01865 (6) 16128 or louise.stratton@admin.ox.ac.uk.

# Appendix 1

An example of a local policy for stock that does not fall under the normal University policy is detailed below. The example shows the method of calculation for provision and write-off used by a department for their publication stock and can be used as a starting base by other departments who hold similar types of stock. The life of the stock and the expected levels of sales can be adjusted as appropriate by the department.

The policy states that for a given quantity of purchased books the department expects that they will all be sold over a four-year period, at a rate of one quarter per year. Any remaining stock is fully written off at the end of the four-year period. The provision is made at the end of each financial year for unsold stock that was expected to have sold in that year and increases as the stock ages.

E.g.

Published 500 books at a cost of £5 each, with a total value of £2,500

Year 1: Sales quantity 125 with no provision.

Year 2: Sales quantity 100 with provision for a quantity of 25 at cost of £125.

Year 3: Sales quantity 100 with provision for a quantity of 25 at cost of £125. Total provision is now for 50 books at a total cost of £250.

Year 4: Sales quantity 50 with total write-off of a quantity of 125 at cost of £625.

In this case the stock is not physically disposed of and any future cost of sales for these books will be at zero cost when sold.