



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CLASSIFICATION OF INVENTORY AND CONSUMABLES IN THE STANDARD CHART OF ACCOUNT

PURPOSE

The purpose of this classification circular is to provide guidance to all government financial practitioners on the classification of inventory and consumables using the new SCOA accounts.

DISCUSSION

In recent years the accounting and management of inventory has turned into a focus area for departments, treasuries and auditors alike. In dealing with some of the policy issues, the Office of the Accountant-General (OAG) decided to separate certain non-essential items from inventory into a separate category, namely consumables.

The OAG recognised that the concept of consumables existed in the past, as a sub-set of inventory, but decided to make a clear separation between those items that will be managed and reported as inventory, and those that will be treated as part of the operating costs of the department. The departments are encouraged to manage consumables within their logistical information systems (i.e. have stores, issue the items and take stock). The detailed reporting on the movement in the AFS will however not be required.

Inventory comprises of goods that are core to the achievement of the Department' service delivery objectives. All other goods are classified as **consumables**.

1. The SCOA Technical Committee along with the OAG conducted a detailed review of the existing SCOA items to separately identify inventory and consumables. In summary the team:
 - i. reviewed the existing inventory category and identified items that should be moved to consumables;
 - ii. reviewed the other items in the item segment (such as in operating payments) to identify and re-allocate any other inventory and or consumable items listed elsewhere; and
 - iii. created unique consumable items where there was a possibility that a good could be either inventory or consumables. For example, certain medical supplies could be used in hospitals or in the first aid boxes in departments outside the health sector.

INVENTORY AND CONSUMABLE ITEMS IN THE CHART OF ACCOUNTS (SCOA)

2. The high level accounts for inventory and consumables are listed in the table below:

Inventory Categories (L4)	Consumable Categories (L4 & L5)
Clothing Material & Accessories	Consumable Supplies (level 4)
Farming Supplies	Gardening Supplies (level 5)
Food & Food Supplies	Gifts & Awards
Fuel, Oil & Gas	Uniform & Clothing
Learning & Teaching Support Material	Household Supplies
Materials & Supplies	Fuel Supplies
Medical Supplies	Media Collections
Medicines	Building, Material & Supplies
Other Supplies	Contraceptives
	First Aid Kit
	Laboratories Consumables
	Security Accessories
	Communication Accessories
	Bags & Accessories
	Photographic Consumables
	Consumable Stationery and Office Supplies(L5)

3. It is important to note that certain items may be purchased as inventory and consumables. For example, bandages will be acquired for redistribution to hospitals and or clinics but may also be purchased for use within a department to treat any injuries on duty. In the past, the purchase of bandages was allocated to an item under inventory, with the change in structure the purchase of bandages for internal use will now be treated as a consumable (i.e. allocated to consumables: first aid kit).
4. Similarly, the purchase of fertilizer for farming activities by a department of agriculture will be treated as inventory whilst the purchase of fertilizer for the gardens outside an office building will be allocated to consumables.
5. The SCOA master (published on the SCOA website) will provide an indication of the departments that will use the broad inventory categories.

Discussion on specific items

Ammunition and security supplies

6. All ammunition and security supplies are classified as inventory due to their nature. This category should be used by Departments who buy ammunition, for example for culling, security & protection, etc. All weapons, such as guns, are always classified as assets as they are not bought with the intention of resale or distribution outside the department.

Bags (including laptop bags)

7. Prestigious bags bought separately from an external supplier should be classified as assets. A laptop bag that is acquired together with a laptop is capitalised as part of the laptop cost. The replacement of a normal laptop bag should be classified as a consumable.

Library and learning and teaching support materials

8. Only library materials that will be distributed to individuals or entities outside the control of the department are classified as inventories. For example, library material purchased by Department of Sports Arts and Culture (DSAC) to be distributed to the libraries controlled by municipalities are classified as Inventory. However, if DSAC purchases library material for distribution to other libraries in DSAC's control, these must be classified as capital assets or consumables; whichever classification is appropriate. Library material that meet the definition of inventory are recorded under Inventory Assets For Distribution:Library Material.
9. Learning & Teaching Support Materials (LTSM) purchased by the Department of Education (DoE) for distribution to the schools are classified as Inventory as schools are a separate entity to DoE. Such items are recorded under Inventory:Learn&Teach Supporting Material category.

Assets purchased for distribution

10. Wheelchairs to be distributed to patients should be classified as Inventory, whereas wheelchairs to be used by the hospitals or any department should be classified as capital assets.
11. Some departments acquire capital assets for distribution as part of their service delivery mandate. These assets should be classified as inventory only if they meet the definition of inventory as outlined in the paragraphs above. This category covers transfers of assets in the form of:
 - School furniture for distribution: this item has been created specifically for the DoE, for furniture acquired with the purpose of transferring it to schools. The transaction is classified as inventory in the hands of the department. Only the school will record this furniture as capital assets.
 - Municipal dustbins for distribution: this item has been created specifically for the Department of Cooperative Governance and Traditional Affairs for the dustbins purchased and transferred to the municipalities for use by the communities.
 - Library materials for distribution: refer to paragraphs 8 and 9 above.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

The allocation of expenditure should be made in accordance with this circular for 2013/14 financial year. The adjustments budget process should be used to amend the budget of the department if the funds were classified using the old SCOA chart.

Please contact the SCOA Technical Committee via the SCOA call center at (012) 315 5311 or by sending a concise mail to scoa@treasury.gov.za if further clarity or discussion is required regarding the changes highlighted above.

SCOA Technical Committee

Date: 29 May 2013

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