

## Treasury Circular 6/2004

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To Heads of Department  
& All Other Accounting Officers

### **STOCK CONTROL PROCEDURES**

Stock Control Procedures have been prepared as part of an ongoing process towards the gradual introduction of new Accrual Accounting concepts and methodologies. This circular defines, explains and sets procedures for proper accounting practices. It is another milestone that will contribute to further harmonize the accounting systems across the Public Service.

The part of the circular reproduced herewith defines the terms used in text such as Stock, Consumables, Finished Goods, Raw Materials and Work-in-progress, Fair value, Cost and Net realisable value. It also explains the different methods available for the measurement of Stock and Stock Valuation and discusses the requisites for Stock Recording, including stock disposal.

The Notifications and the respective Responsibilities of Heads of Department, Directors, Corporate Services and Directors, Finance and Administration and the Accountant General are also being listed.

The second part of the circular provides accounting officers with clearly worked out examples in order that they acquaint themselves with the newly introduced concepts on this particular area of their work. All Annexes A – F2 are downloadable from site <http://www.gov.mt/page.asp?i=187&l=2>

You are enjoined to give your full contribution towards the effective implementation of these procedures and also to adhere to the reporting deadlines as stipulated in this circular.

Noel Camilleri  
Accountant General

# 1. Definitions

## 1.1 Stock

**1.1.1 Stock** fall into the following categories:

- a) purchased to be used in the normal course of business operations (*consumables*), or
- b) held with the intention of re-sale (*finished goods*), or
- c) held in the form of materials or supplies to be consumed in the production process or in the rendering of services (*raw materials* and *work-in-progress*).

**1.1.2 Consumables** are used in the normal course of the business operations and have one of the following characteristics:

- a) non durable or semi-durable with a life time normally less than three years irrespective of value.
- b) materials with a lifetime normally more than 3 years, and whose cost is less than Lm50, are to be expensed.

**1.1.3 Finished goods** are any type of stock which are held with the intention of re-sale either on their own as a product or as part of a service. Their classification is not time or value bound.

**1.1.4 Raw Materials or Work-in-progress** consist of all materials or semi-manufactured items that constitute the elements in the construction of a complete product. Their classification is not time or value bound.

## 1.2 Fair Value

Fair value is the price for which an asset could be exchanged between willing parties under normal circumstances.

## 1.3 Cost

**1.3.1 Cost** is the amount of cash paid or the fair value of other consideration given to acquire the asset at the time of its acquisition or construction.

## 1.4 Net realisable value (NRV)

Net realisable value is the estimated selling price of a product in the ordinary course of operations less any estimated costs for its completion and any estimated costs necessary to make the sale, exchange or distribution.

# 2. Measurement of stock

Stock should be measured at the lower of cost and NRV.

## 2.1 Cost Valuation

The cost of stock should comprise all **costs of purchase**, **costs of conversion** and **other costs** incurred in bringing the stock to its present location and condition.

### 2.2.1 Costs of purchase

Cost of purchase includes the purchase price, import duties and other taxes, transport and handling costs, costs directly attributable to the acquisition of goods but excluding any trade discounts and rebates. (Trade discounts are discounts acquired at the purchase stage.)

### 2.2.2 Costs of conversion

Costs of conversion include the cost of raw materials used in production, direct labour costs and an allocation of production overheads.

### 2.2.3 Other costs

Other costs are included only to the extent that they are incurred in bringing stock to its present location and condition. These do not include abnormal costs, wastage costs, storage costs, administration overheads and selling costs.

## 2.3 NRV Valuation

**2.3.1** Stock is to be valued at NRV when:

- a) stock is damaged or obsolete
- b) selling price has declined below its cost,
- c) the estimated costs of completion or for sale have increased to an extent that the cost of stock is not recoverable, and
- d) valuing livestock, agricultural, forest products and mineral ores.

Stock has to be written down to NRV on an item by item basis (*vide Annex A*). In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of stock relating to the same product line especially if these have similar purposes or end uses and cannot be practicably evaluated separately from other items in that product line. In the case of stock consisting of consumables, and finished goods delivered to the public as part of a service, high cost items have to be written down to NRV on an item by item basis, whereas low cost items have to be aggregated and written down accordingly.

Estimates of NRV are based on the most reliable evidence available at the time and purpose for which the stock is held. The estimates are based on the value the stock is expected to realise in its current condition.

If the NRV of material used in the production of finished goods drops below cost independently, their valuation is not affected if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of material indicates that the cost of the finished products will exceed NRV, the material is written down to NRV.

A review of stock valued at NRV is to be carried out at least once a year. When the circumstances which previously caused stock to be written down below cost change, the amount of the write down is adjusted so that the new carrying amount is the lower of the

cost and the revised NRV. This occurs, for example, when an item of stock, which is carried at NRV because its market price has declined, is still in stock in a subsequent year and its market price has increased.

### 2.3.2 Authorisation and Procedure

Stock items' valuation is to be assessed on a yearly basis. The authority for the writing off of such stock to NRV is to be vested in the **Permanent Secretary, Ministry of Finance**, provided that:

- § stores with an estimated value not exceeding Lm5,000 may also be written off to NRV by the **Permanent Secretary of the department concerned**,
- § stores with an estimated value not exceeding Lm500 may also be written off by the authority of the *Head of Department* concerned.

## 3 Stock Valuation

The method selected for determining cost will depend upon whether the stock concerned relate to **raw materials**, **consumables**, **work in progress**, or **finished goods**. The cost of stock of a specific nature or used for a specific project is to be identified separately.

### 3.1 Valuation of Raw Materials or Consumables

Stock items that have similar nature and use are to be valued by using the Weighted Average Cost formulae (AVCO). (*vide Annex B*).

### 3.2 Valuation of work-in-progress and finished goods

3.2.1 Work-in-progress and finished goods are to be valued by using an appropriate costing system that takes into account:

- § the value of stores issues as based on the valuation of raw materials and consumables in 3.1;
- § the cost of labour; and
- § also includes a method for the allocation of fixed and variable production overheads that are incurred in converting materials into work-in-progress (in their various stages of completion) and finished goods (*vide Annex F - 1*). The absorption costing technique applies as per **Annex F - 2**.

The use of absorption costing is applicable for:

- § Finished goods like printing and stationery products produced by the printing press for use by government departments.
- § Products/finished goods delivered as part of a service such as products delivered to the public or other government departments as part of health and educational services.
- § Work-in-progress with different levels of completion.
- § Self-constructed fixed assets such as furniture (shelving, benches, tables); construction and landscaping (street furniture, plants and trees, fountains, etc) and housing and embellishment projects. It is to be noted that although self-constructed

fixed assets are to be valued through absorption costing, they are to be identified and classified separately as per MFIN Circular 14/99, 'Inventory Control Regulations'.

Absorption costing techniques do not apply to direct outsourcing and contracts over one year.

## 4. Stock Control System

Any receipts or issues of stock are to be recorded via a Stock Control System. Proper procedures are to be in place for receiving, checking and recording goods received. Any issues are to be duly authorised, evidenced and recorded. For every receipt and issue, the balance of stock items is to be re-calculated. Any complete items and products that fall in line with the fixed asset category as per MFIN Circular 14/99, 'Inventory Control Regulations' are to be segregated and identified separately as non-stock items in the stock valuation report (*vide Annex D - 2*).

The officer in charge is to be informed of any items received by way of donation. Such items are to be valued at fair value and recorded in the stock control system as donated items.

### 4.1 Stock Recording

The officer in charge of stores in each department is responsible to maintain proper stock records.

#### 4.1.1 Stock ledger card

A stock ledger card is to be maintained (*vide Annex C - 1*) for each stock item. Such card is to be identified by a stock code and is to contain details of stock description, quantities of stock receipts and issues, returns to stores, balance of stock quantity and values.

#### 4.1.2 Stock bin card

A stock bin card can be maintained (*vide Annex C - 2*) for each stock item in addition to the stock ledger card. This has to be in agreement to the Stock Ledger Card. If the electronic stock ledger card is used, the stock bin card can be generated therefrom. The bin card is to be identified by a stock code and is to contain details of stock description, quantities of stock receipts, issues, returns to stores and balance of stock quantity.

#### 4.1.3 Summary report

An updated report showing the balances of stock quantity and values to be regularly maintained by the officer in charge in each department as per **Annex C – 3**.

In accordance to Section 111 and 118 of the L.N. 83 of 1999, (amendments to the General Financial Regulations (1966)), the Head of Departments must furnish to their Permanent Secretary, Accountant General and Auditor General:

- a) a report showing the balances of each stock quantity and value, and
- b) amount of write-offs and reason of write-offs during the first month of each financial year.

#### **4.1.4 Goods received note (GRN)**

A GRN (*vide Annex E - 1*) should be used in order to verify on record that what has been ordered in quantity and quality has in fact entered the stores. The purchase/stores officer has to physically inspect the incoming stock and cross-check the stock received against the Purchase Order (PO). An authorised copy of a GRN, together with the invoice, has to be passed to the *Head of Department* for price verification, recording and payment. For goods delivered directly to site of operation, the stores officer has to be notified by the purchases/procurement officer who has to be equally responsible by filling in the GRN. Three authorised GRN copies are to be kept by the stores officer, the purchasing officer and the head of department.

#### **4.1.5 Stores material requisition note (SMRN)**

An SMRN, (*vide Annex E - 2*), has to be raised for all issues from stores and by properly authorised persons who are requesting the stock items. Such documents have to serve as inputting documents for issues to be recorded in the stock control system.

Out-of-stock items have to be ordered via the normal procurement procedures of quotations and the issue of purchase orders through the departmental accounting system.

Two authorised SMRN copies are to be kept by the stores officers or recipients, and the head of department.

#### **4.1.6 Stores material transfer note (SMTN)**

An SMTN (*vide Annex E – 3*) has to be raised when the following two types of transfers are made:

- a) Intra-departmental transfers including transfers of stock between stores locations; and
- b) Transfers between departments.

The stores officer making the transfer should raise three authorised SMTN copies. These are to be countersigned by the receiving department. One copy is to be forwarded to the head of department, and the other two for filing by the stores officer of the sending and receiving departments.

#### **4.1.7 Bill of materials (BOM)**

In a manufacturing process, the nature of a stock item changes from that of a raw material to that of work in progress to a final product. BOM (*vide Annex E - 4*) is required to be issued for all the items of raw materials going into a manufacturing process of a finished good such as furniture, construction and printing. This has to be authorised by a technically competent authority and is used for the scheduling of the ordering and manufacturing process and as an inputting document for the costing of manufacturing jobs. Three authorised BOM copies are to be kept by the technically competent authority, by the stores officer and by the head of department.

### **4.2 Stock Minimum Data Requirements**

The following minimum stock details need to be recorded:

<b>Field Names</b>	<b>Type of Characters</b>	<b>Number of Characters</b>
<b>Standing Data (Mandatory)</b>		
Stock Code	<b>Alphanumerical</b>	12
[ Stock Group 3 ]		
[ Stock Type 3 ]		
[ Stock Item 6 ]		
Stock Group description	<b>Text</b>	20
Stock Type description	<b>Text</b>	30
Stock Item description	<b>Text</b>	30
Type of acquisition code (purchased, manufactured, donated)	<b>Alphanumerical</b>	3
Category (consumable, raw material, finished good)	<b>Text</b>	3
Valuation method (AVCO, NRV)	<b>Text</b>	4
Unit of Measurement/Issue (kg, litres, metres, etc)	<b>Text</b>	10
Location description (reference data)	<b>Text</b>	20
Department code as per treasury list	<b>Alphanumerical</b>	2
Opening quantity at beginning of year	<b>Alphanumerical</b>	9v3*
Opening value at beginning of year	<b>Alphanumerical</b>	9v2
Current quantity balance	<b>Alphanumerical</b>	9v3
Stock Minimum level	<b>Alphanumerical</b>	9v3
Stock Re-Order level	<b>Alphanumerical</b>	9v3
Stock Maximum level	<b>Alphanumerical</b>	9v3
Stock Re-Order quantity	<b>Alphanumerical</b>	9v3
Preferred or last supplier	<b>Alphanumerical</b>	20
General notes (e.g. specifications, storage recommendations, quality requisites, etc)	<b>Text</b>	60
<b>Standing Data for Multi-Stores (Mandatory)</b>		
Stock Code	<b>Alphanumerical</b>	12

\* 9 integers and 3 decimals

Store Number	<b>Alphanumeric</b>	3
Store Description	<b>Text</b>	20
Stock Balance	<b>Alphanumeric</b>	9v3
<b>Standing Data (Optional)</b>		
Perishable / Non-Perishable	<b>Text</b>	1
Stock Bin Number	<b>Alphanumeric</b>	12
Quality standard compliance	<b>Alphanumeric</b>	20
Harmonised System Code	<b>Alphanumeric</b>	10
On-Order Quantity	<b>Alphanumeric</b>	9v3
Stock allocated	<b>Alphanumeric</b>	9v3
<b>Transaction Data (Mandatory)</b>		
Stock code	<b>Alphanumeric</b>	12
Transaction date	<b>date</b>	ddmmyyyy
Supplier's stock reference (part no.)	<b>Alphanumeric</b>	25
Internal document reference (GRN No / Issue No / Stock Transf No / Stock Adj Ref No)	<b>Alphanumeric</b>	12
Transaction code type (in/out/adjustment/return/transfer)	<b>Text</b>	1
Stores location code (destination/receiving)	<b>Alphanumeric</b>	4
Quantities	<b>Alphanumeric</b>	9v3
Unit cost or issue (as per valuation method) price	<b>Alphanumeric</b>	9v2
Total transaction value	<b>Alphanumeric</b>	9v2
User login ID	<b>Alphanumeric</b>	8
<b>Transaction Data (Optional)</b>		
Expiry date	<b>date</b>	ddmmyyyy
Supplier Reference No.	<b>Alphanumeric</b>	25
Remarks	<b>Text</b>	60

The Stock item code has to be unique by department and has to be structured as follows:

Twelve (12) alphanumeric characters made up of three (3) characters for product classification called stock group, three (3) characters for product sub-classification called

stock type and six (6) characters alphanumerical characters for stock item identification. The following example explains further the coding structure:

Stock group classification	Rope, cable, chain and fittings	3 characters
Stock type sub-classification	Nails, keys, pins and bolts	3 characters
Stock item	barrel bolts	6 characters

The stock allocated refers to the practice of committing stock to a particular use without issuing it from stores up till the date needed to be processed. This applies mostly for raw material. Hence, although stock quantities will remain unchanged both physically and in the stores ledger account, this quantity of stock will be blocked for issues other than it has been allocated for.

### 4.3 Stocktaking

The Officer in charge of stock together with a member representing the finance function is to ensure that a stocktake is carried out at least once a year, preferably at the end of the financial year.

All stock items have to be properly located and referenced with access restricted to authorised persons. Expensive stock items are to be located separately and in safer places. Slow moving stock items and obsolete ones have also to be identified and located for appropriate valuation.

If it is not feasible to undertake an end of year stocktake, the officer in charge is to perform a series of stocktakes and test counts, so that in normal circumstances, the program of counts will cover all stock at least once during the year. The aim of these stocktakes is to ensure that actual stock quantities tally with stock records.

During the stocktake, the officer in charge is to assess the condition of the stock. The identification of stock condition is important, as each condition will carry its own valuation method. The following classification is to be used: -

- a) normal stock;
- b) unserviceable stock. These are to include:
  - i) spoiled, defective or damaged stock,
  - ii) obsolete or expired stock;
- c) surplus stock; This stock is normal stock which the department has no further use for and which cannot be used for any other alternative purposes. The department is to ensure that prior to such classification of stock it has taken all possible measures for its utilization including the re-selling to other departments at cost. This procedure must be sanctioned by the Heads of departments.

The Director of Internal Audit is to be notified sufficiently in advance of the date and location of the stocktake. ***The yearly stocktake report signed by the Head of Department, is to be submitted to the:***

***a) Permanent Secretary, Ministry of Finance,***

***b) Director of Internal Audit, and***

***c) Auditor General in terms of Regulation 106(1) of the General Financial Regulations.***

***Annex D - 1*** illustrates a sample report with the minimum information required.

### 4.3.1 Cut-off Procedures

Adequate procedures are to be in place to ensure that any movements into, within and out of stock during stocktakes are properly identified and reflected in the stock records accordingly. Procedures are to be in place to ensure that there are no omissions or double counting and that any goods in transit are accounted for.

### 4.3.2 Discrepancies

As a result of the stocktake, any discrepancies between actual stock quantities and stock records are to be reported to the **Permanent Secretary of the department concerned** who shall appoint a Board of Survey, in terms of Regulation 118 of the General Financial Regulations. This Board is not to include any staff member of the department or ministry concerned. If on investigation, the Board is satisfied that there is no evidence of negligence or fraud, then the discrepancy is to be written off as provided in Sec 4.3.5 herein. Any discrepancies in stock quantities are not be adjusted in the stock records before the Board of Surveys issues the course of action to be taken.

The Board of Survey may be dispensed with at the discretion of the Permanent Secretary where, the Head of Department concerned certifies that there is no prima facie evidence of fraud or negligence, and that the value of any one item does not exceed two hundred liri.

### 4.3.3 The treatment of unserviceable and surplus stock

The treatment of unserviceable and surplus stock is to be sanctioned by the **Permanent Secretary of the department concerned** acting on the report of a Board of Survey appointed by him for this purpose. This Board is not to include any staff member of the department or ministry concerned.

Where, in the discretion of the Head of Department, the articles in question are of small original value, authority may be sought from his Permanent Secretary to dispense with a Board.

### 4.3.4 Disposal of unserviceable and surplus stock

The disposal of unserviceable and surplus stock is, unless otherwise authorised by the **Permanent Secretary, Ministry of Finance**, to be made by the Director of Contracts following a public call for tenders issued by him, provided that:

- d) stock with an estimated value not exceeding Lm20,000 may also be disposed of by the **Permanent Secretary of the department concerned** following a public call for tenders issued by the Director of Contracts;
- e) stock with an estimated value not exceeding Lm2,500 may also be disposed of by the **Permanent Secretary of the department concerned** following the receipt of not less than five (5) quotations from the open market;
- f) stock with an estimated value not exceeding Lm500 may also be disposed of by the Accounting Officer concerned;
- g) in all instances, public officers are not allowed to tender or quote for the acquisition of such stores both in a direct and in an indirect manner.

### 4.3.5 Write-offs

Where discrepancies in stock have been established and investigated and where stock has been found unserviceable as provided in this circular, authority for the writing off of such stock is to be vested in the **Permanent Secretary, Ministry of Finance**, provided that:

- a) stores with an estimated value not exceeding Lm5,000 may also be written off by the **Permanent Secretary of the department concerned**,
- b) stores with an estimated value not exceeding Lm500 may also be written off by the authority of the **Head of Department** concerned.

A sample of a statement of stores write-offs is included in **Annex D - 3**.

### 4.3.6 Recording on Disposal of Stock

Where **surplus stock** is disposed off this constitutes a sale of stock items or finished goods and is to be recorded at the accepted bid price. Any remaining balances of such stock is to be recorded at the lower of Cost and NRV.

Where **unserviceable stock** is disposed off such items are to be recorded as written off at the accepted bid price. Any remaining balances of such stock is to be recorded at the lower of Cost and NRV.

## 4.4 Stock Custody

Stock can be physically stored at departments or 3<sup>rd</sup> parties whenever stock is the property of other departments. Hence, two situations can develop:

- a) Stock held at 3<sup>rd</sup> party premises owned by the department. These have to be included with the stock records of the departments and a regular confirmation of the stock's quantity and condition has to be obtained either through physical verification by both parties or through written confirmation from the 3<sup>rd</sup> party in question.
- b) Stock held at the department's premises owned by 3<sup>rd</sup> parties. Such stock has to be kept separate from the stock owned by the department and appropriate records kept of its ownership, value and existence.

## 4.5 Implementation

In the absence of a computerised system, Departments and Ministries are to retain information in line with the circular by applying electronic templates provided by the Ministry of Finance, copies of which are reproduced on annexes **C1 to E4**.

Data entry in the **Stock Ledger Card (Annex C1)** generates data for the **Stock Bin Card (Annex C2)** and the **Summary Report by Stock Code (Annex C3)**. All the **D Annexes** are reports and statements that are being used as part of the stock recording and are also required to be submitted to the Ministry of Finance as detailed in section 4.6 below.

All the **E Annexes** are lead forms to be used as described in sections 4.1.4 to 4.1.5 of this circular. All the **F Annexes** apply only to stock classified as working progress and finished goods. All F Annexes do not apply to stock classified as consumables and raw materials.

Departments or Ministries having computerised stores systems are encouraged to continue such operations and to ensure that the *minimum* requirements specified in this circular are adhered to and brought into effect as appropriate.

Computerised stores systems preferably have to include the automatic prompting of re-order levels and the consequent re-order quantities and their expenditure.

## 4.6 Notifications

**4.6.1** A valuation of stock is to be submitted to the Accountant General within *ten (10) working days* after the end of each quarter in the format shown in *Annex D-1 and D-2*.

**4.6.2** In accordance to Section 111 and 118 of the L.N. 83 of 1999, *a statement of all write-offs (Annex D - 3) authorised during the year and surpluses are to be submitted to the Head of Department by not later than January of the following year*. Such statements are to list details of the case, the amount involved and the reason for the write-offs or surpluses.

**4.6.3** *Electronic and printed copies* of these reports are to be submitted in accordance to the templates provided by the Ministry of Finance and electronic copies submitted to the email account: *Accrual Accounting at MFIN* or the internet account *[accrual.accounting@gov.mt](mailto:accrual.accounting@gov.mt)*

## 5 Responsibilities

This section describes the responsibilities of the Heads of Department, the Directors Corporate Services and the Accountant General.

### 5.1 Responsibility of Heads of Department

Heads of Departments shall ensure that:

- a) A suitable Officer within the Department is responsible for the safeguarding of stock and to take all precautions necessary against theft, misuse and deterioration.
- b) A suitable Officer within the Department is responsible for maintaining and updating stock records.
- c) Stock records are to be updated to reflect accurate and precise details of receipts, issues and write-offs or surpluses of stock.
- d) The Accountant General is to be notified, on his request, of any stock belonging to the department.

### 5.2 Responsibility of Directors Corporate Services and Directors Finance and Administration

Directors Corporate Services and Directors Finance and Administration have the responsibility to ensure that all Heads of Department falling under the responsibility of their respective Ministry comply with the procedures as stipulated in this circular. It is their responsibility to ensure that the information regarding stock is furnished within the stipulated time frame as required herein.

### **5.3 Responsibility of Accountant General**

The Accountant General is to ensure that Heads of Department including Directors Corporate Services and Directors Finance and Administration comply with these procedures and that stock information is received in a timely and appropriate manner.