

Inventory Adjustment

Inventory must be adjusted periodically. You may decide at what interval; either weekly, monthly or annually but it must be done before you do your tax returns to make sure that you have not miscalculated your cost of goods sold. Below is an example of an inventory adjustment journal entry:

		Account	DR	CR
12/31/2005	General Journal	1315 Inventory Asset:Seafood	340.59	
		4512 Cost of Goods Sold:Seafood		340.59
		1320 Inventory Asset:Food Supply	2,602.43	
		4513 Cost of Goods Sold:Food Supply		2,602.43
		1325 Inventory Asset:Liquor	318.11	
		4530 Cost of Goods Sold:Liquor		318.11
		1330 Inventory Asset:Wine		42.42
		4520 Cost of Goods Sold:Wine	42.42	
		1335 Inventory Asset:Beer	497.02	
		4540 Cost of Goods Sold:Beer		497.02
		1340 Inventory Asset:Bar	772.71	
		4580 Cost of Goods Sold:Bar Beverage		772.71
			4,573.28	4,573.28

As you notice, there is an inventory asset for every cost of goods sold account. As the owner, you can decide how much you'd like to break-out your costs. You can see the accounts above have seafood separated out from food supply. Liquor, beer and wine are also separated out from one another. This allows for better control over these items.

The other important thing to notice about this journal entry is that the debit is NOT always to inventory and the credit is NOT always to cost of goods sold. Before doing any adjustment, you identify whether the physical count that you have taken is higher or lower than the inventory account currently has. If you are adjusting the inventory up then the inventory account is debited for the difference between what you had and what you want the new number to be. The offset is a credit to the cost of goods sold account. If you are adjusting inventory down, then the difference is a credit to the inventory account and a debit to cost of goods sold. This is because the goods that you purchased from the last time you counted your inventory were not enough to cover your needs so you had to go to your "storage" unit and get more, thus pulling it out of inventory. Decreasing your inventory increases your cost of goods number and for those watching their percentage of sales, you'll want to count your inventory often so you have a better picture of the true percentage of sales for that period of time. If you use Quickbooks to do your accounting, you can make the adjustment right in the register which may help clarify any confusion about debits and credits. Nevertheless, always verify that your inventory account has the correct amount in it after you have made the necessary journal entry.