

which the sum of the dollar balances in a given category of stores could be agreed. Records in some of the stores are adjusted throughout the year and no record of these adjustments is maintained. As a result, the overages or shortages shown by the annual physical count do not necessarily indicate the full extent of any discrepancies between physical and book quantities.

To overcome these deficiencies, we recommend that administrative supplies stores should be financed and controlled by a working capital advance. This advance would be charged as merchandise was purchased and credited when merchandise was requisitioned by the various responsibility centres.

We further recommend that the "standard price" basis of costing supplies should be used. Under this system, each item in stores is assigned a standard price (reflecting the current cost of the item, including freight-in). This price (or cost) remains in effect until the actual cost of the item differs from the standard by a predetermined percentage. This predetermined percentage varies with the value and the usage of the item. Thus, for those items where, through high value, high usage or a combination of the two, the dollar value of the supplies consumed in a given period is relatively high, standard prices are adjusted more frequently than for those items where dollar value of supplies consumed is comparatively low.

Under this system, all requisitions or issues are charged out of stores, and all purchases or receipts charged into stores, at standard cost (the quantity of each item times its standard price). In the case of purchases, any difference between the actual cost of the supplies and the standard cost is charged to a variance account, which is written off to operating costs at the end of the fiscal year.