

IN BRIEF

A Guide for Optimizing Year-End Inventory

PRUDENT CHARTERED



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As December draws to a close, one of the most fundamental year-end procedures for a business with inventory is performing the physical inventory count. The accuracy and efficiency of this count hold significant importance for accurate financial reporting and detection of fraud or theft. In this guide, we will explore crucial steps and best practices to be followed by businesses in performing their year-end inventory counts.



Pre-count Steps - Preparation

- **Planning**

First and foremost, it is essential to plan the count and establish a timeline for conducting the inventory count. Pausing your warehouse operations or minimizing the operations during the counting process is vital to obtain an accurate overview of your inventory. It is also important to ensure all relevant staff members are informed and adequately trained in the inventory counting procedures.

- **Documentation Review**

This step holds significant importance in guaranteeing accuracy and completeness of the records. This involves ensuring that all relevant records such as purchases, sales, sales returns, and adjustments are accurately recorded up to the counting date. It is also important that any abnormalities in the stock reports such as negative balances, unusual margins, items with significantly high quantity and value are checked prior to the count.



- **Categorization and Organization**

Efficient management of inventory begins by properly categorizing and arranging items. It is crucial to maintain cleanliness in inventory storage areas, ensuring that items with similar characteristics or items belonging to the same category are physically grouped together in the warehouse. Additionally, stock that must be written off or returned to a supplier must be labeled and segregated. Cleaning and organizing ahead of time help speed the inventory counting process and minimize counting errors.

- **Allocation of Count Areas**

In this stage the warehouse areas must be divided into manageable sections for counting, and the areas (count zones) should be allocated to different counting teams. This must be properly documented, and the details should be printed and prominently displayed within the warehouse for the counting teams to reference as needed.



Count Steps - Physical count

- **Final Briefing**

To commence the physical counting process, the counting teams must be briefed to remind them the procedures to be followed and that each team is to only count the areas assigned to them.

- **Counting Sheets**

If the count is to be performed by using manual sheets, the teams must be given pre numbered count sheets to avoid the risk of misplacing completed sheets by the teams. The sheets must include essential details such as item descriptions, locations, and units of measure. Additionally, the counting sheets provided must not include the existing quantity as per records. All count sheets should be signed by the employee responsible for them.

- **Labelling items**

During the counting process, a label such as a sticker must be placed near the item to indicate items already counted. By attaching labels, it becomes easier to visually verify that each item has been counted. This also help prevent double counting or omitting items during the inventory count.



Post-count Steps

- **Review, Investigate and Update**

After the inventory count, the results of the physical count must be reviewed and analyzed by cross checking the physical count quantity with the system quantity. If there are significant discrepancies in any item, consider recounting those items to confirm the quantity. To cross-check the accuracy of the counting, recounts of sample items should be performed by a separate team or supervisor. Ultimately, inventory records must be adjusted based on the physical count and the system must be updated accordingly.

External Auditors Role

The external auditor's role in verifying the year-end inventory amount includes observing the physical inventory count. Therefore, it is important for the businesses to communicate the date and time of the inventory count in advance, ensuring the auditor's presence. The procedures undertaken by the external auditor help detect and address any material misstatements related to inventory, contributing to the overall reliability of the financial reporting process.



Further Information

If you have any specific questions relating to this publication, feel free to contact one of the following members of our team:



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