



Annual Stock Taking Process

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Agenda



- Purpose
- Importance of Physical Inventory Verification
- How do we prepare operations for Inventory count ?
- Controls as part of planning process
- Warehouse Inventory counting
- Shop floor inventory counting
- Reconciliation
- Inventory Audit

Purpose



“This procedure establishes a systematic approach for Annual Physical Inventory Counting Process in Electronics Manufacturing Organizations. This exercise is performed to have accurate System Vs Physical inventory In the organisation”

Importance of Physical Inventory count.



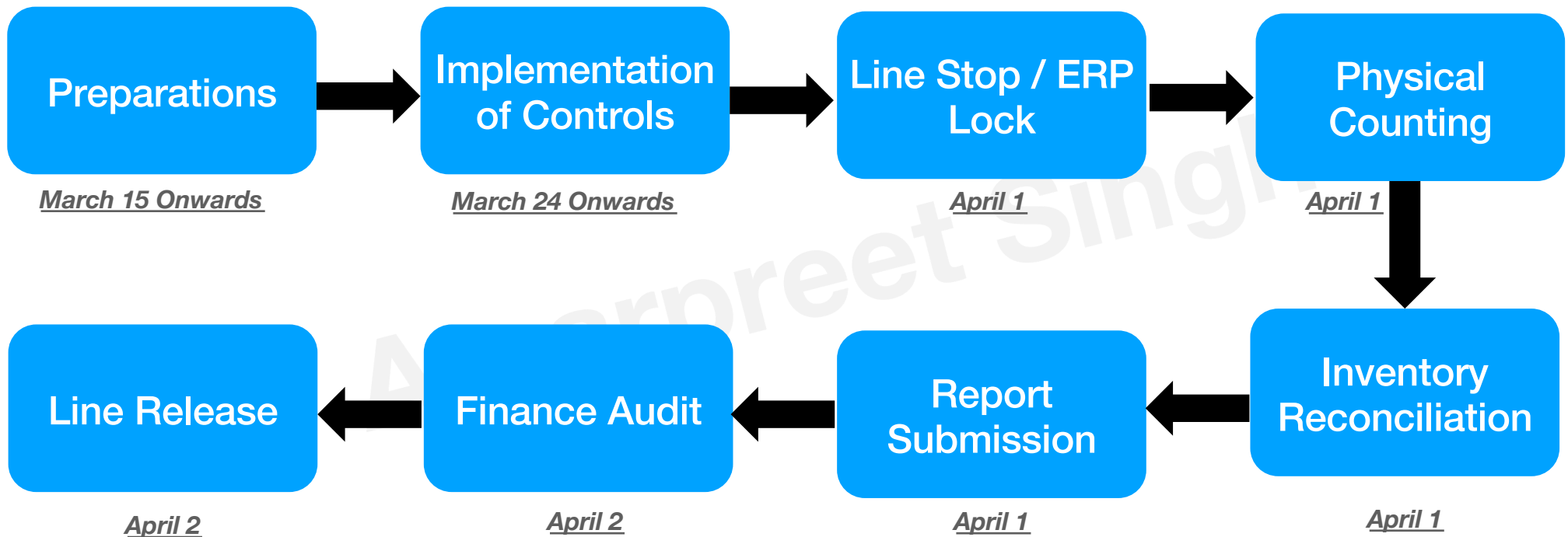
- Annual stocktaking is crucial for manufacturing companies to ensure accurate inventory records and identify discrepancies.
- It helps in identifying inventory losses and taking necessary steps to mitigate the issue in future.
- Accurate inventory records are necessary for accurate production planning.
- It is important for financial reporting as it accurately reflects the value of inventory, a key component of a company's balance sheet.
- Regular stocktaking is beneficial for stakeholders such as investors, lenders, and auditors who rely on accurate financial reporting to make informed decisions.

Physical Inventory Counting Process



- In India it is recommended to do the perform the physical inventory count after closing the financial year, which ends on March 31 of every year.
- On April 1st all the inventory (Components, Finished goods, capital assets, customer consigned material) needs to be physically counted. The physical inventory which is counted by the operations team, is verified by the financial auditors (Internal or external).
- After the verification by finance, the same inventory is uploaded into the financial books and same is used as opening stock for the next year.
- If planned well, the activity can be completed in two days. There must be a manufacturing line down for these two days and lines are released only after the finance approvals on the physical inventory.

Cycle Count Process



Guidelines



- ✓ As a generic guidelines, it is always recommended to close the year at a minimum inventory levels. We should always try to keep the inventory at minimum level during the year too.
- ✓ It is also recommended to have as minimum materials as possible on the shop floor and keep the maximum materials in main warehouse which is always location controlled and easy to count and verify.
- ✓ Even in the RM warehouse, is recommended to move the maximum materials to storage location and keep the minimum under quality inspection, rejections etc. Keep the house clean as much as possible.
- ✓ A certificate needs to be obtained from the suppliers where the materials is pending for job work or processing. Ideal case, there should be zero materials at supplier end by March 31.

Preparations - Warehouse

- As part of the preparations, it is important to do a pre counting done for all the inventory from March 15 onwards.
- If possible, form a team of individuals who are not actually working in warehouse. Those can be planners, buyers, logistics or other people from the operations.
- A basic training on component handling and counting to be performed before these team members are assigned the counting activity
- The counting teams are usually divided into small teams considering the physical locations or customers or commodity type (The basis of team formation is different for different organisations).



Preparations - Warehouse



- These counting teams will count each item in the warehouse and highlight if there are discrepancies in the inventory to the warehouse team for further analysis and corrective actions.
- Each item which is verified by the counting teams is identified with a counting label. By the end of preparation cycle count, every item needs to be identified with the counting label.
- A daily progress tracker is published to understand the progress of the whole activity. Once the whole warehouse is counted a consolidated report is published and the actions are taken accordingly for the annual cycle count.

Physical Counting	
Part # :	
Description :	
Physical Quantity :	
Counted by (Emp ID) :	
Counted on (Date) :	
Signature :	

Preparations – Shop Floor



- It is always recommended to keep inventory at minimum level on the shop floor during the annual inventory audit. To achieve this
 - ✓ All the work orders, those are completed must be closed. This is recommended so that actual cost of producing the work order can be captured accordingly.
 - ✓ If possible (as per business scenario), all the work orders must be completed or at least assembled before the audit. It is difficult to count the components compared to the assembled products.

Preparations – Shop Floor



- ✓ Pull the materials only, which is required for production for the month of March and for the first few days of April. It is advisable to keep the April kits in loose (kit form) for easy counting compared to semi assemble products.
- ✓ Move all the material which is not required on shop floor, back to warehouse.
- ✓ All the rejections to be disposed (Physically and in system) within March to accurately count for scrap and rejections.



Controls



- Having controls in place for inventory movements at year-end is advisable to ensure the physical inventory count is carried out smoothly. Some of the controls can be -

Sl. No.	Activity	Last date	Responsibility
1.	Last receipt of materials from suppliers	March 24	Procurement
2.	All items to be accepted or rejected and moved back to supplier by Incoming quality controls	March 26	Incoming Quality
3.	Last kit to be issues to shop floor from stores	March 27	Warehouse
4.	Last date to receive any materials back from production for storage in warehouse	March 30	Production
5.	Last materials to be issued from warehouse to production	March 31	Warehouse

*The above are guidelines only. There will be **exceptions** to the above controls and those must be supported by everyone for smooth functioning of operations during the final week of the year.*

Physical Counting, Warehouse - April 1

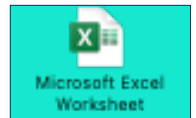


- Warehouse is usually counted before April 1 (as part of preparations), as it is almost impossible to count the warehouse inventory in a single day for an electronics manufacturing or trading company.
- The items those have transactions during the last two weeks of March are counted again making sure there is no error in the inventory reporting.
- It is also advisable to count the A class items (based on the value) as part of audit preparations.
- In warehouse all the items are already tagged and there is a physical location defined for every items in the warehouse. This makes the counting and verification process very predictable.
- In an organized warehouse, there will be different owners for various sections of the warehouse, and they will lead the audit activities for their respective areas.

Physical Counting, Shop Floor - April 1



- All the inventory on the shop floor needs to be counted on April 1. The team needs to be formed in advance for counting inventory in their physical areas. The team needs to be made aware about their roles and responsibilities during the cycle count. There must be an overall co-Ordinator to lead this activity.
- Inventory tags needs to be prepared (Attached format) in advance and handed over to the respective area owners. A series of tag numbers needs to be issued to the area owners and the area owners. All the tags, whether filled or unfilled needs to be submitted to inventory coordinator at the end of physical counting.



Physical Counting, Shop Floor - April 1



- As part of preparations all the obsolete or rejected inventory needs to be segregated, counted and tagged separately as those are not supposed to be included in the final inventory count.
- All materials which is good (Customer material received for repairs, machine spare parts etc.), but not to be counted Inventory also needs to be tagged separately and visually identified.

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Physical Counting, Shop Floor - April 1



- Once an item is counted and a simple sticker needs to be placed on the physical inventory. The same physical counted inventory needs to be recorded on the inventory tag.
- The physical tags (Entered manually) needs to be entered into a soft copy as per the format attached. If there are errors in the part numbers, those needs to be verified with engineering or work instructions and corrected accordingly.
- It is also advised to use barcode scanners and enter the physical counted inventory in the soft copy of the tags. This reduce errors related to part numbers etc.

Physical Counting	
Part # :	
Description :	
Physical Quantity :	
Counted by (Emp ID) :	
Counted on (Date) :	
Signature :	

Physical Counting, Shop Floor - April 1



- The final tags with correct part numbers (verified from soft copy) needs to be printed and displayed in the respective inventory area. This is very important to track and search the inventory samples those will be selected by the finance auditors during the audit process.
- A simple quality check by area supervisor or engineers builds the confidence about the counting accuracy.
- Some of the most common errors are wrong part numbers, wrong UOM, counting of sub-assemblies or semi finished assemblies etc. Those needs to be taken as samples and verified.

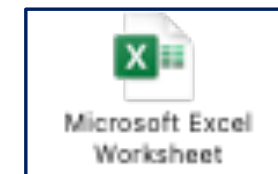
Physical Counting, Shop Floor - April 1



- As per the process every item on the floor needs to be counted. The items like customer owned jigs fixtures or spare parts can be marked “Non inventory items”, but those must be counted and visually identified during the audit process.
- Once the tags are submitted, shop floor team needs to co-ordinate with the inventory co-ordinator for value reconciliation. It is the ownership of shop floor team to have the physical inventory matched with system inventory on overall value.

Tag #	Tag101
Area	
Counted By	
Sample Verified by	

Tag #	Item	Quantity	Description	UOM
Tag101	ABC101		SMD CAP 871 PF 5V	Nos
Tag101				
Tag101				
Tag101				
Tag101				
Tag101				
Tag101				
Tag101				
Tag101				

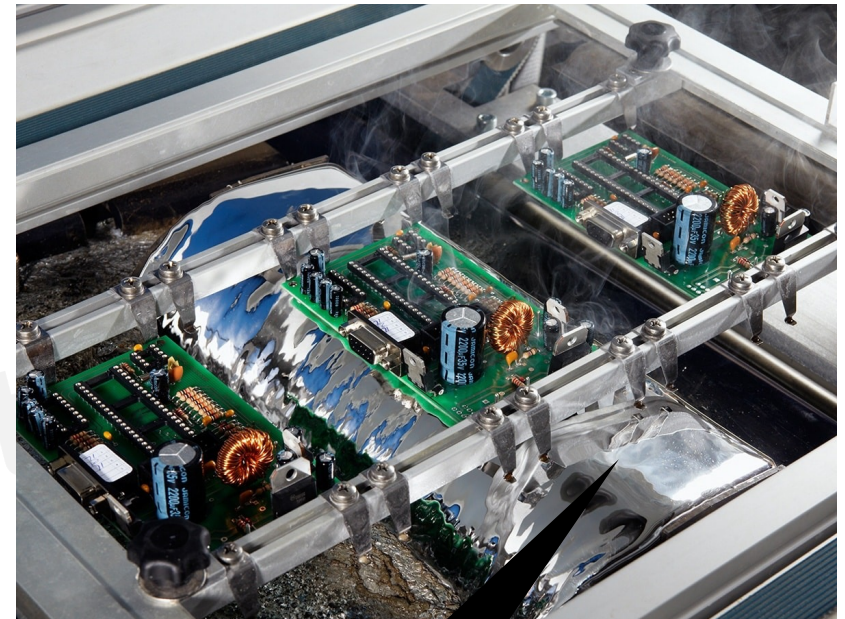


Inventory Tag Format

Physical Counting, Shop Floor - April 1



- In electronics industry, Items like solder in a wave soldering machine cannot be weighed easily. It is advisable for the shop floor team to publish a declaration about the quantity of solder available in the machine.
- The reference can be taken from the machine manual or data sheet and is usually accepted by the auditors. In other industries, the same method can be used for the items which cannot be counted.



**Molten Solder in
Wave Soldering**

Reconciliation April 1



- Inventory coordinator to consolidate all the data received from various inventory owners for the shop floor inventory.
- The same data needs to be verified with the system stock and should match in an ideal scenario. The matching can be done on overall value and then on the specific A class items.
- Once the system and physical inventory is matched and confirmed, the same inventory sheet needs to be published to finance for audit purpose. If there is a discrepancy, that needs to be analyzed and reported before submitting the report to the auditors.
- If there is an inventory which is lying at supplier end (for job work etc.) a certificate is required from the supplier certifying the availability of the inventory at their end.

Inventory Audit - April 2



- Before starting the actual inventory audit, auditors want to freeze the inventory references. These references are
 - Verification of last purchase – Not a rule, but as a practice auditors ask for details of last 15 material's invoices which are received from suppliers in the last financial year. The transactions are verified based on security register entry and tracked for physical availability in warehouse, stores or proof of consumption are verified if those are already shipped out of premises.
 - Verification of last sales – Similar to purchase, auditors do ask for last 15 sales invoices and track those materials for security out entry, In transit or delivered at customer etc. Depending on the delivery terms, this exercise helps to finalize the sales numbers for the financial year.
 - Verification of sales and purchase transactions helps to finalize the system or projected inventory.

Inventory Audit - April 2



- Once the inventory sheet is submitted by operations for all the warehouse locations, finance auditors will pick up samples based on the value of the items.
- There is no standard rule, but most of the auditors does select samples of all the items contributing to 80% of the overall inventory value. This includes warehouse and shop floor locations. Have seen organizations doing 100% verification of inventory by auditors also.
- The selected sample sheet is shared with the operations team and all the items are physically counted by the auditors during audit process.
- Based on the audit results, the lines are released for operations. The physical counted inventory is considered as opening stock for the coming year.
- Based on the results of the inventory count, implement improvements to inventory management processes, if necessary, to prevent inventory discrepancies from happening in the future



Do you have more questions on Annual Cycle Count ?

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Thank You

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