PHYSICAL INVENTORY PROCEDURES

You should periodically do a physical count of items in your warehouse and compare this to the inventory detail in the system. Differences may occur because of theft, broken items, misplaced items, or items mishandled in some other way. You would typically do this procedure at year-end but depending on your situation, you may choose to do it more often.

There are three steps to a successful inventory count:

- **Organize the warehouse**

- **Proper cut off**

- **Controlling the count**

- **Entering the count properly**

- **Reviewing the results**

Each of these steps are discussed in more detail below.

Organizing the warehouse

This step is probably the most neglected part of the inventory process.

Some suggestions on organization:

- Merchandise should be in one location as much as possible and arranged in an orderly manner.

- Floor and work areas should be cleared.

- Orders in process should be completed and shipped or at least organized in a definite area of the dock.

- Merchandise of partially pulled orders should be returned to the shelves.

Proper cut off

Proper cut off of all warehousing activity prior to the count is often neglected or misunderstood. However, it is **crucial** that the cut off be done properly in order that an accurate count is recorded.

Here are some guidelines:

- All shipped orders must be invoiced through the system. Then, do not close any invoices for shipments made AFTER the count until the physical count has been recorded and posted.

- All merchandise receipts must be put up on the shelves and received into the system.

- Any material that has been pulled but not yet shipped should be returned to its ordinary spot **OR** you need to make sure it is included in the total count.

Controlling the Count

It is important to count everything in the warehouse. Also, if the system shows that there is quantity on hand for an item but no items are found, a zero quantity should be entered for that item. It is therefore important to have an accurate counting strategy.

You need to enter a count for every active item in your inventory file, either zero or nonzero. However, if you have a lot of items that have a zero on-hand quantity, you may want to use the **initialization** routine. This must be done **BEFORE you start entering a count.**

This function will start the count for ALL items in the range you specify at zero. You will only have to enter a quantity for items that you actually find in the warehouse. If you have many items with zero on hand, using the initialization routine is a time saver. If you have few of these or wish to control the zero entries more tightly, you may omit this step. It is available as a convenience if you would like to use it.

If you want to use this function, go to

Inventory, Miscellaneous adjustments, Initialize physical inventory count data

You may initialize all items or only certain groups.

There are many ideas on how to do the actual count. Below are a couple of ideas you can use to get an accurate tally of all items in the warehouse.

Both ideas start by printing count tags or worksheets using the following function under the Inventory System

Print Inventory Reports, Documents, Physical inventory count tags/worksheet

Count Tags

This function lets you print tags from card stock or on plain paper that you can cut apart into tags.

As you count the merchandise, note the count on the tag and place it under the edge of the box or in the bin in plain sight. When the count is complete, review the warehouse for boxes that do not have a tag to avoid missing some items. This tag procedure also helps prevent counting the same merchandise twice.

Gather all tags for items in which no merchandise was found on the shelf into a "No merchandise found" batch. Do NOT discard the tag unless you used the "initialize to zero" routine to start the count on all items at zero.

Use blank tags or slips of paper to record merchandise in overflow areas or for items that did not have a tag printed.

When all items have been counted, collect all the tags and enter the count in the system.

This process is especially well suited for situations where you have a lot of items in overflow areas.

Worksheet

Request the worksheet format, put the forms on a clipboard and enter the count onto the forms.

This procedure is well suited to a small warehouse or situations where you have no overflow areas.

Entering the count

To actually enter the count, go to

       Inventory, Miscellaneous adjustments, Enter physical inventory count

If you used the initialization routine to start the count at zero for all items, enter quantities for all items where you found merchandise, i.e. all items with nonzero quantities.

If you did **NOT** use the initialization routine, enter quantities for ALL items on your list, even those with a nonzero count.   If you use tags and have two or more tags for an item, when you enter the second tag, the system will let you indicate whether the new count being entered is an addition or a correction.

Reviewing the count

When you have finished entering the count, go to

       Inventory, Miscellaneous adjustments, Print Physical Inventory Journal

First, ask for the **AUDIT ONLY** version of the journal. This will list all your adjustments and show you the difference between the quantity in the system and the quantity you counted. The value of the cost difference will also be calculated.

Review this report closely.

Recount items with major differences and make any necessary corrections.

UNTIL THIS POINT, NO DATA HAS BEEN POSTED.

Once you feel that the counts are accurately recorded, ask for the journal again for the full close. At this point, the item quantities will be updated to reflect your count. The difference in cost will be recorded as a journal entry.

Frequently Asked Questions

Can I count only part of my inventory such as only the inventory for a particular program?

You must follow the same principles for organizing the warehouse and having a clean cut off. Having a clean cutoff is sometimes difficult when you are only doing a count of some of your items. However, if you can control that aspect of the count, Lakeshore will function properly using the same procedures.

If you want to use the initialization feature, be sure to only include the items in the group of items you are counting, such as all the items in a particular inventory type.

What about counts for consigned goods (customer-owned merchandise)? Are there any differences?

The only difference is that **NO journal entries are made for differences for customer-owned merchandise** even if you carry them in your inventory at a cost. Otherwise, procedures are the same.

It takes me several days to enter the physical count into the computer. How do I handle new orders that come in under that time period?

You may enter the new orders. The only quantities affected from these orders are the quantities allocated, tagged, or backordered, none of which affect the physical count process. You may go ahead and print pick tickets for these orders.

Once the actual count itself is finished, you may ship merchandise. However, because of possible recounts, it is highly recommended that all shipments be halted until the physical count process is completed. If you do go ahead and ship merchandise, keep a tally sheet or a copy of the pick ticket to reference in case of recounts of the items included on the shipment.

If necessary, you may generate an invoice for a new order/shipment. However,

DO NOT CLOSE INVOICING UNTIL THE PHYSICAL COUNT HAS BEEN COMPLETELY ENTERED AND CLOSED.

What about new merchandise that arrives while I am still counting or entering the count into the computer?

Any new material received during the inventory count period should be placed to the side and not received into the warehouse, recorded in the system, or used in any way until the physical count process is completed.

I had to invoice for some merchandise (NOT a prebill) before the count but it has not yet physically been shipped. How do I handle this scenario?

When the item was invoiced, the physical count was reduced. The related merchandise should **NOT** be included in the count. You may want to set it aside in a special area. Or, if it is still on the shelf, you should reduce the actual physical count by the related quantity.

I found a broken cup. How do I update the inventory on hand? Do I have to do a physical count?

There is an **adjustment routine** that lets you add or subtract a specific quantity without having to do a full physical count.

Go to

Inventory, Miscellaneous adjustments, Inventory adjustments/Returns

to enter these types of adjustments.