



It is important to understand how to maintain accurate quantities so that your inventory value is not understated or overstated in your general ledger.

The Physical Inventory process will help ensure that your current quantity-on-hand figures reflect the result of all sales, purchases and shrinkage events.

We will review the two different methods of performing a physical inventory; Year-end Counting and Cycle Counting.

We will also go over some of the terms you'll encounter as you complete your Physical Inventory and outline the Streamlined Physical Inventory Process.

Retailers and accountants have devised two different ways to count the items in your store.

The first method is known as 'Year-end Counting and the second method is known as 'Cycle Counting'.

Regardless of the method you choose it is very important that merchandise is out to be counted and that there are no open Purchase Orders for those items.

If merchandise arrives during your physical inventory hold the items back and wait until the skus are counted before receiving purchase orders or putting the new stock out on the floor.

When you undertake a Year-End Physical Inventory, you will typically close your store and count every single item in your inventory.

Sometimes this process occurs at night or outside of regular store hours.

This typically takes place once a year and is the basis for determining the value of your inventory.

There are a few concerns with this method and it has become the least preferred way to obtain correct counts.

For example, staff will not be doing anything else except counting items for one or more days.



This type of work can become monotonous and as a result counting inaccuracies can arise.

Since this method takes place only once a year, the counts are only truly accurate once a year.

Finally, suggested ordering relies heavily on precise quantities. Incorrect figures can result in significant overstock or understock of merchandise.

Best Practice suggests Cycle Counting your inventory.

This involves counting a defined inventory zone or location on any given day without shutting down operations.

Cycle counts give you an ongoing look at your inventory so you can pinpoint areas of concern before problems grow.

By counting small portions of the store in a systematic way, on a daily or weekly basis, you should be able to count the entire store once every 3 months.

Additional benefits include Suggested Ordering becoming more accurate.

Since smaller portions of the store are counted the staff is less inclined to become bored and miscount.

Only a few employees are engaged in this task, allowing the rest of the your employees to complete their daily jobs

Additionally, there is no need to close your store and therefor no lost revenue opportunities.

Since physical inventories require you to count items, we'll start with the 'Count File'. This is simply a record of the current quantity-on-hand for each item in your store. Changes you make to the 'Count File' do not affect your inventory records until you finalize the process.

If you are manually counting items, you'll use 'Count Sheets' to record the actual counts. Then you'll use that information to enter the numbers into the 'Count File'.



Any difference between the Quantity-on-Hand shown in the system and the actual count is called a 'Variance'.

For instance, if the 'Count File' shows that there are 5 bottles of water and you physically counted 4, you have a variance of 1.

One possible cause of Variances is known as 'Shrinkage'.

Shrinkage can cause a positive or negative 'Variance', and can be attributed to events such as breakage, weather damage, theft or receiving errors.

It's important to know what caused the shrinkage so you can avoid it from reoccurring.

'Shrinkage Types' in Inventory Maintenance can help track this.

Open the 'GoTo' menu and select 'Shrinkage History Type Assignments' under the 'Activity' section.

Enter a one character code for each 'Shrinkage Type', then enter a description.

For example, you might use 'B' for 'Breakage'.

Enter up to 20 'Shrinkage Types', and then click 'Change' to save them.

You can report the 'Shrinkage' activity in your General Ledger so make sure you confirm with your accounting department before making any changes to this file.

Now that you're familiar with some physical inventory terms, let's look at what's involved in actually completing a count.

From PIP, press 'Count' and select 'Create Count List from Viewer'.

Use all of the normal functions to modify your view.

For example, you could select a specific Location Codes.



For more detail on setting those up, be sure to watch the Training on Demand class titled 'Using Location Codes'.

You can print out 'Count Sheets' if employees will be manually writing down the shelf quantity.

Now count the items, noting the values on the printed count sheets or in Eagle Mobile's Physical Inventory screen. Watch the course, 'Eagle Mobile Physical Inventory' for steps on that specific process.

Enter or download the counts into the 'Count File'.

Then check for 'Variances' and assign 'Shrinkage Types'.

Lastly, 'Finalize' the counts using the 'Finalize' button.

Detailed instructions for this full procedure are available in the next class in this agenda.

Familiarizing yourself with some basic Physical Count terminology is key to understanding this process.

Streamlined steps that occur entirely within the PIP screen make it easy to load, count and update quantity-on-hand figures.

By following Best Practices and scheduling regular cycle counts, you can easily manage your inventory value and receive the benefits of an accurate general ledger and precise suggested ordering.