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Why am I counting on New Year's Eve?

March 7, 2016 at 7:00 AM



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David Rim, CPA, manager, at WeiserMazars LLP. - (WEISERMAZARS LLP)

I think back on the many New Year's Eves I have spent counting inventory throughout the Northeast. As difficult as it was for me as an auditor, it was at least as challenging for my clients. Performing a full physical inventory count usually takes weeks of planning, including coordinating with the internal sales team, and customers and suppliers who rarely empathize with scheduling challenges. This also wins you no favors with employees who are unhappy to work overtime during the holidays, or who are restricted from taking vacation time.

Many clients believe that a traditional inventory count performed near year-end is the only option. Cycle counting inventory is a viable option that should be discussed with your auditors to avoid the common drawbacks of a traditional count.

The breakdown

Effective cycle counting is achieved by performing multiple, smaller counts throughout the year as opposed to a traditional full physical count at year-end. This involves identifying key products or stock keeping units and categorizing by operational significance. The number of times a product or SKU is counted in a period will be based on its operational significance. This means that products or SKUs identified as significant will be counted multiple times per year as compared to once a year when a traditional inventory count is performed.

The most significant benefit of cycle counting is maintaining more accurate perpetual inventory records. We all like to believe that the controls we set in place work properly one hundred percent of the time. But, how many times has your warehouse or accounting department entered a shipment incorrectly, relieved an incorrect amount of inventory or duplicated usage during production? This is probably occurring throughout the year, but if you are only counting inventory at year-end, you will have waited a full year to discover the cumulative impact of these mistakes. This can cause difficulties in fulfilling customer orders, and be damaging to customer satisfaction, profitability or lead to overstocked items. If you are performing cycle counts throughout the year, you will have the opportunity to identify and correct these errors in a timelier

manner.

A traditional inventory count requires a disruption of operations during the critical year end-period. Extensive coordination, planning across multiple departments (finance, warehouse, operations and sales), manpower, scheduling with vendors and customers, and loss sales from full cessation of operations are also necessary when performing a traditional count. How much will these disruptions cost you? In addition to these tangible costs, can you quantify the effect of unhappy and stressed employees who have yet again missed precious time off during the holiday season?

Who should cycle count?



Jim Blake.

Companies that have the following characteristics benefit the most from cycle counting:

- The right corporate culture
- A sophisticated inventory system
- Have a willingness to make the initial time and monetary investment

Like all significant business functions, corporate culture will play an important role in the effectiveness of cycle counting. Management must be dedicated to strict regimens of performing cycle counts and stress the importance of attention-to-detail to the employees tasked with conducting the counts, recording the results and investigating the root causes of the differences. If management and employees are not willing to embrace the necessary discipline, cycle counting may not be for your business.

Cycle counts are also heavily dependent on the ability to maintain records of counts and the differences identified. The inventory management system should have the sophistication necessary in order to do so. If the current inventory management system your company utilizes does not have that capacity, an upgrade may be necessary.

Even if your inventory management system has the capability, certain upgrades or add-ons may be required. This leads to the third requirement for proper cycle counting which is the initial time and monetary investment required. Analyzing inventory, developing cycle counting procedures, training staff and executing the cycle counting program are preliminary commitments that are integral to the process. In addition, cycle counting may require a bigger time commitment throughout the year.

Who should not cycle count?

Cycle counting is not for everyone. If the following characterize your company, you should reconsider:

- Companies with inventory consisting of high dollar materials that is dependent on precise measurements.
- Companies with inventory consisting of high volume, low dollar items.
- Companies with inventory consisting of large, bulky items with low turnover.

Cycle counting has many benefits. Depending on your company's operations you should consider the potential returns on the initial investments described above with regards to establishing a cycle counting program. For further details, please contact WeiserMazars LLP.

About the authors

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Blake provides auditing, accounting, tax and consulting services to mid-size manufacturing and distribution companies in various industries including: food, transportation and logistics, energy and utilities, and consumer products. He is both a member of the Executive Committee and the partner-in-charge of the New Jersey practice.

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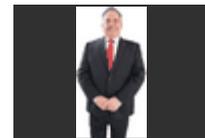


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