

Fact sheet: Stocktake

Who should do stocktakes?

- Taxpayers who either manufacture or buy and sell products have to value their stock on hand as at Balance Date. Typically this may be by way of a rolling (or perpetual) inventory system or by a physical stock count (or even a combination of both methods)
- Smaller businesses (those with a turnover of up to \$1,300,000 and where stock on hand is likely to be less than \$10,000) do not have to value their stock at year end — they can just use the opening value if they wish

What kind of systems?

- Businesses that use a perpetual inventory system — usually a computerised system — are able to produce a stock on hand value at any point with a reasonable amount of accuracy. Despite this, periodic checks should be made on the calculated totals to ensure that they are accurate — particularly the more high value items. It may be that an error has been made in the system or that some stock has gone missing. A regular system of physical checks should be established to check on the accuracy of the reports produced

What valuation methods should be used?

- Individual stock items should be counted and valued at their cost price. This often requires a bit of research and hunting through invoices to determine what the current purchase price of an item is. Some retailers have a code on their price stickers that represents what the purchase price of the item is — this can be particularly useful when doing a stocktake
- In some cases a business may have a very standard mark-up on all of their items — when doing a physical stocktake the retail price is recorded and then an adjustment made to take out the GST amount and the standard mark-up. This is really only suitable to a small number of high turnover types of businesses
- Care should be taken with stock that has devalued since it was purchased — perhaps it has been damaged or maybe the market for this type of product has crashed. In these circumstances the stock should be valued at the lower of cost price or net realisable value — i.e. what you can net after selling it. Of course, if the stock is worthless, it should be disposed of
- All stock values should be exclusive of GST

What should be included in the stocktake?

- Any items that have been purchased to resell should be included in your stocktake. As an example, if you are buying two products — say, products A and B — and making them into product C, you need to include all stocks of products A and B, together with all stocks of product C that you have on hand. These should all be valued at cost price and should not include any profit margins
- If you are holding stock on behalf of someone, for example on consignment, you should not count this stock in your stocktake as you do not own it
- You should not include any consumable items such as stationery, computer supplies and so on, in your stocktake

The Importance of Cut-Off Procedures

- It is important to have good cut-off procedures so stock is recorded accurately, as this has the potential to affect the calculation of gross profit. The more stock you carry, the more important this

is

- You need to be careful with items of stock that arrive around balance date. Goods arriving during the last week of the year should be monitored with extra care.
- If you receive a shipment of stock items on balance date you will generally be invoiced for them on that date and the invoice will be included in your Accounts Payable — if that is the case the stock also needs to be included in your stocktake
- For example, assuming a March balance date, make sure all stock arriving on or just before balance date is:
 - Counted in the stocktake
 - Invoiced to you on or before 31 March
 - Either paid for on 31 March or included in Accounts Payable
- If you have good 'inwards goods' procedures in place it will be easier to have good cut-off procedures. Incoming goods need to be:
 - Shelved, or
 - Put in a holding area for inclusion in the stocktake

When should you do a physical stocktake?

- The stocktake should be done after close of business on the last day of the financial year — your balance date. You are wanting to establish how much stock you have paid for (or owe your suppliers for) that has not yet been sold
- In cases where it is not practical to close up shop to count your stock, care needs to be taken — you do not want to include items in your stocktake that are subsequently sold as this will overstate your profit for the year. If this is a problem for you, please do give us a call and we can talk through what options you have in this area

Our Advice

- If you are at all unsure about how to go about doing your stocktake we suggest that you make a time to see us in the near future to discuss the best way to approach this. Attached to this report is a checklist to use for doing your stocktake — this should help you to conduct your stocktake in a more efficient way

Last reviewed on 16 June 2016

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