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THE MOTOR DEALER REPORT FROM AUSWILD & CO
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THE DREADED STOCK TAKE

It is that time of the year again, and most franchised dealership parts departments will be gearing up for the annual stock take. It is pretty much standard practice amongst motor vehicle dealerships but it is a time consuming project that few employees enjoy. However, accurate balance sheet information is necessary for both effective inventory management as well as efficient use of sales resources.

In this issue of *ausCAR*, we consider the reasons why a stock take is necessary and how proper preparation is a prerequisite for its success:

- **An accurate stock take contributes to better customer service**
Everyone in your parts department must, in the first instance, realise that the primary purpose of a stock take is not to please your financial controller, company accountant or your external accountant/auditor. It is to verify that the "on-hand" quantity of each item in your computer reflects what is actually on the shelf. Your stake-holders – that is, counter people, parts delivery staff, and workshop technicians need to be able to rely on the accuracy of the stock quantities in your computer.
- **An accurate physical count makes for more effective replenishment**
Most DMS can produce parts reports that show you how much of each item the computer thinks is in your storage area, how much will be demanded by customers in the near future, and how much should be ordered and when. What happens if the quantities in the computer are wrong? No matter how sophisticated the software, the wrong quantities, of the wrong parts, will be ordered.

A stock take is only valuable if the results accurately reflect what is actually on the shelves. A stock take can also be an expensive process as it usually involves a considerable overtime expense.

So, what can you do to ensure that your stock take is successful?

Here is an outline you can follow when planning your annual stock take. The planning process should begin as early as possible before the actual count date.

- **Set the count date(s)**
Do this as early as possible so that everyone has plenty of notice. Avoid dates when people are preoccupied and may not be focused on the task at hand. If you have several locations, but limited management personnel available to supervise the counting process, consider counting each site on a different date.
- **Select the method you will use to conduct the stock take**
 - **Barcode readers** – Barcode readers require compatible barcode labels for your bins or and special software for your computer. But these devices eliminate the necessity of counting products in teams, as well as the manual entry of counts in your computer. Because product counts in a barcode physical can be directly downloaded from a barcode reader to your DMS, the stock take process is simplified and the possibility for clerical error is reduced. This usually results in a faster, more accurate count.

- **Count cards** – Count cards containing individual part numbers and bin locations are a "low-tech and low-cost" alternative to barcode readers. These cards are placed on shelves or bins before the stock take begins. This allows counters to go down each aisle counting each bin in sequence. The process goes quickly because the card to record the count is already in the bin. This method facilitates the discovery of "lost" and misplaced material. If you use count cards be sure each counter has a supply of blank cards to accurately record discovered or misplaced merchandise. The blank cards should be printed on brightly coloured card stock so that material that needs to be moved to its proper location (after the count has been completed) can be easily located after the stock take is finished.
- **Count sheets** – Count sheets are easier than count cards to handle and process. However because multiple items are listed on a sheet, counters may be tempted only to count the items printed on the sheet, and overlook misplaced material or parts not listed.
- **Determine who will count** – If you are using barcode equipment, one person can count a section of your storage area. However if you are using count cards or sheets, it is suggested that there should be two-person counting teams. When forming the count teams, pair an experienced employee with someone with less knowledge of your inventory. The experienced person counts the material while the inexperienced person records the quantity.
- **Clean up your parts department** – If every item of inventory in your parts department is in its proper bin or location, you will be able to conduct a faster, more accurate stock take. That is why it is important to make sure that every piece of every item is where it belongs before the counting process begins. This includes cleaning out your return parts area. Take each item and put it back in its proper bin, return it to the vendor, repair it, or throw it away.

A stock take can seem like an overwhelming task. But just keep in mind that it's a lot like painting a house. The quality and success of both depend on proper preparation. Take the time now to plan and prepare for your annual count and make your next stock take an accurate one.

Once your stock take is completed, it should be reconciled to your general ledger and any variances investigated. Variances can occur for a variety of reasons such as pricing changes, sloppy book keeping including posting delays and errors, returns, obsolescence, billing disputes and theft. Having aligned your physical inventory with your dealership's general ledger, a policy should be put in place to ensure reconciliations between the two are conducted on a regular basis. Performing a regular (monthly, bi-monthly or quarterly) reconciliation is a great internal control.

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