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An Overview of Cycle Counting

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Introduction

- Inventory cycle counting is an important strategy to accurately manage the inventory of a business.
- Outline:
 - Cycle Counting Vs. Physical Inventory Count
 - The Key Purpose of a Cycle Count
 - Cycle Counting Methods
 - Cycle Counting Designs
 - Advantages of Cycle Counting Over Physical Inventory Counts
 - Cycle Counting Best Practices

Cycle Counting vs. Physical Inventory Count

What is Cycle Counting



- Regularly counting a small portion of inventory frequently over time
- Ongoing accuracy validation of inventory
- Counting a small subset of inventory in a set location on a particular day
- Counts are tailored to focus on items with higher value

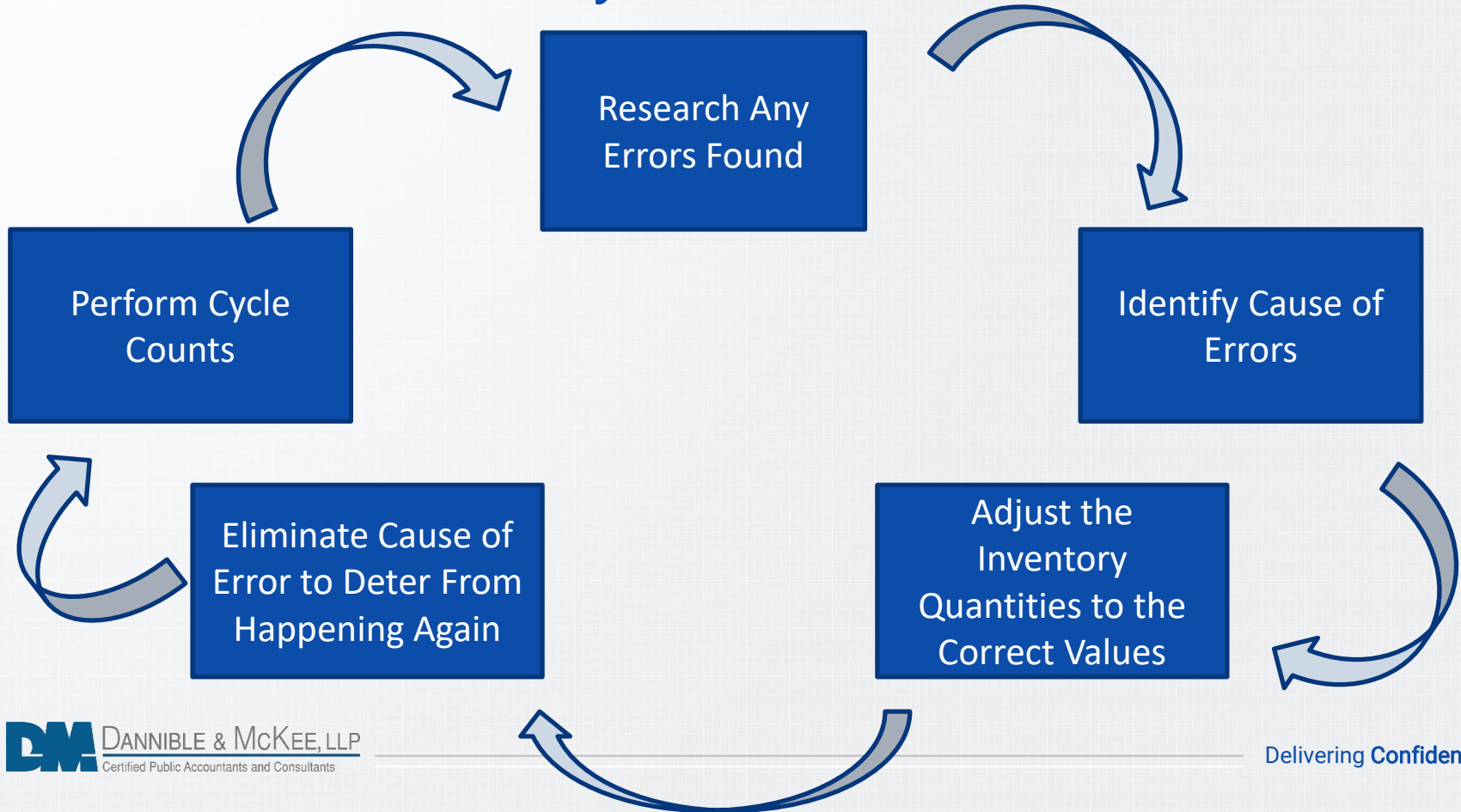
What is a Physical Inventory Count



- Actual “wall-to-wall” count of all materials and products the business owns
- Ensure the quantities counted match the final-priced inventory listing
- Usually conducted once a year
 - Extremely time consuming
 - Count usually takes place at the end of year, therefore around the holiday season

The Key Purpose of a Cycle Count

... Determining and Eliminating Causes of Inaccurate Inventory



Cycle Counting Methods

Getting Started in Cycle Counting

- Choose a small group of items to be counted regularly over a short period of time
- Once performed with no errors, the method can then be applied to the rest of the inventory: “Scale up”
- Helpful for businesses using cycle counting for the first time
 - Test the process, policy, and procedures
 - Implement across entire inventory

“ABC” Inventory Cycle Counting

- “ABC” method entails sorting inventory based on materiality and impact of quantity errors to the overall inventory balance
 - Critical items can be chosen to be counted more frequently
 - Best-selling items that don’t take up warehouse space should be counted most frequently
 - May be accomplished with the help of inventory control software, material requirements planning system (“MRP”) functions



"ABC" Inventory Cycle Counting

- Smaller companies often begin with the "Spreadsheet Method"
 - May be used to initially plan the process
- Consider "ABC" method in relation to impact on inventory balance if quantities are incorrect

Random Sample Counting

- Counting of items chose at random (either through “Material Requirements Planning” or “Spreadsheet Method”)
 - Can be performed each day or workday allowing a large percentage of items to be counted in a reasonable period
- Two techniques:
 - Constant population counting
 - Same number of items are counted each time a count is performed
 - Diminished population counting
 - The number of warehouse items counted are not counted again until all warehouse items have been counted
 - Decreasing number of items to be counted throughout the year



Random Sample Counting



- Dannible & McKee, LLP can assist you in setting up a selection functionality.

Objective is always to make sure that every item in inventory is counted at least once per year and is subject to being quantity-corrected if found to be wrong.

Cycle Counting Designs

Assignment of Count Areas



- Assign specialized areas of the warehouse to specific counters
 - Allowing chosen counters to be familiar with their assigned area
- Vary the schedule of employees who frequently perform cycle counts to preclude opportunities for fraud

Report Printing, Investigation, and Discussion

- Inventory reports showing specific inventory quantities should not be printed
 - Once counts are completed, they can then be verified with the system
 - If differences are noted, counters must locate the deficiency
 - Quantities should only be revealed once all transactions are completed and verified for the day
- Share findings and remedies with the managers and cycle counters for their information and education

Advantages of Cycle Counting Over Physical Inventory Counts

Save Time and Resources

- Less time spent on counting inventory; more time spent on growing the business
- Maximize productivity
- Reduced downtime and labor saves more money
- Real time sense of inventory level, leading to less over-ordering or under-ordering
- Can take place at any time during the year, rather than at the end of the year around the holiday season



Reduced Errors



- Improved inventory accuracy due to continuous counting
- Employees are less likely to make mistakes when counting a smaller volume of inventory
- Discrepancies are identified and corrected sooner than once or twice a year

Improved Customer Service



- Knowledge of the location of products leads to a quick delivery
- Satisfied customers are more likely to recommend you to potential customers

Cycle Counting Best Practices

Develop a Plan for Routine Cycle Counting

- Detail the following considerations:
 - What will be counted
 - When the items will be counted
 - How these counts will be recorded
- Discover a cycle counting routine:
 - Part of a daily routine
 - Choose the days of the week to perform counts
 - Mix up the schedule to deter employees from the potential for fraud

Create a Cycle Counting Team and Documentation



- Assemble a team to perform the counts
 - May consist of one person or a group of employees
 - Document the Company's cycle count program: policy and procedures
 - Make sure counters understand their duties and job responsibilities



Conclusion

- Implementing a cycle count program is an important internal control decision for both large and small businesses
 - More efficient than shutting down operations for a few days annually for a “wall-to-wall” physical
 - Handheld devices may be used to instantly update inventory quantities during the count
 - Several software options are available which can be scaled to the business
- Cycle counting has been proven successful for all entity sizes

Questions





*Thank you to all our clients, colleagues and friends for
your support over the last forty years!*

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