Form AP 32

Index Reference_____

Checklist for Observation of Physical Inventory Counts

Legal Company Name Client:
Balance Sheet Date:

***<u>Instructions:</u>* This checklist may be used as a supplement to AP 30 "Audit Program for Inventories and Cost of Sales". It is designed to help the auditor obtain an understanding of the client's physical count of inventory, including:**

The procedures and instructions for the physical count,
Verification of the physical counts,
Supervision by responsible employees,
Reconciliations of the physical counts,
Controls over count sheets or inventory tags, and
Cutoff procedures for shipping and receiving.

All 'yes" or "no" or "N/A" answers should be supplemented by additional comments in the space provided in this checklist or in attached working papers, with appropriate references. Merely checking "yes" or "no" or "N/A" does not sufficiently document the auditor's work.

1. Summarize below the locations of the inventory, the date the client will be counting the inventory, the name of the client personnel in charge, and the percentage of inventory at each location in relation to the total inventory.

Location	Date of Count	Client Personnel in Charge	% of Total Inventory

YES NO N/A

	YES	NO	N/A
2. Do adequate detailed written inventory instructions and procedures exist? If yes, attach a copy.	___	___	___
3. Do inventory procedures give appropriate consideration to the location and arrangement of inventories? Describe.	___	___	___
4. Do inventory procedures give appropriate consideration to identification and description of inventories? Describe.	___	___	___
5. Is the method of determining inventory quantities specified (e.g., weight, count)? Describe.	___	___	___

	YES	NO	N/A
6. Is the method used for recording items counted (e.g., count sheets, pre-numbered tags) adequate? Describe.	___	___	___
7. Are inventory tags used? If yes:	___	___	___
a. Are they pre-numbered?	___	___	___
b. Is accounting for inventory tags adequate and does it include control with respect to tags used, unused, and voided? Describe.	___	___	___
8. Are adequate procedures in place to identify inventory counted, ensure that all items have been counted, and prevent double counting? Describe.	___	___	___
9. Are obsolete, slow-moving, or damaged inventories properly identified and segregated? Describe.	___	___	___

	YES	NO	N/A
_____			
_____			
_____			
10. Is the inventory reasonably identifiable for proper classification in the accounting records (e.g., description, stage of completion)? Describe.	____	___	___
_____			
_____			
_____			
_____			
11. Are inventory counts subject to:			
a. Complete recounts by persons independent of the ones involved in the initial counts?	____	___	___
b. Recounts only of merchandise having substantial value?			
c. Spot checks by supervisory personnel?	____	___	___
_____			
_____			
_____			
_____			
12. Are counts performed by employees whose functions are independent of the physical custody of inventories and recordkeeping functions? Describe.	____	___	___
_____			
_____			
_____			
_____			

	YES	NO	N/A
13. Do proper accounting controls and procedures exist for the exclusion from inventory of merchandise on hand, which is not property of the client (e.g., customers' merchandise, consignments in)? Describe.	____	___	___
14. Do proper accounting controls and procedures exist for the inclusion in inventory of merchandise not on hand, but the property of the client (e.g., merchandise in warehouses, out on repair, consignments out)? Describe.	____	___	___
15. Will identical inventory items in various areas be accumulated to allow a tie in total counts to a summary listing subsequent to the observation? Describe.	____	___	___
16. Is the movement of inventory adequately controlled (e.g., shipping and receiving activities suspended) during the physical count to ensure a proper cutoff?	____	___	___

	YES	NO	N/A
_____			
_____			
_____			
17. Are significant differences between physical counts and detailed inventory records investigated before the accounting and inventory records are adjusted to match the physical counts? Describe.	____	___	___
_____			
_____			
_____			
_____			
18. Will the client be using the services of a specialist? If yes, describe the arrangements that have been made.	____	___	___
_____			
_____			
_____			
_____			
19. Will inventory at remote locations be counted? Describe.	____	___	___
_____			
_____			
_____			
_____			
20. Will special counting procedures or volume conversions be necessary (e.g., items weighed on scale)? Describe.	____	___	___
_____			

	YES	NO	N/A
21. How will work-in-process inventory be identified? Describe.	____	___	___
22. How will the stage of completion of work-in-process inventory be identified? Describe.	____	___	___
23. Describe any other matters that should be noted for the inventory count.	____	___	___

Prepared by _____ Date _____

Approved by _____ Date _____

Conclusions:

Comments:

Updated in subsequent years as follows:

Year	Updated by	Date