

INVENTORY CHECK AND DOCUMENTATION

Inventory verification process is designed to provide for the requisition processing, inventory management, purchasing, and physical inventory resolution functions of inventory management through a set of highly interactive abilities.



LEARNING OUTCOMES

After completing this lesson the Learner

- defines the Inventory verification process;
- identifies types and significance of verification process;
- classifies the different types of PPE required during the inventory process;
- explains the process of counting the inventory and managing the discrepancies;
- describes the overall system of Inventory Management.

10.1 DOCUMENTATION

Documentation plays vital role not only for the physical logistics operations connecting multiple agencies involved in, the financial, trading and accounting procedures of both buyer and seller organizations and partner banks also elaborate depend upon the entire set of documentation relating to each transaction to be able to recognize the sale, distinguish value of consignment and consequence necessary payment. Finally, goods and services are acknowledged at every stage only with the set of verified documentation indicating ownership based on which the

customs permit them to be exported or imported into or out of the territory. There are aspects like terms of carriage by the carrier combined with insurance liabilities and coverage that call for set of documentation including certain aspects of each transaction.

Hence, the supply chain transaction and logistics ,management requires set of consistent documentation from buyer and seller, from 3PL carriers and documentation as mandatory by customs at exporting country and importing country coupled with trading or bank obligations documents. The whole set of documents and the terms of trade have been established and standardized across all countries to facilitate international trade.

10.2 INVENTORY DOCUMENTATION

One of the very vital activities in Warehouse management is inventory counting. The Physical inventory lying at the warehouse should always match the inventory as per the Stock ledger. Any deviations could mean loss of inventory or loss of value.

10.3 DIFFERENT METHODS USED IN INVENTORY CHECKING AND DOCUMENTATION IN WAREHOUSES

Almost all warehouses spend a lot of time and efforts on keeping their inventory accurate. As they say, “To control you have first to measure”. There are three main techniques warehouses follow to measure the physical stocks and to tally them against System stock.

1. Physical inventory

This is a practice of counting the complete inventory wall to wall at-once in one go. Most companies must do it once a year during the year end as it is a regulatory requirement. This is also required for Balance sheet finalization and Income Tax filing. However, several other companies follow more periodic reviews after the end of every month or after the end of every quarter. Though the inventory count process is long and tedious, it is in best interest of the company to do it once every month or least a quarter. It is best to shut the operations for some days during the count period and conduct end to end counting. The more frequently it is done, better are the chances to identify the reasons for variances and correct them.

2. Spot checking

If we do physical inventory check once a year, it is very difficult to identify variances' reasons. Lot of companies follows the process of spot checking. Spot



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checking means choosing a product or set of products and conducting the physical count of the material at that moment and tallying with the system count. This is an unscheduled checking of inventory. This is done for more costly items, Problematic or Fast-moving Goods. Spot checking is quite common for Auditors or Senior Management to conduct when they are visiting the warehouse.

3. Cycle counting or Perpetual Inventory Count

This is one of the most effective techniques to keep the inventory in control. Here instead of doing the whole physical count during year-end, the warehouse counts its inventory every day, throughout the year. Each day a certain set of SKUs are identified and counted. They are tallied and in case of any variance's corrections are taken immediately.

10.4 METHODOLOGIES FOR IDENTIFYING THE SKU FOR DAILY PERPETUAL COUNT

There is various logic which can be used to identify the SKU to be counted on a given day. Following are the most popular ones:

Cycle Count Methodology	Details
Previous day touch, today count	In this method, all SKU received or dispatched in the previous day are counted. This method allows you to identify any error of counting or excess dispatch immediately.
All SKUs in a period	When No. of SKUs / fast moving SKUs are less, to cover all the SKUs, divide the total number of SKU with the number of working days in the period. Ex 500 SKU counted once every month. This will mean $500 / 25$ (Working days) = 20 SKU to be counted each day.
Random Basis.	Here the computer system generates the SKU list to be counted on the given day on Random basis. This also keeps the team on the toe as there is no pattern to SKU to be counted.

10.5 PHYSICAL COUNT OF THE MATERIAL

The activity in the process is to count the material in the warehouse physically.

The following sheet indicates a typical document which is used in the warehouse to physically count the material and tally with the system stock and identify variances.

INVENTORY COUNT SHEET										
Date										
Name of Facility										
Physical Stock										
Sl No.	Product Code	Product Description	Unit of Measurement	Unresliced	Blocked	Hold	Total Physical Stock	Stock Balance as per System	Excess/Shortage	Remarks if any
				A	B	C	D=A+B+C	E	D-E	
Name & Signature of Associate			Signature of Verifying Officer			Signature of WH Manager				

Fig. 10.1: Inventory Count Sheet

10.6 PREPARING A DAILY INVENTORY REPORT AND HIGHLIGHTING DISCREPANCIES

The physical count is always a blind count. The Warehouse executive will fill in the SKU code and details and handover the inventory sheet to the Warehouse Supervisor and Associate.

The Supervisor will conduct the count and bring back the sheet to the Warehouse Executive. He will now fill in the ERP stock from the system for each SKU.

The system stock will be represented against the physical counted stock.

In case of any variance, the Warehouse Executive will ask the Supervisor to recount the material. If the difference persists, the Warehouse Executive and supervisor will report to the Warehouse Manager for further action.

10.7 PROCEDURES DURING THE INVENTORY COUNT

- 1 Observe the counting teams of key personnel to confirm whether the inventory count instructions are observed appropriately.
- 2 Select a sample and perform test count up from inventory documents to warehouse lane and aisle to inventory documents.
- 3 Confirm the procedures for identifying and separating damaged goods are operating correctly.
- 4 Pick out a sample of damaged pieces as noted on the inventory documents and examine these windows to verify whether the level of damage is accurately noted.



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- 5 Observe the procedures for inventory movements throughout the count to verify that no raw materials or finished goods have been ignored or counted twice.
- 6 Acquire a photocopy of the completed sequentially numbered inventory documents for follow up testing on the final audit.
- 7 Observe the procedures taken out by the warehouse manager in calculating the level of work-in-progress and consider the reasonableness of any theories used.
- 8 Examine with the warehouse manager how he has estimated the quantities of the raw materials. To the extent that it is feasible, re-perform the processes adopted by the warehouse manager.
- 9 Recognise and record any inventory held for third parties (if any) and confirm that it is excluded from the count.

10.8 INVENTORY COUNT DISCREPANCIES

Critical Situation	Solution to resolve
<p>The warehouse manager is preparing to supervise the inventory count. While he is familiar with the inventory, he has overall accountability for the inventory and so is not independent. He may want to hide inadequacies and any issues that arise so that his department is not criticised.</p>	<p>An alternative supervisor who is not involved with the inventory, such as an internal audit supervisor, should administer the inventory count. The warehouse manager and his team should not be participating in the count at all.</p>
<p>Damaged goods are not being collected in a central area, and instead the counter is just noting on the inventory documents the level of damage. However, it will be difficult for the finance team to decide on an applicable level of write down if they are not able to find out the damaged goods. In addition, if these goods are left in the aisles, they could be unintentionally sold to customers or transferred to another aisle.</p>	<p>Damaged goods should be clearly highlighted by the counting teams and at the end of the count suitable machinery should be used to move all damaged goods to a central location. This will prevent the risk of selling these goods</p>



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Fig. 10.2: Inventory Count Process



INTEXT QUESTIONS 10.1

Multiple Choice Questions

- The warehouse may not check the following during the visual verification process.

A. Product Code	B. Batch/Lot number
C. Quality of the material	D. Labeling
- As per Legal Metrology (Packaged Commodities) Rules, 2011 which of the declarations on every package, is not mandatory:

A. The instructions for use of the Product.
B. Net quantity, in terms of standard unit of weight or measure or in number.
C. Month and year of manufacture/ pack/ import.
D. Retail sale price in the form of Maximum Retail Price (MRP) Rs. Inclusive of all taxes

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3. Shipping Labels may not include which of the following information
 - A. The Consignor Name and address,
 - B. The Consignor Name and address (including Postal code),
 - C. Date of delivery,
 - D. Package quantity as well as the weight,
4. Which of the following is not a reason for using Product Tags?
 - A. As a Marketing Tool.
 - B. Organization of the inventory
 - C. Implement shipping Rules
 - D. Communicate the consignor and consignee details

10.9 PERSONAL PROTECTIVE EQUIPMENT (PPE)

Warehousing and storage cover a whole range of activities, all have their individual hazards and risks. Employers need to ensure efficient health and safety management, looking at the risks engaged in the workplace and then putting in place efficient control measures to properly manage health and safety.

The reasons for more accidents and fatal happening in warehousing, transportation, or any type of activities of the logistics and SCM process,



Fig. 10.3: Various reasons for Accidents

The Health and Safety at work places responsibility for health and safety into two categories:

1. By Employer
2. By Employee



Fig. 10.4: Responsibilities of Employer and Employee

10.10 OBTAIN PERSONAL PROTECTIVE EQUIPMENT (PPE) FOR WORKING ON THE SHOP FLOOR

Personal protective equipment (PPE) is clothing or equipment meant to be worn by operators or visitors to protect their bodies from workplace hazards. The hazards referred by protective equipment include physical, electrical, heat, chemicals, biohazards, and airborne particulate matter. PPE can include: -

1. Hearing protective devices, such as earmuffs and earplugs
2. Respiratory protective equipment
3. Eye and face protection, such as safety glasses and face shields
4. Safety helmets
5. Fall arrest harnesses for working at heights
6. Skin protection, such as gloves, gauntlets, and sunscreen
7. Clothing, such as high visibility vests, life jackets and coveralls
8. Footwear, such as safety boots and rubber boots.



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Fig. 10.5: Different Types of PPE



Fig. 10.6

10.11 IMPACT OF THE AMENDED FACTORIES ACT FOR HEALTH AND SAFETY AT WORKPLACE

The Bhopal Gas Tragedy (4 December 1984)¹ was the changing point in India's history of health and safety. It led to a serious review of legislative measures. As a result, the Factories Act experienced a major revision in 1987 and practical implementation in the late 90s. The salient features and impact can be summarized as follows:

1. Owner's responsibilities increased

¹https://en.wikipedia.org/wiki/Bhopal_disaster

2. Creating awareness for the Health and Safety Policy in all covered establishments
3. Hazardous practices well defined
4. Information to workers, inspectorate, and the great public made mandatory
5. Prepare and practice Disaster Management Programmes
6. Medical examinations and documents
7. Occupational health facilities on site defined
8. All hazardous plants must have an Occupational Health Centre
9. Qualification and attendance of doctors specified
10. Types of equipment and drugs described.

**Notes****Do you know**

The Bhopal disaster, also referred to as the Bhopal gas tragedy, was a gas leak accident on the night of 2–3 December 1984 at the Union Carbide India Limited (UCIL) pesticide plant in Bhopal, Madhya Pradesh, India. The industrial disaster is considered the world's worst in history. Over 500,000 people were exposed to methyl isocyanate (MIC) gas. The highly toxic substance made its way into and around the small towns located near the plant. The official immediate death toll was 2,259. In 2008, the Government of Madhya Pradesh had paid compensation to the family members of 3,787 victims killed in the gas release, and to 574,366 injured victims. A government affidavit in 2006 stated that the leak caused 558,125 injuries, including 38,478 temporary partial injuries and approximately 3,900 severely and permanently disabling injuries. Others estimate that 8,000 died within two weeks, and another 8,000 or more have since died from gas-related diseases.

**INTEXT QUESTIONS 10.2****Fill in the Blanks**

1. The Legal Metrology (Packaged Commodities) Rules, 2011 are applicable on as defined under the Act as, 'a commodity which without the purchaser being present is placed in a package of whatever nature, whether sealed or not, so that the product contained therein has a pre-determined quantity'.
2. labels contain headers, graphics, and messages that enable clear communication about hazards and handling instructions for the product being packed.

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3. means choosing a product or set of products and conducting the physical count of the material at that moment and tallying with the system count
4. A on the product can drastically reduce the time and effort required to count the quantity.

10.12 RISK ASSESSMENTS

In today's environment of increased legal process there is added pressure on managers to ensure the safety of their employees. Managers have to take suitable steps to identify possible areas where accidents can occur and take steps to avoid them. Note that a hazard is anything that may affect harm, such as chemicals, working from height, broken pallets, etc. The risk is the chance, high or low, where the individual could be affected by these and other hazards, together with an indication of how severe the harm could be. A risk assessment can be broken down into five stages:



Fig. 10.7: Steps in Risk Assessment

10.13 OBJECTIVES OF INVENTORY MANAGEMENT

The major aims of the Inventory Management are,

1. It helps minimise the capital investment that stuck up due to providing the excessive stocks. The actual requirement would assess, and the stock will maintain appropriately. Hence, there would be no excessive stocking.
2. It ensures uninterrupted production in the business by ensuring a timely and enough supply of the raw materials. The software ensures that there is no under-stocking so that the production process does not impede due to a lack of inventory.
3. Due to the calculations for keeping stocks, the fluctuations occurring in the demand of the inventory can be achieved as there is maintained a safety stock all the time within the organisation.
4. The inventory management system helps evade the risk of any loss that would arise due to **deterioration, obsolescence**, etc.

5. A proper track of record for all the loss or the utilisation of the stock maintains at all times which helps, in turn, to replace the stock as and when required.
6. The inventory is moved between various locations like the warehouse and production area etc and easily traced with the support of this **inventory tracking management system**.
7. One of the main purposes is to keep track of the sales of the product and the inventory levels provided. With this system in function, the tracking can be clearly done.

10.14 FACTORS THAT INFLUENCE THE INVENTORY MANAGEMENT

Inventory Management plays a decisive role in enhancing the efficiency and competitiveness of business enterprises. Moreover, it helps save money, save time and increase inventory accuracy. When managing your inventory processes, there are various factors that you need to consider. The factors can impact inventory management in different ways:

1. Financial Factors

The financial mapping for every activity involves a great deal of financial risk. By strategically planning the spending of each inventory management task, such as item ordering, tax costs associated with stocks, transportation, storage, etc., in turn which will help the business to manage your inventory management process smoothly, reducing major cash flow problems.

2. Consumer Demand

Consumer demand is vital for inventory management, too, as our main objective is to have satisfied customers. Imagine that customers buy a huge amount of toothpaste but a minimal number of toothbrushes. It means that stocking equal amounts of both will bring a shortage of toothpaste, excess inventory of toothbrushes, or both. To avoid adverse financial impacts on business, tracking of customer demands and product sales and order inventory suitably.

3. Suppliers

Associating with the right suppliers is crucial, as suppliers are one of the most prominent factors impacting inventory management. Managing supply chains can be challenging for business, particularly if you cannot rely on suppliers to meet time



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limit and deliver quality products. Therefore, identifying a supplier who can offer a special price is of significant advantage to business.

4. Product Type

Inventory management must take into account the various types of products in stock. For example, some products may be unpredictable and have a shorter shelf life than others. Inventory must be handled to ensure that these items are replaced in timeline .

5. Managing tools and technology

Inventory management having the other influencing factor which is growing technology. This modern technology can save both time and money and increase the efficiency of inventory management processes. The appropriate managing tools, along with adequate streamline on the inventory management process with tools similar to barcode scanners, label printers, mobile computers, etc., along with good quality inventory management software. The new technologies will help the business to execute counting, recounting, receiving, picking and other processes more effectively.

6. Measures against Shortage of stocks

There is always difference in demand and supply of the produce. The protection counter to such unpredictable changes in the demand and supply can be done by process of buffer stocks.

10.15 CHALLENGES INVOLVED IN INVENTORY MANAGEMENT

Inventory accuracy is vitally important; the challenge remains in attaining it. Out-of-stock items cause profit loss but giving for inventory storage capacity and transportation cost also influences the bottom line.

1. Select a quality program and stick with it. The companies can choose any effective tools for inventory quality programs such as ISO, lean manufacturing, Six Sigma, kaizen, and Total Quality Management
2. Know what you are up against. The accuracy level of Inventory control is important tool for improvement of the inventory management system. Based on the bench mark, the organisation can set an improvement goal—aim either for a specific percentage. The periodic analysis will help to achieve such level and sustain improvements.

3. Keep the processes for inventory management simple and understandable.
4. Establish product traceability throughout the distribution life cycle.
5. Include your entire inventory pipeline—inbound and outbound shipments and inventory.
6. Applying a continuous cycle-counting program. Using cycle counting to sustain high levels of accuracy is one of the best ways to recognize problem areas. An efficient cycle-counting program eliminates the need for physical inventory expenses.

10.16 BENEFITS OF INVENTORY MANAGEMENT SOLUTIONS

1. It helps to **maintain the right number of stocks**. Contrary to some people's belief, inventory management does not seek to reduce the amount of inventory that the business has in stock. However, it seeks to continue at an equilibrium point where the inventory works at maximum efficacy. The goal is to find that area where the business never loses money in inventory in all directions. With the aid of an effective inventory management approach, it is easy to enhance the accuracy of inventory orders.
2. It leads to a more **structured warehouse**: with the help of a good inventory management system, you can easily manage your warehouse. If warehouse is not organized, you will get it very difficult to manage your inventory. Many businesses choose to improve their warehouse by placing the inventory that have the greatest sales together in a place that is easy to gain access to in the warehouse. This eventually helps to speed up order fulfilment and keeps clients happy.
3. It **saves time and money**: an efficient inventory management system can translate to time and money saved on the part of the business. By keeping way of the product that you already have at hand, you can save yourself the hassles of doing an inventory recount to ensure your records are accurate. It lets you to save cash that would have otherwise been spent on slow-moving products.
4. **Improves efficiency and production**: inventory management methods like bar code scanners and inventory management software can help to greatly increase the efficiency and productivity of a business. They do this by eliminating the manual way of making things, thus accepting employees to do other, more important things.
5. A **well-structured inventory management system leads to enhanced customer** retention: for customers to keep visiting you, you will need to



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always have the goods they need, at the amount they want, and at the time they want it. Inventory management helps you meet this demand by accepting you to have the right products all the time so that you and your customers are never stranded.

6. **Avoid lawsuits and regulatory fines:** Inventory management allows you to keep your warehouse or facility in order. If it is not kept in order, it can result in lawsuits, injury and fines associated with not following regulatory guidelines and rules. In addition, proper inventory management (including keeping records of your staff activities) helps document your actions in the event of an undesirable situation.
7. **Scheduled maintenance:** once you get hold of a new piece of equipment, you can begin to schedule routine and preventative maintenance, issue work order to your staff and track that the maintenance was actually carried out. This will help to extend the life span of that particular asset.
8. **Reduction in holding costs:** yet another benefit of an efficient management system is that it helps to save on inventory cost. These types of cost can be large and can be detrimental to a healthy profit margin. These types of costs are financing costs, warehouse rent, warehouse staff salaries, electricity bills, security et al. The key to keeping these costs in check is to have only the amount of inventory that you need at a particular time. Furthermore, having confidence in your forecast will mean that you will not have to hold a lot of “safety stock”.
9. **Flexibility:** a good inventory management strategy will allow the supervisor to be flexible and adapt to situations as they arise. The business world is vibrant and often unstable, and the same can also be said for inventory management. There are a plethora of problems that could come up such as incorrect shipments, warehouse accidents, manufacturing issues, theft et al. It is usually not possible to foresee or predict with certainty when they could happen, but if they happen, the best-case scenario will be for the manager to know at once so that he or she can rectify the issue.
10. **Increased information transparency:** a good inventory management improves to keep the flow of information translucent. This material includes when items were received, picked, packed, shipped, manufactured et al.

10.17 STRIKING A BALANCE BETWEEN OVERSTOCK AND STOCKOUT

Today’s manufacturers and warehouse managers already recognise the consequence of proper inventory management. However, issues that crop up, again and again,

concern having too not sufficient inventory to fill orders or too much for the existing demand. Overstocking and running out of inventory happen more often than inventory managers are unsure how to handle the best balance. A few main contributing factors can cause both overstocking and understocking.

The best practices for preventing overstock and out-of-stocks:

Pay attention to the market: Monitoring the market helps businesses prepare for peak demand and helps managers understand when demand might reach a plateau or fall off. This information should be heavily weighed for inventory management and included in upcoming sales forecasts to ensure accuracy.

Analysis teh historical customer purchases: Inventory managers need to focus their scope on the business's sales levels. Historical transaction information helps highlight high and low demand periods, so the company can stock its merchandise to match. For instance, a company selling swimsuits will see in its historical transaction information that demand slows during colder months, and it will then order less inventory to prevent overstocking.

Consider the company's marketing efforts: Understocking may occur when a business launches a marketing campaign but does not have the inventory to back up the increased demand levels. When managing inventory, stakeholders must consider the marketing campaigns the business is involved in.

Prevent oversight in the warehouse: Even a small step like organising the location of merchandise in the warehouse makes a big difference. The most in-demand products should be placed closest to the shipping area, with the slowest moving inventory kept in the back.

**INTEXT QUESTIONS 10.3****True and False**

1. Consumer care details are mandatory requirements on the labels as per Legal Metrology (Packaged Commodities) Rules, 2011
2. Warehouses are generally capable of doing detailed quality analysis of the incoming products including the chemical and mechanical properties of the material.
3. Counting the inventory at the end of every quarter is an example of perpetual inventory count.
4. There is a unique UPC code for every product.

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WHAT YOU HAVE LEARNT

Documentation plays vital role not only for the physical logistics operations connecting multiple agencies involved in, the financial, trading and accounting procedures of both buyer and seller organizations and partner banks also elaborate depend upon the entire set of documentation relating to each transaction to be able to recognize the sale, distinguish value of consignment and consequence necessary payment

There are three main techniques warehouses follow to measure the physical stocks and to tally them against System stock.

- Physical inventory
- Spot checking
- Cycle counting or Perpetual Inventory Count

Personal Protective Equipment (PPE)

Warehousing and storage cover a whole range of activities; all have their individual hazards and risks. Employers need to ensure efficient health and safety management, looking at the risks engaged in the workplace and then putting in place efficient control measures to properly manage health and safety.

The Health and Safety at work places responsibility for health and safety into two categories:

- By Employer
- By Employee

The risk is the chance, high or low, where the individual could be affected by these and other hazards, together with an indication of how severe the harm could be. A risk assessment can be broken down into five stages:

- Identify the Hazards
- Decide who might be harmed and how.
- Evaluate the risks and decide on precautions
- Record and communicate your findings and implement them
- Review your risk assessment regularly and update if necessary

Factors that influence the inventory management

- (a) Financial Factors,
- (b) Consumer Demand,
- (c) Suppliers
- (d) Product Type,
- (e) Managing tools and technology,
- (f) Measures against stocks.

Benefits of inventory management solutions

- (a) Maintain the right number of stocks
- (b) Structured warehouse,
- (c) Time and money
- (d) Improves efficiency and production
- (e) A well-structured inventory management system leads to enhanced customer,
- (f) Reduction in holding costs,
- (g) Flexibility



TERMINAL EXERCISE

1. What is inventory process documentation?
2. Name the PPEs used in Warehouse while handling the different inventories?
3. Explain the process of observing the PPEs at the shop floor workers.
4. What is inventory management?
5. Explain the stages involved in Risk Assessment.
6. Explain the factors which influence the inventory management.
7. Discuss the challenges involved in Inventory management process documentation.



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ANSWER TO INTEXT QUESTIONS

10.1

1. (c) Quality of the material
2. (d) Retail sale price in the form of Maximum Retail Price (MRP) Rs.
Inclusive of all taxes
3. (c) Date of Delivery
4. (a) As a marketing tool

10.2

1. Product
2. Physical Inventory
3. Label

10.3

1. True
2. False
3. True
4. True

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GLOSSARY

- PPE: Personal Protective Equipment
- Documentation: material that provides official information or evidence or that serves as a record.
- SKUs: stock-keeping unit
- Label: a small piece of paper, fabric, plastic, or similar material attached to an object and giving information about it.