**Checklist for Observation of Physical Inventory Counts**

<table>
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<tr>
<th>Location</th>
<th>Date of Count</th>
<th>Client Personnel in Charge</th>
<th>% of Total Inventory</th>
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**Instructions:** 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.
2. Do adequate detailed written inventory instructions and procedures exist? If yes, attach a copy.  

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
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3. Do inventory procedures give appropriate consideration to the location and arrangement of inventories? Describe.  

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<th>YES</th>
<th>NO</th>
<th>N/A</th>
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4. Do inventory procedures give appropriate consideration to identification and description of inventories? Describe.  

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<th>YES</th>
<th>NO</th>
<th>N/A</th>
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5. Is the method of determining inventory quantities specified (e.g., weight, count)? Describe.  

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<th>YES</th>
<th>NO</th>
<th>N/A</th>
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6. Is the method used for recording items counted (e.g., count sheets, pre-numbered tags) adequate? Describe.

   YES  NO  N/A

   ______________________________________

   ______________________________________

   ______________________________________

   ______________________________________

7. Are inventory tags used? If yes:

   ______________________________________

   YES  NO  N/A

   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.

   ______________________________________

   ______________________________________

   ______________________________________

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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.
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?
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.

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.
Conclusions:

Comments:

Updated in subsequent years as follows:

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<th>Updated by</th>
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