

INTRODUCTION

1. This chapter outlines:
 - a. The minimum requirements for stocktaking of merchandise inventories;
 - b. The preparatory requirements for stocktaking;
 - c. The procedures to be followed for stocktaking; and
 - d. The responsibilities of the Chairman of the Stocktaking Board, B Admin O, CANEX RM and the BCompt regarding supervised stocktakings.
2. For additional information regarding CANEX stocktakings, see the CANEX Policy and Procedures Manual, Accounting 203.

GENERAL

3. Stocktakings provide the following:
 - a. Verification of actual inventory to bookkeeping records;
 - b. Financial information on the status of inventory investment;
 - c. A measure of the effectiveness of inventory control procedures;
 - d. A method of assessing the individual managers in managing assets placed at their disposal;
 - e. A record of inventory holdings by age groups; and
 - f. An adjustment to the accounting records in order to complete the financial statements.
4. Supervised stocktakings are performed in the following entities:
 - a. Messes and Base Fund outlets. The supervised stocktaking is controlled by the Chairman of the Stocktaking Board. The handover of responsibility for stock between persons employed in mess or entity bars constitutes a supervised stocktaking, but does not eliminate the requirement for a monthly surprise supervised stocktaking; and
 - b. CANEX. The supervised stock-taking is controlled by the Outlet Manager.
5. When Base Fund operates an activity which is normally a CANEX operation (eg. Retail Store), CANEX inventory valuation and stocktaking frequencies will apply unless indicated otherwise.
6. The Chairman of the Stocktaking Board shall be an officer appointed by the BComd. While the B Admin O is responsible for the appointment of personnel to serve on the stocktaking board, the BCompt must brief the Chairman to ensure that they are fully aware of the policy and procedures on stocktakings. The organization of the stocktaking board and members' terms of references are presented at [Annex D](#).

MINIMUM STOCKTAKING REQUIREMENTS

7. The minimum frequency of stocktakings shall be as follows:

- a. Bars - on handovers, monthly on a surprise basis and at year-end;
 - b. NPF Food Services Account - at every month-end;
 - c. Miscellaneous - on handovers and at every month-end; and
 - d. CANEX - in accordance with the CANEX Policy and Procedures Manual, Accounting 203.
8. The requirements for a monthly surprise check during the month following the end of the yearly accounting period in messes and bars may be waived provided that the period between the surprise checks before and after the end of the accounting period does not exceed 60 days.
9. Where deemed necessary, BComds may direct that stocktakings be conducted more frequently.

VALUATION METHODS FOR STOCKTAKING

10. Retail Accountability Control. All outlets and departments controlled by the retail accountability method shall be counted at retail price.
11. Cost Control. Stocktakings for outlets and departments controlled by the Cost Control Method shall be valued as indicated hereunder:
- a. Grocery Stores
 - i. Grocery and Non-food Departments - counted at retail price and the total reduced to cost by the normal gross profit percentage;
 - ii. Meat and Produce Departments
 - (a) Counter Stock - counted at retail price and the total reduced to cost by the normal gross profit percentage,
 - (b) Cooler and Backroom Stock - counted at cost.
 - b. Others. All other cost controlled outlets or departments shall be counted at cost.
- NOTE:** The retail value excludes any GST and PST which may be included in the posted selling price.

GENERAL RESPONSIBILITIES

12. The general responsibilities are as follows:
- a. The B Admin O must ensure:
 - i. That the Manager has prepared for a scheduled stocktaking by taking all the necessary steps to ensure stock is arranged neatly and in such a way as to facilitate accurate counting,
 - ii. That all relevant documents have been actioned and submitted to the NPFAO,
 - iii. That the stocktaking is complete,
 - iv. That resources are made available, and
 - v. That all participants have been informed;
 - b. The Chairman of the Stocktaking Board must control all supervised stocktakings of messes and Base Fund outlets and to ensure that all members have been properly briefed on their duties and responsibilities;
 - c. The BCompt must:
 - i. Ensure that accounting records have been updated, cut-off procedures have been followed and that both personnel and equipment are available to complete

- the extension of values, and
- ii. Act as, or appoint, a stocktaking monitor where required; and
- d. The CANEX Regional Manager must:
 - i. Determine if stocktaking board members are required for CANEX stocktakings and, if required, forward a request to the B Admin O, and
 - ii. Act as Stocktaking Monitor as required.
- 13. While the accuracy of the physical count is important, the need to verify that all outstanding documentation has been accounted for and recorded in the appropriate accounting period cannot be overemphasized.
- 14. All change funds, petty cash funds, gift certificates and other funds that could affect the inventory accountability must be verified but are not to be included as part of the inventory. Copies of the verifications are to be attached to the stocktaking report.

STOCKTAKING PROCEDURES

- 15. Except as outlined in paragraphs 20 and 21, all supervised stocktakings of Messes, and Base Fund and CANEX outlets (other than Retail Stores), shall be recorded on form CF 614. Stocktaking in Retail Stores shall be recorded on form CF 1023. Forms CF 614 and CF 1023 shall be serially numbered, by the NPFAO prior to issue with a numbering machine/stamp or typewriter. All stocktaking form numbers shall be recorded on issue in the Accountable Document Control Register in accordance with Chapter 6. All form CF 614 or form CF 1023 numbers shall be checked off on completion of the stocktaking and the NPFAO shall investigate all lost pages.
- 16. Prior to commencement of a supervised stocktaking, the Manager shall ensure that:
 - a. All merchandise on the selling floor, reserve stock room, and warehouse is sorted and consolidated to facilitate counting and listing;
 - b. All merchandise in the receiving room, including inventory for which the invoices have not been received, is properly marked at retail and where necessary by department and/or age code;
 - c. All empty boxes, containers, etc, are removed from the selling floor, reserve stock room, and warehouse stock to prevent excess counts;
 - d. Cases and containers from which units have been removed will be clearly marked to ensure that they are not counted as being full;
 - e. Containers and cases of merchandise located in reserve stock will be marked with the current retail selling price and where necessary by department and/or age code;
 - f. Goods on consignment are clearly marked and verified on separate stocktaking sheets during the count;
 - g. All layaways are clearly marked by department and included in the count;
 - h. All slow moving, damaged, and obsolete stock is marked down and properly recorded on a Retail Price Change (RPC) form CF 1343 to the retail price at which it is expected to be sold;
 - i. A stocktaking plan is prepared, including a floor plan, and all staff members, participating in the stocktaking are instructed in their responsibilities and duties; and
 - j. All rental equipment is segregated and clearly marked so as to prevent inclusion in the count.
- 17. The manager, prior to a scheduled supervised stocktaking shall provide the BCompt with formal advice confirming that action as outlined in paragraph 15 has been completed. Where supervised stocktakings are carried out on a surprise basis the BCompt shall obtain

confirmation from the stocktaking supervisor that all merchandise, cash, and credit documents have been included in the count and that all merchandise is either in a saleable condition or has been recorded on an RPC.

18. The Chairman of the Stocktaking Board shall verify that stocktakings are conducted in an organized manner and in accordance with the prepared plan. Detailed procedures for the physical count are at [Annex A](#).
19. On completion of the physical count, all stocktaking sheets shall be turned over to the supervising member of the stocktaking team. All stock sheets shall be accounted for. Under no circumstances is a sheet to be destroyed and voided sheets will be clearly marked. The stocktaking sheets shall then be delivered to the NPFAO under cover of a Certificate of Stocktaking ([Annex E](#)).
20. Where a base makes use of professional stocktaking teams they shall be hired and controlled by the BCompt. Results of professional stocktakers shall be delivered to the BCompt. Professional stocktakers shall not be required to record the results of their count on stocktaking forms. It is normal practice that only a gross count by department is recorded.
21. To enable the auditor performing the Annual Audit to express an opinion concerning the fairness of stated inventory levels, the BCompt shall arrange for a random sample check (red check) of merchandise by base personnel. This check is to be carried out while the professional teams are performing their count.

EXTENSION OF THE COUNT

22. Stocktaking forms shall be extended and totalled as quickly as possible. Accuracy and speed in completing the inventory are important therefore BCompt should utilize all available resources for this task and, if deemed necessary, employ outside comptometer services to complete the extensions or, hire extra part time help.

COST OF STOCKTAKING

23. All costs related to stocktaking shall be charged to the outlet counted. Where costs relate to a major stocktaking of several outlets or departments, the Manager shall determine the most reasonable distribution of costs among the outlets involved.

CUT-OFF PROCEDURES

24. Sales Cut-off. The NPFAO shall verify that all sales receipts up to the exact time of the physical count have been received, deposited, and properly recorded in the RAR and the CRJ. (For stocktakings of retail outlets, the time of physical count is the time of the Comptroller's spot check.) On the date of the stocktaking, the NPFAO shall:
 - a. By reference to the Accountable Document Usage Register, record the last NPF Receipt number received and the last number issued; and
 - b. Reconcile all outstanding NPF receipts and ensure that all completed vouchers have been processed.
25. Purchase Order Cut-off. One week prior to the date of stocktaking the NPFAO shall ensure that all POs (forms CF 601 and DND 1353) are issued only on a limited, as required, basis. On the date of the stocktaking, the NPFAO shall:
 - a. Confirm that all POs received have been processed;
 - b. By reference to the Accountable Document Usage Register, determine the serial number of the last PO issued; and
 - c. Complete the reconciliation form ([Annex B](#)) to reflect :

- i. All outstanding POs,
 - ii. The department, the cost and the selling price of merchandise on hand covered by a PO for which the invoice has not been received (this information is determined jointly by the Manager and the NPFAO),
 - iii. A PO raised and/or issued but the merchandise has not been received,
 - iv. A PO issued to the Manager but not used (ie. all copies held), and
 - v. A PO covering merchandise received for which an invoice has been received but which cannot be processed due to an outstanding Request for Credit.
26. Transfers Cut-off. One week prior to stocktaking, the NPFAO shall ask the Manager to instruct all outlets to limit transfers of merchandise to only those transactions deemed essential. On the date of stocktaking (for stocktakings of retail outlets the date of stocktaking is the date of the Comptroller's spot check) the NPFAO shall:
- a. By reference to the Accountable Document Usage Register, record the last form CF 603 number received (ensuring that all received numbers have been processed) and the last number issued;
 - b. Record all outstanding numbers for the outlet;
 - c. By reference to the outlet's form CF 603 book, check to see if any issues have been made on numbers after the last number received by the NPFAO. If so, record the effect of the issue and the name of the receiving outlet;
 - d. Verify, at the receiving outlet, that merchandise has been received, actioned in the RAR, and included in the stocktaking; and
 - e. Action transfers included in the stocktaking but not previously actioned in an RAR by completing [Annex C](#).
27. Retail Price Change Cut-off. One week prior to stocktaking, the NPFAO shall ask the Manager to instruct all outlets to minimize and, if possible, stop the use of RPCs. On the date of the stocktaking (for stocktakings of retail outlets the date of stocktaking is the date of the Comptroller's spot check) the NPFAO shall:
- a. By reference to the Accountable Document Usage Register, record the last RPC number received and the last number issued; and
 - b. By reference to the outlet's books of RPCs held, reconcile all outstanding numbers and ensure that all completed vouchers have been processed.
28. Request for Credit. On the date of stocktaking (for stocktakings of retail outlets the date of stocktaking is the date of the Comptroller's spot check) the NPFAO shall:
- a. By reference to the Accountable Document Usage Register, record the serial numbers of the last Request for Credit (form CF 1333) issued and the last number received;
 - b. By reference to the outlet's outstanding Request for Credit file, reconcile all outstanding numbers and ensure that all completed forms have been processed;
 - c. Record the cost and retail value of the merchandise received, as shown on supplier's invoices and PO less the amount of the request for credit for inclusion in [Annex B](#);
 - d. Record the cost and retail value of other outstanding Requests for Credit and include in [Annex B](#); and
 - e. Check off the serial numbers of unused forms and verify that all forms issued have been accounted for.
29. Repairs. The NPFAO shall record the selling price and department of all outstanding repair tags covering accountable merchandise returned for repair as per [Chapter 24](#).

CUT-OFF ADJUSTMENTS

30. After the NPFAO has received and extended the stocktaking count sheets, it will be necessary to adjust the accounting records to action adjustments revealed by the cut-off procedures. The procedure for such adjustments is as outlined below:
 - a. Purchase Order
 - i. Merchandise Received But Not Invoiced - The NPFAO shall prepare a Stocktaking Reconciliation Report ([Annex C](#)) for the outlet to reflect the responsibility for items included in the stocktaking but not previously actioned to RAR,
 - ii. Merchandise Not Received and PO Not Used - No action required, and
 - iii. Merchandise Received but a Request for Credit is Outstanding - Action in the same manner as item (1) above;
 - b. Merchandise Requisitions, (form CF 603). Record the details on the stocktaking cut-off procedures form ([Annex B](#)) and include in the reconciliation report ([Annex C](#));
 - c. RPC (form CF 1343). As all merchandise has been valued at the current price and all vouchers have been processed, no adjusting action is required;
 - d. Request for Credit (form CF 1333). Action as a PO adjustment; and
 - e. Repairs. Record the retail value on the Stocktaking Reconciliation Report ([Annex C](#)) for purposes of measuring actual discrepancy.

POST STOCKTAKING REVIEW

31. One month after a supervised stocktaking, the BCompt shall review the results of the close off:
 - a. By reference to the outstanding Requests for Credit, confirm that credit or replacement has been received. Contact suppliers for all Requests for Credit which are still outstanding and confirm the validity of the request; and
 - b. By reference to the outstanding repair file :
 - i. Verify that outstanding customer repairs have been returned or are still valid customer repairs, and
 - ii. Verify that outstanding accountable merchandise sent for repair has either been received or, by contact with the supplier, ensure that these repairs are valid.

REPORT OF STOCKTAKING - MESSES AND BASE FUND

32. The BCompt shall advise the B Admin O of the results of all supervised stocktakings (including details of accounting action taken to record discrepancies) as quickly as is practicable. The report is to include the following information:
 - a. Outlet;
 - b. The retail value of inventory per the stocktaking;;
 - c. The value of inventory per the RAR;
 - d. The shortage/overage at retail and at cost;
 - e. The total sales since the last stocktaking;
 - f. Any shrinkage recorded since the last stocktaking;
 - g. The results of the last two stocktakings; and
 - h. A statement from the BCompt that:

- i. BCompt is satisfied with the stocktaking results and recommends acceptance,
- ii. BCompt is not satisfied with certain components and recommends that those portions be recounted, or
- iii. BCompt has no confidence in the stocktaking and requires another stocktaking before endorsing the financial statements as to the fairness and accuracy of stated values.

NOTE: For retail outlet stocktakings, the BCompt may determine their satisfaction or nonsatisfaction with the stocktaking results based on the error rate discovered during his spot check.

33. The BComd is responsible for providing direction, through the B Admin O to the BCompt, as to the action to take for overages and shortages.
34. The B Admin O shall initiate such action as may be necessary (including formal investigation where warranted) to identify and correct weaknesses.
35. When satisfied that appropriate corrective action has been effected, the B Admin O shall submit the report to the BComd for approval, and, upon approval, inform CHQ of the loss, the probable causes and the corrective/preventive actions taken to prevent recurrence. In instances where the shortage exceeds the BComds powers of write-off, the BAdmO shall submit the report to CHQ for review.

NOTE: A BComd must be very cautious in accepting stocktaking results indicating overages. Overages are as serious as shortages if not more so. Overages at retail in excess of 0.5% of sales are considered abnormal.

36. Submissions to CHQ in writing must be forwarded within 30 days of discovery of the shortage and are to include the following information, in addition to that indicated at paragraph 32:
 - a. The amount by which the shortage (at cost) exceeds the write-off authority of the BComd; and
 - b. The details of any investigation and corrective action taken.
37. A copy of all submissions to CHQ and replies thereto are to be passed to the BCompt to support the entries recorded in accounting records.
38. This action is supplementary to, and does not replace, QR&O or CFAOs dealing specifically with the requirement to report and/or investigate losses of Non-Public Funds.

CANEX

39. The following information is specific to CANEX stocktakings and is taken from the CANEX Policy and Procedures Manual, Accounting 203.

RETAIL STORE

40. Method of stocktaking. Stock will be counted once vice a double blind count;
 - a. Aging of merchandise. All stock will be aged, however, any stock having a retail value of \$ 2.00 or less will be considered current. Also, all greeting cards, magazines and pocket novels will be considered current;
 - b. Frequency. One stocktaking per year is required. Additional stocktakings will be conducted only when necessary. In any case, the VP of Operations must approve all approved retail stocktakings including dates and method of stocktaking; and
 - c. Stocktaking monitor. The BCompt will act as stocktaking monitor.

GROCERY STORES - GROCERY DEPARTMENTS

41. Method of stocktaking. The stocktaking is conducted by outlet managers;
 - a. Frequency. The minimum is twice a year. Once at mid-year and then at year-end. It is the discretion of the RM to conduct more stocktakings if necessary to adjust the cost multiplier in Supermarkets; and
 - b. Stocktaking monitor. Monitored by the BCompt only for the established minimum number of stocktakings.

GROCERY STORES - OTHER DEPARTMENTS

42. Method of stocktaking. Counting will be done by the Department Manager and submitted to the Store Manager for review and approval;
 - a. Frequency. Every month-end; and
 - b. Stocktaking monitor. The BCompt acts as the monitor only when the Grocery department is counted (ie. twice annually).

FOOD SERVICES OUTLETS (INCLUDING BARS)

43. Method of stocktaking. Conducted by outlet managers;
 - a. Frequency. Every month-end; and
 - b. Stocktaking monitor. The RM or his representative.

PETROLEUM OUTLETS - GASOLINE

44. Method of stocktaking. Conducted by the outlet manager;
 - a. Frequency. Every month-end; and
 - b. Stocktaking monitor. The RM or his representative.

PETROLEUM OUTLETS - AUTOMOTIVE PARTS AND ACCESSORIES

45. Method of stocktaking. Conducted by the outlet manager;
 - a. Frequency. Minimum twice a year, once at mid-year and then again at year-end; and
 - b. Stocktaking monitor. The RM or his representative.

COMBINATION STORES

46. Method of stocktaking. Conducted by the outlet manager. Where a Food Service department or Petroleum department are part of the Combination Store, the method and frequency of stocktaking will be consistent with Food Service or Petroleum outlets; and
 - a. Frequency. Minimum twice a year, once at mid-year and then again at year-end.

WAREHOUSES

47. Method of stocktaking. Conducted by the outlet manager;
 - a. Frequency. At least quarterly or more frequently at the discretion of the RM; and
 - b. Stocktaking monitor. The RM or his representative.

VENDING

48. Method of stocktaking. Conducted by the outlet manager;
 - a. Frequency. Quarterly. More frequently at the discretion of the RM; and
 - b. Stocktaking monitor. The RM or his representative.

REPORT OF STOCKTAKING - CANEX

49. Based on the error rate discovered by the random red check, the BCompt should determine their satisfaction or non-satisfaction with the stocktaking results. If the BCompt is not satisfied with the planning for or conduct of the stocktaking, they should communicate their concerns immediately to the outlet manager and RM.
50. The stocktaking results are to be communicated to the outlet manager, RM and CANEX VP of Operations and will include the information at paragraph 32.
51. Any major discrepancy must be analyzed by the outlet manager and the NPFAO as soon as possible.
52. If there is disagreement between the BCompt and CANEX management concerning the results of the stocktaking, the BCompt should contact DNPFS 4 for resolution.

INVENTORY SHORTAGE

53. In circumstances where there is an inventory shortage, the following course of action should be implemented:
 - a. BCompt should advise the RM and the VP of Operations by FAX of the shortage. Once advised, the RM will be responsible to assess the accuracy of the stocktaking and forward findings and recommendations to the VP of Operations; and
 - b. Depending on the severity of the shortage, CANEX HQ will advise the appropriate command and request assistance in conducting a Board of Inquiry or Summary Investigation.

OLD MERCHANDISE RATIO REPORT

54. The completion and analysis of the Old Merchandise Ratio Report is a CANEX responsibility.

[Annex A - Stocktaking Procedures](#)

[Annex B - Stocktaking Cut-Off Procedures](#)

[Annex C - Stocktaking Reconciliation Report](#)

[Annex D - Stocktaking Organization](#)

[Annex E - Certificate of Stocktaking](#)