



Inventorying or stock-taking? Stock-taking reports or inventory lists?

Do you know the difference between these terms? Let's answer the basic questions:

What is inventorying and what is stock-taking?

By means of **inventorying**, the accounting entity verifies whether the book state of assets and liabilities and the difference between assets and liabilities correspond to the actual situation.

Inventorying consists of several steps:

1. Determination of the details based on the internal regulations of the entity – the subject of the inventorying, starting and end date of inventorying, persons in charge of inventorying, for example in the form of an order to carry out the inventorying;
2. Determination of the actual state and its entry in inventory lists;
3. Comparison of the accounting state and the determined actual state;

4. Calculation and posting of stock-taking differences;
5. Assessment of reality of the valuation of assets and liabilities in the accounts compared to the actual situation;
6. Drawing up a stock-taking report.

Stock-taking as a determination of the actual state may take the form of a physical stock-taking, i.e. counting, weighing or measuring of material stocks, valuables, cash, etc., a documentary reconciliation, which is carried out on the basis of available documents, or a combination of both. In practice, for example, reconciliation of balances is often used in the inventory of assets and liabilities by sending a request to the business partner to confirm the accuracy of outstanding items.

Stock-taking as a physical determination of the actual state is thus only a partial activity within inventorying.

Is inventorying obligatory?

The Accounting Act No 431/2002 Coll., as amended, imposes an obligation on every accounting entity to take stock of assets, liabilities and the difference between assets and liabilities in accordance with this Act. This obligation applies to all accounting entities, regardless of the accounting system they use or whether they are a business or non-business entity. By carrying out inventorying, the entity demonstrates that its accounts are verifiable.

How often does inventorying need to be performed and when can physical stock-taking be performed?

The Accounting Act obliges accounting entities to carry out inventorying **as of the financial statement date** (ordinary or extraordinary). It is not performed if interim financial statements need to be prepared, with the exception of inventorying for valuation purposes.

An exception is inventorying of tangible assets (other than stock and cash), which may be carried out by an entity at a time other than the date at which the financial statements are prepared, though not exceeding four years.

Physical stock-taking of tangible assets that cannot be carried out at the date of the financial statements may be carried out in the last three months of the accounting period or in the first month of the following period.

In such a case, however, the entity must provide evidence of the situation at the date of the financial statements by means of data from the physical stock-taking adjusted for additions and disposals of assets from the end of the physical stock-taking to the end of the accounting period, or, if the inventory is carried out in the first

month of the following accounting period, from the beginning of the following accounting period to the end of the physical stock-taking.

The entity may perform physical stock-taking at any time during the accounting period or in the first month of the following accounting period. However, as the entity must also show the state of the stock at the financial statements date in the form of additions and disposals, inventorying is often performed as close to that date as possible.

The entity must perform the inventorying of cash at the date at which the financial statements are prepared.

The entity may also carry out voluntary inventorying, the content and timing of which are determined in the entity's internal document.

What is an inventory list?

An inventory list is an accounting record that ensures the verifiability of the bookkeeping.

Under Section 30(2) of the Accounting Act, an inventory list must state the following information:

- the business name or designation of an accounting entity, registered office (legal person), permanent address (natural person);
- the stocktaking opening date, date for which the stocktaking was performed, and the stocktaking closing date;
- the state of assets, with quantity units and prices;
- the place of storage of assets;
- the name, surname and signature record of the person materially responsible or person responsible for the respective type of asset;
- a list of the liabilities and their valuation;
- a list of the actual state of the difference between assets and liabilities,

- recommendations for assessing the reality of a valuation of assets and liabilities as of the financial statements date, ascertained in the course of stock-taking in order to adjust the valuation of assets and liabilities, where such facts are known to the persons who performed the stocktaking;
- the name, surname and signature record of the persons responsible for establishing the actual state of assets and liabilities and the difference between assets and liabilities;
- notes.

The notes to the inventory lists may list damaged or destroyed assets, unusable or surplus assets with a proposal for its settlement, a proposal for a change in valuation, a write-off of a liability, or a proposal for a change in depreciation. Findings relating to the preservation or care of assets may also be included.

Subsequently, the state in the inventory list is compared with the bookkeeping. The results of the comparison of the actual state and the accounting state are entered in a stock-taking report.

What is a stock-taking report?

The state of assets and liabilities and the difference between assets and liabilities in the inventory lists is compared to the state of assets

and liabilities and the comparison is entered in a stock-taking report. The stock-taking report is an accounting record which proves the objective correctness of accounting and which must state:

- the business name or designation of an accounting entity, registered office (legal person), permanent address (natural person);
- the results of the comparison of the actual state of assets and liabilities and the difference between assets and liabilities as stated in the accounts;
- the results arising from the assessment of the reality of a valuation of assets and liabilities;
- the name, surname and signature record of persons responsible for inventorying at the accounting entity.

The result of the comparison of the actual state as stated in the inventory lists and as stated in the bookkeeping may be a stock-taking difference which may take a form of a shortage, where the actual state identified is lower than the book value, or a surplus. If the shortage involves cash or valuables, it is referred to as deficit.

The stock-taking difference is recorded by the accounting entity in line with the Accounting Procedure under the accounting period for which the stocktaking was performed.

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