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INVENTORY

CHEAT SHEET & PRACTICAL GUIDE

Learn Today, Lead Tomorrow.

1 WHAT IS INVENTORY?

Inventory refers to goods or materials held for sale or used in the production of goods or services.

KEY POINTS

- Inventory is a Current Asset.
- Proper inventory management ensures accurate financial reporting and better cash flow.
- Includes raw materials, work-in-progress and finished goods.
- Must be properly recorded, stored, counted and valued.
- Regular physical count ensures accuracy and prevents loss or fraud.

2 INVENTORY PROCESS FLOW

1. Receive Goods (Inspect & Verify)
2. Record in Inventory System
3. Store Properly
4. Issue / Use / Sell Inventory
5. Record Inventory Transactions
6. Perform Physical Count (Monthly / Quarterly / Bi-annually / Annually)
7. Reconcile & Adjust if Necessary

INVENTORY ACCURATE & UPDATED

3 IMPORTANT DOCUMENTS

- Goods Received Note (GRN)
- Purchase Order (PO)
- Delivery Order / Goods Delivery Note (GDN)
- Inventory Issue / Material Requisition
- Stock Transfer Note
- Stock Count Sheet
- Inventory Adjustment Note
- Inventory Valuation Report
- Inventory Aging Report (if applicable)
- Inventory Policy & Procedures

GOOD PRACTICES

- ✓ Follow FIFO / LIFO policy (where applicable).
- ✓ Keep inventory in secure and proper conditions.
- ✓ Segregate duties between custody, recording and approval.
- ✓ Update inventory records in real-time.
- ✓ Investigate and resolve discrepancies promptly.
- ✓ Maintain supporting documents for audit & tax.

4 INVENTORY COUNT FREQUENCY

The frequency of physical inventory count depends on the nature and complexity of inventory.

FREQUENCY	SUITABLE FOR
Monthly	High value / Fast moving items Retail / F&B / Perishable goods
Quarterly	Moderate value / Moderate moving items
Bi-annually	Low value / Slow moving items Seasonal inventory
Annually	Low risk / Stable inventory Non-critical items

Note: More frequent counts provide better accuracy and help detect issues early.

5 PHYSICAL COUNT PROCESS

1. Plan & Schedule Count (Decide frequency & scope)
2. Prepare Count Sheets
3. Count Inventory (By assigned counter)
4. Review & Verify Count (By reviewer)
5. Compare with System Records
6. Investigate Differences
7. Record Adjustments (if required)
8. File & Retain Documents

6 INVENTORY ACCOUNTING ENTRIES (EXAMPLE)

A. Purchase of Inventory (on credit)

Account	Debit (RM)	Credit (RM)
Inventory	10,000	–
Accounts Payable	–	10,000

B. Issue Inventory for Use / Sale

Account	Debit (RM)	Credit (RM)
Cost of Goods Sold / Expense	6,000	–
Inventory	–	6,000

C. Inventory Adjustment (Decrease)

Account	Debit (RM)	Credit (RM)
Cost of Goods Sold / Expense	500	–
Inventory	–	500

Note: Use appropriate accounts based on the nature of inventory and company policy.

7 INVENTORY VALUATION METHODS

FIFO (First In, First Out)
Assumes older inventory is sold first.

LIFO (Last In, First Out)
Assumes latest inventory is sold first.

Weighted Average Cost
Average cost of inventory is used.

Specific Identification
Used for unique or high-value items.

Note: Choose a method and apply consitently in accordance with MFRS / MPERS.

8 INVENTORY COUNT RECONCILIATION (EXAMPLE)

As at 31 May 2025	RM
Inventory on hand (Physical Count)	50,000
Less: Inventory per System	(48,500)
Difference	**1,500**
Investigated and identified:	
Unrecorded Goods Received Note	800
Damaged Goods	(300)
Shortage / Loss	1,000
Total Difference	**1,500**
Adjustment Required	-

Note: All differences must be investigated and approved before making adjustments to the records.

9 RESPONSIBILITIES

Inventory Custodian
- Safeguard inventory and storage area.
- Ensure proper receipt, storage and issue of inventory.
- Report any damage, loss or irregularities immediately.

Inventory Officer / Accountant
- Maintain accurate inventory records.
- Perform regular counts and reconciliations.
- Prepare inventory reports and analyses.

Management / Approver
- Approve inventory policy and procedures.
- Review inventory reports and investigate variances.
- Ensure compliance with accounting standards.

10 BEST PRACTICES

- Set inventory min/max levels.
- Use barcode / system for tracking.
- Secure inventory from loss & theft.
- Perform regular count & review.
- Monitor slow moving & obsolete items.
- Document all transactions.

11 INTERVIEW QUESTION

Q **Why is inventory management important?**

A Inventory management is important because it ensures the right quantity of inventory is available at the right time, minimizes holding costs, prevents stockouts or overstocking, protects assets from loss or obsolescence, and ensures accurate financial reporting.