November 2023

# Inventory counts can already be performed

## I. Inventory count for 2023 must be performed

The rules for taking inventory of individual assets and liabilities are set out in Chapter 3 of the Accounting Act of 29 September 1994. They indicate that assets and liabilities are inventoried as at the last day of each financial year. The objective is to determine the actual balance of assets and their sources (liabilities), identify inventory differences and the reasons for their occurrence, and appropriately account for them in the books of account. Inventory counts are performed using one of three methods.

Entities whose financial year is the calendar year can perform inventory counts by performing physical counts in the period from October to 15 January of the following year. Early performance of an inventory count, i.e. before the end of the financial year, is not possible if it is carried out by comparing the data in the books of account with the relevant documents.

## II. Most assets inventoried through physical count

Cash assets (with the exception of cash at bank), paper-form securities, tangible current assets, non-current assets and investment properties, as well as plant and equipment classified as assets under construction, are inventoried by counting their quantity, performing a valuation of that quantity, comparing the value with the books of account and clarifying and accounting for any differences. In accordance with binding regulations, non-current assets are those items of company property that are characterized by a useful life of more than 12 months. Non-current assets may be divided into the following categories: intangible assets, long-term receivables, long-term investments, tangible assets, long-term prepayments.

## III. Financial assets inventoried through balance confirmation

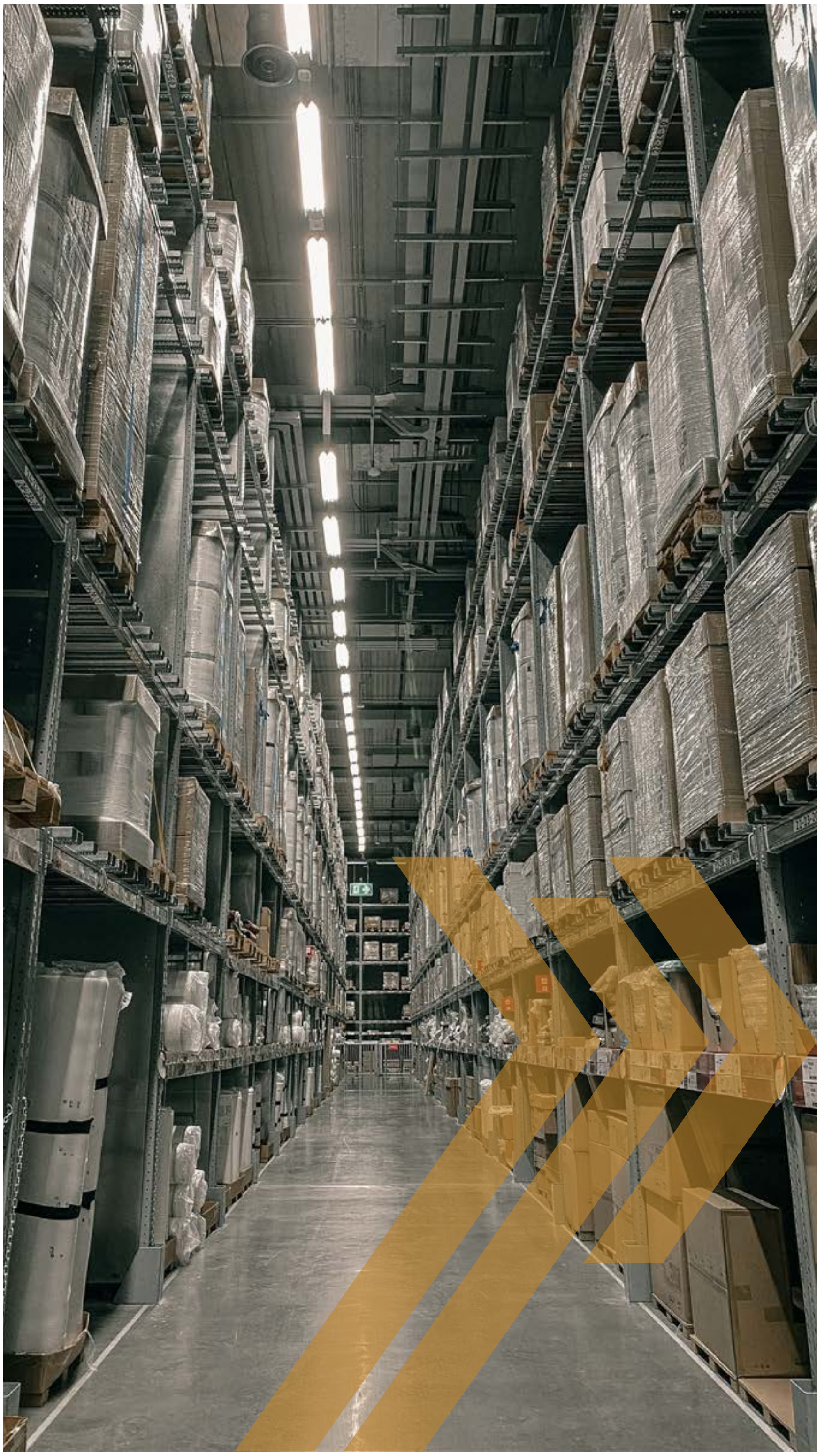
Financial assets held in bank accounts or kept by other entities, including book-entry securities, receivables, including loans, as well as own assets entrusted to contractors, are inventoried by obtaining confirmations of the balances of those assets from banks and contractors, and clarifying and accounting for any differences.

## IV. Certain assets inventoried by comparing books of account and documents

Non-current assets that are hard to access, land and property rights, disputed and doubtful receivables, and at-risk bank receivables, receivables and payables in respect of those who do not keep books of account, public receivables, as well as assets and liabilities not covered by other methods (physical count or balance confirmation), as well as those covered by such methods if a physical count or balance confirmation was not possible for legitimate reasons, are inventoried by comparing the data in the books of account with the corresponding documents and verifying the value of those items.

## V. Inventory count can start as early as three months before year end

Assets and liabilities are generally inventoried as at the last day of the financial year. However, the Accounting Act contains simplifications consisting of special dates that make it possible to consider the date (last day of the year) and frequency (each year) of an inventory count to be met with regard to the various assets subject to inventory. And so the date and frequency are considered met if a count of assets – excluding cash assets, securities, work in progress and raw materials, goods for resale and finished products – was started no sooner than 3 months before the end of the financial year and completed by the 15th day of the following year. The simplifications that consist of starting an inventory count no sooner than 3 months before the end of a financial year and completing it by the 15th of the following year apply to two out of the three inventory taking methods, i.e. to physical count and balance confirmation. A count performed by comparing the data in the books of account with the corresponding documents and verifying the value of those items should be performed as at the last day of the financial year.



## VI. Exact inventory count dates and procedures defined by entity manager

The Accounting Act specifies what assets and liabilities should be inventoried, on what dates and using what methods. Whereas it does not contain detailed regulations on how to perform and document an inventory count, when to prepare inventory count reports or print out statements of subsidiary account balances or statements of balances of the inventoried groups of assets. This is because these are technical and organizational issues that should be decided by the entity's manager. Where a count is to start on 1 October, these issues should of course be decided and adopted prior to that date.

# VII. Inventory count order and instructions are needed

The performance of an inventory count is the responsibility of the entity's manager. The Accounting Act requires inventory counts to be performed based on an inventory count order and instructions. They should include information on: the inventory count organization and process, the rules and methods used to account for and value the results; the procedures chosen for counting and recording the various types of inventory (counting, weighing, measuring, estimating) and the relevant timetables; the rules for appointing members of the inventory committee and inventory teams, as well as their powers; the performance of separate counts of all assets that are: free-standing, impaired or owned by third parties; the methods used to control inventory forms; the methods used to control turnover during the physical count so that the results of the count are not distorted by ongoing activity; determining the degree of completion of work in progress; any simplifications applied during the count; the necessary documents, i.e. the order implementing inventory count instructions, management's order to perform the inventory count, statement of person materially responsible before the inventory count, as well as the inventory count report.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# VIII. Simplified inventory taking methods not to replace physical count

In its recommendations to financial statements the Accounting Standards Committee has stated that the use of simplified inventory taking methods, and in particular replacing a physical count with a verification of the value of assets (balance verification) by comparing the books of account with relevant documents should only take place in exceptional situations, and the need to apply the simplification every time must be substantiated by the entity's manager.

The information presented herein does not constitute comprehensive information or opinion. Consult your adviser before making any decisions.



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