

Physical inventory count

Physical inventory count



These responsibility areas are assigned to

Finance responsible assigned & Plant inventory manager

For questions related to Physical inventory count you can contact :

The content of this macro can only be viewed by users who have logged in.

Responsibility Area & Process

0. Glossary

TERM	Meaning	Role
FRA	Finance Responsible Assigned	Controlling at plant level
PIM	Physical Inventory Manager	Storage, Reception, Delivery and Shipping of stock
GCCO	GBU Cost Control Owner	Controlling at business level
WP2	ERP legacy from Rhodia and Cytec	Syesnqo ERP
PF2	ERP legacy from Solvay	Syesnqo ERP

1. Definitions

This document provides a **step-by-step guide** for physical inventories that allows us to verify the existence and ownership of inventories.

FRA ensures that plant physical inventory procedure is updated every year, that physical count coverage complies with group rules and that auditors can supervise physical inventory organized during Q4

Physical inventory counts objective is to check the existence and ownership of inventories.

This procedure applies to all companies included in the consolidation under full integration. It is recommendation for "joint operation", joint venture and where Syesnqo is considered as "associate" and to **all warehouses within and out of production sites**.

For each new acquisitions the integration management office will determine when that procedure becomes compulsory.

The procedure deals with the inventory count of **all materials** from a site where the inventory is taking place.

The procedure deals with the inventory count associated with BFC heading STOT-A300 inventories.
The procedure is effective **from the publication date**



A physical inventory count of inventories and work-in-progress is performed on an **at least once by reference period** in accordance with the Syensqo Group's accounting standards. Reference period starts on December 1st and ends on November 30th of the following year.

- The Syensqo Group admits the use of **cycle count** until the end of November and **"full Spot" physical inventory until the end of December** (*Note: The full Spot count results of Dec YN cannot be used as control evidence in YN+1*).
- Off-site locations are eligible for confirmation method, in case costs for conducting inventory counts are not reasonable ([The decision of what constitutes reasonable rests with the GBU Management team](#)).
- All types of stock items are counted at least once a year.
- Any adjustment of the inventory valuation related to an inventory count **is communicated to a Controller** (plant, function or business). A controller must validate and ensure proper accounting record.
- A count of items representing 100% of the value of prior end inventory should be done as of November 30th. Note: The period can be extended/ modified if requested by Audit team.

Annual inventory planning

Annually, at the start of Q1, the Physical Inventory Manager (PIM) defines the physical inventory count program for the year for raw materials, semi-finished goods, finished goods. For plants which follow cycle counts, the plan includes a stratification/ classification following the Cycle Count policy. The data used for the analysis is based on SAP G/L detail for the prior year-end and forward-looking material resource projections. It is then reviewed and approved by the GBU Finance Responsible Assigned (FRA). For Cycle Counts: The plan outlines the stratification classification & count requirements for each following the guidelines stated in the Cycle Count policy. The FRA reviews the count plan which is then transferred/uploaded to the Company's database to feed with the ERP to enable cycle count execution. A reconciliation is performed by PIM and reviewed by FRA to confirm the count plan has been posted in the appropriate AODOCS document repository.

Independent of the methodologies applicable for the physical inventory count, it is mandatory that each individual item is counted at least **once a year**, and the count is registered in the ERP and documented in the memorandum of inventory.

Any inventory location is under the responsibility of a Physical Inventory Manager (role) and supervised by Finance Responsible Assigned (role)

<p>Physical Inventory Manager (PIM)</p> <p><i>GBU supply chain director is accountable for designation of PIM</i></p>	<ul style="list-style-type: none"> • Plans physical inventory counts following Group rules • Prepares a locale inventory procedure in respect of segregation of duties • Organizes the physical inventory counts including consigned inventory at customers location • Justifies any significant discrepancies and report to Finance Responsible Assigned (FRA) • Prepares inventory memorandum, records differences in accounting and sends it to the Finance Responsible Assigned (FRA)
<p>Finance Responsible Assigned (FRA)</p> <p><i>GCCO is accountable for designation of FRA</i></p>	<ul style="list-style-type: none"> • Role assigned to a controller accountable for internal control • Validates the annual planning in accordance with group rules regarding inventory coverage • Validates a local inventory procedure, in particular regarding respect of segregation of duties • Validates the inventory discrepancies analyzed by the inventory manager and ensures proper accounting • Upload memorandum into AODOCS and submit for approval
<p>Inventory count team</p>	<p>Performs an accurate count in accordance with the safety rules and must be familiar with the specific counting procedures</p>
<p>GBU costing control owner (GCCO)</p> <p><i>Is appointed by Finance Director</i></p>	<p>Role assigned to a Business or Industrial Controller or a Finance Director who validates :</p> <ul style="list-style-type: none"> • Adjustment above threshold • Exceptions to 100% count role

==> Responsibilities can be adapted for each plant according to the [segregation of duties](#), but any modification should be written in a procedure

To accomplish the segregation of duties, it is mandatory to not overlap the roles of each actor of the process into the tasks.

- Physical inventory count – Performed by PIM and/or correspondents team members.

It is the execution of the counting program, by the cycle count, or monthly / quarterly count or yet the stock physical annual full count, in accordance with the planning program, as defined in [local procedure](#).

In this process, prior to the physical count, the PIM generates in SAP the inventory documents considering the physical count to happen and prints the sheets with the materials and storage locations, to support the counting. These sheets may be manually filled, with the volumes found in each location, for each material number and batch (if applicable).

Later, the PIM will use this information to input on SAP the counting for each item into the inventory document. After saving the document, another transaction on SAP will show a list of differences between the physical and the SAP.

If any difference is questionable, a physical recount can be performed, to ensure no mistake has happened.

Once the differences are considered appropriate, they can be approved by the FRA in SAP, in a specific transaction, which generates a financial posting. To ensure the segregation of duties, the access and role of differences approval must be due to the FRA only, or higher level in hierarchy in case of unavailability, medical leave, annual leave, etc.

- Memorandum of inventory – Performed by PIM and/or correspondents team members.

It is the document that details how, when, who and what materials and storage locations are being physically counted. Need to mention the methodology used for the counting and keep attached the digitalized version of counting sheets fulfilled with the quantities found.

- Mail of validation from GCCO – Performed by FRA

The communication between the FRA and the GCCO explaining and obtaining the approval of the process and the differences found. Once approved, FRA must perform in SAP the posting of the inventory differences, under the appropriated transaction.

2. Planning and preparation

Group requirement is to provide an **annual planning** and communicate locally an **inventory procedure and preparation**.



Responsible : Physical inventory manager
Frequency : Annual with a quarterly up-date
Control : [IAC.02.03](#) / control owner: FRA

For an example and a blank template of annual planning ==> 7. Example of documents to be used / a. Annual planning

Inventory Planning & Scheduling

Physical counts or cycle counts must be conducted at least once annually for all materials. With limited exception (see exceptions section) the sites that perform a Full Periodic (Wall-to-wall) inventory must complete them between July and November each year^[1]. Cycle counts may be performed in addition to the annual Full Periodic counts.

FRA validates and publishes updated physical inventory planning prepared by PIM and considering that:

- **Recommended** 90% of the physical inventory count (in value of items) be done by the end of September
- 100% of the physical inventory count (in value of items) must be done by the end of November, including all external storage (Hard Closing)

Exceptions:

- The period can be extended/ modified if requested by the external Audit team. **The need for date modification must be approved by the Group Controller.**
- Furthermore, **for the sites that perform Cycle counting they must:**
 - By November 30th, references counted must represent at least 80% of the total value of industrial supplies inventory.

The annual planning must **include** a list of all the inventory storage location (on site / off site), the frequency of cycle counts, a detailed planning taking into account the above objectives

[1] The site must maintain an auditable roll forward from the date of the inventory to the reporting period date.

The annual planning includes :

1. A list of the inventory storage location
 - On site
 - Off site: inventory on consignment, held in third parties facilities or by toll manufacturers
2. Frequency of cycle counts, if applicable
 - All storage locations divided by count date;
 - Inventory planning has to be prepared targeting 100% of Inventory counted at the end of reference period;
3. A planning taking into account the following objectives
 - Cycle Counting - A count of items representing 100% of end inventory should be done as of 30th November (in value), each year (including external Storage)
 - Full Physical Counting - A count of items representing 100% of end inventory should be done as of 31 December (in value), each year (including external Storage)

Specific for **Industrial Supplies**

- By November 30th, references counted must represent at least 80% of the total value of industrial supplies inventory.
- The rest 20% of references of the total value must be counted by either sampling counting method every year or cycle counting method every 3 years

That planning must be communicated to FRA, who could organize/support the supervision by a third party without prior notification to PIM.

4. Cycle Counts rules

- **Cycle counts have to start before July 1st of each year**, otherwise Full Inventory count will have to be executed at the plant;
- ABC Classification method has to be implemented for a complete cycle count model implementation for **spare parts**;



Planning is proposed by PIM and validated by FRA **before end of September** with consideration for 2 periods :

1. **October 1st to November 30 November of current year** : revision of on going calendar :
 - a. Starting with actual inventory coverage rate as of October 1st (in theory 90%)
 - b. Showing completion of 100% target as of November 30TH
2. **Dec 1st of current year to November 30th of following year** :
 - a. That planning is detailed by material code and SAP plant where applicable
 - b. Where SAP isn't available, that planning is also used to follow progress of coverage inventory count
 - c. FRA is responsible for recording that planning in the dedicated group repository and external auditor have access to that repository



Responsible : Physical inventory manager
Frequency : Annual
Control : [IAC.02.03](#) / control owner: FRA



Red lines

The site procedure is **updated at least once a year before September 30th** by the PIM with validation by FRA. FRA is responsible for recording that procedure in the dedicated group repository.

The site procedure has to include:

- The name of the finance responsible assigned (FRA) who is authorized to validate physical inventory discrepancies and particularities linked to the segregation of duties
- A reference to applicable **safety procedure**
- **Triggering event to engage a second count** : for each of the category of inventory (A31000, A34000, A37000), determination of a threshold for the value of discrepancies above which a second count must be performed. A 0.5 % threshold of the total amount of the inventory concerned is recommended, it will be applied as such if the site inventory procedure doesn't specify otherwise.

- **Specific scenarios in which recounts might not be required**
 - Meter readings or print in continuous production environments
 - Scenarios specific to the site's activity



Red lines

- **Determination of a threshold for the value of discrepancies** for one stock count or one month of cycle count above in which:
the GCCO, the plant manager and GBU supply chain director are **informed**.
==> **Maximum threshold is 1%** of the value of counted inventory

3. Perform an accurate count



Responsible: Physical inventory manager (PIM)

Reference: [Physical inventory - check list](#)

The physical inventory manager (PIM):

1. Organize a preparatory meeting with the operational team to:

- Define which warehouses and products are included in the count,
- Review counting instructions,
- Define roles and responsibilities,
- Ensure availability of information systems, printers and handling equipment (fork-lift trucks,)

2. Notify affected parties providing adequate lead time to plan appropriately:

- Notify suppliers for the deliveries that will not be accepted during this time, if applicable
- Advise customers in advance of the shut-down period, if applicable
- Inform employees to allow them sufficient time to plan the activity

3. Prepare the storage area:

- Arrange items so that they can be easily counted
- Ensure there are no hazards in the warehouse that could be dangerous during the inventory count
- Clearly mark package quantities if necessary
- Clearly mark items that will not be counted with "DO NOT COUNT"



Off-site physical inventory:

Stock value above 100K€: The presence of a Syensqo employee or any person delegated by Syensqo is mandatory.

Stock value below 100K€: It enough to be evidenced by a confirmation letter (including inventory date, list of products of the count, stock location, type of count (meter reading,...), the name of the person in charge and his signature)



WP2 procedures

SAP Procedures

Responsible: Physical inventory manager (PIM)

WP2 procedures

Warehouses in IM: [IM_004 Creating an IM physical inventory](#)

Warehouses in WM: [IM_003 Performing a WM inventory](#)

PF2 procedures

Google doc procedure: [Physical Inventory by transactions](#)

IS Documentation for Cycle Counts : [PTP-WM-Cycle counting Inventory Process](#)

It requires that:

1. **No inventory movements** (receptions, shipments or transfers) may be recorded in the inventory register during the physical count of the warehouse, in case of full inventory counts:

- Everything is shipped before the physical inventory begins
- No movement of material is made during the count process
- No order is filled or material is received during the count process



In case of full inventory counts, it is **recommended to count when production is stopped** or during a period when there is limited movement of inventory

2. Any items shipped and not picked up or receipt that come in, **are segregated and labelled “do not inventory”**

3. **Blind counts are performed:** The physical inventory is made without the knowledge of the quantity in the inventory records

- Batch number, item code, description, location, and other information necessary to perform the count are printed on the counting sheet but not the item quantity information.

4. Each count team has an **assigned zone to count**

- Counting team progression should be as **linear** as possible
- They receive **count sheets and tags**
- In the absence of bar-coding / scanner device, it is recommended that **counting is performed by team of two persons**
- One person counts the item and attaches a tag to the inventory items that were counted
- The second one records in the inventory document the actual quantity counted

5. At the end of, and during the inventory count process, the PIM and if possible the FRA **walk through the warehouse** and visually **inspect that a count tag is attached to every inventory item** to check that all inventory items have been counted and also ensure that the inventory is not counted twice

6. Exemptions for counts must be justified by cost savings, e.g. off-site locations; however, they have to be evidenced by a confirmation letter (including inventory date, list of products of the count, stock location, type of count (meter reading,...), the name of the person in charge and his signature)

7. Cycle counts can be split by storage location or bins, in case of counts using WM Module;



When cycle count is used PIM should insure that all materials physically present in the warehouse are counted



Responsible: Physical inventory manager (PIM)

- Check that all count sheets are **collected** and that they are **input** into the system.
- If the location have structure for such, it is OK for use of scanner guns or equivalent devices.
- Recording of count results is made with **dedicated functionalities** of the inventory management system.
- A **list of inventory discrepancies** calculated automatically by the inventory management system is printed.
- The PIM **identifies items that require a second count** according to the rules defined in the site procedure. As far as possible, it is a different count team who performs the second count.
- The **results of the second count are recorded**, and if necessary a third count can be asked. Otherwise a **definitive list of inventory discrepancies is communicate** to the PIM.

- The inventory documents (count sheets when applicable and discrepancies list) are **archived** by the PIM.

4. Analysis inventory discrepancies and documentation



Responsible: Physical inventory manager (PIM)

Control: IAC.03.07

- Inventory discrepancies above the threshold defined in the site procedure are **analyzed and explained**.
- A memorandum of inventory is send to Finance Responsible Assigned including
 - **Summary description of physical inventory operation** (date, participant, scope of physical inventory)
 - A list of the people who participated to the count
 - **Explanation of inventory discrepancies above threshold**
 - A signature (hand written or by mail) of the report by all the people having responsibilities in the count (supervisors of counting team and of key-punching team, inventory manager)
- The PIM updates the **inventory count calendar** and send it to the FRA. It is the responsibility of the FRA to record that document **in the group repository**

Adjustments are analyzed in accordance with the value of the adjustment and type of item involved, in order to:

- Identify failures in the control systems so that improvements can be made,
- Reduce similar discrepancies in the future,
- Ensure that the proper adjustment was made,
- Evaluate indicators of trends or system problems for corrective action,
- Detect negligence, abuse, or theft

Timely investigation of inventory adjustments is essential. Delay increases the complexities of adequate research and reduces the probability of conclusive findings.

To make the analysis, it is necessary to use the material document history to look for anomalies for the product and batch under investigation with [MB51 - Material Document List](#)

The following plan gives an example of the main inventory movements that can create discrepancies and the main actions that could be taken to avoid them:

1 Reception: Movement type: **101-102 Goods receipt for purchase order into warehouse/stores**

- Raw materials: Compare reception in SAP with delivery notes
- Finished products: Check process orders-WP2/Cost Collectors-PF2

2 Consumption in process orders: Movement type: **261-262**

- Check production orders in which the material is consumed

Question 1

- Are production declaration made at standard quantity?

=> If yes, it can create under or over consumption :

Action

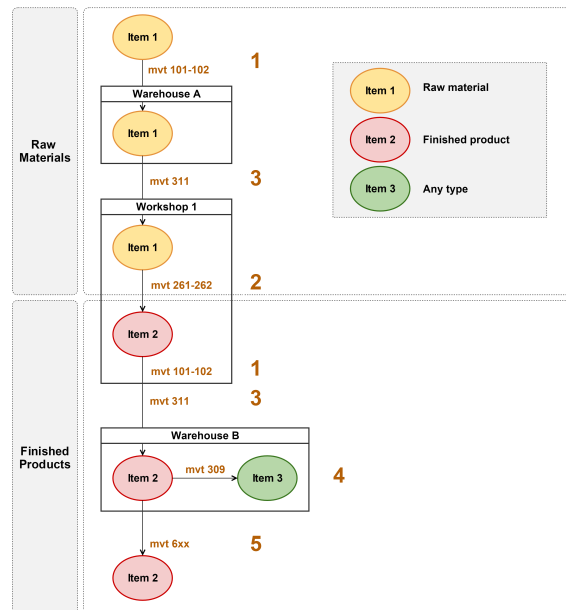
- Review standard unit consumption in BOM
- Organize regular check in process orders and if necessary adjust the consumption through a process order

Question 2

- Error of declaration in a process order.

Action:

- Improve analysis of variance on process orders (transaction ZWPP40A in WP2)



3 Transfer storage location: Movement types: **201-202**

- Check if the item is in an other warehouse or workshop
- Extract the inventory of this item/batch in all warehouses (transaction MB52)

4 Transfer posting material to material: Movement type: **309**

- Control the use of this movement (control IAC on critical transaction)

5 Goods delivery: Movement type: **6XX**

- Compare reception in SAP with delivery notes

For an example and a blank template of memorandum of inventory ==> 7. Example of documents to be used / d. memorandum of inventory

5. Validation and accounting of physical inventory adjustment

✔ Responsible: Finance responsible assigned

! Any adjustment of the inventory valuation related to an inventory count is communicated to a controller (plant, function or business) who must validate based on memorandum of inventory and ensure proper accounting record. When systems are set up in a way that links automatically counting and postings, compensating a posteriori control is implemented.

Accounting of physical inventory adjustment so that it will be reported in BFC in the relevant balance sheet account(s) under subtotal A300 Inventories against [R27900 Miscellaneous production cost](#)

6. Monitoring physical inventory progress

✔ Responsible: Finance responsible assigned

Control: [IAC 02.03](#)

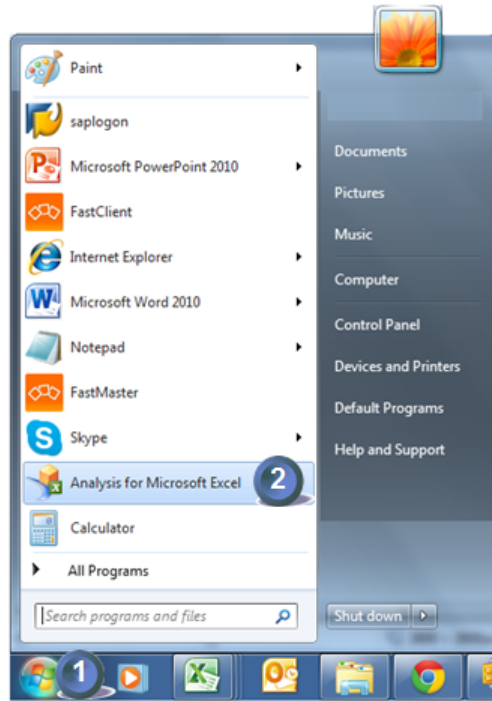
- Progress report every month available in BW with relevant communication

To get BW installed : **Business warehouse**

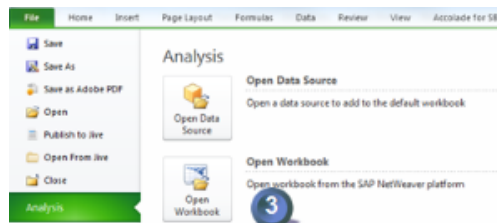
The reference for the coverage rate is the BW query physical inventory coverage rate

[1 - How to run the query ?](#)

1. I open **Start** menu
2. I open **Analysis for Microsoft Excel** in the Start Menu / All program

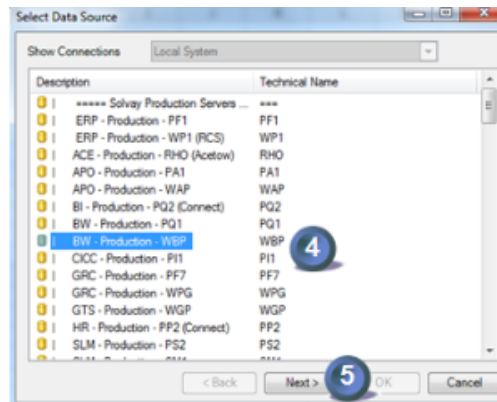


3. In **File** tab, I select **Analysis**. Then I click icon **open workbook** (from SAP NetWeaver)

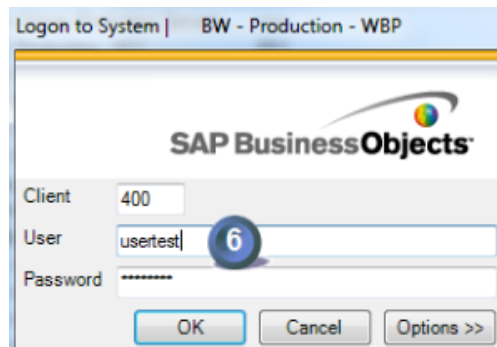


4. I select the data source **BW - Production - WBP**

5. And I click on **Next**



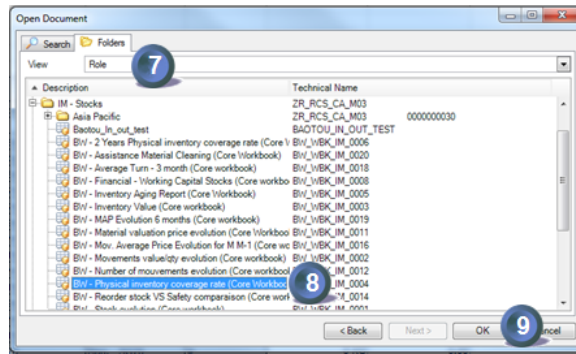
6. Enter user and password



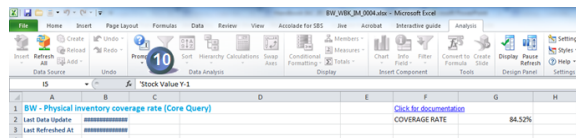
7. Select folders tab and then choose **Role** in order to select core workbooks

8. Open the workbook **physical inventory coverage rate (core workbook)**

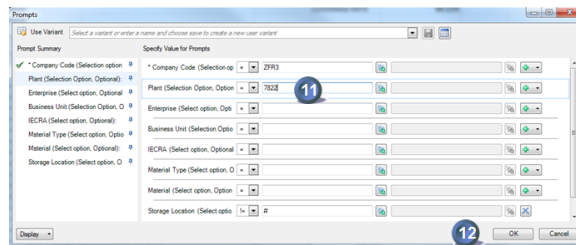
9. Press OK



10. Click on **Prompts** (Analysis tab)



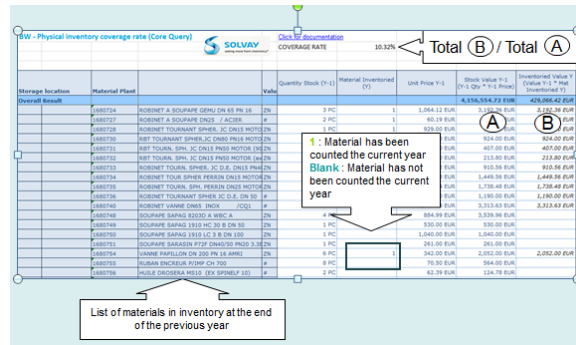
11. Enter the data you want to display in the report. Here is only mandatory the company code.



12. Press ok

There are two spreadsheets in the file:

- one for the FI (Z120 & Z125)
- one for other type of materials



2 - Why the coverage rate is lower than expected ?

- Answer 1 : The physical inventory is not finished
- Answer 2 : There is no more quantity of some materials that were in the inventory at last year end
- Answer 3 : Inventory flag is updated in BW on Saturday

For question related to physical inventory procedure in RCS, please refer to APM training document :



Warehouses in IM



Warehouses in WM

ANSWER 1

The physical inventory is not finished

There are 7 steps in a physical inventory in MM when there is no variance and 10 steps when a recount is needed

Physical inventory creation	MI31	
Inventory count from printing	MI21	

Physical stock calculation	Out of RCS	
Inventory count entry	MI04	counted
Inventory count differences printing	MI20	
Inventory count differences validation	MI07	validated
Results display	MB03	
Inventory recount if needed	MI11	
Inventory recount entry	MI04	counted
Inventory recount differences validation	MI07	validated

A physical inventory is taken into account in the BW query when the status is validated (step 6 & 10)

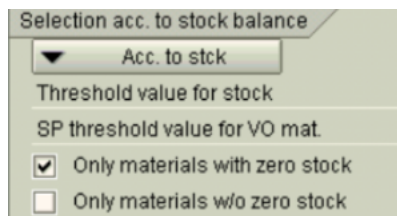
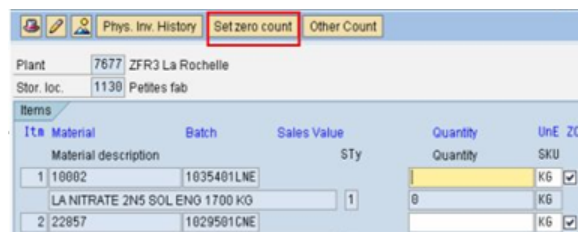
ANSWER 2

There is no more quantity of some materials that were in the inventory at last year end

The reference used by the calculation of the coverage rate is the inventory at the end of the previous year.

It is recommended to count all inventories even if the quantity is equal to zero and follow this procedure :

- Create the inventory document with MI13 and select "only materials with zero stock". If necessary you can change in the control section to the relevant "MA. no. items/doc"
- In MI04 (inventory count) click on "set zero count" => All item ZC box will be checked
- Validate with MI07
- Create a new inventory document with MI31 and select materials "only materials w/o zero stock" and complete the procedure



ANSWER 3

Inventory flag is updated in BW on Saturday

The query reports the coverage rate as of last friday night.

3 - E-mail validation from GCCO

- By September coverage rate in value is above 80% of prior year-end value for the FI, and above 90% for other type of material knowing that each reference is counted every 3 years for manufacturing supplies and every year for all other types of materials.
- In case of exceptions to the rules defining the physical coverage rate for year end, the FRA publishes last quarter physical inventory planning and require GCCO validation.
- The validation mail is posted in the Electronic Control Evidence Depository

For information : SBS dashboard - Coverage rate indicator

Inventory coverage rates are followed using this indicator in SBS dashboard



To receive automatic broadcast
 Either you run the query as previously explained or you can receive automatically a monthly broadcast

Unable to render {include} The included page could not be found.

Workflow history

This view shows the 5 most recent entries. The complete workflow log is available from the 'Document Activity' menu item.

Dec 21, 2016	Actor	Type	Activity	Version
Published	Marielle MOINET	State	changed state to Published at 6:59 am	v35
To be approved	Marielle MOINET	State	gave <i>Approvers</i> approval at 6:59 am	
		State	changed expiry date to '26 Dec, 2016 06:59 am' at 6:59 am	
		State	changed state to To be approved at 6:59 am	v35
For Review	Marielle MOINET	State	gave <i>Reviewers</i> approval at 6:59 am	
Jul 06, 2016				
	ROLLIER, Charlotte	Edit	updated the page at 5:03 pm	
		State	changed expiry date to '11 Jul, 2016 02:59 pm' at 2:59 pm	
		State	changed state to For Review at 2:59 pm	v34
Draft	ROLLIER, Charlotte	State	changed state to Draft at 2:59 pm	v34

- “Per event” information
 - Determination of the threshold for the value of discrepancies for one stock count or one month of cycle count above which the GCCO, plant manager and GBU supply chain director are informed
 - Maximum threshold is 1% of the value of counted inventory
- Internal control testing to ensure compliance to Group mandatory principles

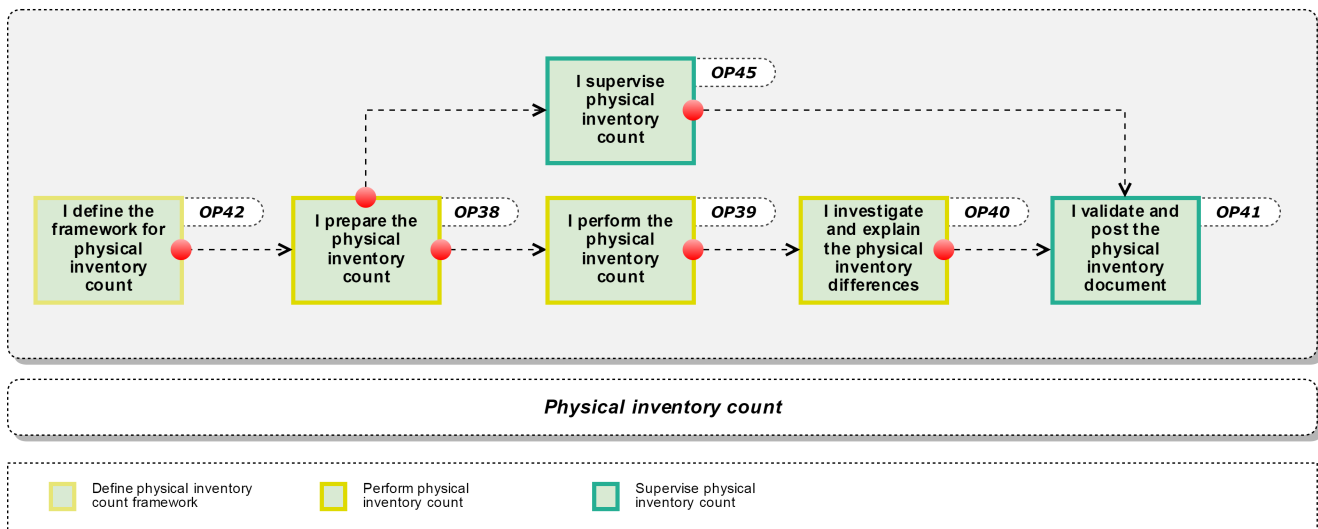
7. Example of documents to be used

[a. Annual planning](#)

[Annual planning Template](#)

[Augusta template](#)

[Memorandum of inventory Template](#)



Operating procedures

- [OP.038](#) — I prepare the physical inventory count
- [OP.039](#) — I perform the physical inventory count
- [OP.040](#) — I investigate and explain the physical inventory differences
- [OP.041](#) — I validate and post the physical inventory document
- [OP.042](#) — I define the framework for physical inventory count
- [OP.045](#) — I supervise physical inventory count

Local procedures

