



CONDUCTING A SUCCESSFUL

STOCKTAKE

By Brendon Falk

If there is anything that causes buyers and sellers agony in the 11th hour, its conducting a stocktake and agreeing on the stock values. Stock take can be complex and laborious task to undertake usually a day or two before settlement is due. The reason for this is to ensure that stock figures are up to date once the buyer commences trading. If the seller continues trading after stocktake is completed, it gets messy and difficult to keep track of stock movements until settlement finally takes place. That is why it is becoming more common to have stocktake completed over a weekend with the buyer to commence trading Monday morning and settlement to occur later in the day. This I have found to be the cleanest and most efficient, practical way of transitioning the business stock-in-trade from seller to buyer. However, there are many questions that arise when conducting a stocktake and I will attempt to take you through them.

- **When is the stocktake conducted?** This is specified in the contract usually after the close of trade on a particular day. In reality, the stocktake count and valuation can take days and sometimes the business needs to cease trading or time the stocktake so there is enough time to get it done.
- **Who does the stocktake?** Usually the stocktake is conducted by the seller and the seller's employees of the business. The buyer can also get involved but usually the buyer will prefer only to supervise and conduct a stock audit upon completion.
- **What determines the stock value?** Once the count is complete, values will be assigned to the stock. These values are based on the seller's 'landed invoice cost'. This simply means that the seller assigns a value based on what they paid, including GST and freight to have the goods landed. The seller cannot charge a margin or attribute other costs unless the stock is classified work-in-progress and is treated separately to stock-in-trade.
- **What happens if we can't agree on a value?** The seller's agent will either negotiate a mutually agree value otherwise they have the ability to appoint a stocktaker. The cost is split equally between the parties and in my experience, this is not a desirable outcome.
- **How do I know in advance what stock will cost?** The contract specifies a (i) stock estimate and (ii) maximum stock value. The stock estimate is what the stock should be. The maximum stock figure allows for increased stock levels that may be required due to seasonality. The buyer is not required to pay above or beyond the maximum stock figure and may reject items solely at the option of the buyer back to the maximum nominated figure in the contract. However, the buyer is required to pay up to this amount.
- **What about old or unsaleable stock?** If there is old stock that is still saleable, the buyer is required to take that stock but the value will be mutually agree upon as the stock would no longer be worth 'landed invoice cost'. As the buyer is only required to take 'saleable' stock, dead stock or damaged stock is only taken at the buyers discretion. For my experience, this stock is normally heavily discounted or just given to the buyer if the value is nominal anyway.
- **What about sample or display stock?** Where the seller has received sample stock from their suppliers and there was no cost associated, there will be no cost assigned to this stock and it will be inherited as such.

- **What is a stock audit?** - A stock audit involves the buyer verifying the stock quality, quantity and pricing so they are reasonably assured that the reported stock level and pricing are accurate. It is not feasible normally for the buyer to conduct a systematic audit of the stock, therefore the buyer is normally satisfied to conduct a spot check for verification purposes and time efficiency. The buyer has complete discretion as to what stock they choose to audit and verify.
- **What if a problem or dispute arises?** Both parties should always seek mutual agreement to resolve the issue and this will always result in the best outcome in my experience.

Should you require any further information or assistance on this topic, I invite you to contact me on my mobile 0412 311 803 or by email bfalk@foresightbusiness.com.au.

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