PETPOOJA

CHECKLIST

Inventory Audit Checklist for Indian Businesses

How to run a physical stock count that actually reconciles: planning, cut-off, blind counting, variance investigation, and the GST consequences of a shortage. Built for kirana and retail shops, restaurants, pharmacies, and small manufacturing units.

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What's Inside

01 Count Day Quick Reference

02 Before Count Day: Plan It

03 Cut-off: Freezing Stock Movement

04 Counting: Do It Blind

05 Variance: Investigate Before You Adjust

06 Reconciling to Your Books

07 What a Shortage Means for Your GST

08 After the Count: Fix the Causes

70+
Checklist Items
Planning to root-cause fix

8+1
Sections + Quick Ref
Count-day summary + 8 sections

Blind
Counting Method
The one that finds real errors

GST
Shortage Consequences
ITC and stock records covered

All
Business Types
Kirana, retail, restaurant, pharmacy

01 Count Day Quick Reference

Print this page and hand one to every count team. Tick off each step on the day.

When	Task	Who
Day before	Freeze purchase entries; enter every pending bill into the system	Owner / accountant
Day before	Put away all loose stock; nothing on the floor or in the passage	Store staff
Day before	Print count sheets with NO system quantity on them	Owner / accountant
Day before	Split the shop into zones; assign two people per zone	Owner
Count start	Stop all billing and all goods inward; note the exact stop time	Owner
Count start	Tag any goods that must not be counted: sold-not-dispatched, on loan	Store staff
Counting	Count each zone blind: write what you see, not what you expect	Count team A
Counting	Second person recounts the same zone independently	Count team B
Counting	Count damaged and expired stock separately, do not mix into good stock	Count team
Counting	Mark each counted shelf so nothing is counted twice or skipped	Count team
After count	Enter counted quantities; do NOT overwrite the system yet	Accountant
After count	Print the variance report: system vs counted, by value	Accountant
After count	Recount every item with a variance above your threshold	Count team
After count	Investigate the cause of each surviving variance before adjusting	Owner
Closing	Post adjustments, note the reason against each, keep the count sheets	Owner / accountant

How to Use This Checklist

This checklist covers a full physical stock count from planning to root-cause fix. This quick reference lists only the count-day tasks in order. The detail, including the cut-off rules and what a shortage means for your GST, is in Sections 01 to 08 that follow. Scale it to your size: a kirana with 400 SKUs can run this in a morning, a supermarket will need the full version.

02 Before Count Day: Plan It

Most failed counts were lost before anyone picked up a pen

Decide the scope and timing

- ✓ **Pick a date when stock is at its lowest**
  Right after a slow week, before a big delivery. Less stock means less counting and fewer errors.
- ✓ **Decide: full count or cycle count** — Annual
  A full count closes the shop and covers everything. A cycle count does a slice each week and never closes the shop. Most SMEs should do a full count once or twice a year plus cycle counts on fast movers.
- ✓ **Count fast movers and high-value stock more often** — Monthly
  Sort your SKUs by value sold. The top slice usually earns most of your money and hides most of your losses. Count that slice monthly, the tail annually.
- ✓ **Block the calendar and tell your suppliers**
  No deliveries on count day. A truck arriving mid-count is the single most common way a count is ruined.

Get the paperwork straight first

- ✓ **Enter every pending purchase bill**
  Goods on your shelf with no bill in the system will show as a surplus you cannot explain.
- ✓ **Enter every pending sales bill and return**
  Including credit notes and customer returns sitting in a drawer.
- ✓ **Clear pending stock transfers between branches**
  Goods in transit belong to one branch or the other. Decide which, and record it, before the count.
- ✓ **Print count sheets without system quantities**
  This is the whole game. See Section 04.
- ✓ **Agree one unit of measure per item**
  If the system says kilograms and the shelf is in packets, nothing will reconcile however well you count.

Prepare the floor

- ✓ **Put every item in its place**
  Same item in three locations means it gets counted twice and missed once.
- ✓ **Separate damaged, expired, and returned goods**
  Physically move them to a marked area before the count starts.
- ✓ **Label the zones and draw a simple map**
  Every shelf, rack, cold room, back store, and display must belong to exactly one zone.
- ✓ **Do not forget the stock that is not on a shelf**
  Goods in the delivery bike, at a job worker, in the kitchen prep area, in a customer's approval, in the godown upstairs.

> **The count is only as good as the cut-off**
>
> You are comparing a moving thing to a frozen record. If stock moves while you count, the variance you find is not a variance at all. It is your own paperwork. Section 03 is the most important page here.

03 Cut-off: Freezing Stock Movement

The step everyone skips, and the reason the numbers never match

Stop the movement

- ✓ **Stop billing and note the exact time**
  Write it on the count sheet header. Every bill after that time belongs to the next period, not this count.
- ✓ **Stop goods inward and note the exact time**
  If a delivery arrives anyway, do not put it away. Leave it sealed in a marked area and count it as 'not received'.
- ✓ **Take the last document number of each series**
  Last sales bill, last purchase entry, last delivery challan, last credit note. Write them down. This is your cut-off line.

Handle the awkward stock

- ✓ **Sold but not yet dispatched**
  Billed to the customer and waiting for pickup. It is on your floor but it is not your stock. Tag it and exclude it.
- ✓ **Received but not yet billed**
  It is on your floor and it IS your stock, but your system does not know. Either enter the bill before the count or record it separately and add it in.
- ✓ **Goods in transit between your own branches**
  Dispatched from one branch and not yet received at the other. Count it once, at whichever branch you have decided owns it.
- ✓ **Goods with a job worker or for repair**
  Still your stock even though it is not in your shop. Get a confirmation of quantity from them on the count date.
- ✓ **Goods on approval with a customer**
  Still yours until they buy it. Common in jewellery and garments.
- ✓ **Customer goods in your custody**
  Not your stock. Do not count it. Keep it physically apart.

If you cannot close the shop

Many shops cannot afford a shut day. Two workable options: count after closing and before opening, so nothing moves overnight; or count zone by zone and freeze only the zone being counted, billing from the rest. If you must sell from a counted zone, record every such sale on a separate slip and adjust for it at the end.

04 Counting: Do It Blind

The single technique that separates a real count from a rubber stamp

The blind count rule

- ✓ **Count sheets must NOT show the system quantity**
  If the sheet says 47, a tired counter at 11pm writes 47. Every time. You have not audited anything, you have confirmed your own data.
- ✓ **The counter writes what is physically there**
  No expectation, no rounding, no 'about'. If it is 46, write 46.
- ✓ **A second person recounts independently**
  Not checking the first person's sheet. Counting again, blind, on their own sheet. Compare the two sheets before you compare either to the system.
- ✓ **Only the supervisor sees the system figure**
  And only after both counts are in.

Count discipline

- ✓ **One zone, one team, one direction**
  Left to right, top to bottom, and finish the zone before moving. Wandering counters double-count.
- ✓ **Mark each shelf as it is counted**
  A sticker, a chalk mark, a tag. Anything that says 'done'.
- ✓ **Scan rather than type where you can**
  A scanned barcode cannot be mis-keyed. If your SKUs and barcodes are set up properly, counting is scanning.
- ✓ **Count sealed cases as cases, then open-case units separately**
  Do not estimate 'about half a case'. Count the loose units.
- ✓ **Weigh only what is genuinely sold by weight**
  And check the scale is zeroed and, if it is a trade scale, that it carries a valid Legal Metrology stamp.
- ✓ **Record damaged and expired stock on a separate sheet**
  You need it separated later. It has a different consequence, both in your accounts and for your GST.
- ✓ **Never let the person responsible for a zone count it alone**
  Not an accusation. It is simply how every audit standard works: the person who holds the stock should not be the only one who counts it.

Two counts that agree can still both be wrong

If both teams miss the same carton behind the door, both sheets say the same wrong number and the variance looks like theft. When a variance is large, look for stock before you look for a culprit. Check the back store, the other branch, the delivery bike, and the goods you tagged and excluded.

If you run a kitchen or sell fresh

Restaurants and food shops count differently. Most of your stock is perishable and counted by weight or volume, not by piece, so keep the scale zeroed and count open packs by actual weight, not by guess. Count semi-prepared stock too: marinated, portioned, or par-cooked items are ingredients you have paid for and must value. Group your count by raw ingredient rather than by finished dish, and lean on first-expiry-first-out so the count and the kitchen rotation tell the same story. Spoilage here is higher than in retail, so record it on the separate damage sheet as you go, not as a mystery gap at the end.

05 Variance: Investigate Before You Adjust

Overwriting the system with the count destroys the only signal you paid for

Set a threshold, then work the list

- ✓ **Rank variances by value, not by quantity**
  Twenty missing matchboxes is noise. One missing phone is a month's margin. Work down the value list.
- ✓ **Recount everything above your threshold**
  Most 'shortages' die here. A recount is cheaper than an investigation.
- ✓ **Set the threshold in writing before the count**
  Otherwise it becomes 'whatever we cannot be bothered to check'.

Work through the real causes, in this order

- ✓ **Counting error**
  Missed location, double count, wrong unit, transposed digits. The most common cause by far.
- ✓ **Paperwork not entered**
  A purchase bill, a return, a credit note, a transfer sitting in a file. Second most common.
- ✓ **Billing error**
  Wrong item scanned at the till, so one SKU shows short and its lookalike shows surplus. Look for equal and opposite variances on similar products.
- ✓ **Wrong unit of measure**
  Sold in packets, stocked in kilograms. Shows as a wild variance on one item.
- ✓ **Free issues and internal consumption**
  Samples, staff meals, tastings, kitchen use, breakage in handling. Real stock movement that nobody billed.
- ✓ **Damage, expiry, and spoilage**
  Should already be on your separate sheet. If it is showing up as a mystery shortage, your damage recording is broken.
- ✓ **Theft, last**
  Only after the six above are ruled out. Jumping here first is how good staff are wrongly accused and how the real cause is never fixed.

Write down what you found

- ✓ **Each adjustment gets a reason code**
  Not just a number. 'Short 12 units' teaches nothing. 'Short 12 units, billed as the wrong SKU' fixes a till problem.
- ✓ **Owner signs off on every adjustment above the threshold**
  Adjustments should never be a quiet clerical act.
- ✓ **Keep the original count sheets**
  Both counters' sheets, the variance report, and the reasons. This is the evidence that the count happened.

06 Reconciling to Your Books

Making the count agree with what you have already told the taxman

The reconciliation

- ✓ **Start from opening stock, add purchases, subtract sales**
  That is your book stock. The count is your physical stock. The gap is what you are explaining.
- ✓ **Add back the goods you excluded at cut-off**
  Sold-not-dispatched, in transit, with the job worker, on approval. They are not on your shelf but they are in your books.
- ✓ **Reconcile branch by branch, not just in total**
  A surplus in one branch and a shortage in another nets to zero and hides a transfer that was never recorded.
- ✓ **Value the counted stock consistently**
  Whatever basis you use, use the same one every year. Changing it silently makes your accounts incomparable and invites a question.
- ✓ **Value damaged and expired stock at what it is really worth**
  Not at cost. If it cannot be sold, it is not worth cost.

Close it out

- ✓ **Post the adjustment with its reason**
  One entry per reason, not one lump 'stock adjustment'.
- ✓ **Update the system to the counted figure only after sign-off**
  This is the moment the count becomes your new truth.
- ✓ **Agree the closing stock figure with your accountant**
  It flows into your accounts and your return. A number changed later, quietly, is a problem later, loudly.

Keep the evidence, and for long enough

- ✓ **Keep the sheets, not just the answer**
  Both counters' sheets, the variance report, and the reason recorded against each adjustment. The final figure on its own proves nothing.
- ✓ **GST: 72 months**
  From the due date of furnishing the annual return for that year. Longer if an appeal, revision, or investigation is running.
  Section 36, CGST Act, 2017
- ✓ **Income tax: around 7 tax years**
  The new Income-tax Rules that took effect in 2026 lengthened the retention clock, counted from the end of the relevant tax year, so keep books longer than the six years most people still quote. Confirm the current period with your accountant.
  Income-tax Rules, 2026
- ✓ **Companies: 8 financial years**
  Companies only. A proprietor or a partnership is not bound by this one.
  Section 128(5), Companies Act, 2013

07 What a Shortage Means for Your GST

The part most stock counts ignore, and the part that costs real money

What the law actually asks of you

✓ **Keep a correct stock account. Count to prove it.**
GST does not order you to count. It requires a true and correct account of your stock of goods. Counting is how you find out whether that account is true, and how you defend it if asked.
Section 35(1)(c), CGST Act, 2017

✓ **Your stock account must show these particulars**
Opening balance, receipt, supply, goods lost, stolen, destroyed, written off or disposed of by way of gift or free sample, and the balance of stock, including raw materials, finished goods, scrap and wastage.
Rule 56(2), CGST Rules, 2017

✓ **Composition dealers: lighter, not exempt**
A person paying tax under section 10 is outside the Rule 56(2) stock-account particulars. The section 35(1) duty to keep a true and correct account still sits in the Act, so keep a sensible stock record anyway.
Rule 56(2), CGST Rules, 2017

Why an unexplained shortage costs money

✓ **Goods you cannot account for can be taxed as if you sold them**
Where a registered person fails to account for goods, the proper officer can determine the tax payable as if those goods had been supplied. The catch is in the word unexplained: stock you properly write off and whose credit you reverse, per the next item, is dealt with as a write-off, not a deemed sale. The mystery gap is what gets taxed.
Section 35(6), CGST Act, 2017

✓ **Lost, stolen, destroyed, written off: the ITC goes back**
Input tax credit is not available on goods lost, stolen, destroyed, written off, or disposed of by way of gift or free sample. Credit you already took on those goods has to be reversed.
Section 17(5)(h), CGST Act, 2017

✓ **Report the reversal in the right box**
Section 17(5) reversals are absolute and not reclaimable, so they belong in GSTR-3B Table 4(B)(1), not the reclaimable box below it.
Circular 170/02/2022-GST, para 4.3

✓ **This is why you separate damage from mystery**
A recorded, written-off breakage has a clean treatment: reverse the credit, move on. An unexplained gap does not. Your count sheet is what turns the second into the first.

> **The 10% rule is not yours, unless you are a company**
>
> You will see a 10% inventory-discrepancy threshold quoted as though every business is bound by it. It is not. It comes from CARO 2020, which is a duty on a company's auditor to report, measured in the aggregate for each class of inventory. It does not reach a proprietorship, a partnership, or an LLP at all, and it exempts One Person Companies and small companies. Borrow it as a materiality benchmark. Do not treat it as your legal obligation.

08 After the Count: Fix the Causes

A count that changes nothing is a count you will repeat, identically, next year

Turn variances into fixes

- ✓ **Group the reason codes and look at the top one**
  If half your variance is 'billed as the wrong SKU', the fix is at the till, not in the store.
- ✓ **Wrong SKU billed: fix the lookalikes**
  Two products that look alike and sit next to each other will be mis-billed forever. Separate them, or make the barcodes do the work.
- ✓ **Unrecorded free issue: give it a button**
  Staff meals, tastings, samples. If there is no easy way to record it, it will not be recorded. Make it one tap.
- ✓ **Damage found only at count: record it when it happens**
  A breakage register at the point of breakage, not a discovery nine months later.
- ✓ **Paperwork backlog: set a daily entry rule**
  Every bill entered the day it arrives. Backlogs are where stock accuracy goes to die.

Make the next count easier

- ✓ **Start cycle counting your top movers**
  A small count every week beats one heroic count a year, and it catches problems while the trail is still warm.
- ✓ **Fix the SKU and barcode setup**
  Most counting pain is really SKU pain: duplicate codes, no barcode, unclear units. Counting is easy when every item scans.
- ✓ **Set an accuracy target and track it**
  Count accuracy is a number you can improve. Track it count over count and you will watch it climb.
- ✓ **Write down what went wrong with the count itself**
  Zones too big, teams too tired, sheets confusing. Fix the process, not just the stock.

The point is not the count

The point is a stock figure you can trust on an ordinary Tuesday without counting anything. Every fix above moves you closer to that. If your system is right every day, the annual count stops being an event and becomes a check.

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AUTOMATE THIS

Count less, know more

Petpooja Invoice keeps a live stock figure as you bill, so a count checks your system instead of rebuilding it from scratch. Scan to count, and the variance report writes itself.

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