

Policy Code # A-FN-105-001/AG-001

Chapter 27: Inventory Shrinkage, Spoilage/Breakage and Shortage/Overage

Date of Issue:
Revision date:



SHRINKAGE

1. It is recognized that a certain amount of discrepancy between the physical count of the inventory and its book value is a common occurrence in any retail enterprise. This discrepancy or business cost is termed inventory shrinkage and may result from actual loss of merchandise, theft, errors in the completion of documents, etc.
2. Shrinkage is recorded for management use and does not constitute an unquestioningly acceptable measure of loss. Managers must continue to investigate losses to the extent deemed necessary considering all circumstances without regard for the relationship of actual to estimated losses.
3. The authorized shrinkage shall be as follows:
 - a. Retail Stores
 - 1% of consumer sales;
 - b. Gas Bars
 - 1% of TBA department consumer sales,
 - Nil for gasoline or labour;
 - c. Expressmarts
 - 0.5% of consumer sales; and
 - d. Combination Stores
 - 1% or 0.5% of consumer sales depending on the department.
4. When Base Fund operates an activity which is normally a CANEX operation (eg. a Retail Store), the shrinkage level that would apply to the CANEX outlet will also apply to the Base Fund outlet.
5. Shrinkage is not authorized for other CANEX outlets, messes, or Base Fund operations (except as indicated in para 4). Therefore, any discrepancies occurring at these operations are considered as shortages or overages. Shrinkage is also not authorized on the following:
 - a. Departments 18, 20, 23, 24, 82 and 87; and
 - b. Wholesale sales.
6. Shrinkage is entered on line 12 of the Closing Inventory Worksheet (CIW) and on the RAR and is, therefore, included in the calculation of the Inventory Adjustment and Cost of Goods Sold.

SPOILAGE AND BREAKAGE

7. In accordance with Chapter 36, spoilage and breakage is authorized to be expensed, using a form CF 603, in bars only. Breakage and spoilage for all other outlets will not be expensed and, therefore, will automatically be included in any overage/shortage determined by a stocktaking.
8. In these other outlets, a Breakage/Spoilage Register may be maintained but is strictly for

management and control purposes and is not to be actioned to the books of account.

SHORTAGES AND OVERAGES

9. Any loss of merchandise exceeding the authorized shrinkage is defined as abnormal loss or shortage. Abnormal gains are overages.
10. Upon completion of a stocktaking, the NPFAO shall:
 - a. Compute the actual shortage or overage by completing the stocktaking Reconciliation Report in accordance with Chapter 26;
 - b. Enter the adjustment at retail on line 12 of the Closing Inventory Worksheet (CIW) and on the Retail Accountability Report (RAR) in the column/line "Stocktaking Adjustment"; and
 - c. Advise the B Admin O or the CANEX RM of the discrepancy, requesting review, investigation if required, and either write-off approval or, where applicable, presentation to higher authorities for approval.

NOTE: A BComd must be very cautious in accepting stocktaking results indicating overages. Overages are as serious as shortages if not more so. Overages at retail in excess of 0.5% of sales are considered abnormal.
11. Having determined the most appropriate course of action, the BComd/CANEX RM shall advise the appropriate outlet manager and the NPFAO of the decision.
12. The NPFAO shall:
 - a. For shortages that are to be recovered at cost or retail value, process a journal voucher (JV) to debit "Accounts Receivable" for the cost or retail amount and credit "Inventory Adjustment" for the same amount. No adjustment to the CIW entry is required;
 - b. For shortages that are to be written off (absorbed) by the outlet, no further action is required since the shortage has already been included in the Cost of Goods Sold (CGS) through the original CIW entry; and
 - c. For overages, no further action is required since the overage has been credited to the outlet by the CIW entry which would have reduced the CGS.

Note: In all instances the NPFAO shall be provided with a copy of the approval for write-off or recovery.

DISPOSITION OF SHORTAGES PENDING WRITE-OFF

13. Notwithstanding that approval must be obtained with regard to all losses, the accounting action outlined in paragraphs 10 to 12 is to be taken immediately. Losses shall not be transferred to "Suspense" accounts pending completion of administrative action.