

Stocktake & Reconciliation

The annual ritual, page 1 of 2. Print fresh each December.

TAX YEAR

FREEZE DATE

01 Pre-reset prep

Done the week before. Sets the freeze date and the records you'll need on hand.

- Pick a freeze date (Dec 31 is conventional; any consistent date works)
- No new purchases, sales, or production after the freeze until counts are done
- Pull beginning-of-year inventory value from last year's Schedule C, Line 35
- Pull all current-year purchases and direct production-labor totals
- Print the count sheets (one per location, one per category)
- Stage scales, calipers, scanner, clipboards, and a backup pen

02 Physical stocktake

Count everything that has a unit cost. Two-person counts beat one-person counts on accuracy.

- Finished goods on hand at every selling location (studio, booth, fulfillment, consignment)
- Raw materials and ingredients — weigh or measure, don't eyeball
- Work-in-progress (WIP) batches — partial production with materials already drawn
- Packaging, labels, shipping boxes, and other supplies that flow to COGS
- High-value tools and equipment that carry depreciation schedules
- Stock held by third parties (consignment shops, sales reps, pop-ups, drop-ship partners)

03 Reconcile counts vs. records

Counts will not match your spreadsheet. The gap is the data; the explanation is the lesson.

- Compare physical count to the recorded on-hand for every SKU
- Investigate variances above your threshold (1-5% is typical; tighter for high-value)
- Note the cause: shrinkage, theft, mis-counted purchases, mis-counted sales, breakage, sampling
- Adjust records to match the physical count — this is your defensible Schedule C number
- Document the variance and cause in writing for next year's comparison

TOP 3 VARIANCES TO REVIEW NEXT YEAR

Write-Offs & Value Reset

The annual ritual, page 2 of 2.

TAX YEAR

FREEZE DATE

04 Write off obsolete or damaged stock

Stock that can't be sold sits on your books at cost until you remove it.

- Tag damaged, expired, contaminated, or unsellable units
- Tag SKUs that haven't sold in 12+ months
- Tag retired seasonal SKUs (scents, designs, holiday)
- Record the write-off quantity and cost per SKU
- Photograph disposed stock before discarding
- Add the total write-off to Schedule C Part III

06 Inventory-value reset for the new tax year

Schedule C Part III. Lines 35–39 sum to Line 40 goods available; minus Line 41 ending inventory equals Line 42 COGS (flows to Line 4 on Schedule C). This year's Line 41 becomes next year's Line 35.

Line 35 — Beginning inventory (last year's Line 41)

+ Line 36 — Purchases (less personal-use withdrawals)

+ Line 37 — Cost of labor (production wages only)

+ Line 38 — Materials and supplies (production-consumed)

+ Line 39 — Other costs (freight-in, factory overhead)

= Line 40 — Total goods available

– Line 41 — Ending inventory (your page-1 reconciled count)

= Line 42 — Cost of goods sold (flows to Line 4 on Schedule C)

07 Carry over and set up the new year

Before Jan 1 trading. The five-minute version of next year's pre-flight.

- Set Line 41 ending as next year's opening in your records
- Reset year-to-date counters on dashboards and spreadsheets
- Raise reorder thresholds on fast-movers against actual usage
- Archive count sheets, write-off photos, and notes for the tax file
- Write down one lesson from this year's variance

Educational tool only — not tax, accounting, or legal advice. Schedule C line numbers reflect IRS Form 1040 Schedule C for tax year 2024; verify against the current-year form before filing. Inventory accounting rules vary by entity type and accounting method; charitable contributions of inventory have specific IRS substantiation requirements. Review your specific situation with a CPA or enrolled agent.