
City Grocery: On Taxes and Inventory

Avoiding death and taxes can never happen in this lifetime. That's what Alex Monte, the newly hired internal auditor and compliance officer of City Grocery, is thinking. City Grocery is the largest local grocery store in Iloilo City, with eight branches all over the city's districts. City Grocery is known for its low prices and wide variety of grocery items.

Although it may appear from the outside that the financial statements of these branches are consolidated as one, the reality is that the eight branches are separately owned under companies which are owned by the same family, the Alonzo Clan. This set-up was intended for the business to avoid being categorized as large taxpayer, which would have the consequence of being closely monitored by the Bureau of Internal Revenue (BIR).¹

Despite this structure, City Grocery maintains a central warehouse.

Aside from the concern regarding preparing accurate financial statements, Monte's imminent concern is to come up with accurate records that reflect the actual inventory in the central warehouse of City Grocery and in the respective warehouses of the City Grocery branches. Especially now that change has come in the Philippine Government, major policies are being put in place by the BIR to see to it that appropriate taxes are collected from businesses.

Despite the efforts of City Grocery's management to establish a good recording system through its management information system (MIS), there still seems to be something lacking. The company used a perpetual system, but it never had inventory count. Management found doing an inventory count to be impractical given the volume of goods they have.

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The central warehouse receives goods from suppliers, keeps the inventory, and dispatches inventory to the respective City Grocery branches, but it does not really keep individual records per branch. This means that the warehouse keeps the physical custody of the inventory for all the branches of City Grocery but it cannot really identify the goods per respective branch. Therefore, the ending inventory reported in the financial statements of each City Grocery Branch is not verifiable. Obsolescence and the usual storage damages and losses are also not accounted for.

Monte further suspects pilferage among store attendants, in which some unscrupulous personnel hand in some grocery items to an accomplice outsider in the grocery periphery.

How can Monte be appeased of these concerns? Should he be concerned about BIR because of the ownership registration of City Grocery? Or should he be more concerned about the non-verified inventory records maintained by the Company?

Endnotes

¹BIR is an agency of the Department of Finance mandated by law to assess and collect all internal revenue taxes, among others, in the Philippines