

Audits of Grocery Stores

If you are in certain retail businesses, industry specific audit procedures may be performed by the IRS in addition to the standard procedures performed during an audit of all retail businesses. Below are industry audit procedures performed during audits of grocery stores.

Grocery Stores

Initial Interview Questions

The following is a list of questions you are likely to receive from an examiner during an audit:

Questions concerning sources or adjustments to income include:

1. Which redemption companies do you use to redeem coupons and rebates?
 - How often do you process the coupons/rebates?
 - Approximate amount of coupons redeemed?
 - How many are directly attributable to gross receipts?
 - How many are in-store coupons?
 - How many are through manufacturers/suppliers?
 - How much in handling fees were charged by the coupon redemption companies?
 - Were ledgers kept on coupon redemption?
 - By whom and where are the coupon checks (procedures) cashed?
 - Who endorses the checks?
2. Who gets the manufacturers/brokers premium gifts?
3. Is the store an authorized retailer in the Food Stamp Program?
4. Is the store an authorized retailer in the Women, Infants and Children (WIC) Program?
5. Does the store accept credit cards?

Income

As with other retail industries, examiners will focus on non-reporting of several types of income prevalent within the industry. They will look for gross receipts attributable to:

- Coupons
- Coupon Processing Fees
- Rebates
- Value of Vacation Trips; and Other Types of Gifts
- Cash Discounts
- Receipt of High Dollar Promotional Items
- Pay Telephones
- Bottle/can Redeeming

- Money Orders
- Video/DVD Rentals
- Video/DVD Game Rentals
- Credit Card Sales
- Food Stamp Sales
- WIC Program Sales
- Prepaid Telephone Cards

Typically a grocery retailer has a sales summary report that reflects the sales on a departmental basis, the amount of sales tax collected, total sales, other income received, rebates that are received and other credit transactions that originate in the stores on a daily basis. The report also shows all of the daily debit transactions, such as voids, refunds, cash payouts, and manufacturer coupons tendered, and store coupons tendered. The debit side will also reflect the amount of daily bank deposit. The examiner will often request this report and use it to reconcile the amount of coupons debited with the amount credited to your books.

Cost of Goods/Inventory

The examiner will consider performing the following checks on your purchases and inventory when performing the audit examination:

1. Request specific invoices to analyze (i.e., larger material amounts, unusual payees and invoices of main suppliers). They will note any errors found.
2. Request a supplier list. Analysis of the list of major suppliers will be conducted, noting which supplier pays rebates and how often. This will then be compared with the general ledger per sales (credits) and cost of goods (credits) for rebates reported.
3. Note any patterns of reporting the rebates (i.e., credits to sales, credits to cost of goods); considering when they are being reported (i.e., weekly, monthly, semiannually, yearly, etc.).
4. Compare the rebate list to patterns found. They will ask you what type of programs or agreements you have with the suppliers that rebate (such as contracts; deal sheets; shelf space, slotting, or volume agreements, etc.).

As with other retail industries, examiners look for an overstatement of cost of goods sold since this reduces taxable income. Additionally, examiners may utilize the cost of sales number with an indirect method of proving income in order to estimate total taxable income.

Brown, PC represents grocery retail clients throughout Texas and across the United States. If you have questions regarding an IRS Audit, please call 888-870-0025 or contact us online for a confidential consultation.