

**Solution:**

The two steps involved in the physical counting of the inventory are as follows:

**1. Planning**

Usually before the inventory count begins, the firm must decide on a period during which the firm's staff will involve in counting the inventory.

This is often done during the period when the firm experiences the lowest sales (often a trough in their business cycle!) and so, this is usually determined as the period when the counting occurs.

**2. Counting & Verification**

The second step involves counting the inventory manually by the staff. The inventory is calculated by counting and valuing the items and adding them all (if there are branches of the firm).

After the counting is done, an external auditor can verify the count by bringing in experts and taking a small sample to verify the authenticity of the count.