

Managing Restaurant & Hotel Food Inventory

by Chefs-Resources.com

Food Inventory - Taking Inventory

One of the most important components of managing your food cost is managing your inventory process. Controlling your [month end food inventory](#) and food cost is essential both for your business as well as for your own professional reputation. Controlling your end of month food inventory revolves around four specific tasks: Taking inventory, verifying credits & transfers, verifying the pre-closing food inventory balance sheet, and checking posted inventory. Managing each step of this process is vital to being on top of your numbers.

Taking Inventory

First of all when taking your inventory, be sure that everyone uses the Shelf to Sheet method of counting inventory. Never use the Sheet to Shelf method, where you use your printed Inventory Taking Sheets to hunt for the items to count as you read down the Inventory Taking Sheet page. If you go Sheet to Shelf, then you will inevitably miss items which are on your shelves but which are not on the taking sheets. Always use the Shelf to Sheet method.

Shelf to Sheet means that when taking inventory you look at what's on the shelf and then find it on your Inventory Taking Sheets. You move along counting every single item on each shelf in a systematic method, whether it's top to bottom, left to right, whatever. If you take inventory shelf to sheet you will miss nothing and you will probably end up with write-ins on the worksheet. Write-ins are items which are not on your inventory taking sheets but are on your shelves. Write-ins are possibly items which have dropped off the inventory sheets for some reason, or more likely, they are new purchases for the month which have not been added to your inventory taking sheets yet.

Inventory Taking Sheet Checklist

Once you have finished taking your physical inventory, you will want to double check the following items on your taking sheets. First, check all "zero" entries, any item which has a zero quantity entry. You want to double check to be sure that you actually had none of that product in-house. Second, check the units of measure used during the inventory taking. Spot check a number of items to verify that the correct unit of measure was used so that things which are inventoried by the pound were indeed counted by the pound, items counted by the case were counted by the case, and so on. Third, double check large numbers. Verify that any entries with a large number are correct. Again, sometimes a large number may reflect that somebody has inventoried an item by the each instead of by the case (you have 8 eaches but it was counted as 8 cases). Fourth, verify that new purchases have been inventoried. These are items which are new purchases during month.

Once you have checked your inventory taking sheets, it is time to enter your quantities into whatever accounting software your company uses.

Food Cost Control - Product Credits & Transfers

Another major component of managing your food cost is making sure you keep track of, and get credit for, all food invoice credits/returns, food transfers, comps, marketing credits and so on.

Verify Product Credits, Transfers, and Marketing Credits

Verify with accounting that all of your product credits are correctly recorded. Be sure that you have received all credits that you should have gotten from product that was returned. Keep a separate file throughout the month to

track credits that you should be receiving so it will be easy to track these down at the end of the month. If you receive transfers from, or make transfers to, other departments within your operation, verify those numbers to make sure that they accurately reflect both the correct quantity and the correct price.

If you participate in food shows, charity events, or other marketing events, you should keep track of your food cost for those events. Even if your company does not have a budget line for marketing events, you should still track your cost for these events. This way, if your food cost comes in unusually high for that month you can say, "I had a half a point of cost due to this event that we did to promote our business."

If you don't see these credits/transfers posted to your account then verify with accounting what the status on them is. Are they to be posted to your account next month? Or did they accidentally get posted to a different account?

Food Cost Control - The Food Inventory Sheet

If you want to really dig into analyzing and controlling your inventory, then this page will be very informative. But if you are simply cruising through, better grab a shot of bourbon (Knob Creek please!) because although the content is useful, it is also tedious. Like caviar, it requires a discerning palate.

Check the Food Inventory Sheet Figures

Once your food inventory is entered into the computer the Food Inventory Balance Sheet should be returned to you from accounting for review before it is posted as the final month-end. You want to be sure that you have at least a day to check out the numbers before they are posted as a final month-end inventory number. You'll want to check the product quantity column and the extension cost column, analyzing a variety of potential problems for each column.

I don't actually analyze every single line of my inventory balance sheets because there may be several thousand items in food inventory. But I'll cruise through and look for both **item quantity extremes** and **extension cost extremes** with either really low numbers, especially "0", or really high numbers.

Product Quantity Column

First, check for item quantity extremes to verify low and high amounts entered into the **Quantity on Hand** column. Check all "0" quantity entries to verify that you actually had "0" of that item on hand. Then check all large quantities. A common mistake happens when entering values into the computer, a person accidentally hits two keys simultaneously. So, instead of entering "1" case of product, they accidentally hit the "4" and "1" keys simultaneously (or some other combination of keys which are right next to each other) and enter 41 cases of product instead of 1 case.

Extension Cost Column

You'll want to check for **extension cost extremes** and calculation errors. Again, verify that every \$0.00 extension is correct. If there is an item quantity entered on that line but the extension is \$0.00 then there is a problem either in the calculation formula, or there is no price entered for that item.

Verify that every high extension cost is correct. If the quantity of product on hand is correct then the extension value should be correct. If the quantity on hand is correct but the extension is too high (or too low), check the **unit of measure**, the **pack size**, the **calculation formula**, and the **price**.

It is very common for items to be calculated incorrectly, even if you have entered the correct number. This is because someone has to tell the software how to calculate how many items or units are in a case. If they enter the wrong info (and someone always does) then the system will calculate that item incorrectly. Last month my 11

pound cases of vine ripe tomatoes got costed out as one pound per case because accounting entered into the system that 1 cs = 1 lb!

- **Unit of Measure** - Having the wrong unit of measure can adversely affect your extension. If you have 15 'each' on hand but the unit of measure is 'case' then your extension cost will reflect a cost for 15 cases. And vice versa. Also, meats, seafood and cheese which are purchased by the pound should be inventoried by the pound.
- **Pack Size** – Before you can check the calculation formula you will need to know the pack size which has been entered into the formula. Verify that it is the correct pack size for that item. For instance, black pepper is sold as 3 each 5 pound containers per case.
- **Calculation Formula** – Once you know the pack size used in the calculation you can do the math to determine if the extension cost is correct. Common calculation errors occur with items which are sometimes purchased by the 'case' and sometimes purchased by the 'each'. Some programs will take the last purchased price and consider that to be the 'case' price even if it is an 'each' price. So, in our example with the black pepper, the formula in the system would be "3 each 5 pound containers per case". If you purchase just one 'each', the system may take that cost and apply it as the 'case' price. So if one each costs \$50 (which equals \$10/lb), the system may apply that purchase as a case price. The result from the system would be $\$50/cs = \$16.67/ea = \$3.33/lb$. The actual price per pound is \$10. You lose \$6.67 per pound of inventory due to this error.
- **Price** – Lastly, when evaluating extension cost extremes, verify that the price is correct for the item being purchased. Make sure that the price corresponds to the unit of measure and that the final extension cost is correct. Especially check pricing on new items.

Also, verify that the prices used to calculate your inventory are current prices and not prices from several months ago. If you have time to go through and verify every actual price on every single item, more power to you. But generally speaking, you only go through and double check the pricing on key high-cost items such as your major proteins like meats & seafood, maybe your cheeses, and specialty produce. If you have new purchases for the month, be sure that accounting has accurate prices for those items (often they will show a cost of \$1.00 or have no price at all).

Food Cost Spreadsheet

This is the last step to being on top of your numbers. As with everything else, don't leave your life in the hands of others who don't know, or don't care about, your numbers as much as you do. Own and direct your fate.

Use Excel to Verify the Inventory Balance Sheet

You will want to use your own Excel spreadsheet to verify your food inventory. The free [Food Cost Calculation File](#) is an excellent inventory tool to use if you do not have one already. Never leave your fate in someone else's hands. In other words, don't trust the accounting department to get your numbers right. Know your numbers. Know what your beginning inventory number is as well as your ending inventory number. Know your transfers and credits. Know your sales. Be aware of marketing events and comps which may have hurt your numbers. Enter all these numbers into your own spreadsheet to calculate your food cost.

Invoicing Methods

The numbers which the accounting department have will probably be different, but they should be close (+ or - half a point). If they are not close then you need to know the reason why. Do they have all your credits and transfers? Is the accounting department accruing invoices so that your budgetary monthly purchases reflect what is actually being brought into the restaurant for the current month? Or are they simply paying invoices as they come across their desk and considering those paid invoices as your purchases for the month?

Invoicing Gone Bad

An example of this gone bad would be New Year's Eve events. If the sales for New Year's Eve are posted in December, but the purchases for New Year's Eve get posted to January (when the invoices cross their desk), then your food cost for January could be exceptionally high, whereas December would look great. Accounting should be accruing these invoices so that they are reflected in the appropriate month. If not, you at least need to be aware of the method that they are using so you can give an intelligent response to fluctuations in your food cost.

Food Cost and Inventory Calculation Spreadsheet

I use the Food Cost Calculation Tool to keep track of all these elements. It will also keep track of Comps, Marketing Event Credits, and Transfers. The nice thing about this tool is that it also will give you a comparative sense of most of these numbers against last month's numbers so that you can notice an increase or a severe decline in your ending inventory month-to-month, or the inventory of a specific storeroom month-to-month, or the difference in your sales month-to-month. This is a great tool for putting the answers to your questions right at your fingertips. It does most of the math for you. An additional feature of the food cost calculation tool is that it will show you your inventory turns and average inventory for the month. And best of all, the tool is free to use, simply download it.

By using the [Food Cost Calculation File](#) and the [Declining Balance Worksheet](#), or your own version of them, you will be able to track your purchases and your theoretical Month End Food Cost.

If you implement these techniques, you will gain several things. First, you'll achieve better control of your month-end inventory. And second, you'll have authoritative answers as to what has impacted your food cost either for the good or for the bad, as well as insight into how to correct it.

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