

Lesson 2

Record Keeping

LEARNING OBJECTIVES:

Methods of Inventory

1. The manager will describe the inventory method(s) used in the organization:
 - Physical inventory
 - Perpetual inventory

Inventory Valuation

2. The manager will correctly use the inventory valuation method selected by the organization.

Use of Inventory Records

3. The manager will plan ways to use inventory records to:
 - Provide accurate information of food and supplies in stock
 - Determine purchasing needs
 - Provide data for food cost control
 - Control theft and pilferage
 - Be ready for computerization

Record keeping is the most basic requirement for inventory management. Without accurate written records of food received, issued, and used, the manager cannot manage food production or meet U. S. Department of Agriculture requirements. Inventory records provide the manager with current and reliable information on food cost that is then used to make day-to-day decisions.

With good inventory records, the manager

- Knows the food and supplies that are in stock,
- Can determine the food and supplies that should be ordered to meet production needs,
- Has information for food cost control, and
- Can control theft and pilferage.



METHODS OF INVENTORY

Learning Objective: The manager will describe the inventory method(s) used in the organization:

- ◆ Physical inventory
- ◆ Perpetual inventory

Maintaining accurate counts of products and supplies on hand is necessary for inventory control. There are two ways to count inventory, called methods of inventory:

- ◆ Physical inventory is a periodic, manual count of food and supplies in storage.
- ◆ Perpetual inventory is an up-to-date, ongoing count of food and supplies in storage.

Organizations may choose to use one or both methods of inventory. Some organizations use both, with a specific method for certain products. Each inventory method has specific requirements.

Physical Inventory

Physical inventory should be used on a periodic basis to count all foods and supplies in storage. Best practice is to take a physical inventory weekly, typically on the last working day of the week. It is recommended that a physical inventory be taken at a minimum of one time per month, on the last working day of the month.



REMINDER: Best practice is to take a physical inventory weekly, typically on the last working day of the week.



Requirements for a Physical Inventory

1. Use the grouping of foods shown in the market order to organize the storeroom.
2. Develop a physical inventory form based on the market order form and the physical layout of the storeroom.
3. Determine a standard procedure for how to count broken cases, opened containers, parts of containers, and food in process.
4. Use the standard procedure consistently to assure an accurate count.
5. Take the inventory after all items have been issued for the day and all purchased items have been placed in storage.
6. Assign two trained individuals to take the inventory. One person should count the items and the other should record the count using the physical inventory form. At least one of the persons should not have any responsibilities for issuing since one of the main purposes is to check what is in inventory.
7. Use the inventory levels when planning purchases.



Perpetual Inventory

A perpetual inventory may be used for all food and supplies or only for designated items. Some items that an organization may choose to maintain on the perpetual inventory include point-of-sale items (example: novelty ice cream), expensive items (example: entrees), or any item that is easily subject to unauthorized removal and use (example: stainless steel flatware). Use of a perpetual inventory is a good practice for all food and supplies except perishable foods that are received and kept in production areas.

Requirements for a Perpetual Inventory

1. Develop a format for perpetual inventory using a card for each item or a computer record.
2. Train a storekeeper (or all employees) to accurately record items issued to assure that records are accurate.
3. Update the balance on hand by adding the individual counts of each item received from the information on the invoice and subtracting the count of items issued from storeroom issue records to obtain a new balance.
4. Periodically check the perpetual inventory levels against physical inventory levels to determine any differences. The manager must evaluate any differences in perpetual and physical inventories, adjustments made, and cause for adjustment. Notes of explanation should be included.
5. Use the inventory levels when planning purchases.



REMINDER: A perpetual inventory helps prevent theft and helps to identify losses when theft occurs.

✓ Checklist for Record Keeping for Inventory Management

Directions: This checklist can be used by the manager or an employee to evaluate the record keeping process used in inventory management.

Task	OK	Improve/ Follow-up
<i>Perpetual Inventory</i>		
1. The items to be counted for perpetual inventory have been identified.	<input type="checkbox"/>	<input type="checkbox"/>
2. A supply of the form or cards used for perpetual inventory is available.	<input type="checkbox"/>	<input type="checkbox"/>
3. One or more employees (storekeepers) have been trained to accurately record items issued from storage.	<input type="checkbox"/>	<input type="checkbox"/>
4. Perpetual inventory records are updated daily by recording purchases received and items issued.	<input type="checkbox"/>	<input type="checkbox"/>
5. The perpetual inventory is periodically checked against physical inventory.	<input type="checkbox"/>	<input type="checkbox"/>
6. Discrepancies between perpetual and physical inventory are investigated.	<input type="checkbox"/>	<input type="checkbox"/>
7. A perpetual inventory of USDA-donated food is maintained.	<input type="checkbox"/>	<input type="checkbox"/>
<i>Physical Inventory</i>		
8. The physical inventory of purchased items and USDA-donated food is taken on a routine basis as determined by the organization.	<input type="checkbox"/>	<input type="checkbox"/>
9. The items counted by physical inventory have been identified.	<input type="checkbox"/>	<input type="checkbox"/>
10. One or more persons have been trained to count physical inventory.	<input type="checkbox"/>	<input type="checkbox"/>
11. The inventory records are organized in the same sequence as the storeroom groupings.	<input type="checkbox"/>	<input type="checkbox"/>
12. The organization's procedure for counting items such as partial cases, open containers, and food in process has been identified and is used.	<input type="checkbox"/>	<input type="checkbox"/>



Practice

Directions: Use the Checklist for Record Keeping for Inventory Management to evaluate your current record keeping. After completing the Checklist, make a note below of the two highest priority changes you need to make for improved record keeping.



Manager Action Plan

Turn to page 46 and complete the Manager Action Plan for this objective, items 1 - 5.

INVENTORY VALUATION

Learning Objective: The manager will correctly use the inventory valuation method selected by the organization.

Food and supplies in inventory are like money on the shelf. Inventory valuation means determining the dollar value for the food and supplies in stock. Each organization has an inventory valuation method that is used to calculate the actual value of the food and supplies in storage.

To determine the dollar value of the inventory based on the physical or perpetual inventory counts, the manager must follow the steps below.

Step 1: Identify where to find dollar value of each item based on the valuation method selected by the organization.

The dollar value may come from computer or manual records, invoices, or from prices that were recorded when the items were received. The director or supervisor will tell you where to find the value.

Step 2: Calculate the value of each product by multiplying the dollar value by the number of items in inventory.

(Note: The price may be provided by the case rather than by the unit. If you are not given the unit price, you will need to determine it by dividing the case price by the number of units in the case.)

Example: One case (six No.10 cans) of green beans costs \$16.80.
The unit cost (one No.10 can) is \$2.80 ($\$16.80 \text{ case} \div 6 = \2.80).

Step 3: Add the dollar value of all products to determine the total inventory value.

The sum of dollar values of all stored products becomes the inventory value for the end of the month. The value for the end of a month becomes the beginning value for the next month.



REMINDER: It is important that the calculations for inventory values be completed accurately.

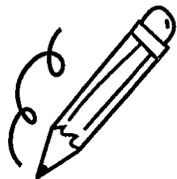


Practice

Directions: The partial inventory below shows the unit values based on the valuation method selected by the organization. Complete this inventory record by determining the item value and then adding all item values to determine the total for all items shown.

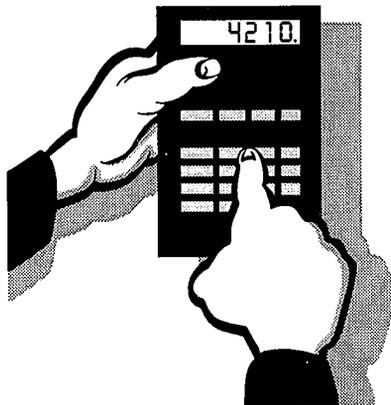
Item	Unit Value	Unit Count	Item Value
Green Beans	\$1.76 / No.10 can	3 cases* + 3 cans	_____
Corn	\$2.13 / No.10 can	4 cases*	_____
Ground Beef	\$76.80 / 80 lb case	2 cases	_____
Napkins	\$23.40 / case	1 case	_____
Total value of all inventory items shown above			_____

*6 / No.10 cans in a case



Manager Action Plan

Turn to page 48 and complete the Manager Action Plan for this objective, items 6-7.



USE OF INVENTORY RECORDS

LEARNING OBJECTIVE:

The manager will plan ways to use inventory records to:

- ◆ Provide accurate information of food and supplies in stock
- ◆ Determine purchasing needs
- ◆ Provide data for food cost control
- ◆ Control theft and pilferage
- ◆ Be ready for computerization



Inventory records are important because they are management tools used for decision making and documentation. Following are descriptions of some ways the manager can use inventory records.

1. **An inventory record provides an accurate list of food and supplies in stock.**
Current weekly physical inventories or perpetual inventories can be used to check information needed for production records. This saves time because the manager does not have to physically check the inventory before completing the production record.

2. **An inventory record is necessary to make accurate decisions about purchasing needs.**
After the manager uses a standardized recipe to determine the amount of food needed to prepare a menu item, the inventory must be checked to determine the stock level. Only then should the decision be made about what and how much of each item to purchase. A perpetual or weekly physical inventory is especially helpful in determining purchasing needs since the information is readily available. **The stock levels shown on a monthly physical inventory are generally not current enough to use for determining purchasing needs.**

Some items, such as paper goods and cleaning supplies, may be maintained in stock at a minimum level. The inventory record can be used to determine when the amount of any item falls below a pre-determined level and needs to be ordered. Maximum stock levels may also be established for any or all products. Determining a maximum stock level for specific items allows the manager to check records to determine if inventory is being stockpiled.

Minimum stock level means the amount of stock of an item that should be on hand at all times. Maximum stock level is the largest allowable amount of stock of an item to be in inventory.

3. An inventory record provides information for food cost control.

Comparing ending inventory values from month to month can reveal if specific food and supply items are being stockpiled or if food cost for an individual item is increasing. Ending inventory values can also be used

- to calculate the cost of specific food items or whole menus, and
- to establish catering and a la carte prices.

The ending inventory value is an easy-to-use figure because it is on a list format.

4. An inventory record is useful to control theft and pilferage.

Sometimes foodservice employees and other organization staff are tempted to take items if they think it will not be noticed. When inventories are routinely taken and all discrepancies addressed, employees who are tempted become conscious that someone will notice when something is missing. When items do disappear the manager has information to use to determine the actual amount lost and does not have to rely on a “feeling” that something seems to be missing.

Beginning inventory for time period in number of units

- Quantities used during time period (as documented in production records)

+ Quantities received during time period (from invoices, receiving documents, etc.)

= Quantity of inventory that should be on hand

Compare to actual inventory. Any significant differences should be investigated.

5. Manual inventory records must be used to be ready for computerization.

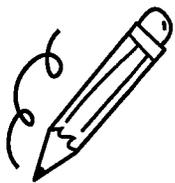
The first task in computerizing inventory records is to enter a list of all the items that the organization maintains in inventory, their values, and a beginning count. Accurate manual record keeping must be in place before information can be placed in the computer.



Practice

Directions: Review the five ways a manager can use inventory records. Select the one way that can best help you improve your management decisions. Share that information with your table team or discuss your ideas with your instructor.

I can improve my management decisions by using inventory records to:



Manager Action Plan

Turn to page 48 and complete the Manager Action Plan for this objective, item 8.



Inventory Valuation

The manager will identify the inventory valuation method selected by the organization.

6. Describe the inventory valuation method(s) used in your organization. (See page 41)

7. What do you need to do to maintain current information on inventory values? (Example: update inventory sheets or record prices on cans when they are received) (See page 41)

Use of Inventory Records

The manager will plan ways to use inventory records to:

- Provide accurate information of food and supplies in stock
 - Determine purchasing needs
 - Provide data for food cost control
 - Control theft and pilferage
 - Be ready for computerization
8. Review the information in Use of Inventory Records. In the space below, describe ways that you can use inventory records as a management tool in your organization. (See page 43)

Follow-Up Assessment: After you have made the changes described above, meet with your supervisor to go over the changes you have made. In the space below, note a time you plan to have the meeting.

Date for meeting with my supervisor to review changes: _____



References

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- Weygandt, J. J., Kieso, D. E., & Kell, W. G. (1996). *Accounting principles*. New York: John Wiley & Sons, Inc.



Notes