Your guide to understanding stocktaking?

Stocktaking (or more accurately 'Stock Auditing') provides a vital collection of information for a hospitality business.

A good audit will tell you about product performance, any losses, gross profit margins, stock yields, stock holding levels and action plans to improve your results. This guide takes a look at how to properly prepare for a stock audit and what information you should see from the result.

R ROSLYNS GROUP

The Hospitality Business specialists

Prior preparation

If your stocktaker isn't provided with some essential information, they will be unable to provide the information you need in return.
So, let's start by looking at what you need to get ready.

Paperwork: Whether it is scanned or physical paper, you'll need to make sure your stocktaker has access to invoices that cover all of your purchases during the stock period.

Tills: Make sure your till sales data is available. This may mean a simple receipt being printed from your till or access to the EPOS software.

Your stock: You want your auditor to be able to count accurately so make sure everything is neatly stored, tidy and grouped together. If you serve food, make sure everything is clearly labelled or there is a chef to hand to assist.

Information you'll get

When you arrange your first stock audit, your auditor will need to get a starting point. They will count all stock onsite and collect your buying and selling prices. They will then return at a future date, to look at the new stock levels and what has been bought and sold during that period.

It is important when choosing a stocktaker to ask what information you'll get. A stocktake is worthless unless you get the information you need to help you to steer your business.

In the next section we'll take a look at the range of information you can expect and what you can do with that information.
You can also click here to view an example of a Roslyns stocktake report.

Your information

G.P: Your Gross Profit margins are key. This is the profit you are making on each item you sell. It is crucial you are pricing to make a profit and not just pricing to make a sale. The origins of the saying a lost in the mist of time but it remains true:

"Turnover is vanity, profit is sanity but cash flow is king"

Meaning, it is not relevant how much money you can stuff into your tills, if very little of it stays as profit. Ultimately this all goes towards the aim of business, to have a positive cashflow (more money coming in than goes out).

To understand your pricing you can use our FREE GP calculator tool.

A good stock audit will not only tell you about each product's GP, but departmental. E.G. it is good to know that you are making 75% GP on spirits, but if only 5% of your total sales are spirits that isn't such good news. If 60% of what you sell is lager and the GP on your lagers is bad, you need to rethink.

Yield: A good audit should show you the yield you are achieving. Yield shows the amount of what you buy, has been sold as opposed to wasted/unsold. EG.

If you bought a barrel of beer that contained **100 pints** and you sold each one, yield would be **100%**
In reality, you pour the beer with a **5%** head, so you should technically gain some, giving you a yield of **105%**
However there are likely to be some losses,
e.g. you may lose **4** pint to line clean,
1 to spills and **1** to drip trays, with a total of **6** pints missing,
then your yield in this example is actually 99%.

This is especially important in draught products on your bar.

A yield over 100% is excellent and should be the aim. Some products are easier to have a good yield than others. Cask beer is particularly high in waste naturally due to frequent pull throughs and barrel leftovers.

Your information continued ...

Stock holding: Your audit should give you a good idea of your stock levels, not only physically how much you may have, but the value of that stock, and crucially a good audit will tell you how long that stock will last.

E.g. a 12 days stock of Fosters lager means that if you continue to sell at the same rate, you will run out in 12 days.

This allows you to plan and also to see clearly where you are overstocking.

Overstocking harms your cashflow as money you need for your businesses is tied up in stores filled with slow-moving stock.

Variances: This is what we would expect all good audits to show, a figure on whether each product is up … or down!

This is calculated in the following simple way:

Original Count /	Delivered Since /	Sold Since /	Current Count /	Variance
500	150	320	280	-50

Here you take the amount you had before, add to that what has been delivered you have a total "IN" then take off what was sold and you would expect to have 330 in stock, however you only have counted 280, leaving 50 unaccounted for.

So, as you see, if we assume the counts, invoices and till information is right, then the loss can't be argued with.

It is now time to look at why the loss is there.

Is something in the information chain wrong, is it a wastage loss, equipment malfunction, accidental damage/spillage left unrecorded or the worst case, theft, either by someone externally, or internally.

Your stocktaker will re-count, examine each invoice, check against delivery notes, recheck till numbers, check your waste records etc to try and get you an answer.

Allowances/ullage: You will provide information on what has been delivered and what has been sold, it is equally important to keep a record of what has knowingly not been sold.

These are your allowances or waste, or ullage (the traditional term).

This unsold stock could be for many reasons:

(Line clean, promotions, complimentary food/drink, prizes, spills/breakages, wrong order, staff drinks/food, out of date stock, or even theft.)

With the exception of theft, all unsold stock should be known about and this recorded. If your auditor has this information it allows them to factor it in and tell you more specifically about any stock missing without a reason.

You should also be able to track that unsold stock with the aim of reducing waste to improve yield.

A good audit will give you a % of allowances/income. This percentage of the cost of unsold stock against the amount of income should be kept as low as possible and always under 5%

Action plans: A stock audit will contain a lot of information. Information without understanding is not much use though. Roslyns stock auditors will finish the audit and sit down with you to go through the result explaining what it means to your businesses and including a series of action plans to help you to improve the results in the future.

Frequency: Another consideration is how often to have stock audit.

To keep a good eye on your stock's performance we usually recommend monthly. You may be doing internal stock checks so require less than this though. Quarterly or even annual is also an option but not one we recommend as by the time a problem is identified, it is history. Get in touch today and we'll help you work out what is best. You can also get an instant quote, paying monthly to keep cashflow strong.

Further support …

As specialists in business services to the hospitality sector, Roslyns can help every step of the way.
Just click or prod your way to knowledge!

What taxes will my hospitality business pay?

How can I pay less tax?

What about my own income and taxes?

What do I need to do when employing staff?

Is stocktaking important in a hospitality business?

I've another question about hospitality business?

Links to the official government advice

Setting up as a sole trader
Setting up a limited company
Business taxes
Personal Taxes
Employer taxes

Please note: These guides are based on the 2020/21 tax year and are intended to outline the basic aspects of the topics addressed. Please take advice based on your specific situation and business. Contact us on support@roslyns.co.uk