STANDARD OPERATING PROCEDURE	CODE: IV - 007		PAGE: 1 of 4
	EFFECTIVE:		UPDATE NO.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:	MONTH-END INVENTORY PROCEDURE	

OBJECTIVE:

To ensure that all inventory items are counted regularly and accurately in order to verify the accuracy of the inventory ledger

POLICY

1. Physical stock takes should be performed on all inventories that are listed in the balance sheet.

2. The principle of "zero inventory" should apply to all food stocks maintained in kitchen; for beverage, a physical inventory should cover both inventory stored in the storeroom and inventory that is issued from the storeroom but is still on hand at the outlets.

3. Physical inventory counts for operating equipment should be performed on a half-yearly basis and on a yearly basis for fixed assets

4. Physical inventory counts must be taken by a person other than the one managing the counted stock. All variances between physical count and theoretical stock must be formally explained.

PROCEDURE

I- Zero inventory concept

1. Zero-inventory refers to the accounting procedure of not reporting a particular stock value in the balance sheet. As the stock is not reported, effectively being directly expensed as purchased by the user, there is no requirement for regular physical count.

2. The zero-inventory concept should apply to all food items delivered from the stores to kitchen and/or directly received by kitchen. By applying this

concept, it allows a better calculation and follow-up of month-to-date food cost, an improved stability and reliability of cost of food ratios and the maintenance of a standard and reduced value stock level.

II- Inventory preparation and timing

1. A memo should be issued by the Cost Controller to every department head outlining the schedule for the month-end inventory, stating:
   - Date and time for each storeroom to be inventoried
   - People responsible for the counting

2. From the count day to the 1st day of the following month, there should be no issues from the stores to various departments after the physical count being performed. Any goods received at the end of the period and after the physical inventory taking should be kept in the receiving area and should be treated as received in the next period.

3. The following storerooms should be counted during the month-end inventory:
   - All stores maintained under direct finance management (general store, food store, beverage store)
   - Department's stores (engineering and housekeeping only) if kept in specially assigned rooms and for which restricted access is guaranteed
   - All beverage outlets and service bars (including mini bar stocks)

   In addition, a physical count should be performed half-yearly for all operating equipments (chinaware,glassware, silverware, linen and kitchen utensils), and all hotel assets should be counted at year-end.

4. A typical schedule for a month-end inventory in a 31 day month is as follow:
   - 29th All department stores
   - 30th General store
   - 31st Food and beverage store
   - 31st/1st Outlet service bars and beverage outlets (Physical count to be done after those operations have closed and prior to the daily receipt from the beverage store)

III- Inventory taking procedure

1. Count sheets per location number with pre-printed inventory items should be used, with no mention of the computer quantity ("theoretical stock on-hand").

2. Counting should be performed in teams of two, i.e. the Cost Controller and the person in charge of the counted stock. Upon completion of the count, the sheets should be signed and dated by all of those performing the count

3. The physical count should be performed in a structural way for the shelves and locations, for example from left to right, to ensure that everything is being counted. When there are items not listed on the inventory count sheets, these items should be noted in a blank space and investigate to determine whether these are new inventory items.
   With respect to packaged or packed goods, the packages should be checked to determine whether the package or container actually contains the goods, with special attention paid to opened packages.

4. A final review "spot check" by the Financial Controller should be done to ensure the accuracy and completeness of the physical count. After all counting is finished the Financial Controller should walk through the entire area and spot check a selection of items to ensure the completeness of the physical count.

5. Once all inventory counts have been entered in the system, a variance report should be reviewed between the theoretical and the physical inventory. In analyzing variances, look for possible misclassification of item numbers, or incorrect handling of received goods, outlet returns, damaged products or vendor returns.

6. Upon completion of the data entry of the physical count and the final review of variances, a detailed inventory cost and pricing report (extended by the adjusted quantity on hand) should be prepared. Any unusual variances in costs, prices or extended amounts should be investigated.

7. After all necessary corrections have been made based on the results of the physical count and inventory valuation reviews, a final detailed inventory valuation report should be provided and filed.

IV- <u>Book inventory adjustment</u>

The inventory balance in the accounting system's General Ledger will be adjusted if necessary, to agree with the final inventory valuation report. All inventory adjustment will be charged or credited directly to the appropriate P&L account.

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Chief Accountant **Date**

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Financial Controller **Date**

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Director of Finance **Date**