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TO: Clients Using Average Cost and FIFO for Inventory Valuation

FROM: Bill Schwartz, CEO

A significant number of our clients currently use either FIFO (First In, First Out) or Average Cost for their F&B inventory valuation. While we understand that changing accounting methods may feel cumbersome, we would like to make the case for considering a switch to Last Cost.

From an accounting standpoint, the government is primarily concerned with year-end inventory valuation for tax purposes. Generally Accepted Accounting Principles (GAAP) recognize multiple government-approved methods for inventory valuation, and as long as year-end inventory is valued using any of these methods, it is acceptable to the IRS. The FOOD-TRAK System supports three of these methods: FIFO, Average Cost, and Last Cost.

Historically, the philosophy in foodservice has been to use FIFO, reflecting the idea that inventories should contain only recently purchased items, given their perishable nature. Average Cost, on the other hand, averages purchases between inventories, a method that may make more sense for companies that take inventory only annually. However, foodservice businesses typically conduct inventory much more frequently—monthly or even weekly.

From our perspective, Last Cost offers an equally accurate, and sometimes more precise, reflection of inventory value. We advocate considering Last Cost not only for its accuracy but also for its efficiency. Calculating FIFO or Average Cost is significantly more complex and time-consuming, which can extend processing times for inventory extension, cost-of-goods, transfer transactions, and other accounting reports. This difference is especially noticeable when full inventories are taken less frequently.

Importantly, the choice of inventory valuation method has minimal impact on total period food and beverage costs. The differences between methods are generally minor, and minor counting errors are likely to have a larger effect than the method itself.

For these reasons, we suggest considering a switch to Last Cost as your FOOD-TRAK accounting method for inventory valuation. Other aspects of your inventory management can remain unchanged, making this a simple, low-risk adjustment. Should you have any questions or wish to discuss this further, please do not hesitate to contact us directly.

Thank you and we appreciate your business.