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graph LR
    A[TRANSACTIONAL] --> B[The record was wrong: missed or duplicated receipts, posting errors, receiving discrepancies, adjustments keyed incorrectly.]
    C[OPERATIONAL] --> D[It left for a known reason nobody recorded: damage, parts used on repairs or warranty work, shop supplies.]
    E[UNKNOWN] --> F[No cause found after looking: theft, misplacement, unauthorized removal. The only kind that starts as a security question.]
  
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Do these in order, every time.

ITEM	DONE
Confirm the count itself: the right item, the right location, the right unit of measure	☐
Review the transaction history: receipts, sales, transfers, adjustments, work orders and rentals	☐
Look at the item's past: earlier variances, how it moves, how it is handled	☐
Name the cause: transactional, operational or unknown	☐
Fix the cause, not just the quantity	☐

One line per item. Use T, O or U for the kind.

[illegible]

3 Where it hides in an equipment and hardware store

Check these before assuming anything was taken.

- | | |
|---|--|
| ☐ Short shipments received as complete | ☐ Parts pulled for a repair, never posted to the work order |
| ☐ Shop supplies used with no transaction | ☐ Bulk sold by the foot without the right conversion |
| ☐ Transfers shipped but never received | ☐ Case-versus-each unit-of-measure setup |
| ☐ Demonstration and display stock | ☐ Damaged goods thrown away without a write-off |

4 Look for the pattern

One shortage is often noise. A pattern points somewhere.

PATTERN	WHAT IT USUALLY POINTS TO	SEEN HERE? NOTES
The same item, again and again	A process problem with how it is received, stocked, sold or used in the shop	
One location or area	A handling or security issue in that spot: yard, back room, shop floor	
One department	A process gap in how that department records what it uses	
No cause after investigation	Escalate. This is where it becomes a security question	

5 Overages and negative on-hands

A count higher than the record is not a gain. It distorts reordering, valuation and purchasing just as much as a shortage. A quantity below zero is always a record problem, often a receipt missed or posted after the sale. Correct the number **and** find the cause, or it comes back.

6 Where to start

ITEM	DONE
Pick the items with the largest shortages and run each through the five-step check	☐
Sort what you find into transactional, operational and unknown	☐
Fix the causes that come up most often. Receiving and parts posting are good places to start	☐
Count the problem items more often until they stay accurate	☐
Escalate only what remains unexplained	☐

A business that cannot say what its shrink is has no protection in this area. It has a hope.

WANT A SECOND SET OF EYES?

Start a conversation at profitedgesystems.com about inventory accuracy and loss prevention.