

For Tourism and Hospitality Student

Food &
Beverage

COST CONTROL



IZATUL SYAZREEN
N. AQILAH HAWALIANA

FOOD & BEVERAGE COST CONTROL



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Writer

Izatul syazreen Mohd Ismail
Nurul Aqilah Hawaliana

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Politeknik Merlimau, Melaka
KB1031 Pej Pos Merlimau,
77300 Merlimau Melaka

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PREFACE

Professional foodservice managers are faced with a wide array of challenges on a daily basis. Controlling costs, setting budgets, and pricing goods are essential for success in any hospitality business. *Food and Beverage Cost Control* provides the tools required to maintain sales and cost histories, develop systems for monitoring current activities, and forecast future costs. This detailed yet reader-friendly guide helps students and professionals alike understand and apply practical techniques to effectively manage food and beverage costs.

The book examines the entire cycle of cost control, including purchasing, production, sales analysis, product costing, food cost formulas, and much more. Each chapter presents complex ideas in a clear, easy-to-understand style. The book helps readers enhance their knowledge of the hospitality management industry and increase their professional self-confidence.

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INTRODUCTION

Definition of Cost



In food and beverage business, cost is defined as *the expense to a foodservice establishment for goods and services when the goods are consumed or the services is rendered* . Food and services are considered “consumed” when they have been used, wastefully or otherwise, and are no longer available for the purposes for which they were acquired.

Example of food cost: the cost of a piece of meat is incurred when the piece is no longer available for the purpose for which it was purchased, because it has been cooked, served, or thrown away because it has spoiled, or even because it has been stolen.

Example of labor cost: the cost of labor is incurred when people are on duty, whether or not they are working and whether they are paid at the end of a shift or at some later date.

The cost of any item may be expressed in a variety of unit such as

- a. Weight – weighing an item such as a piece of meat, vegetables
- b. Volume – only for liquid item such as fruit juices, coffee, cooking oil, vinegar
- c. Count – materials that we can count visually for examples of a can of tuna, a bottles of soy sauce

Types of cost

1. **Fixed costs:** costs that are normally unaffected by changes in sales volume. They have little direct relationship to the business volume because they do not change significantly when the number of sales increases or decreases.
 - Example of fixed costs: insurance premiums, real estate taxes are set by governmental amount of total revenue.
 - The terms fixed is not means static or unchanging, they are sometimes tied indirectly to long-term volume changes.
2. **Variable costs:** cost is one that varies on a linear basis with revenue. Are those that are clearly related to business volume. Example: Cost of food, beverages & labor.
 - **Directly variable costs** are those that are directly linked to volume of business, such that every increase or decrease in volume brings a corresponding increase or decrease in cost. The obvious variable costs are food and beverage. The more foods and beverage sold, the more that have to be purchased. If revenue is zero, then the cost should also be zero. As business volume increases, so do these costs. As business volume decreases, so do these costs.
 - **Direct variable costs** are those that are directly linked to volume of business, such that every increase or decrease in volume brings a corresponding increase or decrease in cost. The obvious variable costs are food and beverage. The more foods and beverage sold, the more that have to be purchased. If revenue is zero, then the cost should also be zero. As business volume increases, so do these costs. As business volume decreases, so do these costs.
 - **Semi variable costs:** has both fixed and variable element, meaning that a portion of it should change with short-term changes in business volume and another portion should not.
3. **Controllable costs** are those that can be changed in the short term. Variable costs are normally controllable. The cost of food or beverages, for example, can be changed in several ways – by changing portion sizes, by changing ingredients in the recipe, or by changing the quality of the products purchased.
4. **Noncontrollable costs:** are those that cannot normally be changed in the short term. These are usually the fixed costs, and a list of the common ones would include rent, interest on a mortgage, real estate taxes, licence fees and depreciation.
5. **Unit costs:** food and beverage portions, as in the cost of one steak or one watermelon juice, or unit of work, as in the hourly rate for an employee.
6. **Total costs:** Total cost of all food served in one period, such as a week or a month, or the total cost of labor for one period. The costs on a statement of income are all total costs, rather than unit costs.

7. **Prime Cost:** refer to the costs of materials and labor: food, beverages and payroll. Prime costs are defined as the sum of food costs, beverage costs and labor costs (salaries and wages, plus employee benefits).
8. **Historical Cost:** the definition of cost at the beginning of this chapter carries with it an implication that all costs are historical – that is, that they can be found in business records, books of account, financial statements, invoices, employees' time cards, and other similar records. The purposes are to establishing unit costs, determining menu prices and comparing present with past labor cost.
9. **Planned costs:** planning is among the most important functions of management and in order to plan effectively, managers use historical costs to develop planned costs – projection of what costs will be or should be for a future period. Historical costs are necessary for effective planning.

Cost in Food & Beverage Establishment

In food and beverage establishment, there are THREE types of cost;

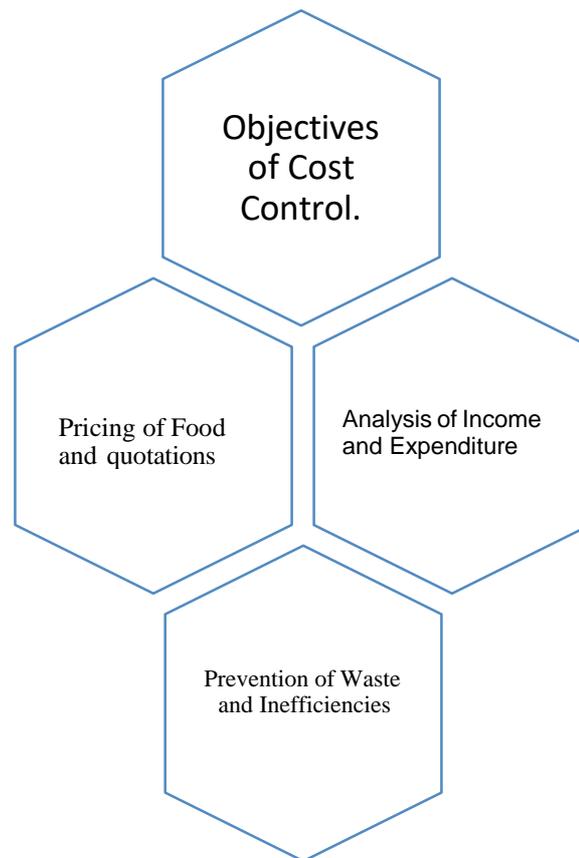
1. Food and beverage cost
Known as raw material cost including expenses of meat, chicken & poultry, fish, seafood, dairy product, vegetables and foodservice food product items. This cost is the largest cost in most of the cost of raw material.
2. Labor cost
Labor cost includes the cost of all employees necessary to run the business, including taxes and benefits. In most operations, labor costs are second only to food costs in total dollar spent.
3. Overhead cost
Overhead cost also could be known as other expenses or other operating expenses (expenses that run the business). Examples of overhead cost include franchise fees, utilities, rent, linen, etc.

Definition of Cost Control.

The key to a successful restaurant, as anyone could probably tell you is good food, an excellent service, and a great location. These factors contribute to high sales numbers. However, restaurants operate on tight margins. The sale of your restaurants must be enough to cover all your other expenses, plus generate you a decent profit. Thus arises a need for Food and Beverage Control in restaurants. Learn how to control your overall restaurant costs here.

Food and beverage control essentially means controlling the behaviour of the people and the processes responsible for the expenses. Control is a process by which a manager attempts to direct, regulate and restrain the action of people to achieve the desired goal. *Cost control* is defined as the process used by managers to regulate costs and guard excessive cost. It is ongoing process and involved every step in the chain of purchasing, receiving,

storing, issuing and preparing food and beverage for sale, as well as training and scheduling the personnel involved.



The Importance of Cost Control.

Control is a process by which a manager attempts to direct, regulate and restrain the action of people to achieve the desired goal. There are THREE importance of cost control.

- a) To increase revenue of the company
- b) To avoid waste in operation
- c) To increase efficiency in managing cost

Example of inefficiency and waste:

storing food in refrigerators that are not cold enough or bottled beer in a warm, sunny room will cause spoilage and excessive cost.

The preparation of an edible beef stew or an unpalatable drink. When the stew is thrown into the garbage can or the drink is poured down the drain, the costs of operation are increased, but sales are not.

Because profit is essentially the difference between sales and costs, it is apparent that any increased in cost that do not lead to corresponding increases in sales can have only one effect – a reduction in profit.



Standard are defined as rules or measures established for making comparison and judgments.

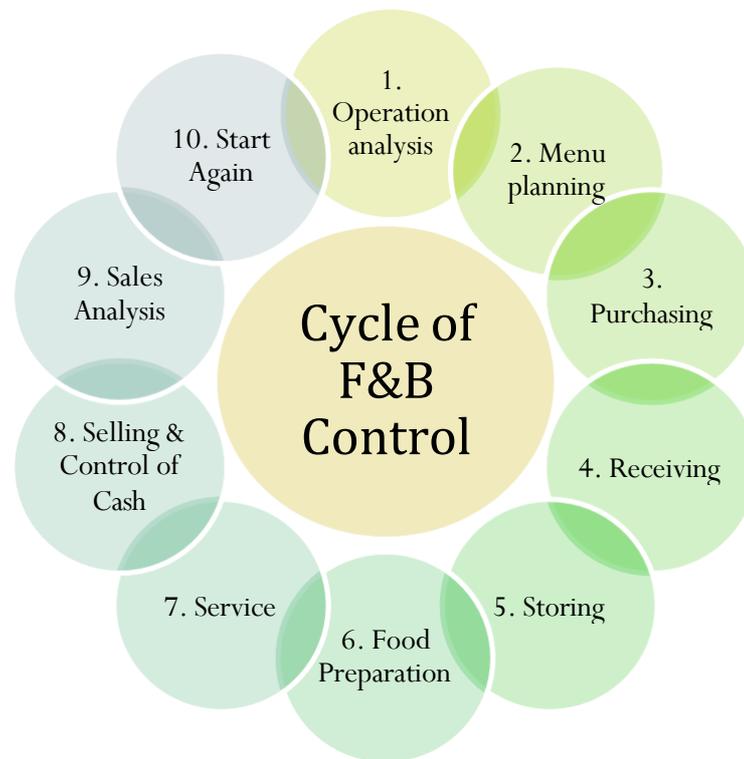
Standard Cost is defined as the cost of goods or services identified, approved and accept by management.

Quantity Standard are used for various purposes. They may be compared with actual costs in order to make judgment about actual cost and they may be used as a basis for establishing sales prices.

Quality Standard are used to define the degree of excellence of raw materials, finished products, and work. It is also a grading process.



Cycles of food and beverage cost control.



1. Operation Analysis

- You make an overall analysis of everything you are doing in your total food service operation.
- What are your sales?
- What is your current food cost?
- What steps are you taking to control food cost?
- Go into specific areas for detailed information. Establish procedures in every area listed below.

2. Menu

- Consider your **MENU**. It is your most important sales tools. It lists everything you will sell. You “pre-cost” your menu. This means that before you put any item and price on your menu, you figure out just what it costs you to prepare and serve that item. Then you decide on the appropriate selling price and put the item and its price on your menu.

3. Purchasing

- You have to purchase the food you will need to have in order to prepare and sell the items on your menu. Purchasing must have controls.

4. Receiving

As you receive the food you have purchased, some goes into your storeroom and some goes directly into your production area. You need controls when you receive the food you have bought.

5. Storeroom

You need control procedures to check food in and out of your storeroom. You need a storeroom control system to keep records and to prevent theft.

6. Food production

- Establish procedures. You need standardized recipes to prepare the food listed on your menu, to make sure your costs and portion sizes are being maintained in line with what you pre-costed, and to make sure that you predetermined standards are being met.

7. Service

Decide what kind of service you want to offer. Train your employees to provide it.

8. Selling and control cash

Established controlled selling procedures. Control for collecting payment from guests and handling cash are very important.



“We need a new word for procurement.”

Miguel Caulliez
CPO Nokia

PROCUREMENT

Procurement is a process involve the following sequence of operation:

Procurement M	Meaning
Purchasing	Purchasing is a process of an activity that acquiring goods or service to accomplish the goals of an organization.
Receiving Process of ensuring	that the quantity and price of each item ordered is what the establishment actually received.
Storing Process that those food	are added to inventory when received and charged to cost as issues.
Issuing	Process of placing products into a production system.

PURCHASING

Food purchasers in foodservice operations aim to:

- Have an appropriate amount of various food items on hand when needed
- Ensure the food is of appropriate quality for the operation
- Keep the quantities in inventory or storage as low as possible so the RM investment in merchandise and storage- facility upkeep will remain low.

Developing standards and standard procedures for purchasing

The primary purposes of establishing control over purchasing is to ensure a continuing supply of sufficient quantities of the necessary foods, each of the quality appropriate to its intended use, purchased at the most favorable price.

Standard must be developed for the following:

- Ⓒ quality of food purchased
- Ⓒ quantity of food purchased
- Ⓒ prices at which food is purchased

Establishing quality standard

- a. Determine which food, both perishable and nonperishables will be required for day-to-day operation
- b. Developing a complete list of foods and its characteristics
- c. Write STANDARD PURCHASE SPECIFICATION

THE IMPORTANCE OF STANDARD PURCHASE SPECIFICATION

- Force owner/manager to determine exact requirement in advance for any product
- Often useful in menu preparation. For example, it is possible to use one cut of meat, purchased to specifications, to prepare several different menu items
- Eliminate misunderstandings between stewards and purveyors
- Circulation of specifications for one product to several purveyors makes true competitive bidding possible
- Eliminate the need for detailed verbal descriptions of a product each time it is ordered
- Facilitate checking food as it is received

Establishing Quantity Standard

- ⊙ Although purchase specifications can be established at one particular time and merely reviewed and updated on occasion, quantity standards for purchasing are subject to continual review and revision, often on a daily basis.
- ⊙ All foods deteriorate in time, some more quickly than others, and it is the job of the food controller to establish a system to ensure that quantities purchased will be needed immediately or in the relatively near future
- ⊙ In cooperation with the steward, the food controller does this by instituting procedures for determining the appropriate quantity for each item to be purchased
- ⊙ This procedure is based principally on the useful life of the commodity

Quality of food purchased



- Quality of purchasing raw materials must be follow to standard purchased specification
- Standard purchase specification is carefully written description listing in appropriate detail the specific and distinctive characteristics that best describe an item to be purchased.
- Commonly identify grade, size, weight, degree of freshness, color and other similar characteristic.

Quantity of food purchased



- Before purchased a raw materials, purchasing agent must always refer to PAR STOCK and Steward's Market Quotations List.
- Par stock is the maximum quantity of a given item that should be on hands after the most recent order has been received.
- Steward Market Quotations list is a form often used by food purchaser for taking daily inventory of perishable foods, determining suitable order quantities, recording market quotations and selecting vendors.

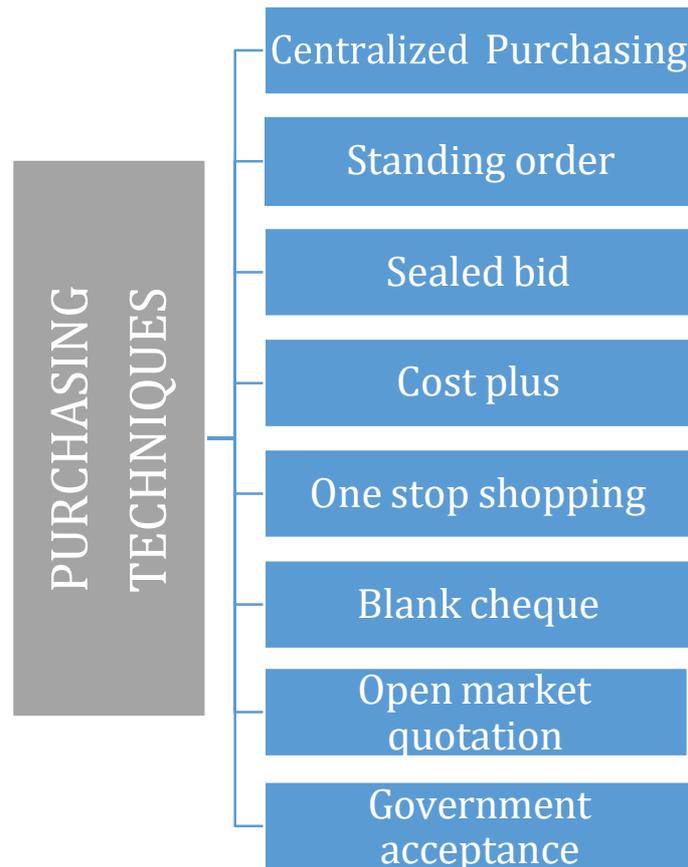
Prices at which food is purchased



- Prices offer must be same as quotations, so before purchased raw materials, purchasing agent must request quotations.
- The quotations will be send by supplier.

DOCUMENT IN PURCHASING

1. Request for price quotations (RFQ)	A standard business process whose purpose is to invite suppliers into a bidding process to bid on specific products or services.
2. Steward's market quotation list	A form used by food purchasers for taking daily of perishable foods, determining suitable order quantities, recording market quotations and selecting vendors.
3. Market quotations sheet	A sheet, that quote the last price at which an asset was traded in a securities market. The quote will usually represent the current asking price of the security contract.
4. Purchase order	An order which includes vendor's price, products and agreed arrangement for delivery and payment.
5. Bin card	A card, label or other device affixed to a storage shelf, used for recording the number or units of a particular item added to and issued from inventory and for determining the inventory balance that should be found on the shelf.
6. Perpetual inventory card	A card or other device used in the perpetual inventory method for recording additions to and issues from inventory.
7. Standard purchase specifications	Carefully written descriptions listing in appropriate details the specific and distinctive characteristics that best describe an item to be purchased.
8. Contract of purchasing	A legally binding document agreed between a purchaser and a vendor. A purchasing contract defines the purchasing and supply of goods or services at agreed prices and conditions. The quantity and value of the purchase order, limit confirmations and invoices are released against the contract.
9. Schedule agreement of purchasing	A form of outline purchase agreement under which materials are procured on predetermined dates within a certain time period.



There are several methods that may be utilized to request items or services such centralized purchasing, standing order, sealed bid, cost plus, one stop shopping, blank cheque, open market quotation and government acceptance.

Centralized purchasing is a system used by chains, franchises and groups of independent operators that results in purchases for all participating units being made by central office. Quick Service restaurant like KFC, Mc Donald, Pizza Hut, Sushi King mostly using these techniques for their purchasing method. Which is better, centralized or decentralized purchasing? Ultimately, it comes down to how much control and transparency you want. While every strategy has a downside, there are more benefits and fewer risks associated with centralized procurement. By using this technique, foods and beverages can be purchased at lower prices because purchased by volume. Desired quality can be obtained more readily because the purchasing agent has a greater choice of markets. Foods can be obtained that meet the purchaser's exact specifications. Larger inventories can be maintained, ensuring reliable supply to individual units and the possibilities of dishonest purchasing in individual units are greatly reduced. Every pro comes with their cons, each unit must accept the standard item in stock and has little freedom to purchase for its own peculiar needs. By using this techniques, individual units cannot take advantage of local "specials" at reduced prices. Menus are normally standardized, thus limiting the individual unit manager's freedom to change a menu.

Standing order method is referring to arrangements made between purveyors and foodservice operators that result in regular delivery of goods without specific orders preceding each delivery. Usually used for highly perishable items such as bread and milk, for example fresh milk delivery by HL Milk, bread delivery by Gardenia. Arrangements made between purveyors and foodservice operators that result in regular delivery of goods without specific orders preceding each delivery usually used for highly perishable items such as bread and milk. For example, Yakult drinks delivery at Sushi King's Restaurant, fresh milk delivery by HL Milk and bread delivery by Gardenia at Grocery. Advantages of standing order, specify how much of each item automatically should be delivered each day of the week or month, or the amount to maintain a predetermined par stock.

Sealed bids mostly used by government institutions, which usually are obligated by government procedures to take the lowest price offered and contract period for 30,60 or 90 days. For example, food and purchasing at dietary department hospital.

Cost plus order is where management set high standards for the products. Purveyors must meet these standards purveyors charges you what they pay for the item plus and agreed upon handling charges. The handling charge may be an agreed upon percentage of purveyor's cost or it may be an unchanging, flat service charge.

One stop shopping, method of purchasing advocated by purveyors. Give all of your business to a single purveying company which can give lower prices because they are receiving larger orders.

Blank cheque ordering technique are where you need a commodity but you do not know the exact cost so you send a signed cheque to the supplier for the item and the supplier fills in the amount of money. If you must use it, establish a special checking account with a specified maximum balance in the account.

Open Market Quotation is a purchasing technique where an establishment sends out its specifications to a variety of companies that supply the items needed. Any of the companies can put a bid on the items and send it back to the buyer. The buyer can buy all, or part, of the order from whomever solicits the lowest bid.

Government Acceptance is an excellent method for purchasing meat for a nominal fee, government inspectors working for the Department of Agriculture at a purveyor or at a meat plant will see to it that your specifications of grade and quality of produce are met. The meat is packaged and sealed under their supervision.

Perishable foods



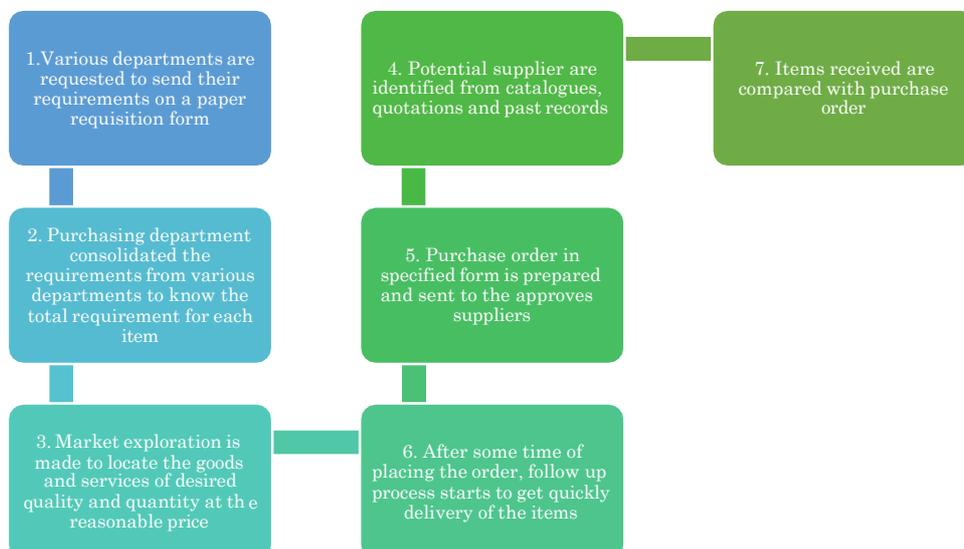
- Typically fresh food.
- It have comparatively short useful life after they have been received.
- Begin to lose their quality very quickly.
- Should be purchased immediate use in order to take advantage of the quality desired at the time of purchased.
- Need to purchase the items more frequently.

Non-Perishable foods



- Item have longer shelf life.
- Frequently refer to groceries or staples.
- May be store in the packages or containers in which they received.
- Often on shelves and at room temperature.
- Do not deteriorate quickly as long as they are unopened and kept on reasonable temperature.
- Typically purchased and stored in cans, bottles, bags and boxes.
- Frozen food are generally considered to be non-perishable.

There is a term commonly used in industry for the quantity needed: ~~par~~ or **par stock**. Par stock is a number of units related to usage and the time needed to get delivery



RECEIVING

- There are **TWO** time of receiving

Acceptance hour

Deliveries be made only at certain time



Refusal hour

The time that operator will not accept deliveries



ESTABLISHING STANDARD OF RECEIVING

- The quality delivered should be the same as the quantity listed on the Steward's Market Quotation List and the invoice.
- The quality delivered should conform to the establishment's specifications.
- The prices on the invoice should match those circled on the Steward's Market Quotation List.

DOCUMENTS IN RECEIVING

1. INVOICES

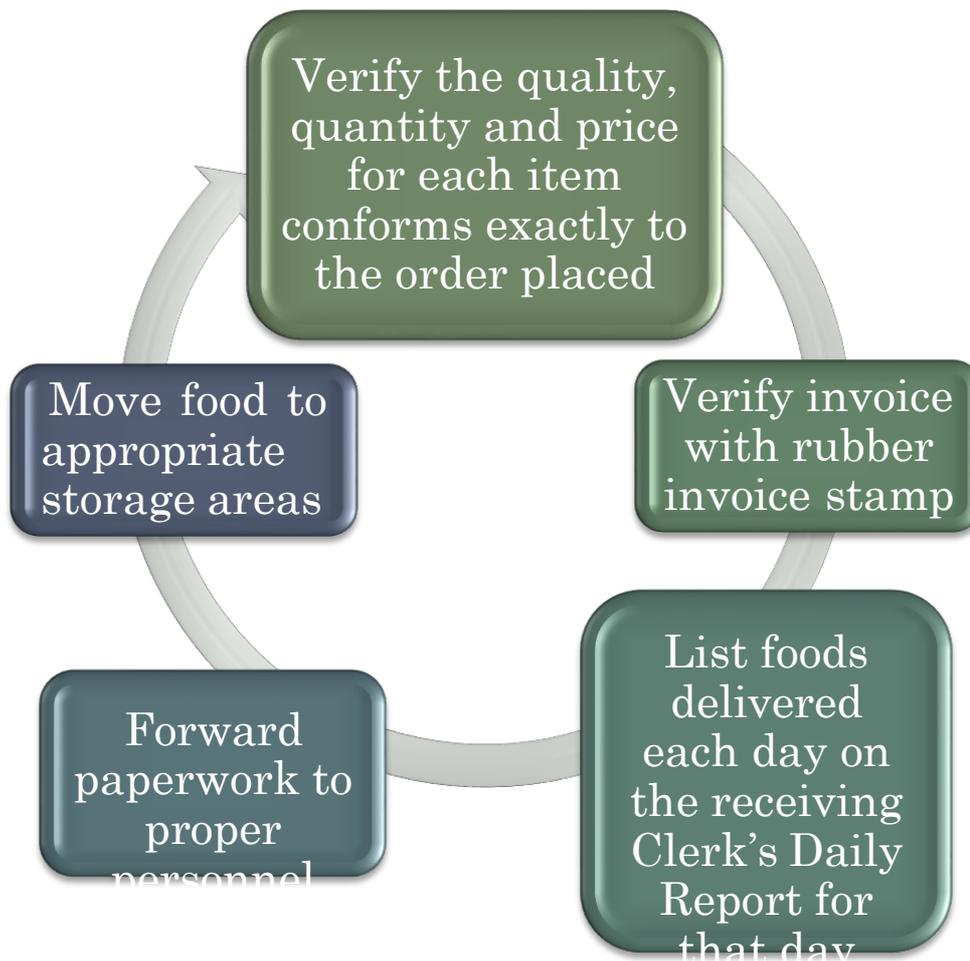
- Invoice is a bill from a vendor for goods or services.
- Often presented as the goods deliveries or the service are performed.
- The Invoice Stamp Provides for:
 1. Verification of the date food received
 2. Signature of the receiving clerk who vouches for the accuracy of the order
 3. Steward's signature, acknowledging delivery of food items
 4. Food controller's verification calculations are correct on the invoice
 5. Signatory approval of the bill for payment by an authorized individual before a check is drawn.

2. RECEIVING CLERK'S DAILY REPORT

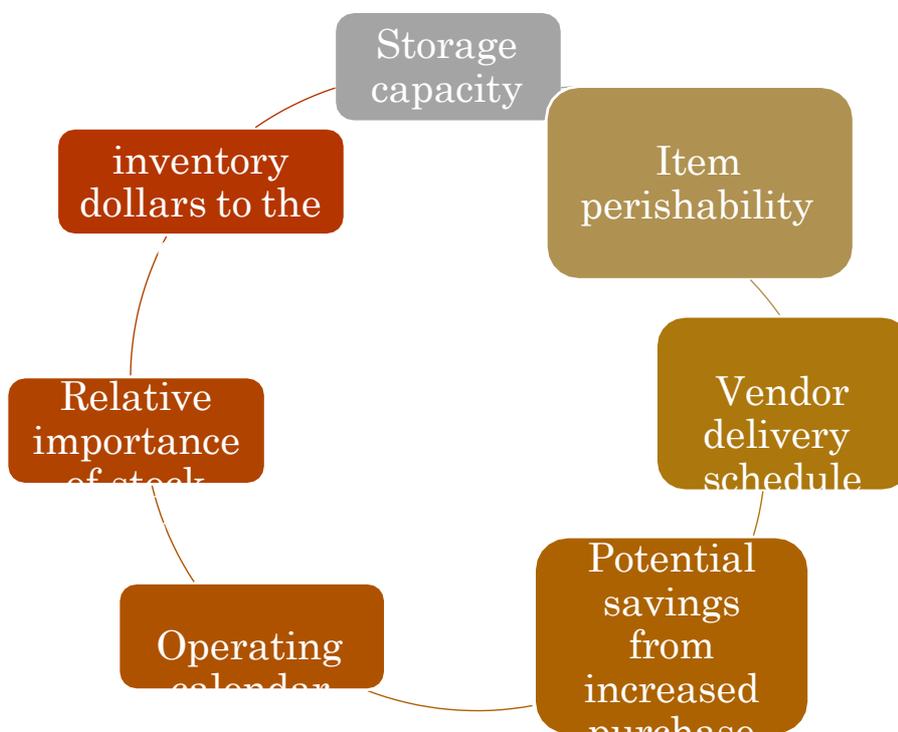
- A general term used to identify those forms used in F&B operations to record data from invoices for goods received on a given day and for accounting purposes, to distribute purchases into appropriate categories.
- Sometimes refer to simply as a receiving report or receiving sheet.
- Divided into:

Directs	Stores
<ul style="list-style-type: none">• For immediate use• Considered to be issued on delivery• Go directly onto today's food cost	<ul style="list-style-type: none">• Not for immediate use• Included on food cost when they are issued

RECEIVING PROCEDURE



INVENTORY CONTROL



Shelf life is the amount of time a food item retains its maximum freshness, flavor, and quality while in storage.

STORING

METHOD OF STORING

LIFO

- Last in, First out
- The store room operator intends to use the most recent delivery product before previous on hand

FIFO

- First in, First out
- Operators intends to rotate stock in such a way that product already on hand is sold prior to the sale of more recent delivery.

TYPES OF STORING AREA



Dry store

- Temperature 65°F - 75°F / 18°C -24°C



Chiller storage

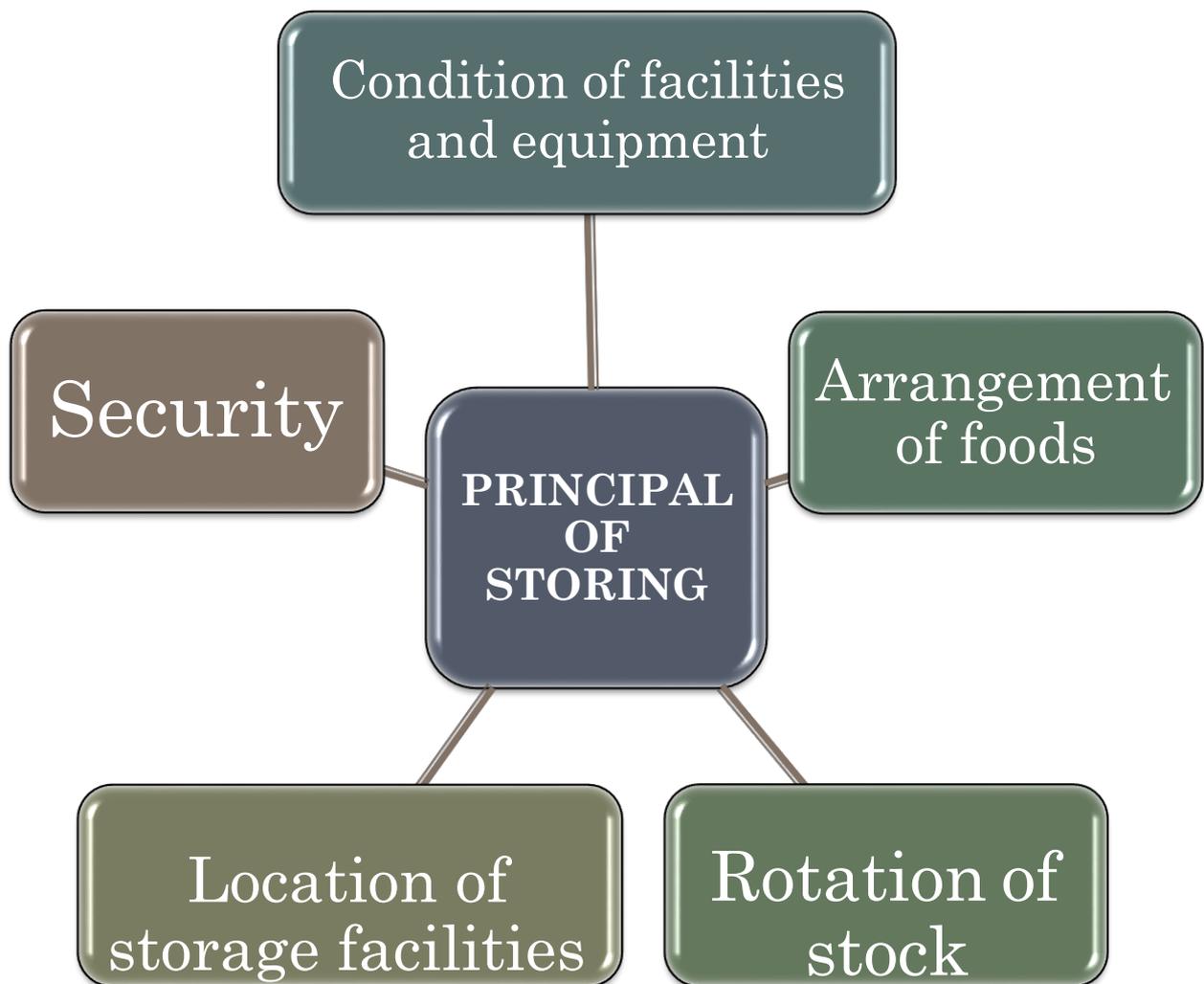
- Temperature 32°F - 36°F / 0°C -2°C



Freezer storage

- Temperature 0°F - -10°F /
- 17°C - -23°C

STANDARD OF STORING



1. Condition of Facilities & Equipment

Temperature

- Food life can be maximized when food is stored at the correct temperature and at the proper level of moisture.
- The food controller should check the temperature gauges on the refrigerated storage facilities to see that the appropriate temperatures are being maintained.
- The temperature for storing the foods indicated:
 - Fresh meats, fresh produce and fresh dairy products (34°F - 36°F)
 - Fresh fish (30°F - 34°F)
 - Frozen foods (10°F - 0°F)
- If temperature are permitted to rise above these levels, shelf life is shortened and the risk of food spoilage is increased for perishables.

Storage containers

- To maintaining foods at proper temperatures, care must be given to storing them in appropriate containers.
- Product purchased in unsealed packages should be transferred to tight, insect proof containers.
- Many raw foods such as apples and potatoes may be stored as purchased for reasonable periods.
- Fresh fish should be packed in shaved ice.
- In general, cooked foods and opened canned foods should be stored in stainless steel containers either wrapped or appropriate covered.

Shelving

- For perishable foods, shelving should be slatted to permit maximum circulation of air in refrigerated facilities.
- For non-perishable, solid steel shelving is usually preferred.
- At no time should any food product be stored on the floor.
- Appropriate shelving raised a few inches above the floor level should be provided for larger and heavier containers.

Cleanliness

- Absolute cleanliness is a condition that should be enforced in all food storage facilities at all times.
- Storerooms should be swept and cleaned daily and no clutter should be allowed to accumulate.
- A professional exterminator should be brought in on a regular basis to prevent rodents and vermin from reaching population levels large enough to cause damage and disease.

2. Arrangement of Foods

Keeping the most used items readily available

It is usually helpful to arrange storage facilities so that the most frequently used items are kept closest to the entrance.

Although it has no effect on spoilage or theft and does tend to reduce the time required to move needed foods from storage to production and thus tends to reduce labor costs.

Fixing definite location

Each particular item should always be found in same location and attention should be given to ensuring that new deliveries of the item are stored in the same location.

Separate facilities for storage of different classes of foods should be maintained whenever practicable and possible.

For example: eggs should not be stored with fish, cheese or other foods that give off odors because their shells are quite porous and they will absorb flavors from other foods

3. Rotation of Stock

The food controller must establish procedures to ensure that older quantities of any item are used before any new deliveries

The steward and staff must be held responsible for storing new deliveries of an item behind the quantities already on hand

If this procedure is not followed and

The procedure used to do this is known as FIFO. Ensuring that older items will be used first

those who store foods are permitted to put new food in front of old food on shelves, the chances are increased that the older items will spoil before they are used.

4. Location of Storage Facilities

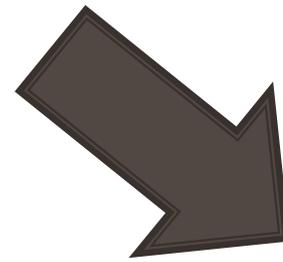
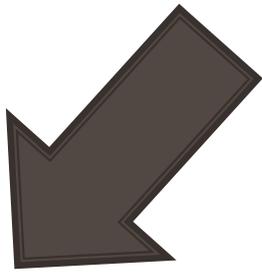
- ✓ The storage facilities for both perishable and non perishable foods should be located between receiving areas and preparation areas, preferably close to both.
- ✓ A properly located storage facility will have the effect of:
 - ✓ Speeding the storing and issuing of food
 - ✓ Maximizing security
 - ✓ Reducing labor requirements
- ✓ Dry storage areas should be sealed to reduce the risk of infestation. Obviously, it is impossible to seal an area if its location is susceptible to rodents.

5. Security

- ✓ Food should never be stored in a manner that permits pilferage.
- ✓ Food should be moving from the receiving area to storage as quickly as possible.
- ✓ A storeroom for staple food products should never left open and unattended.
- ✓ When the storeroom is closed, it should be locked and the single key should be in the storeroom clerk's possession.
- ✓ Employees should not be permitted to remove items at will.
- ✓ The importance of security obviously increase with the value of the items stored. It is sometimes advisable to establish separate control procedures for steaks, liquor and other high-cost items.

ISSUING

ELEMENTS IN ISSUING PROCESS



The physical
movement of foods
from storage
facilities to food
preparation areas

The record keeping
associated with
determining the cost
of food issues

RECORD KEEPING FOR ISSUED FOODS

Directs

- Directs are charged to food cost as they are received on the assumption that these perishable items have been purchased for immediate use.
- One of the direct received on a given day are likely to be left over and used the following day, most establishments purposely purchase more than one day's supply of many directs.

Stores

- When purchased, these foods are considered part of inventory until issued for use and are not included in cost figures until they are issued.

TYPES OF TRANSFER

Intra unit transfer

- Intra unit transfer are F&B transfers between departments of a F&B operation.
- In some large hotel operations, more than one kitchen is in operation and it may be necessary or desirable to transfer food from one kitchen to another.
- Example: Between kitchen and kitchen

Inter unit transfer

- Inter unit transfer are transfer of F&B between units in a chain.
- Example: F&B transfer between bar and kitchen

DOCUMENTS IN STORING AND ISSUING

1	2	3	4	5	6	7	8
		XB001, 34-2012	Wafers				10.50
			2 Kgs				
			Rusk				8.25
			1 Kgs				

refrigerator. • Total cooling time cannot exceed 6 hours or food must be discarded. • Use of metal pans is preferred, as they cool food faster than plastic.

Date	Food	Start Time & Temp	After 1 Hour	After 2 Hours	135°F to 70°F in 2 hours?	After 3 Hours	After 4 Hours	After 5 Hours	After 6 Hours	70°F to 41°F in 4 hours?	Corrective Action?	Employee	Verified By Manager
Example: 1/2/10	Beef Stew	8 am 135°F	9am 100°F	10am 70°F	If Yes, continue If No, Reheat	11am 60°F	12pm 50°F	1pm 45°F	2pm 38°F	Yes Cover, Label, Date	No	AB	CD

Transfer notes

- Transfer of food items both in the raw form or cooked, from one department to another department within the hotel is done through transfer notes.
- Transfer notes and requisition slips are internal invoices.
- All requisition slips and transfer notes are sent to control department and account department to control and accounting purpose.

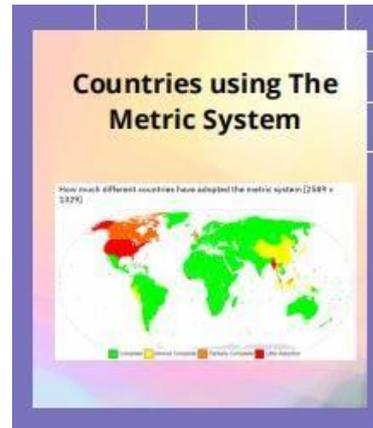
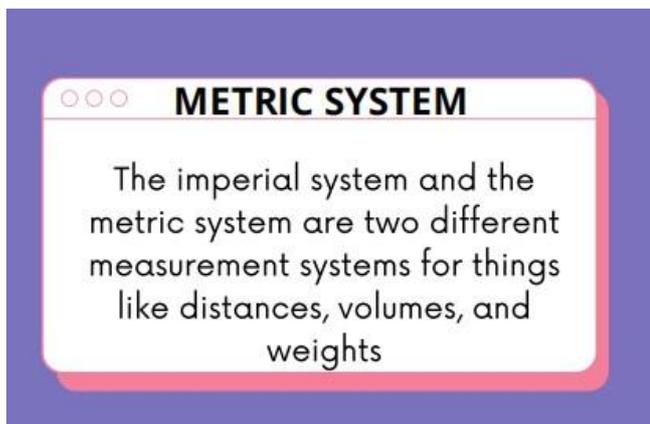
Breakage, spoilage, damage goods records

- All breakages are recorded in damaged good book.
- The book would record the date, description of item, details of purchase, value, reasons for spoilage, action taken by the store in charge and remarks.

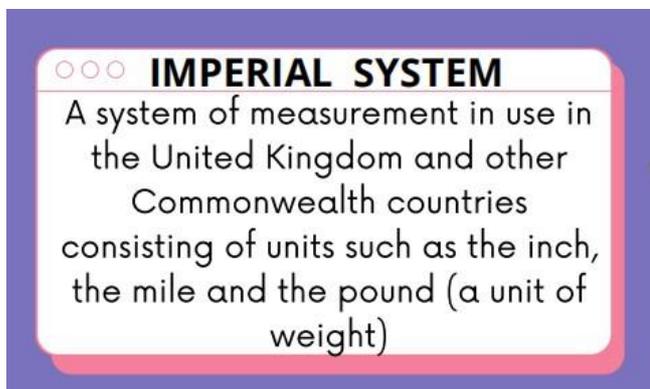
TOPIC 3: COST

There are two types of calculation systems:

a. Metric system



b. Imperial system



Conversion in Measurement

○○○

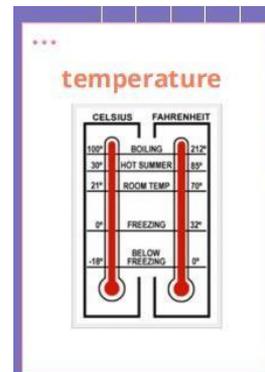
mass /weight

metric units:

- gram
- kilogram

Imperial units:

- ounce
- pound



FORMULA

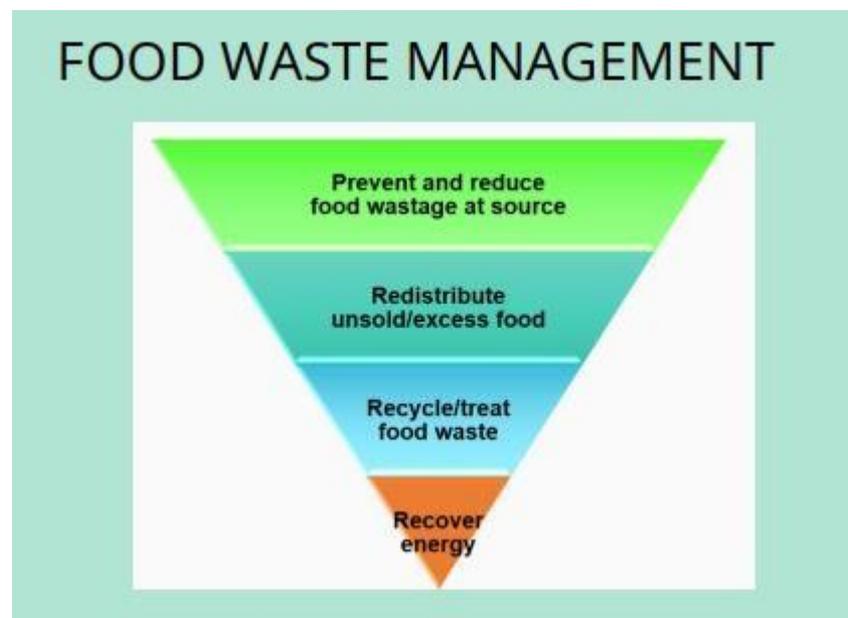
$$^{\circ}\text{F} = 9/5 (^{\circ}\text{C}) + 32$$
$$^{\circ}\text{C} = 5/9 (^{\circ}\text{F} - 32)$$

Food waste Management

The definition of food waste management is food losses taking place towards the end of the food chain (particularly final and retail consumption), associated with the behaviors of consumers and retailers.

Since food cost is the main part of the costing in the food and beverage industry, the control of the food waste should be taken care of properly. The concept of food waste management will give ways to the operation to control them more systematically.

Referring to the diagram below about food waste management, one should understand the flow in order to gained the objectivity of the process.



Costs are usually classified according to their relationship with the level of output of the firm. The following costs are therefore defined in relation to how they change in value as the level of output varies. The three types of cost are food cost, labor cost and overhead cost

1.0 FOOD COST

is the actual dollar value of the food used by an operation during a certain period. Food cost includes:

- the cost of food sold
- given away
- Wasted
- Spoiled
- incorrectly prepared
- over portioned
- over produced
- Pilfered

Formula to calculate Food Cost %:

$$\text{(Total food cost / sales) x100 = food cost \%}$$

Calculation of actual food cost more accurate by using the method given below:

FORMULA

For obtaining actual food cost accurately:

opening inventory + purchases = total food available

total food available - closing inventory
= **Total food cost**

After total food cost already known by the person in charge in the particular department, certain situation might be happened after we already calculated the total food cost. This is where the adjustment came into the picture and the earlier figure said earlier need to be adjusted.

Therefore, through adjusted, we will be going to recalculate the nett cost of food sold by using the format below:

- a. Cost of food issued
- b. Cost of food consumed

FORMAT		EXAMPLE	
	Opening Inventory	RM	1,000.00
+	Purchases	+	550.00
=	Total available for sale	=	1,550.00
-	Closing inventory	-	550.00
=	Cost of food issued	=	1,000.00
+	Cooking liquor	+	250.00
+	Transfer from other units	+	350.00
-	Food to bar (directs)	-	100.00
-	Transfer to other units	-	100.00
-	Grease sales	-	50.00
-	Steward sales	-	50.00
-	Gratis to bars	-	50.00
-	Promotion expenses	-	250.00
=	Cost of food consumed	=	1,050.00
	- Cost of employees' meals -		445.00
=	Cost of food sold		605.00

VALUING FOOD & BEVERAGE COST BY PHYSICAL INVENTORY

When we purchase an item, we may compare the price, as the price is not the same every time.

There are **FIVE** possible way of determining the proper price of an inventory:

- a. Actual purchase price method
- b. FIFO
- c. Weighted average purchase price method
- d. Latest purchase price method
- e. LIFO

a. **Actual purchase price method**

- The value on item based on pricing during receiving.
- Accountant just record the price based on the invoice receives and totals it at the end of the month.
- **Benefit/s:**

This method is easy but the actual price must be marked at the packet – easy to note the price.

- **Difficulties:**

When we not marked/ forget to marked the price- difficult to trace the actual price.

b. **First In, First Out (FIFO)**

The first stock to be place on the shelf will be assume as consumed and rotated properly during the period.

c. **Weighted average purchase price method**

If there is no assurance that stock has been properly rotate and if large quantities of good are involve- weighted average purchase are suitable to be use.

Multiplying the number of units in the opening inventory and each sequent purchase by their specific purchase price, adding these values to determine a total and then dividing by number of unit.

- **Benefit/s:**

It should be apparent although makes logical sense, its use require access to detailed record of purchases.

- **Difficulties:**

It is seldom use due to time consuming.

d. Latest purchase price method

A simpler, faster and more widely used

Justification is that if it were necessary to replace the remaining cans, the cost of replacement now would likely be the latest price at which the items were purchased.

e. Last In, First Out (LIFO)

The latest price also help management to decrease income taxes.

2.0 Labor cost

For most businesses, the largest cost they endure is labor cost. And that's certainly true for restaurants and foodservice businesses. Labor cost percentage is a hugely important metric to pay attention to.

Labor cost is the total of wages, benefits, and payroll taxes paid to and for all employees. It's divided into two categories: direct and indirect labor costs. Direct labor costs are the wages paid to the employees that produce products or services. Indirect labor costs are costs that facilitate that production. The wage of a worker who maintains production equipment is a good example of an indirect labor cost.

FORMULA

2. LABOR COST

Ways to measure productivity:

1. labor cost % =

Cost of labor / total sales

4. Guests served per labor dollar =

guest served / cost of labor

2. sales per labor hour =

Total sales / labor hour used

5. Guests served per labor hour =

guest served / labor hours used

3. labor dollars per guest served =

Cost of labor / guest served

Reducing Labor-Related Costs

There are few suggestion ways to reduce fixed labor costs include:

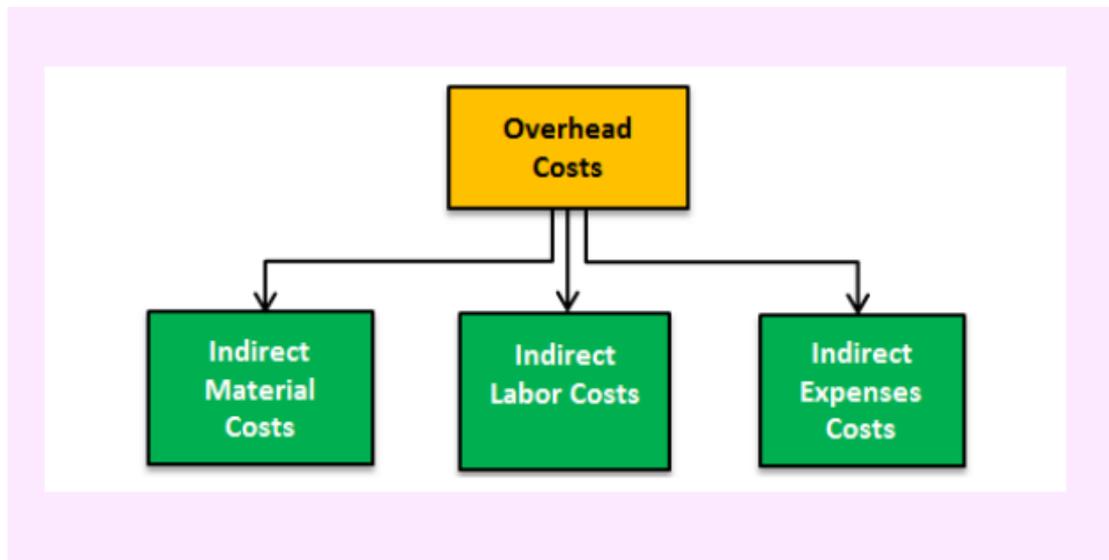
- Improve productivity
- Increase sales volume
- Combine jobs to eliminate fixed positions
- Reduce wages paid to the fixed payroll employees.

Ways to reduce variable labor costs include:

- Improve productivity
- Schedule appropriately to adjust to changes in sales volume
- Combine jobs to eliminate variable positions
- Reduce wages paid to the variable employees.

3.0 Overhead cost

Overhead costs are the continuous business expenses that are not directly related to manufacturing a product or creating a service.



Examples of Overhead Costs

Overhead costs are important in determining how much a company must charge for its products or services in order to generate a profit. The most common overhead costs that any business incur include:

1. Rent

Rent is the cost that a business pays for using its business premises. If the property is purchased, then the business will book depreciation expense.

Rent is payable monthly, quarterly, or annually, as agreed in the tenant agreement with the landlord. When the business is experiencing slow sales, it can reduce this cost by negotiating the rental charges or by moving to less expensive premises.

2. Administrative costs

Administrative costs are costs related to the normal running of the business and may include costs incurred in paying salaries to a receptionist, accountant, cleaner, etc. Such costs are treated as overhead costs since they are not directly tied to a particular function of the business and they do not directly result in profit generation. Rather, administrative costs support the general running of the business.

Examples of administrative costs may include audit fees, legal fees, employee salaries, and entertainment costs. A business can reduce administrative expenses by laying off some of its employees, switching employees from full-time to part-time, hiring employees on a contract basis, or by eliminating certain expenses, such as entertainment and office supplies.

3. Utilities

Utilities are the basic services that the business requires to support its main functions. Examples of utilities include water, gas, electricity, internet, sewer, and phone service.

A business may be able to reduce utility expenses by negotiating for lower rates from suppliers.

4. Insurance

Insurance is a cost incurred by a business to protect itself from financial loss. There are various types of insurance coverage, depending on the risk that may cause loss to the business. For example, a business may purchase property insurance to protect its property or business premises from certain risks such as flood, damage, or theft.

Another type of insurance is professional liability insurance that protects the business (such as an accounting firm or law firm) from liability arising from malpractice. Other types of insurance include health insurance, home insurance, renter's insurance, flood insurance, life insurance, disability insurance, etc.

5. Sales and marketing

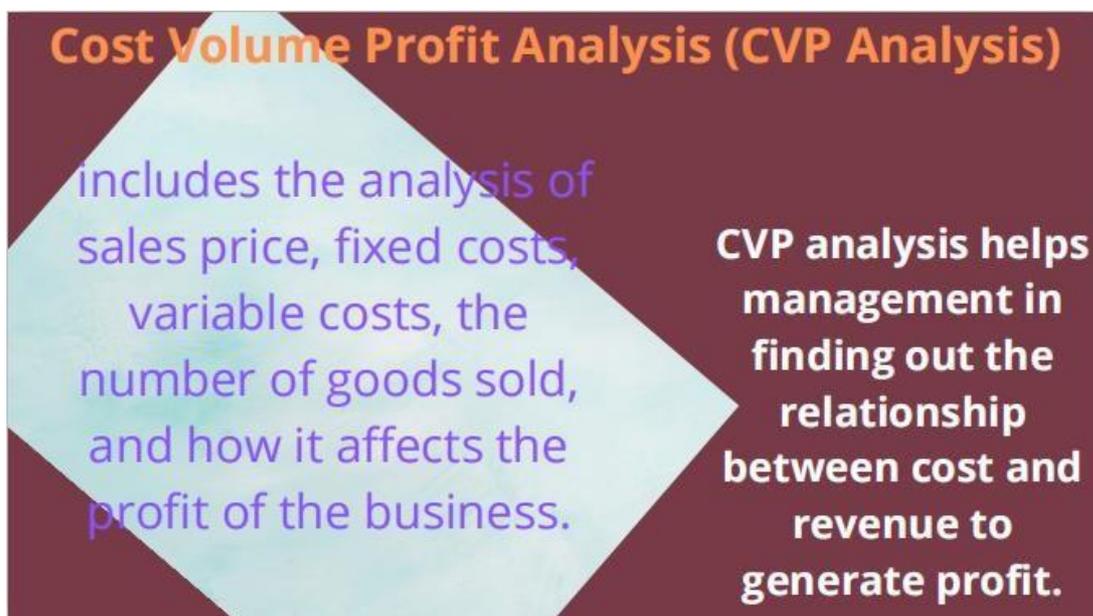
Sales and marketing overheads are costs incurred in the marketing of a company's products or services to potential customers. Examples of sales and marketing overheads include promotional materials, trade shows, paid advertisements, wages of salespeople, and commissions for sales staff. The activities are geared toward making the company's products and services popular among customers and to compete with similar products in the market.

6. Repair and maintenance of motor vehicles and machinery

Rent and maintenance overheads are incurred in businesses that rely on motor vehicles and equipment in their normal functions. Such businesses include distributors, parcel delivery services, landscaping, transport services, and equipment leasing.

Motor vehicles and machinery need to be maintained on a continuous basis and repaired whenever they break down.

Analyze Cost volume Profit Relationship

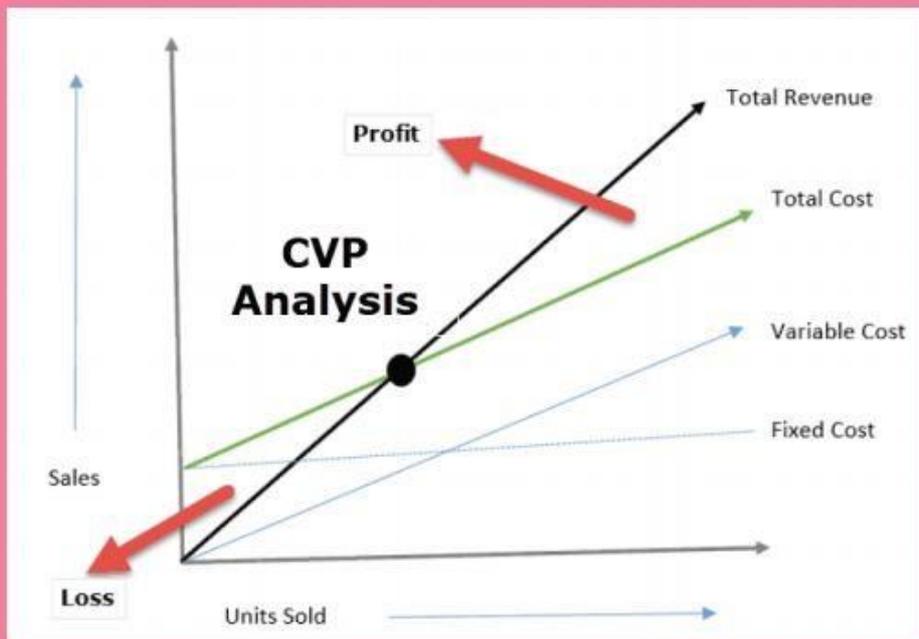


FORMULA

CVP ANALYSIS



$$\text{No of Units Sold} \times \text{Price Per Units} = \text{No of Units Sold} \times \text{Variable Cost Units} + \text{Fixed Cost} + \text{Profit}$$



TUTORIAL

1. Given the following information, calculate cost percentages. Round your answers to the nearest tenth of a percent.

- a. Cost, \$200.00; Sales, \$500.00
- b. Cost, \$150.00; Sales, \$500.00
- c. Cost, \$178.50; Sales, \$700.00
- d. Cost, \$216.80; Sales, \$800.00

2. Calculate cost, given the following figures for cost percent and sales:

- a. Cost percent, 28.0%; Sales, \$500.00
- b. Cost percent, 34.5%; Sales, \$2,400.00
- c. Cost percent, 24.8%; Sales, \$225.00
- d. Cost percent, 31.6%; Sales, \$1,065.00

3. Calculate sales, given the following figures for cost percent and cost:

- a. Cost percent, 30.0%; Cost, \$90.00
- b. Cost percent, 25.0%; Cost, \$500.00
- c. Cost percent, 33.3%; Cost, \$1,000.00
- d. Cost percent, 27.3%; Cost, \$1,300.40

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For Tourism and Hospitality Student

Food & Beverage

COST CONTROL



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