

LEARNING OBJECTIVES

After completing this chapter learners would be able to:

- (i) Understand the concept of Food Cost in Hospitality sector
- (ii) Understand the economic importance of Food Cost Control
- (iii) Know the advantages of Food Cost Control
- (iv) Observe the limitations and obstacles to Cost Control
- (v) Know about the necessities and methodology
- (vi) Write steps of different phases of cost control

CONCEPT:

- 1.1 Introduction to Food Cost and its Control
- 1.2 Definition
- 1.3 Objectives and Advantages of food cost control.
- 1.4 Possible obstacles to food cost control.
- 1.5 Limitations of food cost control.
- 1.6 Methodology & phases of cost control.
- 1.7 purposes of food cost Accounting
- 1.8 Essentials of food cost control

1.1: Introduction to Food Cost and its Control

Costing should not be confused with cost accounting. Costing is simply the process of arithmetic, means of memorandum statements or the methods of integral control. Costing is the technique and process of ascertaining costs. The principles and rules, which govern the procedure of ascertaining costs of products or services, is the technique used in ascertaining costs. With the development and changes in methods, the techniques of costing change. To control the Food Cost; the purchasing, receiving, storing, issuing, food production, food sales, etc. are to be controlled.

1.2: Definition

Food Cost is defined as the cost of raw material (food) used to prepare a dish or food.

The net stock in hand at the beginning of the day + stock (raw material) purchased or received from store - net stock in hand at the end of the day is defined as Food Cost for the day.

1.3: Objectives and Advantages of Food Cost Control:

In hotel industry, the food cost is classified into materials (raw food cost). It is a major portion of the total cost. The smaller the hotel / restaurant more are the food cost and larger / exclusive the hotel / restaurant less is the food cost. Food Cost is one of the major costs of the Restaurant and there is always a risk of food cost going high and low due to the negligence of the staff. In case the food cost goes high then that means direct loss to the hotel / restaurant; as the cost of sale (Food Cost) will go high and the gross profit (sale - food cost) will come down. On the other hand if the food cost is low then that means either the guest is given a small portion or he is served sub standard quality of food. This will subsequently result in losing permanent customers and hence will reduce sale and profit. In case food cost is not controlled carefully then, in spite of restaurant making good sale it may run into net loss. By controlling the cost control we can assure the profitability of the hotel / restaurant in case the sale is more than the Break Even Point Sale.

1.4 Possible Obstacles to Food Cost Control.

There are numerous obstacles which affect on the food and beverage items cost.

- (i) The cost of the basic raw material varies from season to season and depending upon the size of order. In off season the cost of raw material is always more.
- (ii) In case a large quantity of goods (raw material) are ordered then the cost of each unit is much less as compare to when a small quantity of goods (raw material) is ordered.
- (iii) The price of raw material may always go high during the shortage of goods in the market due to high consumption or low production.

1.5: Limitations of Food Cost Control

It looks very simple that if the standard recipe and portion size control is followed then the food cost will be always under control. In actual, in spite of following standard recipe and portion size the food cost may differ. The following factors affect the food cost, which may or may not be under the direct control of Chef and the Management.

- (i) Fluctuation in Raw Material Cost.
- (ii) Wrong Purchasing of Raw Material.
- (iii) Reduction in Sale.
- (iv) Wastage during preparation of Food.
- (v) Pilferage in Food Sale.
- (vi) Spoilage due to wrong storage.

1.6 Methodology and Phases of Cost Control

(i) PURCHASING:

The purchase department must ensure that the right quality of food, at competitive price and right quantity of raw material should be procured to keep the cost control.

(ii) RECEIVING AND STORING OF RAW MATERIAL:

The raw material received by stores must be inspected for the quality and the quantity desired, and in case found not up to requirement should be returned to supplier for replacement. All stores received must be stored at a proper place. It is saying that in stores there should, 'a place for every thing and every thing is place'. The store keeper must ensure that no food item should get spoiled and if it happens then it is charged to store keeper.

(iii) ISSUING:

All goods should be issued after a proper requisition. The store keeper must follow the rule of 'FIRST IN FIRST OUT (F.I.F.O.), which means the goods received first are issued fist.

(iv) WASTAGE:

The wastage, at all levels, i.e. Portioning, Cooking, Storing, etc. should be as minimum as possible. The wastage of food should be avoided. All trimmings of vegetables, bones, and other raw material wastes should be used to cook stock, soups, gravies, sauces, etc.

(v) PROPER STORING OF COOKED FOOD:

In case the cooked food is left at the end of the day then it must be stored at a proper temperature so that it can be used on the following day, if so required.

(vi) SPOILAGE:

The cooks must ensure that there should be as far as possible no spoilage of food in the kitchen.

(vii)ENSURE NO FOOD IS SERVED WITHOUT BILL:

In case food is allowed to be picked up without proper bill then this will increase the food cost.

(viii) PORTION CONTROL:

The chef must ensure that dish is as per the standard potion, as both the larger portion and smaller portion is harmful to the hotel / restaurant. A large portion will increase the food cost and a small portion will dissatisfy the guest.

(ix) STANDARD RECIPE:

The Chef must ensue that always standard recipe should be followed, or otherwise, the guest may not always find similar standard of the dish and this will dissatisfy him.

The objectives and advantages of Food Cost Control are to satisfy the guest and make reasonable good profit at all times.

1.7 Purposes of Food Cost Accounting

(i) To Know Cost:

It is through the mechanism of cost accounting that costs of products or services are ascertained.

Any of the method may be used to know the cost but it should be near to the actual costs.

(ii) To Fix the Selling Price:

Only if one knows the total cost than one can fix the selling price of a dish. The selling price is fixed in Restaurants, keeping in view the food cost. More the luxury restaurant, low is the food cost and vice versa. A small road side restaurant may have as high as 45 - 50% food cost and a speciality restaurant may have as low as 17 - 20% food cost.

(iii) Cost Controlling:

The Chef / Restaurant Manager / Cost Accountant while fixing the selling price of a dish must know its exact recipe. He must also keep in mind the labour cost, the over heads while fixing the food cost and its variances.

(iv) Preparation of Account and Control of Food Cost:

He will regularly review the production, sales and operating results, stocks of raw material and finished food and other items are valued at cost price or market price, whichever is lower. The stock inventory is taken by physically verifying each item. After ascertaining the stocks and taking a note of costs and sales, he is able to control the food cost.

(v) Operating Policies:

The Food Cost Accounting helps management in formulating operating policies like what should be the food cost, whether to bake bakery products in house or out source. Even desserts can be bought from outside if the sale of the same is not sufficient to keep a dessert chef.

1.8: Essentials of Food Cost Control

- (i) Proper Purchasing
- (ii) Control in Purchasing
- (iii) Follow Purchasing Procedure
- (iv) Control Food Production
- (v) Follow Standard Recipe
- (vi) Follow Standard Portion Size

SUMMARY / RECAPITULATION:

- (i) Food Cost should not be confused with costing.
- (ii) Food cost is defined as the cost of raw material used to prepare the dish / menu.
- (iii) Sale Food Cost = Gross Profit
- (iv) Sale Total Cost = Net Profit

ANSWER THE QUESTIONS:

- Q1. What do you mean by Food Cost? Write in detail the advantages of Food Cost Control.
- O2. Define food cost. Write in detail the limitations of food cost control.
- Q3. Write in detail the methodology and phases of cost controls.
- Q4. Write in detail the essentials of cost control.

