

Cost

Definition –

Cost is defined as a reduction in the value of an asset for the purpose of securing benefit or gain. In f&b service terms it means the price for the goods and services, when goods are consumed and services are rendered.

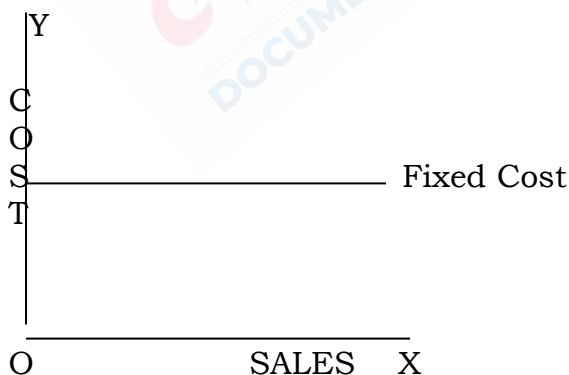
Costing is defined as the ascertainment of cost relating to a suitable unit of output.

Cost control is defined as the process by means of which managers attempt to direct, regulate and restrain the activities relating to cost in order to achieve the desired financial goal of the establishment.

Classification –

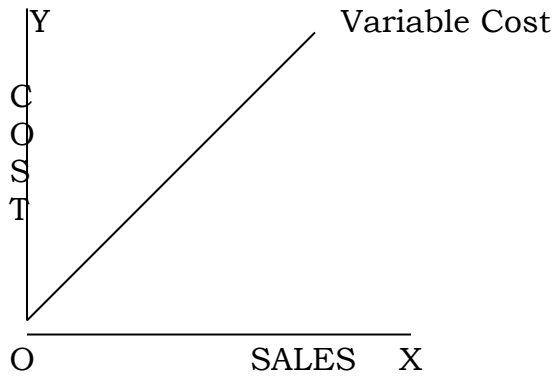
1. Fixed Cost

These costs remain unaffected by the changes in the turnover of an establishment, they remain fixed over a period of time, e.g., insurance, rents, labor cost, etc.



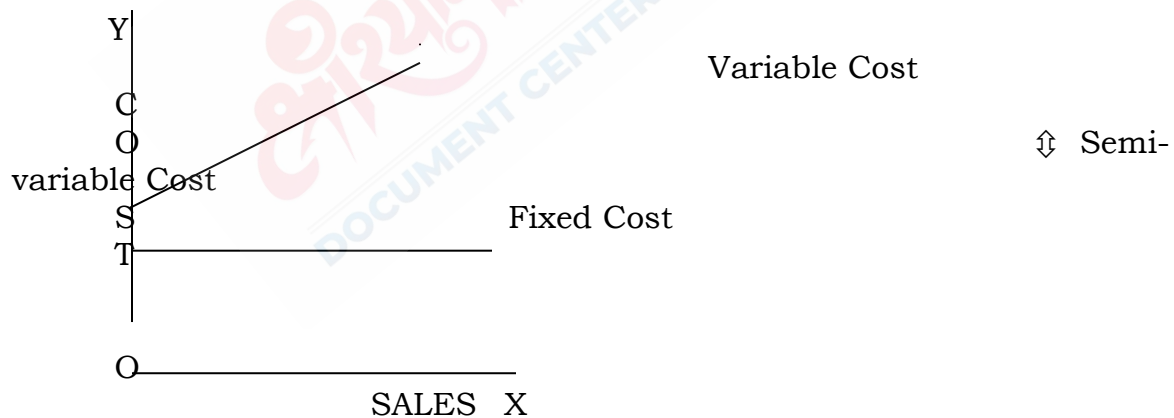
2. Variable Cost

Costs, which change in direct proportion to the sales, they increase with the increase in sales, e.g., food cost, beverage cost, etc.



3. Semi-variable Cost

These costs change with the change in sales but not in direct proportion, e.g., fuel, electricity, telephone expenses, etc.



Elements of cost

- ✓ Raw material cost / Material cost / Food Cost – these are the cost of ingredients required to prepare a dish.
- ✓ Cost of employees / Labor Cost – salaries and other benefits to staff like – housing, medical, bonus, etc.
- ✓ Overhead Cost – costs, which cannot be directly identified with any particular department or unapportioned cost like – rent, insurance, fuel, etc.

Food Costing –

It is the process of calculating food cost to ensure that the cost are neither more nor less than they ought to be.

The following points shows the sequence that should be adopted to determine operating cost and the profit targets.

- Determine overall profit target is return on capital employed.
- Determine what profit percentage on net profit on sale should be aimed at.
- What % of revenue will be required to cover labor cost and overheads and what % of revenue can be therefore be available to cover the cost of sales.
- By reference to the projected sales, mix determine the cost of sales for each department of business i.e. food, beverages, tobacco etc.
- Having determined the overall cost of sales for each plan and differential profit margins for each group of items offered in the menu.

The main stages of food control are:

- a. Purchase
- b. Receiving
- c. Control during storing and issuing
- d. Preparing and service

Simple control system

The k.o.t's, bots and bills are a part of simple control system. To ensure that there is no discrepancies in production and service and also to ensure that the guest receives the items he has ordered.

3 k.o.t's - kitchen

- Waiter's copy
- Cashier OR Book copy for future reference.

Bills

- guest
- attached with second copy of k.o.t which goes to the accounts dept.

Reasons for high food cost

- I. Purchasing of raw materials at a higher price.
- II. No standard portion control
- III. Lack of market survey at the time of purchasing.
- IV. The quantity received not in accordance to the purchase ordered.
- V. Incorrect weighing machines used while receiving.
- VI. Spoilage and pilferage in stores
- VII. No following of standard recipe.
- VIII. No portion control while receiving.
- IX. No recycling of leftover food items.
- X. Faulty menu pricing.
- XI. Defective k.o.t control in outlets.

- XII. Money collected by service staff without generating the bills.
- XIII. Discounted sales of undercharges.

Calculation of Food Cost –

Food Cost = Opening Stock + Purchase / Commodities received from stores + Kitchen Transfer (inward) – Closing stock – On The House (OTH) – Staff Meal – Kitchen Transfer (outward)



IHM NOTES