

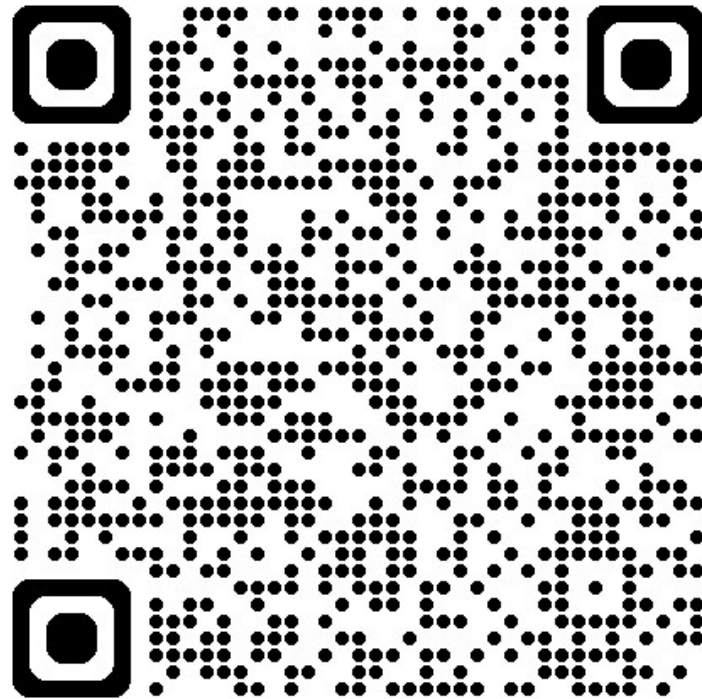


Culinary Institute
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Cost Control, Parts of a P&L



Scan the QR code for **downloadable course content**
and the **class survey**:



Food Costing and Yield

AP = As Purchased

EP = Edible Portion

Trim = Waste

$$AP - \text{Trim} = \mathbf{EP}$$

$$EPQ / APQ = \mathbf{Yield\%}$$

$$APQ \times \text{Yield\%} = \mathbf{EPQ}$$

$$EPQ / \text{Yield\%} = \mathbf{APQ}$$

$$AP\$ / \text{Yield\%} = \mathbf{EP\$}$$

$$EPQ / \text{Yield\%} = \mathbf{APQ}$$

Food Costing and Yield

Broccoli

- Case Price \$15.00
- Case Weight = 10# (AP Weight)
- AP Cost per # = \$1.50 ($\$15/10\# = \$1.50/\#$)
- Trim = 3#
- EP Weight = 7# (AP-Trim = EP)
- EP Cost = \$15.00
- EP Cost per # = \$2.15 ($\$15/7\# = \$2.1428/\#$)
- EP Cost per 2oz portion = \$0.14

How much should I buy?

- Need 100 portions
- 100 portions = 200 oz
- 200 oz = 12.5#
- Yield % = 70% (EPQ/APQ = $7\#/10\# = 70\%$)
- $12.5\#/70\% = 17.85\# \sim 18\#$

Cost Control



Basic System of Control

Determine what should happen	<i>Budget/Forecast</i>
Report what did happen	<i>Actual Results (P&L)</i>
Compare the two	<i>Variance Analysis</i>
Take corrective action	<i>Management Decision</i>

Language of Food Accounting

Budget

- Forecast or plan
- Benchmark

P&L – Profit and Loss

- Actual performance
- As compared to Benchmark

Balance Sheet

- Summary of financial status

Language of Food Accounting

Revenues

- Income from sales (food, beverage, etc.)
- Rebates or credits
- Membership / cancelation fees
- Any other income

Cost of Goods Sold (COGS)

- Food purchases
- Beverage purchases
- Non-food and beverage purchases
- Inventory adjustment

Language of Food Accounting

Gross Profit

- Revenues – COGS = Gross Profit

Expenses

- Compensation (total package of...)
- Salaries
- Benefits
- Payroll taxes

How much
does an
\$11.00/ hr
employee
really cost?

Language of Food Accounting

Prime Cost

- Revenues – COGS – Compensation = Prime cost
- Average ~ 70 – 80%
- Ideal > 60%

Language of Food Accounting

Operating Expenses

- Also known as *Variable Expenses*
- Expenses that change based on operational volume
 - Utilities
 - Cleaning supplies
 - Uniforms / linens
 - Credit card discount fees

Language of Food Accounting

Fixed Expenses

- Expenses that DON'T change based on operational volume
 - Rent
 - Insurance
 - Accounting and legal fees
 - Other fixed service contracts

Language of Food Accounting

Operating Income

- Also known as *Earnings Before Taxes (EBT)* or *Earnings Before Interest and Taxes (EBIT)*
- All revenue sources – all expense sources = Operating Income
- Not done yet. Still have to pay Uncle Sam (and any investors)

Language of Food Accounting

Taxes and Interest

- Real estate taxes
- Income taxes
- Interest on loans and investor payments
- Depreciation on equipment

Net Profit

- What ever is left (often not much...)

Language of Food Accounting

Other terms:

- **Ledger:** Where financial data is entered on a day-to-day basis
- **Debits and Credits:** How accountants enter items to maintain a balance between assets, liabilities, and capital
- **Balance Sheet:** Accounting tool to monitor and balance assets, liability, and capital

Financial Analysis

The Income Statement (P&L)

- Can reflect past, current, or future periods
- Shows Revenue, Expenses and Profit/Loss
- Is the “Report Card” of the operation
- Reflects both Fixed and Variable Costs

Financial Analysis

The Budget

- Forecast of future periods
- Based on past performance or growth targets
- Just because it is budgeted doesn't mean it is there
- Structured like a P&L

The P&L (example)

	January 20xx		BUDGET		VARIANCE		YTD		BUDGET		VARIANCE	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Food Revenue	351,290	74.6%	359,694	75.0%	(8,404)	-2.3%	351,290	74.6%	359,694	75.0%	(8,404)	-2.3%
Beverage Revenue	119,750	25.4%	119,898	25.0%	(148)	-0.1%	119,750	25.4%	119,898	25.0%	(148)	-0.1%
Total Revenue:	471,040	100.0%	479,592	100.0%	(8,552)	-1.8%	471,040	100.0%	479,592	100.0%	(8,552)	-1.8%
Food Cost of Sales	122,001						122,001					0.0%
Inventory Adjustment	12,004											
Adjusted Cost of Sales	134,005	38.1%	118,699	33.0%	15,306	12.9%	134,005	38.1%	118,699	33.0%	15,306	12.9%
Beverage Cost of Sales	31,173						31,173					
Inventory Adjustment	0						0					
Adjusted Cost of Sales	31,173	26.0%	31,173	26.0%	(0)	0.0%	31,173	26.0%	31,173	26.0%	(0)	0.0%
Total Cost of Sales	165,178	35.1%	149,873	31.3%	15,306	10.2%	165,178	35.1%	149,873	31.3%	15,306	10.2%
Food Gross Profit	217,285	46.1%	240,995	50.3%	(23,710)	-9.8%	217,285	46.1%	240,995	50.3%	(23,710)	-9.8%
Beverage Gross Profit	88,577	18.8%	88,725	18.5%	(148)	-0.2%	88,577	18.8%	88,725	18.5%	(148)	-0.2%
Total Gross Profit	305,862	64.9%	329,720	68.8%	(23,858)	-7.2%	305,862	64.9%	329,720	68.8%	(23,858)	-7.2%
Expenses												
Payroll Compensation:												
Salaries	47,104	10.0%	47,959	10.0%	(855)	-1.8%	47,104	10.0%	47,959	10.0%	(855)	-1.8%
Wages	85,729	18.2%	86,327	18.0%	(597)	-0.7%	85,729	18.2%	86,327	18.0%	(597)	-0.7%
Overtime	2,826	0.6%	2,398	0.5%	428	17.9%	2,826	0.6%	2,398	0.5%	428	17.9%
Total Direct Labor	135,660	28.8%	136,684	28.5%	(1,024)	-0.7%	135,660	28.8%	136,684	28.5%	(1,024)	-0.7%
Vacation	6,783	5.0%	6,834	5.0%	(51)	-0.7%	6,783	5.0%	6,834	5.0%	(51)	-0.7%
Holiday	1,357	1.0%	1,367	1.0%	(10)	-0.7%	1,357	1.0%	1,367	1.0%	(10)	-0.7%
Benefits	9,496	7.0%	9,568	7.0%	(72)	-0.7%	9,496	7.0%	9,568	7.0%	(72)	-0.7%
Taxes	7,461	5.5%	7,518	5.5%	(56)	-0.7%	7,461	5.5%	7,518	5.5%	(56)	-0.7%
Total Benefits/Taxes	25,097	18.5%	25,286	18.5%	(189)	-0.7%	25,097	18.5%	25,286	18.5%	(189)	-0.7%
Total Comp., Taxes, Benefits	160,757	34.1%	161,970	33.8%	(1,214)	-0.7%	160,757	34.1%	161,970	33.8%	(1,214)	-0.7%
Other Expenses:												
Rent	25,000	5.3%	25,000	5.2%	0	0.0%	25,000	5.3%	25,000	5.2%	0	0.0%
Accounting and Legal	7,194	1.5%	7,194	1.5%	0	0.0%	7,194	1.5%	7,194	1.5%	0	0.0%
Credit Card Services	8,633	1.8%	8,633	1.8%	0	0.0%	8,633	1.8%	8,633	1.8%	0	0.0%
Contracts/POS/MIS	2,398	0.5%	2,398	0.5%	0	0.0%	2,398	0.5%	2,398	0.5%	0	0.0%
Repairs/Maint.	5,421	1.2%	4,796	1.0%	625	13.0%	5,421	1.2%	4,796	1.0%	625	13.0%
Laundry	3,789	0.8%	3,597	0.8%	192	5.3%	3,789	0.8%	3,597	0.8%	192	5.3%
Electric	3,837	0.8%	3,837	0.8%	0	0.0%	3,837	0.8%	3,837	0.8%	0	0.0%
Gas	4,325	0.9%	4,796	1.0%	(471)	-9.8%	4,325	0.9%	4,796	1.0%	(471)	-9.8%
Menus	1,143	0.2%	959	0.2%	184	19.2%	1,143	0.2%	959	0.2%	184	19.2%
Glassware/China/Flatware	2,890	0.6%	2,398	0.5%	492	20.5%	2,890	0.6%	2,398	0.5%	492	20.5%
Cleaning Supplies	2,587	0.5%	2,305	0.5%	282	12.2%	2,587	0.5%	2,305	0.5%	282	12.2%
Paper Supplies	2,305	0.5%	2,305	0.5%	0	0.0%	2,305	0.5%	2,305	0.5%	0	0.0%
Apparel and uniforms	3,198	0.7%	3,074	0.6%	124	4.0%	3,198	0.7%	3,074	0.6%	124	4.0%
Other Operating Supplies	7,200	1.5%	7,194	1.5%	6	0.1%	7,200	1.5%	7,194	1.5%	6	0.1%
Office Supplies	1,143	0.2%	1,153	0.2%	(10)	-0.8%	1,143	0.2%	1,153	0.2%	(10)	-0.8%
Telephone	1,145	0.2%	960	0.2%	185	19.2%	1,145	0.2%	960	0.2%	185	19.2%
Waste Removal	2,567	0.5%	2,305	0.5%	262	11.4%	2,567	0.5%	2,305	0.5%	262	11.4%
Insurance	2,398	0.5%	2,398	0.5%	0	0.0%	2,398	0.5%	2,398	0.5%	0	0.0%
Total Other Expenses	87,172	19%	85,301	18%	1,871	2.2%	87,172	19%	85,301	18%	1,871	2.2%
Operating Income	57,933	12%	82,448	17%	(24,515)	-29.7%	57,933	12%	82,448	17%	(24,515)	-29.7%

Revenues and COGS

	January 20xx		BUDGET		VARIANCE	
	\$	%	\$	%	\$	%
Food Revenue	351,290	74.6%	359,694	75.0%	(8,404)	-2.3%
Beverage Revenue	119,750	25.4%	119,898	25.0%	(148)	-0.1%
Non Food Revenue						
Total Revenue:	471,040	100.0%	479,592	100.0%	(8,552)	-1.8%
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Adjusted Cost of Sales	134,005	38.1%	118,699	33.0%	15,306	12.9%
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Total Cost of Sales	165,178	35.1%	149,873	31.3%	15,306	10.2%
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Total Gross Profit	305,862	64.9%	329,720	68.8%	(23,858)	-7.2%

Revenues and COGS

Current month or quarter

Year up to this point

May also include last period for month-to-month comparison

Sales	Current Period	%	Year to date	%	Current Budget	%	YTD Budget	%
Food Sales								
Beverage Sales								
Total Sales								
Cost of Sales								
Food Cost								
Beverage Cost								
Total cost of sales								
Gross Profit								

Revenues and COGS

Sales	Current Period	%
Food Sales		
Beverage Sales		
Total Sales		
Cost of Sales		
Food Cost		
Beverage Cost		
Total cost of sales		
Gross Profit		

Percentage based on total sales

$$\frac{\text{Food Sales}}{\text{Total Sales}} \times 100 = \%$$

Percentage based on total sales

$$\frac{\text{Beverage Sales}}{\text{Total Sales}} \times 100 = \%$$

Percentage based on food sales

$$\frac{\text{Food Cost}}{\text{Food Sales}} \times 100 = \%$$

Percentage based on beverage sales

$$\frac{\text{Beverage Cost}}{\text{Beverage Sales}} \times 100 = \%$$

$$\text{Total Sales} - \text{Cost of sales} = \text{Gross Profit}$$

Percentage based on total sales

$$\frac{\text{Cost of Sales}}{\text{Total Sales}} \times 100 = \%$$

Revenues and COGS

Sales	Current Period	%	Current Budget	%	Budget Variance	%
Food Sales	\$351,290	74.6%	\$359,694	75%	-\$8,404	-2.3%
Beverage Sales	\$119,750	25.4%	\$119,898	25%	-\$148	-0.1%
Total Sales	\$471,040	100%	\$479,592	100%	-\$8,552	-1.8%
Cost of Sales						
Food Cost	\$134,005	38.1%	118,699	33%	-\$15,306	12.9%
Beverage Cost	\$31,173	26%	31,173	26%	\$0	0%
Total cost of sales	\$165,178	35.1%	\$149,873	31.3%	\$15,306	10.2%
Gross Profit	\$305,862	64.9%	\$329,720	68.6%	-\$23,858	-7.2%

Calculating Actual Cost of Sales

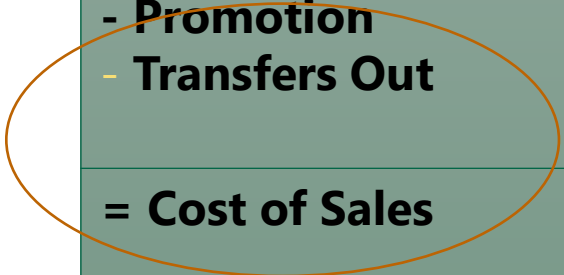
Inventory Recapitulation (Recap)

- + **Opening Inventory** (product on hand in storerooms and production areas)
- + **Purchases** (from supplier invoices)
- + **Transfers** into the kitchen (from other production areas)
- = **Total Available Stock** (total product available to produce food sales)
- **Closing Inventory** (product remaining in storerooms and production area)

Inventory Recap

	Food \$	Beverage \$
Opening Inventory + Purchases + Transfers In		
= Total Available Stock - Closing Inventory		
= Product used for all purposes - Employee Meals - Promotion - Transfers Out		
= Cost of Sales		

May be
expense
line items



Operating Expenses

Operating Expenses	Current Period	%	Year to date	%	Current Budget	%	YTD Budget	%
Payroll								
Benefits Allocation								
Music and Entertainment								
Repair and Maintenance								
Advertisement and Promotion								
Administrative								
Utilities								
Total Operating Expenses								

Operating Expenses

Operating Expenses	Current Period	%
Payroll		
Benefits Allocation		
Music and Entertainment		
Repair and Maintenance		
Advertisement and Promotion		
Administrative		
Utilities		
Total Operating Expenses		

These expenses are variable, ideally based on the business volume.

The also include linens, flowers, menu printing, cleaning supplies, and many others.

All percentages are based on total sales

$$\frac{\text{Expense Item}}{\text{Total Sales}} \times 100 = \%$$

Fixed (Occupational) Expenses

Fixed Expenses	Current Period	%	Year to date	%	Current Budget	%	YTD Budget	%
Rent								
Property Taxes								
Licenses and fees								
Insurance								
Amortization								
Long term debt								
Service Contracts								
Total Fixed Expenses								

Fixed (Occupational) Expenses

Fixed Expenses	Current Period	%
Rent		
Property Taxes		
Licenses and fees		
Insurance		
Amortization		
Long term debt		
Service Contracts		
Total Fixed Expenses		

These expenses do not change based on business volume

All percentages are based on total sales

$$\frac{\text{Expense Item}}{\text{Total Sales}} \times 100 = \%$$

EBT (Earnings Before Taxes)

	Current Period	%	Year to date	%	Current Budget	%	YTD Budget	%
Gross Profit								
Operating Expenses								
Fixed Expenses								
Additional Income								
Additional Expenses								
Long term debt								
Total EBT								

EBT (Earnings Before Taxes)

Earnings Before Taxes	Current Period	%
Gross Profit		
Operating Expenses		
Fixed Expenses		
Additional Income		
Additional Expenses		
Total EBT		

Gross Profit
– *Operating Expenses*
– *Fixed Expenses*
+ *Additional Income*
– *Additional Expenses*
= *Total EBT*

All percentages are based on total sales
$$\frac{\textit{Expense Item}}{\textit{Total Sales}} \times 100 = \%$$

Food to Liquor Ratio

- The sale of liquor is generally more profitable than the sale of food or beverages.
- A change in the food to liquor ratio (a decline in the amount of liquor sales in relation to total sales) will probably cause a decline in profits.
- In most states, to qualify as a restaurant, food sales must be at least 51% of total sales.
- Qualifying as a restaurant is more appealing to customers and is more likely to align with zoning regulations.
- State Liquor Control Boards usually require restaurants to separate the sale of liquor from the sale of food.

Prime Costs

Cost of Goods Sold

- Food Cost
- Liquor Cost

Labor Cost

- Payroll
- Employee Benefits
 - *Should average between **63-72%** of Total Sales (NRA)*

Food Cost and the 30 Thieves

Purchasing

- Purchase too much
- Purchasing at too high a cost
- Not following approved specifications - i.e. quality, weight, type
- Not checking invoices and payments

Food Cost and the 30 Thieves

Receiving

- Theft by receiving person
- Not utilizing system of credits for low quality, damaged merchandise, or goods not received
- Lack of facilities and/or scales
- Perishable foods left out of proper storage

Food Cost and the 30 Thieves

Storage

- Foods improperly placed in storage without FIFO controls and dating
- Storage at wrong temperature
- No daily inspection of stored goods
- Poor sanitation in dry and refrigerated storage areas
- Not utilizing physical or perpetual inventory policy/capability
- Lack of single responsibility

Food Cost and the 30 Thieves

Production/ Preparation

- Overproduction, Overproduction, Overproduction
- Not using Line Check Sheets for food production
- Cooking at the wrong temperatures
- Not using standardized recipes

Food Cost and the 30 Thieves

Service

- Not following standardized portion sizes
- No standard sized utensils for serving

Sales

- Unrecorded sales, incorrect pricing; 'not charged', cash not turned in
- No review of "open key" sales
- No comparison of sales and inventory consumption (TCOS - theoretical cost of sales)
- No analysis of records to detect trends

Food Cost and the 30 Thieves

Security and Loss Prevention

- Storage secured and access limited
- No inappropriate storage of personal items within designated storage areas
- Kickbacks
- Padded invoices or billing errors not addressed
- Duplicate invoices and billing
- Separate purchasing and receiving to prevent theft

Labor Cost Control

- Largest single cost category
- Most difficult expense to control
- Most valuable resource
 - Managers in partnership/Training
 - Front line employees
 - Powerful Marketing Tool

Factors Affecting Labor Cost

- Style and size of menu and type of service
- Type and layout of operation
- Equipment available
- Labor pool, hiring and training practices
- Supervision
- Turnover and absenteeism
- Overtime

Staffing and Scheduling

Job Description

- Hours needed
- Responsibilities
- Physical requirements
- Minimum skills required
- Wage schedule



Creating an Efficient Schedule

- Forecasting business
- Determining peak and slack periods
- Meal periods
- Prep vs. Service
- Fixed vs. variable labor costs
- Productivity

Measuring Productivity Through Wage Analysis

Sales per staff hour = Total sales / Hours worked

Guests per labor hour = Guests / Hours worked

Labor Cost = Labor \$ / Total sales

Can also be broken down hour by hour to determine productivity/ profitability across the day and peak / slack periods.

Scheduling Solutions

- Split Shifts
- Staggered Start Time
- 10/4 Schedule
- Job Sharing
- Part-time Labor
- Pre-preparation
- Seasonal Labor

- On-call Staff
- Time Off – Voluntary
- Time Off – Forced
- Limited Menu
- Student Labor
- Limited Hours of Operation
- *Other ideas?*

Overtime Wages

- Great tool for profit eradication
- Unquestioned Acceptance = Abuse
- Requisition for OT hours with reason
 - Reschedule to minimize impact
 - Rethink forecasting and staffing levels
- OT Report
 - Within 24 hours
 - Helps with future budgeting and analysis

Factors Effecting Employee Turnover

- Fair wage structure
- Definite wage schedule
- Accurate Job description
- Orientation
- Training
- Advancement opportunities
- Exit interview

- Poor hiring practices
- No financial incentives
- No grievance outlet
- Low supervisory interest
- Poor supervision
- Poor working conditions

Absenteeism

- Proactive approach to prevent occurrence
- Practice preventive medicine
- Check on employees
- Identify the problems: (Job related, personal, community?)
- Incentives for exemplary attendance



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"A penny saved on Expenses is a penny earned as Profit."





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Any Questions?