UNIT 9 FOOD MANAGEMENT: RECORDS AND CONTROLS

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9.1 INTRODUCTION

We have already learnt about different kinds of food service institutions. Some units such as restaurants and fast food units are profit oriented. Others such as orphanages and old age homes come under the category of welfare institutions. Irrespective of the kind of food service institution, good financial planning and management are essential for the success of any organization. This unit focuses on management of food by means of records and controls.

It is very important for a food service establishment to set up a financial plan to realize the establishment's goals and desires. A budget is a good financial guide/plan that helps in daily, monthly and yearly operations. What are the different types of budgets? This is the basic aspect covered in this unit. Further, the different records that must be kept for the different operations/processes in a catering unit namely purchasing, receiving, storage, production, service, income and expenditure records are highlighted.

The concept of cost control and the factors affecting it including the checklist for cost control is finally described in this unit.

Objectives

After studying this unit, you will be able to:

- plan and prepare a budget,
- discuss the important role of records and reports in catering units,

- identify the various records that are necessary in various areas of a catering unit,
- use the records skillfully in analysis of food cost,
- prepare income and expenditure statement,
- explain the method of preparing profit and loss statement,
- identify the factors affecting cost control using a check list, and
- suggest remedial measures if necessary to achieve the target profit.

9.2 RECORDS AND CONTROLS: BASIC CONCEPT

Baburam managed a small restaurant called 'Tasty Bite', which served various snacks such as idlis, vadas, dosas, samosas and bread pakoras; plate lunches such as rajma and rice, kadhi and rice, tandoori roti with dal makhani, kulche chole and similar dishes, as well as, beverages. His restaurant opened in the morning at 7.30 am and was open till 9 pm. Baburam hoped to get early morning customers who needed breakfast, office goers who needed a quick snack or lunch and shoppers who wanted a quick dinner.

Baburam believed that with good accounting procedures he will be able to achieve expected percentage of profit. *Accounting is the process of establishing balance between money available and expenditure*. When we go shopping, we take a certain amount of money with us. How do we decide how much to take? We have an estimate of expenditure that we are going to incur. This roughly is the process of planning a budget. *Budget is the proportion of money to be spent on each particular item*. When we shop, we collect bills of purchase for every item we buy. These bills are the *records* that help us to keep track of money. After shopping, when we compare the expenditure with our original plan of spending, it is called *evaluation* or *control*. A good accounting or control thus has three steps – *budget making, record keeping and evaluation of performance*.

Records such as budget provide a financial plan for the organization. Other records are essential to keep track of where the money has gone. Records of income and expenditure also provide valuable information as to whether the objectives of the organization are being fulfilled. Profit and loss statement helps to understand whether the catering unit is generating the expected amount of profit or whether it is incurring loss. It also forms the basis for future financial planning and control.

We shall review the different records necessary for a catering unit next.

9.3 RECORDS NECESSARY FOR A CATERING UNIT

The financial goals of various catering units differ. Some want to make as large a profit as possible; others are welfare institutions but want to provide the best possible food and service that is possible within the financial constraints. In all situations, some type of financial plan is a key to achieving desired goals. Without such a guide, problems may arise before management is aware of them and could lead to financial downfall. The financial plan most commonly used is a *budget* that all organizations should prepare and use as a guide for maintaining a sound and healthy organization. A well thought and financial plan is essential for planning and management of a food service unit. Before a budget is actually decided upon, all food service establishments draw a financial plan in order to achieve harmonious monetary management and sound decision-making.

It is, therefore, imperative for all food service limits to pinpoint their financial goals through good budgeting. For this to happen, adequate and timely maintenance of records is essential. While using the records as a ready reckoner, one can assess needs on a daily, monthly and also manual basis. These records also express the need to bring out correction of glitches that might be possible. Thus, it is very important for a food service establishment to set up a financial plan to realize the establishment's goals and desires. So let us now see what a budget is.

9.3.1 Budget

All of us are familiar with the term budget. We wait in anticipation for the budget announcement of the country. We in turn prepare a budget for our household expenses and try hard to stay within this plan. As we have learned earlier in Unit 2 in this course, budget is also called as the 'numerical expression of plans'. In other words, *a budget is a systemic plan for the expenditure of a resource or total sum of money allocated for a particular purpose or period of time*. It covers the planned activities of the organization for a given period of time, normally a year. Budgets are based on factual data from past records of income, expenditure; census and labour hours used and takes into consideration changes that may affect future operations. A budget has its own advantages for a food service establishment. Let us see what they are?

- A budget is an extremely valuable tool and helps in forecasting of future decisions of a food service unit.
- All major decision-making are directly linked to the financial budget of a food service establishment.
- It acts as a control device wherein checks can be imposed if overspending occurs.
- A budget provides the realism for achievement and makes an establishment think wisely before spending.
- A budget provides for continuity in case of changeover in management.

However, there are certain disadvantages that are associated with budgeting, though far less compared to its advantages. Often budgets are inflexible and care should be taken to exercise some degree of flexibility in its use. Its preparation is time-consuming and requires all the management and staff to adhere to it. Some times one department in an establishment may need more financial resources which may alter the budget balance.

Before we actually move on to study the procedures involved in budget-making, let us have a look at the various phases in planning a budget next.

There are three distinct steps in budget planning, each deriving information from the one before:

- The *evaluation phase*, which looks at the past performance and identifies the factors that influence the future.
- The *planning phase*, which uses the information compiled during the evaluation to forecast the budget.
- The *control phase*, which uses the budget cost during planning to keep track of monthly performance.

How do we actually prepare a budget? The following is a *step-by-step procedure* for preparing a *budget*.

1) Collect data from current and past records, reports of income and expenses, as well as, census.
2) Study these data and evaluate against the goals of the organization. Information reviewed should cover actual operating data, as well as, data on how it differs from the planned budget (called as variance) for previous 3 - 4 years with justification or explanation of variance.

3) Discuss and analyze any and all the factors that may affect future operations.

4) Discuss and plan for new goals or activities.

5) Set priorities and make decisions as to what can be included in the budget for the next year.

6) Write the budget. Make a list of all sources of expected income. When you total it up, this will indicate the total of expected income. Now classify and list the items of expenses and calculate the cost for each. Basically there is food, labour, overhead (fixed costs such as rent, taxes, insurance) and operating costs (utilities, telephone, paper goods, electricity, fuel).

Let us understand this process by studying how Baburam planned a budget. Since his catering unit was new, he had no past records to use for making a budget. He decided to talk to his friend Ramu who had been successfully running various canteens in educational institutions. Ramu told him that as he was just beginning his catering unit, a detailed budget would not be possible as there were no previous records available. He suggested that Baburam should establish a tentative percentage of expenditure to be spent on food and other expenses which he can evaluate after a period of 2 - 3 months. First and foremost, Baburam needed to plan the amount of sales he expected each day. Ramu felt that the following tentative percentage of expenditure under each head will be realistic.

- Food cost: 60%
- Labour cost: 10%
- Overhead: 10%
- Operating cost: 10%
- Profit: 10%

Now using the above mentioned percentages, Baburam had to translate it into terms of money available on a daily or on monthly or yearly basis. The total sales figure is considered as 100% and divided between the various heads of expenses as follows.

Each day Baburam expected to have sales worth Rs. 10, 000. If he operates for 26 days in the month of December taking into account the 5 days when the market area remained closed, the actual amount of money available to him will be Rs. 2, 60, 000 if he attained his sales target of Rs.10, 000 daily. His plan of expenditure will be as shown in Figure 9.1.

Percentage of Expenditure	Daily	Monthly	Yearly
Food cost (60%)	6,000	1,56,000	19,72,000
Labour cost (10%)	1,000	26,000	3,12,000
Overhead (10%)	1,000	26,000	3,12,000
Operating cost (10%)	1,000	26,000	3,12,000
Profit (10%)	1,000	26,000	3,12,000

Figure 9.1: Plan of expenditure

This above table clearly indicates that a budget is a good financial guide that helps in daily, monthly and yearly operations. Everyday, Baburam should compare his actual sales and expenditure with what he has budgeted. For that he needs to maintain certain records that give him information about his day-to-day operations such as where the money has been spent, how much of money has been spent and how much of income he has earned. He knew that these records were necessary to know whether he was making profit or loss and what remedial action he has to take. Before we get to know about these records, let us briefly see different types of budget that a food service unit can choose from.

9.3.2 Types of Budget

The major aim of any budget is to let an establishment know the available resource on hand, to be used and to be saved for later use. Although all budgets serve the same function, nevertheless there are various types to choose from. These include:

Operative budget

The name itself is self explanatory and expresses about the plan of monetary resources used for running a food service establishment. These include the budget for set-up, forecasting, equipment budget, and salary for employees, repair budget and budget of purchase.

Fixed budget

This type of budget is based on fixed annual level of transaction such as number of meals served to patients in a hospital per year etc. and it projects an average cost per meal.

Flexible budget

This budget takes into account for the high to low activity figures and provides flexibility in functioning. It does not pinpoint an average figure thus eliminating rigidity in a budget.

Zero-based budget

This budget requires managers or persons of authority to give justification for requisition for monetary funds and to evaluate all activities requiring funds every year. As there is no spill over of balance from previous year to the current year and each new budget begins with a "zero" balance, hence the name.

Project budgeting

In this, list of costing of each activity that are part of the budget and affect the budget most on priority basis is ranked, and then the budget is prepared. Managers and supervisors are involved in costing of activities and decision-making. The department director views costing as a whole and not as separate entities.

Having understood the budget and its importance in a food service unit, now we shall get to know about the different record necessary to maintain on the basis of the operations involved in a food service unit, which include:

Purchase/procurement → receiving → storage → preparation → production → holding/packing → service.

Let us look at the various records that Baburam maintained in his restaurant. This will help us understand about the concept of records. The first phase of operations is *purchase.* We begin our study with the purchase record.

9.3.3 Purchase Records

The procedure for authorizing purchases, as we have already studied earlier in Unit 6, varies for each foods service organization. In the case of Baburam, he used a *Purchase Order Form* in which he indicated the quantity and quality of food items that was required which was based on the requirement from the store room. A sample purchase order form that he used is given in Figure 9.2.

PURCHASE ORDER FORM

From Tasty Bite Restaurant

10, Community Centre,
Sapna cinema complex,
East of Kailash,
New Delhi

To

Arun Provision Store
Amar Colony, New Delhi

Date 20/06/2019

S.No.	Items	Specifications	Amount
1)	Rice	Basmati (Lalkila)	50 kg
2)	Rajma	Chitra	20 kg
3)	Besan	Rajdhani	20 kg
4)	Oil	Sundrop	20 kg

Terms and conditions: Payment to be made within 15 days of supply.

Signature

Figure 9.2: Purchase order form

The above form clearly indicates the items required, the quality and the quantity desired. It also includes date of delivery, name of the organization, individual making for the request (which, in this case is Baburam) and the signature of the person who is officially authorized to sign the order. The terms and conditions of payment are also clearly indicated. Baburam used similar forms for all that he purchased.

Next, we shall review the records for the receiving operation.

9.3.4 Receiving Records

The next phase of operations is *receiving* the ordered supplies. For this, a receiving record was used by Baburam. He used a long register with the following columns, as shown in the Figure 9.3.

RECEIVING RECORD				
Date	**Item**	**Quantity**	**Vendor**	**Invoice No.**
1/06/2019	Rice(basmati)	50 kg	Arun	91334
1/06/2019	Rajma	20 kg	Arun	91334
1/06/2019	Besan	20 kg	Arun	91334

Figure 9.3: Receiving records

The day-to-day record of all the incoming supplies was entered in the receiving record using the invoices that accompanied the various deliveries, as well as, by actual checking of quality and quantity by the store keeper. Baburam had instructed his store keeper that if he found the quality not according to specifications, he must reject the items. If the quantity was found to be different from the amount ordered, he must bring it to Baburam's attention before accepting it.

Thus through the receiving records Baburam ensured good control over the receiving operation. The next phase of operations is *storage*. Next, let us get to know about the records specific to the storage operation.

9.3.5 Storage Records

In any *storage area* records are necessary irrespective of how small or how big the catering unit is. Baburam maintained the following three store room records which he considered essential:

1) Store room requisition/store room issue records
2) Perpetual inventory
3) Physical inventory.

Let us review these records.

1) *Store room requisition/store room issue records*

Before we look at this record, it is important to remember the following:

- To Baburam, the goods held in the storage area represented money as he had spent substantial amount of money to buy the commodities. He also kept the store room locked and had handed over control and authority to one person.
- No one could remove food material or supplies from the stores without authorization, usually a written requisition.
- Normally a list of supplies needed for production and service of the day's menu was compiled by the cook.
- The list of needed supplies was then submitted to the store keeper.
- Requisitions were numbered and made out in duplicate. Pre-numbering made it possible to trace missing or duplicate requisitions.
- Requisitions were signed by the cook who was authorized to request supplies.

Figure 9.4 illustrates an example of a store room requisition record maintained by Baburam.

STORE ROOM REQUISITION FORM

Issue the following items to: **Snack production area** Date: 20/06/2019

Item	**Quantity Ordered**	**Quantity Received**
Rice (Basmati)	30 kg	30 kg
Kabuli channa	10 kg	10 kg
Potatoes	20 kg	20 kg
Onion	5 kg	5 kg
Ginger	250 g	200 g
Garlic	250 g	250 g
Oil	5 kg	5 kg

Signature of the authorized person

Figure 9.4: Store room requisition

Sometimes there may be slight difference between the amount ordered and amount received which needs to be recorded.

The second important record that Baburam maintained in his storage area was the *perpetual inventory*.

2) *Perpetual Inventory*

The perpetual inventory is a running record of the balance on hand for each item of goods in the store room. This is also called as *stock book* or *stock register*. It provides a continuing record of food and supplied purchased, in storage and used. Baburam used cards for each item in his stores. The card shown in Figure 9.5 is the example of the inventory/stock card.

PERPETUAL INVENTORY CARD			
Name of the item Rice	**Description** Basmati	**Maximum** 100 kg	**Minimum** 20 kg
Date	**Receipt**	**Issues**	**Balance**
Opening balance			50 kg
1/06/2019	—	20	30 kg
2/06/2019	200	70	160 kg
3/06/2019	—	65	95 kg
4/06/2019		30	65 kg
5/06/2019		50	15 kg
6/06/2019	200	70	145 kg

Figure 9.5: Perpetual inventory card

In the above example, we can see that Baburam began the month of June with opening stock of 50 kg of basmati rice in his store room. Each day, the amount purchased was entered in the inventory card from the receiving record and the invoice. We can see that on 2/06/2019, he had received 200 kg of basmati rice. From the store room requisition, the amount issued to the stores is entered under the column "issues". We can see that the amounts issued ranged from 20 kg to 70 kg. Everyday the storekeeper would bring the inventory up-to-date by adding amounts purchased to previous balance and subtracting whatever was issued. This enabled the storekeeper to know the balance on hand each day. The inventory also had information about minimum and maximum stock levels. As soon as the inventory level would fall below the minimum stock level of 20 kg for basmati rice, the storekeeper would know that it was time to reorder the item. In Baburam's storage area, card for each and every item was maintained by the storekeeper. Baburam could get valuable information from the perpetual inventory in terms of what were the fast and slow moving items in his stores, what was the consumption of a particular item over a period of time and he could also used it effectively to check pilferage.

These inventory records are suitable and recommended for all items except perishable foods. Since these are delivered and stored in the production area, for such foods, a physical inventory is a better choice. What is a physical inventory? Let us find out, next.

3) *Physical Inventory*

A sample of physical inventory is given in Figure 9.6. Physical inventory is:

- An actual count of items in all storage areas that should be taken periodically usually to coincide with accounting period.
- This is simplified if two people work together. One should be in a supervisory position or not directly involved with the store room operations.
- One person counts the number of items on hand as the other enters it in the inventory.
- A printed form is normally used in which the items are classified and listed, as well as, their unit size is noted.
- It is essential to have space between various groupings to include new items.
- After the physical inventory is completed, the value for each item is calculated and the total value of the inventory should be determined. This is reflected in the income and expenditure statement where the amount is deducted from the current year's expenditure and added to the next years opening balance.

- The physical inventory also serves as a check against perpetual inventory records. If there are small differences, these can be overlooked but if there are major differences between the two, it should be investigated.
- Very often the difference between the two may arise more due to carelessness in filling requisitions or in maintenance of records than actual pilferage.
- It is important to maintain perpetual and physical inventory of not only grocery items but also of china, silverware and glassware.

PHYSICAL INVENTORY FORM					
Tasty Bite Restaurant Physical Inventory Date:					
Group	**Item**	**Unit**	**Quantity**	**Unit Price Rs.**	**Total cost Rs.**
Cereals	Rice (basmati)	10 kg bags	7	400/bag	2800
	Rice (Golden sela)	10 kg bags	2	350/bag	700
	Rice (parmal)	100 kg bags	1	1600/bag	1600

Figure 9.6: Physical inventory form

The total cost of the inventory must be calculated and deducted from the expenditure for the current year since this stock is to be carried into the next year.

We have looked at the storage records. The next phase of operations is production. Next, let us look at what records Baburam maintained in the production area**.** These records you would notice are basic records maintained in any production operation of a food service establishment.

9.3.6 Production Records

In the production area, Baburam maintained essential records such as standard recipes and production schedule. You may recall studying about these production records earlier in Unit 6 as well. Standardized recipe is an important tool for production control, which helps in predicting the quality, quantity and portion cost of the finished product. Also, it simplifies purchasing. Another important aspect of relevance is that its use is helpful in training new or substitute production employees. The accuracy involved in use of standardized recipes and measuring/weighing ingredient eliminates the chances of over/under production. Refer to Figure 7.2 which illustrates an example of a standard recipe for *Urad dal vada* . By using this standardize recipe Baburam could predict the quality, quantity and portion cost of the finished product.

Another important record in the production area is the *production schedule* (also referred to as production sheet or work sheet) about which we have already studied in Unit 7 in the sub-section 7.3.4. The basic features of the production schedule sheet are summarized here once again. Let us look at the production schedule that Baburam used in his restaurant. The schedule is depicted in Figure 9.7 for your better understanding.

- In this the various menu items to be prepared for the current day is listed in detail.
- Apart from the menu items, the quantity to prepare, time schedule, as well as, the name of the person assigned to prepare each menu is indicated.
- Production schedules also have provision for including the amount of leftover food or shortages. This information is important for the menu planner who can plan to incorporate these foods into the menu for the next meal.
- Pre-preparation that needs to be done such as grinding of batter, making of jams, etc., are also indicated on the production schedule.

Every night before he closed the restaurant, Baburam would prepare the production schedule for the next day morning snack and lunch preparation which lasted from 7.30 to 2 pm.

PRODUCTION SCHEDULE					
		Tasty Bite			
Date 11/06/2019					
Person	**Menu Item**	**Quantity**	**Actual**	**Time**	**Leftover or Shortage**
Mani	Urad Dal vadas	200		9 am	
	Coconut Chutney	1.5 kg			
	Sambar	10 litres			
Ratnam	Idlis	200		9 am	
	Dosas	300		on order	
Keshav	Samosas	250		9 am	
	Bread pakoras	100		9 am	
Mani	Kadhi pakodi	200 servings		12 noon	
	Rajma	6 kg		12 noon	
Ratnam	Rice	20 kg		12 noon	
		20 kg		1 pm	
Keshav	Dal Makhani	6 kg		12 noon	
	Tandoori roti	7 kg atta to be kneaded		on order	

Figure 9.7: Production schedule of tasty bite

What do we see in the above production schedule? We see that it is to be used on 11/06/2019. The list of snacks and in what quantity they are required is mentioned. The name of the person assigned to do the job is also indicated. The time by which items have to be ready is also mentioned. The number desired, as well as, the number actually obtained is also noted down. However when Baburam planned the production schedule, he left the column under actual yield as a blank to be filled in by the cook later. In quantity food production, while handling large quantities of food, small change from the expected number is routine. But it should however be noted. At the end of the morning service, the numbers leftover also should be written down so that the cook or the production manager could decide what they want to do with it.

We hope the production schedule prepared by Baburam would have given you a good insight into the use of this tool for production control. The next phase of operations is *service***.** We shall review the service records next.

9.3.7 Service Records

Service involves assembling prepared menu items and distributing them to the consumers. Baburam realized that it was important to know on a day-to-day basis, the number of meals served. This was necessary for forecasting, purchasing and production requirements**.** The number of people served is essential information for calculating cost per meal, average sales per person and distribution of meals to various categories of customers. Baburam used a sheet of paper and divided it horizontally into the number of days he would be operating and also divided the sheet vertically into the meals served. A *monthly census report* that he prepared is given in Figure 9.8.

MONTHLY CENSUS REPORT							
Monthly Census Report						Month Year	
Date	Breakfast	Lunch	Dinner	Snacks	Employee Meals	Special Functions	Total

Figure 9.8: Monthly census report

Apart from this record, whenever Baburam catered for special functions, he kept records of these *special meals*. The charges for these meals were different from what he usually charged based on the menu items.

So we have so far looked at the records on the basis of the operations involved in a food service unit, which included purchase/procurement → receiving → storage → preparation → service. Next, we shall review yet another record called the income and expenditure records which are essential to keep track of cash coming into the catering unit and cash spent by the catering unit. Let us get to know them.

9.3.8 Income and Expenditure Records

Apart from the records, highlighted above, Baburam maintained two other records which are essential to keep track of cash coming into the catering unit and cash spent by the catering unit. These are also essential for preparation of monthly financial statements. These are called as *Income and Expense record*s. The first of these records is called *cash register*. These are filled by the cashier. Look at the example cash register illustrated in Figure 9.9. This record provides accurate data on number of sales and total cash received. In some places, you must have seen electronic machines at the point of sales in various fast food units. In other places, the waiters hand over a written bill at the end of the meal so that we can pay the due amount. When you look at the bill carefully, you would have seen that apart from some cost indicated as food, a certain amount of tax is also charged. The counterfoils of these bills are maintained by the cashiers, which helps them to prepare a daily cash report. Whether done manually or electronically, *cash registers provide information about the number of sales, total sales, tax collected, the number of customers who paid by cash and others who paid by other systems and total number of servings for each type of food sold*.

CASH REGISTER Tasty Bite Restaurant Date 20/06/2019			
Receipt No.	**Total Amount**	**Other than Cash Payment**	**Amount**
12134	206.80	Visa card	471.00
12135	765.00	Cheque (Narang)	650.00
12136	121.30		

Figure 9.9: Cash register record

The second record that he maintained was the *cash disbursement register*. This included the cash paid to various heads of expenditure such supplies, utilities, payroll, rent and other expenses. This register should be filled in daily with the disbursements amounts from bills received and paid by cheque; the cash received from the cash register reports and other cash payment received. It is, however, essential to keep accurate daily records.

A sample of Baburam's cash register and cash disbursement records are shown in Figure 9.9 and Figure 9.10, respectively.

CASH DISBURSEMENT RECORD						
Tasty Bite Restaurant						
Month: December					**Year:** 2019	
Date	**Name of Account**	**Amount Paid**	**Classification of Expense Account**			
			Food	**Utilities**	**Payroll**	**Rent**

Figure 9.10: Cash disbursement record

At the end of every month, the cash receipt record of every day would be consolidated to cash receipt for a month, which will give an accurate picture of the cash flow during a particular month.

We have so far reviewed the various records maintained at the different levels of operation in a food service establishment. Certainly, you would now be in a better position to identify these records and use these records skillfully in analysis of food cost. Let us check your understanding of the topic so far. Answer the questions given in the check your progress exercise 1.

Check Your Progress Exercise 1

1) What is a budget? Discuss the steps involved in budget making.

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2) What are the different income and expenditure records?

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3) Briefly discuss the benefits of maintaining income and expenditure records.

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4) Vikram was manager in a new restaurant which catered to about 500 customers a day. He felt that there was need for strict control in the stores area. What records do you suggest that he should maintain and why?

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5) Seema caters to kitty parties in her neighbourhood. Her dishes are very popular among her customers. But of late she finds it difficult to supply the required dishes within the specified time. What do you suggest she should do?

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Next, we shall move on to review the actual performance reports.

9.4 REVIEWING ACTUAL PERFORMANCE REPORTS

In the section above we saw how Baburam maintained each and every record specific to each of the food service operation. However, it is important to note that keeping daily records does not ensure the accountability of expenses incurred. For this, the records must be analyzed and then used to improve existing financial situation. This can be achieved by preparing certain reports using data from the records maintained. These reports include daily food cost report, cumulative food cost report, daily cumulative food cost report and profit and loss statement. Let us review each of these in detail in the following sub-sections.

9.4.1 Daily Food Cost Report

Baburam everyday prepared the daily food cost report using 3 records. The first was the *cash register* of total income from sales for the day, second was the *census record* of the number of people served and the third was the *store room issue record*. By adding up the value of the store room issues, the food cost for the day can be calculated. Baburam had learnt that this was the most important of the reports as it can provide up-to-the-minute information about sales, food costs and number of people served. Expenses other than food are not included in the daily report as they do not fluctuate as much as food costs.

The actual food cost percentage can be calculated by dividing food cost by income and express it as a percentage as indicated in the formula given herewith:

$$\text{Food cost percentage} = \frac{\text{Food cost}}{\text{Income}} \times 100$$

By calculating the food cost percentage, Baburam could quickly tell whether it meets the standard set for his operation. Normally, luxury restaurants with elaborate service may have 25% as food cost. A canteen in a college may have 50 - 60% as their food cost. Baburam, you may recall reading earlier in sub-section 9.3.1, had planned that his food cost percentage will be 60%. Checking the food cost percentage gave him a good idea as to whether he was functioning alright or whether he needed to change.

Next, let us review the cumulative food cost report.

9.4.2 Cumulative Food Cost Report

In addition to the daily food cost report, cumulative report for the month is also very important. In this the sales and food cost figures of each day is added to the previous day throughout the month and the average is calculated by dividing it with the number of days in a month. Ideally, the cumulative figures should be used to determine the food cost percentage because they tend to average the "ups and downs" of a single day's operation.

Besides the cumulative food cost report there is a daily cumulative report which can be maintained. Let us see how.

9.4.3 Daily Cumulative Food Cost Report

In this, the daily food cost report is added up to the specified day and divided by the specified number of days and compared to the budget. For example, if Baburam wanted to know what the daily cumulative food cost report was on 15th day, he had to add up the daily food cost of each day up to day 15 and divide by 15 to arrive at the daily cumulative cost report. This is another valuable tool because it shows deviations from the budget as soon as they occur and corrective action can be taken at once. Thus daily cumulative records can help as an ongoing evaluation tool.

Next, let us get to know about the profit and loss statement.

9.4.4 Profit and Loss Statement

This is a summary of all the income, as well as, all the expenses of the organization to determine the amount of profit or loss for a given period. It shows deviations from the budget at the time they occur and corrective action can be taken at once. Also, it shows the true cost of food used based on purchases; adjust with inventories and all other actual expenditures. Usually Baburam prepares it at the end of each month.

A simple summary of the profit and loss statement is:

- *Gross Profit = Income from sales – Cost of food sold*
- *Net Profit/Net Loss = Gross profit – (Labour + Overhead and Operating Costs)*

Income from sales is obtained from the cash register for the month, as well as, special meal record. The cost of food sold must take into consideration the amount of stock on hand at the beginning and at the end of the month.

The ***cost of the food sold*** is calculated in the following manner:

Purchases *(figures obtained from vendor's end of the month statement verified by the manager with daily invoices)*

+ Beginning Inventory *(Value of goods in the store room available for use at the beginning of the month)*

– Ending Inventory *(value of goods on hand on the last day of the month)*

= **Cost of Goods Used**

Let us look at the profit and loss statement that Baburam had prepared for the month of June, 2019 as given in Figure 9.11.

PROFIT AND LOSS STATEMENT			
	Tasty Bite Restaurant June, 2019 (operating days: 26)		
			Percent of
Sales			
Sales	Rs. 2, 86, 650		
Less: sales tax	13,650		
Net sales		**2, 73, 000**	**100**
Cost of foods sold			
Inventory-November 1	32,000		
Purchases	Rs. 1,54,000		
	Rs. 1, 86, 000		
Less: inventory June 30	Rs. 17,000		
Net cost of food sold		1, 69, 000	61.9
Gross profit on food		**1, 04, 000**	
Labour:			
Regular employees	Rs, 16, 000		
Casual workers	Rs, 10, 200		
Overhead expenses:		26, 200	9.6
Rent		26, 000	9.5
Utilities:			
Electricity	Rs. 10, 000		
Laundry	Rs. 2, 000		
Fuel	Rs. 15, 000		
		27, 000	9.9
Net Profit		**24, 800**	**9.1**

Figure 9.11: Profit and loss statement

In our discussion so far we have seen how the records maintained for the different food service operations can provide valuable data which can be further used to analyze the actual performance of the food service unit. A profit and loss statement finally helps to review the performance of the unit. Review of performance thus involves checking whether the action or performance is according to the plans. If performance is not as planned we need to adopt control measures. This then brings us to another important concept called cost control. Let us get to know about it next.

9.5 COST CONTROL

We have learnt through the experiences of Baburam about various records and reports that need to be maintained at a food service unit. Baburam being an astute manager carefully reviewed the records and reports that he maintained. He knew that if his operations were proceeding according to the budget, he need not take any action. But his records and reports clearly indicated that his food costs were high and profits were not according to expectations. This clearly indicated that he needed to take follow-up action if he wanted to improve his financial position. In this context he would need to review all the factors that affects the food cost. Let us review these factors next.

9.5.1 Factors Affecting Cost Control

Baburam decided that he will take the advice of his friend Ramu once again. Ramu warned Baburam that in an effort to maintain profit, he must not immediately think of increasing prices or reducing portion size or lowering the food quality as the first step. Ramu suggested that Baburam must critically look at the menu as it is the most important factor in the control of food costs. The first step he suggested was that

Baburam must pre-cost the menu since food is the most readily controlled item of expenditure and is subjected to greatest fluctuations in the food service budget. Baburam was not sure what pre-costing meant. Ramu explained further. He asked Baburam how much of ingredients he used for making 100 urad dal vadas. He made him write it down on a sheet of paper. He also told him to make 2 additional columns for calculating cost. Figure 9.12 depicts what Baburam wrote with the help of Ramu.

Urad dal Vadas (100)			
Ingredients	**Amount**	**Unit Cost Rs.**	**Actual Cost Rs.**
Urad dal	2 kg	40/kg	80.00
Ginger	100 g	60/kg	6.00
Green chillies	50 g	24/kg	1.20
Oil	1 kg for frying	60/kg	60.00
Total			**147.20**
Cost of 1 vada			1.47
Cost of 1 plate (2 vadas)			2.94

Figure 9.12: Costing for urad dal vadas

Ramu suggested that Baburam should pre-cost all the dishes that he sold including the accompaniments like chutney and sambar as these also cost a lot of money. Together with the accompaniments the dishes should be within the food cost percentage planned. Baburam calculated the cost of coconut chutney in a similar manner and found the cost/person to be Re. 1.00 and the cost of sambar to be Rs. 0.90. One plate of urad dal vada in his canteen meant that 2 vadas with sambar and coconut chutney was served and this was sold at Rs. 6.00. But according to pre-costing of recipes, 2 vadas cost Rs. 2.94 and along with chutney and sambar was costing Rs. 4.84. Baburam had planned that the food cost in the canteen will be 60%. That meant that out of Rs. 6.00, 60% i.e. Rs. 3.60 should cover the cost of food, whereas his food cost was much more than that. Baburam realized how important pre-costing of recipes were in controlling food cost and decided that he would do the pre-costing first for all the recipes.

Ramu went on to explain that in the menu, Baburam should also consider the choices offered and remove those items that were not selling well. Baburam did not understand why this should affect the food cost. Ramu explained that preparing small quantities of various items was not economical. Instead he suggested that Baburam must feature a *Daily Special* that can be made from surplus food on hand or seasonal food items and this would bring in more profit. Baburam liked this idea very much. He thought of various items he could feature as a special in his canteen that his customers would enjoy – soup and grilled sandwiches could be offered one day, vegetable pulao and boondhi raita another day, stuffed parathas and curds the third day. He knew that they would be popular.

Once the menus were pre-costed, next selling prices were determined for the various products. Let us see how.

9.5.2 Determining Selling Price of Food

Ramu also taught Baburam about pricing of his dishes. He asked Baburam how he priced his dishes. Baburam said that he looked at what price his competitors were offering the food item and he offered at the same selling price. Ramu pointed out that this was not a scientific method of calculating selling price. Ramu said that there are various methods of pricing. The most commonly used method is *based on the raw* *food cost of menu items plus a mark-up* to give a selling price appropriate for the type of organization and the desired food cost percentage level that the food service wishes to maintain.

We have learnt about precosting of standard recipes. The *mark up* is determined by dividing the desired food cost percentage into 100 (representing total sales or 100%). The resulting figure is called the mark up factor. The raw food cost is multiplied by the mark up factor to obtain the selling price.

Ramu used the following example to illustrate what he was saying:

Assuming that Baburam wished to maintain a food cost percentage of 60%,

$$\text{Mark-up factor} = \frac{100 \text{ (represents total sales)}}{60 \text{ (per cent of income for food)}} = 1.66 \text{ or } 1.7$$

If we assume the cost of any dish to be Rs. 5, then the selling price will be Rs. 5 × 1.7 = Rs. 8.5.

However, the mark up factor cannot be used alone to determine the selling price.

Baburam could not understand it. Then, Ramu went on to add that we need to consider various free items that are given with the food such as salt, pepper, sugar and other spices and sauces. These are not accounted for in recipe costing but must be accounted for while selling. Many managers of catering units add a standard 10% to cover these costs, as well as, the costs of overproduction and unavoidable wastes, before the mark up. If we apply this, in the above example:

Rs. 5 + (5 × 10 / 100) = Rs. 5 + 0.50 = Rs. 5.50

Rs. 5.50 × 1.7 = Rs. 9.35 = Rs. 9.5

It is important that the values obtained be rounded off to the most convenient figure.

We have looked at the mark-up concept of determining the selling price. Another method is called *demand oriented pricing*. This is based on what the customers perceive the value/cost of the item and their willingness to pay and prices are set accordingly. These prices are set as high above the raw food cost.

The third method of pricing is called as *prime cost pricing*. In this not only the food cost but also labour cost is considered while determining the selling price. In Baburam's catering units, food cost and labour cost together account for 70% of the total of all expenses. The mark up in this case will be 100/70 = 1.4. The raw food cost and the labour charges are added up together and multiplied by the markup factor to determine the selling price.

Baburam realized that the reason for his profits not being according to his expectations was because he had not priced his products in a scientific manner.

Now geared with this knowledge about cost control Baburam certainly hereon will adopt these control measures in his establishment. But fluctuation in food cost/ purchase/non-receipt of goods at proper time/improper storage etc., meant that Baburam must keep a checklist for each stage of operation. This check list for control cost is discussed next.

9.5.3 Checklist for Cost Control

Apart from menu and pricing, various factors right from purchasing to selling affect costs. Ramu showed Baburam the checklist that he used. The checklist consisted of controlling cost right from purchasing, receiving, storage right up to food production and selling, as well as, labour and other overhead costs. Let us quickly review the checklist. We shall begin with the first and foremost step i.e., purchasing.

Checklist for Purchasing

- Develop specifications for every food item. These should be followed while purchasing.
- Visit to the markets is necessary to study market conditions and recent trends. A capable buyer is one who is alert to ever changing market conditions and has knowledge of new products as they become available.
- Decide on the amount of convenience foods to be used as this will decrease the labour requirement but may substantially add to the food cost.
- Adopt appropriate methods of purchasing.
- Close cooperation and good working relations between the food buyers and production manager.

Checklist for Receiving

- All items received must be checked against the purchase order.
- The quantity and quality must be checked against specifications.
- Substandard quality should be immediately returned and the vendor should be informed

Checklist for Storage

- Buy only what can be used at once or those that can be stored adequately without deterioration in quality.
- Store only whatever is essential for a limited period of time. Unnecessary storage of large amounts might result in loss through spoilage, waste, pilferage or theft.
- Keep the store room locked and let the supplies be issued by an authorized person against written requisition.
- Storage temperature has to be checked regularly so that foods are stored in the best possible temperature.
- Keep the store room in an orderly and logical manner and adopt first-in first-out system.

Checklist for Food Production

- Ensure that standardized recipes are used.
- Train the employees in using the right equipment and the right method of work. Too much of time in the potato peeler will reduce the yield of potato dishes; too much of trimming of tomatoes and onions will reduce the edible portion. A little extra cream or nuts in preparation will increase food costs at the end of the month.
- Use previous records in estimating the amount to prepare. These records should have information about the amounts prepared, amounts sold and leftover amounts. This gives a realistic basis for estimating quantities required.
- Attempts must be made to store leftover foods properly and use them skillfully. Leftover mutton or vegetable curry can be converted to biryani; salads can be converted to interesting sandwich fillings.

Checklist for Portion Size

- It is important to establish portion size for every item and this information should be communicated to the employees.
- It is necessary to provide suitable equipment to give the correct portion such as standard ladles, ice cream scoops and standard glasses.
- Standard recipes and portion control are essential not only for cost control but also in maintaining customer satisfaction. No one likes to receive smaller portions than other customers for the same price so the portions should be uniform.

Checklist for Labour Cost

- Adjust the hours of service for greater profitability.
- Evaluate if there is enough business and income at certain hours to justify being open at that time.
- Think up ways to generate more sales at slack periods.
- Plan additional tasks for employees at slack time to improve productivity.

Checklist for Physical Layout and Equipment Placement

- Check if the kitchen is efficiently organized.
- Ensure that equipments are placed properly to avoid waste of human energy.
- Evaluate amount and adequacy of labour saving equipment. All power equipment can process food more quickly and reduces labour cost. However when small quantities are involved, hand operations may be more efficient as the labour involved in setting up and cleaning the machine may be much greater.

Checklist for Overhead and Other Expenses

- Calculate cost of repairs and maintenance over a specific period.
- Train employees to report any broken equipment.
- Service equipments at regular schedules.
- Keep a record of breakage.
- Train employees in proper dish handling procedures to keep breakage at a minimum.
- Keep a check over cleaning materials, paper goods such as paper towels, kitchen paper and other office supplies.
- Use equipments that are energy efficient.

Baburam was very impressed with the check list that Ramu showed him. He realized that there were certain areas that needed changes. He was buying a large quantity of convenience food. He felt that if he got them made in his catering unit, the cost would be less. He never looked at the portion control or trained his workers in using suitable equipments for portion control. He decided that he would buy the required ladles first and train his service personnel. He had never considered utilizing leftover food though he had good storage conditions. He planned that he will skillfully transform the leftover food items. He was sure that with all the advice and help that Ramu had given him, he will be able to control cost very effectively.

Having gone through the control measures described above certainly you would have got a clear picture of how to manage and control costs while operating a food service unit. Let us test your understanding of this topic next. Answer the questions given in check your progress exercise 2.

Check Your Progress Exercise 2

1) Define the following terms:

   a) Profit and Loss Statement

   ....

   b) Mark-up factor

   ....

   c) Demand oriented pricing

   ....

   d) Prime cost pricing

   ....

   e) Cumulative food cost report

   ....

2) Keshav who is managing a canteen in a college feels that he needs to adopt a proper method of pricing for his dishes. How can he adopt the mark-up method for determining the selling price?

....

....

3) What information will be needed by Keshav to prepare a profit and loss statement?

....

....

....

4) Prepare a checklist for store room and portion size.

....

....

....

9.6 LET US SUM UP

In this unit, we learnt about the management of food by means of records and controls. The first part of this unit dealt with budgets, what are these and the types. Then subsequently we learnt about different records that must be kept for a catering unit. These, you would recall, included purchasing, receiving, storage, production, service, income and expenditure records.

In the next part, we learnt about different food cost reports that included daily food cost cumulative food cost, daily cumulative and profit and loss statement.

Finally, we had an insight into cost control, factors affecting it and how to determine selling price of food. Lastly we had a detailed checklist for cost control for various operations including purchasing receiving, storage, food production, portion size, labour cost, physical layout and equipment placement, and overhead and other expenses.

9.7 GLOSSARY

Budget: a total sum of money allocated for a particular purpose or period of time.

9.8 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1) A budget is a systematic plan for the expenditure of a resource or total sum of money allocated for a particular purpose or period of time. Refer to sub-section 9.3.1 and write the steps involved in preparing the budget.
2) The different income and expenditure records include cash registerand the *cash disbursement register.*
3) Income and expenditure records provides accurate data about the number of sales, total sales, tax collected, the number of customers who paid by cash and others who paid by other systems and total number of servings for each type of food sold.
4) Vikram could use records such as store room requisition record, perpetual inventory and physical inventory to have better control in the stores area.

Reasons:

a) Store room requisition: To Vikram goods held in storage represent money, he should keep the store area locked and leave the responsibility of issuing and receiving items to one person. Nothing should be removed from the stores without a written requisition.

b) Perpetual Inventory: This record provides information about the balance stock on hand each day, fast and slow moving items and consumption of a particular item over a period of time. It also helps to control pilferage and forms the basis of purchasing.

c) Physical inventory: In this the actual count of items in stores is taken and value of each item is calculated. The total value of the inventory is reflected in the profit and loss statement.

5) Seema needs to prepare and follow a production schedule so that she is able to supply the food items at the specified time. In a production schedule, the various menu items, their quantities, time schedule, the person assigned to prepare it, as well as, the pre-preparation duties are listed. This will help her in planning out her production according to time schedules.

Check Your Progress Exercise 2

1) a) Profit and loss statement is a summary of all the income, as well as, all the expenses of the organization to determine the amount of profit or loss for a given period.

b) The *mark up* is determined by dividing the desired food cost percentage into 100 (representing total sales or 100%). The resulting figure is called the mark up factor.

c) Demand oriented pricing is based on what the customers perceive the value/ cost of the item and their willingness to pay and prices are set accordingly.

d) Pime cost pricing is the pricing where not only the food cost but also labour cost is considered while determining the selling price.

e) Cumulative food cost report is the report in which the sales and food cost figures of each day is added to the previous day throughout the month and the average is calculated by dividing it with the number of days in a month.

2) The mark up is determined by dividing the desired food cost percentage into 100 (representing total sales or 100%). The resulting figure is called the mark up factor. The raw food cost is multiplied by the mark up factor to obtain the selling price. Keshav also needs to consider various free items that are given with the food such as salt, pepper, sugar, *somph* and sauces. These are not accounted for in recipe costing but must be accounted for while selling. He can add a standard 10% to cover these costs before the mark up. It is important that the values obtained be rounded off to the most convenient figure.

3) Keshav will need the following information to prepare a profit and loss statement:

- Income from sales obtained from the cash register for the month, as well as, special meal record.
- The amount of stock on hand at the beginning and at the end of the month.
- Total cost of purchases (obtained from vendor's end of the month statement).
- Total cost of labour.
- Overhead expenses such as rent, insurance.
- Utilities such as fuel, electricity, paper goods, laundry.

4) Refer to sub-section 9.5.3 and write on your own.