

HOW TO CONTROL FOOD COSTING AND MANAGEMENT COSTING IN HOSPITALITY INDUSTRY

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Abstract:

Hospitality industry is one of the business entities that budgeting must be functional and active. The method of its application or execution matters. It will be a good practice to know that for effective hospitality operation and growth of food costing and control system should be extraordinary. In the researchers were able to point out the basic element that facilitates the growth of business in the hospitality industry through the proper use of food costing and control, so it can be said that operational cost can be observed as the cost of starting a new entrepreneurship or the cost of investment in the newly open business. Operational cost is the very cost managed by the general manager or the manager in charge of the activities in the industry and it contributes to the growth in the business and the hotel welfare or well-being. Operational cost consists importantly of selling price, which is the actual cost of food, including the accumulated cost for sale, markup for sale, sales variation and sales function. This study will be able to contribute immensely to food costing and control in the hospitality industry with Indian perspective playing a majority role. It was concluded that for a successful business activities or operation to be achieved, and effective cost control and operations should be introduced in the business of organization and operators should not be in charge of managing the operations and purchases of in the industry as this can introduce bureaucratic measures though waste which cannot be controlled and managed and as a result recommendations were made that the operators of the industry should learn and learn professionals for effective food costing and control system and owners of the industry (business) should draw a clear coast between ownership and management to help reduce management cost.

Key words:- Food cost, Management cost

INTRODUCTION

In the Indian hospitality industry food cost control is very important because as it requires proper budgeting as cost control can limit waste. Food cost and control when properly done and attention given to every detail and process in its functions and activities results into growth of the industry. The principle and application of food costing keeping cost low in planning ahead. The information of the in-house guest to food and beverage production department makes it easier to control food cost. There are various methods used in the different departments including cost plus. In preparing or making appropriate food cost and control in the hotel industry, the general manager does the budgeting, and in some hotels the breakfast supervisor carries it out, depending on the establishment while in some, the general manager, accountant, store man, purchasing officer, food and beverage controller, food and beverage manager, supervisors, kitchen supervisor, restaurant and bar supervisors does it, while in some organization food and beverage manager and supervisors takes care of the food cost and control. It is important to operate food costing and control in the industry as far as food is involved, even if it is only staff meals, because this is part of the hotel's expense and it needs to be controlled properly. Food costing can be said to be the all-time function in the industry including regular and ad-hoc function operations. Understanding control system and how to apply the system the first in first out (FIFO) system is applied in order to prevent throwing food away, we make sure all items that were brought first are used first in all functions and sales outlets including stores and purchasing various things, like in portion control and audit, stock taking, sales, cash control, cashiering and reporting, prevention of theft, and pilfering etc. In the hospitality industry different portion control methods are involved and it affects the industry positively, when it is well applied or done through weighing of items and making sure that each plate that leaves the kitchen has the exact same amount of it. Menus and extra has to be charged extra, these methods help to standardize things. Monthly figure and operating statements are involved in the Indian hospitality industry, just to access, evaluate and monitor the operations and to determine where you stand in business either you are making it or losing and also determine the levels of your progress, if your targets are met or not, as this will help in overview of revenue and expense, been a very important aspect of controlling. To understand the rationale behind feeding and its effects on food cost, percentage is necessary so that you can determine, amend, moderate or reposition and re-strategize on your food and beverage operations as this helps food cost controlling to be done properly. Food costing involves cost of production and labour which actually looks at purchasing within season and purchasing outside season, cost of extra labour within and outside season and management decision on casual staff. Management cost is not overlooked where the cost of supervision and control is considered, the input of the management staff per hour and the irmonetary value. Operational cost is also an important factor in food cost.

DEFINITION OF FOOD COSTING AND CONTROL

These are the activities of checking the products and items of the food and beverage production unit of the hospitality industry, through the different kind of methods and applications to avoid wastage in the hospitality industry. It is the proper method of operation in the purchasing, utilization and storage in the hotel industry. Food cost and control is the most important thing of food and

beverage operation in the Indian hospitality industry that determines profit and loss in the business analysis daily, weekly, monthly or yearly.

FOOD COST

All the establishments of hospitality industry using the food cost in different ways and manner as it suits their purpose or operation in their activities. Food cost is the method to implore in the production of every product, item in the hospitality industry. In some organizations the caterers are in-charge of the costing in the industry. It is done as part of production process to help evaluate, calculate and cost the product or food to be produced to determine the selling price. A food cost practiced is shown below: To prepare an Indian dish of Mulligatawny soup, the caterer makes the following cost: As shown in Table 1, cost is utilized to produce the soup for about 15 guests, which are 15 covers. The cost of labour and overhead is not added but the management or the owners of the business have allowed 45% for expenses and expect 65% profit on gross

A food cost practiced is shown below: To prepare an Indian dish of Mulligatawny soup, the caterer makes the following cost:

- All purchase must be controlled
- Details of all merchandise received must be reordered, as and when issued.
- Any overproduction of food must be checked and of course reused in the best and most economical way
- Production-ingredient amount must be checked before preparation.
- Check the sales with direct number catered for.
- An efficient system of cash control must maintain.
- Sales of any kind checked with cash receipts.
- A record of costs for each section (wine, cigars, flowers, meals, rooms) must be made and recorded.
- Total daily wage cost must be recorded.
- A weekly summary of all the relevant details must be prepared.
- The trading profit and loss account should be prepared

FORMULA OF FOOD COST

- **FC= COST OF FOOD CONSUMED – STAFF MEALS**
- **FC= OS + (P – PR) – CS**
- **FC= FOOD COST;**
- **OS = OPENING STOCK;**
- **P= PURCHASE;**
- **PR= PURCHASE RETURN;**
- **CS= COST OF STAFF MEAL**

Total Cost: the total cost of food items is composed of three basic elements known as element of cost. The difference of sales price and total cost of a product is known as net profit. The opening cost may be classified as:

- Food Cost or Material Cost (MC)
- Labour cost (LC)
- Overhead Cost (OH)

COST SHEET OR STATEMENT OF FOOD VALUE:-

Cost sheet could also be a press release that has for the assembly of careful price in respect of a value of unit. it's able to purpose detail price of the entire output or merchandise. It provides the worth per unit. the foremost blessings important sheet are:

- It discloses the food price of a dish and price per unit.
- It alter the management to remain associate degree comprehensive watch and management over the assembly
- It provides a comparative study of the various ingredients.
- It helps in formulating a usual production policy.
- It helps in fixing up the damage of the items created.

Each establishment desires the calculation of food price of dishes created. a list of prepared of all ingredients beside the quality of each ingredient required for preparation of a dish for four covers. it's prepared in food price sheet. the value of each ingredient is calculated by checking the value from invoice or listing. there's additionally a pair of styles of ingredients used. Firstly, those item purchased, the value of that's obtained from supplier' invoice or listing. Secondly, things that ar created up in space like stock, sauces, pastry etc. it's a necessity to arrange a value accounting of all the particular ingredients for dish accounting purpose.

Once the worth of all the ingredients is calculated, the entire ar the food price for say four covers. Dividing the entire food price by four, we tend to tend to determine the worth per cowl. These accounting sheets ar prepared earlier and afterward filed for reference purpose in future. accounting is additionally in serious bother the particular dish that indicates the quality intrinsically an oversized quantity of elements or it's reaching to be in serious bother a selected item like potato chips, which might be expressed in term of its weight. among the later case, if you want to calculate price per portion, it will be necessary to specify the size of the elements to be costed. There ar some things among the price accounting sheet that deficient in quantity price to value on an individual basis. these things ar costed at estimation for the whole; such things embrace parsley, bay leaves etc.

On bottom portion of the worth sheet following knowledge is included:

1. Total food price.
2. Price per portion.
3. Earnings proportion.
4. Damage or charge per portion.

OBJECTIVES OF FOOD COST CONTROL

In several edifice and job institutions, the expenditure on food is that the largest single part of price. The maintenance of Food cost at pre determined levels are therefore of the greatest importance in ensuring the satisfactory profitability of each establishment. Even wherever job is undertaken as a welfare facility food price targets and prices ceilings area unit invariably obligatory from on top of either in total or on a per unit basis. The main objectives of food price management.

Food value is also outlined because the value of fabric employed in manufacturing the food sold . In alternative words, it's the price of food consumed less the price of employees meals. the most objects of food value or material cost accounting are:

- To determine the food value of explicit item on the menu
- To determine the whole expenditure on food over a amount of your time.
- To regulate value, price, profit margins and supply data for formulating an efficient valuation policy.
- To disclose faulty getting and inefficient storing.
- To forestall thievery and wastage.
- To confirm client satisfactions.
- To bring cost- consciousness among the workers.
- To scale back value and improve quality.
- To produce value estimates to manager for developing budgets.
- To help manager in creating management call.
- To judge valuation and establish future valuation.
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The usual method of food costing is summarized as follows:

- Calculate the food price of every item on the menu
- management labour and overhead while not trying to apportion them to varied item created.
- The price of every dish is typically fastened by adding to its prime price (food cost) a definite share to hide wages, overheads and lucre.

Labour price and overheads aren't typically parceled out to the individual price of dish created. It ought to be ensured that individual price of the dish can manufacture enough financial gain to hide the labour and overhead prices and bring home the bacon the specified lucre.

MANAGEMENT COST

The management cost involved all the cost or the implications of the managing or establishing of a new business in the hospitality industry. The cost cut across the cost of legal activities, cost of servicing loan, land, incentive and compensation etc. The management in some quarts can involve the cost of maintenance and may see or see this cost as a direct cost. Sometimes it is not easy to identify the management cost; it is one of those cost that cannot be seen or touch. The management cost is the integral part of the fixed cost in the industry; it is always there and cannot go up or comedown. Assuming the industry runs on fixed cost of 500,000.00 monthly, automatically the cost will appearing everything that is done in the industry and cannot be neglected. The management cost in the Hospitality and the Indian type of business management where the owners of the business acts

and controls everything that happens in the industry, thereby imposing more cost into the management cost and sometimes operations cost. The management cost can also contribute to the folding or closure of business, where the owner of the business fail to consider the appropriate planning of starting the business and probably spends money as they want without considering the effect on the business or industry. Management cost does not include the cost of taking care of the family relatives, lawyer friends, architect friend or banker friend who helped when trying to establish the business or sourcing for fund or finances for the starting or establishing of the business. The cost is a personal cost and can be added to operational cost depending on the mode or method of the management of the Hospitality industry or establishment. This to say that management cost is strictly involved the payments done to establish or promote the business in the country, state or community. Out-Law.com (2011) states that “ The operators fees – the operators remuneration for the provision of services under the hotel management agreement, is usually provided for as fee which, in effect, is an operating expenses of the hotel business. It can be calculated as follows: A guaranteed base amount calculated as percentage of revenue from hotel business, and an incentive element, to be earned by the operator, if gross operating profit (GOP) exceeds an agreed there should. on the last or second clause to give an incentive to operators when gross operating profit exceeds, the global market in the first world and second world country can do and give such in their mode of operation and agreement of management that if the hotel will be managed or operated by another person than the owner. So the exceeding profit cannot not be shared or given partly to the consultant or the operator in the view or ways of managing the Indian hospitality market or business. contributing to management cost “the circle of managing cost begins from purchasing. From begin aware of the process involved to knowing the actual requirements of the kitchen, the purchase manager and his supervisor need to always be on a vigil. As the business grows, so does the cost. hotel management agreement is the key document that governs the relationship between hotel manager and hotel owner. Typically, the compensation to the manager is split into two components: Base fee and incentive fee .In trying to narrow the management cost as the cost of reality not a cost spent on trivialities, or casual expenses into the industry. Statistical it is only about 10% of the Indian based hotel that knows and practice management cost, moderation and control, that is why there are consultant and auditing. The purchase cost is one important factor that will not be overlooked in this study. A part from being part of operational cost, the management through the food and beverage manager especially in the kitchen or the perishable points of purchase, monitor the activities of the purchasing officer to avoid incurring more cost for the industry, through wastage and pilferage which is the greatest virus in the Hospitality industry. The cost when not controlled increase the management cost, therefore making the management to borrow, and servicing loan will surely increase the management and operational cost in the hospitality industry respectively

OPERATIONAL COST

Operational cost in the Indian hospitality industry is the cost that cut across every business that is done in the industry. It is important to know that the operational cost in the industry is very important cost that cannot be neglected or abounded for the purpose of the progress of the business and the activities to be done in the industry, it is also important in keeping the staff or workers of the industry into or activity in their services. Researchers say that operational cost can be seen as the cost of starting anew business or the cost of investment in the business .Operational cost is the very

cost managed by the general manager or the manager in charge of the activities in the industry and it contributes to the growth in the business and the hotel welfare or well-being. In explaining the operational cost as the very expenses involved in the running and managing of the business in the hospitality or hotel industry, to bring in more income and revenue into the financial base of the industry, the operational cost in the industry covered the cost of consumables and all the perishables in the industry. Operational cost is the expenses of the industry to enable the business to expand, when expanded, it mean increase in the products to be sold, offered to generate more income for the industry, that will be able to maintain the staff or labour force and the standard of operation in the industry. So it can also be said that the operational cost is the core activities or investment in the industry, so it is the physical cash seen. Physical cash can be said to be the limited amount that can be touch or utilized in the activities. The operational cost is not just money or cash to be spent, but cash to be used in the purpose of running and maintaining business or expanding the business Goldberg (2004). The persons or people involved in managing the operational cost are shown in **Figure 1**.

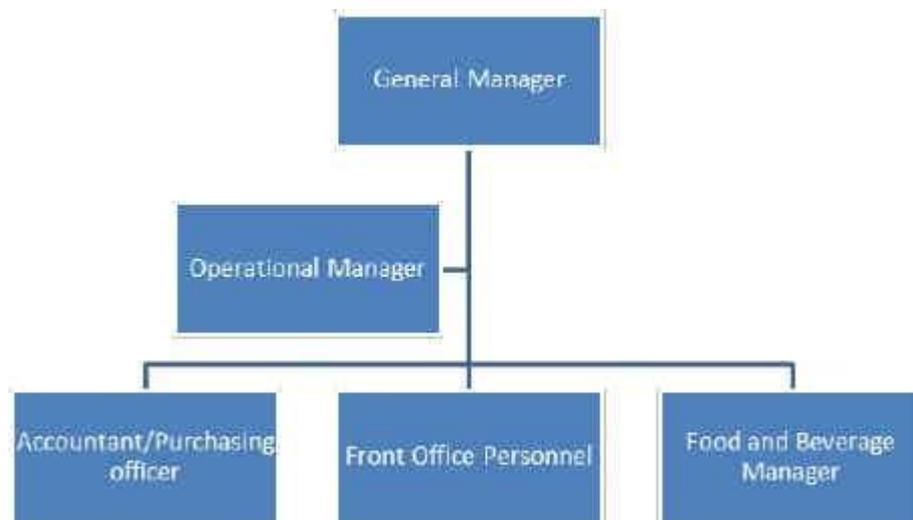


Figure1. Food cost control operational chart.

Figure 1 shows that there is process or processes involved in managing and releasing fund for the management and maintaining of the business of the hospitality industry. The activity is from chairman of the board to the manager or the general manager of the industry, who will meet with the operations manager, accountant, front office and food and beverage manager. This are the core people, involved in financial revenues and expenses of the industry.

CONCLUSION

After careful examination on food cost control, a vital aspect of hospitality industry business, it can be concluded that for a successful business activities or operation to be achieved, an effective cost control and operations should be introduced in the business or organization and operators (investors) should not be in charge of managing the operations and purchases of the industry, which introduces bureaucratic measures ;through waste and cannot be controlled and managed.

RECOMMENDATIONS

Operators of Indian hospitality industry should learn and involve professionals for effective food costing and control system, operational cost of the business should be worked on through the reduction of labour cost, the owners of the hospitality industry (business) should draw a clear coast between ownership and management, to reduce the cost of management and flourishing of the business can be achieved only through effective and good planning before venturing into the hospitality business.

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