

STANDARD OPERATING PROCEDURE	CODE: CF - 001		PAGE: 1 of 9
	EFFECTIVE:		UPDATE NO.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:		F&B COST CONTROL FUNCTION

The food and beverage cost control is based on three main principles:

- Organizing and implementing the purchasing, receiving and storing system. Because the raw materials used are economically volatile and perishable, the proper control of quality and value of raw materials is an important factor to achieve the sales goals and profitability.
- Minimizing loss through efficient production.
- Standardizing the production method to satisfy the majority of the guests as well as to secure proper profit levels.

To achieve the principles stated, it is necessary to calculate the cost of products offered in any situation and to manage both the sales and profit. To satisfy this requirement, the food and beverage cost accounting system needs to be established to be one of the main control facets of the hotel.

Food and beverage cost control is aimed to assist each department head in their job to run the operations smoothly and most economically. The report and data prepared by the Cost Controller are to be reported to the Food and Beverage Manager, Executive Chef and the Banquet Manager. For accounting purposes, they are used to calculate Food & Beverage department's cost.

I- Food cost control

A large share of the food and beverage department's revenue comprises food revenue; therefore, it is vital that proper cost control is carried out to secure profit. Because it is impossible to accurately predict what guests will order from the menu, the preparation of raw material is based upon experience and forecasting. As a result, some amount of waste and left over foods cannot be avoided. Long term storage will only reduce the materials' quality as well as create undesirable sanitary conditions, and it will cause waste and rot as a result. However, by reducing the waste to a reasonable level and keeping consumption and loss at a minimum, profit can be obtained.

Food cost control is a mean to decrease waste and to serve every food uniformly by carefully planned cooking and standardized cooking procedures.

STANDARD OPERATING PROCEDURE	CODE: CF - 001		PAGE: 2 of 9
	EFFECTIVE:		UPDATE No.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:	F&B COST CONTROL FUNCTION	

1. Necessity to standardize

Whether the hotel's restaurant, bar, and banquet receive a good or bad reputation depends on whether the same food is always served with consistent taste, volume, and presentation. That is, the recipes are standardized so that there will not be a difference in taste, volume, and presentation from day to day.

Adherence to standardized quantity guarantees uniform service to all guests without being influenced by human factors.

2. Establishing standardization

The objective of standardizing the food volume is to secure consistency in the quality of food and ensure profit margin in serving just the right volume.

In order to achieve standardization, four management concepts are used:

- **Standard Portion Size:** Determines the volume of materials to be prepared and served for one person in advance. In order to secure tight control, standard portion size should be defined for all dishes
- **Standard Recipe:** should be prepared for each dish, clearly stating quality, portion of materials, and the preparation methods. Standard recipes will allow to calculate the proper selling price, obtain the food cost for each menu item and assure the uniformity of quality
- **Standard Purchase Specification:** in order to standardize, the size and the quality of the supplied raw materials of food must be equivalent. It is important that the specifications are always updated. This is because required raw materials are sometimes changed due to the revision of the menu or some change in the operating policy or limited supply. As a result, the specifications need to be reviewed from time to time.
- **Standard Yield:** it is the net weight or portion of the food items which have been prepared and cooked per the standard method and which can be immediately served to the guests.
Standard yield = Supplied raw materials - loss from preparation, processing, and cooking

3. Potential food cost

The food cost which will be incurred if everything from purchase, preparation,

STANDARD OPERATING PROCEDURE	CODE: CF - 001		PAGE: 3 of 9
	EFFECTIVE:		UPDATE NO.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:	F&B COST CONTROL FUNCTION	

cooking, and selling are carried out per the standard methods with no waste. It is considered that the control system is being effectively carried out if the difference between the potential food cost and the actual food cost are kept to a minimum. The potential food cost will allow the detection of any waste from an inefficient operation. Because the restaurant business profit ratio is extremely low, control must be strictly enforced to eliminate waste and thereby making sure that the operation makes profit.

4. Separate food cost calculation

Food cost must be independently calculated for each restaurant or kitchen. As each restaurant's management policy is based upon different concepts, the cost ratio is different. It is necessary for each kitchen to make its own computation in order to find out whether the individually determined potential food cost is being achieved or not.

Direct purchase and storeroom issues must be carried out by each kitchen division; and in case of transfers of raw materials and half cooked products between kitchens, inter-transfer food & beverage form must be used to record the cost transfer.

5. Effective cooking management

In order to manage cooking effectively, the past sales of the menu items need to be analyzed and the anticipated number of guests estimated to assess the volume to be prepared so that waste from excess production is avoided. In order to manage cooking effectively, four kinds of data are useful.

- **Menu Sales Analysis and Potential Cost:** analysis of past sales results are important in determining sales policy and preparing the menu, but also vital in managing effective cooking. By knowing the sales tendencies for a given day or hour, the volume to be prepared can be estimated.
- **Weekly or Monthly Room Forecast:** from the Weekly or Monthly Room Forecast, the number of guests staying at the hotel can be known. As a result the number of guests having breakfast and dinner can be estimated, and again the volume to be prepared can be predicted.
- **Weekly or Monthly Banquet Function Schedule**
- **Function Sheet or Event Order:** the Function Sheet prepared by the

STANDARD OPERATING PROCEDURE	CODE: CF - 001		PAGE: 4 of 9
	EFFECTIVE:		UPDATE No.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:	F&B COST CONTROL FUNCTION	

Banquet Department is sent to the kitchen before the function. By learning the number of guests and the contents of the menu, the volume of items to be purchased and to be prepared can be arranged to eliminate waste.

6. Production control

Even though the standard recipe and other control procedures and process are established, it is important to ensure that they are being enforced. When an employee retires or when a job is repeatedly performed for a long time depending on individual's memory without checking the procedures performed, the process may be altered. The review of the established procedures and process is primarily the responsibility of the Executive Chef.

7. Food sales check

By reviewing the food sales and performing sales and consumption reconciliation, the Cost Controller will be able to check whether the consumed volume (production volume) and the actual sales are consistent.

8. Preparation of Food Cost Report

The actual cost calculated from the purchasing data, storeroom issuance data, and physical inventory, is used to prepare the Food Cost Report.

II- Beverage cost control

If in the food department the procedures followed are designed primarily to ensure the efficient use of materials and therefore to avoid waste, in the beverage department the emphasis of cost controls is to the avoidance of pilfering by employees. This is because beverages are not perishable in the way food is and so waste should not occur in such level. By appropriate inventory control and standardized service, accidents and wastage can be avoided, and the profit anticipated by the management can be maintained.

1. Necessity to standardize

Standardization is necessary to prevent guest dissatisfaction. It is an important factor in keeping all guests equally satisfied.

STANDARD OPERATING PROCEDURE	CODE: CF - 001		PAGE: 5 of 9
	EFFECTIVE:		UPDATE NO.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:		F&B COST CONTROL FUNCTION

2. Establishing standardization

The objective of standardizing the beverage portion is to secure consistency in the quality of beverage and ensure profit margin in serving just the right volume.

In order to achieve standardization, four management concepts are used:

- **Standard Drink Size:** predetermined portion for one single serving. In order to have accurate control, standard drink size must be defined for all cocktails and alcohol beverages.
- **Standard Glassware:** the size of glassware should be appropriate for the standard drink size.
- **Standard Drink Recipe:** it is vital for beverage control and beverage service that cocktail preparation be standardized beforehand. Standard drink recipe for all items of beverage including cocktails should be prepared in order to set up an appropriate selling price, to obtain the beverage cost of each menu and to maintain a uniform quality.
- **Standard Par Stock:** from historical results, the standard par bar stock for one day can be derived. It should be sufficient to keep 2 times of the beverage volume consumed on a busy day as standard stock (or 2 consecutive days of consumption). A list of standard par bar stock should be prepared by the personnel in charge of the bar, and replenishment should be made daily (or as often as required) so that standard par bar stock volume is always maintained.

3. Potential beverage sales value

Potential beverage sales value is the sales amount, which should have been earned according to the actual consumption during the period in question. In order to calculate the actual consumption, the inventory is taken at the beginning and at the end of the period in question.

For each beverage item the standard sales value is calculated from the periodic beverage consumption volume, and then the total potential beverage sales value should be compared against the actual beverage sales amount. If the difference between the actual sales and the potential sales is large, the reason for the variance should be investigated.

4. Separate beverage cost calculation

Beverage cost must be independently calculated for each bar as each bar's management policy is based upon different concepts. Also the consumption

STANDARD OPERATING PROCEDURE	CODE: CF - 001		PAGE: 6 of 9
	EFFECTIVE:		UPDATE No.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:		F&B COST CONTROL FUNCTION

tendencies may be different for each bar, and the selling price may vary in many cases; therefore, the standard cost ratio would be different. In order to find out whether the individually determined standard beverage cost is being achieved or not, separate calculation becomes necessary. Therefore, storeroom issues must be carried out by each of the individual bars; and in the case of transfers of raw materials between bars, Inter-transfer food & beverage form must be used to record the cost transfer.

5. Production control

Even though the standard drink recipe and other procedures and process may be established, it is important to ensure that they are being correctly enforced. When an employee retires or when a job is repeatedly performed for a long time depending on individuals' memory without checking the procedures performed, the process may have been changed. The enforcement of the established procedures and process is primarily the responsibility of the Food and Beverage Manager.

6. Review of beverage sales

By reviewing the beverage sales and performing sales/consumption reconciliation, the Cost Controller will be able to check whether the consumed beverage volume and the actual sales are consistent.

7. Preparation of Beverage Cost Report

The Beverage Cost Report is prepared based upon actual cost calculated from purchasing data, storage issuance data, and physical inventory.

III- Food and Beverage material purchase, receiving and storeroom control

The various processes, which the food and beverage material go through from issuing orders of raw material to preparation are also important for cost control purposes.

The Cost Controller has the following responsibilities:

1. Purchase Function

- To check that the subsequent order is placed with the selected supplier at the agreed price

STANDARD OPERATING PROCEDURE	CODE: CF - 001		PAGE: 7 of 9
	EFFECTIVE:		UPDATE NO.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:	F&B COST CONTROL FUNCTION	

- To check that the ordered quantity is based on the operating forecast.

2. Receiving Function

- To periodically perform checks as to whether the receiving clerk is receiving the goods in compliance with the established procedures including a check of the weight, quantity and order specifications.
- To check the correctness of receiving records in terms of products received and further accounting allocation.
- To check that only ordered goods are being accepted.

3. Storeroom Control Functions

- To make a complete check of the storeroom condition at least once a month for causes, which may create external loss; to recognize slow moving items and ensure that they are not becoming dead stock.
- To check the storeroom keys are properly handled and secured as per hotel policy
- To check that store requisitions are accurately and legibly recorded, and that signatures are authentic
- To check the frequency of goods leaving the storeroom after store opening hours. If it is frequent, it is an indication that the operating forecast is incorrect or that the inventory control at the kitchen and the bar is not appropriate.
- To compare the inventory balance and the actual inventory count to confirm whether the inventory control is being enforced properly.

IV- Food and beverage sales audit function

1. Audit of sales voucher

- **Audit of Captains Order:** The sequence of the captains order used must be controlled (when a manual system is applied) to ensure that no captain order is missing and that sales vouchers have been prepared in accordance with all used captain orders.

STANDARD OPERATING PROCEDURE	CODE: CF - 001		PAGE: 8 of 9
	EFFECTIVE:		UPDATE NO.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:	F&B COST CONTROL FUNCTION	

- **Food sales:** from the material used, potential sales amount should be calculated for a sample of products and formally compared against the actual sales. Any material discrepancies will then have to be formally explained by the Executive Chef.
- **Beverage sales:** from the material used, potential sales amount should be calculated for a sample of products and formally compared against the actual sales. Any material discrepancies will then have to be formally explained by the Food & Beverage Manager.

2. Non-sales check

When the hotel management is allowed to use the food and beverage facilities for management/duty meals and/or to entertain people, these are not considered to be true sales (however this will depend on local tax laws and accounting standards). Initially the food and beverages consumed by the approved personnel mentioned above are recorded as sales, but at month-end they will be reduced to cost. The Cost Controller must check the accurate recording of the transactions and that restaurant name, user's signature, purpose for the use and the party being entertained in case of entertainment, are clearly stated.

3. Banquet control

Wastage of prepared food and beverage arising from a change of orders due to last minutes or in the number of participants is an issue for Banqueting. The Cost Controller must confirm that the prepared food and beverages are recorded as sales in accordance with the terms agreed by customers (i.e. initial agreed number of attendees must be charged, not actual number).

V- Food and beverage cost report

The main objective of cost control is to provide the hotel management with operation data as soon as possible, allowing them to make corrections immediately if necessary. From the accounting viewpoint, the accuracy of the calculated food and beverage costs per departments is required, as it does affect the income statement.

<i>STANDARD OPERATING PROCEDURE</i>	CODE: CF - 001		PAGE: 9 of 9
	EFFECTIVE:		UPDATE NO.: 0
	INITIATED BY: PRIMA CONSULTANT CO., LTD.		DEPT./SECTION:
	REVIEWED BY:		
	APPROVED BY:		
	SUBJECT:	F&B COST CONTROL FUNCTION	

1. Daily food and beverage cost report

The Daily Food and Beverage Report prepared by the Cost Controller is designed not only to understand the sales, but it is used as a guiding compass by the Food and Beverage Manager, and the Executive Chef to understand the trend of the costs and to determine directions for the future.

2. Monthly food and beverage Cost Control report

The Monthly Food and Beverage Cost Control Report is to report the details of the Food and Beverage department's operation results for the month and year-to-date as well as to report the food and beverage cost detail. It is also designed to help understand the operations and to use as a guide for the future.

Chief Accountant

Date

Financial Controller

Date

Director of Finance

Date