



Identifying the Actual Cost of a Meal

Understanding and Calculating Meal Costs

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Glossary of Terminology Relevant to Cost Management and Resource Management

A

Actual Cost of Food Consumed

Equal to: (beginning inventory + purchases - ending inventory)

Actual Cost of Food for Client Services

Equal to: (beginning inventory + purchases - ending inventory) +/- any adjustments, such as employee meals, complimentary items given to guests, and so forth.

As-Purchased (AP) Price

Price charged by the vendor.

As-Served Cost

Another term for edible-portion (EP) cost.

As-Used Cost

Another term for edible-portion (EP) cost.

B

Beginning Inventory

Amount of products available for sale at the beginning of an accounting period.

Bid

The AP price a supplier is willing to charge buyers for a product or service.

Bid Buying

When buyers shop around seeking current AP prices from vendors. The vendors are asked to quote, or bid, the prices they will charge. Intended to give the buyer competitive pricing information that will allow him or her to get the best possible value.

Budget

A realistic statement of management's goals and objectives, expressed in financial terms.

C

Case Price Per Unit

Equal to the AP price for one case divided by the number of units per case. For instance, if you pay \$12.00 for a six-can case of canned tomatoes, the case price is \$2.00 per can. If a vendor is willing to sell you less than one case, but charges you only \$2.00 per can, he or she is charging the case price and not a premium price for a broken (busted) case.

Cash Discount

An award for prompt payment, for paying in advance of the delivery, or using a cash-on-delivery (COD) bill-paying procedure.

Closing Inventory

Another term for ending inventory.

Co-op Buying

The banding together of several small operators in order to consolidate and enhance their buying power.

Co-op Purchasing

Another term for co-op buying.

Communal Buying

Another term for co-op buying.

Competitive Bid

Another term for bid.

Competitive Position

Refers to a company's ranking in relation to other companies in the same line of business.

Competitive Pressure

Force produced and exerted by companies upon each other, to lower prices and/or to provide better products and services.

Consistency

Continually providing the same quality and service over the long term. Important supplier selection factor.

Consortium Buying

Another term for co-op buying.

Contract

Voluntary and legal agreement, by competent parties, to do or not do something. In almost every case it must be a written agreement in order to be legally enforceable.

Control

Systems and procedures used by managers to ensure that the actual costs of doing business are consistent with the expected (or budgeted or theoretical) costs

Convenience Food

A food that has been processed in order to change its form and/or taste. It usually requires very little handling in a food service kitchen. It may be ready to use or ready to serve.

Cost Per Servable Pound

Information needed to calculate standard portion costs, determined by dividing the AP price by the yield percentage (expressed as a decimal).

Cost-Plus Buying

The AP price the buyer pays is equal to the vendor's cost of the product plus an agreed-upon profit markup.

Count

The number of pieces in a container. Alternately, the number of smaller containers in a larger container.

D

Delivery Cost

The expense incurred in order to move products from one location to another.

Delivery Schedule

Purveyor's planned shipping times and dates.

Direct Buying

Bypassing intermediaries and purchasing directly from the primary source.

Direct Purchase

Refers to a purchased product (usually a perishable food) that, once received, will bypass the main storage facility, go straight to production, and be charged to cost on the day it's received. A perishable food item, such as fresh pastry, is an example of a direct purchase.

Directs

Another term for direct purchases.

Distribution Channel

The people, organizations, and procedures involved in producing and delivering products and services from primary sources to ultimate consumers

E

Edible Weight

Difference between the original weight of a product and the production loss incurred after preparing it for service to guests.

Edible Yield

Another term for yield.

Edible Yield Percentage

Another term for yield percentage.

Edible-Portion (EP) Cost

Equal to the AP price per portion divided by its edible yield percentage

Effective Cost Management

Optimizing costs relative to the revenue anticipated; it is NOT minimizing costs

Ending Inventory

Amount of product on hand at the end of an accounting period.

Equal or Better

Tells the vendor that the buyer will accept a substitute item if it is the same, or better, quality.

Extended Price

Equal to the AP price per unit times the number of units purchased.

F

FIFO

Stands for first-in, first-out. A method of stock rotation used to ensure that older products are used first.

Fixed-Bid Buying

Shopping around and soliciting competitive bids for long-term contracts.

Fixed Costs

Costs that remain constant in the short run even though revenue volume may vary. Examples include expenses such as rent, insurance, licenses, most salaries, and most utilities.

Fixed-Price Contract

Contract that does not allow price fluctuations.

Food Cost

Another term for actual cost of food sold.

Food Cost %

Equal to: $((\text{actual cost of food sold} \div \text{the food sales revenue}) \times 100)$

Freezer Burn

The loss of moisture from a food product while it is held in frozen storage. Typically causes dry (i.e., burned) spots on the product, as well as an unpleasant odor.

G

gross weight

Weight of product plus the tare weight.

Group purchasing organization (GPO)

Another term for buying club

H

Hazard Analysis Critical Control Point system (HACCP)

Process used by food processors and others in the foodservice industry to ensure food safety. It identifies the areas at which foods are most susceptible to contamination and recommends procedures that can be used to prevent it from occurring.

Health district requirements

Regulations operators must follow in order to prevent food borne illness and other related safety problems.

I

Incremental cost

The cost to produce one more of an item, under a given set of conditions

Ineligible bidder

Company that would like to bid for a buyer's business, but would not be allowed to bid because it does not meet certain qualifications set by the buyer. For instance, the company may not be large enough, it may not have sufficient financial strength, and so forth.

Instructions to bidders

Required process vendors must follow when submitting a competitive bid. Typically also includes a description of how the winning bid will be determined and the qualifications vendors need in order to be allowed to bid.

Institutional can size

A No. 10 can. It holds up to 3 quarts, or from 96 to 105 ounces, of product.

Instructions to bidders

Required process vendors must follow when submitting a competitive bid. Typically also includes a description of how the winning bid will be determined and the qualifications vendors need in order to be allowed to bid.

Inventory book value

The value of inventory that is supposed to be in storage, as recorded on inventory records, usually a computerized record. The value is based upon perpetual inventory calculations.

Inventory control

System of procedures used to ensure that the products you purchase will be used only as intended. The main objective is to make certain that the actual usage is the same, or about the same, as the expected usage.

Inventory shrinkage

Another term for pilferage.

Inventory substitution

Occurs when someone takes a product and leaves behind a different one. Typically done by persons who steal a high-quality item and substitute a low-quality one in its place. .

Invoice

A bill from a vendor for goods or services, often presented as the goods are delivered or after the services are performed

J & K – No Listings

L

Long-term contract

Agreement that typically lasts at least one year

Lowball bid

A competitive bid that is artificially low. Vendors may lowball a buyer, hoping to get their foot in the door; later on, they will try to hike the AP price substantially

M

Make-or-buy analysis

A cost/benefit analysis whereby the buyer tries to determine if, for example, it is more economical to purchase raw foods and make a finished product in-house, or whether it may be less expensive to purchase a convenience food. The buyer usually considers the cost of food, labor, overhead, labor skill available, and so on when making the decision

Meal cost

The total cost to prepare and serve a meal. Meal cost includes food cost, labor cost, transportation cost, and a proportional share of overhead costs.

Minimum order requirement

The least amount of an item a buyer needs to purchase before a vendor will agree to sell it. Alternately, the least amount a buyer needs to purchase before he or she can qualify for free delivery.

N

Net weight

Gross weight less the tare weight.

O

Open storeroom

An unlocked storage facility that can be accessed by employees as needed. Usually contains the less-expensive foods, beverages, and nonfood supplies.

Opening inventory

Another term for beginning inventory

Operating costs

Day-to-day expenses involved in running a business. Alternately, the costs of using a piece of equipment.

Operating savings

Refers to the reduction in costs experienced by adopting a new way of doing things, purchasing a more expensive, but efficient, piece of equipment, and so forth.

Operating supplies

Another term for expense items or nonfood expense items.

Ordering cost

The amount of money spent to make an order, receive it, and store it. Includes things such as labor needed to perform the work and administrative costs, such as faxing, photocopying, and cell phone charges

Organic food

Natural food grown, produced, packaged, and delivered without the use of synthetic chemicals and fertilizers.

Primary sources and distributors must adhere to the organic guidelines and standards published by the USDA.

Outsourcing

Identifying work that is not central to your foodservice operation's primary mission and hiring an outside service to do it for you instead of doing it yourself. Things such as pest control and gardening services are usually outsourced.

P

Perpetual inventory

Keeping a running balance of an inventory item so that you always know what you have on hand. When a shipment is received you add to the balance and every time you use some of it you deduct that amount. Similar to keeping an up-to-date cash balance in your personal checkbook.

Physical inventory

An actual counting and valuing of all products kept in your hospitality operation.

Pilferage

Refers to minor theft. For instance, employees snatching a drink while on the clock, or guests swiping an ash tray.

Precosting

Calculating the costs of all ingredients used in a standard recipe in order to determine the cost for one serving.

Vendor that a buyer feels should be evaluated in order to determine if he or she should be added to the approved-supplier list.

Prime-vendor account

A consistent and significantly large account a buyer has with a vendor that, because of its size and the loyalty of the buyer, may be eligible for discounts and/or other special privileges. Alternately, another term for house account.

Prime-vendor discount

Price reduction if you purchase most of your products from a single vendor. You may have to buy as much as 90% of your total purchases in order to qualify for a discount.

Prime-vendor procurement

Another term for one-stop shopping.

Procurement

An orderly, systematic exchange between a seller and a buyer. The process of obtaining goods and services, including all activities associated with determining the types of products needed, making purchases, receiving and storing shipments, and administering purchase contracts.

Product shrinkage

Loss of product as a result of theft, waste, spoilage, or excessive use of product

Product specification

Same as a purchase specification, but does not contain any information about supplier services the buyer wants

Purchase order

A request that the vendor deliver what you want, ideally at the time you want it, at an agreed-upon AP price and credit terms. May include other conditions, such as minimum order amount, cost of delivery (if any), and so forth.

Purchase specification

A concise description of the quality, size, weight, count, and other quality factors desired for a particular item.

Usually also includes some description of the desired supplier services a buyer wants.

Purveyor

Another term for vendor

Q

Quality Control

Systems and procedures used by managers to ensure that the actual quality of finished items is consistent with the expected quality.

R

Ready-to-serve product

Convenience food that can be served right out of the container, with no additional preparation other than perhaps thawing and/or reheating.

Ready-to-use product

Convenience food that requires a little bit of preparation in the food service operation's kitchen in order to make it ready for service. For example, cleaned, chopped salad greens will still need to be combined with other ingredients, such as tomatoes and salad dressing, before it can be served to guests.

Request for bid

Another term for request for quote (RFQ).

Request for quote (RFQ)

Used by buyers who shop around for the best possible deals. It is a list of items needed and their specifications, given to potential vendors who are then asked to quote, or bid, the AP prices they would charge for them.

Responsible bidder

Opposite of ineligible bidder. Company that is considered large enough, has sufficient financial strength, has a good reputation and history of satisfactory performance, and so forth, and because of this, is placed on a buyer's approved-supplier list.

S

Safe-handling procedures

Instructions typically printed on a product's package label detailing the way in which the product should be handled and prepared in order to prevent food-borne illness.

Sealed bid procedure

Vendors' AP price quotations are secret until they are all opened by the buyer at the same time. Typically done with fixed bid buying.

Servable cost

Another term for edible-portion (EP) cost.

Servable weight

Another term for edible weight.

Servable yield

Another term for yield or edible yield.

Sole-source procurement

Another term for one-stop shopping

Specification

Another term for product specification. "Spec," for short

Spoilage

Deterioration of food by microbial and/or chemical action.

Spoilage bacteria

Microorganisms that do not necessarily cause food borne illness, but do cause product decay.

Standard cost

The expected cost. Sometimes referred to as the potential cost, the planned cost, the budgeted cost, or the theoretical cost. Typically used to help set menu prices, sleeping room prices, and so forth. Also used to compare to the actual cost incurred to determine if management is achieving its budgetary goals.

Standard recipe

A set of precise procedures used to produce a food or beverage menu item. Includes such things as a list of ingredients, the amount of each ingredient, preparation methods, and so forth.

Standard yield

The yield expected if everything works out according to plan. Results when an item is produced according to established standard production procedures outlined in the standard recipe. For example, if the standard purchase specifications are followed for a meat item and it is then properly trimmed, cooked, and portioned, the actual yield should closely approximate the standard yield.

Stock rotation

A system of using older products first. When a shipment arrives, the older stock is moved to the front of the shelf and the newer stock is placed behind it.

Supplier

Another term for vendor. Alternately, a very large primary source that manufactures and/or processes products that are then sold through intermediaries.

Supplier selection criteria

Characteristics a buyer considers when determining if potential vendors should be added to the approved-supplier list.

Supplier services

Services, such as free delivery, generous credit terms, etc., provided by vendors to buyers who purchase their products.

I

Tare weight

Weight of all material, such as cardboard, wrapping paper, and ice, used to pack and ship the product that is not part of the product itself. Subtracted from gross weight in order to compute net weight.

Theft

Premeditated burglary.

Theoretical food cost

What the total cost of food sold should be if everything goes according to plan. Sometimes referred to as the potential cost, the planned cost, the budgeted cost, or the standard cost. It is calculated by taking the number sold of each menu item, multiplying them by their respective recipe costs, and adding them all up. The actual cost of food sold, though, may be more or less than expected.

Theoretical inventory usage

Expected amount of inventory usage based on recorded sales. For instance, if 100 chicken breasts are recorded as used, there should be only 100 chicken breasts missing from inventory.

Theoretical inventory value

What the inventory value is supposed to be based on what you sold. For instance, if you had 100 chicken breasts in inventory worth \$1.00 apiece, and your computer records say that 50 were used for meals, then there should be \$50.00 worth of chicken breasts left (50 X \$1.00). An actual count, though, may reveal that you have more or less than \$50.00.

U

U. S. Department of Agriculture (USDA)

Among other responsibilities, it has inspection powers throughout the food distribution channel. Typically concentrates its inspection efforts on red meat, poultry, and egg production.

U. S. Department of Commerce (USDC)

Agency that, among other things, will, for a fee, provide to seafood processors continuous government inspection and federal grading of their fish products.

U.S. procurement grades

Quality grades for poultry. There are two grades: I and II. Unlike other quality grades, these grades are based on the poultry's edible yield; appearance of the birds is deemphasized.

Uniform Commercial Code (UCC)

Legislation outlining rules and regulations pertaining to various business transactions, such as leases, contracts, bills of lading, and so forth. Ensures consistency throughout the U.S.

United Fresh Fruit & Vegetable Association

Trade organization that helps promote the growth and success of produce companies and their partners in the channel of distribution. Represents the interests of growers, shippers, processors, brokers, wholesalers, and distributors of produce.

Universal Product Code (UPC)

Another term for bar code.

Usable cost

Another term for edible-portion (EP) cost.

Usable weight

Another term for edible weight.

Usable yield

Another term for yield.

V

Value-added food

Another term for convenience food.

Value-added product

Another term for convenience food. Alternately, it could also refer to a nonfood item that has many upgraded features, such as a kitchen ventilation system that is self-cleaning, as opposed to one that has to be cleaned by hand.

Value analysis

Involves examining a product in order to identify unnecessary costs that can be eliminated without sacrificing overall quality or performance

Variable Costs

Costs that change proportionately with the volume of business. For example, food costs, most labor costs, and the cost of some supplies used in food production and service/packaging areas.

Variance

Difference between what is expected and what actually happened. Typically used to refer to the difference between the standard cost and the actual cost.

Vendor

A company, usually local, that sells products and services to hospitality operations. It typically purchases the goods it sells from a primary source.

W

Warranty

Another term for guarantee

Waste

Unusable part of a product that occurs when it is processed. Most waste is unavoidable, but sometimes avoidable waste occurs due to mistakes and carelessness

Wholesaler

Another term for vendor.

Wholesome Poultry Products Act

Enhances the USDA's authority to regulate safety in the poultry industry. Requires state inspection of poultry production to be at least equal to the federal inspection program.

Working storeroom

Refers to a storage area that is kept open during the shift to allow employees to enter as needed in order to retrieve products.

X – No listings

Y

Yield

The net weight or volume of a food item after it has been processed and made ready for sale to the guest.

Yield Percentage

The ratio of servable weight to original weight. Equal to servable weight divided by the original weight, multiplied by 100.

Yield Test

Process used to determine how much of a purchased product can be served as a meal portion, how much of it is waste and has to be discarded, and how much of it is edible byproducts that can be used for some other purpose. The result of the test is usually expressed as a yield percentage

Z – No listings