

# Cost control in food and beverage companies



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Product oriented companies create a production budget which estimates the number of units that must be manufactured to meet the sales goals. The production budget also estimates the various costs involved with manufacturing those units, including labour and material.

Cash Flow/Cash budget:

The cash flow budget is a prediction of future cash receipts and expenditures for a particular time period. It usually covers a period in the short term future. The cash flow budget helps the business determine when income will be sufficient to cover expenses and when the company will need to seek outside financing.

Marketing budget:

The marketing budget is an estimate of the funds needed for promotion, advertising, and public relations in order to market the product or service.

Project budget:

The project budget is a prediction of the costs associated with a particular company project. These costs include labour, materials, and other related expenses. The project budget is often broken down into specific tasks, with task budgets assigned to each.

Revenue budget:

The Revenue Budget consists of revenue receipts of government and the expenditure met from these revenues. Tax revenues are made up of taxes and other duties that the government levies.

Expenditure budget:

A budget type which include of spending data items.

(Arthur & Sheffrin, 2003)

### **What is fixed cost?**

Fixed cost is defined as they do not vary proportionally with volume, but rarely are they completely fixed in real sense. They might fluctuate for other reasons. (Ojugo, 1999, p349 )

### **Variable cost**

Variable cost are those cost which increase in volume with the increase in production and decrease in volume with decrease in production as material cost, labour cost, power, repair, fuel etc. variable cost changes in direct proportion to the level of production. (Gupta et al. 2007)

What is cash flow statement?

Cash flow statement is the financial document that projects what your business plan means in terms money. It is same as a budget. It projected statement used for internal planning and estimates how much money will flow into and out of a business during a designated period of time, usually the coming tax year. (Jinnet & Pinson, 2006)

Advantages of cash flow statement

Cash flow statement act as an essential tools of short term financial analysis and planning. The main advantages are listed below

- Cash flow statement is very useful in preparing cash budget as cash is the very basis of business operations cash flow proves very useful in evaluating the cash position of the concern
- The projected cash flow statement helps finance manager in exploring the possibilities of repayment of long term debts which depends upon the availability of cash
- Cash flow statement can be used for making appraisal of various capital investment projects just to determine their liquidity and profitability.
- A comparison of the cash flow statement of pervious year and projected cash flow statement reveals deviations of actual from budgeted.
- For payment of liabilities which are likely to mature immediately, cash is more important than working capital. Cash flow statement is certainly a better tool of analysis than funds flow statement as far as short term analysis is concerned.
- Cash flow statement enables the management to explain why the company is facing difficulties in paying dividend while it has earned good profits.
- It helps in taking loans from banks and other financial institutions; the repayment capacity of the company can be understood by going through the cash flow statement.
- It supplements the analysis provided by funds flow statement as cash is a part of the working capital.

## **What is costing sheet?**

A cost sheet is a statement of cost incurred, or to be incurred, for producing a given volume of output or for rendering services, as the case may be.

Preparation of a cost sheet helps cost control and pricing decisions.

(Banerjee, 2006)

### Cost sheet for Hospitality

The standardised recipe cost sheet is a record of the ingredient cost required to produce an item sold by your operation. This standardised cost sheet can be created using any basic spreadsheet software. (Dopson, 2010)

### Advantages of cost sheet in hospitality

New employees can be better trained.

Helpful to maintain food laws.

Helpful to explain about any food item to the guest.

Helpful for accurate purchasing in order to gain profits out of business.

## **Purchasing, receiving, storing and issuing**

### Purchasing

Purchasing can be defined as a function concerned with the search, selection, purchase, receipt, storage and final use of a commodity in accordance with the catering policy of the establishment.

## **Types of purchasing**

### **Blanket Orders**

A Blanket Purchase Order is a type of purchase order designed to consolidate repetitive small purchases from a single supplier. It is essentially a form of open account which is limited in terms of the things which can be ordered, who can place the orders, the period for which it is to be open, and the total amount which can be ordered. This form of purchase order is useful for departments that have repetitive supply needs.

#### Standing Order

A Standing Purchase Order is purchasing method used in purchasing leases (e. g. auto, property and equipment), and equipment maintenance.

Generally speaking, equipment maintenance orders are set up for one year. Standing orders for leases should be created for the term of the lease.

#### Regular Purchase Order

The Purchase Order (Regular) is the basic purchasing system for making single instance purchases. It is a contract providing for the delivery by a specific date of listed goods or services at a predetermined price.

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## **Objectives of receiving, storing and issuing**

### Receiving

Quantity of an item delivered must equal the quantity ordered

Quality of an item delivered must be the same as the quality ordered

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Price on the invoice for each item delivered should be the same as the price quoted or listed when the order was placed

Storing

Prevent pilferage

Ensure accessibility when products are needed

Preserve quality

## **Issuing**

To ensure the timely release of items from inventory in the needed quantities

To prevent the misuse of items between release from inventory and delivery to the required department

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