

Food & Beverage - Recipes And Cost Accounting - By Joe Dunbar  
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Variance reports help cost accountants identify unprofitable production and service activities. If your dinner house served a 1 pound steak for \$30 and the meat costs \$6 and sides run another \$1.50, your margin is \$22.50. That's a profit margin of 75%.

Meat prices vary over time and the 1 pound steak can go as low as \$4.50 and as high as \$7.50. This rate variance has a huge impact on your profits. At \$4.50 per pound, marginal profit soars to \$24 or 80%. It gets tough to pay the rent for your high profile location when higher priced meat hits the loading dock. Your margin drops to \$21 or 70% at the \$7.50 per pound level.

In this example, our standard price per pound is \$6. If our example steak accounted for 40% of dinner business, how do we measure the impact of a price increase? Using this standard rate, we will run a cost of sales of 25% on this menu item. A \$1.50 rise in the cost per pound will run the cost of sales up to 30%. Since this 5% increase has a 40% impact value, this one ingredient - a 1 pound steak - is responsible for a 2% increase in the overall food cost.

Rate variances on key items have a major impact on your results. These variances may be difficult to control. Major steak chains use futures and options to reduce the risk. Minimum future requirements eliminate this option for most operators.

The industry has become focused on the usage variance since the degree of control is higher. If you sell 1,000 of these steaks a week and you closely track usage, you may experience a usage variance of 10%. Instead of using 1,000 pounds of steak, you needed 1,100 pounds. At the \$6 standard cost per pound, the usage variance costs \$600. Repeat this performance for 50 straight weeks and you'll be missing \$30,000 of profit. Your food cost percentage for the steak will soar by 2%. Looking at the entire food cost percentage, this unfavorable variance has a 0.8% impact.

Imagine a week with the same usage variance combined with the big rate variance. The impact of serving the \$7.50 per pound meat and an extra 100 steaks is \$2,250. The extra steaks cost \$750 and the extra \$1.50 per pound on the 1,000 standard is \$1,500.

Companies using variance reports wisely tend to eliminate usage problems faster. These same companies isolate key items and develop an effective purchasing strategy. Their competitors tend to run rambling meetings when food cost numbers are high. Inventory counts and extensions become their focus. In the long run, you won't solve a usage variance or a price variance through inventory value manipulation.

Thanks!!!

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