UNIT-2 COSTING

FOOD COSTING DEFINITION

Food costing can be defined as the cost of food to prepare a dish other than labour and overhead cost. In other words, it is the cost of ingredients of a recipe and does not include other costs, such as labour and overheads.

IMPORTANCE OF FOOD COSTING

Food costing is an essential tool in determining whether food costs targets are being met. It has a direct effect on the profitability of a restaurant. It helps in,

- Determining food cost incurred on each recipe. Thus, we can know earning per dish.
- Pricing a dish to achieve desired profit.
- Pricing a dish competitively against an industry benchmark.
- Cost control.
- Finding each menu item's profit margin and decide which ones to promote through push selling and promotions.

METHODS OF COSTING

- **First In, First Out**

Under the First In, First Out (FIFO) method, the oldest costs are assigned to inventory items used, regardless of whether the inventory items were actually purchased at that cost. When the number of inventory items purchased at the oldest cost are used, the next oldest cost is assigned to sales.

- **Last In, First Out**

The last in, first out method (LIFO) is the exact opposite of the FIFO method, assigning the most recent inventory costs to food items used from inventory.

- **Average Cost Method**

  The average cost method assigns inventory costs by calculating an average of all inventory purchase costs.

- **Specific Identification Method**
  The specific identification method perfectly matches inventory costs with units used, assigning the exact cost of each used inventory item when the specific dish is sold.

COSTING TECHNIQUES

Besides the method of costing management also uses costing techniques for managerial decisions .Following are the costing techniques:

1. Uniform Costing:

When same costing principles and/or practices are used by several undertakings for common control or comparison of costs it is called Uniform Costing Technique.

2. Marginal Costing:

It is determining marginal cost by differentiating between fixed and variable cost. It is used to ascertain the effect of changes in volume or type of output on profit.

3. Standard Costing:

Standard costing is a method where management pre-decides a standard cost for a product based on various parameters and then actual cost of the product is measured against it. The result is deviation technically called as variance. The variance/deviation from standard cost is then analysed for the reasons and corrective action is taken.

4. Historical Costing:

It is a technique of costing whereby costs are ascertained after they have been incurred. It aims at determining costs actually incurred on work done in the past. It is used to compare costs over different periods may yield good results.

5. Direct Costing:

It is the practice of charging all direct costs, variable and some fixed costs relating to operations, processes or products leaving all other costs to be written off against profits in which they arise.

6. Absorption Costing:

It is the practice of charging all costs, both variable and fixed to operations, processes or products. This differs from marginal costing where fixed costs are excluded.