Restaurant Cost of Goods Sold (COGS) Made Simple

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Cost of Goods Sold (COGS), also known as "cost of goods used" or simply "cost of usage," is the cost to your restaurant of the food and beverage products your restaurant sells. Since your goods pertain to your food and beverage inventory, COGS is determined with the following equation:

Beginning Inventory + Purchases − Ending Inventory = COGS

The **beginning inventory** means the amount of product that you have in your kitchen and storage rooms at the beginning of a period, usually the beginning of the week. For instance, if Monday is the start of your business week, and you have $5,000 worth of food and beverages on your shelves, $5,000 is your beginning inventory.

Purchases means the amount of inventory you purchase in food and beverage orders in that period of time. If an order of another $3,000 worth of inventory arrives on Friday, this would be considered the purchase.

Ending inventory, then, is the amount of food product you have left when the work week is over. Although you purchased product during the week, but you will have less inventory at the end of the week since you sold the food to your customers. For example, at the end of the work week, you have $4,000 worth of inventory remaining.

For example, if your restaurant has $5,000 worth of inventory on hand on Monday, and then purchases another $3,000 of food and beverage product, you have a total of $8,000 worth of inventory at the beginning of the week. The following Monday morning, you arrive at the restaurant and count $4,000 worth of inventory. This gives you a usage cost, or COGS, of $4,000. This means that you sold $4,000 worth of inventory. The equation looks like this:

$5,000 + $3,000 − $4,000 = $4,000

Adding Transfers to the Numbers

Beginning Inventory
+ Purchases
(− Transfers Out)
(+ Transfers In)
− Ending Inventory
= COGS

To be even more accurate, you can use the equation below:

"Transfers out" include any products that you send out of the restaurant to another area in your restaurant (such as from the bar to the kitchen) or to another restaurant altogether (often another restaurant in the same chain). Thus, "transfers in" are products that you transfer from another restaurant to your own. If you have no transfers in or out, simply leave these parts of the equation at zero value. It is important that any transfers are recorded because any items coming in or leaving your kitchen will affect your inventory count.

Beginning Inventory
$5,000
+ Purchases
+ $3,000

(− Transfers Out)
- $0
(+ Transfers In)
+ $85.00

− Ending Inventory
- $4,000

= COGS
= $4,085

Referring back to our example from above, imagine the following scenario: due to the unanticipated celebrity of your weekend special, chicken with exotic fig sauce, your restaurant is about to run out of exotic figs. Since you are a chain restaurant, you are able to phone another location and ask if you might be able to use some of their exotic figs. It happens that the other location has excess inventory of figs and can transfer one box of figs to your restaurant. You drive over the following morning to pick them up. One box of exotic figs costs $85.00. Keeping with the same numbers as above, your COGS equation would look like this:

OR

$5,000 + $3,000 + $85 − $4,000 = $4,085

The other restaurant operators would do the opposite; that is, remove $85.00 worth of inventory from their kitchen and subtract it from their beginning inventory numbers.

Food Cost Percentage

One of the most important numbers restaurant managers and owners look at is food cost percentage. In food service, this percentage represents the portion of sales spent on food. Since you reap sales from the inventory you use, you can determine the food cost percentage by money you spent on food sales (COGS) by your total food sales. The following equation may help clarify the process:

COGS ÷ Food Sales = Food Cost

Using the original example, one would determine the food cost by taking the COGS dollar amount and dividing it by the total sales for the week. So, let's say the sales for the week were $12,750. Your new equation would look like this:

$4,000 ÷ $12,750 = 0.3137

Food cost is 31.37%

In this case, about 31% of sales were spent on food and supplies. This is a fairly typical food cost for a restaurant.

Categorize the Cost

It is very helpful to break down your food cost into all the types of foods and beverages your purchase. For instance, a 31% food cost may be broken down into the following food categories:

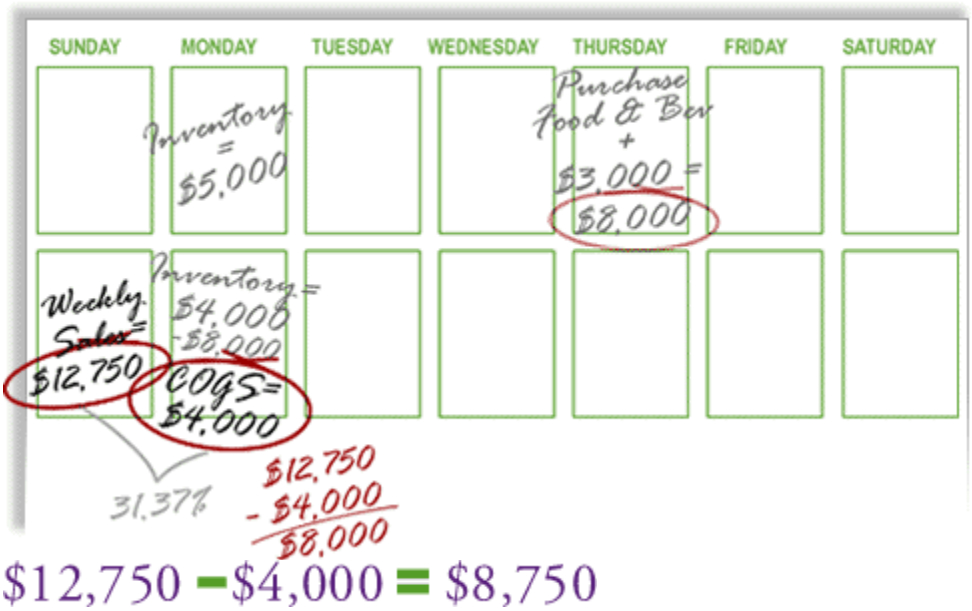
If food cost is high, categorizing like this will help determine where the money is being over-spent. Operators can keep a much better tab on food cost when they know exactly what percentage of the total cost they are spending on each category of food.

Determining Gross Profit

The COGS equations are essential for figuring the restaurant's gross profit:

Total Sales − COGS = Gross Profit

Gross profit is calculated by deducting money you spend on food and beverages from your total revenue. Using the ongoing example, you would subtract your COGS ($4,000), from your total sales ($12,750) in order to find your gross profit. The example looks like this:



Although gross profits may be included in your Profit and Loss (P&L) statement, the important number to look for is the net profit. Net profit, or actual profit, is the gross profit minus all operating costs such as labor, rent, repairs, and marketing costs, to name a few. This is your restaurant's true profit after all is said and done. » Learn More

Making profits is the restaurant's number one goal. In order to do this, the manager needs to simultaneously bring in revenue and control costs in the restaurant. This is one of the biggest challenges, but also one of the manager's most important responsibilities. Maintain a steady, profitable food cost by adhering to all recipes, assessing purchasing procedures and properly conducting inventory in your restaurant.

Information obtained from FSW (Food Service Warehouse) website www.foodservicewarehouse.com