

UNIT - 1

REVENUE CONTROL

Unit overview

Revenue control is a crucial part of the food & beverage service management. The success of a food & beverage department will also be determined by how well the revenue flow has been controlled. It outlines the fundamentals of cost which is vital for the management to plan and execute its operation. This unit will provide information about cost, elements and classification of cost, labor control, costing - pre and post profit and loss (P&L).

Learning Objectives

S. No.	Sub-Unit	Learning Topics	Key learning objectives/ At the end of the sub-unit, the learners will be able to:
1.1	Cost	<ul style="list-style-type: none">• Definition• Elements and Classification of cost	<ul style="list-style-type: none">• Define cost• Enumerate and explain the elements and classification of cost
1.2	Labor control	<ul style="list-style-type: none">• Labor cost• Staffing guidelines• Work scheduling• Analyzing labor cost	<ul style="list-style-type: none">• Define labor cost• Set standard staffing guidelines• Prepare work schedule• Analyze labor cost
1.3	Costing	<ul style="list-style-type: none">• Pre & Post P&L	<ul style="list-style-type: none">• Explain pre and post P&L• Differentiate pre and post P&L

1.1 COST (ELEMENTS AND CLASSIFICATION)

The amount of money used on the production and sale of a product is called cost, which comprises of labor and overhead cost and also other expenses as well.

1.1.1 Elements and classification of cost

The cost involved in the operation of a food & beverage unit is usually analysed under the headings of:

- **Material Costs** – These are the one that includes the price of the food and beverage that are consumed as well as the price of miscellaneous items. (Note: Employee

meals are subtracted from material cost and added to labor cost.). The food cost is then determined using the formula:

- Opening stock + (purchases – staff meals) - closing stock = material cost
- Labor costs – wages and salaries paid to all employees, plus an employer contribution to government taxes, bonuses, staff meals, pension fund, and fringe benefits given to employees which shall include staff transportation, staff uniforms, staff accommodation or HRA, medicals and insurance benefits provided to staff, etc.
- Overhead costs – All expenses other than labor and material costs are referred to as overhead costs. Example - rent, insurance, repairs and glassware, etc.

The sum total after adding the material cost, labor cost and overhead is called as total cost. This deducted from the sales of the establishment, gives the net profit. The relationship between sales, costs and net profit is shown in figure 1 below –

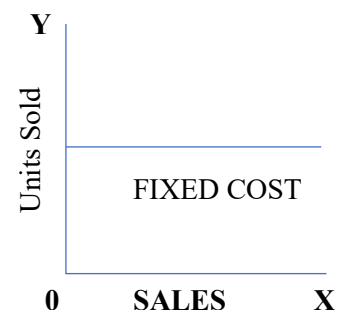
Total Cost ₹850 (85%)	Materials	₹350	35%	Sales ₹1000 (100%)
	Labor	₹270	27%	
	Overheads	₹230	23%	
	Net profit	₹160	15%	

Figure 1. Elements of cost

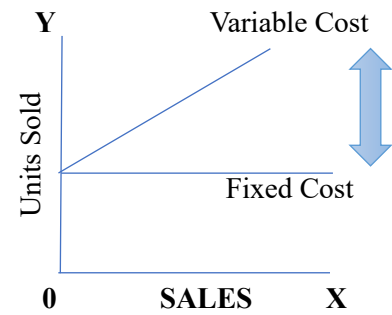
(Davis, Lockwood, & Stone, 1998)

Cost on the basis of their behaviour may be classified into (Changes in the volume of sales):

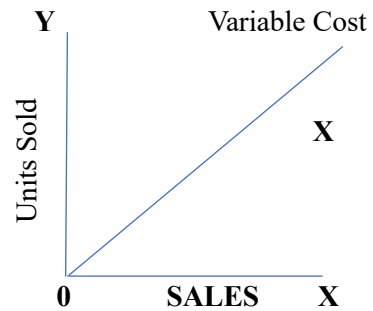
- Fixed cost: Fixed costs may be defined as costs which remain completely or substantially fixed irrespective of the volume of sales. Examples – Loan repayment, insurance, etc. An important feature of fixed costs is that they accrue with the passage of time, quite regardless of the changing pattern of sales. Hence, they are referred to as “period costs”.



- Semi fixed cost: the expenses that fluctuate in aggregation with sales volume, but not proportionately. Examples - gas, electricity, etc.



- Variable cost: Variable costs are those that change according to the establishment's output or sales. They increase with the increase in sales, e.g. food cost, beverages cost, etc.



*Total costs: Total costs is the sum of the fixed costs, semi-fixed costs and variable costs involved.

(Kotas & Davis, Food cost control, 1973)

Cost on the basis of traceability may be classified into the following – Direct and Indirect Cost.

- Direct cost: Expenses that are clearly and easily recognized and linked to a particular cost object. Direct costs are of the following types -
 - Direct Material Cost: Direct Material Cost is that cost which we find in finished product and easily measures its cost. For example, for making furniture, woods are direct material and its cost will be part of the direct cost.
 - Direct Labor Cost: Direct labor cost is used for producing the product. We pay wages for making product to laborers and this cost will be the direct labor cost.
 - Direct Expenses Cost: Except direct material and direct labor cost, all direct expenses will be direct expenses cost.

- Indirect cost: Expenses that are frequently allocated yet are difficult to linked to a particular cost object. Indirect costs are of the following types –
- Indirect material cost: Materials that are utilized for purposes that are not easily attributed to a particular physical component of a good or service.
 - Indirect labor cost: Cost of employing workers who are not directly involved in the production of commodities or the provision of services.
 - Indirect expenses: Expenses that cannot be directly, easily, and entirely assigned to a specific cost unit.

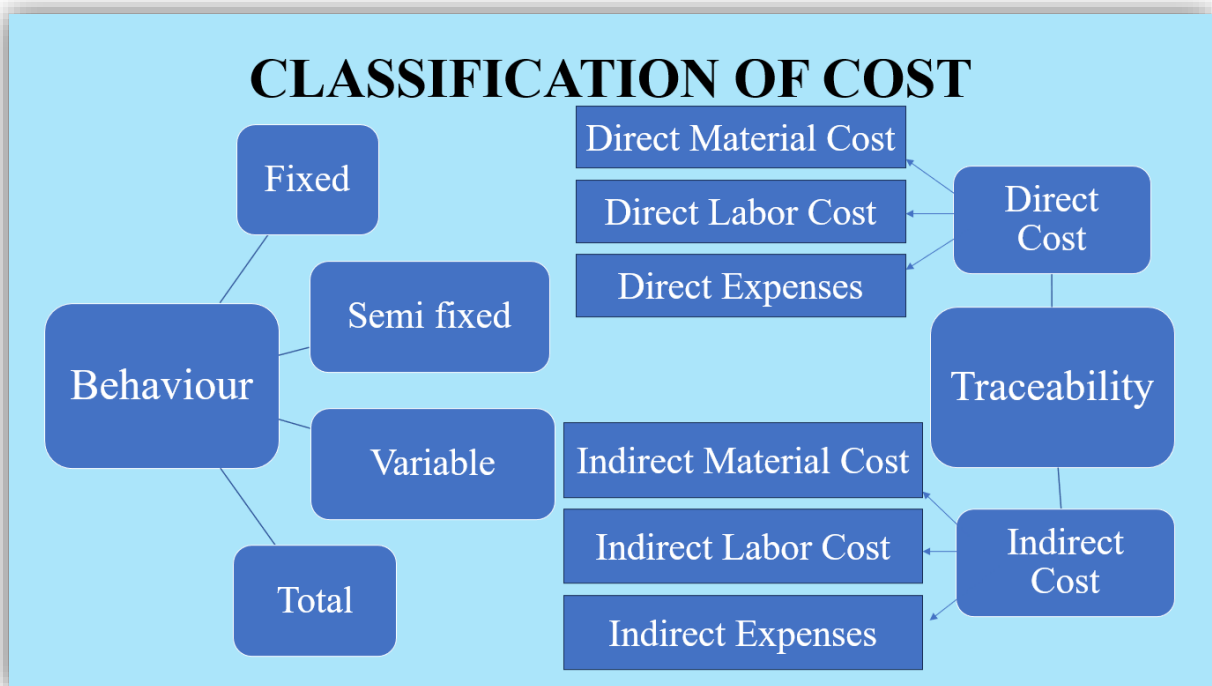


Fig. – Classification of cost

(Mathur, 2019)

Check-back Questions

1. Define cost
2. Enumerate the elements of cost.

1.2 LABOR COST

The total amount an establishment spent upon employing staffs and compensating its workforce is termed as labor cost. Success of the food and beverage industry requires a very well staff planning and managing labor costs. In the sector of food and beverage, labor cost represents a significant portion of the total operating expenses. Labor cost typically in food & beverage establishment are of two types – salary (permanent employees) and wages (for daily staffs hired and apprentices, e.g. ODC)

1.2.1 Establishing standard staffing guidelines

It is not easy to decide the accurate numbers of staff required for a food & beverage outlet. Too less a staff will lead to customer dissatisfaction, complaints and increase in staff workload and pressure while too many staff will reduce the profit margin of the establishment.

Requirement of staff may vary from one establishment to another, depending upon –

- I. Category of hotel/restaurant
- II. Labor cost according to city
- III. Productivity of staff
- IV. Skill/ Training level
- V. Size/covers of the restaurant
- VI. Styles of service used
- VII. Quality/type of equipment's
- VIII. Labor laws
- IX. Company policies, etc.

(Kotas & Jayawardena, Profitable food & beverage)

In food & beverage service outlet, where there is a constant flow of goods or services with little variation, creating standard staffing guidelines is frequently more feasible and measurable. Over the course of a year, it is common to adjust staffing guidelines to account for changing conditions, such as menu changes or restaurant expansion. A staffing guide will need to be reviewed and updated as a restaurant undergoes changes. When determining the type of employees needed for a food and beverage establishment, the following factors may be taken into consideration:

- I. Ensure not to hire children as per Child Labour Act.
- II. Strictly adhere to laws of the land. For example – minimum wage, contract, overtime, etc.
- III. (a) Work out on the numbers of staff requirement as per the restaurant covers. For example - 1 waiter/staff can handle about 12 - 16 covers.
(b) Determine the numbers of staff required based on the various shift and the numbers of outlet.
- IV. Set standard job specification and qualification. It will be difficult to find the right person with the desire job specification and qualification. It is advisable to ask like-minded people for referrals
- V. Maintain competitive pay, enforce strict shift schedules or working hours, balance the workforce, provide opportunities for advancement, and only hire individuals whose values align with those of the organization.
- VI. Consider both salary and training costs when analyzing the hiring cost. Examine these costs carefully in relation to the revenue, both present and projected.
- VII. Pay attention to hiring people who can contribute. A small and effective team is preferable to a large team of inexperienced members.
- VIII. Peak hours staffing (for banquets): During peak hours, or when a sizable number of patrons are anticipated and expected, extra staff may be temporarily hired, or current staff shifts may be modified or overtime may be required.
- IX. Training, Motivation, and Incentives: Create a strategy that includes top-notch instruction, motivational sessions, and incentives to boost productivity, raise the standard, and retain staff members.

(Kanwal, 2025)

Check-back Questions

1. Describe the importance of training, motivation and incentives?

1.2.2 Preparing work schedule

The process of assigning employees to specific workdays and hours is known as scheduling. Having enough employees to manage busy meal times without having too much help during slower intervals between meals is one scheduling objective. This can be accomplished with the aid of advance planning. To avoid having to work during the busiest meal times, employees should complete as much advance work as they can

during the slow times. Part-time assistance may be available in certain areas to support peak hours. If workers can be found to work the staggered hours, break shifts can be very helpful. Double transportation costs can be an issue, though, and many employees dislike the "off" time in between. It is important to make sure that workers aren't scheduled before they are needed.

(Keiser & Kallio, 1974)

Flexibility must be built into an effective scheduling program, particularly for job assignments. The number of employees scheduled to work at a given time largely determines the level of service. The schedule of each employee has a significant impact on their level of satisfaction and productivity. The schedule demands your attention for reducing labor costs. Further the schedule needs to be directly tied to a business forecast.

It is crucial to comprehend the task of business forecasting in order to comprehend the three conflicting pressures that owners, employees, and guests face. When estimating the number of employees to schedule, expected business levels are essential.

Extend the forecast, modifying, if necessary, to accommodate economic patterns, upcoming holidays, or special events.

Calculate the number of employees required and ascertain each person's availability after the forecast has been established. Regardless of whether volume or sales increase or decrease, many businesses set aside a specific number of hours per week for each employee. Although this approach is simple and ensures that payroll won't go over budget, it ignores shifts in demand. Completing a business forecast, on the other hand, gives you the chance to change the number of hours worked by each employee in accordance with current circumstances.

There are two common methods for modifying schedules: cross utilization of employees to reduce costs or adjust hours based on business volume.

In accordance with staffing standards, modify the number of hours worked by each employee based on the growth or decrease in business volume. Business volume, not just company sales, should determine scheduling. For instance, free packages may increase your hotel's occupancy rate, but restaurant sales may not always follow. However, your service standards might suffer if you don't plan for additional staff to handle any increase in guests.

(Ojugo, 2009)

1.2.2.A Duty Roster

Duty roster is a format that shows allocation of service duties to a team of staff members. The main objective of a duty rota is to ensure that all necessary tasks are covered and assigned, so that service may be carried out effectively. And it also ensures that the tasks are assigned in rotation. It can be made weekly or fortnightly. It is a format in which the staff members are distributed into different shifts of a day. It also enables to rotate day offs evenly. Any special requests for days off or shifts should be granted as far as possible, unless it effects the operations. There are a few points to be considered when making a duty roster.

- Maximum and most efficient staff must be assigned during the peak and rush hours.
- Whenever necessary, overlapping of shifts should be done.
- Off days must be evenly distributed throughout the week.
- Staff must be rotated through all shifts, being impartial to all.
- Days of rush should be kept in mind.

The rota must be duly signed by the restaurant manager, and it should be prepared and displayed at least two days before it becomes effective.

Example: Prepare a duty roaster for staffs of a 100 covers 24×7 coffee shop.

Ideally, there should be one waiter for every 20 covers, so in this case, we need 5 waiters at a time. One station contains approximately 45-50 covers, in our case, there would be two stations and 1 captain/supervisor required per station, so we need two captains/supervisors at a time.

As it is a coffee shop and runs 24*7 We need 5 waiters and 2 supervisors in each shift. Total waiter required = 18 waiters (3 extra to make up for the weekly offs). Total Captains/Supervisor required = 7 Captain/Supervisors (1 extra to make up for weekly offs)

- M- Morning Shift (7:00- 15:00)
- E- Evening Shift. (15:00-23:00)
- N- Night Shift (23:00-7:00)
- O- Off

Duty Roaster for Captains/Supervisors

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
C1	M	M	M	M	M	M	O
C2	M	M	M	M	M	O	M
C3	E	E	E	E	O	M	M
C4	E	E	E	O	N	N	N
C5	N	N	O	E	E	E	E
C6	N	O	N	N	N	N	N
C7	O	N	N	N	E	E	E

Duty Roaster for Waiters

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
W1	O	M	M	M	M	M	M
W2	M	O	M	M	M	M	M
W3	M	M	O	M	M	M	M
W4	M	M	M	O	M	M	M
W5	M	M	M	M	O	M	M
W6	M	M	M	M	M	O	M
W7	O	E	E	E	E	E	E
W8	E	O	E	E	E	E	E
W9	E	E	O	E	E	E	E
W10	E	E	E	O	E	E	E
W11	E	E	E	E	O	E	E
W12	E	E	E	E	E	O	E
W13	O	N	N	N	N	N	N
W14	N	O	N	N	N	N	N
W15	N	N	O	N	N	N	N
W16	N	N	N	O	N	N	N
W17	N	N	N	N	O	N	N
W18	N	N	N	N	N	O	N

Check-back Questions

1. What is the importance of employee flexibility to shift?
2. What factor determines whether a Manager can or cannot change shift timings or working hours of an employee?

1.2.3 Analyzing labor cost

All costs associated with employee compensation, such as wages, benefits, taxes, and other labor-related expenses, are systematically examined and evaluated as part of labor cost analysis.

Labor Cost Analysis is a crucial concept that aids companies in a variety of sectors in streamlining their workforce management procedures. It ensures effective labor resource allocation, adherence to legal requirements, and congruence with corporate objectives.

(workplace, 2025)

The two main functions of labor cost analysis are to identify areas of inadequacy and to assess whether labor costs are excessive or inadequate. Necessary corrective measures may then follow.

➤ *Labor cost as a percentage of sales*

The first labor cost analysis simply compared the amount paid for labor with sales volume. This led to the calculating of labor cost as a percentage of sales, a very simple and frequently used approach.

$$\text{Labor cost \% of sales} = \frac{\text{Total labor cost}}{\text{Total sales}} \times 100$$

Simple labor cost calculations expressed as a percentage of sales are very popular and useful, but their application is restricted. Daily differences usually equalize if the percentage is computed over a specific time frame, like a week or a month. Although the labor cost may have fluctuated between being too high and too low during this time, the overall percentage may have been acceptable. When percentage figures for previous weeks and months are available, the value of calculating labor cost as a percentage of sales is increased. These can be used to schedule employees, keep future labor costs under control, and correlate with sales projections.

Exercise -

Identify the labor cost from the following data given below and calculate the labor cost percentage –

Sl. No.	Cost Head	Total
1	Food raw material	₹40,000/-
2.	Beverage	₹20,000/-
3.	Salary	₹30,000/-
4.	Stationery	₹5,000/-
5.	Transport	₹10,000/-
6.	Electricity	₹5,000/-
7.	Fuel	₹5,000/-
8.	Rent	₹70,000/-
9.	Wages (casual staff)	₹10,000/-
10.	Repairs	₹5,000/-

*Answer – 20%

Check-back Questions

1. What is the formula to calculate Labor cost percentage of sales?
2. Why is labor cost analysis a crucial concept?

➤ *Work production standards*

The establishment of work production standards and detailed job analyses comprises the next logical development in the attempt to analyze labor costs in food service operations.

The quantity of work that an employee with a particular type of job is expected to complete is known as the work production standard. The average amount of work that a person on that job actually does can then be compared to these standards. Work production standards can be used to more accurately identify the area where labor costs are abnormal; in certain situations, they will also identify the specific jobs or individuals responsible for the disparities.

Following that, work production standards are objectives set for every kind of job. They frequently set an upper limit that, if exceeded, could indicate that the worker is overworked and that the level of service is lowered. They may also establish a lower limit suggesting the minimal fair day's output.

When there are variable type employees or when the number of employees fluctuates with the volume of sales, work production standards are most helpful. They are less useful for evaluating the contributions of semi-variable or fixed-type employees because, despite possible changes in sales volume, it may not be possible to increase or decrease their numbers.

Example is given in the following chart -

Sl. No.	Outlets	Nos. of Covers	Nos. of Waiter
1.	Speciality Restaurant	12-16	1
2.	Coffee Shop	20 - 24	1
3.	Banquet	30-35	1
4.	Bar	20	1
5.	1 Captain for 5 waiters or 1 Captain per station/section		
6.	1 Manager for 75 to 100 covers		

➤ ***Determining work production standards***

The creation of work production standards is the first issue, and it's also one of the most challenging. Using standards created by other food operations is typically impractical due to the variety and uniqueness of food service operations. Variations in work production standards among different operations will be influenced by the menu, production techniques, layout, equipment, service, pricing, and the type of customer. The prior productivity records of the better employees should be used to set standards. It can be assumed that the appropriate production standards fall somewhere in the range of 135 to 270 covers per day on average for a satisfactory dishwasher over a given time period (let's say a month).

(Keiser & Kallio, 1974)

Check-back Questions

- 1. Why is it difficult for a food & beverage service outlet to decide upon the accurate numbers of employee it should hire?**
- 2. What are the uses of work production standards?**

1.3 COSTING, PRE & POST P&L

Pre P&L cost referred to all such costs that an F&B outlet incurs before operation start and will include marketing cost, consultancy cost, legal & licensing cost associated with an event or operation. Benefits of Pre P&L cost shall be -

- Deciding pricing
- Allocating resources
- Set profit expectations
- Standardization
- Basis for budgeting and controls post operations

Post P&L cost are broadly such cost incurred during or post operation/event. This shall include raw material consumed, labor cost incurred, overhead cost incurred, taxes applied, etc.

Benefits of Post P&L cost –

- Variance from budget
- Areas of overspending
- Food wastage and shrinkages
- Underestimated labor or overhead cost
- Streamlining of operations
- forecasting future events cost

Check-back Questions

Q1. Define pre and post P&L?

Q. Give 1 example each of pre and post P&L.

1.4 LET US SUM UP

Cost is defined as the total amount which an establishment spent upon the production and sale of a product, which includes labor, overhead and material costs. Cost may also be classified on the basis of their behaviour into fixed, semi-fixed, variable and total cost. And, on the basis of traceability cost may also be classified into Direct Cost and Indirect Cost.

Labor cost is the cost which an establishment spent upon employing staffs and compensating its workforce. Employees are the backbone of any establishment, hence, planning and management of staff is crucial for the success of any food & beverage establishment. Neither too less nor excess of staff should be kept on payroll in order to

avoid staff dissatisfaction and inflation in expenditures. Also, each employee is expected to complete the quantum of job as per the type of job. It is therefore imperative for the manager to be able to allocate duties to employees as per requirement efficiently.

Finally, it was discussed that pre-P&L are the cost incurred by an establishment before the commencement of its operation which helps in standardization, deciding pricing, allocating resources, etc., while post P&L are the cost incurred during or post operation/event which helps in noticing areas of overspending, food wastages, etc.

REVIEW QUESTIONS

MULTIPLE CHOICE QUESTIONS:

1. Cost includes:
 - a). Material cost
 - b). Labor cost
 - c). Overhead cost
 - d). All of the above
2. Cost that includes the price of the food and beverage that are consumed as well as the price of miscellaneous items is called as:
 - a). Labor cost
 - b). Material cost
 - c). Overhead cost
 - d). None of the above
3. Cost that changes according to the establishment's output or sales is called as:
 - a). Fixed cost
 - b). Semi-fixed cost
 - c). Variable cost
 - d). Total cost
4. When percentage figures for previous weeks and months are available, the value of calculating labor cost as a percentage of sales is:
 - a). Decreased
 - b). Increased
 - d). Constant
 - e). Varies

FILL IN THE BLANKS

1. Appropriate production standards fall somewhere in the range of _____ to _____ covers per day on average for a satisfactory dishwasher.
2. _____, _____ and _____ boost productivity, raise the standard, and retain staff members.
3. Work production standards are most helpful when the number of employees fluctuates with the _____

4. Two common methods for modifying schedules are _____ and /or _____

TRUE OR FALSE

1. Wages is an example of labor cost.
2. Meals provided to staffs are subtracted from food cost and added to labor cost.
3. Using standards created by other food operations is typically impractical due to the variety and uniqueness of food service operations
4. Taxes paid is an example of pre P&L.

SHORT ANSWER TYPE QUESTIONS

1. List down 3 benefits each of Pre and Post P&L.
2. What are two common methods for modifying work schedules?
3. Give 2 functions of labor cost.
4. Differentiate between Pre and Post P&L.

LONG ANSWER TYPE QUESTIONS

1. Give the classification of cost and explain in details.
2. What are the factors to be considered when determining the number of employees needed for a food and beverage establishment?
3. What do you understand by the term work production standards? Explain in details.
4. What are the benefits of Pre and Post P&L.

ACTIVITY

1. Students may be divided into various group comprising of 5 members in each group. Each group may be given the task to prepare a weekly duty rota for a Fine Dining Restaurant with 80 covers. The staff requirements may be ascertained by the groups.

OPEN BOOK QUESTIONS

1. List down the factors/criteria you would consider as a manager when recruiting an employee for your outlet.

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