Week Report

048

Restaurant No. 219

Hereford Steak Houses

HTW Hochschule für Technik und Wirtschaft Berlin

MPMD- Financial Reporting and Management Information Systems

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25.07.2017

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Introduction

The controlling of food cost is one of tough decisions to make when thinking about a conglomerate food chain business. It is of a paramount importance to think about food margin as it plays an essential role in determining the restaurant's sales growth. The proper maintenance of internal financial documents furnishes the Senior Managers decisive power to tackle the financial risks. The area manager is vexed because of a reduced amount of food margin. He is answerable to the top management regarding the same. To make matters worse he even thought of firing restaurant mangers which is senseless thing to do. It being one of largest food chain restaurants, maintaining food cost is the primary element in sustaining earnings growth.

The spending of food cost more than the planned cost might lead to very poor food margin. This could be one of the reason why businesses could not sustain their earnings growth. The close monitoring of restaurant mangers on the spending of ingredient cost which might be a tough nut to crack for the kitchen staff. "The final key to understanding sales changes from period to period is in understanding the difference in the sales mix of what was sold." (Vazzo). Sales mix variance gives a overall picture about the different items sold. This makes one realize the sales impact on different dishes and helps in classifying levels of dishes based on price. The customer can get a clear depiction of different price ranges to choose. The quality of the ingredient used in the dishes must be one of the significant thing which shoud be considered for branding and marketing.

As far as the inventory cost are concerned, the purchase branch should take care of the flexible budget. Spending too much on inventory might sometime lead to wastage or has a greater impact on food margin. Losing a demand for a particular product affects the Sales-volume variance to a greater extent. To nullify these variations and improve the demand for all the dishes, effort has to be put on devicing a proper pricing mechanism for the products without any inclination towards competency.

The effictiveness can be measured using efficiency variance. It is favourable if the actual amount of input is higher than the budgeted. It is challenging always to achieve a better efficiency variance since a restaurant manger has no control over the actual amount of input being spent to produce the dishes. Through this case let us witness the variance analysis and how actually the area manager could improve the food margin through these measures.

For internal management

Strategic Highlights

Variances in volume of sales could be caused because budgeted sales expectations are not accurately or as said in the case “unrealistic sales prices” higher than offered by competency.

Financial Highlights

The difference between the actual contribution margin and its planned result for the week 48 was unfavorable with a variance of £132.75, although restaurant 219 got 0,6% more gross margin than budgeted 47,5%, which means that they retained more money on each pound of sales, at the end this increment does not represent a significant difference. Breaking down CM value, we can say that money saved in costs was surpassed by amount of money not received as revenue.

Operating Highlights

Unfavorable flexible-budget, could be explained because of inefficiencies from centralized purchasing department or restaurant cookers, also of incurring in higher input quantities than budgeted to produce a better product that planned, or both. Changes in expected demand is probably because of low quality ingredients, cooking preparation did not adapt to customer tastes.

Looking Ahead

- Activity Based Management: Pricing, Product Mix and Cost Reduction decisions.
- Benchmarking: variances can be extended to include comparisons with competitors.

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Variances Overview

The following diagram shows the difference between actual and budgeted Contribution Margin for the Restaurant No. 219, during the week 48. We were off in total £ 132.75 (unfavorable).

Level / CM	Actual Contribution Margin **£ 6310.50**			Static Budget Contribution Margin **£ 6443.25**
Level 1	Static Budget Variances **£ 132.75 U**			
Level 2	Flexible Budget Variance **£ 179.90 U**		Sales volume variance **£ 47.15 F**	
Level 3	Price Variance **£ 68.055 F**	Efficiency Variance **£ 247.955 U**	Sales Mix Variance **£ 382.40 U**	Sales Quantity Variance **£ 429.55 F**
Performance Rating			Below expected	
Most Critical Area			Sales Mix	

*Same values applied for Operating income because Analysis does not include Fixed Costs

Based on general analysis, it is recommendable to make decisions for balancing the Sales Mix, because even if the Sales Volume Variance ended with a positive value, when taking a closer look, there is an important unfavorable result from the Sales Mix, that allow us classified it as the current most critical area. In the next section, each level of variances will be developed in detail.

Flexible-Budget-Based Variance Analysis

"Low cost dishes increase almost 25% of expected demand."

Flexible budget variance

The contribution margin shows an unfavorable flexible-budget variance of £179.9 which arises because actual variable cost per unit differ from planned cost, it went up in Steak and chips adding £0.60 to cost per unit sold.

Sales-Volume Variances

To gain more insight about the previous favorable static-budget variance (£132.75 U) it is subdivided into two variances: a flexible-budget variance of £ 179.9 U and a sales-volume variance of £ 47.15 F. The difference between the 1600 actual volume sold and the 1500 dishes expected to be sold contributed in £ 47.15 more to the contribution margin.

Reasons for the favorable sales volume variance are: almost 25% more demand of low cost dishes like Fish and chips and Fish Fingers. Nevertheless, it is important to consider that contribution margin did not increase too much because although demand of low cost dishes enlarged, at the same time, the product with higher contribution margin (Steak and chips) lost around 40% of its demand.

"Steak and Chips -the product with highest CM- lost around 40% of its demand."

Sales-Mix Variances

Subdividing the sales-volume variance of £ 47.15 F into the sales mix variance and the sales quantity variance, result in differences of £ 382.4 U and £ 429.55 F respectively. The unfavorable £ 382.4 is the difference between the budgeted contribution margin for the actual and budgeted sales mix, which is obtained because of high impact of 15% sales mix reduction in the product "Steak and chips" that accounts for higher CM per unit, it counteracted favorable sales mix increments of the low-cost dishes. (See Appendix B. Flexible-Budget and Sales-Volume Variance Analysis).

Sales-Quantity Variances

It was found that the contribution margin based on the actual units sold of all products exceed the contribution margin in the static budget (based on budgeted units of all products to be sold at budgeted mix), resulting in a £ 429.55 F sales-quantity variance. Higher sales come probably because of better taste or affordable prices of low-cost dishes, which make them more popular among customers.

Efficiency Variances

Usage variances or efficiency variance for all ingredients for restaurant no.219 can observed in Appendix C. Flexible-Budget and Price Variance Analysis, the difference between actual input quantity used - in this case for each ingredient- and the budgeted input quantity allowed for the actual output (standard cost considering 1% wastage percentage) in terms of budgeted price. This variance accounts for £247.055 unfavorable, which means that 1% wastage standard was surpassed in all ingredients, except for steaks and fries. In case of steaks, that is understandable because of reduction in its sales-mix, and in the case of fries could be related to not having a clear portion measurement method, because characteristics of ingredient itself, cookers were serving smaller portions that allowed.

Price Variances

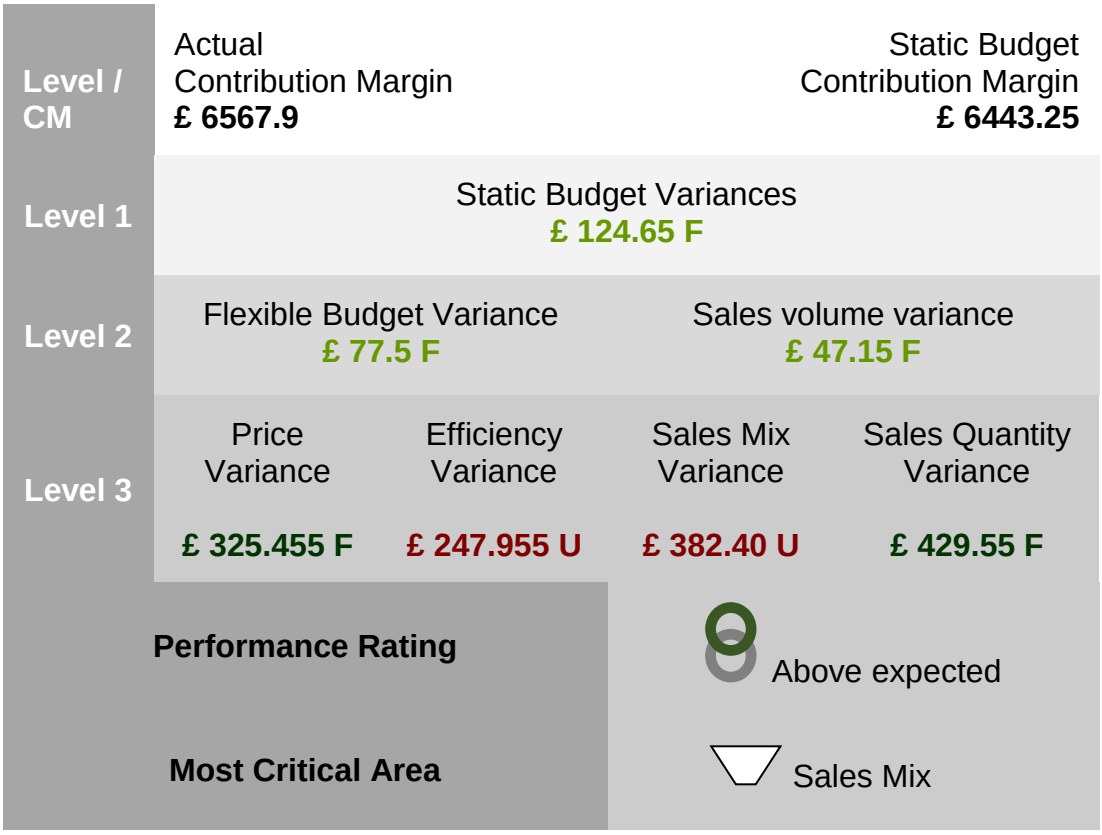
The difference between the actual input quantity used in week 48 and the budgeted input quantity, was favorable with a value of £ 68.055. It is obtained because calculation of standard cost which include standard wastage percentage: 1%. Nevertheless, prices of materials did not change during the week.

Flexible-Budget-Based Variance Analysis

Analyzing Price & Efficiency Variances with reduction of some input costs

"Recently the central purchasing department managed to secure a 5% reduction on the input cost for steaks and 15% reduction in the input cost of portions of fries compared with those analyzed in the previous table" (Ahrens). The Analysis of the reduction, could be found in the Appendix D. Flexible-Budget and Price Variance Analysis (with reduction in fries and steak).

The direct materials price variance was favorable £325,455 because the actual price paid including discounts in steaks and fries is less than budgeted, resulting in an increase in the contribution margin of £ 124.65 F, nevertheless, in this case efficiency remains unfavorable £268,071, then overall flexible budged variance is reduced from £179,9 U to £77,5 F. General changes can be observed in the following diagram:



Conclusions

It is evident that kitchen staff used approximately 48% more food that budgeted which cannot be justified just by an overall increment of 100 dishes sold. Managers should reconsider methods to measure portions of each ingredient, make it clear among kitchen staff, recalculate standard cost but more important supervise closer to % wastage since this is one of the biggest issues according to unfavorable variances, and probably establish penalties when surpassing input quantities per dish.

Efforts of centralized purchasing department to take advantage and obtain discounts, like reduction analyzed previously could close the gap between expected and actual contribution margin, nevertheless each variance should be analyzed to find causes, even if favorable results are obtained. Due to increase of demand in low cost dishes, could be considered to re-evaluate margins to increase revenues and as Restaurant managers suggested “meet the demand of their local clientele” more accurately.

Bibliography

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Vazzo, J. (s.f.). *Using Volume, Price and Mix Analysis to Better Senior Partner.*

Horngren, Datar, Rajan: Cost Accounting. Pearson.

Appendix A. Flexible-Budget-Based Variance Analysis

Level 2 Analysis	Actual Results (1)	Flexible Budget Variances (2) = (1) - (3)	Flexible Budget (3)	Sales Volume Variances (4) = (3) – (5)	Static Budget (5)
Units sold	**1600**	**0**	**1600**	**100 F**	**1500**
Soup	240	0	240	90 F	150
Steak and chips	480	0	480	195 U	675
Fish and chips	480	0	480	105 F	375
Fish fingers	400	0	400	100 F	300
Revenues	**13116**	**0**	**13116**	**447.75 U**	**13563.75**
Soup	5.50	0	5.50	0	5.50
Steak and chips	11.95	0	11.95	0	11.95
Fish and chips	8.50	0	8.50	0	8.50
Fish fingers	4.95	0	4.95	0	4.95
Variable cost	**6805.5**	**179.9 U**	**6625.6**	**494.9 F**	**7120.5**
Soup	2.67	0.05 U	2.6260	0	2.6260
Steak and chips	7.47	0.60 U	6.8680	0	6.868
Fish and chips	4.32	0.13 F	4.4440	0	4.444
Fish fingers	1.27	0.15 F	1.4140	0	1.414
Contribution margin	6310.5	**179.9 U**	6490.4	**47.15 F**	6443.25
Operating income	6310.5	**179.9 U**	6490.4	**47.15 F**	6443.25

*F= favourable effect on operating income; U = unfavourable effect on operating income

Appendix B. Flexible-Budget and Sales-Volume Variance Analysis

Level 3 Analysis	Flexible Budget (3)	Sales Mix Variance (6) = (3) – (7)	X (7)	Sales Quantity Variance (8) = (7)- (5)	Static Budget (5)
Units sold	**1600**		**1600**	**100**	**1500**
Soup	240	0	240	90 F	150
Steak and chips	480	0	480	195 U	675
Fish and chips	480	0	480	105 F	375
Fish fingers	400	0	400	100 F	300
Revenues	**13116**	**0**	**13116**	**447.75**	**13563.75**
Soup	5.50	0	5.50	0	5.50
Steak and chips	11.95	0	11.95	0	11.95
Fish and chips	8.50	0	8.50	0	8.50
Fish fingers	4.95	0	4.95	0	4.95
Variable cost	**6625.6**	**0**	**6625.6 F**	**7120.5**	**7120.5**
Sales Mix	**100%**	**0**	**100%**	**0**	**100%**
Soup	**15%**	**5% F**	**10%**	0	10%
Steak and chips	**30%**	**15% U**	**45%**	0	45%
Fish and chips	**30%**	**5% F**	**25%**	0	25%
Fish fingers	**25%**	**5% F**	**20%**	0	20%
Contribution margin	6490.4	**382.4 U**	6872.8	**429.55 F**	6443.25
Soup	689.76	**229.92 F**	459.84	**28.74 F**	431.1
Steak and chips	2439.36	**1219.68 U**	3659.04	**228.69 F**	3430.35
Fish and chips	1946.88	**324.48 F**	1622.4	**101.4 F**	1521
Fish fingers	1414.4	**282.88 F**	1131.52	**70.72 F**	1060.8
Operating income	6490.4	**382.4 U**	6872.8	**429.55 F**	6443.25

*F= favourable effect on operating income; U = unfavourable effect on operating income
*Variable cost per product were omitted because there is no variance between flexible and static budget in these values.

Appendix C. Flexible-Budget and Price Variance Analysis

Level 3 Analysis	Actual results (1)	Price Variance (9) = (1) – (10)	X (10)	Efficiency variance (11) = (10) - (3)	Flexible Budget (3)
Units sold	1600	0	1600	0	1500
Revenues	13116	0	13116	0	13563.75
Price input					
1 pat butter	0.05	0.0005 F	0.0505	0	0.0505
1 standard garnish	0.2	0.002 F	0.202	0	0.202
1 sachet ketchup	0.05	0.0005 F	0.0505	0	0.0505
1 bread roll	0.15	0.0015 F	0.1515	0	0.1515
1 portion of fries	0.6	0.006 F	0.606	0	0.606
1 carton vegetable soup	2.4	0.024 F	2.424	0	2.424
9 oz rump steak	6	0.06 F	6.06	0	6.06
6 oz frozen cod fillet	3.6	0.036 F	3.636	0	3.636
1 fish finger	0.25	0.0025 F	0.2525	0	0.2525
Quantity input					
1 pat butter	290	0	290	50 U	240
1 standard garnish	1200	0	1200	240 U	960
1 sachet ketchup	400	0	400	0	400
1 bread roll	340	0	340	100 U	240
1 portion of fries	1060	0	1060	300 F	1360
1 carton vegetable soup	240	0	240	0	240
9 oz rump steak	540	0	540	60 U	480
6 oz frozen cod fillet	480	0	480	0	480
1 fish finger	1200	0	1200	0	1200
Cost	**6805.5**	**68.055 F**	6873.555	**247.955 U**	6625.6
Contribution margin	6310.5	**68.055 F**	6242.445	**247.955 U**	6490.4
Operating income	6310.5	**68.055 F**	6242.445	**247.955 U**	6490.4

Appendix C. Flexible-Budget and Price Variance Analysis

(with reduction in fries and steak)

Level 3 Analysis	Actual results (1)	Price Variance (9) = (1) – (10)	X (10)	Efficiency variance (11) = (10) - (3)	Flexible Budget (3)
Units sold	**1600**		**1600**		**1500**
Revenues	**13116**		**13116**		**13563.75**
Price input					
1 pat butter	0.05	0.0005 F	0.0505	0	0.0505
1 standard garnish	0.2	0.002 F	0.2020	0	0.2020
1 sachet ketchup	0.05	0.0005 F	0.0505	0	0.0505
1 bread roll	0.15	0.0015 F	0.1515	0	0.1515
1 portion of fries	0.51	0.0096 F	0.6060	0	0.6060
1 carton vegetable soup	2.4	0.024 F	2.4240	0	2.4240
9 oz rump steak	5.7	0.036 F	6.0600	0	6.0600
6 oz frozen cod fillet	3.6	0.036 F	3.6360	0	3.6360
1 fish finger	0.25	0.0025 F	0.2525	0	0.2525
Quantity input					
1 pat butter	290	0	290	50 U	240
1 standard garnish	1200	0	1200	240 U	960
1 sachet ketchup	400	0	400	0	400
1 bread roll	340	0	340	100 U	240
1 portion of fries	1060	0	1060	300 F	1360
1 carton vegetable soup	240	0	240	0	240
9 oz rump steak	540	0	540	60 U	480
6 oz frozen cod fillet	480	0	480	0	480
1 fish finger	1200	0	1200	0	1200
Cost	6548.1	325.455 F	6873.555	**247.955 U**	6625.6
Contribution margin	6567.9	**325.455 F**	6242.445	**247.955 U**	6490.4
Operating income	6567.9	**325.455 F**	6242.445	**247.955 U**	6490.4

*F= favourable effect on operating income; U = unfavourable effect on operating income