CookDocs

# BASIC FINANCIAL FORMULAS

## Food Cost %

*The formula used to calculate the **food cost percentage** of a dish on your menu.*

**Formula:** Ingredient Cost / Sales Price = Food Cost x100

**Example:** A pasta dish costs $3.00 to make and you sell it for $10.00

**3.00 / 10 = .30 x 100 = 30%**

## Cost of Goods Sold % (CoGS) – Usage Method

*The formula used to calculate the **cost of goods sold percentage** of a category on your menu for a specific period of time, while taking into account the product remaining on your shelves at the start or end of the same period.*

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**Formula:** Beginning Food Inventory + Food Purchases – Ending Food Inventory = Usage Food Usage / Food Sales = Food Cost (x100)

**Example:** You purchased $30,000 in food last month and had $100,000 in food sales, but you started the month with $4,000 in product on the shelves and ended the month with $5,000 in product on the shelves.

**4,000 + 30,000 – 5,000 = 29,000**
**29,000 / 100,000 = .29 x 100 = 29%**

## Labor Cost %

*The formula used to calculate **labor cost percentage** over a period of time.*

**Formula:** Labor Total / Sales Total = Labor cost x100

**Example:** You spent $20,000 on labor last month and did a total of $100,000 in sales last month.

**20,000 / 100,000 = .20 x 100 = 20% Labor Cost**

Make sure to include all costs associated with labor, that includes taxes, benefits, and insurance, otherwise you are just cheating yourself to believe that you have a lower labor cost than you actually do.

## Prime Cost %

*An essential metric for your restaurant's financial health. While food and labor costs can fluctuate significantly based on various factors unique to each establishment, combining them provides a benchmark that's easier to evaluate. Aim to keep your prime cost below **60%** to ensure efficient operations and profitability.*

**Basic Formula:** (Total Purchases + Total Labor) / Total Sales = Prime Cost (x100)

**Usage Method:** Beginning Total Inventory + Total Purchases – Ending Total Inventory = Total Usage (Total Usage + Total Labor) / Total Sales = Prime Cost x 100

Restaurants producing their items from scratch often achieve lower food costs compared to those relying on convenience items. However, this approach requires higher labor expenses. By combining both costs, the industry can establish a benchmark.