

*The production and service of meals to older individuals is, in reality, a food service business and must be operated as such. A food service business is a complex organization, and food service operations can be difficult for someone not trained or experienced in food services to understand.*

### **WHY DOES THIS MATTER?**

For cost effective program operations, programs providing meals to older individuals need to know the total cost of the meals they are serving to their participants. Accurate meal cost calculations are not only necessary for efficient use of available resources, but they are also needed if programs wish to sell meals to other organizations or programs.

### **WHAT DO YOU NEED TO KNOW?**

Calculating accurate costs for both program food costs and total meal costs is important for successful long-term program operations in today's competitive environment. As the population throughout the United States continues to age, there will be increasing demand for both congregate and home delivered meal services as more older individuals will want to stay in their homes. As the demand for their services is increasing, many programs are finding that the government funding that they have relied upon is increasingly limited, relative to the number of participants they need to serve. At the same time, the increased demand for services is drawing for-profit firms into this market. Thus, programs are now operating in a competitive market and are needing to "bid" for the right to provide meal services to the older individuals in their communities. To be competitive in this market, programs must have accurate costs and must understand the relationship of the costs they incur to the meal services they are providing, or hope to provide, to program participants. A solid understanding of basic accounting terminology is necessary when calculating food and meal costs.

Inaccuracies in meal cost accounting can potentially lead to:

- ✓ Inaccurate budget planning
- ✓ Shortfalls in projected revenue resources
- ✓ Inability to meet the community need for services
- ✓ Poor operating controls needed to identify inefficiencies and product waste that contribute to excessive meal costs
- ✓ Lower quality meals and lower client satisfaction
- ✓ Inability to compete with other non-profit or for profit on nutrition service contracts

### **MEAL COST CALCULATIONS DEFINED**

#### **Food Cost**

Food cost is the cost of only the food used to prepare meals served to a program's participants.

- ✓ A program preparing its own meals would include ONLY food, and not any other costs, such as the cost of packaging or cleaning supplies, when calculating food cost.
- ✓ A program purchasing prepared meals would use the per meal cost paid to the meal provider as their "food cost" when calculating their total meal cost.

$$\text{FOOD COST} = \text{Beginning Inventory} + \text{Program Purchases} - \text{Ending Inventory} +/\text{- Adjustments Inventory}$$

Adjustments would include anything that is either added to the food supply for participant meals or which reduced the supply because the food was used for other purposes (i.e., employee or volunteer meals and contributions to the program). Careful inventory management and control of food production operations are important ways for programs to manage their food costs.

## Total Meal Cost

Total meal cost includes ALL costs associated with the production and service of meals to program clients. Both direct costs (e.g. food, packaging) and indirect costs (e.g. administration costs, insurance) must be included in these calculations. All direct costs, such as raw food or the cost of purchased meals, are included in the total meal cost calculations.

Costs to be considered in Total Meal Cost Calculations include but are not limited to:

- ✓ Raw Food
- ✓ Purchased meal cost
- ✓ Paid food service labor
- ✓ Utilities
- ✓ Kitchen supplies
- ✓ Kitchen equipment
- ✓ Meal packaging supplies
- ✓ Building costs
- ✓ Management costs
- ✓ Operating costs
- ✓ Professional fees
- ✓ Transportation
- ✓ Training – staff development
- ✓ Donations
- ✓ Volunteer labor value

## REIMBURSEMENT RATES

### CONTRACTED OR NEGOTIATED

A program's total meal cost is NOT the same value as the program's reimbursement (contracted, negotiated) rate. While the total meal cost should be an accurate reflection of what it actually costs a program to produce and serve a meal to a participant, the reimbursement (contracted, negotiated) rate is the amount that a program negotiates with a funding source (usually a government agency, but may also be a private funding source). This rate is not likely to be the same amount as the program's total cost per meal and will permit a full cost recovery.

## CONCLUSIONS

In today's rapidly changing environment, accurate calculations of total cost per meal is essential to a program's long-term "survival" and its ability to effectively meet the needs of an ever-growing number of participants. Accurate costs are needed for negotiating contracts with government and non-governmental funding organizations, as well as the determination of return on investment and cost-effectiveness. If accurate costs are not known, programs cannot determine ways in which cost savings might be realized and/or cannot evaluate their impact on programmatic or client outcomes realized.

## FOR MORE INFORMATION

Dittmer, P.R. & Keefe, J. D. Principles of Food, Beverage, and Labor Cost Controls. 9th Ed., Hoboken, NJ: John Wiley & Sons, Inc., 2009.

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Laube, J. & Shuster B.K. Uniform System of Accounts for Restaurants, 8th Ed. Washington, D.C.: National Restaurant Association, 2012.

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<http://www.thescanfoundation.org/tools-community-based-organizations>

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