



The WA School Canteen Association Inc. (WASCA) supports school canteen/food services to operate healthy viable and professional food services.

Many calls to WASCA ask “What are we doing wrong, we are running at a loss?” Seldom is one single factor the reason. It is more likely to be a combination of things. This fact sheet addresses the correct procedure for calculating gross profit percentage or selling price. (Source, Management Sense Food Sense, chapter 7).

## STEP 1

- ➔ Firstly you need to determine what your school’s gross profit requirements are. The “gross profit requirement” is how many cents in each dollar you need to cover all your overheads, expressed as a percentage.

### What are your overheads?

- ➔ Wages, inflation, equipment depreciation, new equipment, cleaning materials, long service leave, insurance, super
- ➔ Net profit amount that you would like to aim for,
- ➔ IT DOES NOT INCLUDE COST OF FOOD.

## EXAMPLE

Based on the previous year, total sales were \$72,000 and all overheads were 32,000.

Unless something very drastic has changed (e.g. you have 30% more/less students, or wages have gone up by \$5 an hour) you should be able to use last year’s figures as a guide.

However, adding in a component for inflation of 5% is always a good idea, as it mostly removes the need to constantly raise prices during the year. (Although you should always be vigilant to supplier price rises - make sure you check ALL your invoices!).

Now you are in a position to calculate a target for expected sales.

- ➔ Net profit required by school \$2000 (this is a hypothetical example)
- +
- ➔ Expected overheads \$32,000
- = Required gross profit \$34,000
  
- ➔ Expected sales \$72,000 + 5% for inflation ( $72000 \times 5\%$ )  
= \$3600
  
- ➔  $\$72,000 + \$3,600 = \text{New expected sales} = \$75,600$

## STEP 2

Now you are in a position to work out your gross profit percentage - calculate what percentage of \$75600, \$34000 is.

- ➔ **Type this into the calculator:**  
 $34000 \div 75600 \times 100 (= 44.97\%)-$  round up to 45%
- ➔ This means you will need 45 cents in every dollar the canteen makes in sales to pay for all your overheads
- ➔ Which means you have 55 cents in each dollar left over to pay for your cost of goods/ ingredients and make a profit. In other words, you need to add 55% to the cost of goods.

### NOTE:

Hypothetically, let's assume you have a gross profit percentage of 45%. Once you have correctly costed out all your food items and you have applied the 45% figure to them to arrive at your selling price, you may decide the prices are too high or low. You can then change the percentage accordingly.

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## STEP 3

Now you can calculate the selling price to meet your targets.

Divide the cost of ingredients (wholesale price) by the selling price, which is expressed as a percentage of the unknown selling price.

### EXAMPLE

- ➔ The ingredients for a salad sandwich are 75 cents
- ➔ **Type this exactly into the calculator**  
 $0.75 \div 55 \times 100$
- ➔ = \$1.36 (round up to \$1.40)

**Whenever you know the COST of something, and you know the GROSS PROFIT %, you can determine the price something should be.**

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## STEP 4

Confirm that you have calculated the selling price correctly to cover the gross profit target.

Formula:  $\text{SELL PRICE} - \text{COST PRICE} \div \text{SELL PRICE}$

### EXAMPLE

- ➔ Based on STEP 3, a salad sandwich costs \$0.75 and the sell price is \$1.40
- ➔ Type this into your calculator  
 $1.40 - 0.75 \div 1.40 \times 100 = 46.4\%$   
So you know that this price is covering the overhead percentage of 45%.

## STEP 5

You need to weigh out ALL your menu items to obtain the correct costings. This is a tedious job but once it is done, correctly, the first time, you need only adjust the cost of ingredients as supplier prices rise.

*A recipe costing template can be downloaded from the WASCA website.*

To work out your pricing for your food items, with things like a frozen hot meal you already have the wholesale price, so that is easy enough. But for working out things like a ham and salad sandwich, where you have to work out the weight and cost of the tomato, lettuce, carrot etc. individually, you can use this formula -

$$\frac{\text{Price per kilo}}{1000\text{g}} \times \text{weight of item} = \text{price per serve}$$

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## STEP 6

The Mark-up Schedule and Trading Statement should be used in conjunction to work out -

- Your expected net profit on goods sold
- Your actual net profit.

The mark-up schedule tells you exactly how many items you sold, at what prices, and what your totals sales figures were for all of your food items.

The Trading Statement shows you what the ACTUAL figures were. This is the evidence against which the mark up schedule can be compared. The trading statement is made up of your opening and closing stocktake figures, all your income and expenditure.

You will be able to see from the mark up schedule exactly how many items were sold, and therefore how much money you SHOULD have taken.

But the Term Trading Statement is the real clue. Ideally, it should match exactly what the final sales total is on the mark-up schedule. But if it is out more than a few %, then you know that somewhere, somehow, money is being taken, or the incorrect change is being handed back, or money is being used straight from the till for petty cash, OR, your prices are too low.