BSc. H&HA – V Semester Accommodation Management (BHM 314)

**MODULE MATERIALS – BUDGETING & CONTROLLING EXPENDITURE**

**Chapter Outline:**

1. Budget, P&L Statement – An Overview
2. Types of Budget
3. The Budget Process
4. Planning a Capital Budget
5. Planning an Operating Budget
6. Controlling Expenditure
7. **Budget, P&L Statement – An Overview**

A **Budget** is an *estimate* or *forecast* of revenue and expenditure for a period of time; usually for a fiscal year.

**A Profit and Loss Statement** or **Income Statement** or Business Statements is a *report* that reflect the *Actual* Revenue and Expenditures, alongside the budgeted revenue and expenditures.

The Actual Revenue and Expenditures are computed every month by the Accounting Division.

Such reports enable the executive housekeeper to monitor how well the housekeeping department is doing in relation to the budgeted goals and constraints.

Need for a Budget:

* It forms a frame work which outlines financial goals.
* It is a guide for planning expenses and achieving revenues.
* It is used as a control tool and helps in directing activities accordingly.

In hotels, budgets are prepared every fiscal year.

1. **Types of Budgets in Housekeeping:**
2. **Capital Budget:** Capital budget plans for expenditure of assets and improvements with a useful life for more than one year.

*Example*: FF&E (Furniture, furnishing & equipment). Furniture like cots, chairs, sofas; Furnishing like mattresses, carpets, bedspreads, quilts; Equipment like vacuum cleaners, scrubbing machines, shampooing machines, room attendant’s trolleys etc. In some hotels, especially newly opened hotels, linen and uniforms are usually put under Capital expenditure, since a large amount of money is spent on initial purchasing.

1. **Operating Budget** : Operating budget plans for direct expenses associated with the routine operation of the hotel during certain period; generally for materials with a life expectancy of less than one year. Operating Expenses in Housekeeping include
* SWB – Salary, Wages, Benefits
* Linen
* Uniforms
* Laundry
* Guest Supplies
* Cleaning Supplies
* Flowers
* Pest Control
* Miscellaneous expenditures like transport, telephone, stationary etc.

Over and above the Housekeeping expenditures, Front Office expenses are also

included in the Operating Expenses.

1. **The Budget Process**

The budgeting process begins far in advance; much before the beginning of the fiscal year. The process of planning an annual budget generally takes several months. It involves gathering information, formulating initial plans, reconsidering goals and objectives, and making final adjustments. The budget planning process requires a closely co-ordinated effort of all management personnel. Once, the projected occupancies are provided by the Sales and Marketing Manager, each departmental head works out the budget and presents it to the top management for review by early February. The General Manager and Finance Controller analyze and adjust the departmen­tal budget plans, keeping in mind the organization’s financial goals.. Often, budgets are returned to department heads with comments and recommended adjustments. Such feedback primarily reflects the concern of upper management to maximize profits and control expenses while maintaining appropriate levels of service.

If upper management tones down the operating budget submitted by the executive housekeeper, she/ he must analyze how quality of services can get affected and keep the top management briefed accordingly.

After feedbacks, discussions and evaluations, the budget is finalized. The finalized budget then becomes the controlling tool from April 1st onwards. Each department is then committed to operating under the limits expressed in the budget and achieving its contribution to the overall plan.

1. **Planning A Capital Budget**

The Executive Housekeeper budgets for Capital expenses based on the requirements felt during the year. Capital expenditure is planned once a year and presented in February/ March for approval for the next financial year.

Items are prioritized as per needs, i.e., Essential, Necessary and Desirable. This is discussed with the GM and FM. All Essential items and some Necessary items are usually sanctioned. Items not sanctioned under Necessary items become Essential Items the next year. And all Desirable items normally become Necessary items.

*Sample:*

CAPITAL EXPENDITURE – HOUSEKEEPING 2016-17

Essential

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| S.No | Item  | Specification | Nos.Required | Cost per Unit  | Amount  |
| 1. | Vacuum Cleaner | Baby Bora 324 TaskI | 5 | 20, 000 | 1, 00,000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

Capital expenditures do not feature in the P & L Statement. Their Depreciation value (8-15%) features in the Final P &L Statement

1. **Planning An Operating Budget**

Operating budgets are typically prepared for each fiscal year with monthly break-ups to monitor seasonal variations. This helps the manager to monitor actual expenses closely and have a better control.

The two main factors to depend on in Rooms Division budget planning is:

1. Forecasted room sales i.e, Occupancy levels
2. Cost per Occupied Room

Room Sales are forecasted by the Front Office Manager or Sales & Marketing Manager for the fiscal year with monthly break-ups. This information must reach the departmental heads much in advance, so that they can start their budget preparations.

Based on historical data, the Executive Housekeeper, must work out Cost per Occupied Room.

Exercise:

Complete the blanks:

Historical Data of Operating Expenses.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| YEAR | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| Room Sales (Nos.) | 50,000 | 49,000 | 52,000 | 53,000 | 30,000 |
| Operating Cost (Rs.) | 180,00000 | 191,10000 | 208,00000 | 217,30000 |  |
| Cost/Occ # | 360 | 390 | 400 |  | 430 |

Operating costs can be **variable, semi variable** and **fixed**.

Variable operating costs fluctuate according to occupancy. For example, laundry, guest supplies costs increase or decrease in proportion to occupancy levels.

Semi –variable costs fluctuate partly according to occupancy levels. For example, employees in Housekeeping cannot be hired or fired according to daily occupancy fluctuations. A minimum number of employees will be on rolls whatever the occupancy may be. However, the Housekeeper can workout annual leaves and weekly offs based on occupancies to use manpower efficiently. Other semi- variable costs are cleaning supplies (deep cleaning is usually done during slack times), flowers, linen, uniforms etc.

Fixed costs – e.g., Pest Control contract expenses are deducted on a monthly basis and do not depend on occupancy.

Because of these varying fluctuating costs, the Executive Housekeeper uses the Cost per Occupied Room only as a guiding tool. Every Operating expenditure has to be looked at individually for better control.

1. Salary, Wages and Benefits (SWB) is the highest expenditure in Housekeeping. To calculate SWB, add the following expenses of all the employees in the department.
	* Salary, Wages.
	* Provident fund, Gratuity, Leave Travel Allowance (LTA), Employee Meals, Perks.
	* Retirement benefits like pension, VR scheme.
	* Staff parties, funeral expenses etc.

In order to contribute to the bottom line ( i.e., profits) , the Executive Housekeeper must use his/ her ingenuity to keep it under control since it is a semi – variable cost.

* Work out the number of employees required at various positions.
* If occupancy levels fluctuate dramatically, employ only skeleton staff, if labour is easily available on daily wages.
* Plan duty rotas effectively, so that annual leaves and weekly offs can be plotted on days of low occupancy.
1. Linen

All linen consumed (discarded and lost) come under linen expenses. To budget for Linen Expenses, the Executive Housekeeper must calculate cost per occupied room for linen based on previous historical data. The higher the occupancy, the more frequently linen is washed and hence linen expenses are mostly a variable cost.

However, one cannot rely only on historical data,

* If a large amount of linen has been purchased at one time, the Executive Housekeeper can expect a much larger amount of linen to be discarded after a period of 3 or 4 years when all the linen will complete their lifespan at the same time. This is especially true of new properties where all the required linen are bought at one time.
* If there has been uncontrolled pilferage previously.
* If there has been misuse and hence high amount of discards previously.
1. Uniforms

Uniform cost includes material cost, stitching costs, accessories and footwear. Each department is debited for its employees uniform expenses. In Rooms Division, the uniform expenditure of all employees at the Front Office and Housekeeping are included. To calculate uniform costs;

* Calculate the number of uniformed employees in all positions of all departments, including male, female ratio.
* List all types of uniforms
* Decide how many pars and how often uniforms are to be replenished.
* Consider turnover of employees.
* Provide for daily wages, trainees etc.
* Include cost of repairing uniforms.
* The total cost which is incurred at one time, is divided equally between 12 months.

1. Laundry

Laundry expenses are mostly variable costs. However uniform laundry need not be variable. To calculate Laundry expenses, the Executive Housekeeper relies on Cost per Occupied Room. Laundry expenses include:

* Chemical cost
* Water cost
* Energy Cost
* Labour cost.

Total number of pieces or the total weight of linen washed in a month ÷ Total Cost incurred in a month = Cost/ piece/wt.

Exercise:

Complete the laundry budget forecast.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| YEAR | 2013-14 | 2014-15 | 2015-16 | PROJECTED FOR 2016-17 |
| Room Sales | 52,000 | 53,000 | 30,000 | 42,000 |
| Room Linen ( Nos) | 3,00,507 | 3,20,000 | 1,68,000 |  |
| Pieces/ Occupied #  | 5.8 | 6 | 5.6 |  |
| Total Cost | 12,62130 | 14,40,000 | 8,40,000 |  |
| Cost/ piece | 4.20 | 4.50 | 5.00 |  |

1. Guest Supplies

All non recycled guest supplies are variable costs and hence Cost per Occupied Room must be calculated. The Executive Housekeeper must decide on the Consumption factor of each item based on historical data..

For example, if the Consumption factor of soaps is decided as 0.8 ; and the budgeted room sales is 4000 for a month, the cost of a soap is Rs. 5/-, the budgeted expenses for soap is CF × room count × rate = 0.8 × 4000 × 2 = 3200 soaps @ Rs.5/- = Rs. 16000.

 Exercise:

GUEST SUPPLIES BUDGETED EXPENDITURE – SEPTEMBER 2016

Budgeted Room Count : 4000

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| S.N. | Item | CF | Quantity | Rate | Amount |
| 1 | Soaps – 20 gms | .8 | 3200 | 5 | 16000 |
| 2 | Matchbox | .3 |  | 4 |  |
| 3 | Laundry slip | 1.2 |  | .50 |  |
| 4 |  |  |  |  |  |

1. Cleaning Supplies

It is obvious that higher the occupancy, higher the amount of cleaning items used. However, Housekeeping schedules deep cleaning during slack periods and hence Cost per Occupied Room is not reliable. To calculate Cleaning Expenditure, the Executive Housekeeper must

* Refer historical data.
* Add provisions for any new products.
1. Flowers

Flower costs are usually variable in nature. However, arrangements provided in the public areas do not depend on occupancies. The housekeeper must refer to historical data.

1. **Controlling Expenses**

Using the Operating Budget as a Control Tool

An operating budget is a valuable control tool to monitor the course of operations during a specified period. Each month, the hotel's accounting department produces statements reporting **actual costs** in each of the expense categories. These **Profit and Loss statements** or **Income Statements** are nearly identical to that of the operating budget; actual costs are listed alongside budgeted costs. Such reports enable the executive housekeeper to monitor how well the housekeeping department is doing in relation to the budgeted goals and constraints.

Controlling expenses in the housekeeping department means comparing actual costs with budgeted amounts and assessing the variances.

|  |  |  |
| --- | --- | --- |
|  | Favourable Variance | Unfavourable Variance (-) |
| Revenue | Actual exceeds Budget | Budget exceeds Actual |
| Expenses | Budget exceeds Actual | Actual exceeds Budget |

When comparing actual and budgeted expenses, the executive housekeeper should first determine whether the fore­casted occupancy levels were actually achieved.

 If the number of occupied rooms is lower than anticipated, a corresponding de­crease in the department's actual expenses should be expected.

Similarly, if occupancy levels are higher than forecasted, the executive housekeeper can expect a corresponding increase in housekeeping expenses. In either case, the decrease or increase in expenses should be proportional to the variation in occupancy levels. The executive housekeeper's ability to control house­keeping expenses will be evaluated in terms of his/her ability to maintain the cost per occupied room expected for each category.

Small deviations between actual and budgeted expenses can be expected and are not a cause for alarm. Serious deviations from the budgeted plan require investigation and explanation. If the actual costs far exceed the budgeted amounts while the predicted occupancy level remains the same, the executive housekeeper needs to find the source of the deviation. In addition to discovering why the department is "behind budget," the executive housekeeper needs to formulate a plan to correct the deviation and get the department back "on budget." For example, re-examination of staff scheduling procedures or closer supervision of standard practices and procedures may be necessary. Other steps might include evaluating the efficiency and cost of products being used in the housekeeping department, and exploring the alternatives.

Even if the executive housekeeper finds that the department is far ahead of budget," it is not necessarily a cause for celebration. It may indicate a deterioration of service levels that were built into the original budget plan. Any serious deviation from the plan is a cause for concern and requires explanation. Identifying and investigating such deviations on a timely basis is one of the most valuable functions an executive housekeeper can perform in terms of the operating budget.

Controlling Expenses – the four methods:

Controlling housekeeping expenses means ensuring that actual expenses are consistent with the expected expenses forecast by the operating budget. There are basically four methods the executive housekeeper can use to control housekeeping expenses:

* Accurate Record keeping
* Effective Scheduling
* Training and Supervision
* Efficient Purchasing.

Maintaining accurate records is the first step in control­ling expenses and identifying problems in relation to managing inventories, inventory costs, variances, losses etc. Example: Stock Registers displays the Book Stock of inventories. A Stock Taking Report displays the Actual Physical Stock, Discards and Discrepancies. These records give an actual picture of the Inventories and help take corrective action.

Effective scheduling: Staffing guidelines and well planned out Duty Rosters help in effective use of manpower as per the occupancy levels. This keeps SWB in check while maintaining the desired levels of service.

Training and Supervision: Training employees help in proper use of equipment and cleaning agents, improve efficiency, thus improving overall productivity and performance, which in turn improves business. Effective supervision helps in keeping things in check and control costs, while optimizing service levels.

Efficient Purchasing ensures that only the required quantity of items are purchased, while maintaining quality standards for the best value for money.

Assignment:

Caselet:

As the Housekeeper of Hotel Blue Bells, one of your major responsibility is to ensure working within budgets. Every month, the GM chairs a Business Postmortem Meeting, as he calls it, where the Department heads are required to evaluate their financial status.

As the EHK, you are expected to ensure that the Operating Expenditures within the purview of the HK Department are within the budget. In case there are deviations, you need to be prepared with cause for the deviation. Moreover, the strategies on how corrective action will be taken need to be presented during the meeting.

Study the attached P&L Statement of the Rooms Division.

1. Which is the highest Operating Cost?
2. What is the Budgeted Percentage of SWB (HK)? How is it calculated?
3. Is the Actual Linen Expenditure within the budget? Justify.
4. Why is Actual Pest Control Expenditure the same as Budgeted, even though the Rooms sold are lesser?
5. How would you justify your actual total expenditure?
6. Compare the Budgeted Cost per Room with the Actual Cost per Room.

|  |
| --- |
| Hotel Blue Bells, Panchgani |
| Departmental (Rooms) P & L Statement September 2016 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| S.N. | Item | Budgeted | Actual | Variance |
|   |   | Fig | % | Fig | % | Fig | % |
| 1 | Rooms Sold | 2400 |   | 2000 |   | 400 |   |
| **2** | **Room Revenue** | **12000000** | **100** | **8400000** | **100** | **-3600000** |  |
| 3 | ARR | 5000 |   | 4200 |   | -800 |   |
|   | SWB |   |   |   |   |   |   |
| 4a | Front Office | 360000 | 3 | 340000 | 4.05 | 20000 | -1 |
| 4b | Housekeeping \* | 1080000 | 9 | 940000 | 11.2 | 140000 | -2.2 |
| 4 | SWB Total | 1440000 | 12 | 1280000 | 15.2 | 160000 | -3.2 |
|   | OTHER EXPENSES |   |   |   |   |   |   |
| 5 | Linen \* | 240000 | 2 | 190000 | 2.26 | 50000 | -0.3 |
| 6 | Laundry \* | 120000 | 1 | 80000 | 0.95 | 40000 | 0.05 |
| 7 | Uniforms \* | 360000 | 3 | 340000 | 4.05 | 20000 | -1 |
| 8 | Stationary | 60000 | 0.5 | 40000 | 0.48 | 20000 | 0.02 |
| 9 | Guest Supplies \* | 144000 | 1.2 | 123000 | 1.46 | 21000 | -0.3 |
| 10 | Cleaning Supplies \* | 73000 | 0.61 | 69000 | 0.82 | 4000 | -0.2 |
| 11 | Transport | 108000 | 0.9 | 78000 | 0.93 | 30000 | -0 |
| 12 | Flowers \* | 72000 | 0.6 | 64000 | 0.76 | 8000 | -0.2 |
| 13 | Telephone | 48000 | 0.4 | 32000 | 0.38 | 16000 | 0.02 |
| 14 | Pest Control \* | 25000 | 0.21 | 25000 | 0.3 | 0 | -0.1 |
| 15 | Miscellaneous | 22000 | 0.18 | 12000 | 0.14 | 10000 | 0.04 |
|   |   |   |   |   |   |   |   |
| 16 |  Operating Expenses | 1272000 | 10.6 | 1053000 | 12.5 | 219000 | -1.9 |
|   |   |   |   |   |   |   |   |
| **17** | **Total Operating Expenses** | **2712000** | 22.6 | **2333000** | 27.8 | **379000** | -5.2 |
|   |   |   |   |   |   |   |   |
| **18** | **Gross Profit** | **9288000** | **77.4** | **6067000** | **72.2** | **-3979000** | **-5.2** |

\* The Housekeeping Manager is responsible for these expenses.