

MODULE 2: BUDGETING

Budgets are “financial and for quantitative statements, prepared and approved to a defined period of time, for the policy to be pursued during that period for the purpose of attaining a given objective”.

OR

It is a comprehensive and coordination statement expressed in monetary or quantitative terms, reflecting the policies of a company and determining its operation in respect of a particular time period.

Budget is an estimate of revenue and expenditure for the forthcoming fiscal year. Budget is a plan to be followed of how much money will be spent over a period of time in relation to the money available and for the purpose of attaining determined goals. A budget is a long term plan. Budgeting is the formulation of plans for a given future period.

IMPORTANCE OF BUDGET:

1. Compels management to think about the future, which is probably the most important feature of a budgetary planning and control system. Forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and (ideally) each manager, to anticipate and give the organisation purpose and direction.
2. Promotes coordination and communication.
3. Clearly defines areas of responsibility. Requires managers of budget centres to be made responsible for the achievement of budget targets for the operations under their personal control.
4. Provides a basis for performance appraisal (variance analysis). A budget is basically a yardstick against which actual performance is measured and assessed. Control is provided by comparisons of

actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors.

5. Enables remedial action to be taken as variances emerge.
6. Motivates employees by participating in the setting of budgets.
7. Improves the allocation of scarce resources.
8. Economises management time by using the management by exception principle.
9. It brings about efficiency and improvement in the working of the organisation.
10. It is a way of communicating the plans to various units of the organisation. By establishing the divisional, departmental, sectional budgets, exact responsibilities are assigned. It thus minimizes the possibilities of buck-passing if the budget figures are not met.
11. It is a way of motivating managers to achieve the goals set for the units.
12. It serves as a benchmark for controlling on-going operations.
13. It helps in developing a team spirit where participation in budgeting is encouraged.
14. It helps in reducing wastage's and losses by revealing them in time for corrective action.
15. It serves as a basis for evaluating the performance of managers.
16. It serves as a means of educating the managers.

17. Eliminates uncertainty.
18. Result of various brain so better planning.
19. Optimum use of capital resources.
20. Easy availability of working capital.
21. Effective coordination
22. Responsibility can be pin pointed 23. Co-ordination among various department
24. Used as a control tool by management.

Procedure of Preparing Departmental Budget

The rooms division's budget-planning process depends on two main factors:

1. Forecasted room sales or occupancy levels
2. Cost per occupied room

1. Forecasted Room Sales

The room sales for the year are forecasted by the front office manager. The monthly break-ups are also outlined in this forecast. This information is given to the heads of departments far in advance for the preparation of departmental budgets.

2. Cost per Occupied Room

The executive housekeeper works out the cost per occupied room based on historical data.

A. Operating costs

These can be variable, semi-variable, or fixed.

- **Variable operating expenses:** These fluctuate with the occupancy level. These expenses include guest supplies, laundry, and such costs that increase or decrease in proportion to occupancy levels.

- **Semi-variable operating expenses:** These fluctuate partly according to the occupancy levels. For instance, employees in the housekeeping department cannot be hired or fired according to daily occupancy fluctuations. A minimum number of employees have to be on the rolls, no matter how low the occupancy may be. However, the executive housekeeper should work out annual leave and weekly off day schedules based on occupancy forecasts to schedule manpower efficiently. Other semi-variable costs are cleaning supplies, flowers, linen, and uniforms.
- **Fixed operating expenses:** When pest control is on contract, this expense is deducted on a monthly basis and does not depend on occupancy.

Since the housekeeping expenses fluctuate based on the occupancy, the executive housekeeper uses only cost per occupied room as the guiding factor in planning the budget. Every operating expense needs to be planned individually for better control. Once the executive housekeeper knows the predicted occupancy levels, the expected expenses for salaries and wages, cleaning supplies, guest supplies, laundry, and other areas can be determined..

B. Operating supplies- The major types of operating supplies include guest supplies and cleaning supplies.

- **Guest supplies:** These are non-recycled inventory items and variable in cost. This expense category will depend on the 'cost per occupied room'. The executive housekeeper finds out the consumption factor of each item based on historical data. For instance, if the consumption factor arrived on for soap is 0.8; the budgeted room sales is 4000 for a month; and the cost of a bar of soap with the hotel's monogram is Rs 2.00, the budgeted expense for soap will be Consumption Factor x Budgeted room sales x Cost of one unit

$$=0.8 \times 4000 \times 2 =6400$$

In case two soap bars are to be placed in one guestroom, the amount obtained is multiplied by 2. In all cases, the amount needs to be further multiplied with the par number to be maintained for each guest supply.

- **Cleaning supplies:** These are non-recycled inventory items that are semi-variable in cost. The higher the occupancy, the higher the volume of cleaning supplies used. It also needs to be remembered that the executive housekeeper schedules deep cleaning tasks during slack periods. Thus 'cost per occupied room' cannot be relied upon here. To calculate the expense for cleaning supplies, the executive housekeeper must refer to historical data and

add provisions for any new products. The cleaning supplies expenses may be calculated using the

- **Linen-** For budgeting linen expenses, the executive housekeeper needs to calculate the cost of linen per occupied room based on historical data. The higher the occupancy, the more the frequency of washing the linen. Historical data gives some guidelines in calculating linen expenses. materials, stitching costs,
- **Uniforms-** This expense includes the cost of uniform accessories, and footwear. Each department is debited for its employees' uniform expenses. The executive housekeeper thus needs to budget for uniforms for all housekeeping employees. To calculate uniform costs:
 - i. Calculate the number of uniformed employees in all positions of all departments, keeping in mind the male-female ratio.
 - ii. List all types of uniforms.
 - iii. Decide how many pairs are required and how often uniforms are to be exchanged:
 - iv. Consider turnover of employees.
 - v. Provide for daily-wage employees, trainees, and so on.
 - vi. Include the costs of repairing uniforms..
 - vii. The total cost incurred at one time is divided equally between 12 months.
- **Laundry-** The laundry expenses are primarily variable, except for uniforms. The executive housekeeper can refer to the historical data for calculation of laundry expenses as shown in the sample in Exhibit 15.6. To calculate the laundry expenses, the cost per occupied room needs to be known. Laundry expenses include:
 - i. Chemical costs
 - ii. Water cost
 - iii. Energy cost
 - iv. Labour cost