Budgeting (front- office)

Defination : A budget is the monetary or and quantitative expansion of business plans and policies to be pursued in the future period of time. The term budgeting is used for preparing budgets and other procedures for planning.

According to I.C.W.A London "A Budget is a financial and or quantitative statement prepared prior to a defined period of **time** , for attaining a given objective '.

Budget portrays the intensions of Management about future plans … it indicates sales to be made, the expenses to be incurred, and the profit or income to be received.

Importance Of Budget

It is difficult to overstate the importance of a meaningful budgeting process for a hotel. Ultimately the budget represents the implementation of the Owners and Operators vision for the hotel. It the means by which the Owners and the operators achieve the qualitative goals we associate with the brand or style of the hotel and the quantitative goals of achieving a well-run , efficient and profitable business. Moreover, it is often used as a means to judge the performance of the operator.

Classification ……..acccording to time

1. Long-term Budgets
2. Short-term Budgets.
3. Current- Budgets

On the basis of functions

1. Functional or subsidiary Budgets
2. Master Budget

On the basis of flexibility

1. Fixed Budget
2. Flexibility

Budgetary Control

Budgetary control, as the term suggests ,is the financial control through the proper implementation of budget , which means fixing responsibilities among the concerned managers for any deviations that may result between budgeted and actual results. It is a control technique because it provides a standard for evaluation of actual performance . Any deviation must be promptly brought to the notice and corrective actions must be taken on time.

Advantages of budget and budgetary control

1. It estimates uncertainty
2. It is the result of various brains .
3. It is good incentives to workers .
4. It helps in optimum use of resources .
5. It helps in effective co-ordination .
6. It helps in fixing responsibility .
7. It helps in spotlighting the deviations .
8. It helps in optimum use of Men , Material and Money.
9. ,it serves as a beacon light.

Dis-advantages /limitations of Budgeting

1. Budgets are estimates and can never be 100% accurate.
2. A budget is simply a tool to efficient management and can never be a substitute for it . it needs proper planning, organizing and control.
3. Budgets cannot guide as to what action should be taken.
4. Budgets may be misused by the bosses to find faults in employees.
5. The initiative may be hampered if the bosses stick to budget strictly

Stages of budget

1. Preparation and request
2. Approval
3. Implementation and Execution
4. Audit and Review

Approaches

1. Top Down Approach
2. Bottom up Approach

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Budgeting

The most important long-term planning function performed by F>O>M is budgeting front-office operations .The hotels annual operations budget is a profit plan that addresses all revenue sources and expense items. Annual budgets are commonly divided into monthly plans which, in turn ,are divided into weekly ….sometimes daily plans. These budget plans become standards against which management can evaluate the actual results of operations.

Forecasting Rooms Revenue

Historical financial information often serves as the foundation on which front-office managers build rooms revenue forecasts.

Method 1

One method of rooms revenue forecasting involves an analysis of rooms revenue from past periods rupees and percentage difference are noted and than the amount of rooms revenue for the budget year is predicted.

Example …Exhibit 'A' shows yearly increases in net rooms revenue for XYZ hotel. For the year 2010 to 2012 , the amount of rooms revenue increases from Rs.10,00,000 to Rs 13,31,000 reflecting a 10% yearly increase. if future conditions appear to be similar to those of the past, the rooms revenue for 2014 would be budgeted at Rs.14,64,000---a 10 % increase over 2011 amount.

Exhibit A Room Revenue summary for XYZ hotel

Year	Room Revenue	Increase over Rs.	Increased % age
2010	10,00,000		
2011	11,00,000	1,00,000	10 %
2012	12,10,000	1,10,000	10 %
2013	13,31,000	1,21,000	10 %
2014	14,64,000…………Budgeted		

Method II

Another method or approach to forecasting room revenue bases the revenue projection on past room sales and average daily room rates.

Exhibit 'B' presents rooms revenue statistics for 120 room hotel from 2010 to 2013 . an analysis of these statistics shows that occupancy percentage increased by 3 % from 2010 to 2011, 1% from 2011 to 2012, and 1 % from 2012 to 2013. Average daily room rates increased by Rs 10 respectively over the same periods. If future conditions are assumed to be similar to those of past, a rooms revenue forecast for the year 2014 may be based on a 1 % increase in occupancy percentage (to 76 %) and a increase in the average daily room rate (60 $). The following formula can be used to forecast rooms revenue for the year 2014 for this hotel.

(Rooms Revenue statistic For The Hotel) Exhibit 'B'

Year	Rooms sold	Av. Daily Rate	Net room Revenue	occup. %age
2011	30,660	150	45,99,000	70 %
2012	31,974	200	63,94,800	73 %
2013	32,412	250	81,03,000	74 %
2013	32,850	260	85,41,000	75 %

Forecasted Room revenue = Rooms available x Occupancy %age X Average Daily Rate

Rs 89,87,760 = (365x120) x 76 % x 270

Estimating Expenses

Most expenses for front operations are direct expenses in that they vary in direct proportion to room revenue.

Typical room division expenses are pay roll and related expenses; guest room laundry ;and related expenses ,guest amenities ,toilet tissues etc) hotel merchandising (in-room guest directory and hotel brochures), travel agents commission , reservation expenses and other expenses .when these costs are totaled and divided by the number of occupied room, the cost per occupied room is determined. The cost per occupied room is often expressed in Rs. And as a %age .Exhibit 'C' presents expense category statistics of XYZ hotel from 2009 to 2012, expressed as percentages of rooms revenue. Based on this historical information and managements current objectives for the budget year 2005 ,the percentage of rooms revenue for each expense category may be projected as follows ;

Exhibit C

year	payroll & related expenses	laundry,linen guest supplies	commission on reservation	other Exp
2010	16.5%	2.6%	2.3%	4.2%
2011	16.9%	2.8%	2.5%	4.5%
2012	17.2%	3.0%	2.6%	4.5%
2013	17.4%	3.1%	2.7%	4.6%

For the year 2014

*<u>**payroll and related expenses =**</u>

Forecasted room revenue x Forecasted payroll expenses

Rs. 15,81,845 = 89,87,760 x 17.6 %

- **Laundry , linen and guest supplies**
  forecasted room revenue x forecasted expenses

  2,87,608 = 89,87,760 x 3.2%

- **Commission & reservation Expenses =**
  Forecasted room revenue x forecasted expenses
  2,51,657 = 89,87,760 x 2.8%

- **Other Expenses**=
  Forecasted room revenue x forecasted expenses
  4,22,424 = 89,87,760 x 4.7%

Refining Budget

Departmental budget plans are commonly supported by detailed information gathered in the budget preparation process and recorded on worksheets and summery files. These documents should be saved to provide valuable assistance in the preparation of future budget plans. Many hotels refine expected results of operations and revise operations budgets as the progress through the budget year. Re-forecasting is normally suggested when actual results start to vary significantly from the operations budget. Such variances may indicate that conditions have changed since the budget was first prepared and the budget should be brought into line.

Rooms Division Budget Reports

Generally the hotels accounting division also prepares monthly budget reports that compare actual revenue and expense figures with budgeted amounts. Front- office performance is often judged according to how favorably .The rooms divisions monthly income and expense figures compare with budgeted amounts. A typical budget report format should include both monthly variance and yearly-to-date variance for all budget items. Exhibit 'A' presents a rooms division budget report for XYZ Hotel for the month of January . This budget report does not yet contain year-to-date figures since January is the first month of the business year for this particular Hotel.

Sample Monthly Rooms Budget Report

XYZ HOTEL

Budget Report – Rooms Division for January…….

Revenue	**Actual**	**Budget**	**Variance**
Room Sales	1,50,000	1,45,000	+5000
Allowance	**500**	**300**	**200**
Net	1,49,500	1,44,700	5200

Expenses

Salaries & wages

Employee's benefits

Total payroll and

Related expenses

Other expenses

Commission

Contract cleaning

Laundry

Operating supplies

Reservation expenses

Uniform

Other expenses .

Total expenses

Departmental income = Revenue – Expenses

.	**favourable Variance**	**Un-favourable** Variance
Revenue	Actual exceeds budget	Budget exceeds actual
Expenses	Budget exceeds actual	Actual exceeds budgets

The fact that actual results of front-office operations differ from budgeted amount on a budget report should not be surprising. Any budgeting process, no matter how sophisticated, is unlikely to be perfect. Front-office managers should not analyze every variance. Only significant variance requires management analyses and action . The Hotel general manager and front-office manager can determine which variance are significant and need attention.