Access Training
and Logistics

SITXFIN009 Manage finances within a budget (Release 1) - Resource

Hospitality

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COURSE INTRODUCTION

ABOUT THIS GUIDE

This learner guide covers the following unit of competency

SITXFIN009 Manage finances within a budget

This unit describes the performance outcomes, skills and knowledge required to take responsibility for budget management where others may have developed the budget. It requires the ability to interpret budgetary requirements, allocate resources, monitor actual income and expenditure and report on budgetary deviations.

The skills and knowledge for budget development are found in unit SITXFIN008 Prepare and monitor budgets.

This unit applies to all tourism, hospitality and event sectors and the budget may be for an entire organisation, for a department or for a particular project or activity.

It applies to those people who operate independently or with limited guidance from others. This includes supervisors and departmental managers.

ABOUT ASSESSMENT

This guide contains a range of learning activities which support you in developing your competence. To apply this knowledge to your assessment you will be required to complete the assessment tools that are included in your program. The assessment is a competency based assessment, which has no pass or fail; you are either competent or not yet competent. If you are deemed not yet competent, this means that you still are in the process of understanding and acquiring the skills and knowledge required to be marked competent.

For valid and reliable assessment of this unit, a range of assessment methods will be used to assess practical skills and knowledge.

Your assessment may be conducted through a combination of the following methods:

- Third-party reports from a supervisor
- Practical demonstration of your skills in a classroom situation
- Projects and assignments
- Portfolio of evidence
- Written or verbal questioning to assess knowledge and understanding of business policies and procedures.
- Oral presentation
- A combination of these methods

The assessment tool for this unit should be completed within the specified time period following the delivery of the unit. If you feel you are not yet ready for assessment, discuss this with your trainer.

To be successful in this unit you will need to be able to join you're learning to your work place, this should be achievable for those who are employed and for those who are not yet employed and you will be required to use observations of examples that can take place in a workplace environment.

PERFORMANCE AND KNOWLEDGE EVIDENCE

PERFORMANCE EVIDENCE

Evidence of the ability to complete tasks outlined in elements and performance criteria of this unit in the context of the job role, and:

- manage a budget for a business over a three-month period that meets the specific business' needs
- undertake at least two of the following to inform management of the above budget:
  - discussions with existing suppliers
  - evaluation of staffing and rostering requirements
  - evaluation of impact of potential roster changes
  - review of operating procedures
  - sourcing new suppliers
- monitor income and expenditure and evaluate budgetary performance over the above budgetary life cycle
- complete financial reports related to the above budget within designated timelines and using correct budget terminology.

KNOWLEDGE EVIDENCE

Demonstrated knowledge required to complete the tasks outlined in elements and performance criteria of this unit:

- types of financial records:
  - bank deposit documentation
  - bank statements
  - banking summaries
  - business activity statements (BAS)
  - cheque books
  - credit card transaction statements
  - invoices
  - journal entries
  - labour and wages reports
  - merchant statements
  - transaction reports

- types of budgets:
  - cash
  - cash flow
  - departmental
  - project
  - purchasing
  - sales
  - wage
  - whole of organisation
- factors for consideration in the preparation of financial and statistical reports:
  - cash flow
  - commercial account activity
  - commission earnings
  - covers and financial return
  - daily, weekly and monthly transactions
  - expenditure
  - income
  - occupancy rates and financial return
  - sales performance
  - sales returns
  - staff costs
  - stock levels
  - variance in income and/or expenditure
  - wastage
  - yield
- use, contents of and formats for:
  - budgets
  - financial reports
  - statistical reports
- budget terminology
- use of budgets to control costs and enhance profitability
- importance of budget control
- techniques for maximising budget performance
- financial reporting procedures and cycles
- features and functions of accounting software programs used to manage budgets.

TOPIC 1 - ALLOCATE BUDGET RESOURCES

ALLOCATE FUNDS ACCORDING TO BUDGET AND AGREED PRIORITIES

Budget allocation is an important part of all business and not-for-profit financial plans. Budgets are typically set annually and involve allocating anticipated income and resources between different departments and business interests. The amount of funding allocated to each area imposes restrictions on the scope of a department's development. For example, if there is a reduction in funding, then some staff may have to be made redundant.

Budgets are normally reviewed annually and set for a 12- to 24-month period. Budgets are normally set on the basis of the previous year's expenditures, plus or minus any changes in spending, such as the recruitment of new staff or adjustments in staff salaries. For example, multi-function hospitality venue, each area is given a set amount of money to spend over the course of the year. The manager for that area normally takes responsibility for allocating the funding to his staff. A budget aims to take into account all expenditures, including staff salaries, the cost of buying resources as well as miscellaneous expenses for any unforeseen needs.

COMPONENTS

Typically, budgets are divided into allocation components. These are often based on the business' or institution's core priorities. For example, in a university setting, typical components are student enrolment and research. Many institutions also include performance incentives in the budget to boost staff morale. The components are divided into a matrix, and a monetary value is allocated for each component. This is further divided into a value for the subcomponents.

ADJUSTMENT

Budgets normally include a percentage rate of adjustment, which is typically between 2 and 5 per cent. This allows for unforeseen expenses and under or over estimation of expenditures. Budgets are reviewed and adjusted periodically throughout the year to account for changes in expenditures and income.

GEOGRAPHIC DIFFERENTIAL

If a business or educational institution operates in multiple geographic areas, a geographic location adjustment is included in the budget. This accounts for different living costs and wage levels in different areas, often including a hardship allowance for those living in developing countries. Typically, a cost-of-living index is used to calculate the typical cost in each area and the budget is adjusted accordingly.

PREPARE BUDGETS IN LINE WITH BUSINESS DIRECTIVES

The extent to which hospitality managers are required to prepare all elements of their budget depends upon the business size and structure. Generally managers employed by national or

international chain are likely to have less transparency across all elements of the budget and may only be required to project sales and develop strategies around the minimisation of variable expenses such as payroll.

Smaller businesses, certainly those where an owner manager is in charge, will have more comprehensive budgets.

- Preparing and producing a budget may involve:
- Analysing inputs and outputs
- Gathering and analysing information from last year's budget
- Considering any increased fixed costs such as rent, power or fuel
- Taking into account new efficiencies and cost controls; for example improved e-business systems
- Considering industry trends or forecasts that may impact costs
- Checking for government legislation that could impact costs
- Considering changes such as increases in the consumer price index (CPI)
- Calculating expenditure
- Creating a budget form

Government policies and legislation that may need to be taken into account include:

- Taxation law, including GST
- Superannuation Guarantee
- Awards, workplace agreements, and other industrial arrangements
- Workplace health and safety
- Workplace relations
- Workers' Compensation
- Industry Codes of Practice
- Transport, storage and handling of goods
- Australian Competition and Consumer Commission provisions
- Trade Practices and Fair Trading Acts

Many of these stipulate certain safety practises and operational procedures for staff which can add extra costs to the daily overheads of a business, for example, conditions surrounding a return to work for an injured worker.

When producing a budget it is best to start by clarifying the outcomes (output) expected from the store or department. Then assess the expenditure (inputs) required to produce the outcome.

The following questions need to be clarified:

- How many people do I need?

- How much power will be used?
- How many phone calls will be made?
- What equipment will be used?

MEASURING PERFORMANCE

Whilst there are a variety of performance measures, they can generally be categorised into 3 main types:

- Expenditure (input) measures - Input measures assess the amount of resources or money used by the business to achieve outputs; these inputs are used by businesses to generate sales and profits
- Outcome (output) measures - Output measures assess the results of the business investment decisions. For example, sales revenue results from decisions on how many stores to build, how much inventory to have in the stores, and how much to spend on advertising
- Productivity measures

DISCUSS CHANGES TO INCOME AND EXPENDITURE PRIORITIES WITH APPROPRIATE COLLEAGUES PRIOR TO IMPLEMENTATION AND CONSULT WITH AND INFORM ALL RELEVANT PERSONNEL ABOUT RESOURCE DECISIONS

It is often hard to get extra funds once the budget has been set. Things change and new opportunities present themselves. Even the best ideas can be overlooked if they are not presented to management in a clear and persuasive way.

If you are to take advantage of these new opportunities, you will need to prepare expenditure proposals that are convincing. Like anything else, the more practice you get at putting proposals together, the better you'll become at it. A key document in your proposal is a cost-benefit analysis.

REJECTED PROPOSALS

If your budget proposal is rejected, it is important to find out why. Sometimes, even the best proposal will be rejected for reasons beyond your control. However, you could be given some very useful feedback on why your proposal was not persuasive and/or convincing enough.

Maybe you failed to stress the disadvantages of not proceeding with the expenditure. Maybe you didn't point out the cost savings over a longer time period. Whatever the reason, the more feedback you get the better your next proposal will be.

FOLLOWING UP A SUCCESSFUL PROPOSAL

If your proposal is accepted, you will need to carry out some important follow up tasks. First, you should monitor how closely the actual outcomes match your predictions. For example, your proposal suggests purchasing faster pricing equipment but you found out that your staff preferred to use the old ones.

You would have to ask yourself:

- If this purchase is valid?
- Is new equipment really necessary?
- Would training change the staff's opinion?
- Is there a design fault with the new machines?

The results of these questions may influence your proposal. There may be no need for the new equipment or the initial costs of buying the equipment and learning to use it may be offset by an increase in productivity and/or by improved inventory control, for example.

Business financials need to be communicated effectively to ensure adequate information is available for informed business decision-making and the meaningful evaluation of hospitality operations.

The measures used to evaluate hospitality operations vary depending on:

- The level of the organisation where the decision is made
- The resources the manager controls

For example, the main resources controlled by the managers are floor space and operating expenses (staff wages, telephone expenses, electricity etc.). Business managers focus on performance measures like sales per square metre and staff costs.

Different measures are more appropriate for different areas of the business or different functions of management. For example, gross margin return on inventory is appropriate for measuring buying whilst gross margin per square metre is appropriate for business management or for selling.

Given their relevant areas of responsibility, hospitality managers may need to communicate actual vs. budgeted figures at established milestones to key stakeholders to track performance and make modifications as required.

IDENTIFY AND INFORM ON POTENTIAL BUDGET DEVIATIONS

In order to communicate potential budget deviations so an appropriate response to realign with targets can be implemented, hospitality managers need first to be able to identify budget deviations whilst they are still only minimal in impact.

Most modern businesses have the means to track their actual performance against budgeted expectations on a daily basis due to the sophisticated reporting of their POS systems and interfacing accounting systems. This makes it far easier than in previous decades for managers to identify and investigate the source and causes of budget deviations.

The key is that hospitality managers take the time to study their figures and watch trends form over days and weeks before they become months.

If a trend is observed and minor business based initiatives to realign with the targeted budget have been unsuccessful it may be time to communicate the likelihood of budget deviation up the organisational hierarchy.

Ideally such information is shared along with potential strategies for improvement and suggestions for budget modification so that key stakeholders responsible for overall business budgeting have the required information to make a decision.

PROMOTE AWARENESS OF THE IMPORTANCE OF BUDGET CONTROL AND ADVISE APPROPRIATE COLLEAGUES OF BUDGET STATUS IN RELATION TO TARGETS

Cost control benefits everyone in the business; however the means of creating it is often inconvenient, imposing or annoying to teams. It is up to the manager to win the hearts and minds of their teams and create an engaging and compelling set of reasons or benefits to boost staff commitment for the initiatives.

It's primarily about developing strong working relationships.

COMMUNICATE THE BENEFITS OF COST CONTROL

Engaging store staff members on the benefits of cost control depends highly upon the existing rapport and camaraderie of teams and the nature of the measures of cost control themselves.

Cost control measures that are perceived as inconvenient, unnecessary or petty are likely to be more negatively received by staff particularly if they have not been consulted throughout the process of developing potential avenues for cost control. When this occurs staff commonly feel disregarded and taken advantage of.

Businesses that effectively implement cost control measures consider their teams both during the development phase of measures and when deciding upon the most appropriate measures to implement.

They ensure:

- Staff are part of the stakeholder group consulted when developing cost control strategies
- They have a voice in deciding which cost control measures are most appropriate and most achievable in their context
- They are part of the discussion setting cost control targets and timeframes

Taking this approach significantly increases the likelihood of uncovering concerns and resistance prior to launching a cost control strategy and increases the likelihood of engagement and commitment to the goals.

Staff who have been part of the process are invested in the outcomes and are more commonly positive about any additional discretionary effort that may be required to achieve the desired outcomes. The win is then theirs and becomes a means to increase team cohesiveness.

INSPIRE INDIVIDUAL ACCOUNTABILITY

All change occurs in the individual first. It is for this reason that winning the hearts and minds of individual staff is necessary when attempting to inspire any change in behaviour in retail teams.
Ideally, retail managers should be aware of the relative enthusiasm and influence of their individual team members and take steps to involve and inspire those individuals that are naturally highly influential over other team members.

Their involvement, endorsement, support and enthusiasm for any initiative, particularly ones that may be perceived as slightly undesirable or inconvenient will go far to ensuring comprehensive team buy-in.

It is possible to get creative and implement motivational strategies such as individual and team incentives that act as drivers of change. Remembering most cost control measures require change in some form from individuals and teams, incentives may be beneficial if resistance is high.

However, it is always preferred to engage the hearts and minds of people through inspiration rather than reward as the use of a reward increases the likelihood of the new desired behaviour being anchored to reward, and when the reward is removed, as it will be over time the behaviour goes back to normal.

DEVELOP FEEDBACK MECHANISMS TO ACTION RECOMMENDATIONS

When consulting with teams to work on the development of cost control measures it is necessary to embed methods of feedback to action recommendations for improvement.

When significant cost cutting measures are required or the business runs multiple locations consultation can occur over geography and time. Ensuring key suggestions and recommendations get back to the key decision makers allows retailers to take advantage of and endorse cost control opportunities that may differ across the business.

It is important that each be considered, modified as required, and endorsed in a timely fashion so store teams can implement their ideas while the momentum is still with them.

Having a long drawn out approval process can result in teams losing their excitement and enthusiasm for initiatives they have devised and the opportunity to maximise cost control via that means may be diminished.

Businesses can ensure a streamlined feedback mechanism by creating a formal ideas process that outlines the format ideas should be communicated in and the lines of communication they should follow.

To illustrate,
A large hotel with multiple sites may implement a cost control initiative and canvas site teams for ideas.

They may stipulate that ideas must be shared with direct management outlining the idea, how it is to be implemented and any potential barriers by a given date.

The process need not be complex, however it must be clear and include a description of how recommendations will be considered and feedback forwarded to those making the recommendations.

MAINTAIN DETAILED RECORDS OF RESOURCE ALLOCATION ACCORDING TO ORGANISATIONAL CONTROL SYSTEMS

At business level it may seem that the majority of management focus is on driving sales as the dominant focus of staff meetings, morning briefings and training on how to increase sales or improve service to increase sales.

Behind the scenes however business managers expend considerable energy managing expenditure particularly their greatest variable cost, labour.

Hoteliers employ varying technologies to support the drive for efficiencies in labour costs. Sophisticated reporting systems can track traffic and help managers develop their rosters to follow the peaks and troughs of customer foot flow through the business. Physical counting of customer entry into businesses is one way of gathering data to ascertain match to traffic figures, other businesses use electronic means to record the entry time of every customer that visits the hotel.
Employing such means can be invaluable to store managers as they struggle to control labour costs, particularly if they have a high proportion of casual staff.

It is common for hoteliers to use technology in their attempt to control other forms of variable cost and thereby reduce their expenditure. Every effort to do so conserves resources enabling the effective management and usage across the year or budgeting period.

TOPIC 2 - MONITOR FINANCIAL ACTIVITIES AGAINST BUDGET

USE FINANCIAL RECORDS TO REGULARLY CHECK ACTUAL INCOME AND EXPENDITURE AGAINST BUDGETS

The reasons why you need a good financial record keeping system:

ASSISTS WITH DECISION-MAKING

A good financial record keeping system provides accurate and timely information for decision-making purposes. If the record keeping is not complete or is incorrect, any decisions made based on those records will also be wrong.

MONITORS BUSINESS PERFORMANCE

A good financial record keeping system monitors the performance of the business and all business units or products. Depending on the level of sophistication of the bookkeeping system, it may be possible to track the financial performance of different products or sales, or different departments within the business.

HELPS WITH BUDGETING

A good financial record keeping system helps with budgeting for future periods and planning future activities. As well as assessing the current performance of the business, it is also necessary to be able to plan for future activities and their financial effect on the business performance. Having the right information at your fingertips can greatly assist you with future projections and pursuing the correct course of action to achieve a desired outcome.

ASSISTS IN PREVENTING ERRORS AND FRAUD

A good financial record keeping system assists in preventing and detecting errors and fraud and safeguards valuable assets. If the accounting records reveal the amount of cash or goods that should be present, the dangers of misappropriation are reduced.

HELP DETERMINE THE NEED FOR EXTRA FUNDS

A good financial record keeping system provides the information required to assess if you need extra funds. The correct bookkeeping system will also help you decide whether these funds should be provided from within the business (equity) or from external finance (debt).

PROVIDES INFORMATION FOR OTHERS

A good financial record keeping system provides information for suppliers, creditors and outside investors. You may need to get credit from suppliers or other creditors, or you may need to bring in outside parties to invest in your business. These people are going to need to see your records and your financial statements. The decision to invest in your business or to provide you credit will be made much easier if they can have a clear picture of your business' past performance.

AIDS ACCOUNT AND TAX PREPARATION

A good financial record keeping system provides information for preparation of your financial accounts and income tax return. Keeping good records will enable your accountant to prepare financial accounts and the income tax return easily and in a timely manner. If the records are not kept properly your accountant may charge more. Penalties are also likely according to be charged if the returns are not filed on time, and there is the possibility of overpayment or underpayment of taxes.

HELPS MEET TAX REQUIREMENTS

A good financial record keeping system helps with meeting taxation and other governmental responsibilities. Responsibilities such as WorkCover payments, lodgement of business activity statements, payment of superannuation guarantee, amongst others, are more accurately assessed if the information is relevant and easily retrievable from your record keeping system.

ACTUAL VS BUDGETED

Actual values refer to the actual results achieved; budgeted values refer to estimated or expected results. A comparison of actual and budgeted results and then reporting on any variation is an essential part of the budget control process.

If there is a large variation, you need to identify the underlying causes. Once these causes have been determined appropriate corrective action should be taken by management to rectify the situation.

Comparing budgeted and actual values involves getting the figures for the period under review and then listing the figures by item for each month (or week if need be).

ANALYSING VARIATIONS

When calculating the variation between the budgeted value and the actual value for each item, it's important to analyse any variations to determine their underlying causes. They may be related to sales, materials, labour or overheads.

Possible causes may include:

- A reporting error for example a budget error or actual error
- The result of a specific management decision, for example a pay rise
- The result of an uncontrollable factor, for example harsh climatic conditions

If there is no apparent underlying cause it needs further investigation, the underlying cause needs to be found.

You need to analyse:

EXPENDITURE AND INCOME

Careful monitoring of expenditure income and the cash flow implications is essential. In order to do this a number of reports are generated throughout the project. These reports are the 'tools' used by the project manager to monitor the financial 'well-being' of the project.

INCOME AND EXPENDITURE STATEMENT

This is a statement of actual income and expenditure at a particular point in time.

It simply shows what money has been received and spent. These statements should be prepared at regular intervals which may be weekly or monthly depending on the business. This statement would normally be generated using standard accounting/bookkeeping software such as MYOB. Invoices and receipts must support all expenditure.

THE COST REPORT

The cost report is based on information provided in the Income and Expenditure Statement and the original budget.

Monitoring of the budget is achieved through comparing the actuals from the Income and Expenditure Statement against each budget item (projected costs). This forms the basis of cost reporting. It identifies any over spending or under spending in each of the budget categories, giving you an accurate sense of any potential budget 'blowouts' that may occur.

It is important to develop accurate forward estimates. The earlier you are able to notice overage the more chances there are of adjusting accordingly. The point is to manage changes as they affect the budget, and to adjust the future expenditure to stay within the budget parameters.

Overages in one category may have effects on other linked categories.

The importance of cost reporting cannot be underestimated. Costs can quickly spiral out of control unless they are constantly monitored. Therefore regular cost reports are produced to enable constant review of the budget by the project manager.

CASH FLOW REPORT

Cash flow is the rate at which expenses are made against income.

It is necessary to carefully manage the rate of expenditure within the known limits of receipt of income.

The proposed income and expenditure are plotted against within a planned timeframe. This will show graphically when the expenditure will happen and the income will be received.

PETTY CASH VOUCHER

PLEASE PAY ________ DATE ____

AMOUNT OF ________

DESCRIPTION ________

CHARGE CODE | $ AMOUNT

APPROVED BY ______ RECEIVED BY ______

Financial documentation necessary to verify expenditure includes:

- Purchase orders
- Invoices
- Petty cash

Regardless of whether a business uses a computerised or manual record keeping system, the same type of information is generally kept. But keeping records is not enough. The information recorded must be monitored and maintained to ensure that it is useful, up-to-date and provides all the information needed to track the health of the business.

PURCHASE ORDERS

Purchase orders are a formal request for goods or services and constitute an undertaking to buy those goods or services at an agreed price. A purchase order should always have an identifying number and clearly identify the project, the goods or services required, the agreed price, the supplier, the date of order and supply, appropriate authorisation, method of payment and reflect the appropriate budget category. The purchase order should also clearly state your company details.

This information is central to accurately assessing current expenditure. It is also invaluable in forecasting forward commitments for cost reporting and cash flow purposes.

INVOICES

Invoices may be received from suppliers of goods or services. Suppliers of goods and services must provide an appropriate invoice to trigger payment. An invoice should be dated and quote a purchase order number. It should clearly identify the supplier and provide contact details, any relevant tax details, a description of the goods or services and the price.

PETTY CASH

You may need to allocate a petty cash 'float' to each department. You don't really want to have to write out cheques for minor items like sticky tape and coffee.

Accumulated, these costs can add up to hundreds of dollars and at some stage will need to be factored back into categories and item costs, or else your budget tracking and reporting will be out by the amount of petty cash you've floated. The usual way of doing this is to work with petty cash forms that require the head of department to keep receipts and itemise costs. The receipts will be attached to each petty cash form. You may decide each department will get one hundred dollars as a float.

INCLUDE FINANCIAL COMMITMENTS IN ALL DOCUMENTATION TO ENSURE ACCURATE MONITORING

When you have an operating budget, it is essential that you monitor and analyse the actual performance of your department against the budget projections. Should any deviations occur it is your responsibility as the manager to address the issues that have caused it.

Monitoring and maintaining expenditure within budget targets means that someone regularly evaluates the business's success, against the defined requirements. Monitoring has some important advantages:

- It allows shortfalls and successes to be quickly identified so appropriate action can be taken.
- It gives clear indications of the business's requirements and expectations.
- Monitoring - or impending monitoring - can assist to improve an individual or a team's motivation to perform to the standards required.

- Monitoring can provide a tool to reward excellence, by having a clear and measurable bench-mark, against which performance can be compared.

The first step is to determine if the budget was unrealistic or if the performance of the department needs to improve, or both.

AUDITING A BUDGET

Auditing generally involves checking financial records to determine their accuracy. Auditing a budget is more specific, it involves checking to see if the figures represent a realistic view of the store's operations.

The bigger the organisation the bigger the budget, the bigger the budget, the more potential there is for incorrect estimates in the budget figures. This situation makes auditing the budget harder, particularly if the data is incomplete, missing or unavailable.

Effectively auditing a budget requires an estimation process that is acceptable and/or reasonable. Issues to consider are:

- What methods were used to develop the budget?
- What assumptions were made when this budget was framed?
- Were the methods/assumptions used consistently?
- How accurate is the supporting information used to frame this budget?
- How does this budget compare with previous budgets?
- How does this budget compare to similar budgets in this industry?

Once budgets are set, it is important to regularly measure and control the actual income and expenditure to ensure that the budget doesn't blow out.

IDENTIFY AND REPORT DEVIATIONS ACCORDING TO SIGNIFICANCE OF DEVIATION

Broadly speaking, a variance is the difference between actual results and planned results. Variance analysis is often used to evaluate performance; variances can be favourable or unfavourable.

Measuring the variance is a fundamental control tool in budgeting. The variance can be measured in different ways, including:

- Units
- Dollars
- Percentages

Variances that indicate actual figures coming short of budgeted figures are usually expressed as a negative amount, e.g. -$350, or displayed in parentheses, e.g. (350).

Analysis will reveal whether the variance is beneficial or if it requires investigation because it is problematic. The terms used to describe variations are as follows:

- Favourable (F): The report has highlighted a positive indicator for the business i.e. an increase in sales or a reduction in the cost of goods sold
- Unfavourable (U): The report has highlighted a negative indicator for the business i.e. a drop in the level of sales or an increase in labour costs

Unfavourable variances (U) can be further classified into:

- Cost variance caused by the unit cost prices being higher than estimated
- The turnover of stock being greater than estimated
- Sales variance where sales prices were lower than forecast
- The number of sales was lower than expected
- The sale of different products was fluctuating from the sales history

If a variance has occurred, you will need to investigate the reasons why this happened.

Backtracking through the process can often identify the causes of variation. In some cases, the actions of a department or a combination of personnel and departments may be responsible for the variance. It is important to analyse this carefully before making any adjustments to the budget or taking corrective action.

Note that you cannot judge a variance as favourable or unfavourable on the notion of whether it meets the budgeted figure. It needs to be considered in conjunction with the other figures it is associated with.

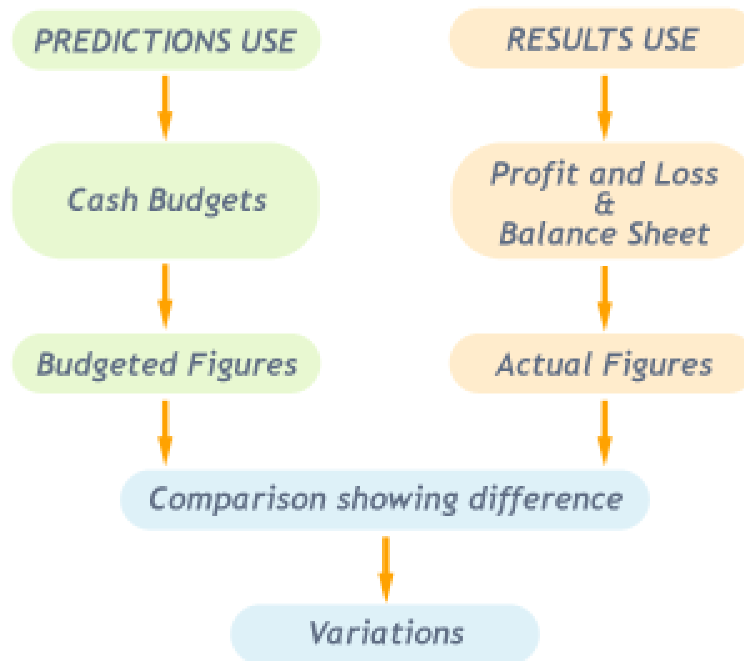
USING FINANCIAL REPORTS TO IDENTIFY VARIATIONS

Financial reports provide information that can be used to determine variations in the budget. These reports are often read and analysed in comparison with other reports.

This is usually done with budgeted figures and actual figures taken from the Cash Flow Budget, the Profit and Loss Statement and Balance Sheet respectively:

- The Cash Flow Budget is examined to produce budgeted figures
- Profit and Loss Statements and Balance Sheet provide actual figures
- The difference between budgeted figures and actual figures will reveal variations, which may be deemed to be favourable or unfavourable

The diagram shows the role of each financial report in this process.



Budget variations are areas where actual performance has varied from that expected and projected in the initial budget.

	May			June		
	Budget	Actual	Variance	Budget	Actual	Variance
Wages	11,000	13,000	2,000 (U)	12,000	13,000	1,000(U)
Electricity	500	400	100 (F)	700	750	50 (U)

The example above illustrates how a variance may appear.

There are commonly three different types of variance:

- Price
- Quantity
- Timing

To illustrate: if the predicted sales for June were set at $40,000 but the actual sales amounted to only $35,000, the reasons may be:

- The total numbers of products sold were as predicted, but the product mix ratio was different (more of the cheaper products and less of the more expensive ones were sold) resulting in a price variance
- The prediction for the mix of cheaper and more expensive products sold was correct, but the volume was less for both, resulting in a quantity variance
- The figures for May were above average, so customers may have made purchases of particular products earlier than predicted, resulting in a *timing* variance

Establishing the type of variance helps retail managers establish a viable method of corrective action.

- To illustrate, if electricity expenses are more than predicted this could be due to:
  - An increase in the price of the electricity
  - This cannot be directly controlled but efficiencies can be sought

  - An increase in the quantity of electricity used
  - This may be possible to control but requires further investigation
  - Was the increase due to increased output, wastage or weather?

- A variance may be caused by budget errors or unexpected events. In these cases it may be necessary to request a budget review.

- To illustrate, here are two possible causes for an increase in wage expenditure:
- Too few permanent staff members are employed leading to increased overtime or casual labour costs
  - This would be an unfavourable variance caused by *budget error*
  - Delivery trucks frequently arrive late creating overtime requirements for unloading and put-away
  - This would be an unfavourable variance caused by *unexpected events*

One solution to the late arrival of delivery trucks may be to introduce a late penalty. This solution may still apply even if your own company provides the transport. The late penalty cost comes out of the transport manager's budget and covers your overtime costs, helping you to keep your budget balanced. The transport manager would then have to investigate the unfavourable variance to the transport department's budget and find a solution to ensure that trucks arrive on time.

VERTICAL AND HORIZONTAL ANALYSIS

Businesses will often review variances to budget both vertically and horizontally; in other words they will look down the budget to determine where the variances occur and they will also look across the budget to see where variances occur.

In the example below we will be looking down the report to see if there are any variances to total income. In doing so we are able to better identify the area that has caused the variance. We will also look across the report to see how much the variance is and to determine how accurate we are in being able to forecast for income.

Profit & Loss	July Actual	% to Sales	July Budget	% to Sales	Variance to budget
Sales	**62,227**	**100%**	**62,042**	**100%**	**185**
Cost of Sales	38,326	61.6%	37,984	61.2%	342
Gross Profit	**23,901**	**38.4%**	**24,058**	**38.8%**	**- 157**
Supplier rebates	676	1.1%	484	0.8%	192
Gross Profit & supplier rebates	**24,577**	**39.5%**	**24,542**	**39.6%**	**35**
Customer discounts	2,775	4.5%	2,762	4.5%	13
Gross Profit after discounts	**21,802**	**35%**	**21,780**	**35%**	**94**
Sundry income	182	0.3%	86	0.1%	96
Total income	**21,984**	**35%**	**21,866**	**35%**	**118**

In reviewing the variances of the report above it can be seen that by looking vertically at the data the Total Income achieved was $2,984 and we can see the various contributors to this.

In looking across the report we can see that the gross profit was less than budgeted and it was the increase in sales and supplier rebates that ensured the budget was met. Further we can see that significant changes have occurred to supplier rebates and sundry income when compared to last year. In reviewing budgets in this way retailers gain a broader understanding of how the business is performing and can make better decisions to improve performance.

INVESTIGATE APPROPRIATE OPTIONS FOR MORE EFFECTIVE MANAGEMENT OF DEVIATIONS

In order to inform on potential budget deviations so an appropriate response to realign with targets can be implemented, retail managers need first to be able to identify budget deviations whilst they are still only minimal in impact.

Most modern retailers have the means to track their actual performance against budgeted expectations on a daily basis due to the sophisticated reporting of their POS systems and interfacing accounting systems.

This makes it far easier than in previous decades for managers to identify and investigate the source and causes of budget deviations.

The key is that retail managers take the time to study their figures and watch trends form over days and weeks before they become months.

If a trend is observed and minor store based initiatives to realign with the targeted budget have been unsuccessful it may be time to communicate the likelihood of budget deviation up the organisational hierarchy.

Ideally such information is shared along with potential strategies for improvement and suggestions for budget modification so that key stakeholders responsible for overall business budgeting have the required information to make a decision.

NEGOTIATE BUDGET MODIFICATIONS PROACTIVELY

Negotiating potential budget modifications before the issue becomes too great and preparing potential solutions to the problem is the key to ensuring a positive reception.

Consider the following example…

Manager A has just joined store Z after the previous manager went on long service leave to South America. Manager A found themself in a situation where expenses were rising, sales had dropped and the bottom had fallen out of profitability. The store desperately needed a new strategy to get them back on track to achieve budget.

Manager A flagged concerns with senior management and prepared a potential solution to the challenge the venue was facing that would hopefully translate into a more profitable venue.

Understanding the 6:1:5 rule Manager A proposed the following:

- Decrease business expenses by 5% of sales
- Improve sales by 6%
- Increase margin by 1%

Manager A provided the following profit and loss statement to illustrate the strategy
(Note the changes in red)

	Current		After 6:1:5		
	Annual	% to Sales	Annual	% to Sales	% Change
Sales	**600,000**		**636,000**		**6.0**
Cost of Goods Sold	304,200	50.7	317,610	49.9	4.4
Final Margin	295,800	49.3	318,390	50.1	7.6
Less: Shrinkage & Freight	13,800	2.3	13,110	2.1	5.0
Gross Profit	**282,000**	**47.0**	**305,280**	**48.0**	**8.3**
Expenses					
Wages	79,534	13.3	72,376	11.4	9.0
Rental	100,000	16.7	100,000	15.7	0.0
Utilities	3,900	0.7	3,705	0.6	5.0
Finance costs	13,300	2.2	12,635	2.0	5.0
Depreciation	24,000	4.0	22,800	3.6	5.0
Other	7,700	1.3	6,930	1.1	10.0
Total Expenses	**228,434**	**38.1**	**218,446**	**34.4**	**4.4**
Operating Profit	**53,566**	**8.9**	**86,834**	**13.7**	**62.1**

This example shows a 62% increase in profit just by increasing Sales 6%, increasing Margin 1% and reducing Costs 5%.

On the strength of these figures you would imagine that with evidence of sound action plans to make the proposed changes that senior management would endorse the plan.

TAKE PROMPT CORRECTIVE ACTION

The ability to realign actual performance with budgeted targets relies upon the swift identification of deviations and even swifter corrective action.

In the previous example we illustrated a potential strategy to boost the flagging profitability of store Z.

One of the keys to this strategy is the need to respond in a timely fashion so that any negative impacts already incurred do not compound into greater problems.

Taking the time to ensure the endorsement of plans to take corrective action ensures the support of senior management and may attract additional support from other sources.

Waiting to see, holding your breath or wishing a problem will right itself is a poor way to deal with budget deviation which is a normal part of the retail business and nothing to be frightened of.

TOPIC 3 - IDENTIFY AND EVALUATE OPTIONS FOR IMPROVED BUDGET PERFORMANCE

ASSESS EXISTING COSTS AND RESOURCES AND PROACTIVELY IDENTIFY AREAS FOR IMPROVEMENT

COMPARE ESTIMATES TO ACTUAL COSTS TO IMPROVE FUTURE PROPOSALS

Another important follow up task is to compare expenditure estimates with actual costs. This information could be collected from historical records and compared to the current and projected figures.

In the example of purchasing new equipment it would be necessary to obtain an accurate costing from potential suppliers. This will give you the basic cost of your proposal but, you would then need to add the less direct costs like training staff and lost productivity while the staff learn to use the equipment effectively.

When this information is collected and analysed, you are able to develop a more accurate costing for your proposal. If the benefits outweigh the potential costs or losses you are in a good position to implement it.

There can be many reasons why a company might need to cut costs:

To create additional cash reserves

To reduce price of product or service

To bring expenses in line with revenues

To eliminate unnecessary expenses or wasteful spending

To increase company value

To increase competitive advantage

To move costs between departments

Identifying the goal of the expense reduction exercise will assist with implementation of an effective plan. In other words, if you don't know why you are cutting costs, how are you going to know where to cut costs?

The purpose of expense reduction is to help the company towards long term survival.

Purposes of expense reduction include:

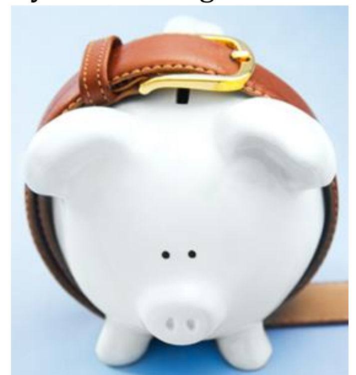
- Create cash to reinvest in research and development
- Reduce manufacturing costs to stay competitive
- Reduce costs as a non-profit so able to serve more people
- Lower costs of service in order to provide additional services
- To become more efficient
- To prevent employee lay-offs
- To prevent reduction in employee benefits

The process of controlling costs is often perceived within a negative framework. It is about cost cutting and the reduction of expenses. No doubt this is part of the process and often is the major focus. However, cost cutting and the reduction of expenses can only achieve sustainable results if the reduction is about waste. The continuous reduction of expenses beyond this level will not be sustainable as its impact on the revenue stream becomes counterproductive.

The key is to be able to find the right balance. Controlling costs can be a creative process. A retail store or business will have a finite amount of resources available to it in order to conduct business. The creative challenge is how to best spend these resources to achieve the best outcome.

When cutting costs ask: *How is this expense adding to the building of revenue and the contributing to the enhancement of brand value?*

Before reducing costs, it is important to consider all the operating costs associated with your store. Any cost reductions must be done without jeopardising the quality of your products or the service you provide. Lower quality often leads to lost customers, so any cost cutting must be done carefully. At all times the company standards should be followed.



Higher costs reduce profits. Although some price increases are unavoidable, Cost increases should be kept to a minimum where possible. Generally, it is good business practice to control the costs that you have control over and assess alternatives before making capital expenditure decisions.

Cost reduction techniques should also be evaluated in terms of impact on the organisation. Prioritising the goals of the cost cutting program will insure that the strategies are implemented appropriately.

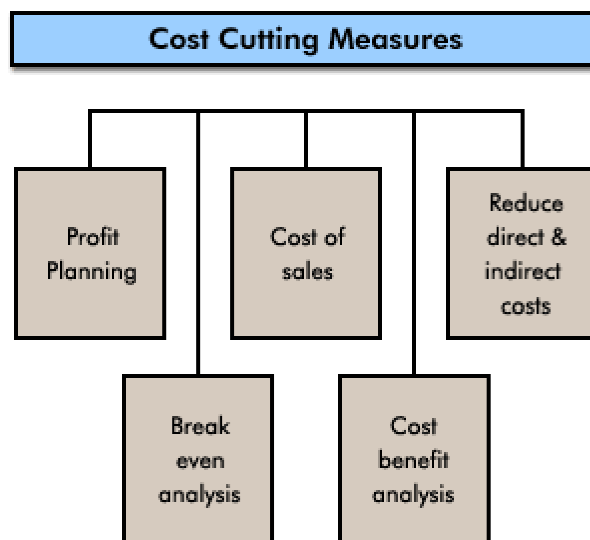
There are many different ways a company can institute a plan to reduce expenses.

- Across the board reductions

- Prioritised reductions
- Departmental reductions
- Reductions based on professional assessment
- Budget reductions

Cost reduction techniques can be an important strategy for another reason. They can teach a company to be economical, by forcing a regular review of spending at every level of the organisation. It can keep a company vital and streamlined.

There are a number of areas that need careful attention when considering cost cutting measures. These areas are:



DISCUSS DESIRED BUDGET OUTCOMES WITH RELEVANT COLLEAGUES

CONDUCT BUDGET NEGOTIATIONS PROMOTING GOOD RELATIONSHIPS

As a manager you may find yourself in a position of preparing, presenting and negotiating budgets in line with your store's policy and procedures.

Budgets are not just accounting exercises, they need to be thoroughly prepared and sold to your manager. Depending on the situation, you may need to negotiate some aspects of your budget.

To ensure that you are in a good position to negotiate your budget submission you should:

- Consult all relevant staff during the budget preparation
- Enter the negotiations in a spirit of compromise
- Be aware of the overall store policy and objectives
- Be able to explain all aspects of your budget in a clear and persuasive manner

- Have fall back positions prepared: what is the least that you will accept or need?
- Seek clarification promptly when areas of uncertainty or disagreement occur

UNDERTAKE APPROPRIATE RESEARCH TO INVESTIGATE NEW APPROACHES TO BUDGET MANAGEMENT

MANAGING THE BUDGET PROCESS

Regardless of the size of the organisation, a budget is generally created to cover all of the business's activities. This overriding budget is then drawn down to each department in the business.

Managing this process involves four key steps.

- Using standardised forms to collect information and simplify the reporting process
- Consolidating the information in one location
- Reviewing and modifying the final budget and its process if necessary
- Distributing the final budgets to the relevant departments.

THE HIERARCHY OF COMPANY BUDGETING

Effective budgets are generally built from the ground up. This is because the most accurate information is generally found at the base level of the organisation. Another reason for starting at the bottom of the organisation is that the employees at the service level have a working knowledge of the company's needs. The information collected from this level must then be evaluated and adjusted by management to align it with the organisation's objectives.

DEFINE AND COMMUNICATE THE BENEFITS AND DISADVANTAGES OF NEW APPROACHES

In every case of cost cutting there will be benefits and disadvantages. These need to be communicated to staff members in a diplomatic and sensitive manner. Whilst the end result may be that everyone gets to keep their job because costs have been cut, the initial impact of cost cutting could impact on the daily work routine. These disadvantages need to be communicated and explained and staff may need extra assistance to manage and implement the changes.

TAKE ACCOUNT OF IMPACTS ON CUSTOMER SERVICE LEVELS AND COLLEAGUES IN DEVELOPING NEW APPROACHES

Some of the impacts may not only affect staff but may impact on the customers at the customer service level. For example: There may be a reduction in staffing levels at certain times to cut costs in that area. This may mean that a staff member has to perform 2 roles or may have additional tasks added to their list. This could impact on the customer service levels which may end up impacting on the income of the business if customers are unhappy and go elsewhere.

This may also cause some stress with colleagues as their tasks may be increased to pressure point. These are all considerations that must be taken into account when implementing cost cutting strategies.

PRESENT CLEAR AND LOGICAL RECOMMENDATIONS FOR BUDGET MANAGEMENT

Budget management is the financial analysis of the amount of money present in correspondence to the amount of money allocated for the performance of various duties. Once the correspondence is made then the money allocated is used for that particular operation. To manage a budget one needs to know exactly how much one is willing to spend on whatever commodity one wishes to purchase. Good budget management involves gaining the best quality and quantity of the required purchases at the best price possible.

Therefore, when making recommendations for a budget your focus will need to be on presentation. You will need to present everything in a logical manner, and be able to answer any questions clearly and concisely when asked. It would not benefit your presentation if the answer to questions was “I don’t know”.

Logical recommendations will consist of changes that involve areas where cost cutting is simple and straight forward, such as; changing suppliers when prices increase; changing electricity companies or installing solar panels. It would not be logical to cut staffing levels if there is no-one left to serve the customers of service the room. Less staff in the kitchen may mean slower service which in turn may encourage customers to go to another restaurant.

Therefore, make sure that managing the budget is presented in a manner that ensures it is clear, concise and “doable”.

TOPIC 4 - COMPLETE FINANCIAL AND STATISTICAL REPORTS

COMPLETE FINANCIAL AND STATISTICAL REPORTS WITHIN DESIGNATED TIMELINES

CAPITAL EXPENDITURE BUDGET

The budget accounts for the long-term (5 or more years) capital expenditure of the business. This may include equipment and facilities that are required to achieve a long-term outlook.

CASH FLOW ANALYSIS (REPORT)

This report analyses the income and expenditure of an organisation over a 3-12 month period. This monitors income and expenditures to ensure funds are available. GST is included in the receipts and expenses in a cash flow receipt.

	February	March
Receipts		
	243,038	341,976
Payments		
Salaries	30,335	34,899
Rent	20,103	24,786
Telephone	5,490	10,004
Bank charges	302	412
Purchases	115,100	17,996
Advertising	8,032	9,191
GST paid	8,419	10,732
	187,781	108,020
Monthly cash flow	55,257	233,958
Add balance brought forward	42,968	98,225
Balance at end of month	98,225	332,181

Analyse the cash flow in the previous example.

(i) Work out what percentage of sales the expenses are. What percentage of expenses are the salaries, purchases, and rent?

(ii) How can the design of this cash flow be improved? What other information needs to be included? List at least three ways.

(iii) Write a paragraph interpreting the data in this cash flow and how it would impact the business.

ACTIVITY

The Aussie Resort - Restaurant, Accommodation and Conventions has expected annual sales of $260,000 with a gross profit margin of 25 percent of turnover. They offer a credit facility of strictly 30 days for up to 10 per cent of all sales. It is expected that days outstanding are 60 percent within 30 days and 40 percent within 60 days.

Inflows	**Amount $**	**Frequency**
Sales	260,000	Annually
Bank balance	2000	At start of period
Business loan	10,000	At start of period
Government Small Business allowance	1,000	At start of period
Outflows	**Amount $**	**Frequency**
Accounting fee	2500	Annually
Advertising	2800	$100 first two months $50 next two months $30 remaining months
Electricity	300	Every 90 days
Insurance	1100	Paid annually in July
Motor vehicle expense	150	Monthly
Rent	110	Weekly paid every month
Stationery & office supplies	50	Every four months
Telephone	200	Every three months
Leasing/hire purchase	80	Monthly
Purchase of stock	11000	Monthly
Wages	2500	Monthly

Construct a cash flow forecast for 12 months to reflect the operations of The Aussie Resort.

REMEMBER

When constructing the cash flow there may be other expenses that have not been indicated within the list; for example repairs and maintenance. You will need to add these. Also work out the GST for sales and PAYG for wages. This will need to be paid every three months.

- GST = 10 per cent of all sales
- PAYG = 22 percent

Further Information

Assets	
Land and Building	150,000
Stock on hand	14,500
Debtors	50,000
Plant & equipment	25,000
Goodwill	12,000
Patent	5,000
Motor Vehicle	25,000
Liabilities	
Long term loan	50,000
Mortgage	20,000
Creditors	45,000
Short term load	500

Access Training and Logistics

CASH FLOW FORECAST THE AUSSIE RESORT - YEAR 2015-2016

	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Cash Inflows												
Cash sales												
Credit sales payments												
Bank loan												
Sale of assets												
Other income												
Total inflows												
Cash Outflows												
Accounting												
Advertising												
Electricity												
Wages												
Insurance												
Loan repayment												
Motor vehicle expenses												
Lease payments												
Rent												
Repairs & maintenance												
Stationery & office supplies												
Telephone												
Hire purchase												
GST												

PAYG												
Purchases stock												
Purchases plant & equipment												
Total outflow												
Net cash flow												
Opening balance												
Closing balance												

REVENUE/EXPENDITURE BUDGET

The budget forecasts sales and expenses over a given period usually 12 months. It determines the number of people employed, level of raw material, stock, rent, leases.

SALES ANALYSIS BUDGET/REPORT

The reports and budget forecast sales revenue, cost of sales, gross profit units sold, average cost and percentage margin written in a period of time. The comparison is made with previous years.

MATERIAL/STOCK COSTS

Remember as discussed all material/stock used to produce a product or service are direct costs and need to be accurately costed. These costs are considered in calculating a unit price.

ACTIVITY

1. Discuss with your supervisor the types of budgets and financial reports that are used by the organisation.
2. Identify and collect 10 samples of reports and budgets.

Type of Budget	Function of Budget	Period e.g. 3 mths 12 mths

PREPARE AND PRESENT CLEAR AND CONCISE INFORMATION TO ENABLE INFORMED DECISION MAKING

Reports need to include all relevant data for that specific report. The report will need to include:

- Statement of purpose - Why and what are you reporting
- Methods - How you went about collecting the information included in the report
- Costing trends (wages, materials, overheads)
- Identifies shift in supplies and markets
- Outcomes
- Financial data is presented in a suitable form for example cash flow in a spread sheet and sales presented in graphs
- Distribution
- Distribution list for the report

PREPARE FINANCIAL REPORTS

A report should provide concise and relevant information. It should be easily understood and enhance the reader's ability to make decisions and take corrective action.

A report should be timely. It may be produced periodically or produced only when a problem appears. A benchmark may be determined and a report may be automatically generated when variances fall outside these pre-determined tolerances. For example anything up to a 5% variance may be considered reasonable but anything over that percentage will initiate a report.

The information prepared in the reports should address the needs of the user. Staff who are using the reports to make decisions about operations will need more detailed reports. Top management will need a lot less detail and perhaps a graph or chart may suffice at that level.

Reports should be user-friendly, using simple and appropriate language for the intended recipient. If reports don't meet the requirements for which they are intended they may be considered deficient.

Some problems which may occur with reports:

- Relevant information omitted
- Irrelevant information included
- Inaccurate information included
- Inappropriate format for the intended reader
- Duplication of information
- Missing attachments
- Reports sent to inappropriate users of the information

SUMMARY

A large part of the role of a hospitality manager is the preparation, implementation and monitoring of budgets for sales and expenditure.

Inputs and outputs must be assessed for the defined area of responsibility and attention must be paid to what can affect productivity and costs.

Depending on the size and type of organisation, you may have paper-based or e-business accounting and financial management systems. You need to understand your responsibilities in using these systems to record and report on budgets. You also need systems in place to monitor the activities of your area in terms of outputs and expenditures to track these against the predicted amounts. Comparing budgeted to actual amounts shows up variances that can be analysed to discover where and how discrepancies have arisen. Monitoring should be conducted regularly so that adjustments can be made to compensate for discrepancies. Budget reports showing actual figures against budget amounts will need to be generated and shared with key stakeholders.

For further information on the specifics of managing operations to budget in your store context please refer to your trainer.