



Basics of Budgeting & Control

Budgetary Planning and Control.

A budget is a plan of the level of business to be achieved and is expressed in monetary or quantitative terms. The most common budgets are sales focused but budgets may also have costs as their basis- admin dept, maintenance dept. The most frequently used time frame for a budget is one year which may then be broken down on a quarterly or monthly basis.

Monetary Budget

Cash Budget
Sales Budget
Labour Cost budget
Budgeted P&L

Quantitative Budget

Personnel Budget
No of members
Volume of Business
Gross Profit %

Why does a business budget?

- Setting of Targets
- Provides a benchmark
- Provides clear details on performance
- Highlights variances whether good or bad

Kinds of Budgets

There are three main types of budgets:

Operating Budgets - concerned with the income and expenditure of a business in a given period and includes sales, labour cost and overhead cost budget

Cash Budget - a projection of all sources of cash income and expenditure reflected in the operating budget; its purpose is to ensure that the business is able to meet its current obligations.

Capital Budget - This type of budget focuses on the expenditure needed for major assets such as refurbishment and equipment

Principles of Budgeting

- ⇒ Targets must be realistic.
- ⇒ Conduct a detailed analysis of past trends and their influence on future expectations
- ⇒ Make a provision for inflation
- ⇒ Allow for projected growth
- ⇒ Agree timing of Budget
- ⇒ Decide who is involved in preparing the budget

Key steps in Budget Preparation

1. Analyse all past trends and likely effects of future trends (Gov policy, employment, industry trends)
 - Number of years trends should be analysed
 - Clarify sales patterns and true growth trends
2. Collate as much detail as possible on sales
 - No of rooms sold
 - No of sleepers
 - Seasonality
 - Average room rate
 - No of restaurant covers
 - Average spend per cover on food and beverage
 - Sales details should be broken down monthly
3. Consider limiting factors
 - current capacity
 - availability of capital to modernise/extend
 - efficiency of management/labour
4. Investigate gross profit performance
 - This area needs to be consistent
5. Analyse all cost areas historically as % of sales
 - Distinguish between variable(electricity, gas, repairs and renewals) and fixed costs(rent, rates, depreciation) in overhead costs
 - Examine wage costs in detail. - some components (management and key staff will remain fixed while others will vary in the same direction as sales. Remember other labour costs such as meals, uniforms, accommodation, holidays
6. When all historical work is complete identify future aims and targets
7. Compile master budget in standard profit and loss format
 - Usually presented on a monthly basis
 - All figures presented net of vat
 - Include depreciation
 - Accruals and prepayments must be accounted for
 - Allow for credit transactions
 - Clarify bases and assumptions

Some points to remember!

- ⇒ Budgeting is not a precise science
- ⇒ It is difficult to alter sales trends significantly without fundamental operational changes
- ⇒ All targets should be logical and achievable
- ⇒ Quality of budget is only as good as information input
- ⇒ Make decisions that are based on well researched facts and not personal opinions
- ⇒ Review budgets regularly and compare actual with targeted frequently
- ⇒ Variance analysis is extremely important
- ⇒ Set targets and delegate where possible

Refined Budgeting

Break-even Analysis (Also known as Cost Volume Profit Analysis CVAP):

This is a form of budgeting that examines minimum level of sales requires for business survival. It is normally presented in the standard P&L format. Break even analysis examines business viability from both a profitability and a liquidity viewpoint and is most useful in start-up business ventures.

Break-even analysis can be extended to cover the important area of cashflow. There are some key differences in the presentation of cashflow statements and budgets

- All figures include VAT
- Depreciation is not included
- All loan repayments are included
- Fixed Asset purchases are included
- VAT, PAYE and PRSI payments included
- Timing of payments and sales needs to be considered

The production of cash flow statements is important in so far as profit may sometimes not be a reliable measure of a firm's success. Firms can be profitable but still experience cash flow problems.

Sensitivity Analysis

This attempts to estimate the impact on sales of a change in any of the key financial factors of the business. The process involves

- preparing a budget
- identifying key financial factors of the business
- change any or combinations of these factors
- Assess the effect of these changes on performance(sales, cost levels, cashflow)

A key aspect of sensitivity analysis is to establish the margin of safety. This refers to the amount sales could fall given other factors as constant before a loss would be incurred

Sensitivity analysis is generally conducted using computerised models. It is a key tool in decision making regarding pricing and performance.

Budgets are basically a plan for the business expressed quantitatively and provide direction for short and long term planning. Budgets also have a control function. The control aspect of a budget is implemented by:

- Comparing actual results with budget
- Analysing the causes of variances
- Pinpointing Responsibility
- Taking Action.

Non Financial Controls

Operational Controls –

There should be a variety of checks and devices built into the system to ensure all aspects of the catering process are in accordance with establishment policy.

Stock Control

- Correct stock valuation
- Food wastage
- Obsolete stock
- Pilferage
- Over investment in stock

Yield Testing

Purchase specifications

Volume forecasting

Standardisation

- Standard portion sizes
- Standard recipes
- Standard selling prices

Post operational control - Corrective actions for low gross profit levels/High costs.

There are many operational issues to address and these will obviously vary from department to department

Physical checks in the food and beverage department may highlight areas of wastage, pilferage, poor stock control, over production, poor revenue control; etc..

Similarly, strategies for reducing overhead costs will involve an assessment of different aspects of the operation. For example, is electrical and gas equipment left on unnecessarily? Are lights left on without control? Are fridges and freezers working

correctly? Is equipment properly cleaned and maintained which can save on energy bills.

Other areas of cost reductions include more diligent use of laundry and proper storage facilities for breakable items. Proper use of cleaning materials, stock taking of delph and cutlery and regular maintenance of equipment all serve to control costs.

All of these controls will furnish additional information which will assist in planning and decision making