

# Budgeting Introduction

LESSON 1

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# Learning outcome:

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To become familiar with the budgeting process;

To understand how to participate in the budgeting process;

To understand what it entails to prepare the budget;

To coordinate ones department with others in order to facilitate the process of budgeting



Budgeting the room activity:

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# Budgets

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What are budgets?

What are their purposes?

Do budgets help the manager?

Do budgets help the employee?

Do budgets help the owner?

# Budgets

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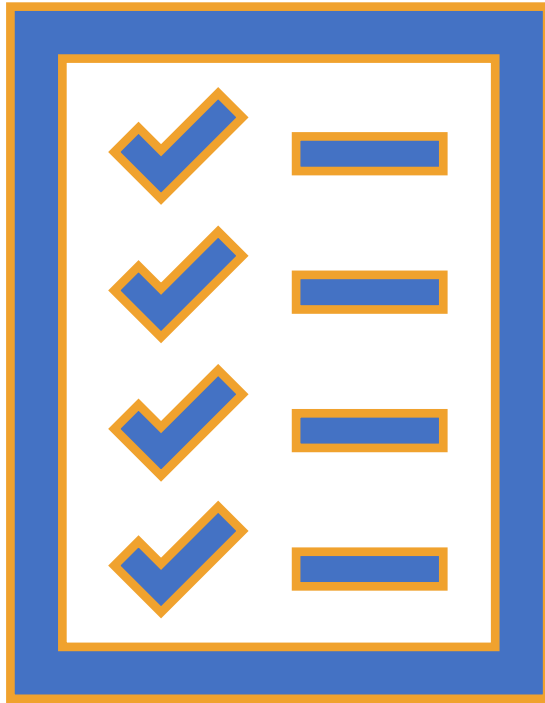
Budgets are a tool, like any other tool;

We are accustomed to budgets, maybe without knowing;

Such as how do we plan our holidays?

How do we allocate our available time or funds?





# So.... Budgets are

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A plan – planning for the future, for another time;

A plan – which in turn can help me do a better job;

Or a plan which will help me steer the enterprise towards the desired goal;

A plan which will help me to pre-empt any problems;

Problems can be various and hotels are not immune to problems;

# Budgets and Hotels

Hotels are not immune to budgets;

the budget is an important tool used by the hotel for the maximisation of its potential

What is the maximum potential of a hotel?

Why can hotels be derailed ?

A hotel is made up of a number of units

Such units can be :

Rooms or beds;

Sunbeds;

covers in the restaurant;

Banquet halls or other spaces;

So what is the  
maximum  
potential of  
the hotel?

The maximum occupancy?

The highest average room rate?

The highest REVpar?

The highest REVpor?

The maximum utilisation of employees?



# Budgets:

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Budgets require an observation of:

**Policies** – a budget is based on the policies needed to fulfil the objectives of the entity;

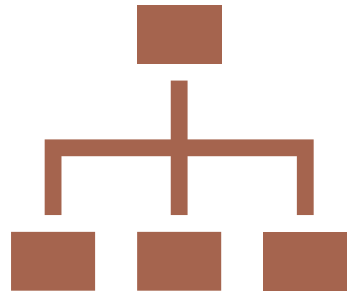
**Data** – it is usually expressed in monetary terms;

**Documentation** – it is usually written down;

**Period** – it relates to a future period of time;

# Budgets

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Budgets are useful because they encourage managers to examine what they have done in relation to what they could do;



Full benefits of a budgeting system become apparent when it is used for control purposes

# Achieving budgets could mean:

You have reached your goals set for the enterprise;

You have mastered the process according to plan;

You have proved yourself to be able to manage the section allocated to your control;

Not only you have also directed the entire staff under your supervision;

You have gained trust from your superiors;

It could also mean you have become eligible for the bonus promised in your pre season interview;

# When is the budgeting season?

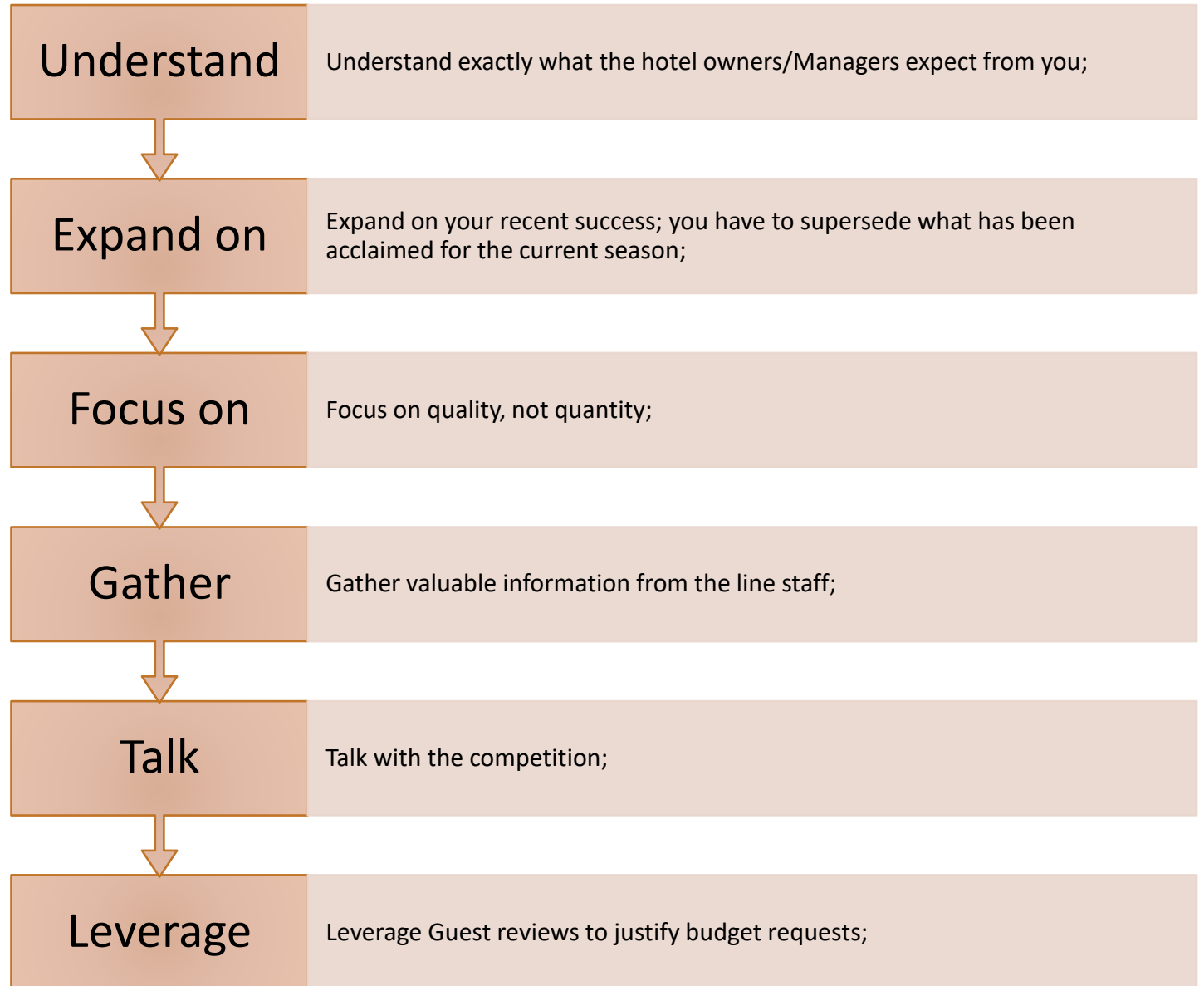
The budgeting season is usually in the summer time, if the hotel operates on a calendar year; that is from Jan to December;

If the above is the case it is in the summer time,

The budget is also considered to take into account any agreements entered into with tour operator which usually are signed early in advance so that they could be sold;

If one looks into certain websites one will remark that there are already the hotel rates for this time next year;

# Budgeting strategies during the season



# Addendum...

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# The breakeven point.

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What is the breakeven point?

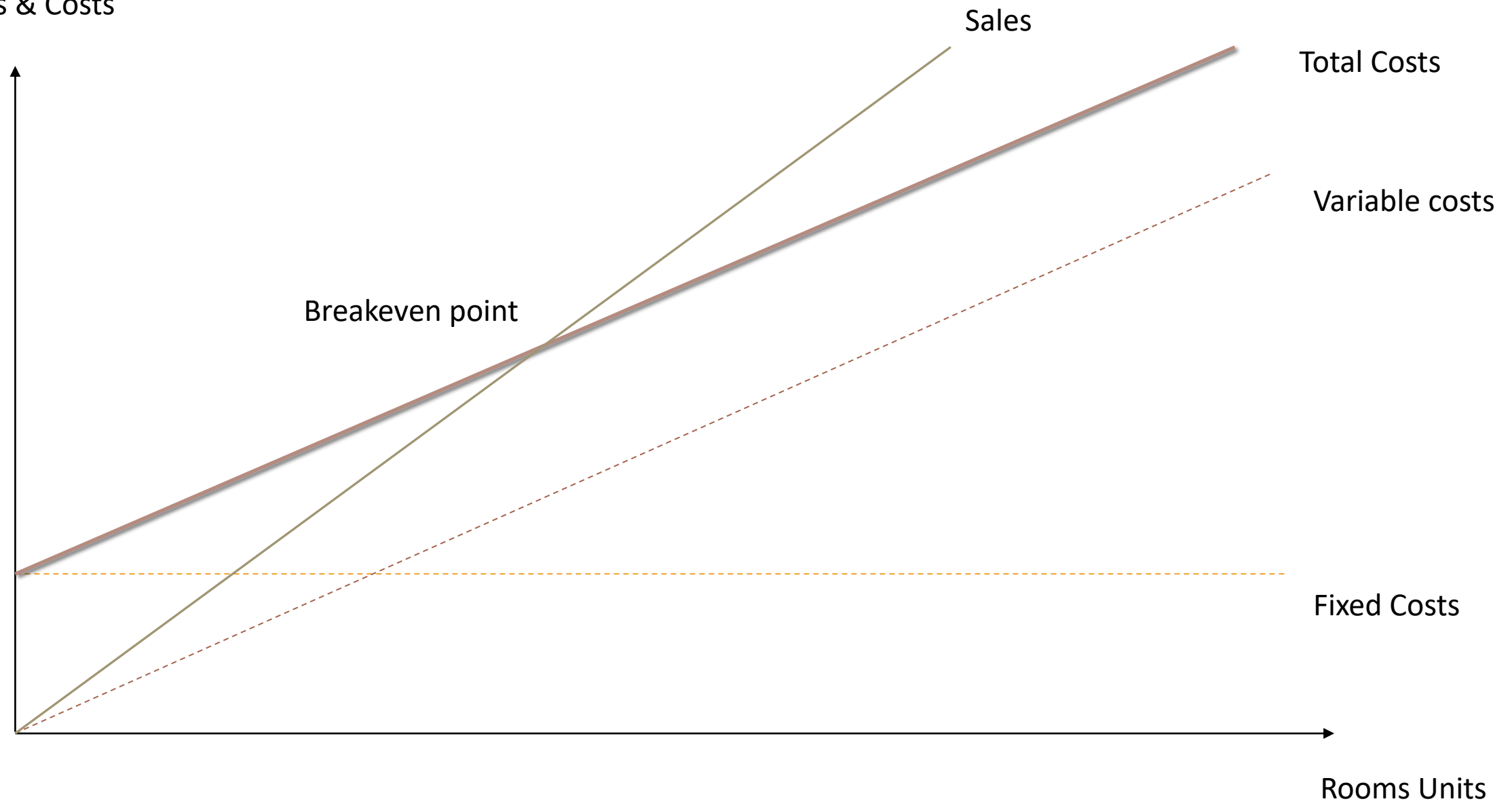


Why is it important to know what is the breakeven point in budgeting?



What should one monitor to minimise the impact of the breakeven point?

Sales & Costs



Sales

Total Costs

Variable costs

Breakeven point

Fixed Costs

Rooms Units



# Breakeven:

- The contribution;
- The sales price;
- The variable cost;
- The fixed cost;
- The profit;

# Breakeven point

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Sales price = room rate x the number of nights x number of persons;

Variable costs = the cost of delivering the room to the client;

Contribution = Sales amount – Variable costs

Breakeven point = Fixed Costs /Contribution

# Budgeting dilemma

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Should the hotel aim at the highest rate?



Should the hotel aim at having the highest occupancy?

Thank you.

