
REVENUE AND EXPENDITURE BUDGET, INSTRUMENT OF FINANCIAL MANAGEMENT

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Please cite this paper as:

Țurlea, C., Cazazian, M.R. and Moldoveanu, M.V., 2020. Revenue and Expenditure Budget, Instrument of Financial Management. In: R. Pamfilie, V. Dinu, L. Tăchiciu, D. Pleșea, C. Vasiliu eds. *6th BASIQ International Conference on New Trends in Sustainable Business and Consumption*. Messina, Italy, 4-6 June 2020. Bucharest: ASE, pp. 463-470

Abstract

In the current economic context, companies are starting to pay more attention to the efficient management of resources and they use for this purpose, the revenue and expenditure budgets as a financial management instrument, at company level and at the level of the main types of company activities.

In close correlation with the financial balance, through the budget, the cash balance is managed and ensured as part of the budget. Moreover, the financial balance must be controlled through the budget therefore there is a certain timing between the pace of insuring companies with money funds and the required amounts for the payment obligations to be honoured.

The paper aims at highlighting the impact that the revenue and expenditure Budget has on the performance of a company and how it should adjust from one year to another, depending on the changes in the financial field, the increase or decrease of the gross minimum wage amount, as well as the changes in the field of work force, following the necessity and the opportunity to use the external work force outside the borders of the country.

Keywords

Budget, Revenue, Expenditure, Resources, Analysis, Performance, Management

JEL Classification

Z32, Z31

Introduction

Planning, providing the required financing and the possible sources of capital to be deployed, is essential for a company. Western companies do not undertake anything from the economic, technical, organizational, etc. point of view, without carrying out a "budgeting" of these actions, regardless of their size and significance in the general activity of the company. These concerns are naturally divided by those regarding compliance with

the provisions of their own budget, obviously to the limit when precisely the budget could become a constraint in increasing efficiency.

By budgeting, resources and responsibilities are established on specific activity centres. The budget represents the encrypted forecast of the impairment of resources and responsibilities on activity centres, in order to achieve the most effective strategic objectives of the company.

All the technical-economic, organizational decisions, adopted at the company level have the consequence of affecting the existing financial balance and require new balance, committing for this purpose changes at the level and structure of the required funds and their financing resources. Achieving the new quality of the financial balance requires the foundation on a higher level of the financial indicators by drawing up the revenue and expenditure budgets.

In order to achieve a clear management of the patrimony and the detailed control of the allocation of resources, it is presented the way in which the revenues and expenses were forecasted for the elaboration of the income and expenses budget.

Literature Review

Organizational performance is one of the most important variables and undoubtedly an important indicator of an organization success, regardless of the field of activity.

The importance of performance measurement results from its five essential attributes (Lohman et al., 2004):

- monitoring: measuring the performance actually recorded;
- control: identification and attempt to reduce the difference between the planned and the recorded level of performance;
- improvement: identifying opportunities for improving the current situation;
- coordination: providing information for the decision-making process and facilitating internal and external communication;
- motivation: encouraging continuous improvement of behaviour in the workplace.

The specialized literature in the field of performance features of hotel companies is relatively limited, being focused in particular on the implementation of the measurement systems based on the Balanced Scorecard methodology (Philips, 1999, Evans, 2005). The performances of the hotels are generated by different types of activities (services related to accommodation, services intended for customers who want to spend time there, as well as food services) and subsequently different cost structures and strategic orientations (Harris and Mongiello, 2014).

Most studies on performance measurement in the hotel industry are based on traditional financial indicators (Hoque, 1999, Philips, 1999, Anderson et al., 2000), since they characterize financial performance and their effects on overall performance.

The three indicators commonly used in the financial economy of hotel companies (revenue per available room, gross operating profit per available room and occupancy rate) have been criticized by some specialists (Enz et al., 2001) because they are not suitable for benchmarking studies. Other studies focus on performance evaluation based on indicators associated with accommodation operations (Wassenaar and Stafford, 1991) or revenue growth rate (Van Dorenand Gustke, 2002). In order to overcome these problems, it is recommended to use the Balanced Scorecard method in measuring hotel performances (Huckstein and Duboff, 1999, Banker et al., 2005). Some of the authors refer to the Balanced Scorecard as a multidimensional measurement system or a performance evaluation system, emphasizing the interdependencies of the perspectives involved in the concept. Other authors focus on the contribution brought by the Balanced Scorecard in economic performance, to which, the consideration of a performance evaluation instrument which is a key factor in the success of hotel companies, is subsequently added.

The performance of the hotel companies is conditioned by the degree of integration of the new information and communication technologies in the decision-making processes and their activities. The development of information technologies for the hotel industry has led to the emergence of solutions involving the use of automation instruments for Front-Office and Back-Office activities, booking systems on the Internet, database management systems containing customer information, integrated in a single process that allows a hotel to respond more effectively to customer needs (Van Hoof et. al, 2006).

Methodology of the research

In order to achieve the objectives formulated on the thematic approach, the study will be based on methods specific to scientific research. The fundamental purpose of the methodology is to help us understand, in the broadest terms, not so much the products of science, but the process of knowledge itself. In order to be able to fulfill their function, the fundamental scientific research methods lead to applied research, defining the studied area, a series of principles and rules for conducting investigations, establishing the working instrument for data collection and interpretation, as well as construction strategies or theoretical reconstruction.

The methodology of the scientific research that we will use in this paper combines the qualitative research with the quantitative one, stating that the efficiency of the results obtained from the research would be greater if an optimal combination between the qualitative research and the quantitative one was achieved, in order to meet the objectives, set.

Generally, we will use the comparison method and the one of document analysis for data collection, the main method used to be the observation method, which is considered as the most common method in the research activity. The scientific observation means the careful and systematic pursuit of certain facts in order to detect essential or differential aspects.

Results of the research

DUNAREA HOTELS SRL is a limited liability company, with entirely private capital, which owns two hotels (MARA and STAR) and a restaurant that can satisfy some of the most demanding tastes from all categories of tourists, giving the possibility of spending holidays, leaves, or conducting conferences, symposia, business meetings.

The main object of activity of the company is: Hotels and other similar accommodation facilities, and as a secondary object of activity: Restaurants.

1. Revenue budgeting. In dimensioning the revenue and expenditure budget for 2020, the research started from the revenue achieved by the two hotel units in 2019. The revenue statement obtained, broken down by types of activities is presented in the two tables below. Starting from the breakdown of the revenue actually achieved in 2019 and the projected revenue to be achieved in 2020 for the two hotel units, the cumulative budget projected for the revenues part of the company, budget presented in Table no. 1, in dynamics for 3 consecutive years 2018, 2019 and 2020.

It was foreseen a 3% increase in 2020 of the revenue from the spa treatment activity compared to the one achieved in 2018 and 2019, considering the continued collaboration with the Health Insurance Fund for the settlement of check-ups and additional treatments.

We estimate for 2020 an increase in the number of tourists that will lead to an increase in the revenue from accommodation services, which include accommodation services with breakfast, service packages, and other organized events, as a result of the development of tourism products, with an accent on the SPA area by introducing new therapies.

Table no. 1 Centralized company revenue

| Indicators | TOTAL (RON) | | | REBDG compared to |
|--|------------------|-------------------|-------------------|-------------------|
| | 2018 | 2019 | BVC 2020 | 2019 |
| - spa treatment | 707.367 | 857.911 | 884.744 | 103% |
| - hotel accommodation | 4.153.249 | 5.149.683 | 5.605.301 | 109% |
| - recreational services | 230.355 | 247.801 | 251.069 | 101% |
| - rents | 25.894 | 37.798 | 31.629 | 84% |
| -merchandise sales | 4.384.394 | 4.996.552 | 5.589.454 | 112% |
| - other revenue | 184603 | 110.670 | 18.504 | 17% |
| Total revenue from exploitation | 9.685.862 | 11.400.414 | 12.380.701 | 109% |
| TURNOVER | 9.501.259 | 11.289.744 | 12.362.197 | 109% |

REBDG - Revenue and Expenditure budget

RON – Romanian Leu

In the case of rent revenue, no increases are expected and possible termination of the rental agreements in force has been considered.

For revenue from the sale of merchandise related to turnover, an increase of 592.902 lei is estimated as compared to 2019, as a result of the diversification of the products sold and the opening of the confectionery lab, by creating new confectionery, pastry and candy bar products.

We estimate a decrease in other operating revenue (revenue from sales of fixed assets and disposable assets, revenue from inventory charges and other operations), at a level of 18.504 lei in 2020.

2. Expenditure budgeting. For 2020, in the dimensioning of the revenue and expenditure budget, the research started from the expenditure actually achieved by the two hotel units in 2019. The situation of the expenditure classified by nature and destination, carried out in 2019 and forecasted for 2020, on the 2 units is presented in the table below.

The cumulative budget of the company estimated for the expenditure part, is built based on the previous calculations and is presented in the table below, in the dynamics for 3 consecutive years 2018, 2019 and 2020. For 2020, the expenditure was budgeted under the conditions of continuing the cost reduction program.

Table no. 2 Centralized company expenditure

| Indicators | TOTAL (RON) | | | REBDG compared to |
|------------------------------|-------------|-----------|-----------|-------------------|
| | 2018 | 2019 | BVC 2020 | 2019 |
| material expenditure | 637.332 | 655.765 | 670.831 | 102% |
| expend. with inventory items | 201.000 | 156.736 | 157.548 | 101% |
| expend. with utilities | 1.040.557 | 1.043.196 | 1.148.963 | 110% |
| expend. with merchandise | 1.512.247 | 1.463.255 | 1.582.024 | 108% |

| | | | | |
|---|-------------------|-------------------|-------------------|-------------|
| expend. maintenance, repairs | 338.327 | 255.506 | 257.449 | 101% |
| expend. with rents | - | 8.557 | - | - |
| expend. with premiums, insurances | 23.300 | 17.038 | 19.900 | 117% |
| expend. with collaborators | 271.260 | 271.582 | 303.811 | 112% |
| expend. with protocols, advertisements, advertising | 67.070 | 47.991 | 48.070 | 100% |
| expend. with business trips | 36.348 | 13.778 | 7.835 | 57% |
| postal expenditure | 46.848 | 43.692 | 44.448 | 102% |
| bank expenditure | 48.121 | 33.925 | 33.685 | 99% |
| other expenditure with third parties | 763.488 | 757.707 | 795.160 | 105% |
| expend. with fees and taxes | 701.341 | 644.441 | 644.937 | 100% |
| expend. with wages | 3.493.389 | 3.839.063 | 4.429.594 | 115% |
| depreciation expenditure | 1.560.384 | 1.597.143 | 1.595.340 | 100% |
| other expenditure | 9.600 | 70.782 | 7.800 | 11% |
| provisions | - | -32.191 | - | - |
| Total operating expenditure | 10.750.612 | 10.887.966 | 11.747.395 | 111% |

Material expenditure is estimated in 2020 at 670.831 lei, with an insignificant increase of 2% compared to the previous year, due to the efficient use of the material resources, at the same time with the increase of the economic activity.

In the dimensioning of the expenditure regarding the inventory objects, we considered their slight increase, since during 2019 the material base was renewed, the hotel units were equipped with usable inventory objects during 2020 as well, and the acquisition of new ones will continue.

The expenditure on energy and water, has been dimensioned based on the estimation of physical consumption, in correlation with the prices predicted for 2020, to ensure the temperature and the conditions of comfort to the parameters provided by law, in the accommodation spaces. We expect an increase of about 10% compared to the expenditure incurred in 2019.

The expenditure on merchandise, is directly proportional to the revenue from the sale of the merchandise and is estimated for 2020 at 1.582.024 lei, increasing by 8%, respectively 118.769 lei, compared to the achieved one for 2019. Their weight in public food revenue will be maintained at the same level as in 2019, respectively 29%.

Expenditure related to staff wages include expenditure with wages and related social security contributions. The dimensioning was made taking into account the legislative changes regarding the increase of the minimum wage at economic level, which will lead to an increase of all the wages with a percentage generated by the increase of the minimum wage, by granting overtime for the hours worked on Saturdays, Sundays and on all legal holidays. The increase of wages to a level that allows the stabilization of the workforce and the loyalty of the employees is considered. Moreover, due to the lack of staff in the national economy, the company has taken steps to bring waiters, chefs and maids from outside the community space.

Staff expenditure is thus estimated in 2020 at 4.429.594 lei, increasing by 15%, respectively by 590.531 lei, compared with 3.839.063 lei achieved in 2019.

3. Construction of the Revenue and Expenditure Budget for 2020.

The construction of the Revenue and Expenditure Budget started from the increase of the revenue as an effect of the marketing actions, of developing tourist products and not lastly from the increase of the quality of the services. However, the budget was construed in a prudent manner, due to the limited possibilities of increasing the revenue sources, considering, on the one hand, the competitive market in which the demand is somewhat defined in relation to the offer and on the other hand the limited resources we have in case of units requiring modernization.

The economic and financial indicators of the company included in the revenue and the expenditure Budget for 2020, compared to the achievements of 2019, are presented in the table below.

Tabel no. 3 Revenue and expenditure budget for 2020

| Indicators | TOTAL (RON) | | | REBDG compared to |
|-------------------------------------|------------------|-------------------|-------------------|-------------------|
| | 2018 | 2019 | REB – 2020 | 2019 |
| - spa treatment | 707.367 | 857.911 | 884.744 | 103% |
| - hotel accommodation | 4.153.249 | 5.149.683 | 5.605.301 | 109% |
| - Spa& treatment | 230.355 | 247.801 | 251.069 | 101% |
| - rents | 25.894 | 37.798 | 31.629 | 84% |
| - merchandise sales | 4.384.394 | 4.996.552 | 5.589.454 | 112% |
| - other revenue | 184.603 | 110.670 | 18.504 | 17% |
| Total operating revenue | 9.685.862 | 11.400.414 | 12.380.701 | 109% |
| TURNOVER | 9.501.259 | 11.289.744 | 12.362.197 | 109% |
| - material expenditure | 475.771 | 655.765 | 670.831 | 102% |
| - expend. with inventory items | 143.458 | 156.736 | 157.548 | 101% |
| - expend. with utilities | 965.963 | 1.043.196 | 1.148.963 | 110% |
| - expend. with merchandises | 1.291.697 | 1.463.255 | 1.582.024 | 108% |
| - expend. with maintenance, repairs | 262.324 | 255.506 | 257.449 | 101% |
| - expend. with rents | 3.209 | 8.557 | - | - |
| - expend. with premiums, insurances | 22.698 | 17.038 | 19.900 | 117% |
| - expend. with collaborators | 233.418 | 271.582 | 303.811 | 112% |

| | | | | |
|--|------------------|-------------------|-------------------|-------------|
| - expend. with protocol, advertisements, advertising | 42.926 | 47.990 | 48.070 | 100% |
| - expend. with business trips | 14.499 | 13.779 | 7.835 | 57% |
| - postal expenditure | 42.072 | 43.692 | 44.448 | 102% |
| - bank expenditure | 39.112 | 33.925 | 33.685 | 99% |
| - other expend. with third parties | 707.713 | 757.708 | 795.160 | 105% |
| - expend. with fees and taxes | 694.092 | 644.441 | 644.937 | 100% |
| - expend. with wages | 3.234.917 | 3.839.063 | 4.429.593 | 115% |
| - depreciation expenditure | 1.572.829 | 1.597.143 | 1.595.340 | 100% |
| - other expenditure. | 24.860 | 70.782 | 7.800 | 11% |
| - provisions | -170.808 | - 32.191 | - | - |
| Total operating expenditure | 9.600.750 | 10.887.966 | 11.747.395 | 108% |
| Operating result | 85.112 | 512.448 | 633.306 | 124% |
| Financial revenue | 1.064 | 414 | - | - |
| Financial expenditure | 63.937 | 64.220 | 61,728 | 96% |
| Financial result | - 62.873 | - 63.806 | - 61.728 | - |
| TOTAL REVENUE | 9.686.926 | 11.400.828 | 12.380.701 | 109% |
| TOTAL EXPENDITURE | 9.664.687 | 10.952.186 | 11.809.123 | 108% |
| GROSS RESULT | 22.239 | 448.642 | 571.578 | 127% |

In substantiating the revenue and expenditure budget, the observance of the following aspects has been considered in the research:

- increasing the quality of services and developing tourism products;
- practicing a flexible fee policy to stimulate sales during the off-season;
- launching special programs with facilities in the accommodation, recreational area and especially for events, part of improving the marketing activity and the sales;
- carrying out the revisions and repairs to the hotel units, for the efficient management of the utilities and ensuring the comfort of tourists;
- ensuring the facilities corresponding to the classification category of each tourist reception structure;
- monthly cost monitoring;
- periodic evaluation of employees and creation of an efficient payroll system and staff incentives, to increase the quality of the services provided.

Conclusions

The revenue and expenditure budget elaborated in the present paper, is an instrument available to the management as to ensure the proper development of the activities according to the established programs and objectives, to ensure the achievement of an efficient productivity, while also providing the intervention possibility along the way in order to correct some malfunctions.

If it is complied with, the revenue and expenditure budget ensures the achievement of the activity productivity and efficiency, regardless of the field.

The revenue and expenditure budget is the instrument without which the activity would be carried out chaotically, without any rule and financial discipline. A realistic and well-balanced revenue and expenditure budget, closely monitored by both the senior management and the executive, will provide in the end the guarantee that the balance of activities for one year is real and the expected one.

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