

 Case study

## Variance analysis highlights problems at Highcroft

For the second month running, Highcroft Hotels had recorded lower profits than expected. The variance analysis is shown below:

Table 16.6



	Jan			Feb		
	Budget	Actual	Variance	Budget	Actual	Variance
Sales revenue	85	80	5 A	105	95	10 A
Food/drink costs	36	34	2 F	42	43	1 A
Labour costs	12	15	3 A	13	16	X
Fixed costs	16	18	2 A	16	15	Y
Profit	21	13	8 A			Z

The management of the hotel were particularly concerned about two of these variances. The sales revenue was substantially below budget – yet the number of guests staying at the hotel was almost exactly as they had originally forecast. Also, the adverse food and drink variance in February was a concern. With the guests spending less than budgeted, how had food and drink costs risen above budget?

The managing director of the hotel was relieved that these problems had been spotted early in the year. She was determined to take action which should solve these adverse variances in the months to come.

### Questions

- 1 Calculate values for X, Y and Z and indicate whether the variances are adverse or favourable.
- 2 Explain the importance to the hotel of using monthly variance analysis – even though budgets are set for the whole year.
- 3 Analyse possible reasons for:
  - a the sales revenue adverse variance and
  - b the food and drink adverse variance in February.
- 4 Evaluate how the Managing Director of the hotel might overcome these adverse variances in the coming months of the year.
- 5 Research task: Access the BusinessLink government sponsored website, aimed at small businesses, to find out more about: 'Using your budget to measure business performance'.

  In this chapter you will have learned to:

- explain the benefits and drawbacks of using budgets
- calculate and interpret both favourable and adverse variances
- use the results of variance analysis to assist managers in taking decisions.