

Cost sheet: meaning, advantages and preparation essay sample

[Economics](#)



Like for any other business, it is very important for hotels tracking how much money is being spent when taking a new project and running their daily operations, considering the revenue made and the profit generated during a specific period. The most valuable tool to keep track of the expenditures is the “ basic cost statement”, also known as “ basic cost sheet”, that can be defined “ as a statement that details the cost incurred when manufacturing a product, offering a service, conducting a project or running a department for a specific period”.

The basic cost statement enables to break down the cost into different elements:

- Direct material cost
- Direct labor cost
- Overhead cost
- Indirect material cost
- Indirect labor cost

The purpose of the basic cost statement is to help management in:

- Analysing the cost-effective and keeping control over it;
- Taking short and long-term decisions;
- Preparing financial reports;
- Fixing selling price;
- Comparing costs with sales to establish if profit is being generated.

For example, if the hotel restaurant is launching a new menu, having a basic cost statement will provide management with a detailed breakdown of the

cost incurred to offer this menu in terms of material, labor and overhead (how much money is spent and on what exactly).

Let's imagine that by analyzing these costs for a specific period and comparing them with the sales/revenue, management realizes that offering this new menu is not generating any profit due to the food products used being too expensive (high material cost). The next step will be taking action (looking for different suppliers or fixing the selling price) or taking the decision to stop offering this menu as a non-feasible project. To run a business effectively, it is necessary to know how much one product/service is costing to establish how much guests should be charged for it appropriately.

In the hotel I work for, the monthly Profit & Loss statement (P&L) is used as an operating cost statement. At the end of each month, an overall hotel P&L is formulated, in which the main streams of revenue (Room, Food & Beverage, Spa Revenues) and the main areas of expenditures are indicated (payroll, direct expenses and Undistributed Operating Expenses/Overhead) in order to calculate/establish if a profit has been generated (if there has been a profit).

Furthermore, departmental P&Ls are elaborated. For instance, in the Room P&L statement are indicated:

- Room revenue;
- Payroll Expenses (salaries, sick pay, employment tax, etc.);
- Other Expenses (Decoration, Guest amenities, Complimentary services and gifts, Uniform laundry, Printing, and stationery, etc.);
- Departmental profit or loss;

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- Statistic (total rooms available, total paid rooms occupied, the average rate paid per room, Revenue Per Room Available, etc.).

This departmental P&L is used by managers as a cost sheet, because it enables them to analyse all costs incurred, to establish the highest source of expenses (how and where money is spent) and if there has been overspending/under spending, by comparing the actual cost figures with the budgeted and previous year figures. The results of this analysis will be considered by the head of the department which will decide if the corrective measure is needed to recover inefficiencies.

For example, our Director of Rooms analyzed the P&L of July and realized that there was overspending in Guest Amenities, by considering the revenue and the occupancy level and by comparing the actual cost figures with the budgeted and previous year figures. After investigating, he found out that the amenity programme in place was ineffective. Therefore, he decided to change it and will wait for the August P&L to see if there will be an improvement. In conclusion, a cost statement is definitely a control tool that prevents inefficiencies and guarantees consistency.