

BMIH5007 Financial Management

Break-Even

Register



HOSPITALITY
AND
TOURISM
MANAGEMENT



Man Geni Addysg Uwch yng Nghymru
Where Higher Education Began in Wales



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Where Are We Now?

Module:	Contemporary Themes for the Hotel and Hospitality Sector
Week	Lecture Topic
1	Induction
2	Introduction to the Module, Financial Terminology, and assessment overview
3	Introduction to Supply, Demand & Price Setting Market Position
4	Key Characteristics of the Hospitality Industry and Financial Management Implications Role of Finance Manager and Finance Team
5	Cost structure Assessment one (1) support
W/C 28th Oct	READING WEEK-NO CLASSES / MID-SEMESTER BREAK
6	Introduction to budgeting and Working Capital Management
7	Risk Management and Financial Strategies
8	Revenue Management
9	Balance Sheet and Income Statement
10	Break even analysis
11	Module Feedback

Recap-What did we learn last week?

Financial statements-P&L

Today's Objectives

1. Break even analysis
2. Assignment 2

Break-even

- Turnover

The amount generated by sales

- Profit

Sales – costs

- Contribution unit

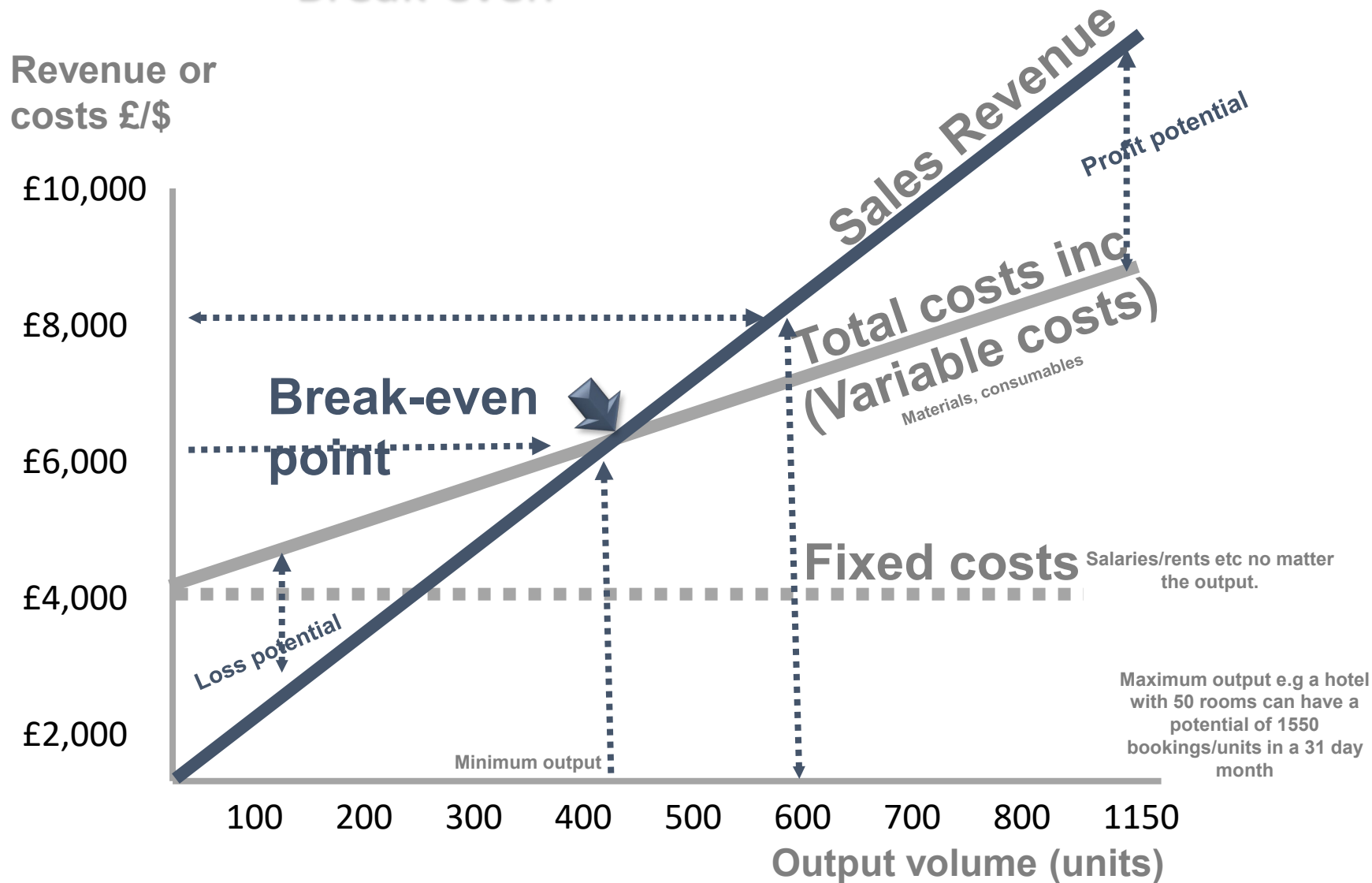
3 things you need to know to perform a breakeven analysis

- Fixed costs
- Variable costs to produce each unit
- Price per unit

Simply-

$$\text{Breakeven} = \text{Fixed costs} / \text{Price per unit} - \text{Variable costs}$$

Break-even



Let's take the example of an 87-rooms hotel at £84 per room per night. The hotel operates 365 days per year and has 58% annual occupancy.

You will need to figure out the fixed costs and variable costs for each department
e.g. for sales and marketing the total cost is £58,112 with 50% as variable costs and 50% fixed costs meaning £29,056 for each.
(Easy percentages – move the decimal point to the left to find 10% and multiply as needed)

Next figure out the potential maximum occupancy.

Next find the variable cost per room- this is total variable costs divided by the number of rooms sold on 58% occupancy.

Next find the contribution margin (selling price per room – variable cost per room).

Break even point is total fixed costs divided by contribution margin per room.

How many rooms does the hotel need to rent out per year (minimum output) to break even?

Break-even Activity 45 mins

Department	Fixed %	Variable %	Total costs
Rooms	20%	80%	£299,763
F&B	20%	80%	£236,858
Other	20%	80%	£23,107
Leisure	20%	80%	£26,478
Undistributed Operating Expenses			
Admin & General	40%	60%	£28,413
Info. & Telecom Systems	100%	0%	£24,520
Sales & Marketing	50%	50%	£58,112
Property Operating & Maintenance	50%	50%	£50,786
Utilities	75%	25%	£50,686

Refer to previous slide (12) for **Break-even Activity 45 mins**



Department	Fixed %	Variable %	Total costs
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Utilities	75%	25%	£50,686

Break-even Activity

Lets see how you did-

You will need to figure out the fixed costs and variable costs for each department -

Next figure out the potential maximum occupancy, and of that 58% annual occupancy that the hotel usually generates.

58% of occupancy.

31,755 (maximum occupancy) times 0.58).

So, the number of rooms sold this year equals 18,418

Next find the variable cost per room this is total variable costs divided by the number of rooms sold on 58% occupancy.

Variable costs per room = £553,133 / 18,418 = £30

Next find the contribution margin (selling price per room – variable cost per room.

Contribution margin = £84 - £30 = £54

Break even point is total fixed costs divided by contribution margin per room.

= 245,590 / 54 =

How many rooms does the hotel need to rent out per year to break even?

4548 rooms

Let's take the example of an 87-rooms hotel at £84 per room per night The hotel operates 365 days per year and has 58% annual occupancy.

Department	Fixed Costs	Variable Costs	Total
Rooms	£59,953	£239,810	£299,763
F&B	£47,372	£189,486	£236,858
Other	£4,621	£18,486	£23,107
Leisure	£5,296	£21,182	£26,478
Admin & General	£11,365	£17,048	£28,413
Info & Telecom	£24,520	£0	£24,520
Sales & Marketing	£29,056	£29,056	£58,112
Property Operating & Maintenance	£25,393	£25,393	£50,786
Utilities	£38,015	£12,672	£50,686
	Total		
	£245,590	£553,133	

Assessment 2

DEADLINE: Tuesday 10th December 2024 by 23: 59

2000 words Report

Report structure:

- ✓ Title/Cover page
- ✓ Acknowledgement of Generative AI use
- ✓ Executive Summary
- ✓ Table of contents
- ✓ Introduction
- ✓ Main body (with all the individual subheadings) and engage literature and use correct in text citation/academic referencing
- ✓ Recommendations
- ✓ Conclusion
- ✓ Reference list
- ✓ Check Turnitin similarity

I look forward to seeing you next week.

If you have any questions in the meantime,
please send an email from your student
account

e.wavei@uwtsd.ac.uk

Next week.....

Summary and feedback

Please have a look at the material on
Moodle, which will be made available
this Friday.