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Get out of the red with systematic budgeting

By Joseph H. Nolin, CPA

Analyze income, break down expenses, study each department . . . then project the future. Here's how.

Since many country clubs today are finding the break-even point to be located on a distant green surrounded by a moat filled with red ink, budgeting has become an extremely important aid to management. Even though a budget is merely a forecast of the income and the expenses for a future period, it can mean the difference between haphazard and systematic operating policies.

Ideally, every department of a club should be self-supporting and have a reserve accumulated so that replacements of equipment or even the addition of a new building will not require additional assessments. Accomplishing this calls for close estimating and financial planning. Certain budget principles can be employed to bring this off. But before applying these principles, one should be guided by an intimate knowledge

of the club—its financial history, present financial condition, operating results and prospects for the future.

The first principle is that the budget should be prepared in exactly the same form in which the accountants prepare the monthly statement of operations. This will facilitate comparison of the budget with the accountants' report and investigation in detail of any material differences between budgeted and actual amounts of income and expenses. Use of the "Uniform System of Accounts for Clubs"* will prove very advantageous; it makes possible a comparison of one club's results with those of other similar clubs that

use the same system. This then provides a guide in budgeting expenses—food and beverage costs, payroll, departmental expenses—by the ratios of other individual clubs or the averages of a large number.

The second principle is the analysis of sales by department. Departmental sales can be estimated closely on the basis of the preceding year and the present trend. Parties and special events always should be taken into consideration.

On the whole, the estimate of the income from the most important source, membership dues, should offer the least difficulty. Club members resign, as a rule, before their dues are charged to their accounts and billed, so that after the billing for the current period, the proportionate part of the dues for any month during the period may be determined with

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Golf Course and Grounds Expenses

	Cost Per Hole					
	18 Small Country Clubs (Dues under \$200 _M)		19 Medium Country Clubs (Dues of \$200 _M -\$300 _M)		13 Large Country Clubs (Dues of \$300 _M -\$500 _M)	
	1966	1965	1966	1965	1966	1965
Greens and grounds maintenance						
Payroll	\$2036	\$1893	\$2787	\$2661	\$3152	\$2955
Supplies and contracts	500	468	777	772	697	651
Repairs to equipment, course buildings, fences, bridges, etc.	286	201	334	314	377	339
Water, electricity and other expenses	190	167	292	277	303	282
Total maintenance exclusive of fixed charges	3012	2729	4190	4024	4529	4227
Golf shop, caddy and tournament expenses — net	468	457	676	673	690	603
Golf cars — net	r665^b	r535^b	r721^b	r638^b	r648^b	r598^b
Total	2963	2740	4253	4219	4652	4307
Deduct greens fees	767	640	1458	1386	1393	1405
Net golf course and grounds expense exclusive of fixed charges	\$2196	\$2100	\$2795	\$2833	\$3259	\$2902

_M—Thousands. ^b—Average only of those clubs reporting this item. **r**—Red figures. This is from a recent study by the accounting firm.

categories of sporting goods.

The 1972 consumer purchases of golf equipment will be almost \$350 million, NSGA estimates.

The over all economic growth of the sporting goods industry has been a dramatic one since the end of W.W. II. From 1947 to 1966, inclusive, U. S. consumer purchases of sporting goods amounted to \$37.2 billion. Last year there was \$3,320,400 worth of sporting goods purchased, a 7.9 per cent increase compared to 1966.

Yet as big as some of the figures appear, the sporting goods market as an economic entity accounts for barely 11 per cent of all recreational expenditures by the American people.

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likely that product competition will subside in large degree in the foreseeable future. Accordingly, it may be logical to suggest that future profits in the recreation business are likely to depend more upon ingenious management planning to achieve the utmost in internal, operating efficiency than upon me-too sales gimmicks and curious marketing concepts."

Get out of the red

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reasonable accuracy. The membership committee can give reliable information as to the prospects for new members.

Another budget principle to consider is that all expenses can be divided into two general classes: non-variable and variable. The former, including mortgage interest, taxes, insurance and similar items, cannot be changed by the management. It can be calculated accurately by the accounting office, because it is not affected by

fluctuations in income.

Variable expenses are not all equally flexible. The costs of heat, light, power, and water, for example, may vary with the different seasons, but the amount of income will have very little effect on it. Payroll expense is also generally easy to estimate on the basis of past records and the present trend.

On the other hand, certain other expenses fluctuate sharply in accordance with increases or de-

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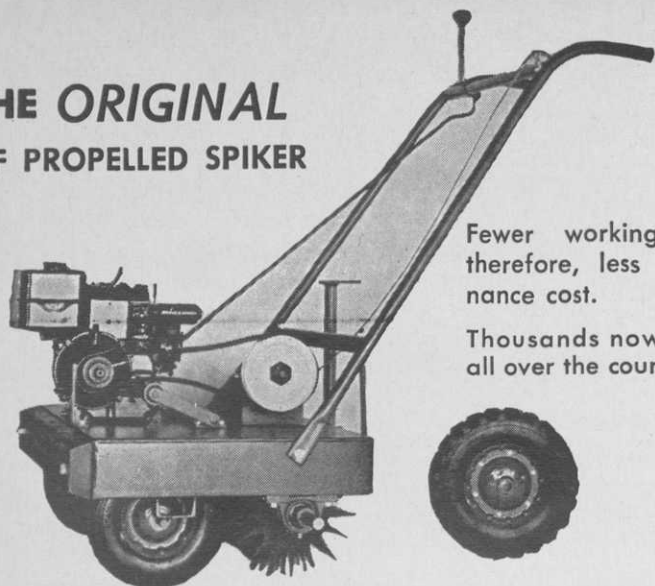
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creases in departmental sales. The first example which comes to mind is the cost of food consumed. There is nothing complex about estimating the cost of food once the sales are carefully forecast. Some clubs estimate their food costs on the basis of the average percentage of the preceding year, or even for the preceding three years, or five. That is done even though it is known that the percentage of food cost is influenced by the volume of business.

For instance, with a large volume, food can be handled more economically. However, if there is a variation in food prices between one year and another, then the estimate of food costs must be made entirely on the basis of the present cost records, and the accuracy of the estimate will depend upon the accuracy of those records.

When making an estimate of many of the expense items, use



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the assistance of the accounting office and the various committee heads responsible for the operation of the club. The accounting office can furnish analyses to show in detail what specific items are included on the various expense accounts, and the committees, which spend money, can supply information on present and future commitments. If all the persons who can be of assistance are cooperative, the preparation of a reliable monthly budget can become a matter of routine in a very short time.

After the tentative budget has been completed, it should be given an over-all review. The trend of food costs, for example, may call for raising individual menu prices or even revising the entire selling price structure. The inflationary trend in the whole economy will probably necessitate raises in dues every two or three years.

After all basic decisions are made, each section involved in the proposed budget should be reviewed by its department head or committee members who will be responsible for making it work. Any valid adjustments resulting from such review should be effected. Only then can the over-all budget be presented for approval or revision by the decision-making individuals or group.

Then it is possible to find a non-essential here and a superfluity there. Consequently, what often develops is the sport of "beating the budget." And each department head will be on the alert to better his own goal. ☐

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