

Competency Standard

UNIT TITLE: MANAGE AND CONTROL OPERATIONAL COSTS		NOMINAL HOURS: 60
UNIT NUMBER: D2.TFA.CL7.05		
UNIT DESCRIPTOR: This unit deals with skills and knowledge required to manage and to control costs associated with the operation of a travel and tourism business		
ELEMENTS AND PERFORMANCE CRITERIA	UNIT VARIABLE AND ASSESSMENT GUIDE	
<p>Element 1: Identify the context of operational costs</p> <p>1.1 Define <i>the meaning of cost</i> to the organisation</p> <p>1.2 Distinguish between the <i>classifications of costs</i> experienced by the organisation</p> <p>1.3 Identify examples of <i>actual costs</i> experienced by the organisation</p> <p>1.4 Identify <i>the decision making process</i> that relates to cost within the organisation</p> <p>1.5 Identify the <i>cost controls provided by budgeting</i></p> <p>1.6 Differentiate between <i>budget types</i> and identify their application within the organisation</p> <p>1.7 Identify the <i>budget cycle</i></p>	<p>Unit Variables</p> <p>The Unit Variables provide advice to interpret the scope and context of this unit of competence, allowing for differences between enterprises and workplaces. It relates to the unit as a whole and facilitates holistic assessment</p> <p>This unit applies to all industry sectors that seek to proactively control costs to achieve identified financial outcomes associated with operating the business within the labour divisions of the hotel and travel industries and may include:</p> <ol style="list-style-type: none"> 1. Travel Agencies 2. Tour Operation <p><i>The meaning of cost</i> may be related to:</p> <ul style="list-style-type: none"> • Regarding cost as an asset • Seeing assets as potential costs • Differentiating between costs and expenditure. <p><i>Classifications of costs</i> may include:</p> <ul style="list-style-type: none"> • Actual cost • Budgeted cost 	

<p>1.8 <i>Identify the budgets that exist within the organisation</i></p>	<ul style="list-style-type: none"> • Direct cost
<p>1.9 <i>Determine the current status of existing budgets</i></p>	<ul style="list-style-type: none"> • Indirect cost
<p>Element 2: Manage operational costs</p>	<ul style="list-style-type: none"> • Controllable cost
<p>2.1 <i>Develop or confirm procedures for managing cost</i></p>	<ul style="list-style-type: none"> • Joint cost
<p>2.2 <i>Develop or confirm documentation required to support and record cost allocations to budgets</i></p>	<ul style="list-style-type: none"> • Discretionary cost • Relevant cost
<p>2.3 <i>Develop or confirm cost analysis and verification procedures</i></p>	<ul style="list-style-type: none"> • Opportunity cost • Fixed cost and variable cost • Semi-fixed and semi-variable cost
<p>2.4 <i>Develop or confirm cost-related reporting procedures</i></p>	<ul style="list-style-type: none"> • Standard cost.
<p>Element 3: Control operational costs</p>	<p><i>Actual costs may be related to:</i></p>
<p>3.1 <i>Set budgetary limits and objectives for individual cost-related budgets</i></p>	<ul style="list-style-type: none"> • Labour
<p>3.2 <i>Monitor performance of cost-related budgets</i></p>	<ul style="list-style-type: none"> • Raw materials, including food and beverages for tours
<p>3.3 <i>Take action to address negative variances</i></p>	<ul style="list-style-type: none"> • Vehicles, fuel, repairs and registration
<p>3.4 <i>Take action to maintain positive variances or acceptable budget performance</i></p>	<ul style="list-style-type: none"> • Buildings, including supplies to maintain and operate the office(s) • Supplies for tours, including initial purchases, replacements and new acquisitions
	<ul style="list-style-type: none"> • Purchases made from suppliers, providers, carriers and third parties
	<ul style="list-style-type: none"> • Promotion and advertising • Power and utilities • Commissions payable • Interest payments and capital repayments.

The decision making process may include:

- Application of cost-benefit analysis
- The Cost-Volume-Profit (CVP) approach to decision making distinguishing between fixed and variable costs
- Depreciation schedules
- Consideration of the intangible factors that impact on cost, including safety, levels of service, reputation of the business, customer expectations, waiting and response times, nature and type of products and services provided
- Timing of spending
- Allocation of costs
- Definition and classification of costs.

Cost controls provided by budgeting should relate to:

- Creating a chart of accounts, including definitions of budgets, budget lines and code allocations
- Allocating funds to budgets and budget lines
- Undertaking forecasting activities to determine budget requirements and the timing of funds availability
- Consideration of individual cost areas by type and nature
- Direct relationship to revenue expected/projected, including reference to past accounting records and data
- An understanding of the contribution made by each budget line to overall total cost for nominated items, such as packages and deals
- An understanding of how the structure of costs impacts on results/business performance.

Budget types may include:

- Non-monetary budgets, including labour by hours/days, equipment by type and quantity, and similar
- Short-term and long-term budgets
- Capital budget
- Operation budget
- Department budget
- Master budget
- Fixed versus flexible/variable budgets.

Budget cycle will include:

- Establishing objectives for each budget
- Developing plans to enable identified objectives to be attained/achieved
- Comparing actual results with expected/projected outcomes
- Taking corrective/remedial action as required by comparison of actual and projected outcomes
- Improving budgetary effectiveness using continuous improvement concepts.

Identify the budgets that exist within the organisation may include:

- Naming the budgets
- Identifying the funding, or other non-monetary, allocations to each budget
- Identifying the chart of accounts that attach to the budgets.

Determine the current status of existing budgets may include:

- Assessing actual position compared to projected positions
- Identifying upcoming costs
- Comparing current situation to previous trends and budget data.

Procedures for managing cost may include:

- Scopes of authority for spending
- Establishment of a tender process
- Policies and procedures regarding use of budgets and application of funds
- Probity and security issues
- Use of purchasing specifications
- Checking and verification procedures for products and services received
- Cost/spending limitations linked to individual positions within the organisation
- Need to obtain multiple quotes for costs over designated amounts
- Use of preferred suppliers.

Documentation required to support and record cost allocations may include:

- Quotations received
- Tender documents
- Purchase orders
- Invoices and statements
- Credit notes.

Cost analysis and verification procedures may include:

- Monitoring of budgetary activity
- Validating costs allocated to budget lines
- Allocating indirect costs to correct revenue areas
- Calculating budget variances
- Proving the accuracy of budgets

- Undertaking cost-per-item calculations, including product, service or package
- Comparing current statistics to previous periods
- Tracking costs.

Cost-related reporting procedures may include:

- Accounting and financial reports
- Budget reports
- Performance reports
- Ensuring reports are completed accurately and made available in a timely manner
- Written budget notes with financial reports.

Budgetary limits and objectives may include:

- A nominated monetary amount
- A nominated physical quantity in a non-monetary budget
- Acceptable parameters for budget performance, including red flag signals
- Key performance indicators for evaluating budget performance in the short- and long-term.

Monitor performance may include:

- Scheduling regular budget checks and analysis
- Producing regular supporting reports
- Investigating errors and irregularities
- Calculating relevant statistics, ratios, percentages,
- Tracking costs
- Comparing actual costs incurred to forecasted estimates

- Ensuring entries have been made to the correct budget/budget line
- Verifying supporting documentation for costs
- Ensuring compliance with established policies and procedures relating to budgets and spending.

Take action to address negative variances may include:

- Double-checking statistics to ensure that the base budget report data is accurate and factual
- Negotiating prices with suppliers, providers and carriers
- Agreeing to purchase a bulk amount at a discounted price, including items, rooms, seats, tickets, and similar
- Seeking to offer pre-payment or payment on delivery in exchange for a discounted price
- Seeking to arrange contra deals with suppliers and providers
- Sourcing alternative suppliers
- Sourcing alternative products and service providers
- Tendering out purchases
- Seeking to re-negotiate existing contracts
- Identifying costs that can be eliminated and/or reduced without impacting on service provision and the identified intangible factors deemed important for the operation of the business
- Meeting with suppliers and other stakeholders to explain the needs of the business in relation to cost and seeking their solutions
- Ensuring the contractual arrangements agreed to with a supplier are being honoured
- Reviewing initial allocations to budgets to determine if they were unrealistic in the first instance

- Making extra funds/resources available to budgets as required
 - Seeking a better cost sharing arrangement with partners, head office, sub-agencies and similar
 - Inviting suppliers, providers and carriers to share in current existing costs, such as promotions, advertising, promotional materials, familiarisations
 - Amending existing policies and procedures to restrict current authorisations for spending
 - Reviewing stock procedures to eliminate and/or reduce theft
 - Implementing checking procedures to ensure that all items paid for have been received
 - Checking staff practices to ensure that products and services are not inadvertently being provided to customers, where they have not been included as a cost in the deal
 - Removing products and services from the menu of products and services available, where costs are unacceptable
 - Reviewing stock rotation protocols to ensure stock is not being discarded due to age or damage
 - Investigating wastage statistics to determine whether products are being used improperly and/or causing excess consumption of materials
 - Providing suggestions for action to management.
- Take action to maintain positive variances or acceptable budget performance may include:*
- Determining if lessons from one budget can be applied to another budget
 - Negotiating an extension of an acceptable contract under the same costs with an existing supplier, provider or carrier
 - Congratulating personnel responsible
 - Remaining loyal to suppliers, providers and carriers who are providing acceptable cost prices
 - Entering into a contractual relationship with a supplier where no contractual arrangement currently exists
 - Providing suggestions for action to management.

Assessment Guide

The following skills and knowledge must be assessed as part of this unit:

- Enterprise policies and procedures in regard to financial management and control
- Knowledge of and the ability to apply principles of accounting, including use of journals and ledgers, and the double-entry system of accounting
- Ability to use budgetary and internal control and monitoring techniques
- Knowledge of costs associated with conducting the host organisation operation
- Understanding of supply alternatives, terms and conditions relating to products and services purchased and negotiation parameters that apply to the travel and tourism industries
- Ability to analyse and interpret budgets
- Ability to identify and respond to budget variances, including the ability to identify causes of budget variances
- Ability to negotiate with suppliers, providers, carriers and other businesses
- Knowledge of the role and type of supporting documentation that accompany costs
- Ability to generate budget reports and associated and supplementary financial reports and statements
- Ability to use software packages to manage and control costs, where appropriate.

Linkages To Other Units

- Access and retrieve computer-based data
- Perform clerical procedures
- Prepare tenders for catering contracts
- Establish and maintain a business relationship
- Develop new products and services

- Produce documents, reports and worksheets on a computer
- Plan and establish systems and procedures
- Use common business tools and technology
- Work cooperatively in a general administration environment
- Develop and implement operational policies
- Audit financial procedures
- Maintain financial standards and records
- Manage financial performance within a budget
- Monitor catering revenue and costs
- Manage legal requirements for business compliance
- Manage stock purchases and inventory
- Provide professional support to business colleagues
- Develop and update tourism industry knowledge
- Process a financial sale transaction
- Prepare and submit quotations
- Minimise theft
- Receive and store stock
- Interpret financial statements and reports
- Maintain a secure financial accounting system
- Manage contractual agreements/commitments
- Prepare financial statements.

Critical Aspects of Assessment

Evidence of the following is essential:

- Understanding of host enterprise policies and procedures in regard to financial management and control
- Demonstrated ability to identify the context of operational costs in a nominated real or simulated industry business, including:
 - Identifying the classifications of cost that apply
 - Identifying actual costs
 - Identifying the cost controls that exist
 - Identifying the budget types that exist
- Demonstrated ability to describe effective, viable and comprehensive procedures that could apply to the management of provided budgets within nominated real or simulated industry business, including:
 - Identifying the documentation required
 - Identifying cost analysis and verification procedures
 - Identifying reporting procedures
- Demonstrated ability to describe the action that could be taken in response to nominated budget-related information to address negative budget outcomes within a designated industry context.

Context of Assessment

This unit may be assessed on or off the job:

- Assessment should include practical demonstration either in the workplace or through a simulation activity, supported by a range of methods to assess underpinning knowledge
- Assessment must relate to the individual's work area or area of responsibility.

Resource Implications

Training and assessment to include access to a real or simulated workplace: and access to workplace standards, procedures, policies, guidelines, budgets, tools and equipment.

Assessment Methods

The following methods may be used to assess competency for this unit:

- Case studies
- Observation of practical candidate performance
- Oral and written questions
- Analysis of a portfolio of evidence produced by the candidate, including budgets, revised budgets, budget notes, financial statements and budget reports, recommendations for addressing budget variances
- Third party reports completed by a supervisor
- Project and assignment work.

Key Competencies in this Unit

Level 1 = competence to undertake tasks effectively

Level 2 = competence to manage tasks

Level 3 = competence to use concepts for evaluating

Key Competencies	Level	Examples
Collecting, organising and analysing information	3	Gather budget data to determine budget performance
Communicating ideas and information	2	Explain revised or new budget controls to staff
Planning and organising activities	3	Schedule budget reviews

	Working with others and in teams	3	Liaise with suppliers and others to negotiate improved deals
	Using mathematical ideas and techniques	3	Calculate budgetary statistics
	Solving problems	3	Determine action to respond to unacceptable budgetary outcomes
	Using technology	3	Use accounting software to record and manipulate budget data