

# Toliza Museum of Art

## Current Expensing Structure

The Toliza Museum of Art is in the process of reviewing its performance from 2008 when it ran at a deficit in three well-received special exhibits. This deficit impacted the museum's finances as a whole, producing a deficit of almost \$1 million rather than the budgeted surplus of just over \$2.5 million, as seen in Exhibit 1. This is particularly concerning since the museum sold more admission tickets than anticipated, and also garnered \$2 million more in admission fees than expected, as seen in Exhibit 2. While there was a decrease in the average price of each ticket, museum admissions saw an increase of 25% in the actual number of admissions sold as compared to the budgeted number. The increase in quantity of sales more than made up for the decreased price. However, part of the surplus/deficit issue is illuminated by Exhibit 3 which shows that the curatorial staff expenses also saw changes in both pricing and number of hours between what was budgeted and what was actually used. However, although the actual hourly rate was on average \$1 less than budgeted, the number of actual hours used were severely increased by almost 30%. Due to this, the actual expenses for the curatorial staff were over \$500k more than budgeted.

## Option: Change the Discounted Rate

Although budgeted expenses are vastly different than actual, we do have the option to simply bring in more money through admissions to offset the increased expenses. Discounted admissions are one third of the price of standard admission, but account for almost half the total admissions. Although increasing the price of discounted admissions will necessitate a decrease in users of that admission rate, Exhibit 4 shows that increasing the price to \$10 will vastly improve the profitability of museum admissions, even with a decrease of 10% in discounted admission sales. However, this ability to bring in additional funds through adjusting admissions rates does not solve the mystery of the increase in expenses. That's where Activity Based Costing comes in.

## Option: Use Activity Based Costing

For activity-based costing, we have direct costs allocated to regular and special exhibits, along with added allocations for curatorial and security activities which do not have direct cost comparatives (Exhibit 5). While there is not a direct cost associated with each exhibit type for curatorial and security activities, those expense pools can be calculated using the average hourly rate for each employee type and the actual hours used for each exhibit type. Exhibit 6 shows the expenses associated with each exhibit type for direct, curatorial, and security costs. With that, it's clear that the regular exhibits do have an increased expense as compared to special exhibits. However, the revenue brought in for each exhibit type, also in Exhibit 6, demonstrate that regular exhibits are operating at a profit of almost \$2 million while the special exhibits are operating at a deficit of over \$2.5 million.

## Recommendation

Recommendations for making the museum more profitable are two-fold. To start with, I would recommend the museum adjust the price of discounted admission as the increase in revenue will more than offset the decrease in the number of admission tickets sold for that rate. That will provide a stop-

gap solution, however the solution will be a temporary one unless the increase in expenses is accounted for. As such, my secondary recommendation would be to thoroughly analyze the profitability of special exhibits as compared to their expense to ensure increased profits are not negated by equally increased expenditures.

Exhibit 1 – Actual vs. Budgeted Revenue and Expense Variance

	<b>Actual</b>	<b>Budgeted</b>	<b>Variance</b>	<b>F/U</b>
Revenue	30,779,500 €	29,060,000 €	1,719,500 €	F
Expense	31,772,550 €	26,361,000 €	5,411,550 €	U
Surplus/Defecit	(993,050) €	2,699,000 €	3,692,050 €	U

Exhibit 2 – Museum Admission Revenue per Visitor

<b>Museum Admissions Revenue Per Visitor</b>					
	<b>Actual Price</b>	<b>Budgeted Price</b>	<b>Quantity</b>	<b>Variance</b>	<b>F/U</b>
Price	12.00 €	12.50 €	1,000,000	500,000 €	U
	<b>Actual Quantity</b>	<b>Budgeted Quantity</b>	<b>Price</b>	<b>Variance</b>	<b>F/U</b>
Quantity	1,000,000	800,000	12.00 €	2,400,000 €	F
	<b>Actual</b>	<b>Budgeted</b>	<b>Variance</b>	<b>F/U</b>	
Admissions Variance	12,000,000 €	10,000,000 €	2,000,000 €	F	

Exhibit 3 – Curatorial Staff Expenses

<b>Curatorial Staff Expense Per Hour</b>					
	<b>Actual Price</b>	<b>Budgeted Price</b>	<b>Quantity</b>	<b>Variance</b>	<b>F/U</b>
Price	19.00 €	20.00 €	139,650	139,650 €	F
	<b>Actual Quantity</b>	<b>Budgeted Quantity</b>	<b>Price</b>	<b>Variance</b>	<b>F/U</b>
Quantity	139,650	104,000	19.00 €	677,350 €	U
	<b>Actual</b>	<b>Budgeted</b>	<b>Variance</b>	<b>F/U</b>	
Curatorial Staff Variance	2,653,350 €	2,080,000 €	573,350 €	U	

Exhibit 4 – Prospective Changes to Discounted Admission Rates

<b>Prospective Museum Admissions Revenue Per Visitor - New Discounted Rate</b>					
	<b>Actual Price</b>	<b>Budgeted Price</b>	<b>Quantity</b>	<b>Variance</b>	<b>F/U</b>
Price	13.61 €	12.50 €	970,000	1,075,000 €	F
	<b>Actual Quantity</b>	<b>Budgeted Quantity</b>	<b>Price</b>	<b>Variance</b>	<b>F/U</b>
Quantity	970,000	800,000	13.61 €	2,313,402 €	F
	<b>Actual</b>	<b>Budgeted</b>	<b>Variance</b>	<b>F/U</b>	
Admissions Variance	13,200,000 €	10,000,000 €	3,200,000 €	F	

Exhibit 5 – Activity Cost Pool Amounts

	<b>Regular Exhibits</b>	<b>Special Exhibits</b>	<b>Curatorial Activities</b>	<b>Security Activities</b>	<b>Total</b>
Executive Director & Fringe	122,500 €	105,000 €	70,000 €	52,500 €	350,000 €
Director of Development & Fringe	115,500 €	73,500 €	10,500 €	10,500 €	210,000 €
Head Curator & Fringe	- €	- €	175,000 €	- €	175,000 €
Administrative Staff & Fringe	58,800 €	50,400 €	33,600 €	25,200 €	168,000 €
Curatorial Staff	- €	- €	2,653,350 €	- €	2,653,350 €
Security Guards	- €	- €	- €	3,304,100 €	3,304,100 €
Insurance	3,250,000 €	3,250,000 €	- €	- €	6,500,000 €
Maintenance	787,652 €	387,948 €	- €	- €	1,175,600 €
Utilities	2,618,250 €	2,618,250 €	- €	- €	5,236,500 €
Mortgage	8,040,000 €	3,960,000 €	- €	- €	12,000,000 €
<b>Total</b>	<b>14,992,702 €</b>	<b>10,445,098 €</b>	<b>2,942,450 €</b>	<b>3,392,300 €</b>	<b>31,772,550 €</b>

Exhibit 6 – ABC for Regular and Special Exhibits

	<b>Regular Exhibits</b>	<b>Special Exhibits</b>
Directly Allocated Costs	18,483,489 €	12,998,326 €
Curatorial Activities	- €	- €
Security Activities	- €	- €
<b>Total Costs</b>	<b>18,483,489 €</b>	<b>12,998,326 €</b>
Revenue	20,385,250 €	10,394,250 €
Total Costs	18,483,489 €	12,998,326 €
<b>Surplus/Deficit</b>	<b>1,901,761 €</b>	<b>(2,604,076) €</b>

