# BMIH5007
# Financial Management

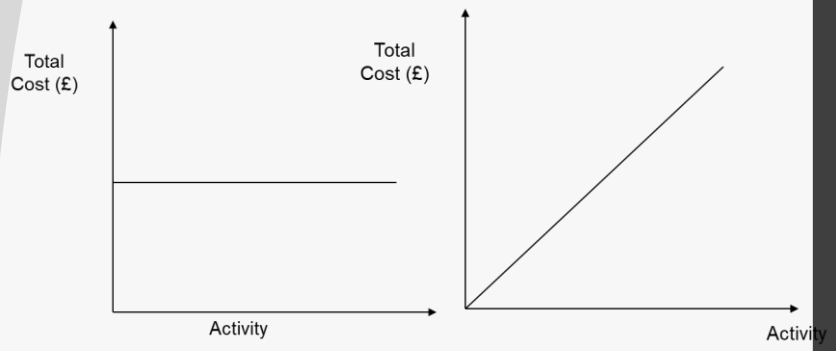
# Budgeting

# Recap

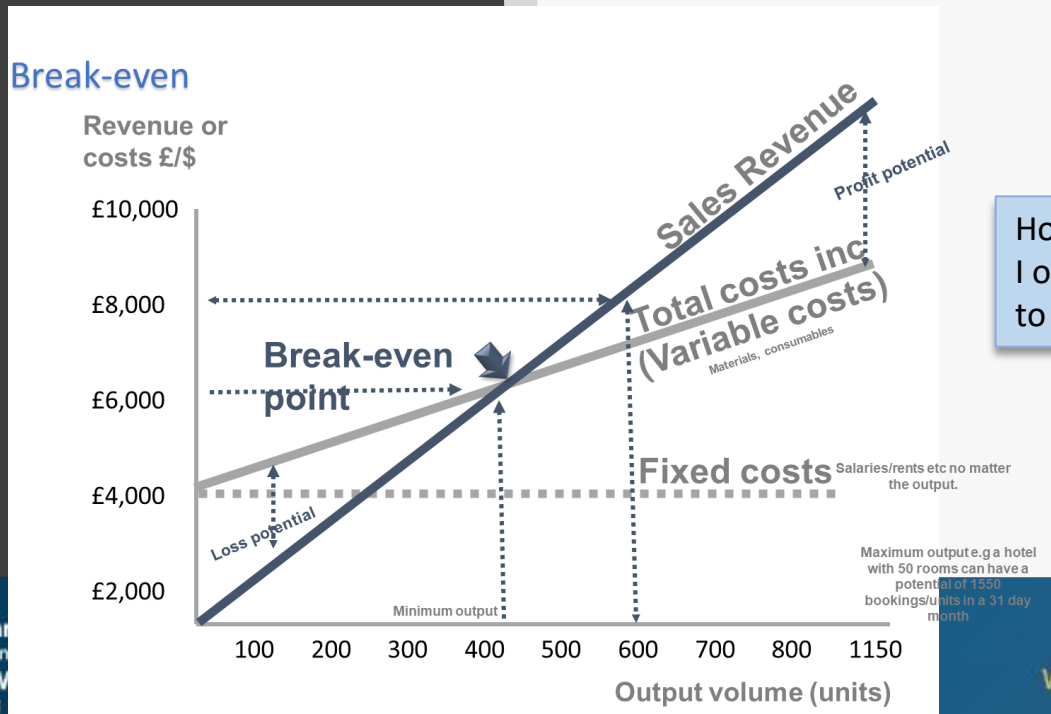
Last week gave an overview of…

What does this graph represent?

And this one?




-Cost of raw materials
-Direct labour costs




How much will I loose roughly if I only sell 100 rooms according to this breakeven graph?

# Aims for today

- Understand Planning and Budgeting
- Advantages of Budgeting
- Prepare a budget

# What do you know about budgeting?

# What is a budget?

A budget is "a quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. A budget provides a focus for the organisation aids the co-ordination of activities and facilitates control."

(Chartered Institute of Management Accountants (CIMA) 2005)

# What is a budget?

- A budget is a financial plan for a set period in the future
- Organisations should consider what income they expect to receive and what expenses they are likely to incur during this time period
- This information can then be used to predict the surplus or deficit they expect to obtain during the budgeted period

# Why budget?

According to Seal et al (2015), one common factor in two recent financial crises has been the collapse of businesses that seemed to have thought that practices such as budgeting were obsolete.

In the past, some managers avoided budgeting because of the time and effort involved in the budgeting process

# There are two types of budgeting

**Zero-based budgeting**

- Start with a blank page
- All income and expenditure will be considered and analysed in depth
- Level of analysis allows for consideration on how appropriate each 'spend' is

**Incremental budgeting**

- Start with a budget from previous period (if there is one in place) and adjust accordingly – enabling 'quick' forecasting if performance has been consistent
- Limited opportunities for research – particularly if significant changes may occur over the next fiscal year

# Personal budgets

The budget of an organisation serves many of the same functions as that of an individual. However, business budgets tend to be more detailed and involve more work to create. But, besides that, they are similar to those prepared by individuals in many regards.

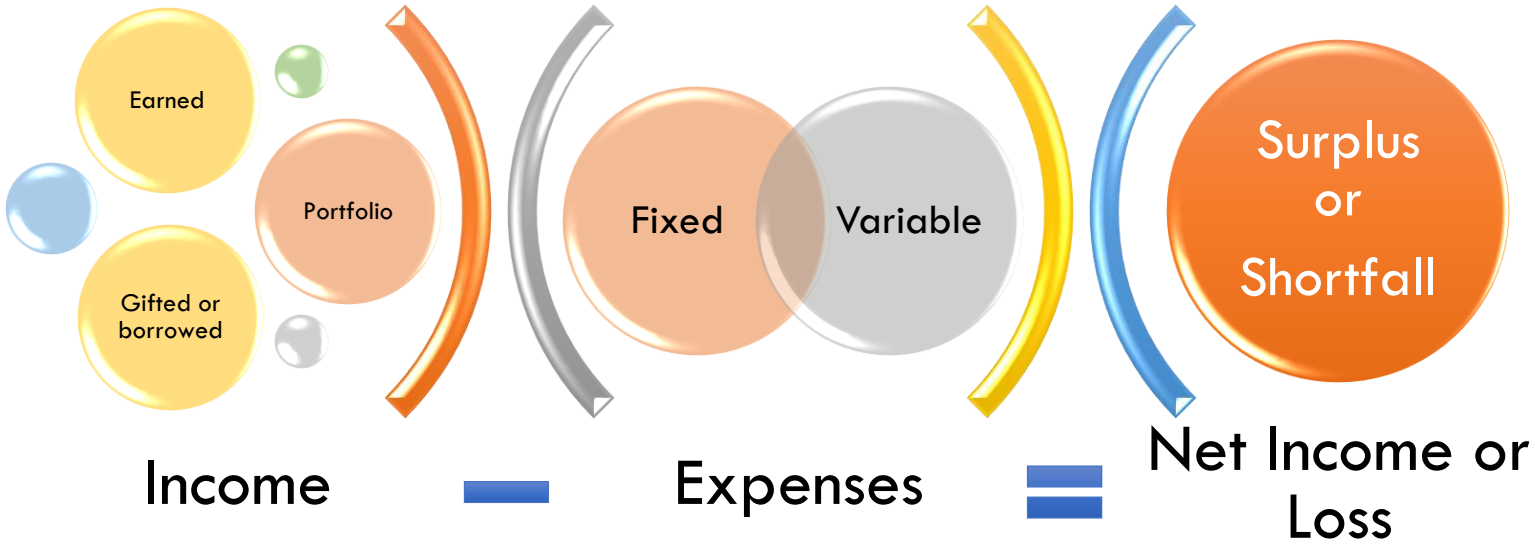
Nearly everyone budgets to some extent

Even though many people do not recognise what they are doing is budgeting

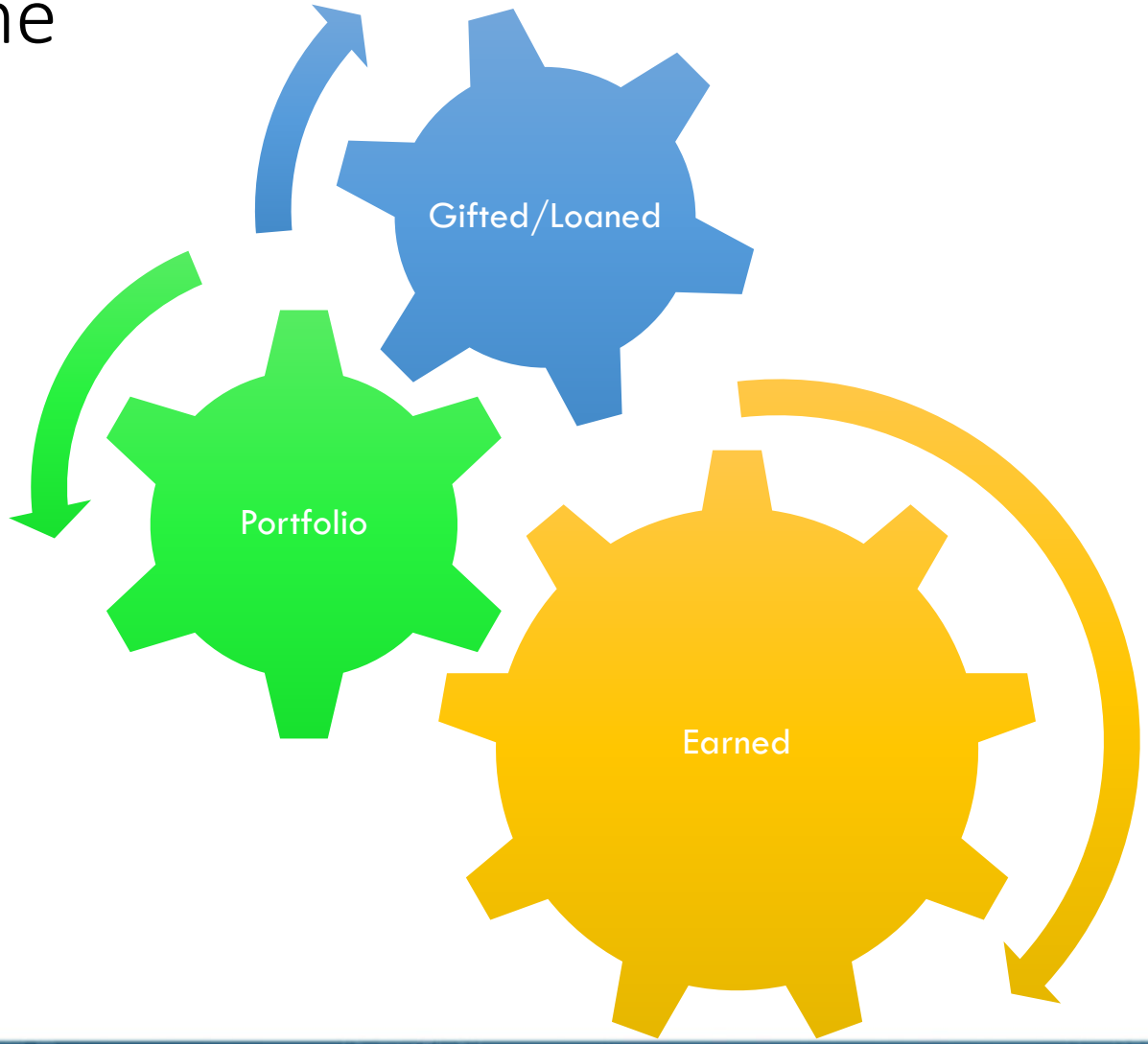
For example, most people make estimates (or have knowledge of) their income and plan their expenditures based on this figure

As a result of this planning, people restrict their spending to some predetermined allowable amount

# Basics of Budgets



# Income



# Expenses

## Fixed

- Rent
- insurance
- Assets
- Salaries

## Variable

- Consumables
- Hourly wages
- Raw materials
- Utilities
- F&B

# Profit!

What is the difference between Gross and Net?

Gross profit = Turnover – cost of goods sold

Operating profit = Gross profit – operating costs

Net profit = Operating profit - interest

# Budgeting Activity 1 hour (Break out room)

James needs help developing a budget.

# Strategic Planning

- If opportunities or threats present themselves, the organisations response is limited by the resources available to it
- Therefore, an organisation must audit its own resources and examine its own strengths and weaknesses.
- Examination of Financial resources, physical capacity and human capability are essential elements when determining an organisations strengths and weaknesses

# Operating budget

- Operating budgets are generally set to run for 1 year
- The 1 year period should be aligned to the organisations financial year
- The success of the budget programme is determined by the way in which the budget is developed

# Master budget

The master budget involves inter-relationships, as it is formed by a number of separate but interdependent budgets, that set out the company's sales, production and financial goals.

The master budget then culminates in the cash budget, budgeted statement of profit or loss and a budgeted balance sheet

# The budget sequence

The budgets are usually prepared in a particular sequence,

1. Sales Budget (Incomes)
2. Debtor Budget (Open accounts owed to the organisation)
3. Stock Budget (Cost of raw materials)
4. Creditor Budget (Owed to our creditors)
5. Fixed-expenses Budget (utilities, rent etc..)
6. Fixed-assets Budget (expenditure on, and depreciation of fixed assets)
7. Cash Budget (estimate of monthly receipts and payments)

# A typical business budget setting process could involve several steps

1. Agree objectives for the year
2. What income will be available?
3. What expenses will be incurred?
4. Construct a draft budget
5. Review predicted budget surplus/deficit
6. Make any necessary changes
7. Seek formal approval sign/off

# SCENARIO

- The hotel's management plan to undertake a series of upgrades to the premier suites.
- Following discussions with the hotel accountant, it was determined that revenue in the previous year was low.
- The following questions should be asked by the Planning Committee, and the answers should be sought from sources both within and outside the organisation

    1. Can revenues be increased in any way?
    2. Can costs be reduced in any way?

# Can revenues be increased in any way?

## Here are some possible methods, what issues do you see?

Raising the price of rooms and vending machine stocks?

What about the effect on demand?

Lower the wage rates of non-contracted staff?

What about the effect on staff turnover, recruitment and general staff attitudes?

Reducing maintenance costs?

Greater costs for repairs in the future.

# Assessment 2

## DEADLINE: Thursday 14th November 23.59

## 2000 words Report

**Case Study: The City Hotel**

**Introduction:** The City Hotel with restaurant, bar and event facilities located in an urban landscape. However, in recent years, the hotel has experienced a decline in revenue, occupancy rates, and customer satisfaction. The owner, is concerned about the future viability of the business and has enlisted your expertise to assess if the business can be salvaged through a turnaround strategy.

**Scope and Objectives: The primary objectives of this assessment are to:**

- Analyse the hotels' financial performance over the past three years.
- Identify the key reasons behind the decline in profitability.
- Develop (if possible) a comprehensive turnaround strategy to revitalize the hotels' financial health and restore its reputation, or the most viable financial outcome for the owner.

# Any questions……?

I look forward to seeing you next week.

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

*t.hawkins@uwtsd.ac.uk*

Next week……

Risk Management & Financial Strategies

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