

Assignment 2:

Continental Hotel Budget Planner

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Financial Management for the Hotel Industry

BMIH5007

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Executive Summary

The report will show the budget planner for The Intercontinental Hotel expenses in detail. Overview understanding of traditional based budget and zero-based budget. Look into the detail process of zero-based budgeting and in what way this can be implemented within the business. How it can be adapted for the organisation. Ensuring the information provided shows clearly the expenditure, if there are any unwanted items, how they can be avoided to save additional costs leading to the organisation in making more profits. Identifying the advantages and disadvantages for both techniques of traditional based budgeting and zero based budgeting. Will look into how budget control can be sustainable and what is required to ensure sustainability and how it can support budget control.

Introduction

The table shown in Part 1 is prepared to show the month by month cash flow budget forecast for the forthcoming year from January 2022 to December 2023 for The Intercontinental Hotel which sets out budget plan of expenses. The forecast shows in detail of all activities and expenses. Including the net monthly income and expenditure alongside the opening and closing balance of the bank balance for the hotel.

Table – Part 1

	Jan £	February £	March £	April £	May £	June £	July £	August £	Sept £	Oct £	Nov £	Dec £	Total £
Receipts :													
Payment on business accounts	85,000	66,000	85,000	40,000	42,000	49,000	56,500	66,900	74,000	49,000	50,900	50,800	715,100
Cash sales	6,800	6,800	6,800	6,800	6,800	6,800	6,800	6,800	6,800	6,800	6,800	6,800	81,600
Interest Received	180	2,547	4,415	6,910	8,029	9,299	10,729	12,505	14,636	17,032	18,815	20,718	125,815
Total Receipts	91,980	75,347	96,215	53,710	56,829	65,099	74,029	86,205	95,436	72,832	76,515	78,318	922,515
Payments :													
News Papers	150	150	150	150	150	150	150	150	150	150	150	150	1,800
Magazines	250	250	250	250	250	250	250	250	250	250	250	250	3,000
TV Licences				3,000									3,000
Freehold													
Beverages				350		350		350		350		350	1,750
Mini Bar	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Fixtures and fittings					1,750	1,750	1,750	1,750					7,000
Entertainment/Sky	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Property expenses													
Utility Bill	700	700	700	700	700	700	700	700	700	700	700	700	8,400
Laundry													
Energy costs													
Fitness Cost	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Vehicles Valeted	140	140	140	140	140	140	140	140	140	140	140	140	1,680
Payments to suppliers													
Vehicles Insurance												4,000	4,000
Salaries	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	72,000
Vehicles	275	275	275	275	275	275	275	275	275	275	275	275	3,300
Van													
Petrol and diesel	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Rates	300	300	300	300		300	300	300	300	300	300	300	3,300
Building Insurance									2,500				2,500
Marketing													
Overdraft Interest													
Total payments	13,065	13,065	13,065	16,415	14,515	17,435	14,815	15,165	15,565	13,415	13,065	17,415	174,730
Balance b / f	6,000	84,915	147,197	230,347	267,642	309,956	357,620	416,834	487,874	567,745	627,162	690,612	751,515
Net cashflow in month	78,915	62,282	83,150	37,295	42,314	47,664	59,214	71,040	79,871	59,417	63,450	60,903	747,785
Balance c / f	84,915	147,197	230,347	267,642	309,956	357,620	416,834	487,874	567,745	627,162	690,612	751,515	1,499,300

Traditional based budgeting

Traditional based budgeting plays an important part within management control for businesses. Even though budgeting is part of a process of the organisation it can also be seen as a tool to manage data and evaluate and set certain guidelines on how and when to spend. Usually businesses spend the whole amount of budget planned. If they don't spend then either the budget that was initially planned was too high which then will result in receiving lower budget for the following year. This may cause concerns as there may be limitations of resources available (ICAEW, 2022).

According to Jonsson & Akerlund (2012) traditional based budgeting is also known as fixed budgeting. There are three phases, firstly budget creation which consists of budget developing on future predictions of costs and revenues. Secondly budget follow up, this includes the comparison of the actual versus the predicted budgeting. Finally the third phase, budget analysis. This allows organisations to study and absorb the information gained and plan for the future as this will aid the organisation in performing better in the next period (Jonsson & Akerlund, 2012).

Advantages of traditional based budgeting is that it supports the decision making process as it allows to identify any concerns and make amendments or changes accordingly. Reduces any unnecessary costs not required, evaluate prices of items and compare for better pricing to make savings. This also benefits vendors and investors as the information will allow them to check the organisations financial plans and actual outcomes (Blakely-Gray, 2018).

Any implementation made is easily completed and saves time, most organisations are familiar with the method used which brings stability of the operational of the organisation as consistency is maintained. Any information obtained can easily be completed and transferred remotely, preparation of the budgeting are also easily completed. Allows to monitor the underperforming areas of the organisation and provides various opportunities in improving (EFinance Management, 2022).

The disadvantages are that once the budgets have been made they are then fixed and rigid, no further changes can be made. The budgets are made by management at a higher level who usually only make limited changes which initially leads to lack of involvement of other members of the organisation. This can therefore lead to low motivation within the team as they will feel less valued. Inaccuracy may occur if the previous years budget has been completed

with errors which overall impacts the current years budget, leading to the lack of progression of the organisation in growth (EFinance Management, 2022).

According to EFinance Management (2022) inflation may be made when management purposely increase their budgeting without justifying the reasons of the decisions.

Adding to this Wolf (2019) states traditional budgeting consumes time and can be lengthier to complete, occupies vast amount of corporate resources which then increases expenses.

Zero Based budgeting

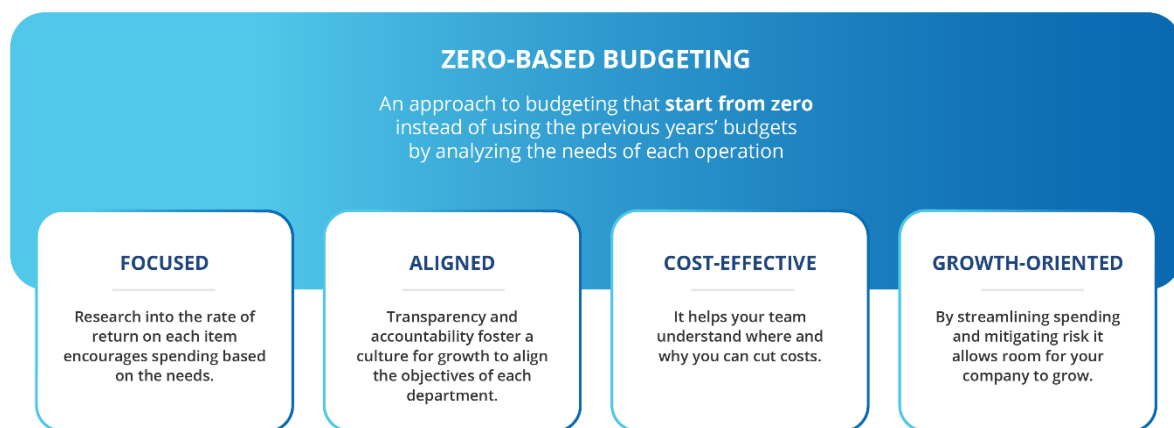
Zero based budgeting is a process that aids and brings into line the expenditure which the company makes with calculated aims to achieve. The organisation needs to start at zero at the beginning of each year for their annual budget and eventually start building up over time. This will then show whether the items stated within the annual budget report is profitable, money well spent and allowing to also save during the process (Anaplan, n.d.),

Zero based budgeting can be created and adapted to the companies requirements. Following the five steps will provide the foundation of the process. Firstly starting the annual budget report at zero without any previous accounts included in the report. Assess all costing areas within the business, trying to exclude any unwanted expenditures. Identify the relevant and cost effective items which are spent and areas saved. Rationalise and define the required activities which need to be completed and how it is to be implemented but ensuring an automated procedure is in place. Finally perform and execute plan ensuring all elements are clearly explained (Anaplan, n.d.).

Flexible budget, attentive process, costs which are kept low and controlled execution are the major advantages for flexible budgeting. Supply intensity, influenced by managers who have their own perception, favour plans which are short-term can all be disadvantages of the flexible budgeting (Cheng, 2021).

If the correct implementation is made, zero-based budgeting can aid the organisation to manage their expenses effectively as this is required with the challenging economic climate. It can also encourage the organisation to assess what is occurring within the business that positively or negatively impacts the business. Make awareness of the cost structure and take accountability, allows control over the budget and encourages improvements (Serren, 2022).

The negative impact of zero based budgeting is the amount of time which is required to manage and complete the report. It is not simple to complete and someone who is inexperienced to create the structure of the report will require someone who is financially skilled. Budgeting method can become difficult or impossible. If there is an unpredicted income and some expenses may be harder to justify whether the business needs the activity or it can be cut back on to save money. Budget is only planned for a specific length of time, which can also lead to easy way of manipulating data and extra resources may be included (Cheng, 2021).



(Detaysoft, n.d.)

Both traditional budgeting and zero based budgeting are techniques which are mainly used in organisations but can vary with their requirements (EFinance Management, 2022).

How budgeting control supports sustainability

“A sustainable budget is a budget where a client’s income meets or exceeds his or her expenses. It can be based on estimated or actual expenses and income.” (HUD exchange, 2022)

If the budget proves that it is within or outside affordability of the clients control and clear informative data is received. They can make decisions based on this information than this can be seen as sustainable (HUD exchange, 2022).

The budgeting procedure allows the monitoring of the financial plan, against the real sales and expenses of the business. With goals and objectives set up accordingly based on the individual organisation and amendments made if any shortfalls to ensure the goals are achieved. There are also three types of budgeting control, operation budgeting control, cash flow budgeting control and CapEx budgeting control. (EDUCBA, n.d.).

Having a budgeting control can be an advantages as it allows the control of various activities and organise accordingly, co-ordination between each sectors of the organisation is maintained, helps to identify expenses which not necessarily required and can be avoided to improve and increase profitability. The disadvantages are that future budgeting may be difficult to measure and plan, some organisation may not have the affordability for a budgeting control (Oecd-Ilibrary, 2022).

Budgeting control is indeed a very important management tool that can be implemented to control and monitor regular and daily activities which can be seen as long term vision. If this tool is used correctly, this can provide an effective measure of controlling costs for the organisation (Oecd-Ilibrary, 2022).

According to ICAEW (2022) to allow companies in becoming more sustainable they need to take into consideration the environmental and social performance as non-monetary.

If financial and sustainability decisions are not coordinating, than this can impact projects not being sustainable for long term as it will not be able to uphold the pressures which may occur overtime. This a huge barrier and requires integration between the two to insure the project is impactful (Putt, 2013).

Conclusion

To summarise both traditional based budgeting and zero based budgeting are equally as important and commonly used in most businesses. Traditional based budgeting extends from previous years budgeting and activities are planned on the basis of the outcome of the previous year and financial records. Zero based budgeting starts of at the beginning of the financial year with zero balance for the annual budget and eventually is building up over time with more control power. Leading to the organisation being able to eliminate any unwanted expenses . Any implementation taken will require realistic reasoning of the spending of money and monitored at a later date. Budgeting control supports sustainability as it will support the organisation to build their vision with the environmental and social elements taken into account.

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