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# ZERO-BASED BUDGETING FOR BUSINESS

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## Executive Summary

In a Zero-based budgeting model, The Continental Hotel can revise their business cost, which will help to improve their plan and can bring efficacy to their business. Variable costs will help The Continental Hotel to keep controlled their business budgets. Over tradition budgeting plan The Continental Hotel can improve quicker using zero-based business budgeting. In this budgeting tool, The Continental Hotel can use their finance with accuracy, efficiency and improve business communications with coordination. Using zero-based budgeting business can cut up their excess cost and helps in managing wise investment and will bring sustainability in business.

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## Task 1

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|                       |               |               |               |               |               |               |               |               |               |               |               |               |                |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Bank fee              |               |               |               |               |               |               |               |               |               |               |               |               | 0              |
|                       |               |               |               |               |               |               |               |               |               |               |               |               | 0              |
| <b>Total payments</b> | <b>7,363</b>  | <b>10,315</b> | <b>10,015</b> | <b>13,515</b> | <b>11,665</b> | <b>12,265</b> | <b>11,765</b> | <b>12,565</b> | <b>12,115</b> | <b>10,515</b> | <b>10,315</b> | <b>14,515</b> | <b>136,928</b> |
|                       |               |               |               |               |               |               |               |               |               |               |               |               |                |
|                       |               |               |               |               |               |               |               |               |               |               |               |               |                |
|                       |               |               |               |               |               |               |               |               |               |               |               |               |                |
| Balance b / f         | -6,000        |               |               |               |               |               |               |               |               |               |               |               |                |
|                       |               |               |               |               |               |               |               |               |               |               |               |               |                |
|                       |               |               |               |               |               |               |               |               |               |               |               |               |                |
| Net cashflow in month | 74,437        | 43,854        | 72,662        | 24,738        | 27,630        | 34,088        | 42,217        | 41,979        | 49,525        | 36,275        | 38,111        | 33,847        |                |
|                       |               |               |               |               |               |               |               |               |               |               |               |               |                |
|                       |               |               |               |               |               |               |               |               |               |               |               |               |                |
| <b>Balance c / f</b>  | <b>68,437</b> | <b>43,854</b> | <b>72,662</b> | <b>24,738</b> | <b>27,630</b> | <b>34,088</b> | <b>42,217</b> | <b>41,979</b> | <b>49,525</b> | <b>36,275</b> | <b>38,111</b> | <b>33,847</b> | <b>513,362</b> |

## Task 2

### 1. Introduction

Zero-based budgeting is a strategic plan in which no business is kept idly, all are used in the business to manage business cost and handle business with sustainability. This budgeting indicates that all income from the business is invested into the business to make prosper in the business (Stonich, 1977). This is a strategic budgetary plan where a business needs to allocate its budget wisely so that money does not go down. The Continental Hotel is a private hotel which is situated in London. there they have presented costs in their business which expensed in every month. This report is going to introduce zero-based budgets and zero-based budgets or ZBB can be introduced in The Continental Hotel to manage their business cost and make it sustainable.

### 2. Zero Based Budgeting

#### 2.1 Zero-based budgeting

A strategic budgetary tool such as ZBB or zero-based budget in which businesses need to utilize all their incomes or revenue as expenditures to control business cost and business need to prepare separate plan each time to allocate their budget to develop a certain part of the business at a time (An experiment in zero-base budget analysis, fiscal 1978, 1977). Before implementing zero-based budget businesses need to evaluate market conditions and determine which sector they need to develop before making their business sustainable and managing their cost with increasing profits. While implementing these budgeting tools businesses need to focus on their fixed cost rather than variable or operation costs. As The Continental Hotel business is not so big. They need o cross a far path to develop their business. in this case, zero-based budgeting can be proved beneficial for their business. But as a privately owned business, zero-based budgeting is risky. Zero-based budgeting is a more detailed budgeting process rather than any other type of budgeting process, where The Continental Hotel can prepare a plan for every month and they can also find in which segment they need to pay higher amount regularly and where they can make ups and down in costs. This business budgetary tool will help The Continental Hotel to understand the variable cost and use business money in other segments of the business.

## 2.2 Advantages of Zero-based budgeting over Traditional Based

- **Evaluate what to improve:** In zero-based budgeting, The Continental Hotel need to analyse the cost of each segment in their business which will give a clear concept about business cost individually in each period of time. This will help The Continental Hotel where should allocate more money in their business and improve business activity than better with sustainability. but in traditional business budgetary organisations find which cost they can eliminate from their business
- **Identifying area of cost reduction:** In zero-based budgeting by analysing the cost of every month, The Continental Hotel can find in which they need to expend less and can improve later. Like The Continental Hotel is a service providing business they need to ensure payment of their employee and should not compromise with utility facilities with the customer. they need to stay focus in several areas like this which will bring customer satisfaction and they can improve their business net-gross profit ratio. Oppositely, the traditional budgetary plan is focused on reducing cost using cost reduction tools in their businesses.
- **Prioritize business activity:** In a zero-based business model, The Continental Hotel can identify their prime activity in their business before forecasting their budgets. They can figure out which is most necessary for them in their business on a primary basis (Braun, Tietz and Beaubien, n.d.). The Continental Hotel can stay focused on that sorted activity, which helps to generate profit and bring money for their business to invest profits with the activity of the business. Following this procedure, The Continental Hotel can develop its business with time. But in the traditional business budgeting model business administrator make a plan how to make better operation in each sector inside their business, which needs much money for the operation.
- **Development of business with detailing:** In Zero-based budgeting, The Continental Hotel can evaluate the number of expenses in each sector. they can measure what they must need to do and which can be delayed or at a slow pace (Horngren and Harrison, 2015). The Continental Hotel can also get a chance of evaluation by using a monthly zero-based budgeting model, which will reflect the growth of their taken initiatives in their business. Using zero-based budgeting The Continental Hotel can reduce or increase their workload in a specific sector in their business, which will provide more concentration in their activity and can stay focused on their business goal. But in a traditional budgeting plan business will develop a general initiative with a long term

observation, and zero-based will be based on a short term like months or weeks which brings more detail in allocating and forecasting business budgets in The Continental Hotel.

- **Cost-effectiveness:** In zero-based business model businesses like The Continental Hotel get several chances to evaluate the business cost and enough time to make plans where then can delay in budget forecasting or reduce the budget to increase operation budgets and improve the business condition (An experiment in zero-base budget analysis, fiscal 1978, 1977). The Continental Hotel can reduce the waste of money from their budget and use finance with accuracy which brings profit and reduce the possibility of a loss of investment. besides that, using zero-based budgets The Continental Hotel can improve their communications and coordination in work which will help to bring sustainability inside the business of The Continental Hotel.

### 2.3 How the Organisation Might introduce Zero-based Budgeting

Using zero-based budgeting, The Continental Hotel need to find places of cost in their business. In the next step, The Continental Hotel need to evaluate why they should do it and what will be its outcome and then prioritize activity with a list. Then they need to allocate the amount of finance which they need to expense. if there will is a shortage of finance they will be they need to find a scope where they can reduce their cost and where they need to forecast properly.

In the scenario, it is mentioned that from January to December there business costs were £75,000, £46,000, £75,000, £30,000,£32,000,£39,000,£46,500,£46,900,£54,000, £39,0000,£40,800, £40,900. There The Continental Hotel has shown some fixed cost with their business in every month like £3,000. For employment, £800 for utility bills, quarterly of £300 for the subscription of magazines, annual insurance bill is £2500, cost vehicle maintenance in each month is around £500. There are some variable costs in their business like virgin active subscription, in-room beverage subscription, petrol charges, newspapers, suppliers and so on. These costs can be modified to calculate a round figure of budgets with accuracy and usability. These initiatives will help to bring sustainability with allocating and forecasting budgets.

## 3. Conclusion

A zero-based budget is an effective tool for The Continental Hotel. Using this strategic tool The Continental Hotel can use their finance wisely and accurately. This will reduce their

business risk and will help to bring sustainability to their business. By reducing variable costs and allocating finance for the fixed cost they can modify their cost in each segment. This budgeting strategy will help The Continental Hotel to develop their business gradually and can cover-up their lacking in their business strategy which will make their business sustainable.

## 5. Reference List

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