



Financial Management for the Hotel Industry

Md Alimuzzaman Malik

Student ID: 2027785

Lecturer: Christopher Wilkin

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Introduction

There are two main objectives for this report. First, we will see the hotel's budget plan. Step two involves writing out a report for the account's director. The study will provide a quick overview of several budgeting approaches.

Analysis of Cash Flow Forecast

In the following, the cash flow forecast for Grand Hotel is briefly analysed.

	Apr £	May £	Jun £	Jul £	Aug £	Sep £	Oct £	Nov £	Dec £	Jan £	Feb £	Mar £	Total £
Receipts :													
Payment on business accounts	185,000	166,000	185,000	140,000	142,000	149,000	156,500	166,900	174,000	149,000	150,900	150,800	19,15,100
Cash sales													0
Interest Received	405	1,904	3,146	4,782	5,498	6,278	7,227	8,446	9,842	11,174	12,267	13,224	84,193
Mini Bar	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	106,800
Total Receipts	1,94,305	1,76,804	1,97,046	1,53,682	1,56,398	1,64,178	1,72,627	1,84,246	1,92,742	1,69,074	1,72,067	1,72,924	21,06,093
Payments :													
Restaurant													0
Freehold													0
Fixtures and fittings													0
Wardrobe		3,500	3,500	3,500	3,500								14,000
Sky Subscription		1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	13,750
Property expenses													0
Car Insurance									8,000				8,000
Premier league license												6,000	6,000
Laundry	1,625	1,625	1,625	1,625	1,625	1,625	1,625	1,625	1,625	1,625	1,625	1,625	19,500
Energy costs													0
Payments to suppliers													0
Wages	57,500	57,500	57,500	57,500	57,500	57,500	57,500	57,500	57,500	57,500	57,500	57,500	6,90,000
Salaries													0
Mini Bar	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
Training											12,500		12,500
Virgin Pass													0
Vehicles lease	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	33,000
Utility Bills	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Van													0
Petrol and diesel	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Flates	3,200		3,200	3,200	3,200		3,200	3,200	3,200	3,200	3,200	3,200	32,000
Valeting (135'4)	540	540	540	540	540	540	540	540	540	540	540	540	6,480
Marketing													0
Overdraft Interest													0
Beverage		2,700		2,700		2,700		2,700		2,700		2,700	16,200
Magazines	2,150				2,150				2,150				6,450
Overtime	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400	3,400	40,800
Newspaper	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	13,800
Gym ir Swimming Pool Pass Out	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
F&B	27,800	27,800	27,800	27,800	27,800	27,800	27,800	27,800	32,100	27,800	27,800	27,800	3,37,900
Building Insurance						5,500							5,500
Total payments	1,12,615	1,14,715	1,15,215	1,17,915	1,17,365	1,16,715	1,11,715	1,14,415	1,26,165	1,14,415	1,24,215	1,20,415	14,05,880
Balance b / f	13,500	95,190	157,279	2,39,109	2,74,877	3,13,909	3,61,372	4,22,285	4,92,115	5,58,693	6,13,352	6,61,204	42,02,884
Net cashflow in month	81,690	62,089	81,831	35,767	39,033	47,463	60,912	69,831	66,577	54,659	47,852	52,509	7,00,213
Balance c / f	95,190	1,57,279	2,39,109	2,74,877	3,13,909	3,61,372	4,22,285	4,92,115	5,58,693	6,13,352	6,61,204	7,13,713	49,03,097

Cash Inflows: Cash inflows are the several ways that cash is brought into the company (Almeida et al., 2019). The Grand Hotel has consistent streams of cash flow from the payments made by clients on their business accounts. The Grand Hotel has the difficulty of ensuring that its guests pay on time for their stays. Any cause at all for a payment to be late might have a significant impact on the hotel's ability to generate revenue. According to the projection mentioned above, the monthly cash inflows will be around £175,000 p/m and will add up to £21,000,000 over the course of one year of business. Grand Hotel also generates income from mini bar which is a very little contribution to its total cash inflows. The Grand Hotel not only makes money via the payments made by customers, but it also collects interest on the money that is left in the bank at the end of each day.

Cash Outflows: These are transactions that involve the extraction of cash from the company. While forecasting cash outflows, it is essential to ensure that a sensible (or cautious) stance is taken on both the amount of money that will be paid and the time when it will be paid (Almeida et al., 2019). From analysing the cash outflows of Grand Hotel, it is evident that most of its cash outflows have occurred through wage payments to the hotel employees and workers. While looking at the cash flow projection for Grand Hotel, the monthly cash outflows are normally about £1,171,57. However, there are a handful of months where certain investments in property and buildings cause the amount of cash flowing out of the firm to increase.

Net Cashflow: It's the sum of all cash receipts minus all cash payments. Money coming in and going out has varied from month to month (Epstein and Pava, 2020). Cash flow projections for Grand Hotel show an impressive monthly net inflow with the exception of July when there is a net outflow of £35,767.

Opening Balance: The opening bank balance is the amount of money in a bank account at the beginning of a given time period. Grand Hotel starts its new financial year with a bank balance of £13,500.

Closing Balance: This is the total amount of money that was in the bank at the end of the previous month. Grand Hotel has received 2% of interest on the closing balance of its bank account.

(a) Explaining the Importance of Budgeting for Business Organizations

A budget is a plan for allocating a set amount of money over a predetermined time frame, such as a month, quarter, or year (Treasury, 2021). It enables a company to foresee costs, accomplish strategic objectives, and prepare for necessary shifts in operations. A budget is beneficial for tracking progress and keeping tabs on expenses. Many new company owners are swept away by a flood of optimism and enthusiasm when they launch their venture, but quickly discover that without a well-planned budget, it is impossible to formulate a viable strategy for moving forward (Sivabalan et al., 2021). Financial resources projected cash outflows, and expected inflows are all accounted for and planned for in a budget. By comparing actual results to planned costs, businesses may better allocate funds to projects that will help them expand and thrive. It frees up management time so that capital may be used to boost efficiency, cut expenses, grow profits, and maximize ROI (Kilgore, 2022). There are a wide variety of factors to consider and nuances to take into account while developing a budget. P-R-I-M-E is the abbreviation for this process, and each letter stands for one of the goals that should be accomplished while putting together a budget.

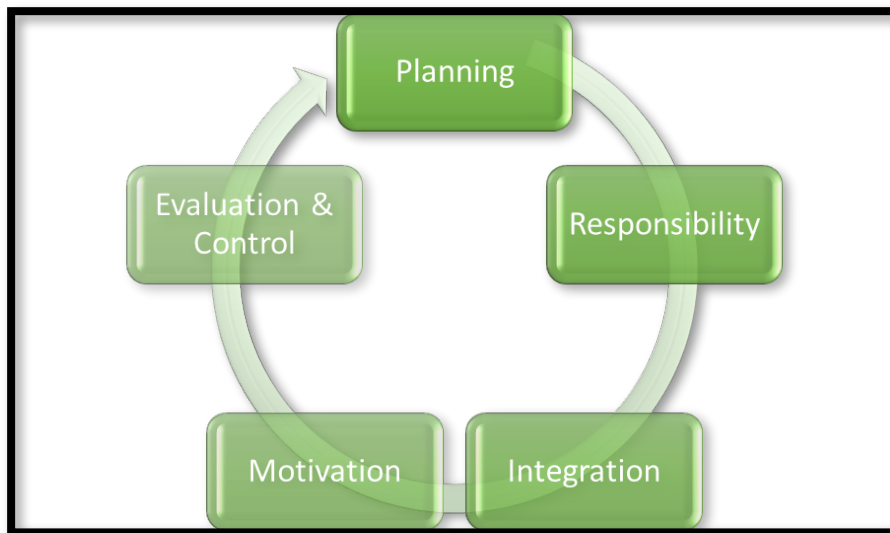


Figure 1: Steps in Budgeting Source: (Sivabalan et al., 2021)

Planning (P): When it comes to planning, everything revolves around determining the goals of the company. Consequently, the process of putting together a budget compels the management of an organization to think about the goals of the company (Pilkington and

Crowther, 2020). It also compels the company to think forward and prepare for any potential dangers that may wait in the wings.

Responsibility (R): The second function of a budget is to promote responsibility. In order to instil a sense of responsibility in managers, it is essential to first define exactly what it is that they are accountable for (Covaleski et al., 2019). A manager is provided with a very clear notion of the results that he or she is expected to be controlling, as well as what it is that they will be judged on, and what it is that they are truly responsible for, by having a budget.

Integration (I): The integration and coordination of resources are the second reason for creating a budget. The term "alignment" is used to describe the process of bringing all of a company's departments, divisions, or other organizational subunits together around the same purpose (Covaleski et al., 2019).

Motivation (M): The next purpose is motivation. A manager's performance can be measured against predetermined goals outlined in a budget. Therefore, the managers strive to work for achieving the objectives of the budget.

Evaluation (E): Last but not least is the evaluation function. This is the most crucial step in developing a budget since it requires monitoring and adjusting the progress of the firm to make sure it stays on track to achieve its goals (Pilkington and Crowther, 2020).

For the aforementioned functions, Grand Hotel Account Directors can consider preparing a budget since the hotel will be able to monitor its financial standing and make long-term and short-term plans for anything from hiring new staff to expanding current operations with the help of effective budgeting tools.

(b) An Overview of Incremental Budgeting, Activity-based Budgeting, Value Proposition Budgeting, and Zero-based Budgeting

Incremental Budgeting: Incremental budgeting is a method of budgeting in which a new budget is created by making minor adjustments to the existing budget. To account for changes in expected resources, the current budget may increase or decrease any existing line items (Tucker, 2022). With a view to creating a budget for the current year, incremental budgeting begins with the actual numbers from the previous year and then adds or subtracts a percentage from those statistics. Because it is straightforward and easy to comprehend, it is the approach of budgeting that is used the most frequently. If the fundamental cost drivers remain the same from one year to the next, incremental budgeting is the method that should be utilized.

There are a few reasons why incremental budgeting may be attractive to businesses. These are briefly outlined as follows:

Simplicity: Budgeting on an incremental basis does not require extensive analysis or knowledge of accountants (Greenwood, 2021). This strategy is simple to apply, even for business owners with limited familiarity with diverse budgeting strategies.

Stability: Given the predictability of recurring costs, incremental budgeting might be useful for preserving financial stability over time (Greenwood, 2021).

Even though it is straightforward and consistent in its application, incremental budgeting is widely criticized for a number of fundamental flaws.

Promotes Extra Spending: Since incremental budgeting varies each year based on the demands of the business, it is commonplace for departments to spend as much of their budget as possible in order to get the same amount or more the next fiscal year (Tucker, 2022).

Budgetary Slack: Managers can inflate their department's productivity by underestimating revenue or overestimating costs, both of which are unethical yet possible.

Discourages Innovation: Since current budgets are derived from historic ones, there is limited room for flexibility to support new initiatives.

Activity-based Budgeting: In activity-based budgeting, expenses are assigned to categories of activities rather than generic categories like in traditional budgeting. Spending plans are then developed in accordance with the expected level of work (Cooper and Slagmulder, 2020). The act of analysing, evaluating, and justifying every business expense is likely the most evident advantage of implementing an ABB. It compels the firm to have a thorough understanding of all costs related to revenue production. It assists the company in unifying efforts to cut and control expenditures.

ABB consists of three primary steps which are briefly outlined as follows:

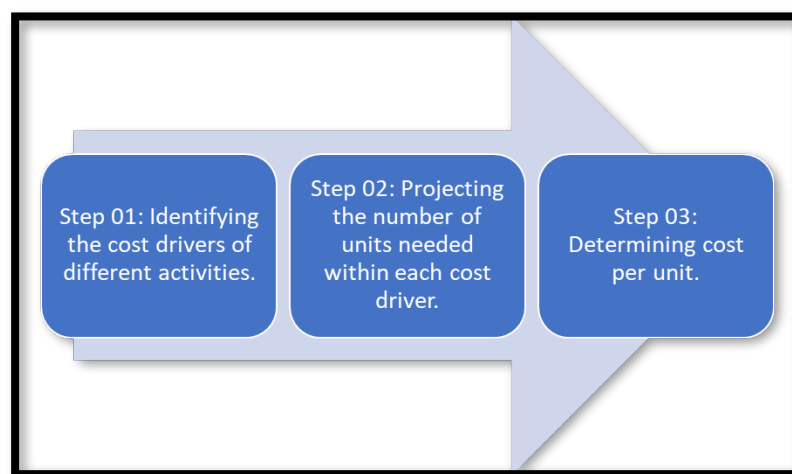


Figure 2: Steps in ABB Source: (Bleeker, 2021)

Some pros and cons of this budgeting technique are briefly described in the following table.

Pros	Cons
When compared to other budgeting approaches, ABB provides greater transparency into the expenses connected with each operational activity for the firm's management (Bengü, 2020). It is helpful to dissect these expenditures in order to spot potential problems that are eating into a company's profit margins.	One potential drawback of activity-based budgeting is the extra labour and time involved in keeping tabs on all the various activities that may not have dedicated monitoring mechanisms in place.

Value Proposition Budgeting: The approach of budgeting based on the value proposition examines in excruciating detail everything that is included in the planning of the finances.

This kind of budgeting gives businesses the capability to eliminate wasteful spending from their plans and pinpoint the primary factors that contribute to costs (Douglas and Overmans, 2020). By putting the emphasis on the value that various components of operations bring to workers, stakeholders, and customers, it is one simple approach to guarantee that organizations are not funnelling money into channels that are not essential.

Pros	Cons
This strategy assists the management in determining the components that contribute the greatest value and removing those that contribute no value at all or do not contribute to the concept statement of the firm. Value proposition budgeting helps firms focus on adding value to consumers, stakeholders, and staff.	This strategy encourages short-term thinking. It's not always as simple as calculating an item's worth, and doing so may lead you to eliminate something necessary but hard to quantify (Douglas and Overmans, 2020).

Zero-based Budgeting: The most aggressive approach to cutting expenses via budgeting is known as zero-based budgeting (Pyhrr, 2022). This is one of the most prevalent budgeting methods, especially in times of financial difficulty, and it is based on absolute zero. This implies that each department's budget is \$0, thus everything must be recreated from the ground up. The financial plan might help the hotels to decide what needs fixing or replacing. As an added bonus, it helps figure out what kinds of useful tools may be bought and where the focus should go in the future year (Pyhrr, 2022). Therefore, Grand Hotel should implement a zero-based budgeting technique to have robust control of its costs.

The entire process of zero-based budgeting is described in the context of the Grand Hotel.

Step 01: Defining the Business Objectives- Before the start of the new accounting period, Grand Hotel's business objectives should be specified and explained (Wetherbe and Montanari, 2021). If Grand Hotel's primary objective is to cut expenditures, increase profits, or a combination of the two, it should begin by identifying a particular corporate target and ensuring that it can be quantified.

Step 02: Directing Activities towards Achieving the Aim- This phase of zero-based budgeting contains the tasks necessary to achieve the corporate objectives stated in the previous phase by the Grand Hotel. Grand Hotel must take a deeper look at the optimal allocation of resources in order to achieve its goals.

Step 03: Scrutinizing the Cost Drivers- Grand Hotel must calculate how much it will cost to achieve its objectives. While calculating its operating costs, Grand Hotel must account for inflation and other macroeconomic variables.

(c) Measuring the Budgeting Control on Supporting Sustainability

Having a solid budget in place is essential for maintaining monetary sustainability and carrying out a well-planned schedule of events (Bui and De Villiers, 2019). The cash flow statement, budget, and actual report, and overall budget all reveal whether or not the firm is basically on track with the budget plan, putting the business in a strong position to manage its finances.

Distribution of public funding is crucial for long-term viability. National policy responses to sustainable development have probably improved due to the Paris Agreement on Climate Change and the Sustainable Development Goals (SDGs) being embraced by governments throughout the world in the preceding several decades. The Organization for Economic Cooperation and Development (OECD) intends to encourage nations to establish creative ways to budget planning and preparation by promoting more openness, citizen engagement, and objective evaluation of government expenditure (Canton, 2021). The Paris Collaborative on Green Budgeting collaborates closely with governments in order to better align their budgets with their environmental and climate change objectives.

Green budgeting may help people at all levels of government and the general public understand how their spending habits affect the environment. Considering Better judgments regarding how to increase income and distribute resources may be made when the long-term consequences of policies on future generations and the long-term sustainability of resources are taken into account (Bova, 2021). There may be a lack of or insufficient application of data on the ecological effects of various spending options. To align incentives and create a unified approach to policymaking supported by financial considerations, the budget should encompass environmental issues across all policy areas, from the environment and climate to transportation, health, and money. Most OECD countries' climate change adaptation budgetary plans come from the ministry in charge of such matters. Canada, Finland, and Ireland are among the nations that have integrated climate change funding into their overall budget strategies. So, using performance indicators that are tied to a government's budget could help in creating a more organized plan for sustainability (Bova, 2021).

Conclusion

This paper focused on two primary goals over its whole. The completed huge hotel budget plan will be shown to us first. The second step is to compose a report that will be given to the director of the account. This research will present a high-level summary of a number of different budgeting methodologies.

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