

CONTINENTAL HOTEL BUDGET PLANNER

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INTRODUCTION

Zero based budgeting is the method in which all the expenses must be validated for the new period. It is firstly introduced during the year 1960 by Peter Pyhrr who is the former Texas instruments accounts manager. Zero based budgeting will start from zero and it will justify all the expenses which are incurred by the entity during its operational period. Zero based budgeting will enable top to bottom strategic approach so that project which is under consideration performance can be analysed strategically (Lester, 2018). Zero based budgeting can be created in excel too starting from entering the income or expenses in excel workbook, then input the expected budget, then start making changes in the budget until the final budget will become zero and then the final step is to monitor the actual income or expenses accordingly. In this report the significance of zero-based budgeting has been explained by comparing the same with traditional approach the business concern follows. Also, this report highlights about the advantage of ZBB to the organisation so that business processes can be improved.

TASK:

1. Cash flow forecast for the Hotel with respect to forthcoming year: -

(Covered in Excel)

2. Report on Zero Based Budgeting:

(A) Define and evaluate the process involved in Zero-based budgeting:

Zero-based Budgeting (ZBB) is defined as a method of budgeting which requires each cost element to be specifically justified, though the activities to which the budget relates are not being undertaken for the first time. The cost of each activity has to be justified and without justification, the budget allowance is zero (Crowley and Hudgins, 2022).

Zero based budgeting differs from the conventional system of budgeting because it mainly starts from scratch or zero and not on the basis of trends or historical levels of expenditure. In the customary budgeting system, the last year's figures are accepted as they are, or cut back or increases are granted. Zero based budgeting on the other hand, starts with the premise that the budget for next period is zero so long the demand for a function, process, project or activity is not justified for each rupee from the first rupee spent.

Zero-based Budgeting (ZBB) is an emergent form of budgeting which arises to overcome the limitations of incremental (traditional) budgeting system.

ZBB is an activity-based budgeting system where budgets are prepared for each activity rather than functional department. Justification in the form of cost benefits for the activity is required to be given. The activities are then evaluated and prioritized by the management on the basis of factors like synchronisation with organisational objectives, availability of funds, regulatory requirement etc (Gupta, Tyagi, and Singh, 2019).

ZBB is suitable for both corporate and non-corporate entities. In case of non-corporate entities like Government department, local bodies, not for profit organisations, where these entities need to justify the benefits of expenditures on social programmes like mid-day meal, installation of street lights, provision of drinking water etc.

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The process involved in zero based budgeting are as under: -

- Identification and description of Decision packages: Decision packages are the programmer or activities for which decision is required to be taken. The programmer or activities are described for technical specifications, financial impact in the form of cost benefit analysis and other issues like environmental, regulatory, social etc.
- Evaluation of Decision packages: Once Decision packages are identified and described, it is evaluated against factors like synchronization with organizational objectives, availability of funds, regulatory requirement etc (Capuno, Rivadeneira, and James, 2018).
- Ranking (Prioritization) of the Decision packages: After evaluation of the decision packages, it is ranked on the basis priority of the activities. Because of this

prioritization feature ZBB is also known as Priority-based Budgeting.

- Allocation of resources: After ranking of the decision packages, resources are allocated for decision packages. Budgets are prepared like it is done first time without taking reference to previous budgets.

(B) Advantage of Zero-based budgeting over the traditional Method:

The advantage of zero-based budgeting over traditional method is as under: -

- It provides a systematic approach for the evaluation of different activities and rank them in order of preference for the allocation of scarce resources.
- It ensures that the various functions undertaken by the organization are critical for the achievement of its objectives and are being performed in the best possible way (Banerjee, Cicowiez, and Vargas, 2019).
- It provides an opportunity to the management to allocate resources for various activities only after having a thorough cost-benefit-analysis. The chances of arbitrary cuts and enhancement are thus avoided.

The areas of wasteful expenditure can be easily identified and eliminated.

- Departmental budgets are closely linked with corporation objectives.
- The technique can also be used for the introduction and implementation of the system of 'management by objective.' Thus, it cannot only be used for fulfillment of the objectives of traditional budgeting but it can also be used for a variety of other purposes.

Zero based budgeting is superior to traditional budgeting in the following manner:

- It provides a systematic approach for evaluation of different activities.
- It ensures that the function undertaken are critical for the achievement of the objectives (Gössling, Humpe, and Bausch, 2020).
- It provides an opportunity for management to allocate resources to various activities after a thorough – cost benefit analysis.
- It helps in the identification of wasteful expenditure and then their elimination. It facilitates the close linkage of departmental budgets with corporate objectives
- It helps in the introduction of a system of Management by Objectives.

The difference between Zero based budgeting and Traditional Budgeting are under: -

- Traditional budgeting is accounting oriented. Main stress happens to be on previous level of expenditure. Zero-based budgeting makes a decision-oriented approach. It is very rational in nature and requires all programs, old and new, to compete for scarce resources.
- In tradition budgeting, some managers deliberately inflate their budget request so that after the cuts they still get what they want. In zero-based budgeting, a rationale analysis of budget proposals is attempted. The managers, who unnecessarily try to inflate the budget request, are likely to be caught and exposed. Management accords its approval only to a carefully devised result-oriented package (Arabnejad, Bubendorfer, and Ng, 2018).
- In traditional budgeting, it is for top management to decide why a particular amount should be spent on a particular decision unit. In Zero-based budgeting, this responsibility is shifted from top management to the manager of decision unit.
- Traditional budgeting makes a routine approach. Zero-based budgeting makes a very straightforward approach and immediately spotlights the decision packages enjoying priority over others.
- Traditional budgeting is not as clear and as responsive as zero- base- budgeting is management focuses attention to only on decision packages, which enjoy priority to others.

(C) Introduction of such technique by the organisation in practical terms:

The organisation can implement zero based budgeting by careful and well-planned approach along with implementation of following steps:

In order for ZBB to be deployed, the typical procedure must be totally reinvented from scratch. The first step is to perform extensive research so that you can determine exactly what actions to take in order to improve the company's operations. In order for budget holders to adopt and accept new processes, it is critical for the entity to identify the technologies that allow them to discover and implement new processes. The accounts payment department of the company must keep track of the entire amount of invoices that it processes, thus it is vital that they are well-informed about their drivers (Choi, Abbas, and Lee, 2018). Employees must be adequately trained and educated in order for ZBB to be successfully implemented in a business. This training and education should involve learning about the new strategy and system in order to assist the transition. Prior to implementing Zero Based Budgeting, an

organization's threshold limit must be determined in order to identify whether costs are significant enough to be included in a zero-based budget. Achieving good collaboration between senior management and the project's workers is crucial. Clear communication and a willingness to listen are two important skills to have. Routine consultations with experts are required for management in order to learn from the mistakes and experiences of others. This has an impact on every part of an organization and can result in major organizational changes (Hendy, 2018). To successfully implement a new method, it is vital that an organization understand and embrace ZBB, which is an empowering technology that helps processes become more natural and requires less intensive training than traditional approaches do. Throughout the budget period, every dollar spent is evaluated by ZBB, which is primarily concerned with justifying all operating expenses and giving recommendations to increase revenue. To put it into practice at all levels of business operations, the company should conduct a comprehensive review of all departments and programs and then prepare an estimation based on the ZBB concept in order to identify and eliminate unnecessary costs from the organization's structure, freeing up funds that can be used more wisely in other areas of the organization (Wu and Chen, 2021).

CONCLUSION

From the above report the conclusion can be drawn that ZBB is the unique technique that helps in building or improvising the business concern business process by renovating the budget structure which newer techniques as compare to traditional method. This report shows the brief description about the ZBB along with its advantage to organisation and how differs from the traditional method. Further the above report highlights certain points that how a corporation can implement such techniques practically so that their business along with processes can be improved. Further a comparative analysis has been conducted between zero based budgeting and traditional method so that deviations can be analysed in both the methods accordingly. This report also includes the forecasted cash budget an hotel industry can make on the basis on estimation of estimation of revenue and expenses and such report regarding the estimation has been submitted to top management of the entity so that decision can be taken accordingly. This cashflow forecast provides the estimation that support the income statement of entity for the next year and accordingly the expenses will be made.

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