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Financial Management for the Hotel Industry

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Introduction

This report is about Financial Management for the Hotel Industry. The first part of the report will conduct a budget plan for a continental hotel. All the necessary attributes regarding the business of the hotel will be planted on the excel file to assume the budget for the fort period. The second part is about a zero-based budget plan. The initial part is about the definition and process of this budget method. The second part of this will be discussed the advantages of this method over the traditional budget method. The final part is about the process to launch this budget approach in a business firm.

Task 1 Budget Planner (January 2022- December 2023)

Task 1 Budget Planner																											
Year	2022													2023													
	Jan	February	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Receipts :																											
Sales	75,000	46,000	75,000	30,000	32,000	39,000	46,500	46,900	54,000	39,000	40,900	40,800	565,100	75,000	46,000	75,000	30,000	32,000	39,000	46,500	46,900	54,000	39,000	40,900	40,800	565,100	
Mini-bar	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	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	120	1,558	2,439	3,923	4,473	5,105	2,883	6,771	7,734	8,862	9,750	10,693	64,311	11,573.62	13,235.79	14,345.21	15,851.60	16,854.77	17,756.57	18,822.41	20,059.56	21,323.45	22,710.62	23,631.53	24,846.87	221,223	
Total Receipts	81,920	54,358	84,239	40,723	43,273	50,905	56,183	60,471	68,534	54,662	57,450	58,293	711,011	93,374	66,036	96,145	52,863	55,655	63,557	72,122	73,760	82,123	68,511	71,332	72,447	867,923	
Payments :																											
Premier League License				3,000													3,000									3,000	
Sky Subscription	250	250	250	250	250	250	250	250	250	250	250	250	3,000	250	250	250	250	250	250	250	250	250	250	250	250	3,000	
Virgin Active Subscription	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	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	
Utilities	800	800	800	800	800	800	800	800	800	800	800	800	9,600	800	800	800	800	800	800	800	800	800	800	800	800	9,600	
Vehicle lease	275	275	275	275	275	275	275	275	275	275	275	275	3,300	275	275	275	275	275	275	275	275	275	275	275	275	3,300	
Subscriptions		300			300			300			300		1,200		300			300			300			300		1,200	
Wages	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	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	
Suppliers	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	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	
Newspapers	150	150	150	150	150	150	150	150	150	150	150	150	1,800	150	150	150	150	150	150	150	150	150	150	150	150	1,800	
Vehicle Insurance												4,000	4,000													4,000	
Furniture					1,750	1,750	1,750	1,750					7,000														
Petrol and diesel	500	500	500	500	500	500	500	500	500	500	500	500	6,000	500	500	500	500	500	500	500	500	500	500	500	500	6,000	
Rates	400	400	400	400		400	400	400		400	400	400	4,800	400	400	400	400	400	400	400	400	400	400	400	400	4,800	
Valeting	140	140	140	140	140	140	140	140	140	140	140	140	1,680	140	140	140	140	140	140	140	140	140	140	140	140	1,680	
building Insurance									2,500				2,500									2,500				2,500	
Overdraft Interest																											
Bank fee																											
Beverages				250		250		250		250		250	1,250	250	250	250	250	250	250	250	250	250	250	250	250	3,000	
Total payments	10,015	10,315	10,015	13,265	11,665	12,015	11,765	12,315	12,115	10,265	10,315	14,265	138,330	10,265	10,565	10,265	13,265	10,565	10,265	10,265	10,565	12,765	10,265	10,565	14,265	133,980	
Balance B/F	6,000	77,905	121,948	196,172	223,630	255,238	294,128	338,546	386,702	443,121	487,518	534,653	578,681	578,681	661,790	717,261	803,141	842,739	887,829	941,121	1,002,978	1,066,173	1,135,531	1,181,577	1,242,344		
Net cashflow in month	71,905	44,144	74,224	27,458	11,668	38,899	44,418	48,156	56,419	44,397	47,135	44,028	3,938,242	661,790	717,261	803,141	842,739	887,829	941,121	1,002,978	1,066,173	1,135,531	1,181,577	1,242,344			
Balance C/F	77,905	121,948	196,172	223,630	255,238	294,128	338,546	386,702	443,121	487,518	534,653	578,681	3,938,242	661,790	717,261	803,141	842,739	887,829	941,121	1,002,978	1,066,173	1,135,531	1,181,577	1,242,344	1,300,526	11,783,008	

Task 2

Zero-based budgeting

Zero-based budgeting is a type of budgeting where expenses are justified in every new period (Ada, 2020). Zero bases are the starting point of this method. Considering the needs and costing, most of the functions of an organisation are analysed through this. Budgets are planned based on the necessity of the organisation other than considering which one was larger or smaller. This helps the managers to gripe the lower cost. Individuals and families use this method in a way where all the revenue and income are allocated for a particular expense by not saving a single amount after a particular period.

The process of Zero-based budgeting

The steps are evaluated below.

Business Goal

The first and foremost duty of a business is to set a specific goal for the upcoming accounting period (Chan, 2017). That is because a lot of factors are related to this. Therefore, there would be the necessity of a clear and specific business goal. Whether it is about cutting the costs this year or increasing profitability from a certain product should be realised at the beginning. The process starts at the very beginning, which is why it is called a zero-based model. This process does not allow previous ways of work to include. A brand new annual budget will be evaluated.

Factors relevant in achieving goals

Several activities would be necessary to set up this budgetary method into action. First, a manager needs to take a look into all the possible ways to allocate the best resources for the firm to decrease the cost as much as possible and increase profitability (Diaz, 2020). This will not allow any previously included methods of working. Then any unnecessary activity will be eradicated to reduce the costs. Monitoring all the activities as accurately as possible so that there might not be any extra costs.

Evaluating Cost Drivers

The final and the most important task is to determine the relevant cost associated with the business function. Those costs can be added to the function that is already in the function (El Nashar, 2019). Those functions are very important. Though they are previously established, some functions are all neutral and constant, which cannot be muted. So, these functions and relevant costs from these functions can be included in the function. Other than that, all expenses should be eradicated from the function. A manager has to ensure that not a single irrelevant cost has been included in this budget. A ground zero approach is used at the beginning so that there will be no link with the previous budget.

The advantages zero-base budgeting has over traditional based

Companies use both zero-based budgeting and traditional based budgeting. It depends on the necessity and willingness. Recently there is a trend of applying zero-based budgeting methods rather than the traditional ones. It is obvious because it is quite essential and helps a business to start fresh. Some important and major advantages of this budgeting over traditional budgeting are described below.

Cost Minimization

The first major difference and advantage of settling with zero-based budgeting are cost-cutting criteria. In a traditional budget method, costs are not considered minimal which is relevant to the investment (FUENTES SAGUAR and MAINAR CAUSAPÉ, 2017). That is because previously included factors are considered in this approach, which will be continued in the new budget as well. However, in zero-base budgeting, there is a scope of minimal costing. A manager would like to start from scratch according to this method. So, what he/she was applied in the earlier period would not be considered in this approach. Therefore, minimal factors would incur a cost, which is supposed to be minimal as well.

Orientation

According to the traditional budgeting technique, historical costs and events are calculated since it is based on accounting periods. It is quite common in accounting assumptions. Nevertheless, it is not so realistic considering other facts constant (Ghadi, 2020). On the other hand, a zero-based budget focuses on a very new economic standard, which is setting up an entirely new event. It does not consider what was happened in the past. Instead, it follows the

current trends and forecasts the future. This safeguards the future of a company. Besides, a company can reduce the chances of loss due to the new start through this approach.

Justification

As traditional budgeting follows the accounting cycle, it ends up with considering the historical event. However, it does not consider the current situation or market condition to support the business. On the other hand, in zero-based budgeting, the current condition of the market and analysis of the proposed project is considered as the most important aspect. This helps a business to grow into a different aspect of a business (Hussein, 2020). Through this, a new business can be appraised and positive growth could be possible.

Priority

Expenditure of the company is considered based on the previous years and demand is linked with the inflation of the current market are key issues with the traditional budget-making (Kakonge, 2020). These factors are an overall assumption that might arise in the current situation. On the other hand, the zero-based budget allows all the relevant expenses and events with the business and make decisions that are distributed into different criteria. Therefore, here businesses and their components would get individual options to decide, which one to pick. This is why it is far better than the traditional one because it has more opportunities to grow.

Clarity

Decision-making and possibility are key issues in a business. It is clear now that through a traditional budgetary system, a business does not get any clear idea and forecasting regarding the issue of the future and business events (Kakonge, 2020). This is because all the factors that it derives are based on historical data and assumptions. There could be more costs included in the program. However, in a zero-based budget, all the factors that are derived from its budget are quite clear and responsive since it is based on the current phenomenon of the market.

Approach

The previous approach is considered to be a routing approach that is because it starts from a particular time then again after the period ends, that date will be continued to create another budget based on the previous data (Vatta, 2020). This is a kind of regular activity, not a necessity. While the second approach is entirely straightforward. Whenever the company

feels the necessity to change or include something, this budgetary system allows the company to do such a thing.

The ways an organisation might introduce this technique practically

Well, as it is quite different from the traditional ones, the companies who are innovative and wants to do something different way might like to work with this strategy (Rouse, 2020). Other than that, an average company would not feel interested in engaging with the approach, since the approach is quite more complex than the traditional one. Recently it is found that the popularity of this strategy has been increased a lot. Therefore, any company can now introduce this budgetary system in the organisation. Especially, those companies who are struggling with the previous ways of doing business. They can start from scratch and invent something new through this business. Moreover, it is also beneficial in saving costs. Some vital ways to introduce the zero-based budget system in the organisation are explained below.

Extensive analysis

An extensive analysis would be necessary to introduce a budgetary system like this. Regular analysis will also be needed whenever a company will choose to work with this system (Kazmi and Mehmood, 2018). Budget values are attained through this in fixing all the elements of production, marketing, and business. These include all the regular expenses, costs, revenues and related factors.

Identifying Monthly Income

Identifying monthly income is one of the parts of arranging this method (Nijkamp, 2020). According to the monthly income of a firm, all the allocation of a business is allocated. The approach is to provide information about all the relevant charges and check whether the income would sufficient to tackle those costs.

Identifying the cost

The second job is to identify all the relevant costs of a business. This is the most vital one as it is about reducing potential costs. For example, whenever there could occur expenditure in a

certain amount, this method would suggest the exact amount rather than providing an extra charge of uncertainty (Luna-Altamirano and Tinto-Arandes, 2018).

Considering all the three matters and then subtracting, the income from the expenses making to zero stage is the primary step of this budget method (Lasry, 2021). From this point, this budget can be applied repeatedly. There is some complexity in this approach that a manager should consider earlier because a lot of analysis is needed to be done to find out the actual cost. When a complex situation is responsible for cutting costs and saving money for an organisation, then this complexity would be seem nothing to those organisations.

Conclusion

The zero-based budget method is considered one of the newest and most popular budget methods right now. The most important part of this system is the cost-cutting approach and the forecasting is considered to be guaranteed in this approach. While there are no previous factors connected with this approach, minimal costs can be expected from this approach. The traditional method is indeed simpler than this approach. But that approach is not practical in terms of finance, because that only focuses on historical events. The current situation is not considered, which is highly recommended in a zero-based budget. The popularity and engagement with this method are increasing day by day.

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