



Grand Hotel Budget Planner

ASHRAF ALI

Student Number: 1712727

Lecturer: Christopher Wilkin

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Executive Summary

An estimate of the future revenues and costs that businesses are anticipated to receive and expend is known as a cash budget. The hotel can have enough working cash to satisfy its short-term maturing commitments thanks to a favourable payment strategy. This is especially advantageous because it would eliminate the need for the hotel to get extra external finance to pay for ongoing expenses. The hotel has put in place effective working capital management procedures that make sure they get paid on schedule and can make timely payments to their suppliers and service providers. Because they can clearly envision the firm running in the future, lower credit days have increased the supplier and service providers' trust in doing business with the company. Low gearing would also significantly lower the financial risks related to the hotel's investment portfolios, which would further entice potential investors.

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1. Introduction

The budget-making process is without a doubt the main footstep to the proper financial management of any business establishment. The creation of budgets and practices of sticking to them has continuously ensured that organizations have available cash to deal with the various operational issues that may occur in the future. A cash budget provides a proper forecast for an enterprise to estimate the revenue and expenses to be incurred in the future. After this estimation, they are able to foresee whether or not they will make a profit from losses which allowed them to change the payment term if the results are adverse.

This report delves through the cash budget of the Grand Hotel in the London United Kingdom.

2. Analysis of Grand hotel budget planner

Kwame (2016) Defines a cash budget as an estimation of the future incomes and expenses enterprises are expected to earn and incurred respectively.

Incomes-From the cash budget, the incomes are steadily increasing meaning that their terms of payment with the guests are favourable. Having a favourable payment policy allows the hotel to have sufficient working capital to fulfil its short-term maturing obligation when required to do so. This is particularly beneficial because it would mean the hotel does not have to obtain additional external financing to fund daily operations. It is worth noting that debt attracts high-interest rates which would with some inflexible repayment terms that can continuously eat into the profits of the hotel in the future.

Although expenses were averagely increasing, the rise was lower than that of revenues made by the company thereby allowing a positive profit position during the months of operation.

The profits-The hotel made a continuously positive net income during the year of operation. This is an indication that the income could outweigh the expenses at any given month. This can be attributed to the hotel management's negotiation for better payment terms with the suppliers and service providers. Having an increasing profit position not only ensures that the business will be in operation for the foreseeable future but also gives the hotel management an opportunity to expand investment in different portfolios. This is a sustainable business model as it seeks to keep the business afloat even during economic adversity. Diversification also helps the hotel eliminate unsystematic risks attached to it thereby attracting investors.

3. Task 2

3.1 Importance of budgeting

A budget is a tool used by management to regulate and steer operations, particularly buying activities. Creativity, "touches," and ongoing innovation may all be costly. The budget acts as a guide for figuring out which things need to be fixed or replaced (Becker et al., 2016). It also helps to assess what crucial equipment should be purchased and what areas should be given priority for the upcoming year. Costs, however, must be incurred strategically and in relation to sales.

The revenue of a department is significantly impacted by effective cost management. The greatest profit will be made, which goes hand in hand with increasing revenues (Brody, 2021). The management can measure the success of their activities using the standards provided by the budgets. A budget offers a budgetary foundation for the department as a whole. Every department head needs to be a frugal manager. In order to stay ahead in a market that is becoming more and more competitive, management must constantly reduce spending due to global inflation, rising labor prices, and other factors (Kenno et al., 2018). The best managers also make the best financial administrators. Daily spending control, as well as knowledge of and skill in managing expenses, are requirements for managers. The manager who succeeds has put in place efficient methods to manage and keep track of his expenses. In order to guarantee that the department's actual expenses are in accordance with the budgeted costs, the department head must actively participate in the planning process that results in the preparation of the budget.

The advantages of budgeting include the chance to evaluate the department's expenses critically, look back on previous planning, and then take the necessary action to produce better results in the upcoming fiscal year (Babu et al., 2019). It compels management to weigh options before choosing a course of action and to consider the organization's financial

situation as a whole. Budgets give comparison points, let management plan ahead, track success and help with self-evaluation, and clearly outline the goals of the firm (Yadav, 2019).

3.2 Understanding of incremental budgeting

Budgets are constructed incrementally by adding to or deducting from the actual facts from the previous year (Datarails, 2021). The most common kind of budget is characterized by its clarity and simplicity. If the major factors influencing expenses stay the same from year to year, incremental budgeting makes sense. However, using the strategy poses the following issues:

- ❖ It's likely that inefficiencies will persist. For instance, rather of attempting to find methods to reduce expenses or save money, a manager might instead take advantage of the opportunity to boost his budget by 10% year. Budgeting incrementally might lead a company to spend money that is not absolutely necessary (Borad, 2019). The reason for this is that departments inside businesses routinely spend every penny allotted to them in a budget in order to be eligible for more funding during the following budgeting cycle. With incremental budgeting, a certain amount is added to each line item on the budget each year. But because of how the budgeting process works, even if certain departments don't genuinely need more funds each year, they will nonetheless get an increase (Borad, 2019). This might make the budgeting process inefficient and wasteful.
- ❖ stifles innovation: This method of budgeting could prevent the advancement of fresh concepts (Borad, 2019). There is little room for sponsoring completely original thoughts or activities since fresh budgets are predicated on figures from previous budgets. As an outcome, the budgeting process discourages creative thinking and fosters a conservative workplace culture.

- ❖ Consequently, there will likely be financial slack (Bragg, 2022). To make it appear as though the team is always under budget, a manager can, for example, misjudge the amount of money the team really needs.
- ❖ Additionally, it has a tendency to ignore external impacts on activity and performance (Bragg, 2022). For instance, there has been a very noticeable increase in the price of various inputs. Regardless of other factors, incremental planning simply anticipates that the price will rise by, for example, 10% this year.

3.3 Activity-based

Calculating the amount of inputs desired to achieve the organization's definite objectives or outputs is the basis of the "activity-based budgeting" /top-down budgeting technique (Elmac & Tutkavul, 2020). For instance, a company might aim to generate \$100 million in revenue. Prior to figuring out the associated costs, the company must identify what has to be done to meet the sales aim.

3.4 Value proposition based

When conducting value proposition budgeting, one considers the following:

- ❖ Are there advantages for the product's users, employees, or other stakeholders?
- ❖ Why does this sum appear in the budget? Does the price of the item reflect its value?

The main goal of value proposition budgeting is to ensure that every item in the plan adds value to the business (Carvalho & Jonker, 2015). Even while value proposition budgeting aims to cut down on unnecessary expenditure, it is less effective than our final budgeting option, zero-based budgeting.

3.5 Zero-based budgeting

The idea behind one of the most popular budgeting techniques, zero-based budgeting, is that every department's budget is empty and should be started from the beginning (Ibrahim, 2019). Managers must be able to justify every spending. Costs themselves are not always "okayed." By using zero-based budgeting, all expenditures that are not regarded to be unequivocally necessary for the yielding functioning of the business are avoided (Al-attara et al., 2020). This zero-based budgeting method has the potential to "shake things up" a lot.

Instances where there is a strong need to reduce costs, such as when a business is through monetary reorganization or when there is a important financial or market recession that necessitates a significant budget cut, a zero-based approach is a good choice (Denise, 2021). In comparison to dealing with necessary running costs, this type of budgeting works better when dealing with optional charges. However, numerous businesses only sometimes adopt this approach because it could be requiring a lot of time.

3.6 How budgeting control can support sustainability

Budgeting control is the method a business does to monitor actual spending vs anticipated budgets (Finance Division, 2010). As a result, firms are able to increase revenues and keep expenditures under control while also developing more precise budgets. Once your budget has been determined, it is crucial to stay on top of it to make sure that your performance is in line with the plan of action. Strong budgetary management allows you to monitor spending and compare it to the original plan. In order to maintain your business running efficiently, this strategy also promotes responding to any deviations. The following techniques for budget management produce sustainability.

❖ **Business makes data-based decisions**

The lack of having to make judgments based on emotions encourages more rational and analytical behavior (Foster, 2017). You may rely on the data to gain a very accurate picture of business spending on both a macro and local level. Additionally, the data is continuously updated. This speeds up the entire adjusting process and shows that you are responsive to changes in real-time. You can quickly and accurately bring capital expenditure back on track using data-based budgeting control (Hernandez et al., 2017).

❖ **Control budgeting allows accurate resource allocation**

As part of a top-down strategy, corporate budget allocations are frequently based on previous spending patterns. This implies that departments that typically receive a big percentage of the resources may waste money with a "use it or lose it" mentality (Melnichuk, 2016). Insufficient funding may prevent other divisions from expanding, which might limit the expansion of the entire company. This method of budget creation, however, comes closer to a "zero-based budget" approach. Operating on the premise that resources are finite requires justification for every expenditure. Departments are only provided the exact budget amount, which helps with cost management and promotes a "cash budget" attitude (Budgetary Control: Meaning, Objectives and Essentials, 2015). It also ensures that waste is kept to a minimum and that resources are dispersed more effectively.

❖ **Budget control nurtures sustainability through better communication which promotes accountability**

One of the most crucial components of budgetary control is gathering information from several departments. This is compatible with a bottom-up approach, where teams discuss their requirements and then requests are approved, denied, or modified. Working with financial control can help your company unit prevent misunderstandings. Everyone is on the

same page, and overall departmental cooperation is improved. A "buy-in" culture is facilitated through budgetary control, which makes each employee feel accountable for meeting spending and income goals.

❖ **More efficient expenditure**

By adopting financial restraint, you position your company to form ingrained routines and provide stellar financial statements. Expenses that arise out of the blue or in an emergency are unavoidable. However, you may construct from a foundation of facts thanks to the procedures of a strong budgetary control system (Ilham, 2022). This financial management approach helps limit deviations while also ultimately producing better spending systems and practices. The budget committee has the authority to increase spending, effective money management, and revenue.

4. Conclusion

The hotel has installed efficient working capital management policies that ensure that they are paid on time and are able to pay off their suppliers and service providers on time. Lower credit days have evidently improved supplier and services providers' confidence in dealing with the company because they can evidently foresee them operating in to the future.

Additionally, since net income rises proportionately to the return on shareholder equity, new and current investors feel as though they are being adequately paid for the risk placed upon them, making the position of continually expanding net income desirable. Proper financial management practices would result in low gearing, which would significantly lower the financial risks associated with the hotel's investment portfolios. This would further entice potential investors because they would no longer be afraid of losing money to unregulated risk environments.

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6. Appendix Budget Calculations

	Apr £	May £	Jun £	Jul £	Aug £	Sep £	Oct £	Nov £	Dec £	Jan £	Feb £	Mar £	Total £
Receipts :													
Payment on business accounts													
Cash sales	185,000	166,000	185,000	140,000	142,000	149,000	156,500	166,900	174,000	149,000	150,000	150,800	1,914,200
Interest Received	0	3,010	4,987	7,497	8,692	9,959	11,574	13,491	15,819	17,995	19,880	21,667	134,572
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	193,900	177,910	198,887	156,397	159,592	167,859	176,974	189,291	198,719	175,895	178,780	181,367	2,155,572
Payments :													
Resturant													
Freehold													
Fixtures and fittings													
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	1,250	15,000
Property expenses													
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													
Payments to suppliers													
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	690,000
Salaries													
Mini Bar		7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	77,000
Training											7,500		7,500
Virgin Pass	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
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		1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	12,650
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
Rates	3,200	0	3,200	3,200	3,200	0	3,200	3,200	3,200	3,200	3,200	3,200	32,000
Valeting	540	540	540	540	540	540	540	540	540	540	540	540	6,480
Marketing													
Overdraft Interest													
Beverage	29,150	27,800	27,800	29,150	27,800	27,800	29,150	27,800	32,100	29,150	27,800	27,800	343,300
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													
Building Insurance						5,500							5,500
Total payments	107,065	112,015	115,215	116,565	117,365	114,015	113,065	111,715	126,165	113,065	119,215	117,715	1,383,180
Balance b / f	13,500	100,335	166,230	249,902	289,734	331,961	385,805	449,714	527,290	599,844	662,674	722,240	4,499,230
Net cashflow in month	86,835	65,895	83,672	39,832	42,227	53,844	63,909	77,576	72,554	62,830	59,565	63,652	772,392
Balance C/ f	100,335	166,230	249,902	289,734	331,961	385,805	449,714	527,290	599,844	662,674	722,240	785,892	5,271,622