

Finance in the hospitality industry



Disadvantages: Not ideally for long-term borrowing, bank can change their policies and ask you to return the whole amount; what you own may be put at risk if you do to keep up with the payments. Www. Bizarrely. Com 3) Bank Loans-External source They offer short, mid, long-term financing including working capital, equipment and real estate assuming you generate enough cash flow to cover the interest payment and return the fixed loan. Usually banks want assurance of repayment thus you need to provide proofs that you are going to be able to keep up with the payments.

Advantages: Banks offer some flexibility regarding paying off the loan early and finish the agreement. Www. Forbes. Com/2010/07/06 Disadvantages: It is very hard to obtain one if you do not have a track record of the equines or a real estate as a personal guarantee. Banks make sure you are able to cover losses in the event of default within the business not risking to seize your assets so you can pay the loan. Www. Smelliness's. Chronic. Com 4) Credit Cards Best to use as a short-term borrowing facility. Used properly you can borrow for nothing and get extra protection on purchases.

If not used wisely you can end up paying lots of interest and struggle to pay off. Advantages: Quick to borrow, you pay for things you cannot afford at the time and spread the cost over a period of time. They are accepted everywhere in the world. Disadvantages: You pay high interest when you do not return the whole amount in time, the debt can spiral out of control, especially when only minimum monthly payment is done. If you make late payment you will pay a fee or a penalty exceeding your credit limit.

Additional interest on cash withdrawing. Www. Unsupportable. Com 5)

Retained Earnings-Internal source Money accumulated from the previous

years after dividends payment, these money fund business growth projects.

Advantages: It is for small businesses, to help them reinvest in their activities and projects. Disadvantages: Because of taxation there are companies that using retained earnings are not in their best interest. When a company suffers losses and these take over the retained earnings, when you pay more in dividends to shareholders the balances become negative this leading up to bankruptcy. Www. Smelliness's. Com

6) Sponsorship It is a type of advertising where a company pays to be associated with events such as: local sporting teams, sport tournaments, and charitable events. The aim is to reach that level of awareness of the brand, positive view of the company.

Advantages: Possible increase of sales after the event. Disadvantages: Companies need to be very careful who they sponsor as sometimes may result in a negative public image. Www. Petitioned-portal. Com

7) Trade Credit Ensures higher sales volume, you buy now but actually pay later.

Advantages: There is no cash; you are allowed to make the purchase, flexibility Disadvantages: Not paying in time, you will pay much higher costs in late-payment fees and interest.

8) Financial support from family and friends Borrow money from friends or family, not wise sometimes.

Advantages: Not interest fee, not late-payments fees. Disadvantages: This may ruin relationships.

9) Equity finance/Share Capital Exchanging shares of the company for funding with personal savings, friends and family, angels, partners, public stock sale, corporations, venture capitalists.

Advantages: No fixed payment requirements, the dividends that ought to be paid to investors can be delayed, not any pledge, business assets are free to be used as security loans. Disadvantages: Losing full control of the company,

getting involved in decision-making. Finance. Sacks. Com 10) Business Angels Is about finding a respected industry executive willing to invest and give you venture credibility with other investors when you need to sell an ownership stake to get your many off the ground. Www. Forbes. Mom Advantages: Fast, advise, support from private investors with large amounts of capital, you do not lose your house if the business fails. Disadvantages: Investors want part of your profit, to share ownership, hard to find and gain their trust. Www. Defending place. Com 1 1) Venture Capitalist Provided to high potential growth companies by individuals or venture capital firms as seed funding. Advantages: They provide mentoring, strategies, they can introduce a company to an extensive network of strategic partners, and they can help identify potential acquisition targets.

Disadvantages: They expect liquidity within three to five years; they bargain harder, very intrusive, interested in taking control of the company if badly managed. HTTPS://UK. Answers. Yahoo. Com 12) Factoring and invoice discounting: Selling debts to agencies The discounting company collects the payment; leaving you to deal with issuing more invoices and invests your time and resources in other productive operations. Advantages: Reduces cash-flow pressure, no risk, no assets required for funding, simple to apply, hassle free credit to your customers from 30 to 120 days. Www.

Specifications. Co. UK

Disadvantages: The factor will adjust or impose credit limits for customers that can affect the way you trade. It is hard to exit the agreement. Www. Acmes. Co. UK 13) Hire Purchase It is a method of buying goods by paying in installments over a period of time. Advantages: You buy expensive item, pay <https://assignbuster.com/finance-in-the-hospitality-industry/>

back spread over a period of time, you own something eventually you could not afford without financial pressure. Disadvantages: You are paying more in the end, and it is time consuming. Wwww. Houses. Com 14) Leasing It is a method of using an item by paying periodically until the end of the lease unless renewed.

Advantages: Fixed rate, you lease and pay only for the time you need it, you can upgrade at the end of the lease. Disadvantages: Cannot be terminated before the original term is completed, maintain the equipment very well to avoid unnecessary costs. Clinically. Com 15) Franchise It is an appealing option, without having to be on your own out there. Advantages: You operate under a brand that already used and tested the techniques. Disadvantages: You have no control as rules are already made by the franchiser. You must use the same suppliers even if they cost more, paying on-going fees for support and training.

The franchiser wants a cut of your profit as you are privileged for using the brand. Blob. Discourteousness. Co. UK/2010/10/04 16) Small businesses schemes I-J Government provides funding and programmers to make borrowing more available for many small businesses. Advantages: No interest, you keep control of the company. Disadvantages: Lots of competition, you still have to fund some of the costs. It is time consuming. Wwww. Gob. UK-business-finance-explained The sources of finance I would choose to purchase the new machinery costing EYE.

OHO are: 0 Owner financing -I will avoid paying interests and all kind of fees
0 Bank loan-more legible with the possibility of paying off the debt earlier, no

more interest paying. 0 Hire purchase-I have the possibility to buy the machinery without losing control of my business, I am still in charge even if I would have to pay more in the end. I get the benefit of using the machinery and focus on my business in peace. 0 Trade Credit- Even if there is fee involved it is less hassle and quick to arrange without any cash involved at the time of the purchase.

The source of finance I would recommend is Hire Purchase as I don't use large capital outlay, I get the machinery right away, I can carry on with the business smoothly even if the product will turn out to be more expensive in the end by paying in monthly installments. P 1. 2 a) Sales increasing About 93% of the sales come from restaurant sales in general. The more variety is offered, the better, you need to diversify to increase income by sales, setting targets on how much to sale is important as well as sales promotions. Www. Oho. Co. UK KEF chain of restaurants came up with all sorts of methods to increase revenue.

They offer lots of promotions, family meal deals, children meal deals and they offer also to the customer the possibility to enjoy a meal after closing time using Drive-through teeth until late in the night. Advantages: Improves cash flow, keeps the business running through increased sales.

Disadvantages: Delays in delivery if you don't have enough staff, customer may buy the product only when extra offers. [succession. Wiseacres. Com]

b) Sales of unused assets Individuals and organizations owning a car, furniture, other items that might be sold. The obtained money may be very useful for other investments to increase revenue.

Advantages: The business gets the money immediately to reduce or eliminate debt. Disadvantages: There may be need for the sold items later on in time and the equities might have to pay more if needed back. The business can use them as security for bank loans. Bib-business-up. Wiseacres. Com There can be tax consequences as an asset can be subject to capital gains taxation. The business may not receive the full market value. Wassail's. Us c) Commission This refers to the amount of money that someone receives based on how much he or she sold, this being added to the standard salary of the individual following sales increasing. Www. Objectifications. Com Salespeople in KEF receive a percentage of the amount of their sales as income. Advantages: Rewarding the employees that perform well is also beneficial for the business as they are motivated to sell more, aiming for higher goals. Disadvantages: If the commission is too high compared to labor costs the business may lose money. Short-term manipulative sales approaches can drive the customers away. Smelliness's. Chronic. Com d) Letting/Sub-letting-renting out properties A business can generate income from sub-letting its spare properties with Landlord's consent to someone responsible and respectable.

The Landlord will have to be provided with previous years' accounts and references from previous Landlords. Advantages: The money from renting out can be used elsewhere in the business. Rent can be increased after a while when the lease is renewed. Disadvantages: If the tenant's business grows in size, once the lease runs out, he can move, he won't renew the lease. The repairs and maintenance duties belong to the Landlord. Www. Curler. Com Websites: Factoring and invoice discounting pros-and-cons,

available at: www.Acmes.Co.K/invoice-discounting-and-factoring-pros-and-cons-and-cons.PH [Accessed : 7th July, 2014] www.Objectifications.Com Franchise-advantages and disadvantages, available at: <http://Blob.Discourteousness.O.UK/2010/10/04> [Accessed : 7th July, 2014] Bank overdraft, available at: <http://www.Bizarrely.Com/money/businesswoman/overdraft-finance-advantages-and-disadvantages.HTML>[Accessed: 7th July, 2014] Owner Financing Capital, available <http://www.Crinoline.Com/benefits-of-owner-financing.HTML>[Accessed: 7th July, 2014] www.Curled.Com www.Oho.Co.UK Petitioned-portal. Mom/academy/lesson/what-is-sponsorship-advertising-differentiation's-disadvantages.HTML www.Specifications.Co.UK www.Forbes.Com/2010/07/06 finance. Sacks.Com/advantages-disadvantages-equity.Capital_4270.HTML www.Defending.place. [Mom/advantages-of-angel-funding Houses.Com/advantages-and-disadvantages-of-hire-purchase succession.Wiseacres.Com](http://Mom/advantages-of-angel-funding.Houses.Com/advantages-and-disadvantages-of-hire-purchase-succession.Wiseacres.Com) Clinically.Com/gallant/article www.Unsportsmanlike.Com/credit-cards Smelliness's. Chronic.Com/advantages-and-disadvantages Smelliness's. Com/advantages-disadvantages-retained-earnings-20688.HTML [HTTPS:// UK.Answers.Yahoo.Com](https://UK.Answers.Yahoo.Com) Wassail's. Us TASK 2 P 2. 1 The cost of a product is the amount of numerous parts of the cost. There are three elements of cost: -Cost of raw materials (piece of wood) - Labor costs (wages) -Overhead costs (building and other services needed for manufacturing tables, hairs, closets) Direct material cost refers to the cost of raw, unprocessed or partly processed material. The purchase price is included to the material cost as well as the insurance, packaging, transport, and loading and unloading, import duties expenses. These form a part of the overhead cost.

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Direct labor cost refers to wages paid to the operators manufacturing the product. Wages paid to the worker that supervises are considered indirect labor expenses. They are indirect expenses treated as overhead cost. Direct expenses include also other costs besides direct material and direct labor. These can be: hiring equipment, machinery, tools, a specific product. In Mark & Spencer's case, the direct costs can be controlled by monitoring and analyzing not only the large direct costs but also the smaller indirect costs as savings in stationary across the whole Mark & Spencer Group.

The staff can be encouraged to save up on electricity, to turn off unnecessary lights. Direct cost, direct labor and direct expenses are known as prime cost. Overhead costs are the indirect costs that cannot cover certain product or Job contract, being classified into three groups: Factory/production/work Administrative Selling and distribution Factory overheads can be fixed or variable. The fixed ones cover the rent on the building, salaries of all workers. The variable ones cover the costs of fuel, electricity, repair and maintenance. Administrative overheads can be fixed and variable, as well.

The fixed ones cover rent, salaries to staff. The variable ones cover telephone charges, lighting, heating. Selling and distribution expenses cover the costs related to marketing the products or services. Wry. Citizen. Com THE GROSS PROFIT PERCENTAGE reflects the evaluation of the financial performance of an organization, clearly stating the percentage of its earnings once the costs are taken out. If the gross profit percentage is high, is good, this allowing the organization to pay for other activities that contribute to the development of the business. E. Owe. Co. UK An organization determines its <https://assignbuster.com/finance-in-the-hospitality-industry/>

gross profit by taking its sales revenue and then subtracting the cost it paid to obtain the goods it sold. Smelliness's. Chronic. Com For example is: Cost price is EYE, Selling price is EI 30, the gross profit percentage on the sale would be 26, 92% Gross profit x 100 Net sales 35 130 Gross profit is all sales less overhead expenses. UK. Ask. Com To determine selling price the next formula applies: Selling price *Mark up If the total cost is IEEE and the mark up is 10%, the selling price would be IEEE. 900+90= 990. Wwww. Arts. SLD. Gob. AU UP. 2 The meaning of stock is all the products or merchandise that is kept on the premises or warehouse of an individual or organization, these being available for selling or distribution. In order to control stock, an organization must follow several methods: Minimum stock level -ordering only when you reach that minimum stock level that oh previously identified. Stock review- you order at every review bringing the stock to a predetermined level Just in time TOT)-the products are delivered only when needed and used right away.

Re-order lead time- you have enough time between ordering and receiving. Economic Order Quantity (EX.)-ideally would be to use a stock control software as is fairly complex calculation. It is a calculation of the balance Paxar between having too much or too little stock. The formula is: Chi A= Demand for year C p= Cost to place a single order C h= Cost to hold one unit inventory for a year Batch control is about handling the production of goods in batches making sure to order enough to cover what is required until the next batch.

If you can predict what you need you only order a certain quantity of stock at a specific interval of time monitoring the situation continuously. First in, First
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out -you need to control the perishable products preventing from deteriorating, selling first the products about to go out of date. Last in, First out -the recent produced items are recorded as sold first. Anticipatory- this refers to anticipating demands for the next purchase, it shows current on-hand quantities, determines needed purchase. Response based-purchases of stock are made only when needed, very often, you order lower volume based on effective use. Wwww. Infusibleness. Co. UK As control of stock is very important, Mark & Spencer Group might use two different methods to keep things under control and generate sales. 0 Stock and stores verification-this method is used when a certain product of stock is out of stock and needs urgent delivery. This kind of verification is done by the Commercial Manager who also keeps a record of this type of verification, being obliged to report this to the Financial Manager. Continuous, Perpetual Verification-this verification is done throughout the year, without having to freeze the entire operations of the store.

This action ensures stock records are up-to-date compared with the periodic verification systems. Surplus items are detected; they will be act upon for their disposal. Wastage due to carelessness of the store staff is avoided. Housemistresses. Com Cash control is of vital importance to the health of Mark & Spencer Group. Cash is produced from sales of goods. A negative cash flow is a struggle for the store to pay immediate bills; it needs to borrow money to cover its losses.