Management Accounting & Decision Making

**Accounting Assignment (A1)**

See Blackboard for full submission instructions

**The construction of budgets & capital investment appraisal for a new hotel**

John has £2,000,000 available to invest in a new hotel which he will open on 1 July 2018. On the first year, he proposes to spend the £2,000,000 as follows:

 £

Leasehold Property (50 year lease) 1,600,000

Furniture and fittings (10 year life) 150,000

Kitchen equipment (10 year life) 50,000

Laundry equipment (5 year life) 25,000

Gym equipment (10 year life) 15,000

Inventory 35,000

Cash remaining 125,000

 2,000,000

John has made the following forecasts:

The hotel will have 50 rooms and will be open for dinner seven days a week.

The hotel will operate from July to December 2018 and the average monthly occupancy levels are expected to be the following:

July 30%

August 40%

September 70%

October 90%

November 90%

December 70%

Average spend by a customer is expected to be £160 per room per night and 30% of sales are expected to be for cash and 70% on credit received in the following month.

Monthly purchases of food, drink and laundry materials are expected to be 15% of sales. 85% of these purchases will be on credit paid in the next month after the purchase is made and the remaining part will be in cash.

Labour cost is budgeted at 20% of sales paid in the month they are incurred.

Overhead costs are budgeted at 25% of sales paid with a time lag of one month.

Depreciation uses the straight line method.

Inventory levels are expected to be £10,000 on average.

Assume no taxation is imposed.

**Required:**

Prepare a report for the board of directors that addresses the following tasks:

**Task 1 (15 marks)**

Write an ***introduction*** on the need for budgeting, the process for preparing budgets and their limitations.

**Task 2 (55 marks)**

Prepare the following documents for the first six (6) months from July 2018 to 31 December 2018 of the hotel’s operation and include a copy of them in the main body of the report:

1. A cash budget (25 marks)
2. A budgeted income statement (15 marks)
3. A budgeted statement of financial position (15 marks)

**Task 3 (25 marks)**

Calculate the payback period using both the payback method (5 marks) and the discounted payback method (12 marks), as well as the NPV of the project (8 marks), assuming the following:

1. A cost of capital of 7%, using four decimal points on the discount factor;
2. Net cash flow will grow 3% on a year basis compared to previous year up to 10 years

**Overall Presentation (5 marks)**

The report should have:

1. A table of contents;
2. An introduction as the answer to task 1
3. A main body to include the details in tasks 2 and 3
4. A **short** conclusion
5. Good spelling and grammar;
6. A reference list (please apply the Harvard system for citations and references).

**Apart from the report, you should also submit the spreadsheet (in Excel) where the budgets will have been created and the capital investment appraisal techniques will have been performed. These calculations can be used to check the method that you have used if the values in your report are incorrect!**

**You are expected to make full use of available formulae in excel, NOT to just type in the numbers!**