



## Module 2

### Financial management in tourism companies

#### Lesson 2- Financial Planning and Budgets

##### 1.1.- FINANCIAL PLANNING

Referring to Turnedo (2010), "financial planning consists of:

- Analyzing the investment and financing alternatives available to the company.
- Projecting the future consequences of current decisions.
- Deciding which alternatives to choose.
- Measuring subsequent performance according to the objectives imposed by the financial plan.

Financial planning is not about minimizing risk, but is a process of deciding which risks to take and which are unnecessary or not worth accepting.

Companies must plan for the short and long term. Short-term planning is rarely projected beyond the next 12 months. It consists mainly of ensuring that the company has sufficient cash to pay its bills and that short-term debt and loans are taken on favourable terms.

In long-term planning the normal planning horizon is 5 years (although some companies extend it to 10 years or more)".

##### 1.1.1.- Financial Planning Models

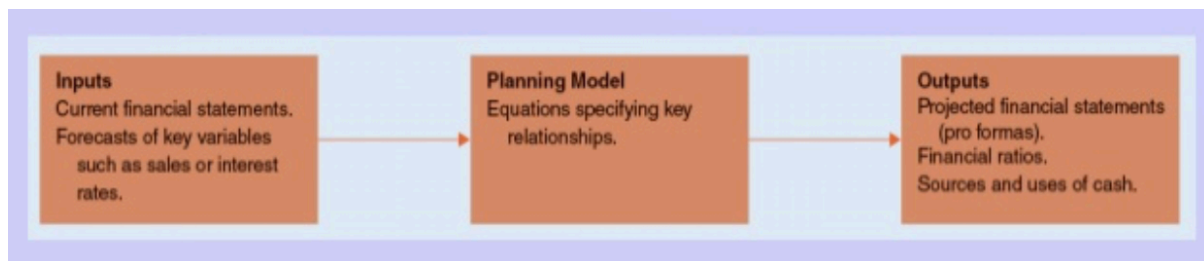
According to Turnedo (2010), "Financial planners often use a financial planning model to investigate the consequences of different funding alternatives.

Financial planning models assist in the financial planning process by making the forecasting of financial statements easier and cheaper. Models automate an important part of the planning process, which would otherwise be boring, time-consuming and laborious.

Financial plans have three components: inputs, financial planning model and outputs.

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## Inputs

The data in the financial plan consists of the company's current financial statements and its forecasts for the future. Normally, the main forecast is likely sales growth, since many of the other variables, such as labor and inventory needs, are related to sales.

## Financial Planning Model

The financial planning model calculates the impact that managers' forecasts will have on profits, new investment and funding. The model is made up of equations that relate outputs to forecasts.

## Outputs

The output of the financial model consists of financial statements, such as income statements, balance sheets and statements indicating the origins and uses of cash. Generally, financial model outputs also include many of the financial ratios. These ratios indicate whether, at the end of the planning period, the company is financially sound and healthy.

In the next lesson we will look closely at the ratios used in financial management for the economic and financial analysis of the company.

### 1.1.2.- Elements of financial planning

1. Identify the problems and opportunities that exist
2. Set goals (objectives).
3. Design a procedure to find possible solutions or paths.
4. Choose the best solution.
5. Have some control procedures to check what results were obtained with the best solution.

### 1.1.3.- Strategic Financial Plan

A company's strategic plan tells us the position it should take with respect to its competitors, suppliers and customers. It must specify, at least, the definition of markets, products and services; the commercial and price policy, the promotion strategy, as well as the company culture and image it wishes to give.

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### 1.1.4.- Short and long term financial planning

- Long-term financial planning:

These generally reflect the anticipated effect on the company's finances from the implementation of actions planned by the company. Such plans tend to cover periods of two to ten years, but especially five years, which are reviewed as new information is received.

Long-term financial plans tend to focus on the implementation of proposed capital expenditures, research and development activities, market and product development actions, and the main sources of funding. This would also include the pursuit of projects, product lines or businesses, the repayment or payment of outstanding debts and all types of planned acquisitions. Such plans tend to be supported by a series of annual budgets and profit plans.

- Short-term financial planning:

The short-term financial planning process reflects the results expected from near-term actions. Most of these plans usually cover periods of one to two years. Key inputs include sales forecasts, as well as various forms of operational and financial information, while key results include certain operating budgets, cash budgets and pro-forma financial statements.

## 1.2.- BUDGETS

The budget did not appear until the end of the 18th century and, more particularly, the beginning of the 19th century. According to Fritz Neumark, an important German economist, the need for its appearance was due to the unification, public information and control of economic-financial inputs by the administrations, with competence in this area.

As for its definition, based on the article published by Fernández and Cañas (2013), they established that "the budget is a systematic summary of the forecasts made, for a given period, of the projected expenses and of the income estimates foreseen to cover these expenses".

In addition, the AECA (Asociación Española de Contabilidad y Administración de Empresas) considers budgets to be a broader area, defining them as "the expression, in quantitative and monetary terms, of all the different action plans of an organisation and of each of its centres of responsibility that have been established for a given period".

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Referring again to the authors cited in previous paragraphs, some features that make up the budgets should be highlighted:

- It's a summary

Operation requires that the maximum detail is not exhaustive. Obviously, it is not possible to detail all the movements of expenses and income.

- It's systematic

Meaning, following a systematic operation, a procedure of elaboration equal in all the cases, to the effect of facilitating the comparability between activities, companies, magnitudes, etc.

- These are forecasts

This requires an exercise in anticipating the future, with rational statistical bases, knowledge or research of the environment and the organization itself,..., and not with "crystal ball" divinations.

- Expected income to cover expenses

The size of the revenue shall be linked to the size of the expenditure necessary to achieve it, so as to make explicit the extent to which this revenue finances the expenditure.

### 1.2.3.- How to construct a budget

- First, study what income you can expect for the year (sales analysis).
- Secondly, study what means of production have to be used to achieve the revenue (cost analysis).
- Thirdly, study what other financial expenses are required to achieve the sales/production ratio analysed.
- Construct (in a theoretical way) the theoretical result that all the above entails, thus obtaining the figure of profits or losses that the analyzed plan entails.
- Introduce the necessary corrective measures to guarantee an adequate profit, bearing in mind future plans for expansion, diversification or improvement that I have proposed.

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- Finally, transform the budget (or forecast) into concrete objectives (sales quotas, production planning, economic results, time measurements, etc.) and establish the appropriate monitoring and control mechanisms to ensure that deviations are kept to a minimum.
- In view of the developments that have taken place, the necessary reviews, adjustments and corrections are made during the year.

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