Chapter 1

Solution 1.1

Outline the main characteristics that are common to the hospitality, tourism, leisure and event sectors

Hospitality, tourism, leisure and events businesses are commonly regarded as having a number of distinctive characteristics. These include the following:

- ***Sensitivity of demand***: many of the sectors goods and services are viewed as being luxury items (e.g. package holidays) and therefore tend to be quite sensitive to price. This means economic conditions such as recession, inflation, and taxation play a significant role in the demand for travel, tourism, leisure, hospitality and event products/services. The sectors are also sensitive to occurrences and events in the external environment such as terrorism, natural disasters, political instability, and other factors.
- ***Seasonality of demand***: many HTLE businesses have seasonal demand patterns significantly influenced mainly by weather and holiday periods. This results in establishments experiencing uneven cash flow patterns and in some cases the closure or partial closure of their businesses in off peak periods.

- ***Fixity of costs***: high fixed costs are a feature commonly associated with the HTLE sectors. Businesses such as hotels, airlines and tourist attractions employ various revenue management systems to try to ensure that they at least cover their fixed costs.

- ***Perishability of product***: in common with other service industries the HTLE sectors offer products and services which are perishable by nature, i.e. they have a limited 'shelf life'. If a hotel room or an airplane seat is not sold it cannot be stored or saved and sold at a later date. This results in the loss of potential revenue from such products. Many HTLE firms try to counteract this by using tactical pricing techniques to encourage the buying of their products/services.

- ***Scale of operation***: although many large HTLE companies exist around the world, the industry is nonetheless made up of, to a large extent, quite modest sized enterprises. The majority of tourism businesses in Ireland consist of firms employing less than 10 people.

- ***Fixed capacity****:* Hotels, restaurants, airline, clubs, theatres all are limited by a fixed capacity and it is only in the medium to long-term that this capacity can be increased by adding additional plane routes or building hotel extensions etc. As demand is also seasonal, hospitality, tourism, leisure and event businesses must try to predict demand and use price to incentivise sales when demand is low and to price accordingly when demand is high.

- ***Capital Intensive***: Hotel, leisure centres, theatres and cinemas can all be considered capital intensive. It requires a large investment to set up these type of businesses as size, style and location are key in attracting custom and achieving success. Thus hospitality tourism and leisure businesses all suffer from a comparatively low revenue to capital ratio. This is often not the case for event businesses as set up costs are not considered significant

Solution 1.2

The main legal forms a business can choose from include

The Sole Proprietor / Trader: This is where the business is owned and run by one person or a family. The most important characteristic of this type of business is that there is no difference between the assets of the business and the assets of the owners. Thus, should a business fail and have outstanding debts which it cannot pay, then the courts can order the sale of the owners *private* assets such as the home or car of the owner to pay back the debts. This is known as *unlimited liability*. Sole traders are generally small business and their financial statements are not governed by law and thus they have no need to publish their accounts except to the Revenue Commissioners.

Partnerships: A partnership exists where two or more people own, run and share the profits and losses of the business. The main advantage a partnership has over a sole proprietorship is that, as there are a number of partners involved, the risk is shared and it may be easier to raise finance as more collateral is likely to be available to raise capital/loans. Partnerships also have unlimited liability and are not required to publish their accounts except to the Revenue Commissioners.

Companies: A limited company is a legal structure whereby the owners of the business are only legally liable to the value of whatever they have invested in the business. Thus the private assets of the owners are (to some extent) not at risk if the business experiences financial difficulties. The creation of a limited company involves setting up a legal persona. This is normally carried out with the assistance of a solicitor who drafts the necessary documents for registration with the Registrar of Companies. Thus, a company is a legal entity created by law that is capable of entering into contracts, incurring liabilities and carrying out business. For the owners, liability is legally limited to whatever they invest in the company. Companies must publish information about their operations, financial transactions and results. This is required under the various Companies Acts that have been enacted since 1963

Solution 1.3

List the various users of accounting information, describing their specific information needs.

Investors/Shareholders: Investors provide capital to the business Shareholders are the legal owners of the business. Investors and shareholders use the accounting information to assess if the business provides a good return (profit) for their investment, and that the investment will survive into the future.

Creditors / Suppliers: These are made up of other businesses that supply goods and service on credit. Creditors use the accounting information to ensure the business is a good credit risk and will pay its debts as they fall due. Thus they are primarily interested in the solvency and good name and reputation of the business.

The Government: The use and interpretation of accounting information is essential for government departments to implement and monitor state policy. Income tax, corporation tax, capital gains tax, stamp duty, VAT, PAYE and PRSI returns are all backed up by the accounts of the business.

Loan Providers: Banks and financial institutions use the accounting information to assess whether the firm has the ability to repay loans, plus the interest charged.

Employees. Employees and their trade union representatives use the accounting information to assess job security, profitability and wage structures which is essential for wage negotiation.

Customers: Customers will be interested the accounting information of a business to assess the ongoing financial stability of the business and the risk of non-delivery or backup service.

The Public: The general public, including communities and pressure groups, would scan the financial statements and reports of local businesses for information that would concern them.

Management: Management run the business and try to ensure that it is profitable and stable/solvent. They are interested in and responsible for every aspect of the business. Ultimately, managers require frequent, accurate, relevant information to plan and control business activities. They must ensure that the business is profitable, solvent (likely to remain in business), and run in an efficient and effective manner.

Solution 1.4

Distinguish between financial and management accounting and discuss the role both of them have in an organisation.

Financial accounting is primarily a method of reporting the results and the financial position of a business. Financial Accounts are required by Company Law and accounting standards. **Management accounting** is part of the overall management information system that provides management with the information required to manage the business.

Key differences between Management & Financial Accounting

Cost	**Financial**
• Internal - management reporting	• External - reports to outside world
• Not required by Law	• Must comply with the Company's Act
• Not required to follow SSAP/FRS requirements	• Required to follow SSAP/FRS requirements
• Looks at past, present and future	• Historical record
• Provides detailed analysis	• Provides overview

Financial accounting is the recording of actual monetary transactions of a business in accordance with the rules of accounting standards and company law. The income statement, Balance Sheet and statement of cash flows will be used to provide those external to a business with a summary of what has happened in the past accounting period. The role of financial accounting can be summarised as the recording of all actual business transactions that have happened, and the reporting to those both internal and external to the organisation a true and accurate picture of what has happened in the past accounting period.

Management accounting concerns detailed analysis of information for the internal management of a business. As it is mainly for internal use it is not necessary for the accountant to comply with the rules in the accounting standards and company law. The management accountant will be concerned with the following;

- what was the cost of goods produced or services provided?
- what are future costs likely to be?
- how do actual costs compare with budget?
- what information is needed by management in decision making?

The role of the management accountant would be the analysis and presentation of information to assist in the internal running of the organisation, and the preparation of budgets and standards so that control can be achieved.

Solution 1.4

Briefly describe the elements of the regulatory framework

The term regulation implies the imposition of rules and requirements. In an accounting context this would relate to the preparation and presentation of reports and statements for external parties.

The objective of an accounting regulatory framework is to ensure adequate relevant disclosure, objectivity and comparability of accounting information to the external users of financial reports. Accounting and the preparation of financial statements and reports is therefore regulated through the following.

1. The government, through the relevant legislation. In Ireland, this relates to the Companies Acts of 1963 and 1990, and the Companies (Amendment) Acts of 1983, 1986
2. Regulation through the European Union. The EU issues directives to its member states to help ensure greater harmony in the presentation of financial statements. An EU directive requires the government of each member state to incorporate that directive into their laws. The EU's 4th directive concerned the preparation and presentation of the accounts of companies and this was made law in Ireland through the Companies (Amendment) Act 1986.
3. The Stock Exchange listing requirements (yellow book) for companies listed on a publicly quoted exchange.
4. The accounting standards issued by the accounting bodies.