Basic Management Accounting for the Hospitality Industry

M.N. Chibili MSc, MA

Noordhoff Uitgevers

Second edition

Basic Management Accounting for the Hospitality Industry

Basic Management Accounting for the Hospitality Industry

Michael N. Chibili

Second edition

Noordhoff Uitgevers Groningen | Houten

Cover design: G2K Designers
Cover illustration: www.stocksy.com

If you have any comments or queries about this or any other publication, please contact: Noordhoff Uitgevers bv, Afdeling Hoger Onderwijs, Antwoordnummer 13, 9700 VB Groningen, e-mail: info@noordhoff.nl

0 / 16

MIX
Papier van verantwoorde herkomst
FSC® C118189
FSC www.fsc.org

ISBN (ebook) 978-90-01-86735-5
ISBN 978-90-01-86733-1
NUR 782

Preface to the first edition

Welcome to the *Basic Management Accounting for the Hospitality Industry*. This text provides an introduction to the basic management accounting concepts and applications relevant to students in any hospitality or tourism-related education. It examines the basic concepts and shows how they can be used to improve the quality of decisions made by managers in the related fields. Geared towards students who use English as a second language, the language is simple and in case of need, the concepts are illustrated with worked examples to ease their understanding. This book is introductory in nature, and whenever necessary, the student can independently explore some of the topics in other books which could provide more detailed information.

In this text, I have interchangeably made use of company, business entity, concern, organization, operation, and establishment, to mean the same in the sense that they represent the desire for entrepreneurship with the profit motive in mind. It should not be confusing to anyone. The topics have been selected based on the need of the target group and include the introduction to management accounting, the balance sheet, the profit and loss account statement, adjustments to the balance sheet and the profit and loss account statement, the cash flow statement, analyzing financial statements, ratio analysis and types of ratios, management of working capital, cost management, pricing and revenue management, cost-volume-profit analysis, internal control, forecasting, budgeting and variance analysis, and lastly, capital investment decisions. Each chapter ends with a complete glossary of the key words, five multiple choice questions and four practice exercises.

I want to place on record my gratitude to colleagues and friends for the advice and help I received in the course of writing this text. I am particularly grateful to Klaas-Wybo van der Hoek for believing in me. The management and staff of the Mövenpick Hotel, Amsterdam are recognized for their help. To the dean – Hans Zwart, and my colleagues of the financial management team in the Institute of International Hospitality Management – Marcus Hoekstra, Ale Hoekstra, Jurgen Coerts, and Cor Penning, I say once again thanks for the support through all the stages of writing this text. For help with reviewing the manuscript, I would have not been able to complete this text without the gallant assistance of the following colleagues and students – Harry Jippes, Eef Heinhuis, Billy Stelljes, Richard Henricus (Rik) van der Berg, David Dirk de Roest, Stephanie Enninga, Frank Schoenmaker, Harpinder Singh, Sjoerd Gehrels, Koen Bramer, Annika Jochheim, and Osborne Green. Special thanks go to Miss Ramona Nolde who has worked tirelessly to make sure that the content should be as error-free as it is humanly possible.

This book is accompanied by a website www.hospitalitymanagement.noordhoff.nl that contains exercises and other materials for both students and lecturers.

As a new book, comments and suggestions will be very welcome.

Michael N. Chibili
February 2010

For Lebongwo, Njingu and Afiandem
in the hope that their lights shine brightly

Preface to the second edition

Welcome to the second edition of *Basic Management Accounting for the Hospitality Industry* that includes several changes. These changes have been driven by all the responses and comments from both colleagues who are using its first edition, as well as the students who used it. Many thanks are due to all of them for their useful and constructive ideas, comments and feedback that have contributed to what I hope will be an improved edition.

The foremost changes content-wise are as follows:

1 The changes that have affected financial statements due to the evolution of the Uniform System of Accounts for the Lodging Industry (USALI) from its 10^{th} edition to the 11^{th} edition have been taken into account in the major financial statements especially as they affect the contents of Chapter 3 and Chapter 5.

2 The essence of the International Financial Reporting Standards (IFRS) has now been more infused into the text.

3 Additional relevant ratios have been integrated into, while redundant ones (due to the changes in the USALI) have been removed from the text especially in Chapter 7, and the performance review process has been simplified.

4 The Cash Conversion Cycle has been included and illustrated in Chapter 8.

5 Information on price elasticity of demand has been extended in Chapter 10 with additional information related to income and cross elasticities.

6 Risk and uncertainty analyses has been extended, and the weighted average cost of capital (WACC) has been included.

7 The Break-even Time (BET) has been included as one of the methods of analysing capital investments.

8 Where appropriate, the tables have been updated.

I believe that this up-to-date and comprehensive coverage of basic management accounting within the hospitality industry makes this second edition an essential addition to the library of any hospitality management student. It is my hope that students and lecturers alike will find it to be a significant contribution to the field of hospitality management education and keep on ensuring its continued success.

Michael N. Chibili
September 2015

Table of contents

1

Introduction to management accounting

Information is very important for the management process and accounting is one of the main information systems that can be found in an organization. It is as such necessary that managers within an organization obtain a basic understanding of accounting for them to be able to effectively and responsibly carry out their management functions. The information needs to come from all the areas of their management activities as well as used in all the related areas. Section 1.1 sets the scene: by showing how information is generated and used within an organization; by differentiating management from financial accounting; by introducing the basic principles of accounting; and by introducing the management accounting process. In Section 1.2 the hospitality industry is introduced with the aim of highlighting some of its special characteristics as well as how it is organized.

1.1 Setting the scene

Organizations of very different types affect us on a daily basis by providing all the goods and services needed for our existence. All these different types of organizations have two things in common. First, every organization will have its set of goals or objectives. An example is that of the Compass Hotels Ltd. They state their goals and objectives in the following way: *“Our goals and objectives are straightforward and seek to ensure we run a professional, profitable and ethical company, building relationships with suppliers and investors, driving business in the hotels and developing the business as a whole”.* In these goals, they have highlighted some important aspects of their relationship with all their major stakeholders (professional – management and employees; profitable – shareholders; ethical – all stakeholders) as well as mentioning their suppliers and investors. Second, for an organization to be able to meet their established goals, its managers will need information. This section attempts to show why this information is needed, who uses it, as well as establish the general characteristics of the hospitality industry. The structure of the subsections is as follows:

1.1.1 Information needs – management and external users
1.1.2 Financial accounting and management accounting
1.1.3 Basic principles of accounting
1.1.4 The management accounting process

1.1.1 Information needs – management and external users

Before proceeding with the discussion on managements’ need for, and use of information, accounting will be defined. Accounting is generally concerned with the reporting, summarizing and recording in monetary terms the transactions of an individual or an organization. A basic definition of accounting as provided by the American Institute of Certified and Public Accountants (AICPA) in 1941 is *“the art of recording, classifying, and summarizing, in a significant manner and in terms of money, transactions and events which are in part at least, of a financial character, and interpreting the results thereof”*. However, this definition of accounting left some issues that could not be fully understood. In this regard, the American Accounting Principles Board in 1970 defined accounting as a service activity: *“Its function is to provide quantitative information primarily financial in nature, about economic entities that is intended to be useful in making economic decisions and in making reasoned choices among alternative courses of actions”*.

To the individual, accounting information can be used in planning future spending levels, planning the acquisition of additional finance, controlling spending levels, and making decisions on how best to spend their money. As such, at this level accounting basically has 3 functions which are; planning, controlling and decision support.

On the contrary, at the level of an organization, accounting is used to control its activities, plan the acquisition of finance, plan future activities, and finally report upon the activities and successes of the organization to other users.

The users of accounting information can be broadly split into two major categories; the internal users and the external users. The internal users would basically be the management of the organization. They will need this information due to the following reasons: planning; controlling; stewardship; and decision making. This type of accounting is by nature mostly managerial and would differ depending on the type of organization. The external users would generally be limited to the other major stakeholders of a company. These will include the employees of a company, the owners, lenders, suppliers, customers, the local community, and the government. Generally, these stakeholders are provided with accounting information through the establishment of annual reports. This type of accounting would on the contrary be mostly financial in nature.

1.1.2 **Financial accounting and management accounting**

Financial accounting is that area of accounting mostly concerned with the preparation of financial statements destined for decision makers. These decision makers may include shareholders, suppliers, financial institutions, employees, local authorities, and government agencies. The fundamental need of financial accounting is to bring to a minimum any possible conflicts between principals and agents by measuring and monitoring the agent's performance and reporting the results to the interested users on an annual or more frequent basis. There are many similarities between financial and management accounting, because they all collect data from a company's basic accounting system. This basic accounting system is a system of procedures, personnel and computers used to accumulate the financial data from within a company. It should be noted that financial accounting is generally regulated by various standards at the international level. Exhibit 1.1 shows in a table form the basic differences between financial accounting and management accounting arranged around some simple features.

Management accounting is much more concerned with the provision and use of accounting information to managers within an organization. This permits the managers to be able to make informed business decisions and as such become better equipped in their management and control functions. As opposed to financial accounting, management accounting information is usually confidential and used by management alone. Secondly, it is forward looking, historical, and computed using extensive management information systems and internal controls instead of complying with accounting standards, be they national or international.

Management accounting experience and knowledge can be obtained from various fields and functions within a company such as information management, treasury, auditing, marketing, valuation, pricing, logistics, etc. Some of the primary services performed by

Exhibit 1.1 **Comparison between financial accounting and management accounting**

Features	Financial Accounting	Management Accounting
Who	Principally outsiders to the organization (investors, creditors, the state, analysts, and reporters)	Principally insiders of the organization (the management and operators)
What	General information on the whole organization	Internal information on the subunits of the organization
Type	Financial and monetary data	Economic, financial, and physical data such as data related to employees, sales volumes, and customers etc.
Rules	Regulated by the various accounting standards' boards and based on the GAAP	Unregulated but mostly based on cost/benefit analysis
Characteristics	Factual information based on reliability, objectivity, accuracy, and consistency	Estimated information to ensure efficiency, relevance and timeliness
Time	Historical perspective	Historical, current as well as forward looking such as sales budgets and cash flow forecasts
Format	Determined by different regulatory elements such as company law, accounting standards and the stock exchanges	No pre-determined format but aligned to the specific wishes of management
Frequency	Delayed with emphasis on annual reports	Continuous reporting

management accountants can comprise the following: cost allocation; annual budgeting; capital budgeting; product profitability; cost benefit analysis; cost-volume-profit analysis; variance analysis; cost analysis, etc.

1.1.3 Basic principles of accounting

The basic accounting principles form the foundation of the understanding of accounting methods. These are called the generally accepted accounting principles (GAAP) and they provide the basis for the preparation of financial statements. Below are the most important principles, followed by an introduction of the USALI and IFRS:

Cost principle
This principle indicates that a transaction should be recorded at its acquisition price or cash cost and this should represent its accounting value. It is difficult for example to compare income statements for different periods during periods of long-lasting inflation or deflation. There are however some exceptions such as in the case of valuing inventory for resale, which can be done in terms of current currency values instead of the historical value.

Business entity principle
This principle indicates that accounting and financial statements are based on the concept that each business maintains its own set of accounts and that these accounts are separate from those of the owners. By this principle, the separation of the personal transactions of the owners from the company is an accounting or more so legal obligation that must be maintained. It should be this way even in the

cases whereby such owners work in or for the company. The assets, debts and expenditures of the owners form no part of the company.

Time period principle
This principle indicates that a company has to complete its analysis to report the financial condition and profitability of its business operation over a specific operating time period. This could be daily, weekly, monthly, quarterly, semi-annually, or annually. An accounting year is an accounting period of one year. In hospitality businesses, statements are regularly prepared on monthly or even weekly basis.

Going concern principle
This principle indicates that at the time the business is preparing its statements, it is expected to live forever and that liquidation should not be a prospect. Generally, the going concern principle assumes that a company will operate indefinitely. This also assumes that the cost of business assets will be recovered over time by way of profits that are generated by successful operations.

Monetary unit principle
This principle indicates that the financial statements should be based on transactions expressed in the primary national (or regional in the case of some European countries with the Euro) monetary unit. This should be used to record the numerical values of business exchanges and operating transactions. The monetary unit also expresses financial information within the financial statements and reports.

Objectivity principle
This principle indicates that all accounting transactions should be justified as much as possible on objective evidence. This evidence is required to support a transaction before it can be entered into the accounting records. Some examples include the receipt for the payment of a guest cheque, or an invoice for the purchase of a new oven. In rare situations where such evidence cannot be obtained, expert estimates can be assumed.

Full disclosure principle
This principle indicates that the financial statement should provide all information necessary for the understanding of the financial statement. Financial statements are primarily concerned with a past period. This principle states that any future event that can have an impact on the financial position of the business should be disclosed to the readers of the statements and these disclosures will normally be found in the footnotes to the statements. These disclosures could be of the following types: changes in accounting practices during the period, any contingent liabilities, and exceptional events.

Consistency principle
This principle indicates that once an accounting method has been chosen by management, this should be used from period to period unless a change is necessary and this change must be disclosed. This principle was established to ensure comparability and consistency of the procedures and techniques used in the preparation of financial statements from one accounting period to the next.

Matching principle
This principle indicates that expenses should be related to their revenues. This principle requires that for each accounting period all sales revenues earned, whether received or not, must be recognized. It goes the same way with operating expenses, in the sense that they should all be recognized during the period, whether paid or not paid. This principle ensures that resulting net incomes or net losses provide the most accurate estimate of profit or loss for the period.

Conservatism principle
This principle indicates that expenses should be recognized as soon as possible whereas revenues should be recognized only when they are verified. A business should not understate its expenses or liabilities. On the other hand it should not overstate its assets or revenues.

Materiality principle
This principle indicates that events or information must be accounted for if they make a difference to the user of the financial information. This means that, items that may affect the decision of a user of financial information which are considered important must be reported in a correct way.

Realization principle
This principle indicates that revenues are only recognized only when it is earned. Generally, realization occurs when goods are sold or a service is rendered.

The Uniform System of Accounts for the Lodging Industry (USALI) in brief
Most organizations in the hospitality industry (hotels, motels, resorts, restaurants, and clubs) use the Uniform System of Accounts for the Lodging Industry (USALI). This was initiated by the Hotel Association of New York in the original Uniform System of Accounts for Hotels (USAH) in 1925. The system was designed for classifying, organizing, and presenting financial information so that uniformity prevailed and comparison of financial data among hotels was possible. A major advantage of accounting uniformity is that information can be collected and compared between similar organizations within the hospitality industry. Changes are constantly made to the USALI in order to keep pace with the evolving hospitality business environment, and it is now in its 11th revised edition (2014).

The International Financial Reporting Standards (IFRS) in brief
An accounting standard is a set of rules and regulations containing detailed guidance on the preparation of financial accounts. Since the 1970s the International Accounting Standards Committee (IASC) replaced in 2001 by the International Accounting Standards Board (IASB) has been foreseeing and is responsible for the establishment of international standards known as International Financial Reporting Standards (IFRS). IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world.

Accounting provides companies, investors, regulators and others with a standardised way to describe the financial performance of an entity.

Accounting standards present preparers of financial statements with a set of rules to abide by when preparing an entity's accounts, thus ensuring standardisation across the market. Companies listed on public stock exchanges are legally required to publish financial statements in accordance with the relevant accounting standards.

The International Financial Reporting Standards (IFRS) is a single set of accounting standards, developed and maintained by the IASB with the intention of those standards being capable of being applied on a globally consistent basis – by developed, emerging and developing economies – thus providing investors and other users of financial statements with the ability to compare the financial performance of publicly listed companies on a like-for-like basis with their international peers.

The IFRS are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries as is the case with many hospitality operations that have chains and brands operating across many countries at the same time. The IFRS are progressively replacing the many different national accounting standards. The IFRS are now mandated for use by more than 100 countries, including the European Union and by more than two-thirds of the G20 countries. The G20 and other international organisations have consistently supported the work of the IASB and its mission of global accounting standards. Since 2005, the European Union has decided that all listed companies should prepare their financial statements in compliance with these international standards.

1.1.4 The management accounting process

The management accounting process revolves around the identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control and to assure appropriate use of, and accountability for resources. The process can be summarized in the following four topics:

Setting business objectives
This is the identification of the objectives of the organization and directing the activities of the business to meet these objectives.

Assessing alternatives and making decisions and plans
The management will need information about alternative actions it can take. With such information it will be able to make decisions and detailed plans for the future.

Monitoring the outcomes
The management will use the information to assess how correctly their plans have succeeded or their objectives met.

Controlling and redefining its objectives and plans
Based on the review of planned and actual outcomes, the management might find it necessary to redefine the general objectives of the organization and as such redefine plans to achieve these new objectives.

1.2 Understand the hospitality industry

One of the fastest growing sectors of the economies of today is the hospitality industry. It is an expanding multi-billion euro business. It is exciting, never boring and offers unlimited opportunities. The hospitality industry is diverse enough for people to work in different areas of interest and still be employed within the hospitality industry. It covers such areas as lodging, restaurant, travel and tourism, institutional management, recreational management and meeting and convention planning industries. All of these separate yet related segments of the hospitality industry are interrelated to deliver kind and generous services to guests. It is one of the oldest businesses in history. People have always gone out to eat sometimes and travelled for work or leisure purposes. The structure of the subsections is as follows:

1.2.1 The nature of the hospitality industry
1.2.2 The organization of the hospitality industry and recent developments
1.2.3 Summary of the key characteristics of the hospitality industry

1.2.1 The nature of the hospitality industry

People all over the world are called on a daily basis to travel for a variety of reasons. These could be for business, tourism or simply to visit friends and relatives. Whatever the reasons behind their travel, many of them will end up staying in hotels or other types of temporary accommodation. Some of these types of accommodation are not only places to stay, but are considered destinations in their own right. In the Arnold Encyclopaedia of Real Estate a destination hotel is defined as a place of lodging not chosen for convenience and not chosen for people in transit to other areas. The following typically are characteristics of a destination hotel:

- Amenities which are quite complete and self-contained
- Upscale nature of the lodging operation
- Distinctive characteristics of the building, gardens or adjacent natural feature
- Activity set which makes leaving the property unnecessary

There are several distinct types of destination hotels that would include geographically remote locations, urban settings, conference centre oriented, specialized activities, unusual construction (e.g. ice hotels, cave hotels or tree-house hotels), as well as boutique hotels. Resort hotels and casino hotels are very good examples of destination hotels and the article in Exhibit 1.2 portrays the unusual story of the world's first ice hotel. The structure of the subsections is as follows: 1.2.1.1 introduces the goods and services offered while 1.2.1.2 illustrates its distinguishing features.

■ Exhibit 1.2 **Jukkasjärvi Icehotel**

What is ICEHOTEL? A hotel built of ice and snow, would be the most common response. The first and the largest in the world, someone might add. But we have more thrilling stories to tell. Lean closer to your computer screen and we'll whisper them in your ear.

Like most companies, we have a history and a business concept. Our ideas originate from the place we stand on; Jukkasjärvi. The river Torne that flows outside our office windows, the cold arctic climate, The Northern Lights and the Midnight Sun.

Every season allows us to get inspired by the river, whether it is crystal clear ice, rapids shooting on a riverboat or a magnificent, recently caught grayling. This is what we have promised to offer the rest of the world; with Jukkasjärvi and Torne River as a starting point, develop and offer sensuous, inspiring and unique experiences within art, nature, accommodation and gastronomy. That reflects all seasons of the year.

So it is not a only a hotel we build each winter, it is an ephemeral art project. And it is not a menu we create for every season, we cultivate the many flavours of Swedish Lapland.

Each year, we attract visitors from all over the world to a little village in Lapland, 200 km north of the Arctic Circle. Many of them we take further north, explore the high mountains, all the way to the northern Norway to visit the fjords.

Others encounter us and the Torne River ice in world cities such as London and Tokyo, or at a trade fair in Chicago or Barcelona. See, our river is not only the most well-travelled one – it is also famous all over the world.

Source: www.icehotel.com

The nature of the hospitality industry can be summarized under the following topics

1.2.1.1 Goods and services offered

The hotels and other accommodations are as different as the many family and business travellers they accommodate. The industry includes all types of lodging, from luxurious 5-star hotels to youth hostels and RV parks. While many provide simply a place to spend the night, others cater to longer stays by providing food service, recreational activities, and meeting rooms. The total number of hotel and other accommodation rooms in the world is difficult to determine as new rooms are constructed on a daily basis. Exhibits 1.3 and 1.4 present an evaluation carried out by MKG Consulting in 2008 showing the 2008 European Hotel rankings split by both the groups and the brands within the groups.

Exhibit 1.3 **Top 10 Hotel groups in Europe 2008**

2008 European hotel ranking
Top 10 hotel groups (27 countries of the EU)

Rank 2008	Rank 2007	Groups	Hotels 2008	Hotels 2007	Rooms 2008	Rooms 2007	Evol. Ch.07/08
1	1	ACCOR	2 207	2 205	239 507	241 046	–0.6%
2	3	IHG	541	505	82 123	77 721	5.7%
3	2	BEST WESTERN	1 201	1 215	79 205	80 318	–1.4%
4	5	GROUPE DU LOUVRE	844	823	58 411	56 339	3.7%
5	8	SOL MELIA	199	198	42 448	41 771	1.6%
6	7	NH HOTELES	298	270	41 270	38 466	7.3%
7	6	TUI	168	190	41 322	48 843	–15.4%
8	9	CARLSON/REZIDOR	207	195	39 079	37 271	4.9%
9	4	HILTON HOTEL	144	257	37 333	56 675	–34.1%
10	11	CHOICE INTERNATIONAL	369	390	35 411	32 243	3.4%
TOTAL			**6 178**	**6 188**	**696 149**	**710 693**	**–2.0%**

Source: Data base MKG Hospitality – official supplier of hotel chains – March 2008

Exhibit 1.4 **Top 20 Hotel brands in Europe 2008**

2008 European hotel ranking
Top 20 hotel brands (27 countries of the EU)

Rank 2008	Rank 2007	Brands	Groups	Hotels 2008	Rooms 2008	Evol. Ch.08/07
1	1	BEST WESTERN	BEST WESTERN	1 201	79 205	–1.4%
2	2	IBIS	ACCOR	641	67 112	1.9%
3	3	MERCURE	ACCOR	536	61 406	0.7%
4	5	HOLIDAY INN	IHG	292	44 893	5.5%
5	4	NOVOTEL	ACCOR	252	40 244	–5.9%
6	6	HILTON	HILTON CORP.	137	36 162	2.8%
7	7	PREMIER INN	WHITBREAD	505	31 000	11.0%
8	8	NH HOTELS	NH	254	34 424	9.0%
9	9	ETAP HOTEL	ACCOR	365	34 090	8.4%
10	11	RADISSON	REZIDOR/CARLSON	118	25 362	2.6%
11	13	CAMPANILE	LOUVRE HOTELS	382	24 220	1.6%
12	12	FORMULE 1	ACCOR	315	23 289	–2.7%
13	16	TRAVELODGE	DUBAI INVEST. CAP.	331	22 375	17.4%
14	14	SCANDIC	SCANDIC	114	20 694	-0.5%
15	15	MARRIOTT	MARRIOTT	84	19 616	0.8%
16	17	HOLIDAY INN EXPRESS	IHG	178	18 818	9.9%
17	19	RAMADA HOTEL	WYNDHAM HOTELS	145	18 056	8.4%
18	10	RIU HOTELS	TUI	58	17 911	–19.1%
19	20	QUALITY INN	CHOICE HOTELS	145	16 998	–2.3%
20	24	PREMIERE CLASSE	LOUVRE HOTELS	219	15 614	3.0%

Source: Data base MKG Hospitality – official supplier of hotel chains – March 2008

MKG Consulting equally announced the following prospects for the global hospitality industry as contained in Exhibit 1.5.

■ Exhibit 1.5 **Global hotel rooms horizon 2015**

First 20 hotel groups announce 1.1 million rooms by 2015
For the years to come, the major hotel groups have announced tremendous developments. Their projected pipelines signed or under way, are particularly important:

- The first 20 hotel groups have announced the opening of 8 500 hotels to come with 1.1 million new rooms by the end of 2015, that is a 20% increase of their supply.
- Majority of the projects should concern:
  - Northern America with 1 000 hotels for 400 000 rooms
  - Pacific Asia with 1 100 hotels for 230 000 rooms
  - Europe with 1 000 hotels for 180 000 rooms
  - South America, 780 hotels for 80 000 rooms
  - Africa and Middle East with 250 hotels and 70 000 rooms

As an example, Marriott announces 80 000 rooms, Accor more than 200 000 rooms by 2010, Hilton Hotels forecasts 900 hotels and 120 000 rooms, Choice International goes towards 78 000 rooms and even the Chinese group Jin Jiang has 22 000 new rooms under way.

Source: Data base MKG Hospitality – official supplier of hotel chains – March 2008

Hotels and motels make up the majority of establishments in the hospitality industry and are generally classified as offering either full-service or limited service. Full-service properties offer a variety of services for their guests, but they almost always include at least one or more restaurant and beverage service options – from coffee bars and lunch counters to cocktail lounges and formal restaurants. They also usually provide room service. Larger full-service properties usually have a variety of retail shops on the premises, such as gift boutiques, newsstands, and drug and cosmetics counters, some of which may be geared to an exclusive clientele. Additionally, a number of full-service hotels offer guests access to laundry and valet services, swimming pools, beauty salons, and fitness centres or health spas. A small, but growing, number of luxury hotel chains also manage condominium units in combination with their transient rooms, providing both hotel guests and condominium owners with access to the same services and amenities.

The largest hotels often have banquet rooms, exhibit halls, and spacious ballrooms to accommodate conventions, business meetings, wedding receptions, and other social gatherings. Conventions and business meetings are major sources of revenue for these properties. Some commercial hotels are known as conference hotels – fully self-contained entities specifically designed for large-scale meetings. They provide physical fitness and recreational facilities for meeting attendees, in addition to state-of-the-art audiovisual and technical equipment, a business centre, and banquet services.

Limited-service hotels are free-standing properties that do not have on-site restaurants or most other amenities that must be provided by a staff other than the front desk or housekeeping. They usually offer continental breakfasts, vending machines or small packaged items, Internet access, and sometimes unattended game rooms or swimming pools in addition to daily housekeeping services. The numbers of limited-service properties have been growing. These properties are not as costly to build and maintain. They appeal to budget-conscious family vacationers and travellers who are willing to sacrifice amenities for lower room prices.

1.2.1.2 The distinguishing features

Hotels can also be categorized based on a distinguishing feature provided by the hotel:

Conference hotels

These provide meeting and banquet rooms, and usually food service, to large groups of people. They are usually designed to meet the business needs of the guests offering all types of services to cater for the needs of the conference delegates.

Airport hotels

These are hotels located on airport properties in major urban markets. These hotels permit guests to walk directly between one's hotel room and the flight boarding area and also save travellers time and money related to ground transportation. If in addition they have conference facilities, this adds to the convenience for meetings involving parties from multiple destinations. They are particularly convenient for guests with flight delays or cancellations.

Resort hotels

These offer luxurious surroundings with a variety of recreational facilities, such as swimming pools, golf courses, tennis courts, game rooms, and health spas, as well as planned social activities and entertainment. Resorts typically are located in vacation destinations or near natural settings, such as mountains, seashores, theme parks, or other attractions. As a result, the business of many resorts fluctuates with the season. Some resort hotels and motels provide additional convention and conference facilities to encourage customers to combine business with pleasure. During the off season, many of these establishments seek for conventions, sales meetings, and incentive tours to fill their otherwise empty rooms; some resorts even close for the off-season.

Extended-stay hotels

These typically provide rooms or suites with fully equipped kitchens, entertainment systems, office space with computer and telephone lines, fitness centres, and other amenities. Typically, guests use these hotels for a minimum of 5 consecutive nights often while on an extended work assignment or lengthy vacation or family visit. *All-suite hotels* offer a living room or sitting room in addition to a bedroom.

Casino hotels

These provide both lodging and legalized gaming on the same premises. Along with the typical services provided by most full-service hotels, casino hotels also contain casinos where patrons can wager at table games, play slot machines, and make other bets. Some casino hotels also contain conference and convention facilities.

Bed-and-breakfast inns
These provide lodging for overnight guests and are included in this industry. *Bed-and-breakfast inns* provide short-term lodging in private homes or small buildings converted for this purpose and are characterized by highly personalized service and inclusion of breakfast in the room rate. Their appeal is charm, with unusual service and decor.

RV parks and campgrounds
These cater to people who enjoy recreational camping at moderate prices. Some parks and campgrounds provide service stations, general stores, shower and toilet facilities, and coin-operated laundries. While some are designed for overnight travellers only, others are for vacationers who stay longer. Some camps provide accommodations, such as cabins and fixed campsites, and other amenities, such as food services, recreational facilities and equipment, and organized recreational activities. Examples of these overnight camps include children's camps, family vacation camps, hunting and fishing camps, and outdoor adventure retreats that offer trail riding, white-water rafting, hiking, fishing, game hunting, and similar activities.

Other short-term lodging facilities in the hospitality industry include *guesthouses*, or small cottages located on the same property as a main residence, and *youth hostels* – dormitory-style hotels with few frills, occupied mainly by students travelling on limited budgets. Also included are *rooming and boarding houses*, such as fraternity houses, sorority houses, off-campus dormitories, and workers' camps. These establishments provide temporary or longer term accommodations that may serve as a principal residence for the period of occupancy. These establishments also may provide services such as housekeeping, meals, and laundry services.

1.2.2 **Industry organization and recent developments**

In recent years, the hotel industry has become dominated by a few large hotel chains. To the traveller, familiar chain establishments represent dependability and quality at predictable rates. Many chains recognize the importance of brand loyalty to guests, and have expanded the range of lodging options offered under one corporate name, to include a full range of hotels from limited-service, economy-type hotels to luxury inns. While these big corporations own some of the hotels, many properties are independently owned but affiliated with a chain through a franchise agreement or management contract. As part of a chain, individual hotels can participate in the company's national reservations service or incentive program, thereby appearing to belong to a larger enterprise.

For those who prefer more personalized service and a unique experience, *boutique hotels* are becoming more popular. These smaller hotels are generally found in urban locations and provide patrons good service and more distinctive décor and food selection.

While RV parks and campgrounds could be found around any country and managed nationally or internationally, most small lodging establishments are individually owned and operated by a single owner, who may employ a small staff to help operate the business.

The lodging industry is moving towards more limited-service properties mostly in suburban, residential, or commercial neighbourhoods, often establishing hotels near popular restaurants. Many full-service properties are limiting or quitting the food service business altogether, choosing to contract out their food service operations to third party restaurateurs, including long-term arrangements with chain restaurant operators. Urban business and entertainment districts are providing a greater mix of lodging options to appeal to a wider range of travellers.

Increased competition among establishments in this industry has spurred many independently owned and operated hotels and other lodging places to join international reservation systems. This allows travellers to make multiple reservations for lodging, airlines, and car rentals with one telephone call or Internet search. Nearly all hotel chains and many independent lodging facilities operate online reservation systems through the Internet or maintain websites that allow individuals to book rooms. Online marketing of properties is so popular with guests that many hotels promote themselves with elaborate websites and allow people to investigate availability and rates.

1.2.3 Summary of the key characteristics of the hospitality industry

The key characteristics of the hospitality industry are summarily listed below:

- As a service sector industry the production of the service is inseparable from its delivery
- The main product (rooms space) is highly perishable because if not sold on any day, it is lost forever
- The customers are regarded as guests who must always be satisfied
- It is a round the clock (24/7) activity and it is very labour intensive
- There is a lot of ethnic, cultural and religious diversity of both guests and staff
- The industry suffers from a lot of occupational and public health and safety issues
- It is seasonal and results from people making their spending decisions after all other obligatory expenditures have been taken care of (discretionary expenditure)
- The industry has high fixed capital costs
- The industry has highly irregular variable operating costs
- The industry has low barriers to entry for capital and labour
- There is a big inequality of functions within the industry and these functions depend on each other
- There is high sales volatility within the day, week, season, or as defined by the economic cycles

Glossary

Accounting system – is the system of procedures, personnel and data management tools that exist within a company and used to accumulate its financial information. It is made up of the set of manual and computerized procedures and controls that provide for identifying relevant transactions or events; preparing accurate source documents, entering data into the accounting records accurately, processing transactions accurately, updating master files properly, and generating accurate documents and reports.

Business entity principle – is where the business is seen as an entity separate from its owner(s) that keeps and presents financial records and prepares the final accounts and financial statements. The accounting is kept for each entity as a whole.

Conservatism principle – is where the accounting for a business should be fair and reasonable. This principle indicates that expenses should be recognized as soon as possible whereas revenues should be recognized only when they are verified. A business should not understate its expenses or liabilities. On the other hand it should not overstate its assets or revenues.

Consistency principle – is where the accountants are expected to use the same methods from period to period unless a change is necessary and this change must be clearly explained in the financial statements.

Cost principle – is where a company is required to record its transactions (especially those related to fixed assets) at the acquisition price or cash cost and this should represent the accounting value of the transactions.

Financial accounting – is the area of accounting concerned with reporting financial information to external stakeholders.

Full disclosure principle – is the requirement that the financial statement should provide all relevant and material facts necessary for the understanding of the financial statement.

Generally accepted accounting principles – is a recognized common set of accounting principles, standards, and procedures. GAAP is a combination of accepted methods of doing accounting and policy board set authoritative standards.

Going concern principle – is the assumption that the accounting entity will maintain proper accounting records from the date of its establishment to the date of its liquidation.

Hospitality industry – the industry that is most concerned with the cordial reception of guests. It is made up of a wide range of businesses, each of which is dedicated to the service of people away from home.

Management accounting – is the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control within an organization and to assure appropriate use of, and accountability for its resources.

Matching principle – is the requirement for the recognition of all expenses that are directly related to the realization of the revenues in the income statement of the period.

Materiality principle – is the requirement that events or information must be accounted for if they make a difference to the user of the financial information.

Monetary unit principle – is the requirement that financial statements should be based on transactions expressed in the primary monetary unit of the environment.

Objectivity principle – is the requirement that all accounting transactions should be justified as much as possible on objective evidence. This means that accounting transactions should be based on fact and not on personal opinion or feelings.

Realization principle – is the recognition of revenues only when they are earned.

Time period principle – is the requirement that a company has to complete its analysis to report the financial condition and profitability of its business operation over a specific operating time period.