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Tourism Is Your Business - Study Guide - A Financial Management Program For Canada's Lodging Industry

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Introduction to the program

Welcome to *Tourism is your business* – a financial management program for Canada's lodging industry. This program is designed for people who own or operate (or plan to own or operate) a small or medium-sized hotel/motel in Canada. That means it is aimed at the majority of hotel/motel owners and operators, since about 50% of the hotel/motels in Canada have fewer than 50 rooms, and about 9090 have fewer than 100 rooms.

All these hotel/motels – if they are successful – have one thing in common. Their owners or operators have a high degree of business awareness and well-developed financial management skills. That's what this program is all about — giving you the financial management skills that are needed to help ensure that your operation is a success. Specifically, the program is designed to:

- Explain the importance of sound financial management.
- Describe the general principles and specific techniques that are involved.
- Show how sound financial management can be applied to business planning and decision-making.
- Demonstrate how sound financial management can lead to increased profitability.
- Encourage the development of managerial skills that will improve your operational efficiency and effectiveness,

Structure of the program

This program has two principal elements – a written one and a video one. The written element is a book or manual containing ten chapters, each one dealing with a separate aspect of financial management. The video element consists of ten video segments, each one corresponding to the ten chapters in the manual. In addition, there is an introductory video segment and a summary video segment, which have no corresponding manual chapters.

The two elements – the written one and the video one – are linked by this study guide. The purpose of the study guide is to help you get the most out of the two main elements of the program. The guide will do this by steering you through each chapter of the manual and through each corresponding segment of the video, and by offering you some helpful advice — and some challenging practice exercises — along the way.

To use the study guide to maximum benefit, it is important that you understand the way the two elements of the program fit together. Essentially, the two elements have been joined together into modules. In other words, each module is made up of a chapter from the manual and a segment from the video — plus a section in the study guide that links the two together.

For example, module 1 consists of chapter 1 from the manual and segment 1 from the video — linked by the corresponding section contained in this study guide. Module 2 consists of chapter 2 from the manual and segment 2 from the video — linked by the corresponding section in this study guide. And so on. The only exception to this occurs in module 11: It contains no chapter from the manual.

In each module, you should therefore begin by reading the appropriate section of the study guide and then following its instructions. It will guide you through the chapter from the manual and the segment from the video. In this way, it will help you gain maximum benefit from the *Tourism is your business* program.

The video element of the program maybe borrowed – free of charge – from any regional office of the Department of Industry, Trade and Commerce/Regional Economic Expansion or from any provincial/territorial ministry of tourism. Also, it may be borrowed from Tourism Canada in Ottawa. (For addresses and telephone numbers, see the section "Additional sources of information" at the back of this study guide.) Alternatively, the video may be borrowed — again, free of charge — from any National Fihn Board distribution office in Canada.

Terminology

Throughout this program, the following terminology is used:

- The written element of the program is called a *manual.*
- The manual is divided into *chapters.*
- The video element is simply called the *video.*
- The video is divided into *segments.*
- The chapters and the segments are linked by the *study guide.*
- A chapter of the manual and a corresponding segment of the video – along with the appropriate section from this study guide — make up a *module.*
- The sum of all the parts – the manual, the video and the study guide – is called the *program.*

In addition, we should say a word about the term *hotel/motel.* This term is used throughout the program as a convenient shorthand. It is intended to include country inns, resorts, cottages, cabins and all other types of lodging facility, as well as hotels and motels.

Format of each module

In each module (as we mentioned above), you should start by reading the appropriate section of the study guide. It will steer you through the module. As you progress through the study guide, you will find that each section follows the same format for each module. This format includes the following:

Objectives of module

This will list the module's objectives, outlining what you will be expected to know, or be able to do, after you have completed the module.

Overview of manual

Here, you will be given a brief summary of the appropriate chapter from the manual.

Key words and phrases

Here, you will find a list of the key words and phrases that are used in the chapter from the manual. As you come to each one in your reading of the manual, you should write a short definition beside it as it appears in the list in the study guide. This will help you remember the key word or phrase; and it will help you listen for it as you view the video segment. (Note: You will find all the key words and phrases listed alphabetically in the glossary on page 294 of the manual.)

Reading the manual

Here, you will be directed to the first part of the manual that you should read.

Practice exercise 1

You will be given the first of two practice exercises, which you should complete as indicated in the study guide. It will help you test your understanding of the material. The solution is provided within the study guide.

Reading the manual

Here, you will be directed to the second part of the manual that you should read.

Practice exercise 2

You will then be given the second practice exercise, which you should complete. (Note: There are no practice exercises in module 10.)

Things to watch for in the video segment

Here, you will be given a summary of the video segment, plus a set of questions. You should read the questions before watching the video segment, but answer them after watching the video segment. (If you try to answer them during the segment, you might miss some important information.)

The name of the host in each video segment is Jimmy Tapp. He will guide you through each one. Towards the end of the segment, he will introduce one or more guests who are experts in their fields. They will conclude each segment with a discussion on various financial management skills.

Self-test questions and working examples

Here, you will be directed to complete the self-test questions and the working examples that appear at the end of the appropriate chapter from the manual.

Making it work

This will offer some thoughts and questions that you can relate directly to your own hotel/motel. These questions should provoke you into thinking of different ways in which you can view your own operation.

Answer key

Here, you will find the solutions to the two practice exercises that appear in each module (with the exception of module 10).

Checklist of major steps

In each module, you should complete the steps that are shown below. As you do so, we suggest that you tick each one, to make sure that you complete the entire program.

	Module									
	1	2	3	4	5	6	7	8	9	10*
Read the objectives of the module that are in the study guide	—	—	—	—	—	—	—	—	—	-
Read the overview of the manual that is in the study guide	—	—	—	—	—	—	—	—	—	—
Read the list of key words and phrases that appear in the study guide	—	—	—	—	—	—	—	—	—	—
Do the assigned reading from the manual	—	—	—	—	—	—	—	—	—	—
Complete the first practice exercise in the study guide and check the solution	—	—	—	—	—	—	—	—	—	—

	Module									
	1	2	3	4	5	6	7	8	9	10*
Read the rest of the assigned chapter from the manual	___	___	___	___	___	___	___	___	___	___
Complete the second practice exercise in the study guide and check the solution	___	___	___	___	___	___	___	___	___	___
Read the study guide to find out what you should watch for in the video segment	___	___	___	___	___	___	___	___	___	___
View the video segment	___	___	___	___	___	___	___	___	___	___
Answer the video segment questions	___	___	___	___	___	___	___	___	___	___
Complete the self-test questions in the manual and check the answers	___	___	___	___	___					
Complete the working examples in the manual and check the solutions	___	___	___	___	___	___	___	___	___	___
Review the module's objectives to see if you have achieved each one	___	___	___	___	___	___	___	___	___	___
Read 'Making it work' in the study guide	___	___	___	___	___	___	___	___	___	___

*As we said, module 10 does not contain any practice exercises. Also, module 11 follows a different format from modules 1-10. It consists of a summary of the program plus a comprehensive case study that is meant to test your knowledge of the program. The case study and its solution are both contained in this study guide.

Additional sources of information

At the back of this study guide, you will find a list of names and addresses of people and places that offer additional help and information. The list includes federal and provincial/territorial departments of tourism, their respective industry associations and a detailed bibliography of books and periodicals that cover everything from financing to marketing to staffing and hospitality. We hope you will find these sources a useful complement to *Tourism is your business.*

Acknowledgements

Tourism Canada, for which the *Tourism is your business* program was developed, wishes to acknowledge the help it received in the preparation of this study guide. In particular, it would like to thank the following organizations for their valuable assistance and advice: Simon Fraser University, British Columbia Ministry of Education, Tourism British Columbia, British Columbia Institute of Technology, Okanagan College, British Columbia Hotel Association, and British Columbia Motel, Resort and Trailer Parks Association.

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Contents

Module 1

SOUND FINANCIAL MANAGEMENT

what it can do for you. . .

Objectives of module

After studying module 1, you should be able to:

- Define financial management and explain its main objectives.
- Identify the four components of financial management.
- Name all the books of original entry.
- Describe the function of the general ledger.
- Identify the four main financial statements.
- Describe what the financial statements show and how they interrelate.
- Define depreciation and capital cost allowance.
- Show how cash flow is calculated.
- Explain how retained earnings are calculated.
- Define or explain all the key terms that appear in italics in chapter 1 of the manual.

Overview of manual

It is not the intent of this program to teach you to be an accountant, but chapter 1 of the manual will give you a foundation for understanding the most important financial statements. This will help you in later stages of the program.

This chapter will define the four components of financial management:

- Bookkeeping.
- Accounting.
- Analysis.
- Decision-making and action-taking.

Under "bookkeeping", the various sources of financial information will be introduced, as will the various journals, or books of original entry, that make up the bookkeeping system.

Under "accounting", financial statements will be briefly discussed. The four major ones are:

- Balance sheet.
- Income statement.
- Statement of retained earnings.
- Statement of changes in financial position.

Under "analysis", the manual will define the three major types of analysis:

- Ratio analysis.
- Operational analysis.
- Break-even analysis.

Under "decision-making and action-taking", the manual will list some of the decisions that need to be made and some of the actions that must be taken.

Key words and phrases

The key terms in this module are italicized in the manual. However, a list of these key terms is shown below. You will find the list quite long, because you are being introduced to what may be new words or terms. However, the lists of key words and phrases that appear later in the program will be much shorter than this one.

Bookkeeping . . . .

Accounting . . . .

Analysis . . . .

Decision-making and action-taking . . . . ,

Sources of in formation . . . .

Guest folios . . . .

Guest ledger . . . .

Daily transcripts ....

Night audit ....

Books of original entry ....

Cash receipts journal ....

Sales journal ....

Cash disbursements journal ....

Purchases journal ....

Payroll journal ....

General journal ....

Monthly journal ....

General ledger ....

Balance sheet ....

Income statement ....

Statement of retained earnings ....

Statement of changes in
financial position ....

Assets ....

Current assets ....

Fixed assets ....

Liabilities ....

Current liabilities ....

Long-term Liabilities ....

Owners' equity ....

Depreciation ....

Capital cost allowance ....

Revenues . . . .

Expenses . . . .

Net income . . . .

Netloss . . . .

Cash flow . . . .

Retained earnings . . . .

Dividends . . . .

Ratio analysis . . . .

Operational analysis . . . .

Break-even analysis . . . .

As you read through the chapterof the manual, writea short definition beside each keyterm as itappears inthe list above. Ifyou do, you'll findit easier to remember it, to use it in the exercises, and to listen forit in the video segment. Also, you will then have your own summary of keywords and phrases.

Reading the manual

Read from thestart ofchapterl onpage 9ofthe manual through tothe section entitled “Incomes statement” atthetop ofpage 13.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 1

You have the following balance sheet information:

Cash	$4,100
Accounts receivable	1,200
Inventory	3,100
Land	51,000
Building	175,000
Furniture, fixtures , andequipment	43,900
Accounts payable	900
Taxes payable	2,100
Bankloan payable	7,600
Mortgage payable	207,000

Prepare the balance sheet showing:

Current assets.
Fixed assets.
Current liabilities.
Long-term liabilities.
Owners' equity.

You will have to calculate the amount of owners' equity in order to "balance" the balance sheet.

The solution to this practice exercise will be found on page 15 of this study guide.

Reading the manual

Read the remainder of chapter 1 from the section headed "Income statement" on page 13 through to the end of the chapter on page 17.

When you feel that you understand this material, try the following practice exercise.

Practice exercise 2

You have the following income statement information:

Revenue — rooms	$8,200
Revenue – telephone	180
Wages and employee benefits	1,420
Supplies	310
Energy	140
Marketing	230
Maintenance	80
Administrative and general	1,100
Insurance	200
Interest	610
Depreciation	220

Prepare an income statement showing total revenue, total operating expenses, income before fixed charges, total fixed charges and income before income tax.

The solution to this practice exercise will be found on page 15 of this study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

Jimmy Tapp will discuss three of the major financial statements. First, he will cover the balance sheet and the way the assets are financed by credit, capital or both; and he will explain the accounting equation. He will then examine the structure of the income statement (or profit and loss statement). Finally, he will explain the statement of retained earnings that links the balance sheet and the income statement.

Peter Vaughan and Pierre Bergeron will then be introduced. They will discuss three major accounting concepts: depreciation, cash flow and working capital.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, you might miss part of the information. The answers to these questions will serve as a summary of the segment.

- Jimmy says that to run a lodging business, you need assets and financing for those assets. What two major types of financing are available?
- A comment is made that it is necessary to match the expected return on assets with the cost of their financing. Explain.
- Why does owners' equity appear on the right hand side of the balance sheet?
- In Peter's discussion of depreciation, why does he state that depreciation is "nothing more than an accounting expense or book entry"?
- Why does an investment in new furniture not show as an expense on the income statement for the year of purchase?
- How does Peter explain the difference between depreciation and capital cost allowance?

Self-test questions and working example

When you feel confident that you have mastered the material in this module, try the self-test questions on page 18 of the manual and the working examples on page 20 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/ motel.

- Does your hotel/motel have financial objectives? If not, why not prepare two or three for your next year of operation. Write them out so they will be clear to you and others involved in the financial affairs of your hotel/motel.
- Does your bookkeeping/accounting system clearly provide you with sufficient information to make your financial statements meaningful?
- Do you understand the difference between depreciation and capital cost allowance (CCA), and are you taking full advantage of CCA to minimize your taxes?

Answer key

Solution to practice exercise 1:

Balance Sheet

ASSETS			LIABILITIES AND OWNERS' EQUITY		
Current Assets:			Current Liabilities:		
Cash	$ 4,100		Accounts payable	$ 900	
Accounts receivable	1,200		Taxes payable	2,100	
Inventory	3,100	$ 8,400	Bank loan	7,600	$ 10,600
Fixed Assets:			Long-term Liabilities:		
Land	$ 51,000		Mortgage payable		207,000
Building	1'75,000				$217,600
Furniture	43,900	269,900	Owners' Equity		60,700
		$278,300			$278,300

If your balance sheet does not balance, it is probably because of an error made in calculating the owners' equity.

Solution to practice exercise 2:

Income Statement

Revenues:		
Rooms	$8,200	
Telephone	180	$8,380
Operating expenses:		
Wages and benefits	$1,420	
Supplies	310	
Energy	140	
Marketing	230	
Maintenance	80	
Administration and general	1,100	3,280
Income before fixed charges		$5,100
Fixed charges:		
Insurance	$ 200	
Interest	610	
Depreciation	220	1,030
Income before income tax		$4,070

Although the practice exercise did not ask you to prepare a properly presented income statement, the solution above shows you a common method of income statement layout.

Module 2

EFFECTIVE BOOKKEEPING

playing the numbers to win. . .

Objectives of module

After studying module 2, you should be able to:

- Outline the benefits of an effective bookkeeping system.
- Explain how double-entry bookkeeping works.
- Indicate whether increases or decreases in assets, liabilities, owners' equity, revenues and expenses are debit or credit entries in your books of original entry.
- Differentiate between the cash basis and the accrual basis methods of recording transactions.
- Use the uniform system of accounts.
- Explain the procedures of front office bookkeeping.
- Know how to record transactions in your books of original entry.
- Show how the entries are posted to the general ledger and how a trial balance is prepared.
- Use the procedures of a payroll system.
- Define or explain all the key terms that appear in italics in chapter 2 of the manual.

Overview of manual

In chapter 2 of the manual, you will be able to build on your knowledge from module 1. The chapter will offer a more detailed discussion of what an effective bookkeeping system should include.

The basis of bookkeeping is double entry, where debit entries in the accounting system always equal credit entries. The five basic types of account are:

- Assets.
- Liabilities.
- Owners' equity.
- Revenues.
- Expenses.

The chapter discusses cash versus accrual accounting and the uniform system of accounts. A practical system of guest accounting for a hotel/motel is covered, including completion and balancing of the daily transcript and the night audit. The chapter also includes a discussion and illustration of the main journals, or books of original entry, that are commonly used. These journals are:

- Cash receipts/sales journal.
- Purchases journal.
- Cash disbursements journal.
- Monthly journal.
- Payroll journal.
- General journal.

You'll see how transactions are recorded in these journals and how they flow through to the book of final entry, the general ledger. The balancing of the general ledger using a trial balance is illustrated. The chapter concludes with a discussion of payroll control and how employee records and earnings are kept.

Key words and phrases

The key terms in this module are italicized in the manual. They are also shown in the list below:

Double-entry system . . . .

Cash basis . . . .

Accrual basis . . . .

Credit . . . .

Debit . . . .

Uniform system of accounts . . . .

Chart of accounts . . . .

Expense dictionary . . . .

Guest folio . . . .

City ledger . . . .

Guest ledger . . . .

Night audit . . . .

One-write system . . . .

Daily transcript . . . .

Daily cash reconciliation . . . .

Trial balance . . . .

Work sheet . . . .

Personal history form . . . .

Time record . . . .

Weekly payroll schedule . . . .

Payroll earnings record . . . .

Payroll journal . . . .

Pay cheque . . . .

As you read through the chapter of the manual, write a short definition beside each key term as itappears inthe list above. Ifyou do, you'll findit easier to remember it, touseit inthe exercises, and tolisten forit in the video segment. Also, you will then have your own summary of keywords and phrases.

Reading the manual

Read from the start of chapter 20npage 230fthe manual through tothe section entitled "Booksoforiginal entry" at the top of page 55. You may skip over Figures2, 3and4frompages27to 47, since these figures are for reference only and not for study.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 1

You arecompleting the daily transcript for May29. You have completed the first page and cross balanced it. On the blank transcript on page 20 record these balanceson the top line:

Guests	12
Previous balance	$815.30
Rooms	242.00
Tax	12.10
Telephone	2.70
Restaurant	181.30
Other	271.94

Daily transcript: record of charges and receipts

				CHARGES									RECEIPTS			
ROOM NO.	NAME	GUESTS	FOLIO NO	PREVIOUS BALANCE	DATE	ROOMS	TAX	TELE-PHONE	RESTAU-RANT			OTHER	CASH	CREDIT CARD	OTHER	BALANCE

DATE___________________ PAGE NO _

Cash	310.90
Credit card	147.70
Other	141.30
Balance	925.44

You still have to record information for three more parties who checked in today. Record this information on the transcript (assume that the information is being entered on the guest accounts at the same time). The information is as follows:

- Room 107, Mr. Calder; room rate, $25.00; tax, $1.25.
- Room 111, Mrs. Dark; room rate, $25.00: tax, $1.25; restaurant, $9.30.
- Room 124, Mr. and Mrs. Zerbo; room rate, $36.00; tax, $1.80; telephone, $0.75; restaurant, $18.76.

In addition, you have cash receipts from the restaurant of $126.18 and from vending machines of $24.00.

Complete and balance the daily transcript.

The solution to this practice exercise will be found on page 23 of the study guide.

Reading the manual

Read the balance of chapter 2 from the section headed “Books of original entry” on page 55 through to the end of the chapter on page 79.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 2

You have the following list of accounts from your general ledger, showing whether the account has a debit (Dr) or credit (Cr) balance. Test this list for a trial balance.

You can run the list through a calculator. Alternatively, you can list the items account-by-account in two separate columns - one for debit accounts and one for credit accounts. In this latter case, the totals for both columns must agree.

Cash	$ 6,8oo Dr
Accounts receivable	1,500 Dr
Inventory	4,7oo Dr
Prepaid property tax	1,700 Dr
Prepaid insurance	800 Dr
Land	37,200 Dr
Building	225,600 Dr
Accumulated depreciation: Building	95,600 Cr
Furniture and equipment	72,200 Dr
Accumulated depreciation: Furniture and equipment	41,200 Cr

Accounts payable	2,400 Cr
Accrued expenses	1,300 Cr
Bank loan payable	8,300 Cr
Mortgage payable	160,600 Cr
Owners' equity	36,500 Cr
Dividends paid	5,000 Dr
Rooms:	
Revenue	186,500 Cr
Wages expense	75,100 Dr
Laundry expense	8,100 Dr
Supplies expense	16,000 Dr
Other expenses	7,9oO Dr
Food :	
Revenue	149,800 Cr
Purchases	48,600 Dr
Wages expense	56,100 Dr
Laundry expense	6,200 Dr
Supplies expense	9,800 Dr
Other expenses	8,700 Dr
Administration	31,200 Dr
Advertising	17,400 Dr
Maintenance	5,600 Dr
Energy	17,700 Dr
Insurance	8,800 Dr
Property taxes	9,500 Dr

The solution to this practice exercise will be found on page 25 of the study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

In the first part of this segment, Jimmy Tapp will discuss business transactions and the way they are first recorded in the books of original entry or journals and then into the general ledger. You will see an illustration of how typical entries are recorded in the journals and then posted into their respective ledger accounts. Jimmy will then discuss the rules for making debit and credit entries to the five basic types of ledger account, and he'll discuss how to prepare a trial balance.

Tony Tattersfield and Art Ward will then be introduced. They will discuss ways of recording charges and payments to guest accounts on the daily transcript, and the balancing of the transcript through the night audit.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers

Daily transcript: record of charges and receipts

				CHARGES										RECEIPTS				
ROOM NO.	NAME	GUESTS	FOLIO NO	PREVIOUS BALANCE		DATE	ROOMS	TAX	TELE-PHONE	RESTAU-RANT			OTHER	CASH	CREDIT CARD	OTHER	BALANCE	

DATE__________________ PAGE NO_

Cash	310.90
Credit card	147.70
Other	141.30
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You still have to record information for three more parties who checked in today. Record this information on the transcript (assume that the information is being entered on the guest accounts at the same time). The information is as follows:

- Room 107, Mr. Calder; room rate, $25.00; tax, $1.25.
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You can run the list through a calculator. Alternatively, you can list the items account-by-account in two separate columns - one for debit accounts and one for credit accounts. In this latter case, the totals for both columns must agree.

Cash	$ 6,800 Dr
Accounts receivable	1,500 Dr
Inventory	4,700 Dr
Prepaid property tax	1,700 Dr
Prepaid insurance	800 Dr
Land	37,200 Dr
Building	225,600 Dr
Accumulated depreciation: Building	95,600 Cr
Furniture and equipment	72,200 Dr
Accumulated depreciation: Furniture and equipment	41,200 Cr

Accounts payable	2,400 Cr
Accrued expenses	1,300 Cr
Bank loan payable	8,300 Cr
Mortgage payable	160,600 Cr
Owners' equity	36,500 Cr
Dividends paid	5,000 Dr
Rooms:	
Revenue	186,500 Cr
Wages expense	75,100 Dr
Laundry expense	8,100 Dr
Supplies expense	16,000 Dr
Other expenses	7,900 Dr
Food :	
Revenue	149,800 Cr
Purchases	48,600 Dr
Wages expense	56,100 Dr
Laundry expense	6,200 Dr
Supplies expense	9,800 Dr
Other expenses	8,700 Dr
Administration	31,200 Dr
Advertising	17,400 Dr
Maintenance	5,600 Dr
Energy	17,700 Dr
Insurance	8,800 Dr
Property taxes	9,500 Dr

The solution to this practice exercise will be found on page 25 of the study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

In the first part of this segment, Jimmy Tapp will discuss business transactions and the way they are first recorded in the books of original entry or journals and then into the general ledger. You will see an illustration of how typical entries are recorded in the journals and then posted into their respective ledger accounts. Jimmy will then discuss the rules for making debit and credit entries to the five basic types of ledger account, and he'll discuss how to prepare a trial balance.

Tony Tattersfield and Art Ward will then be introduced. They will discuss ways of recording charges and payments to guest accounts on the daily transcript, and the balancing of the transcript through the night audit.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, you might miss part of the information. The answers to these questions will serve as a summary of the segment.

- Why does Jimmy state that the journals form a diary of all business transactions?
- In recording transactions in a journal, a brief written explanation accompanies each entry. What is the purpose of this explanation?
- Jimmy says that two types of journals are most often used in a hotel/motel. Which are they?
- In which journal are transactions recorded when they do not appear in a special journal?
- With a uniform system of accounts, each ledger account is coded by number. How does Jimmy explain that this saves time in entering and posting?
- Why is it important to prepare a trial balance at each month end?
- Tony states that the effects of using accrual accounting are felt most strongly in two specific accounts. Which two accounts?

Self-test questions and working example

When you feel confident that you understand the material in this module, try the self-test questions on page 80 of the manual and the working example on page 82 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/motel.

- Do you think your bookkeeping system is effective? Could it be improved to give you more meaningful information?
- Are your accounts based on the uniform system of accounting and are they numbered for easy cross reference?
- Does your payroll system give you control of all the phases of the "payroll cycle" discussed in the text?

Answer key

Solution to practice exercise 1:

The solution is shown on page 24. If your transcript does not balance, it is probably because of an arithmetical error. You should retrace your steps one by one, correcting any errors you find:

- Check each line across.
- Check each column addition.
- Check your cross balancing.

Daily transcript: record of charges and receipts

				CHARGES										RECEIPTS				
ROOM NO.	NAME	GUESTS	FOLIO NO.	PREVIOUS BALANCE		DATE	ROOMS	TAX	TELE-PHONE	RESTAU-RANT			OTHER	CASH	CREDIT CARD	OTHER	BALANCE	
Bal. h/d		12		815	30		242.00	12.10	2.70	181.30			271.94	310.90	147.70	141.30	925	44
107	Calder	1				May 29	25.00	1.25									26	25
111	Dark	1				May 29	25.00	1.25		9.30							35	55
124	Zorbo	2				May 29	36.00	1.60	0.75	18.76							57	31
	Sub-total			815	30		326.00	16.40	3.45	209.36			271.94	310.90	147.70	141.30	1044	55
	Restaurant									126.18				126.16				
	Vending												24.00	24.00				
				815	30		328.00	16.40	3.45	335s4			295.94	461.08	147.70	141.30	1044	55

Cross Balance

		328.00
		16.40
Charges		3.45
		335.54
		295.94
		979.33
		461.08
Credits		147.70
		141.30
		750.08
Pr lance		815.30
	+	979.33
		750.08
		1044.55

OATE __________ PAGE NO, _

Solution to practice exercise 2:

If you ran the figures through a calculator, adding debits and subtracting credits, you should arrive at a zero balance. Alternatively, if you added the figures in two separate columns, the column total should be $682,200 for each column.

If a trial balance does not balance, you must trace back to find the error so that you can correct it in the ledger and/or journals. If YOU don't do this, your income statement and/or balance sheet will not be correct.

Module 3

ACCOUNTING AND RATIO ANALYSIS

making the numbers talk. . .

Objectives of module

After studying module 3, you should be able to:

- Explain what financial statements can tell you about a business.
- Identify the potential users of financial statements.
- Describe the contents and the functions of the balance sheet, income statement, statement of retained earnings and the statement of changes in financial position.
- Identify the liquidity ratios, leverage ratios, activity ratios and profitability ratios.
- Calculate these ratios when given a balance sheet and an income statement.
- Know when some of these ratios are too high or too low.
- Define or explain all the key terms that appear in italics in chapter 3 of the manual.

Overview of manual

Chapter 3 of the manual reintroduces you to the financial statements that were briefly discussed in module 1. The chapter explains who the main users of these financial statements are, and how they use them.

The balance sheet is discussed, showing you how the three main categories - assets, liabilities and owners' equity - are broken down. A typical income statement is also discussed, as are the statement of retained earnings and the statement of changes in financial position.

The chapter concludes with a discussion of ratio analysis and its four major components:

- Liquidity ratios.
- Leverage ratios.
- Activity ratios.
- Profitability y ratios.

Examples are given showing how each of the major ratios for each of these four categories is calculated.

Once you understand the concepts described in chapter 3 of the manual, you will be able to master the decision-making and action-taking processes to be covered in the remaining modules of this program.

Key words and phrases

The key terms in this module are italicized in the manual, and they are shown in the list below:

Accumulated depreciation . . . .

Net book value . . . .

Replacement value . . . .

Costof sales . . . .

Departmental expense . . . .

Undistributed operating
expense s . . . .

Departmental income . . . .

Income before fixed charges . . . .

Financial and other expenses . . . .

Income before depreciation . . . .

Depreciation . . . .

Income before incometax . . . .

Liquidity ratios . . . .

Leverage ratios . . . .

Activity ratios . . . .

Profitability ratios . . . .

As you read through the chapter, write a short definition beside each key term as it appears in the list above. If you do, you'll find it easier to remember it, to use it in the exercises, and to listen for it in the video segment. Also, you will then have your own summary of key words and phrases.

Reading the manual

Read from the start of chapter 3 on page 95 of the manual through to the section entitled "Ratio analysis" on page 103.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 1

You have the following income statement information:

Revenues:	
Guest rooms	$72,000
Telephone	2,500
Other income	500
Operating expenses:	
Salaries and wages	18,000
Employee benefits	2,000
Direct operating expenses	3,000
Administrative and general	2,500
Marketing	2,625
Property operation and maintenance	3,375
Energy costs	3,000
Financial and other expenses:	
Municipal taxes	2,250
Insurance	1,500
Interest	15,800
Depreciation	14,000
Income taxes	1,950

Put this information in the form of an income statement. To save yourself time, you can use the blank income statement on page 101 of the manual.

The solution to this practice exercise will be found on page 32 of this study guide.

Reading the manual

Read the balance of chapter 3 from the section headed "Ratio analysis" on page 103 through to the end of the chapter on page 107.

When you feel that you understand this material, try the following practice exercise.

Practice exercise 2

From the motel balance sheet and income statement shown below, calculate the following ratios:

a. Current ratio.
b. Acid test ratio.
c. Debt-to-total-assets ratio.
d. Debt-equity ratio.
e. Times interest earned.
f. Accounts receivable to total revenues.
g. Average collection period.
h. Fixed asset turnover.
i. Return on owners' equity.
j. Return on total assets.
k. Net return on total assets.
l. Profit margin.

Balance sheet Year ending December 31, 1985

ASSETS		LIABILITIES AND OWNERS' EQUITY	
Current assets:		Current liabilities	$ 6,300
Cash	$ 2,300	Long-term liabilities	81,300
Accounts receivable	2,300	Total liabilities	$ 87,600
Marketable securities	2,500		
Inventories	2,500	Owners' equity:	
Total current assets	$ 9,600	Common stock	$ 30,000
		Retained earnings	27,300
Fixed assets, net of depreciation	135,300	Total owners' equity	$ 57,300
Total assets	$144,900	Total liabilities and owners' equity	$144,900

Income statement for year ending December 31, 1985

Revenue		$150,800
Operating expenses		125,400
Income before interest and income tax		$25,400
Interest	$ 8,400	
Income tax	7,500	15,900
Net income		$ 9,500

The solution to this practice exercise will be found on page 32 of this study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

Jimmy Tapp will discuss the importance of financial statement analysis. He will calculate the four main categories of ratios (liquidity, activity, profitability and leverage), and then discuss what those ratios mean, using the financial statements of the Maple Leaf Motel.

When Pierre Bergeron is introduced, he will further discuss ratio analysis; also, he will talk about the purpose and value of the statement of changes in financial position, and he will demonstrate how the various sources and uses of funds are derived.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, you might miss part of the information. The answers to these questions will serve as a summary of the segment.

- The Maple Leaf Motel's current ratio is 1.46 to 1. How does Jimmy explain what this means?
- The Maple Leaf Motel has a remarkably rapid accounts receivable collection period. How is this explained?
- The Maple Leaf Motel's return on owners' investment is compared favorably with interest on Canada Savings Bonds. What should you remember about such a comparison?
- The Maple Leaf Motel's debt-equity ratio is 7.19 to 1. Is this a low ratio?
- What does Jimmy conclude about the Maple Leaf Motel's debt?
- Why will a hotel/motel's lender be more inclined to look at ratios and performance trends over a period of three or four years?
- What does Pierre give as the purpose of the statement of changes in financial position?

Self-test questions and working examples

When you feel confident that you have mastered the material in this module, try the self-test questions on page 108 of the manual and the working examples on page 110 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/ motel.

- Do you have financial statements prepared regularly enough to make use of them? For example, it is useful (particularly in a seasonal hotel/motel) to have a monthly income statement so that you can more easily monitor on-going operations.
- Do you calculate any key ratios? If so, why not add to your list? If not, why don't you begin by selecting a few of them now, then adding more later?
- Does your accountant annually produce a statement of changes in financial position? If not, why not discuss with him the benefits it would give your operation?

Answer key

Solution to practice exercise 1:

The solution to this exercise can be found in Figure 27 on page 106 of the manual. If you did not arrive at the net income figure of $5,000, you probably made an arithmetical error.

Solution to practice exercise 2:

a. $\frac{9,600}{6,300} = 1.52$

b. $\frac{2,300 + 2,300 + 2,500}{6,300} = \frac{7,100}{6,300} = 1.13$

c. $\frac{87,600}{144,900} = 0.6$

d. $\frac{81,300}{57,300} = 1.42$

e. $\frac{25,400 + 8,400}{8,400} = 4.02$

f. $\frac{2,300}{150,800} = 0.015$

g. $\frac{2,300}{150,800/365} = \frac{2,300}{413} = 5.57$ days

h. $\frac{150,800}{135,300} = 1.11$

i. $\frac{9500}{57,300} = 0.165$ (or 16.57.)

j. $\frac{25,400}{144,900} = 0.175$ (or 17.5%)

k. $\frac{9,500}{144,900} = 0.065$ (or "6.59.)

l. $\frac{9,500}{150,800} = 0.063$ (or 6.3%)

In this exercise, the ratios have been calculated for only a single period. Although you can draw some conclusions from these numbers, you should really calculate them for two or more periods so that trends can be detected and more meaningful decisions made.

Module 4

OPERATIONAL AND BREAK-EVEN ANALYSIS

meastig your rate of financial success. . .

Objectives of module

After studying module 4, you should be able to:

- Define and explain operational analysis.
- Describe the contents of the manager's daily report and the food and beverage daily report.
- Identify the major operational ratios used by hotels/motels.
- Calculate these ratios and understand the significance of the results.
- Define and explain break-even analysis.
- Explain the concepts of variable costs, fixed costs, contribution margin and break-even point.
- Identify which of your costs are fixed, variable or both.
- Calculate the break-even point in unit sales and dollar revenues.
- Construct a break-even analysis chart.
- Define or explain all the key terms that appear in italics in chapter 4 of the manual.

Overview of manual

Chapter 4 of the manual introduces you to two useful types of analysis: operational analysis and break-even analysis.

In the first part of the chapter, you will learn about operational analysis. It analyses the profitability of a hotel/motel on a departmental basis (rooms, food and beverages, telephone, etc.), and it relates sales or revenue to the number of rooms or restaurant seats as well as to the "activity" of those rooms (by using occupancy statistics) or seats (by using number of guests served). All the major operational ratios will be illustrated and discussed.

In the second part of the chapter, you will learn how to use break-even analysis. Break-even analysis is a financial management technique that examines relationships between volumes of activity, prices, expenses and profits. An illustration of break-even analysis will be given, showing how it can be used in a practical way. In later modules, you will see how it can be used in different decision-making situations.

Key words and phrases

The key terms in this module are italicized in the manual. However, a list of the key terms is as follows:

Manager's daily report . . . .

Food and beverage daily report... . . . .

Occupancy percentage . . . .

Double occupancy factor . . . .

Average rate per occupied
room night . . . .

Cost per occupied room night . . . .

Rooms department efficiency
percentage . . . .

Ratio of food and beverage
revenues to room revenues. . . . .

Seat turnover per day . . . .

Revenues per seat . . . .

Average check . . . .

Food cost percentage . . . .

Beverage cost percentage . . . .

Food and beverage cost
percentage . . . .

Food and beverage labour cost percentage ....

Food inventory turnover ....

Beverage inventory turnover..

Food and beverage department efficiency percentage ....

Telephone charges per occupied room night ....

Telephone department efficiency percentage ....

Variable costs ....

Fixed costs ....

Contribution margin ....

Break-even point ....

As youread through the chapter, write a short definition beside each key termasitappears inthelistabove. If you do, you'll finditeasierto remember it, touseit in the exercises, and to listen for itin the video segment. Also , you will then have your own summary of key words and phrases.

Reading the manual

Read from the start ofchapter onpage 115 of the manual through tothe section entitled "Break-evena nalysis "atthetopof page 125.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 1

You have the following information about the rooms department ina 25-room motel that wasopenfor 365 nights last year:

Room revenues	$107,400
Room operating expenses	35,300
Telephone revenues	4,100
Telephone operating expenses	5,900
Number of occupied rooms	5,478
Total number of guests	11,102
Number of available room nights	9,125

Calculate the following:

a. Occupancy percentage.
b. Double occupancy factor.

c. Average rate per occupied room night.
d. Cost per occupied room night.
e. Rooms department efficiency percentage.
f. Telephone charges per occupied room night.
g. Telephone department efficiency percentage.

The solution to this practice exercise will be found on page 37 of this study guide.

Reading the manual

Read the balance of chapter 4 from the section headed "Break-even analysis" at the top of page 125 through to the end of the chapter on page 131.

When you feel that you understand this material, try the following practice exercise.

Practice exercise 2

You have a motel whose average rate per occupied room night is $25.00 and whose variable costs per occupied room night are $10.00 (contribution margin is therefore $25.00-$10.00 = $15.00). Fixed costs are $40,000. Calculate:

a. Break-even point in occupied room nights.
b. Break-even point in dollars.

Assuming you wished to have a profit in this motel of $20,000 a year, calculate:

c. Required occupied room nights.
d. Required revenue.

The solution to this practice exercise will be found on page 38 of this study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

In the segment, Jimmy Tapp will discuss ways in which you can measure the efficiency and effectiveness of the day-to-day operations of your hotel/motel. He will demonstrate operational analysis, using statistics from the Northern Lodge. He will then discuss break-even analysis or the relationship between volume, price and variable and fixed costs, using the Sand Castle Motel as an example.

Pierre Bergeron will conclude the segment with a discussion of break-even analysis and profit goals, and he will demonstrate how cash break-even can be calculated.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, you might miss part of the information. The answers to these questions will serve as a summary of the segment.

- Jimmy states that there are two factors that will show if your hotel/motel is operating profitably. What are they?
- The Northern Lodge has a 10% increase in occupied room nights combined with a gain of $0.59 per occupied room night. What is the result of this?
- In discussing the food cost change from 42% to 40%, Jimmy says that an inflation factor does not have to be built into the calculations. Why does he say that?
- In the discussion about variable and fixed costs, there is mention of semi-variable or semi-fixed costs. Why is it important to separate these "semi" costs?
- In the break-even chart of the Sand Castle Motel, where can the break-even point be found?
- Jimmy asks Pierre if it is possible to calculate the profit and cash break-even using the break-even formula. How does Pierre explain that this can be done?

Self-test questions and working examples

When you feel confident that you have mastered the material in this module, try the self -test questions on page 132 of the manual and the working examples on page 134 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/motel.

- Do you use a manager's daily report? If not, why not design one for your operation using Figures 31 and/or 32 on pages 117 and 118 of the manual as a guide?
- Do you know which of your expenses are fixed and which are variable? If not, why not prepare a list so that it will be handy for decisions concerning your expenses?
- Do you know what your break-even revenue is? If not, why not calculate it?

Answer key

Solution to practice exercise 1:

a. $\frac{5,478}{9,125} \times 100 = 60.0\%$

b. $\frac{11102}{5,478} = 2.03$

c. $\frac{\$107,400}{5,478} = \$19.61$

d. $\frac{\$35,300}{5,478} = \$6.44$

e. $\frac{\$107,400 - \$35,300}{\$107,400} = \frac{\$72,100}{\$107,400} \times 100 = 67.1\%$

f. $\frac{\$4,100}{5,478} = \$0.75$

g. $\frac{\$5,900}{\$4,100} \times 100 = 143.9\%$

In this exercise, you calculated the results for only one period. You could comment about what these results tell you. However, it would be better to calculate them for two or more periods, so that trends could be detected and more meaningful decisions made.

Solution to practice exercise 2:

a. $\frac{\$40,000}{\$15} = 2,667$

b. $\frac{\$40,000}{\$15/\$25} = \frac{\$40,000}{0.6} = \$66,667$

c. $\frac{\$40,000 + \$20,000}{\$15} = \frac{\$60,000}{\$15} = 4,000$

d. $\frac{\$60,000}{0.6} = \$100,000$

The break-even formula can be extremely useful. However, it may require you to make estimates about the breakdown of semi-fixed or semi-variable costs into their fixed and variable components. As a result, you must allow some deviation between these estimates and your actual results.

Module 5

SETTING THE RIGHT PRICES

and maximizing your profits. . .

Objectives of module

After studying module 5, you should be able to:

- Identify seven unsophisticated pricing methods used by hotels/motels.
- Describe the advantages and disadvantages of these unsophisticated methods.
- Identify and explain two sophisticated pricing methods.
- Calculate a target average rate per occupied room night using the Hubbart formula.
- Differentiate between price cutting and discounting.
- Calculate discount on prices using break-even analysis.
- Explain how food and beverage prices are calculated using percentage mark-up or multiple methods.
- Show how to target a food cost percentage or a beverage cost percentage.
- Define or explain all the key terms that appear in italics in chapter 5 of the manual.

Overview of manual

Chapter 5 of the manual covers pricing of rooms, food and beverages. The chapter starts by introducing you to the seven unsophisticated methods of establishing prices. These methods are:

- Intuitive.
- Competitive.
- Follow-the-leader.
- Traditional or rule-of-thumb.
- Trial-and-error.
- Exclusive.
- Price cutting.

The chapter then takes a closer look at two better methods. The first is the Hubbart formula. You will be shown how it is used and how it is combined with break-even analysis to measure the impact of any changes in prices and volumes. The second method is discounting. Discounting helps you make decisions about the room rates you can offer to attract group (and similar) business. The chapter concludes with a section on pricing food and beverages.

The information on pricing methods can be crucial. If you don't set your prices in a rational way, you may not be achieving maximum profit.

Key words and phrases

The key terms in this module are italicized in the manual and shown in the list below:

Hubbart formula . . . .

Percentage mark-up . . . .

Prime cost . . . .

Standard recipe card . . . .

As you read through the chapter, write a short definition beside each key term as it appears in the list above. If you do, you'll find it easier to remember it, to use it in the exercises, and to listen for it in the video segment. Also, you will then have your own summary of key words and phrases.

Reading the manual

Read from the start of chapter 5 on page 139 of the manual through to the section entitled "Discounting method" at the bottom of page 145.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 1

A 50-room motel projects the following for next year:

- Number of occupied room nights at an 80% occupancy will be 14,600 (50 X 80%X 365).
- Direct operating room expenses will be $27,700.
- The owners' present investment is $200,800, and they want an after-tax return on their investment of 10%. Tax rate is 50%.
- There is a mortgage on the building of $403,200 at an interest rate of 1090.
- Depreciation on the building is $35,010, and on furniture and equipment it is $15,040.
- Other fixed charges add up to $70,900 a year.
- There is no food department in the motel, but there is other income from vending machines of $2,600 a year.

Use the Hubbart formula to calculate the motel's required room rate.

The solution to this practice exercise will be found on page 43 of this study guide.

Reading the manual

Read the balance of chapter 5 from the section headed "Discounting method" at the bottom of page 145 through to the end of the chapter on page 154.

When you feel that you understand this material, try the following practice exercise.

Practice exercise 2

For each of the following menu items, calculate the selling price:

Item cost	Food cost percentage
$2.40	30%
2.95	33%
3.50	40%
4.00	43%
4.20	45%

The solution to this practice exercise will be found on page 43 of this study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

In the segment, Jimmy Tapp will demonstrate how the Last Chance

Motel uses various unsophisticated methods for establishing its room rates. He will then discuss target pricing showing how the Concorde Hotel uses the Hubbart formula to calculate its room prices and its break-even level. He will also demonstrate how to calculate a discount on prices by using break-even analysis for the In-Can Inn.

Alastair Morrison will then discuss how you can realistically set your food and beverage prices, and Pierre Bergeron will highlight the importance of the Hubbart formula.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, you might miss part of the information. The answers to these questions will serve as a summary of the segment.

- Jimmy states that profit is the product of three variables. What are these variables?
- He also says that target pricing using the Hubbart formula is based on a specific assumption. What is this assumption?
- Jimmy says that pricing by discounting is not intended to cut prices for competitive reasons. When should it be used?
- It is unwise to discount prices below the break-even point. Why?
- According to Alastair, on what basis should food and beverage prices be set?
- Alastair says that you should use standard recipe cards to calculate food cost. What two main things does a recipe card show?

Self-test questions and working example

When you feel confident that you have mastered the material in this module, try the self-test questions on page 155 of the manual and the working example on page 157 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/motel.

- How did you initially establish your room rates? Was it by one (or a combination) of the unsophisticated methods?
- Why not apply the Hubbart formula to your hotel/motel to see how close your present average room rate is to what the formula suggests it should be?
- Are there any ideas in chapter 5 of the manual that you could apply in your operation?

Answer key

Solution to practice exercise 1:

Return on investment	$ 20,080
Income tax	20,080
Interest	40.320
Depreciation:	
Building	35,010
Furniture and equipment	15,040
Other fixed charges	70,900
Operating expenses	27,700
Other income	(2,600)
	$226,530

$$\frac{\$226,530}{14,600} = \$15.52$$

You should note that the room rate you arrive at using the Hubbart formula is only a guide to what that rate should be. Your single occupancy rate may be set lower than this - and your double occupancy rate higher. You might also charge more for larger rooms - and less for smaller ones. These, and other factors such as competition and customer willingness to pay, must all be considered in setting prices.

Solution to practice exercise 2:

$$\frac{\$2.40}{30\%} = \$8.00$$

$$\frac{\$2.95}{33\%} = \$8.94$$

$$\frac{\$3.50}{4070} = \$8.75$$

$$\frac{\$4.00}{4390} = \$9.30$$

$$\frac{\$4.20}{45\%} = \$9.33$$

Don't forget that the menu prices arrived at using the cost percentages should be considered only as a guide to restaurant pricing. Competition, customer willingness to pay, and many similar factors must also be used in setting menu prices.

Module 6

OPERATING AND CASH BUDGETS

keeping an eye on the future. . .

Objectives of module

After studying module 6, you should be able to:

- Explain the purposes and benefits of budgeting.
- Identify the characteristics of a good budget.
- Prepare an annual operating budget.
- Prepare a cash flow or cash budget.
- Define or explain all the key terms that appear in italics in chapter 6 of the manual.

Overview of manual

Chapter 6 of the manual will introduce you to budgeting. Budgeting is estimating or forecasting the financial future of your business. It produces a plan based on realistic goals, which you can use to judge your actual performance and to control your hotel/motel's operations.

Two types of budgets are covered in the chapter. In the first part of the chapter, you will learn about operating budgets and the six steps that are used to prepare them:

- Establish your objectives.
- Decide on the division of your budget into planning periods.
- List factors and trends expected to affect your business.
- Prepare revenue forecasts.
- Prepare expense forecasts.
- Monitor actual performance relative to your budget.

The second type of budget discussed in the chapter is the cash flow budget. The twelve steps that you must take to prepare such a budget are given, and a cash flow budget is illustrated.

In summary, the main purposes of budgeting are to provide organized estimates of such things as future revenues, expenses and cash flow, and to provide a method of control so that actual results can be evaluated against budget forecasts.

Key words and phrases

The key terms in this module are italicized in the manual, and shown below:

Operating budget . . . .

Cash flow budget . . . .

Capital budget . . . .

Zero-based budgeting . . . .

Double differential formula . . . .

As you read through the chapter, write a short definition beside each key term as it appears in the list above. If you do, you'll find it easier to remember it, to use it in the exercises, and to listen for it in the video segment. Also you will then have your own summary of key words and phrases.

Reading the manual

Read from the start of chapter 6 on page 161 of the manual through to the bottom of page 167.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 1

You have the following forecast for a 50-room motel for the first six months of next year (assume 28 days in February).

Month	Room rate	Occupancy
January	$30	7070
February	30	75
March	33	75
April	35	75
May	35	80
June	35	80

Calculate the budgeted room revenue for each of the six months and in total.

The solution to this practice exercise will be found on page 49 of this stud y guide.

Reading the manual

Read the balance of chapter 6 from the section headed "Preparing a cash flow budget" at the top of page 168 through to the end of the chapter on page 170.

When you feel that you understand this material, try the following practice exercise.

Practice exercise 2

On December 31, 1985, your motel has a bank balance of $7,100 and a bank loan payable of $73,900. Your budgeted income statement for 1986 is as follows :

Revenues		$403,900
Operating expenses		302,300
		$101,600
Fixed charges:		
Management salary	$23,000	
Rent	18,500	
Insurance	2,400	
Interest	7,600	
Depreciation	9,700	
		$61,200
		$ 40,400
Income tax		10,100
Net income		$ 30,300

All sales and expenses are on a cash basis. However, your income tax for 1986 will not have to be paid until April, 1987.

In May, 1986, you plan to buy new furniture at an estimated cost of $15,600. By December, 1986, the bank loan payable will be reduced to $49,200.

Prepare a cash budget showing your bank balance at December 31, 1985.

The solution to this practice exercise will be found on page 49 of this study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

In this segment, Jimmy Tapp will discuss why budgeting is important, and he will explain some of the budgets that you can prepare. He will then demonstrate how to prepare an operating budget, using the Towne Motel as an example. He will conclude by showing how the Towne Motel's cash budget can then be prepared.

When Pierre Bergeron is introduced, he will give further insights into the budgeting process, and he will discuss zero-based budgeting.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, you might miss part of the information. The answers to these questions will serve as a summary of the segment.

- When discussing flexible or variable operating budgets, in which areas does Jimmy say that they should be used?
- What is the reason for dividing the budget into planning periods?
- In the calculation of room revenues, there is a difference of $7,320 between revenue from double and single occupancies. What does Jimmy call this difference?
- A budget is used for monitoring performance, but this monitoring is not confined to budget dollars. What other types of monitoring can be done?
- Pierre says that there are two essential budgets that must be prepared each year. Which two are they?
- It is stated that zero-based budgeting should be considered by large hotels/motels, but not by small ones. Why?

Self-test questions and working example

When you feel confident that you have mastered the material in this module, try the self-test questions on page 171 of the manual and the working example on pages 173 and 174 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/motel.

- Do you draw up a budget for your hotel/motel's annual revenue and expenses? If not, why not plan to do this in advance of your next operating year, so that you will have a goal to work towards.

- Do you know the difference between your hotel/motel's profit and its cash flow for your last fiscal year? If not, why not calculate it?
- Are there any ideas in chapter 6 of the manual that you can implement to help you increase your operating profit?

Answer key

Solution to practice exercise 1:

Month	Calculation	
January	50 X \$30 X 70% X 31 = \$	32,550
February	50 X \$30 X 75% X 28 =	31,500
March	50 x \$33 x 75% x 31 =	38,363
April	50 x \$35 x 7570 x 30 =	39,375
May	50 X \$35 X 80% X 31 =	43,400
June	50 X \$35 X 80% X 30 =	42,000
Total		\$227,188

Any difference between your figures and this solution is probably the result of arithmetical error.

Solution to practice exercise 2:

Opening bank balance		\$ 7,100
Cash receipts:		
Revenue		403,900
		\$411,000
Cash disbursements:		
Operating costs	\$302,300	
Management salary	23,000	
Rent	18,500	
Insurance	2,400	
Interest	7,600	
New furniture	15,600	
Loan payment	24,700	394,100
Depreciation	9,700	
Closing bank balance		\$ 16,900

If your closing bank balance is not \$16,900, it maybe because you included depreciation in your calculations. Depreciation is simply a bookkeeping entry that does not require an outlay of cash.

Module 7

WORKING CAPITAL MANAGEMENT AND INTERNAL CONTROL

looking after your short-term interests . . .

Objectives of module

After studying module 7, you should be able to:

- Define working capital management and explain its objectives.
- Identify and explain the three main components of working capital management.
- Determine the extent of your net working capital.
- List the major sources and uses of funds.
- Prepare a statement of changes in financial position.
- Define the major objectives of internal control.
- Describe the three basic rules of internal control.
- Identify and explain the four elements of asset control.
- Determine whether your hotel/motel has an effective internal control system.
- Define or explain all the key terms that appear in italics in chapter 7 of the manual.

Overview of manual

Chapter 7 in the manual covers two very important and related topics. It will first introduce you to the concept of working capital - a term used to cover both current assets and current liabilities. Working capital management is the way these current assets and liabilities are managed to give you effective cash, credit, and inventory control. The chapter discusses and illustrates the statement of source and use of working capital. It then moves on to discuss and illustrate the statement of changes in financial position.

In the second part of the chapter, internal control will be covered. Internal control is necessary to protect your assets (among other things). It is closely linked to effective working capital management. This part of the chapter covers many of the "do's" and "don'ts" of internal control, and it provides check lists that you can use in your own hotel/motel.

Internal control procedures apply to every aspect of your operation from purchasing through to sales, the control of cash receipts and disbursements, and all the other assets of your hotel/motel. The main objective of internal control is to safeguard those assets and to give you the information you need to know that your assets are being protected.

Key words and phrases

The key terms in this module are italicized in the manual. However, a list of the key terms is also shown below:

Net working capital . . . .

Cash management . . . .

Credit management . . . .

Inventory management . . . .

Sources of funds . . . .

Uses of funds . . . .

Fixed asset ledger . . . .

As you read through the chapter, write a short definition beside each key term as it appears in the list above. If you do, you'll find it easier to remember it, to use it in the exercises, and to listen for it in the video segment. Also, you will then have your own summary of key words and phrases.

Reading the manual

Read from the start of chapter 7 on page 177 of the manual through to the section entitled" Internal control" on page 184.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 1

From the two consecutive balance sheets, the income statement and the statement of retained earnings shown below, prepare a statement of changes in financial position.

The solution to this practice exercise will be found on page 56 of this study guide.

Balance sheets

	Last Year	This Year		Last Year	This Year
ASSETS			LIABILITIES AND OWNERS' EQUITY		
Current assets	$ 22,100	$ 23,500	Current liabilities	$ 21,800	$ 20,600
Long-term assets:			Long-term liability:		
Land	35,000	35,000	Mortgage payable	90,000	79,600
Building, at cost	145,000	145,000			
Equipment and			Owner's equity:		
furniture, at cost	21,700	24,400	Common stock	33,000	33,000
Accumulated			Retained		
depreciation	(58,300)	(70,300)	earnings	20,700	24,400
	$165,500	$157,600		$165,500	$157,600

Income statement for this year

Revenue	$214,700
Operating costs	184,000
Income before depreciation and interest	$ 30,700
Depreciation	12,000
Income before interest	$ 18,700
Interest	10,800
Net income	$ 7,900

Statement of retained earnings for this year

Retained earnings January 1	$ 20,700
Net income for year	7,900
	$ 28,600
Dividends	4,200
Retained earnings December 31	$ 24,400

Reading the manual

Read the balance of chapter 7 from the section headed "Internal control" on page 184 through to the end of the chapter on page 196.

When you feel that you understand this material, try the following practice exercise.

Practice exercise 2

Your motel has established a petty cash fund of $100. The fund is the responsibility of the desk clerk on duty during the day. In October, the following disbursements, supported by receipts or other documentation, were made from the fund.

October 1	$ 3.04	Office supplies
3	14.23	Lobby plants
6	1.35	Office supplies
8	11.95	Sundry wages
9	0.32	Postage due
12	12.50	Postage stamps
13	3.60	COD parcel for owner
16	11.00	Taxi cost for owner
18	4.26	Collect telegram
23	5.02	Freight on delivery
25	1.13	Office supplies
26	10.50	Postage stamps (there was no receipt for this)

The desk clerk has added these items, and he requests a refund cheque for $88.90. Your count of the cash shows there is still $1.10 in the fund plus an IOU from the clerk for $10.00. What comments do you have about the petty cash fund for this month?

The solution to this practice exercise will be found on page 56 of this study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

In this segment, Jimmy Tapp will define the meaning of working capital, explaining where the money comes from and how it is put to use. He will then illustrate how a statement of source and use of working capital is prepared, as well as a statement of changes in financial position. He will use the Four Oaks Motel as an example. He will conclude with a discussion of cash flow budgets and the annual funds flow forecasts for the Four Oaks Motel.

When Pierre Bergeron is introduced, he will offer some tips to improve your skills in working capital management. Then Alastair Morrison and Art Ward will explain how internal control affects working capital, and they will show how you can improve internal control in a hotel/motel. Finally, Pierre will discuss a control system for your fixed assets.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, *you* might miss part of the information. The answers to these questions will serve as a summary of the segment.

- How is the difference between gross and net working capital explained?
- How does Jimmy differentiate between cash flow and funds flow?
- Which accounts does the statement of source and use of working capital deal with?
- In discussing the statement of changes in financial position for the Four Oaks Motel, what general conclusion does Jimmy come to?
- In discussing working capital management, Pierre says that you should coordinate inventory to revenues and increase inventory turnover. What benefits would this have?
- How frequently should a bank reconciliation be completed?
- Pierre says that you should maintain a reporting system for inventory, which shows you what you have in inventory at all times. What is this system called and why is it important?

Self-test questions

When you feel confident that you have mastered the material in this module, try the self-test questions on page 197 of the manual and the working example on page 199 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/motel.

- Does your balance sheet categorize your current assets and current liabilities in such a way that you can readily calculate your net working capital?
- Does your accountant prepare an annual statement of financial position? If not, why not discuss this with him?
- Are there any ideas in chapter 7 of the manual that you could use to improve your internal control? Why not prepare a check list of questions that apply to your hotel/motel, so that you can use the list on a periodic basis?

Answer key

Solution to practice exercise 1:

Sources of funds:

Net income	$ 7,900
Depreciation	12,000
Total sources of funds	$19,900

Uses of funds:

Purchase of new equipment and furniture	$ 2,700
Paid off mortgage	10,400
Dividends	4,200
Increase in working capital	2,600
Total uses of funds	$19,900

Note that the increase in working capital of $2,600 agrees with what the balance sheet shows:

Last year's working capital ($22,100 -$21,800)	$ 300
This year's working capital ($23,500 - $20,600)	$ 2,900
Increase in working capital	$2,600

Solution to practice exercise 2:

The October total should be $78.90, not $88,90. The clerk is therefore $10.00 short in cash and may have been trying to collect an extra $10.00 to cover the shortage. Also, you should not allow personal IOUS in the till, since this encourages employees to borrow (and possibly not repay). This means there is really a $20.00 shortage. Finally, there was no receipt to cover the October 26$10.50 amount for stamps. Why not? Is this another cover-up for a further amount “borrowed” by the clerk?

In a case like this, you should discuss the situation with the clerk, decide on new procedures to be followed, and if problems still occur, consider disciplining or removing the employee.

Module 8

PLANNING FOR GROWTH AND PROFIT

taking the long-term view. . .

Objectives of module

After studying module 8, you should be able to:

- Decide when and by how much a hotel/motel should expand.
- Use the capitalization rate method to determine if an expansion is worth considering.
- Determine the impact of changing the length of your season.
- Use break-even analysis to determine how much you should spend on renovations.
- Indicate the normal lifetime of various fixed assets used in hotels/motels.
- Determine whether you should lease or buy.
- Describe the different types of available leases.
- Determine the fair market value of a hotel/motel using the cost approach and the going concern approach.
- Define or explain all the key terms that appear in italics in chapter 8 of the manual.

Overview of manual

In chapter 8 of the manual, you will be introduced to the various ways of planning for changes in your hotel/motel, which are designed to increase your profits. Planning for change is necessary, so that you know where you are going. It provides a "map" to show you how to get from one point to another.

The chapter covers a number of related topics, such as expanding the size of your hotel/motel, upgrading or renovating it, buying versus leasing,. and buying and selling a hotel/motel. These topics are related in that they all affect the financial status of your hotel/motel.

Expansion planning shows you the steps you must go through to calculate the investment you can afford to make. Renovation planning shows how you can calculate the increased prices that you must charge to cover the costs of renovation. Leasing assets is an alternative to buying them. This section of the chapter shows how you can compare the two and decide which is better.

The chapter concludes by demonstrating how an initial purchase/sale price of an existing hotel/motel can be arrived at. This initial price can then become a negotiation base for both the buyer and the seller.

Key words and phrases

The key terms in this module are italicized in the manual. However, a list of the key terms is also shown below:

Capitalization rate . . . .

Nomograph . . . .

Operating lease . . . .

Financial lease . . . .

Sale and leaseback . . . .

Maintenance lease . . . .

Valuation . . . .

Fair market value . . . .

Replacement value new . . . .

Depreciated replacement value... . . . .

Liquidation value . . . .

Income before fixed charges multiple . . . .

Future maintainable income be fore fixed charges . . . .

As you read through the chapter, write a short definition beside each key term in the list above. If you do, you will find it easier to remember it, to use it in the exercises, and to listen for it in the video segment. Also, you will then have your own summary of key words and phrases.

Reading the manual

Read from the start of chapter 8 on page 203 of the manual through to the section entitled "Renovation planning" at the top of page 215.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 1

Your motel's annual revenue is $300,000. Operating costs are 4090 of revenue. Fixed charges are $144,000 a year. Income tax is 5090.

You are thinking about leasing some adjacent cottages to increase revenue and profits. Cost of the lease for the buildings would be $6,500 per year for the ten-year period of the lease. The entire $65,000 for the ten-year period would have to be paid in advance.

Renovations to the cottages plus new furniture and equipment would cost $25,000. This amount would be depreciated over the ten-year period. Linen inventory would have to be increased. This would require a further investment of $1,000.

By taking over the cottages, your revenue would increase by 20% over its present level. Operating expenses would continue to be 4090 of revenue. Fixed charges would increase by $15,000 a year. Assume a 50% income tax is deducted from income before tax.

If 100% equity financing were used, and you wanted an 8% after tax return on your investment, should you expand?

The solution to this practice exercise will be found on page 61 of this study guide.

Wading the manual

Read the balance of chapter 8 from the section headed "Renovation planning" at the top of page 215 through to the end of the chapter on page 223.

When you feel that you understand this material, try the following practice exercise.

Practice exercise 2

You have the following information about your motel:

Average rate per occupied room	$30.00
Variable cost per occupied room night	12.00

Fixed costs	52,500.00
Occupied room nights	4,500
Net income	19,500.00

You are planning a renovation project that would add $7,500 a year to your fixed costs. Calculate, using the break-even formula, what your target average room rate would have to be (assuming no change in your occupied room nights or variable cost per occupied room night) to increase your net income by $4,500.

The solution to this practice exercise will be found on page 62 of this study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

In the segment, Jimmy Tapp will discuss the planning of a hotel/motel expansion, explain the capitalization rate and the nomograph, and show how they can be used in the expansion decision. He will then cover break-even analysis and show how it is used in renovation decisions.

When Pierre Bergeron is introduced, he will discuss the lease or buy decision. Then Alastair Morrison will conclude the segment by talking about the methods that can be used to establish the buying/selling price of a hotel/motel.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, you might miss part of the information. The answers to these questions will serve as a summary of the segment.

- When discussing the addition of new rooms to a property, Jimmy says that you should evaluate the number of rooms you sell now and the number of customers turned away each night. How much time should this evaluation cover?
- The capitalization rate takes into consideration the' 'time value" of money. How is "time value" explained?
- In illustrating the nomograph, what does Jimmy say it tells you?
- Jimmy says that justifying renovations is more difficult than expansion planning. Why is this so?
- In Pierre's discussion of leasing, he says that leasing appears to be advantageous. Does he conclude from this that you should always lease? What does he suggest you do?
- In discussing the going concern approach to valuing a business, Alastair says that price tagging the value is more meaningful. Why is this so?

Self-test questions and working example

When you feel confident that you have mastered the material in this module, try the self -test questions on page 224 of the manual and the working example on page 226 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/motel.

- Do you know what the capitalization rate is for your hotel/motel? If not, it might be useful to calculate it.
- Have you considered leasing assets (such as guest room furniture)? This might be financially attractive to you, if you were planning to replace those assets soon.
- Do you know the fair market value of your hotel/motel? Even if you are not planning to sell, it does not hurt to know the value in case an interested buyer makes an offer.

Answer key

Solution to practice exercise 1:

Present situation:

Revenue		$300,000
Operating costs	$120,000	
Fixed charges	144,000	264,000
Income before tax		$ 36,000
Tax		18,000
Net income		$ 18,000

Proposed situation:

Revenue		$360,000
Operating costs	$144,000	
Fixed charges	159,000	
Lease cost	6,500	
Depreciation	2,500	312,000
Net income		$ 48,000
Tax		24,000
Net income		$ 24,000

Increase in net income over present level will be $24,000-$18,000 = $6,000

Investment required will be $25,000 + $65,000 + $1,000 = $91,000

Return on investment= $\frac{\$\ 6,000}{\$91,000}$ x 100 ‘6.6%

The investment should not be made since it will return less than 890.

Solution to practice exercise 2:

$$\frac{\$60{,}000 + \$24{,}000 + (4{,}500 \times \$12.00)}{4{,}500}$$

$$= \frac{\$138{,}000}{4{,}500}$$

$$= \$30.67$$

In other words, your average room rate would have to be increased by $0.67 per occupied room to pay for the renovations.

Module 9

DEVELOPING A BUSINESS PLAN

or raising the necessary funds. . .

Objectives of module

After studying module 9, you should be able to:

- List long-term, medium-term and short-term uses and sources of financing.
- Explain the concept of financial leverage.
- Identify the main sources of funds in Canada.
- Explain the meaning of the five Cs of credit.
- Prepare a feasibility study.
- Explain the main capital budgeting techniques and prepare an itemized capital budget.
- Explain the benefits of a business plan to both lenders and owners.
- Outline the contents of a business plan.
- Prepare a business plan.
- Define or explain all the key terms that appear in italics in chapter 9 of the manual.

Overview of manual

Chapter 9 of the manual is primarily concerned with the steps in the preparation of a feasibility study. However, it also covers types of financing, financial leverage, the effect of financial leverage on your return on investment, sources of funding, and the five Cs of credit.

In the section on the feasibility study, you'll learn about site evaluation, preparing a market study and pro forma income statements, and capital budgeting. Since the pro forma income statements are the financial heart of a feasibility study, the chapter discusses and illustrates the 11 steps that are required to prepare these pro forma statements.

The chapter concludes with a section on how to put together a business plan.

Key words and phrases

The key terms in this module are italicized in the manual. However, a list of the key terms is also shown below:

Financial leverage . . . .

Under-levered . . . .

Over-levered . . . .

Site evaluation . . . .

Market study . . . .

Pro forma income statements . . . .

Capital budget . . . .

Present value . . . .

As you read through the chapter, write a short definition beside each key term above. Ifyou do, you'll findit easierto remember it, touseit inthe exercises, and tolisten forit in the video segment. Also, you will then have your own summary ofthe keywords and phrases.

Reading the manual

Read from the start of chapter 9 on page 229 of the manual through to the section entitled "The feasibility study" on page 236.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 1

Refer to practice exercise #1 in module 8 of this study guide. You will remember that the proposed expansion was based on 1009o equity financing. Would you change your decision not to expand if 20% of the financing came from debt (at a 10% interest rate) and only 8090 from equity?

The solution to this practice exercise will be found on page 66 of this study guide.

Reading the manual

Read the balance of chapter 9 from the section headed "The feasibility study" on page 236 through to the end of the chapter on page 254.

When you feel that you understand this material, complete the following practice exercise.

Practice exercise 2

You are working on a feasibility study for your new motel. Your research has shown that the breakdown of visitors to the area is: 75% business travelers, 10% convention delegates, and 15% tourists.

The annual growth rates in visitors for each category over the past few years has been: business travelers 8%, convention delegates 5%, and tourists 10%. These growth rates are expected to continue.

Calculate the composite growth rate for the area.

The solution to this practice exercise will be found on page 67 of this study guide.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

In the segment, Jimmy Tapp will discuss the development of a business plan that is designed to help you raise money. He will discuss financial leverage and identify the main sources of financing. He will then cover the five Cs of credit and then detail the steps involved in preparing a feasibility study.

When Jim Wilson is introduced, he will outline how the business plan should be structured and presented to ensure its acceptance by lenders.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, you might miss part of the information. The answers to these questions will serve as a summary of the segment.

- In discussing leverage, does Jimmy Tapp think a hotel/motel with 80% - 85% debt will have difficulty obtaining additional funds from external sources? If so, why?
- In commenting about raising new funds, Jimmy says there are three types of financing needs. What are they?
- What does Jimmy mean by saying that it is important to match the right method of financing with the right asset?
- What two ways are suggested for calculating the future supply of rooms for an area?

- In capital budgeting, one of the methods illustrated is internal rate of return. It uses discounted cash flow (DCF). What does DCF do?
- Jim Wilson discusses the various sections of a business plan. In the section of financing requirements, he says this section has an objective. What is that objective?

Self-test questions and working example

When you feel confident that you have mastered the material in this module, try the self-test questions on page 255 of the manual and the working example on page 257 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/motel operation.

- How is your hotel/motel financed? Have you considered restructuring the financing with leverage in mind, in order to increase your return on investment?
- Do you know the break-down of the types of guest at your hotel/ motel? If not, why not prepare an analysis covering the next three months? This will give you useful information for any future planning, or even for day-to-day operating decisions such as advertising and promotion.
- Can you explain the benefits of a business plan to your fellow investors (if any) and outline the contents of a business plan?

Answer key

Solution to practice exercise 1:

With 2090 debt financing, the debt amount will be 20% x $91,000 (total investment required) = $18,200. The interest on this at 10% will be $1,820 a year.

This interest will reduce the motel's income before tax from $48,000 to $46,180. With a 5090 tax rate, the resulting net income will be $23,090.

This is an increase of $23,090-$18,000 = $5,090 from the present situation.

The equity investment will be 80% x $91,000 = $72,800 and the owner's return on investment will be:

$$\frac{\$\,5{,}090}{\$72{,}800} \times 100 = 7.090$$

Using leverage, the return on investment will increase from 6.69o (in 100% equity financing) to 7.070. However, it will still not reach the minimum 8% desired.

In a situation like this, you might want to see what happens with a 30% - 7090 debt-equity ratio; or check to see if borrowed money can be obtained at less than 10%, so that the expansion can still go ahead.

Solution to practice exercise 2:

Type of visitor	Weighting factor	Growth rate	Composite growth rate
Business	0.75	8%	6.0%
Convention	0.10	5	0.5
Tourist	0.15	10	1.5
	1.00		8.0%

Note that the 8.0% composite growth rate is mathematically exact and based on actual events, but it is still an estimate of what might happen in the future. In projecting into the future, you should allow some variance and not assume that 8% (in this case) is an absolute indication of how your business will continue to grow.

Module 10

TAX PLANNING AND BUSINESS ORGANIZATION

holding onto what you've earned . --

Objectives of module

After studying module 10, you should be able to:

- Identify the different types of taxpayer and the different types of income.
- Define and explain the advantages and disadvantages of the three main forms of business organization in Canada.
- Differentiate between a private and a public corporation.
- Explain the key attributes of a Canadian-controlled private corporation.
- Explain how different types of income are taxed.
- List some of the tax implications of buying and selling a hotel/motel.
- Define and explain all the key terms that appear in italics in chapter 10 of the manual.

Overview of manual

The final chapter in the manual will give you some helpful ideas about the tax-planning aspects of your hotel/motel. Whatever tax planning decisions you make will affect the financial status of your operation.

The chapter will introduce you to the different types of business organization that you can have:

- Proprietorship.
- Partnership.
- Corporation.

The chapter discusses the advantages and disadvantages of each. It also discusses the different types of income that a corporation and an individual can have, and how these different types are taxed.

The chapter concludes with a brief discussion of the tax implications of buying and selling a hotel/motel.

Since income tax is such an important component of a hotel/motel's financial health, you would be wise to keep abreast of tax changes that affect your business. By taking advantage of the changes that benefit you, you will increase your profit and return on investment.

Key words and phrases

The key terms in this module are italicized in the manual. However, a list of the key terms is also shown below:

Limited liability . . . .

Private corporation . . . .

Public corporation . . . .

Canadian-controlled private corporation . . . .

Small business rate . . . .

Dividend tax credit . . . .

As you read through the chapter, write a short definition beside each key term above. You will then find it easier to remember it, to use it in the exercises, and to listen for it in the video segment. Also, you will then have your own summary of key words and phrases.

Reading the manual

Read from the start of chapter 10 on page 261 of the manual through to the end of the chapter on page 267.

Things to watch for in the video segment

The video segment for this module will highlight and repeat many of the key words and phrases introduced in the manual as well as expand on some of them.

In the segment, Jimmy Tapp will discuss what it takes to be a successful hotel/motel operator, and he will show how a good lawyer, accountant and banker can help you in your business. He will discuss the advantages and disadvantages of the main forms of business organization in Canada, as well as the pros and cons of franchised hotel/motels. Jimmy will conclude the segment by giving you a profile of the typical independent hotel/motel operator.

When Art Ward is introduced, he will give some advice on how to start a hotel/motel. Also, he will discuss some of the financial tools that can help you improve your business.

The following are some important questions that will be answered in the video segment. Read through these questions before viewing the segment. In that way, you will know what to watch and listen for. Write your answers to these questions after viewing the segment; otherwise, you might miss part of the information. The answers to these questions will serve as a summary of the segment.

- Jimmy states that there is an essential ingredient to any profitable business. What is that ingredient?
- As a small hotel/motel owner-operator, you pay a high price for freedom and independence. What are some of the items mentioned that create that high price?
- In discussing experience, Jimmy mentions that it should be balanced. What are some of the factors that create that balance?
- One of the professional advisers you will need is a banker. How can you gain your banker's confidence?
- What happens to a partnership when a partner withdraws or dies?
- In discussing incorporation, Jimmy says the legal liability of owners and shareholders is limited. What is it limited to?
- Corporate profits are taxed at a lower rate than personal income. Is this always true?

Self-test questions and working example

When you feel confident that you have mastered the material in this module, try the self -test questions on page 268 of the manual and the working example on page 270 of the manual.

Making it work

Here are some questions that may help you apply the material in this module to your own hotel/motel.

- How is your business organized (proprietorship, partnership or corporation)? Have you considered the pros and cons of this organization? Have you considered the pros and cons of the other two types of business organization?
- Are you fully aware of the tax implications of the way your business is organized?
- If you sold your hotel/motel for its present market value, what would the tax implications be for your business and for you personally?

Module 11

PROGRAM SUMMARY AND CASE STUDY

You have now reached the conclusion of the *Tourism is your business* program. To help wrap up the program, we have prepared a summary of each chapter of the manual; it is shown below. In addition, the video element of the program has its own summary; it is continued in the video segment of this module.

As a further summary of the program, we have prepared a comprehensive case study for you to complete. You will find this case study on page 00 of this study guide.

Summary

Chapter 1

The first chapter defined the four components of financial management:

- Bookkeeping.
- Accounting.
- Analysis.
- Decision-making and action-taking.

Under "bookkeeping", the various sources of information that are used to collect and collate basic bookkeeping information were introduced, as were the various books of original entry (or journals) that comprise the bookkeeping system.

Under "accounting", financial statements were briefly discussed. The four major financial statements are:

- Balance sheet.
- Income statement.
- Statement of retained earnings.
- Statement of changes in financial position,

Under "analysis", the chapter defined the three major types of analysis:

- Ratio analysis.
- Operational analysis.
- Break-even analysis.

Under "decision-making and action-taking", the chapter listed some of the types of decisions that must be made in the typical operation and some of the types of action that must be taken.

Chapter 2

Chapter 2 introduced you to the basic components of an effective bookkeeping system. The basis of bookkeeping is double entry, where debit entries in the accounting system always equal credit entries. The five basic types of account are:

- Assets.
- Liabilities.
- Owners' equity.
- Revenues.
- Expenses.

The chapter discussed cash versus accrual accounting and the uniform system of accounts. A practical system of guest accounting for a hotel/motel was covered, including completion and balancing of the daily transcript and the night audit. The chapter included a discussion and illustration of the main journals (or books of original entry) that are commonly used. These journals are:

- Cash receipts/sales journal.
- Purchases journal.
- Cash disbursements journal.
- Monthly journal.
- Payroll journal.
- General journal.

You saw how transactions are recorded in these journals and how they flow through to the book of final entry, the general ledger. The balancing of the general ledger using a trial balance was illustrated. The chapter concluded with a discussion of payroll control and how employee records and earnings are kept.

Chapter 3

Chapter 3 reintroduced you to the financial statements that were briefly discussed in chapter 1. The chapter explained who the main users of those financial statements are and how they use them.

The balance sheet was discussed and illustrated, and you were shown how the three main categories - assets, liabilities and owners' equity - are broken down in more detail on the balance sheet.

A typical income statement was discussed and illustrated, as were the statement of retained earnings and the statement of changes in financial position.

The chapter concluded with a discussion of ratio analysis and its four major components:

- Liquidity ratios.
- Leverage ratios.
- Activity ratios.
- Profitability y ratios.

Examples were given, showing how each of the major ratios for each of these four categories are calculated.

Chapter 4

Chapter 4 introduced you to two very useful types of analysis: operational analysis and break-even analysis.

In the first part of the chapter, you learned about operational analysis. Operational analysis assesses the profitability of a hotel/motel on a departmental basis (rooms, food and beverage, telephone). It relates sales or revenue to the number of rooms or restaurant seats, as well as to the "activity" of those rooms (by using occupancy statistics) or seats (by using number of guests served). All the major operational ratios were illustrated and commented about.

In the second part of the chapter, you learned how to use break-even analysis. Break-even analysis is a financial management technique that examines relationships between volumes of activity, prices, expenses and profits.

Chapter 5

Chapter 5 covered the topic of pricing your rooms and menu items.

The chapter introduced you to the seven unsophisticated methods of establishing prices. These methods are:

- Intuitive.
- Competitive.
- Follow-the-leader.
- Traditional or rule-of-thumb.
- Trial-and-error.
- Exclusive.
- Price cutting.

The chapter then took a more detailed look at two better methods. The first was the Hubbart formula. You were shown how it is used and how it can be combined with break-even analysis to judge the impact of any fluctuations on prices and volumes.

The second method illustrated was discounting. Discounting is designed to help you make decisions about the room rates you can offer to attract group (and similar) business.

The chapter concluded with a section on pricing food and beverages.

Chapter 6

Chapter 6 introduced you to budgeting. Budgeting is estimating or forecasting the financial future of your business. It is a plan based on realistic goals, which you can use to measure your actual performance and control your hotel/motel's operations.

Two types of budgets were covered in the chapter. In the first part, you learned about operating budgets and the six steps used to prepare one:

- Establish your objectives.
- Decide on the division of your budget into planning periods.
- List factors and trends expected to affect your business.
- Prepare revenue forecasts.
- Prepare expense forecasts.
- Monitor actual performance relative to your budget.

The other type of budget discussed in the chapter was the cash flow budget. The twelve steps that you must take to prepare such a budget were given, and a cash flow budget was illustrated.

Chapter 7

Chapter 7 covered two very important and related topics. The chapter first introduced you to the concept of working capital - a term used to cover both current assets and current liabilities. Working capital management is the way you handle these assets and liabilities to have effective cash, credit and inventory control. The chapter discussed and illustrated the statement of sources and uses of working capital. It then moved on to discuss and illustrate the statement of changes in financial position.

In the second part of the chapter, internal control was covered. Internal control is necessary to protect your assets, among other things, and is closely linked to effective working capital management. This part of the chapter covered many of the "do's" and "don'ts" of internal control and provided check lists that you can use in your own hotel/motel.

Internal control procedures apply to every aspect of your operations from purchasing through to sales, the control of cash receipts and disbursements, and all the other assets of your hotel/motel. The main objective of internal control is to safeguard those assets and to give you information to confirm that those assets are being protected.

Chapter 8

Chapter 8 introduced you to planning for changes in your hotel/motel operation with the objective of increasing your profits. Planning for change is necessary so that you know where you are going. It provides a "map" to show you how to get from one point to another, in the same way that a road map helps you plan a trip into an unknown area.

The chapter covered a number of related topics, such as expanding the size of your hotel/motel, upgrading or renovating it, buying versus leasing equipment, and buying or selling a hotel/motel. These topics are related in that they all affect the financial status of your hotel/motel.

Expansion planning showed you the steps you must go through to calculate the investment you can justify to add rooms to your property.

Renovation planning showed you how to calculate the increased prices that you must have to cover the costs of renovation.

Leasing assets is an alternative to buying them. This section of the chapter showed how you can compare the two options and decide which is better.

The chapter concluded by demonstrating how an initial purchase/sale price of an existing hotel/motel can be arrived at. This initial price can then become a negotiation base for both the buyer and the seller.

Chapter 9

Chapter 9 contained further discussion on developing a business plan. The chapter was primarily concerned with the steps in the preparation of a feasibility study. However, it also covered some introductory topics, such as the type of financing to look for, financial leverage, the effect of financial leverage on your own return on investment, where to seek funding and the five Cs of credit.

In the section on feasibility study, you learned how to prepare a site evaluation, a market study, pro forma income statements and capital budgets.

Pro forma income statements are the financial heart of a feasibility study, so the chapter discussed and illustrated the 11 steps that are required to prepare these pro forma statements.

The chapter concluded with a section on how to put together a business plan.

Chapter 10

The final chapter of the manual gave you some helpful material on the tax planning aspects of your hotel/motel. It also introduced you to the different types of business organization that you can have:

- Proprietorship.
- Partnership.
- Corporation.

The chapter discussed the advantages and disadvantages of each. It also provided a listing and discussion of the different types of income that a corporation or an individual can have, and how these different types are taxed. The chapter concluded with a brief discussion of the tax implications of buying and selling a hotel/motel.

Case Study

The case study of the Parkview Inn will help reinforce many of the major financial management concepts covered in this program. It has been designed to put your knowledge to the test. The case study has two parts. Part A has two questions. After completing question 1, check your solution against the suggested solution that follows the case. Then move on to question 2 and again check your solution.

You can then go on to Part B. Part B has four questions. You can either answer each question in turn, checking your answer after each one, or you can complete all four questions before checking their solutions.

Part A

The Parkview Inn is a 25-room property with a small (1 O-seat) coffee shop. The business was purchased by the present owner two years ago. Although the owner had no previous experience in the tourism industry, he made a wise purchase and as a result has been relatively successful for the past two years.

The operator is now interested in reviewing his business and implementing various financial concepts in order to ensure the continued success of , his operation.

1. He would like to know why he should worry about bookkeeping or accounting. He feels that as long as there is money in the bank, he is operating the business efficiently. Convince the operator that it is to his benefit to maintain proper accounting records.

2. You've convinced the operator. But now he wants you to describe the accounting records that should be maintained and to list those procedures that should be carried out to ensure that the records are accurate and complete.

Part B

The financial statements for the Parkview Inn are presented in Figure 1 (balance sheet) and Figure 2 (income statement). Statistical information is on page 81

1. Using the information contained in the financial statements and the tools of ratio analysis, assess the performance of the Parkview Inn from the standpoint of:

   a) A creditor.
   b) The manager.
   c) The owner.

2. The operator would like to know the number of rooms that must be sold to:

   a) Break even (desired net income is zero).
   b) Attain a net income of $20,000 at present room rates.
   c) Attain a net income of $20,000 at a room rate of $22.00.

3. The operator wants to calculate the average room rate that is necessary to recover all of the costs (including an estimate for depreciation) and provide a return of 15% on owners' equity. Determine the average room rate based upon the following assumptions:

   - Depreciation is $16,400.
   - Room occupancy is estimated to be between 65% and 75% of rooms available.
   - The competitive average room rates are $21.50 – $22.50.

4. The operator is interested in preparing a budget for the year ended December 31, 1987. He determines that the planning periods should be May 1 to October 31 and November 1 to April 30. Due to the opening of a new motel (20 units) in 1987, the operator estimates a decrease in the annual occupancy of 50/0 (to 650/o). The resulting budget determined the following:

	May to October	November to April	Annual
Revenue from operations	$94,461	$50,969	$145,430
Total expenses	$76,223	$56,501	$132,724

Using this information and the following data, prepare a cash flow budget for the Parkview Inn and comment on the results. Use the worksheet provided in Figure 3.

Cash opening balance, May 1	$4,500
Payments on mortgage principal:	
May to October	2,500
November to April	2,600
Cash withdrawn by owner (non salary):	
May to October	10,000
November to April	12,000
Planned installation of swimming pool (May)	9,500

Figure 1 Balance sheet

Parkview Inn Balance sheet

as at December 31, 1986

ASSETS				LIABILITIES AND OWNERS' EQUITY	
Current assets				Current liabilities	
Cash			$ 1,300	Accounts payable	$ 100
Accounts receivable			200	Taxes payable	800
Merchandise inventory			2,250		
Total current assets			3,750	Total current liabilities	900
Fixed assets	cost	Accumulated depreciation	Net book value	Long-term liabilities	
				Loan payable	5,000
				Mortgage payable	278,350
Land	$100,000	$ –	$100,000		283,350
Building	200,000	20,000	180,000		
Land improvements	40,000	8,000	32,000		
Furniture. fixtures and equipment	35,000	14,000	21,000	Owners' equity	52,500
Total	$375,000	$42,000	$333,000		
Total assets			$336,750	Total liabilities and owners' equity	$336,750

Figure 2 Income statement

Parkview Inn Income statement

for the year ended December 31, 1986

	1986 $	1986 %	1985 $	1985 %
REVENUE				
Rooms	$123,367	83.1	$117,350	85.0
Food	20,845	14.1	16,480	12.0
Telephone	2,467	1.7	2,347	1.7
Rentals and miscellaneous	1,710	1.1	1,850	1.3
	148,389	100.0%	138,027	100.0%
OPERATING EXPENSES				
Payroll and related benefits	29,678	20,0	29,155	21.1
Room expenses	12,337	8.3	11,782	8.5
Cost of food and other items purchased for resale	8,338	5.6	8,240	6.0
Heat, light and power	10,387	7.0	8,833	6.4
Repairs and maintenance	8,161	5.5	6,701	5.0
General expenses	16;323	11.0	15;758	11.4
Total operating expenses	85,224	57.4	80,469	58.4
Gross operating profit	63,165	42.6	57,558	41.6
Financial and other expenses (mortgage interest)	37,500	25.3	39,000	28.3
NET INCOME (before depreciation and income taxes)*	$ 25,665	17.3%	$ 18,558	13.3%

● Assume depreciation is $16,400 and income taxes are $2,000

Statistical information:	1 9	8 1986
Rooms: Rooms available	25	25
Rooms occupied	6,388	5,931
Total number of guests	11,498	9,490
Food: Number of seats	10	8

Figure 3 **Worksheet**

Parkview Inn cash flow budget

	May to October		**November to April**		**Annual**	
	Budget	Actual'	Budget	Actual*	Budget	Actual*
Cash opening balance (A)						
Cash receipts						
Revenue						
Proceeds of any loans						
Cash contributions by owners						
Cash disbursements						
Total expenses						
Purchase of fixed assets						
Cash drawings by owners						
Repayment on any debt						
Total cash disbursements						
Net cash flow (B)						
Cash closing balance (A+B)						

*These columns are completed when the actual results are available.

Case solution Part A

1. The operator shouldn't worry about bookkeeping or accounting, but perhaps he should worry whether he has 'lost' any money that should be in the bank.

   A basic bookkeeping system would benefit the Parkview Inn by:

   - Ensuring that records are complete and accurate – e.g., ensuring that the inn pays only for what it has ordered and received.
   - Controlling or safeguarding the inn's assets – e.g., an up-to-date record of the amount of cash generated and available to the property.
   - Providing sufficient information to assess the performance of the business.
   - Satisfying government agencies, which require a business to keep certain financial records.

2. The bookkeeping system is composed of certain journals and ledgers as illustrated in Figure 4. The function of the individual journals and ledgers are as follows:

   - When cash is received, the transactions are recorded in the cash receipts journal.

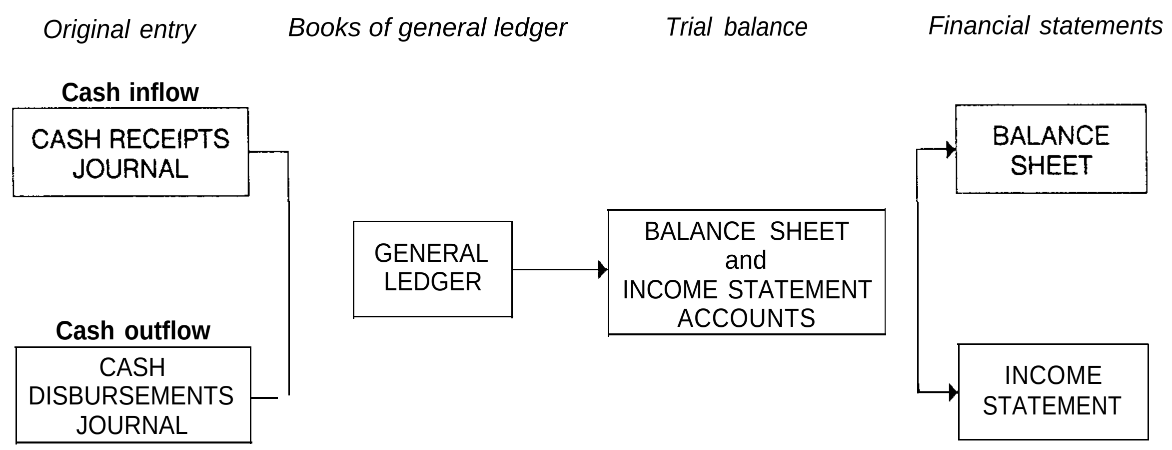
- When cash is disbursed, the transactions are recorded in the cash disbursements journal.

At the end of the month, the daily entries in the cash receipts journal and the cash disbursements journal are totalled, and these are recorded in the general ledger. The general ledger is the book of final entry, because all of the information from the other journals is recorded in it. The general ledger classifies all of this information by the major accounts (e.g., room sales, room expenses).

At the end of the month, or whenever financial statements are required, the totals for each of the accounts in the general ledger are listed on the trial balance (the listing of all accounts that is done to insure that they balance before financial statements are made).

The balance sheet (showing all that the business owns and owes at a certain moment in time) and the income statement (which shows the revenues, expenses, and profits for a given period) are prepared from the trial balance.

Figure 4 **The bookkeeping system**



Case solution Part B

1. a) *The creditors* (short-term and long-term) are interested in the liquidity ratios and the solvency and leverage ratios.

Liquidity ratios

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\$3,750}{900} = 4.2:1$$

$$\text{Acid test ratio} = \frac{\text{Cash and accounts receivable}}{\text{Current liabilities}} = \frac{\$1,500}{900} = 1.7:1$$

At December 31, 1986, the company has the ability to take an additional short-term debt (e.g., accounts payable). Therefore, a creditor would extend short-term credit.

Solvency ratios

$$\text{Debt-equity ratio} = \frac{\text{Total debt}}{\text{Total equity}} = \frac{\$284,250}{52,500} = 5.4:1$$

This is a high debt-equity ratio and is primarily due to the mortgage payable at December 31, 1986. As such, a creditor probably would not extend any long-term debt to this company – unless he received a high rate of interest to account for the risk.

b) *The manager* is primarily interested in the operating ratios.

Percentage analysis of income statement

Room revenue increased by approximately 5% in 1986 compared to 1985. However, we do not know whether this was due to an increase in the number of rooms sold or to an increase in the room rates. If inflation is currently 7% to 8%, you would expect room revenue to increase by at least 7½ ‘/o.

Food revenue increased by more than 25% in 1986 compared to 1985 – a solid increase.

The operating expenses increased by approximately $4,755 in 1986 compared to 1985. This is primarily attributed to increased expenditures for utilities and repairs and maintenance. This seems reasonable since the majority of the expenses are fixed and will not vary with moderate increases in the sales volume.

However, the cost of food to food revenue ratio decreased from 0.50 in 1985 to 0.40 in 1986. It appears this operation was run more efficiently and/or increased the prices to attain a more reasonable cost percentage.

In summary, the increase in the actual net income and the ratio of net income to revenue can be attributed to the increase in sales without a corresponding increase in the fixed expenses.

Rooms analysis

		1986	1985
occupancy percentage	$= \frac{\text{Total rooms sold}}{\text{Available rooms}} =$	$\frac{6,388}{9,125} = 70\%$	$\frac{5,931}{9,125} = 65\%$
Double occupancy factor	$= \frac{\text{Number of guests}}{\text{Number of rooms sold}} =$	$\frac{11,498}{6,388} = 1.8$	$\frac{9,490}{5,931} = 1.6$

Average room rate per day =

$$\frac{\text{Total room sales}}{\text{Number of rooms sold}} = \frac{\$123,367}{6,388} = \$19.31 \qquad \$1\cdot9\cdot0 = \$19.79$$

Based upon the above information, it appears that the increase in room revenue was entirely due to more rooms sold and more guests per room. This increase in volume may be due to the lower room rates charged in 1986. The owner should carefully examine this pricing policy and calculation of the cost-based price is recommended.

food analysis

		1986	1985
Sales per seat	$= \frac{\text{Food sales}}{\text{Available seats}} =$	$\frac{20,845}{10} = \$2,085$	$\frac{16,480}{8} = \$2,060$

The increase in food revenue is due to the addition of a two-seat table. However, the sales revenue per seat did not increase by a significant amount.

		1986		1985	
Ratio of food sales to room sales	= Food sales / Room sales	= 20,845 / 123,367	= 170'0	16,480 / 117,350	= ,40,0

The increase in the ratio is due to the additional two-seat table. Table 1 details the relevant statistics.

This information certainly provides additional insight into the financial performance of the rooms department. The result of this analysis illustrates that the gross operating profit per room sold was actually greater in 1985 than in 1986. This is because the decrease in revenue per room sold was greater than the decrease in operating expenses per room. The owner must reassess his pricing policy.

Table 1

Income statement	**Per room revenue**		**Per rooms sold**		**Per rooms available**	
	1986	1985	1986	1985	1986	1985
Room revenue	100%	100%	$19.31	$19.79	$13.52	$12.86
Payroll and related benefits	240/0	250/0	4.65	4.92	3.25	3.20
Room expenses	10%	100/0	1.93	1.99	1.35	1.29
Heat, light and power	80/0	8%	1.63	1.49	1.14	.97
Repairs and maintenance	70/0	60/0	1.28	1.13	.89	.73
General expenses	130/0	13%	2.56	2.66	1.79	1.73
Total operating expenses	62%	620/0	$12..05	$12.19	$8.42	$ 7.92
Gross operating profit	380/0	38%	7.26	7.60	5.10	4.94

c) The owner is interested in the operating ratios and the rate of return ratios.

Rate of return ratios

Return on owners' equity =

$$\frac{\text{Net profit after income taxes}}{\text{Owners' equity}} = \frac{25{,}665 - (16{,}400 + 2{,}000)}{52{,}500} = \text{'40'0}$$

A return of 140/0 to the owner is reasonable considering the risk and current interest rates.

2. Break-even (No. of rooms sold) =

$$\frac{\text{Fixed costs + Desired net income}}{\text{Selling price per unit} - \text{Variable cost per unit}}$$

a) *Desired net income is zero*

Selling price per unit = $19.31

Variable cost per unit

$$= \frac{\text{Payroll and related benefits + Room expenses + Heat, light\& power}}{\text{Number of rooms sold}}$$

$$= \frac{\$29{,}678 + \$12{,}337 + \$1\ 0{,}387}{6{,}338} = \$8\ 20$$

Fixed costs = \$8,161 + \$16,323 + \$37,500= \$61,984

Break-eVen= $\frac{\$61,984 + 0}{\$19.31 - \$8.20}$

Break-even = 5,579 rooms

Therefore, if the only source of revenue is from the sale of rooms, the property would have to sell 5,579 rooms to break-even.

b) *Desired net income= \$20,000*

Break even = $\frac{\$61,984 + \$20,000}{\$19.31 - \$8.20}$ = 7,379 rooms (810/0 occupancy)

c) Desired net income = \$20,000 and selling price per unit is \$22.00

Break-even = $\frac{\$61,984 + \$20,000}{\$22.00 - \$8.20}$ = 5,941 rooms (65°/0 occupancy)

3. The cost based method for pricing should be used.

Step 1: Determine required revenue from rooms

Return on owners' equity 0.15 x \$52,500	\$7,875
Depreciation	16,400
Financing and other expenses	37,500
General expenses	16,323
Repairs and maintenance	8,161
Heat, light and power	10,387
Total	96,646
Less: Gross profit on food sales (\$20,845-\$8,338)	12,507
Telephone income	2,467
Rental and miscellaneous income	1,710
Required gross profit from rooms	\$79,962

Required revenue from rooms

$$= \frac{\text{Required gross profit from rooms}}{1{,}00 - \dfrac{\text{Rooms expense + payroll}}{\text{Room revenue}}} = \frac{79{,}962}{1.00 - \dfrac{42{,}015}{123{,}367}} = \$121{,}155$$

Step 2: Estimate room occupancy

Room occupancy is estimated to be between:
65% or 0.65 x 9,125 = 5,931; and
70% or 0.70 x 9,125 = 6,388

Step 3: Calculate average daily rate required

Average daily rate at 65°/0 occupancy

$$= \frac{\text{Required revenue from rooms}}{\text{Estimated room sales}} = \frac{121{,}155}{5{,}931} = \$20.43$$

Average daily rate at 70% occupancy

$$= \frac{\text{Required revenue from rooms}}{\text{Estimated room sales}} = \frac{121{,}155}{6{,}388} = \$18.97$$

Step 4: Compare cost based rate to competitive prices

The cost based price is $18.97 – $20.43 based upon a percentage occupancy of 700/0 and 65% respectively.

The competitive average room rates are $21.50-$22.50.

It appears the owner has kept his rates below the competition in order to attract more business. Last year's average room rate of $19.31 is approaching the minimum daily rate at a 70% level of room occupancy. As such, the owner should not reduce his rates any lower and he should probably consider increasing the rate in order to keep pace with rising costs.

4. Preparation of a cash flow budget.

Parkview Inn Cash flow budget

	May to October		**November to April**		**Annual**	
	Budget	Actual	Budget	Actual	Budget	Actual
Cash opening balance (A)	$ 4,500		$ 738		$ 4,500	
Cash receipts:						
Revenue	94,461		50,969		145,430	
Proceeds of any loans						
Cash contributions by owners						
Total cash receipts	94,461		50,969		145,430	
Cash disbursements:						
Total expenses	76,223		56,501		132,724	
Purchase of fixed assets	9,500		–		9,500	
Cash drawings by owners	10,000		12,000		22,000	
Repayment on any debt	2.500		2,600		5.100	
Total cash disbursements	98,223		71,101		169,324	
Net cash-flow (B)	(3,762)		(20,132)		(23,894)	
Cash closing balance (A+B)	$ 738		$ (19,394)		$ (19,394)	

It is obvious that the owner will not have a sufficient cash flow to undertake any new projects. As such, the owner should investigate the feasibility of the following alternatives in order to be in a positive cash flow position:

- Increase the average room rate in order to increase the cash received from room sales.
- Try to reduce the operating expenses where possible.
- Take out a short-term loan.
- Reduce the amount of the cash drawings by the owner.

Additional sources of information

The following list of books and periodicals should give you additional and valuable information. The list is divided into subject categories.

Decision to enter tourism industry

Department of Industry, Trade and Commerce/Regional Economic Expansion
A Report by the Sector Task Force on The Canadian Tourism Industry.
Ottawa: July, 1978.

Federal Business Development Bank.
Buying or Starting a Restaurant
FBDB Pamphlet No 21
Otawa.

Lundberg, Donald E.
The Hotel and Restaurant Business.
Columbus, Ohio: Cahners Books International, 1977.

McIntosh, Robert W., and Gupta, Shashi.
Tourism: Principles, Pratt ices and Philosophies.
3rd ed. Columbus, Ohio: Grid Publishing, Inc., 1980.

Forms of organization

Block, Stuart Marshall, and Ingersoll, William B.
Timesharing.
Washington, D. C.: The Urban Land Institute, 1977

Eyster, Professor J.
The Negotiation and Administration of Hotel Management Contracts.
2nd ed. Ithaca, New York: Cornell University.

"Franchising: How Fertile its Future?".
Restaurant Business
(*New* York: March, 1980), pp. 109-156.

Gunnar, Peter M., and Burkhart, Judith A.
The Management of Hotel and Motel Condominiums.
Ithaca, New York: Cornell University, 1978.

Buy or build decision

North, Lincoln W.
Real Estate Investment Analysis and Valuation.
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Insurance

Contact the Insurance Bureau of Canada to obtain their booklets.

General sources of information

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Books for Hotels, Motels, Restaurants, John Wiley, Inc., 1948 Ridge Avenue, Evanston, IL 60201.

Cahners Books, 89 Franklin Street, Boston, MA 02110.

Educational Institute, American Hotel and Motel Association, Stephen S. Nisbet Building, M. S. U., 1407 South Harrison Road, East Lansing, MI 48823.

Good Books for Good Managers, School of Hotel, Restaurant and Institutional Management, Eppley Center, Michigan State University, East Lansing, MI 48824.

Hayden, Rider and Ahrens Books, Hayden Book Companies, 116 West 14th Street, New York, NY 10011.

Irwin Books in Economics and Business, Richard D. Irwin, Inc., Homewood, IL 60430.

I.T.T. Educational Materials-Catalog, Canadian Edition, A. C. Simmonds & Sons Ltd., 285 Yorkland Boulevard, Willowdale, Ontario M2J 1S8.

Library List, American Hotel and Motel Association, 888 Seventh Avenue, New York, NY 10019.

The Educational Materials Center, National Restaurant Association, 1530 Lake Shore Drive, Chicago, IL 60610.

William C. Brown Publishing Co., 135 South Locust Street, Dubuque, IA 52001.

Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.

Maclean Hunter Publications Ltd., 777 Bay Street, Toronto, Ontario M5W 1A7.

Prentice-Hall of Canada, 1870 Birchmount Road, Scarborough, Ontario MIP 2J7.

Grid, Inc., 4145 North High Street, Columbus, OH 43214.

Canadian Restaurant and Foodservices Association, 80 Bloor Street West, Tbronto, Ontario M5S 2V1.

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Magazines/journals of hospitality industry

B. C. Hotelman
Naylor Communications Ltd.
124 West 8th Street
North Vancouver, British Columbia
V7M 3N2

Canadian Association Executive (hi-monthly)
The Institute of Association Executives
Naylor Communications Ltd.
P.O. Box 194, Station P
Tbronto, Ontario
M5S 2S7

The Canadian Hospitality Institute Journal
Canadian Hospitality Institute
Suite 1711
25 Adelaide Street East
Toronto, Ontario M5C 1Y6

Canadian Hotel & Restaurant
Maclean Hunter Ltd.
777 Bay Street
'Tbronto, Ontario
M5W 1A7

The Canadian Inn Business
Kerch Publication
108 Harvard Road
Guelph, Ontario
N1G 2Z2

Canadian Interiors
Maclean Hunter
777 Bay Street
Toronto, Ontario
M5W 1A7

Canadian Tourism
Tourism Industry Association
of Canada
Suite 1016
130 Albert Street
Ottawa, Ontario
KIP 5G4

Canadian Travel Courier
Maclean Hunter Ltd.
777 Bay Street
Toronto, Ontario
M5W 1A7

Canadian Travel News
Southam Communications Ltd.
1450 Don Mills Road
Don Mills, Ontario
M3B 2X7

Canadian Travel Press
Baxter Publishing Co.
Suite 1300
100 Adelaide Street West
Toronto, Ontario
M5H 1s3

Club Management
Commerce Publishing Company
408 Olive Street
St. Louis, MO 63102

Cornell Hotel and Restaurant Administration Quarterly
School of Hotel Administration
327 Statler Hall
Cornell University
Ithaca, NY 14583

Executive Housekeeping Today
National Executive House-
keepers Association
Business and Professional
Building
414 Second Avenue
Gallipolis, OH 45631

Food in Canada
Maclean Hunter Ltd.
777 Bay Street
Toronto, Ontario
M5W 1A7

Foodservice and Hospitality
Suite 200
165 Bloor Street East
Toronto, Ontario
M4W 1C8

Foodservice Equipment Specialist
Cahners Publishing Company
5 South Wabash Avenue
Chicago, IL 60603

Hotel and Motel Management
Harcourt Brace Jovanovich, Inc.
737 Third Avenue
New York, NY 10017

Hotel & Resort Industry
Coastal Communications
Corporation
509 Madison Avenue
New York, NY 10022

Hôtellerie Res tauration
Conseil de l'Hôtellerie et de la
Restauration
Drummond Court Hotel
Suite 411
1500, rue Stanley
Montreal, Quebec
H3A 1R3

Inn Magazine
Bosch Publishing Ltd.
Suite 1005
10105-109 Street
Edmonton, Alberta
T5J 1M8

L'Hospitalité
Maclean Hunter Limitée, 1001
boul. de Maisonneuve ouest, 10e
étage, Montreal H3A SE1

Lodging
American Hotel and Motel
Association
888 Seventh Avenue
New York, NY 10019

Lodging Hospitality
Penton/IPC
1111 Chester Avenue
Cleveland, OH 44114

Meetings & Conventions
Ziff-Davis Publishing Co., Inc.
1 Park Avenue
New York, NY 10016

Meetings and Incentive Travel
Southam Communications Ltd.
1450 Don Mills Road
Don Mills, Ontario
M3B 2X7

Prairie Hotelman
Naylor Communications Ltd.
1494 Regent Avenue West
Winnipeg, Manitoba
R2C 3A8

Resort Management
Resort Management, Inc.
P.O. Box 4169
1509 Madison Avenue
Memphis, TN 38104

Restaurants &Institutions
Cahners Publishing Co.
South Wabash Avenue
Chicago, IL 60603

World Convention Dates
Hendrickson Publishing Co.,
Inc.
79 Washington Street
Hempstead, NY 11550

Provincial and territorial tourism industry associations

British Columbia

Tourism Industry Association
of British Columbia (TIABC)
c/o Sheraton-Landmark
1400 Robson Street
Vancouver, British Columbia
V6G 1B9

Alberta

Travel Industry Association of Alberta (TIALTA)
Airways South Business Centre
102-3016- 19th Street N.E.
Calgary, Alberta
T2E 6Y9

Yukon

Yukon Visitors Association (YVA)
TravelLodge Mall
102-302 Steele Street
Whitehorse, Yukon
YIA 2C5

Northwest Territories

Travel Industry Association of Northwest Territories
P.O. Box 506
Yellowknife, Northwest Territories
XOE lHO

Saskatchewan

Tourism Saskatchewan
P.O. Box 3022
Regina, Saskatchewan
S4P 3G7

Manitoba

Tourism Industry Association of Manitoba (TIAM)
Suite 226
375 York Avenue
Winnipeg, Manitoba
R3C 3J3

Ontario

Tourism Ontario
Suite 801
180 Bloor Street West
Toronto, Ontario
M5S 2V6

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Conseil du tourisme du Québec
2e étage
614 est, Grand Allée
Québec, Québec
G1R 2K5

New Brunswick

Hospitality New Brunswick (HNB)
349 King Street
Fredericton, New Brunswick
E3B 1E4

Nova Scotia

Tourism Industry Association of Nova Scotia (TIANS)
5871 Spring Garden Road
Halifax, Nova Scotia
B3H 1Y2

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Tourism Industry Association of Prince Edward Island (TIAPEI)
P.O. Box 2050
Charlottetown, Prince Edward Island
CIA 7N7

Newfoundland

Tourism Industry Association of Newfoundland and Labrador (TIANL)
P.O. Box 581
Station C
St. John's, Newfoundland
A1C 5K8

Federal government tourism offices

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British Columbia

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Telephone: (604) 661-2259

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The Comerpoint Building
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Edmonton, Alberta
T5J 3s3
Telephone: (403) 420-2944

Suite 630
220- 4th Avenue South East
Calgary, Alberta
T2P 3C3
Telephone: (403) 231-4575

Yukon

108 Lambert Street
Whitehorse, Yukon Territories
YIA 1Z2
Telephone: (403) 668-4655

Saskatchewan

4th Floor
1955 Smith Street
Regina, Saskatchewan
S4P 2N8
Telephone: (306) 359-6313

Manitoba

400-185 Carlton Street
Winnipeg, Manitoba
R3C 3J1
Telephone: (204) 949-3155

Ontario

1 First Canadian Place
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Tour de la Bourse
800 Place Victoria, 12e étage
C.P. 247
Montreal, Québec
H4Z 1E8
Telephone: (514) 283-2530

220 est Grande Allée
Pièce 820
Québec (Québec)
JIR 2J1
Telephone: (418) 694-4451

New Brunswick

590 Brunswick Street
Fredericton, New Brunswick
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Telephone: (506) 452-3114

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Dartmouth, Nova Scotia
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Federation Court Office Tower
134 Kent Street
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Charlottetown, P.E.I.
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Telephone: (902) 566-7400

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90 O'Leary Avenue
P.O. Box 8950
St. John's, Newfoundland
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Telephone: (709) 772-5511

Provincial and territorial government tourism offices

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Ministry of Tourism
Tourism British Columbia
1117 Wharf Street
Victoria, British Columbia
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Department of Tourism and Small Business
Travel Alberta
10065 Jasper Avenue
Edmonton, Alberta
T5J 0H4

Yukon

Department of Tourism, Heritage and Cultural Resources
P.O. Box 2703
Whitehorse, Yukon
YIA 2C6

Northwest Territories

Northwest Territories Department of Economic Development and Tourism
Laing Building
Yellowknife, Northwest Territories
XIA 2L9

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Saskatchewan Department of Tourism and Small Business
3211 Albert Street
Regina, Saskatchewan
S4S 5W6

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Travel Manitoba
155 Carlton Street
Winnipeg, Manitoba
R3C 0V8

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Ontario Ministry of Tourism and Recreation
Hearst Block
900 Bay Street
Toronto, Ontario
M7A 2E5

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710 Place d'Youville
Québec, Québec
G1R 4Y4

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P.O. Box 12345
Fredericton, New Brunswick
E3B 5C3

Nova Scotia

Nova Scotia Department of Tourism
P.O. Box 456
5151 Terminal Road
Halifax, Nova Scotia
B3J 2R5

Prince Edward Island

Prince Edward Island Department of Finance and Tourism
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Provincial Administration Building
Charlottetown, Prince Edward Island
CIA 7N8

Newfoundland

Newfoundland Department of Development
5th Floor, Atlantic Place
Water Street
St. John's, Newfoundland
AIC 5T7

TOURISM IS YOUR BUSINESS – EVALUATION QUESTIONNAIRE

Your comments concerning the "Tourism Is Your Business" program will help Tourism Canada in assessing the value of this program to users, and will also help improve future programs of this nature.

Please be candid in your answers to the questionnaire which appears on the following page.

We would like you to assess each element of the program you have used or referred to:

1. Tourism Is Your Business - Manual
2. Tourism Is Your Business - Study Guide
3. Tourism Is Your Business - Video Tapes

The confidentiality of your reply will be respected. If you sign the questionnaire Tourism Canada may contact you for an in-depth evaluation of the program.

Please mail your questionnaire to:
Manager, Planning and Evaluation
Corporate Affairs Branch
Tourism Canada
235 Queen Street (4th Floor East)
Ottawa, Ontario
KIA 0H5

A postage paid return envelope is also enclosed for your convenience.

THANKS FOR YOUR HELP!

PLEASE REMOVE AND RETURN

TOURISM IS YOUR BUSINESS – EVALUATION QUESTIONNAIRE

1. How did you first become aware of the TOURISM IS YOUR BUSINESS program?

❑ Tourism Canada
❑ Provincial tourism depts.
❑ Industry association(s)
❑ Magazine advertisements
❑ College/university
❑ Word of mouth
❑ Television
•l Other ______________________ (please specify)

2. Which element of the program have you used or referred to?

❑ Tourism Is Your Business - Manual
❑ Tourism Is Your Business - Study Guide
❑ Tourism Is Your Business - Video Tapes

(FOR EACH ELEMENT YOU HAVE USED, PLEASE ANSWER THE FOLLOWING QUESTIONS)

TOURISM IS YOUR BUSINESS - MANUAL

1. How would you rate TOURISM IS YOUR BUSINESS - MANUAL regarding the quality of the information it contains?
❑ Excellent ❑ Good •l Fair •l Poor

2. How would you rate TOURISM IS YOUR BUSINESS - MANUAL regarding its degree of helpfulness to you personally?
•l Very helpful ❑ Helpful ❑ Not very helpful

3. Are there areas of information that you require which are not covered by TOURISM IS YOUR BUSINESS - MANUAL? If so, what are they?

____

____

4. What areas of the TOURISM IS YOUR BUSINESS - MANUAL did you find:
- most useful? ______________________
- least useful? ______________________

TOURISM IS YOUR BUSINESS - STUDY GUIDE

1. How would you rate TOURISM IS YOUR BUSINESS - STUDY GUIDE regarding the quality of the information it contains?
❑ Excellent ❑ Good ❑ Fair ❑ Poor

2. How would you rate TOURISM IS YOUR BUSINESS - STUDY GUIDE regarding its degree of helpfulness to you personally?
❑ Very helpful ❑ Helpful ❑ Not very helpful

3. Are there areas of information that you require which are not covered by TOURISM IS YOUR BUSINESS - STUDY GUIDE? If so, what are they?

____

____

4. What areas of the TOURISM IS YOUR BUSINESS - STUDY GUIDE did you find:
- most useful? ______________________
- least useful? ______________________

TOURISM IS YOUR BUSINESS - VIDEO TAPES

1. How would you rate TOURISM IS YOUR BUSINESS - VIDEO TAPES regarding the quality of the information it contains?
❑ Excellent ❑ Good ❑ Fair ❑ Poor

2. How would you rate TOURISM IS YOUR BUSINESS - VIDEO TAPES regarding its degree of helpfulness to you personally?
❑ Very helpful ❑ Helpful ❑ Not very helpful

3. Are there areas of information that you require which are not covered by TOURISM IS YOUR BUSINESS - VIDEO TAPES? If so, what are they?

____

____

4. What areas of the TOURISM IS YOUR BUSINESS - VIDEO TAPES did you find:
- most useful? ______________________
- least useful? ______________________

GENERAL

1. (If you have used or referred to more than one element) Which did you find most effective?
   - ❑ Tourism Is Your Business - Manual
   - ❑ Tourism Is Your Business - Study Guide
   - ❑ Tourism Is Your Business - Video Tapes
2. Please indicate your degree of preference for future programs in the TOURISM IS YOUR BUSINESS series. (Please indicate by writing in the number 1, 2, 3, etc. – "l" to indicate your first preference, "2" for second preference, etc.)

   _ Marketing

   _ Human Resource Management

   _ Energy Management

   _ Restaurant/Food Service Management

   — Computer Systems & Applications

   _ Technology in Tourism
3. Would you recommend the TOURISM IS YOUR BUSINESS program to someone else?
   ❑ Yes ❑ No
4. Please indicate your type of business/activity:
   - ❑ Hotel/Motor Hotel: Number of units ________
   - ❑ Motel: Number of units ________
   - ❑ Country Inn, Resort, Cottages, etc. Operator: Number of units ________
   - ❑ Restaurant/Food Service Operator
   - ❑ Student
   - ❑ Academic, Teacher
   - ❑ Government
   - ❑ Prospective tourism operator
   - ❑ Other ____
     (please specify)
5. What is the annual volume of your business (if a business):
   - ❑ Under $100,000
   - ❑ $100,000 to $249,999
   - ❑ $250,000 to $499,999
   - ❑ $500,000 to $999,999
   - ❑ $1,000)000 or more

Please indicate the areas of information you would like to receive from TOURISM CANADA ______

____

NAME (please print)____

ADDRESS ____

____ Postal Code ____________

THANKS FOR YOUR HELP! Please return your questionnaire in the enclosed postage paid envelope or mail to: —

Manager, Planning and Evaluation
Corporate Affairs
TOURISM CANADA
235 Queen Street (4th Floor East)
Ottawa, Ont.
KIA 0H5