

## Managerial Accounting & Finance

*Dr. Francis Kwansa HRIM382*

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## Introduction of Managerial Accounting

### Chapter 1

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## Overview of the Hospitality Industry

- Different types of businesses come under the hospitality umbrella
- Unifying theme in all the businesses is customer is treated as a guest away from home, and these businesses are compensated solely for providing products and services for the comfort of guests

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## Major Sources & Uses of \$1 in Hotel and Restaurant Business

### Lodging -

#### Sources:

Rooms	0.64
F&B	0.25
Other depts.	0.07
Telephone	0.03
Rentals	0.02

#### Uses:

Payroll & benefits	0.45
Operating costs	0.30
Cost of sales	0.11
Fixed charges	0.14

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## Major Sources & Uses of \$1 in Hotel and Restaurant Business (cont.)

### Restaurant -

#### Sources:

Food	0.78
Beverage	0.22

#### Uses:

F&B costs	0.33
Payroll and benefits	0.30
Operating Costs	0.27
Fixed charges	0.10

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## Characteristics of the Industry

- Labor-intensive
- Capital-intensive (fixed asset intensive)
- Seasonality
- Simultaneous production and consumption
- Relatively high failure rate

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## Seasonality

### DAILY RESTAURANT PEAK HOURS

7- 8:30 (Breakfast)

11:30-1:30 (Lunch)

6- 8:30 (Dinner)

### HOTEL PEAK HOURS

7-9 (Check-out)

11-1 (Check-out)

3- 5 (Check - in)

Significant Drop in all other hours

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## Weekly Seasonality

### WEEKLY SEASONALITY

Restaurants: High(Fri-Sun), Low (Mon-Thurs)

Business Hotels: High (Mon-Thurs), Low (Fri-Sun)

Resorts: High(Fri-Sun), Low (Mon-Thurs)

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## Characteristics of the Industry

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## Role of Accounting

⇒ Identify, measure and record financial data

Two major subsets:

✧ Managerial Accounting

✧ Financial Accounting

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## Role of Accounting (cont.)

Other branches of accounting:

Cost Accounting

Tax Accounting

Auditing

Accounting Information Systems

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## Hospitality Financial Management

► using financial and accounting information to make economic decisions about restaurant and hotel operations, and evaluating and determining the financial health of the enterprise.

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## Generally Accepted Accounting Principles

- Cost principle
- Business entity principle
- Objectivity principle
- Full disclosure principle
- Matching principle

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## Generally Accepted Accounting Principles (cont.)

**Read** others in the text:

Going-concern (continuity of business)  
Unit of measurement (money principle)  
Consistency  
Conservatism  
Materiality

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## Accrual accounting vs. Cash accounting

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## Forms of Business Organizations

- Sole Proprietorship – unincorporated business owned by one person.
- Partnership – unincorporated business owned by two or more partners.  
3 types: General partnership, Limited partnership, Limited liability partnership

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## Factors Considered in Selecting a Business Form

- Personal liability of owners to business debts
- Income tax considerations
- Need to raise large amounts of equity capital
- Owners need for flexibility in withdrawing assets from the business

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## Factors Considered in Selecting a Business Form (cont.)

- Whether all owners should have managerial authority
- Need for continuity in business operations despite future changes in ownership
- Ease and cost of running the business

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## Characteristics Of Sole Proprietorship

- Easy to form
- Business assets actually belong to the owner
- Business pays no income tax
- Business pays no salary to the owner
- Unlimited Liability

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## Characteristics Of Partnership

- Partners personally and jointly liable for business obligations
- Business assets belong to partners
- Partnership pays no income tax
- Partnership have limited lives

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## Types of Partnerships

GENERAL PARTNERSHIP -Each partner is like a sole proprietor

- Can withdraw cash and assets at will
- Can negotiate contracts in the name of the business
- Unlimited personal liability
- Held financially responsible for partners actions and your own

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## Types of Partnerships

LIMITED PARTNERSHIP -Has one or more general and one or more limited partners

- General partner has unlimited liability
- General partner responsible for managing business
- Limited partner does not manage
- Limited partner has limited liability

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## Types of Partnerships (cont.)

LIMITED LIABILITY PARTNERSHIP (LLP,LLC) -recently created business form, created to prevent innocent partners from going bankrupt

- Each partner has unlimited liability for his/her own professional activity but not for other partners activity
- All partners can participate in managing the business
- Can have unlimited partners

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## Types of Partnerships (cont.)

LIMITED LIABILITY PARTNERSHIP (LLP,LLC) (cont.)

- All partners can participate in managing the business
- Can have unlimited partners

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## Types of Partnerships (cont.)

### CORPORATION

- Relatively more expensive and difficult of form
- No personal liability for corporate debts
- Pays income tax on corporate earnings
- Unlimited life
- Managed by salaried professional managers and elected Board of Directors

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