Importance of accounting in the hospitality industry

Broadly speaking, the process of financial management takes place at two levels. At the individual level, financial management involves tailoring expenses according to the financial resources of an individual. Individuals with surplus cash or access to funding invest their money to make up for the impact of taxation and inflation. Else, they spend it on discretionary items. They need to be able to take the financial decisions that are intended to benefit them in the long run and help them achieve their financial goals.

From an organizational point of view, the process of financial management is associated with financial planning and financial control. Financial planning seeks to quantify various financial resources available and plan the size and timing of expenditures. Financial control refers to monitoring cash flow. Inflow is the amount of money coming into a particular company, while outflow is a record of the expenditure being made by the company. Managing this movement of funds in relation to the budget is essential for a business.

At the corporate level, the main aim of the process of managing finances is to achieve the various goals a company sets at a given point of time. Businesses also seek to generate substantial amounts of profits, following a particular set of financial processes.

Financial managers aim to boost the levels of resources at their disposal. Besides, they control the functioning on money put in by external investors. Providing investors with sufficient amount of returns on their investments is one of the goals that every company tries to achieve. Efficient financial management ensures that this becomes possible.

WHY IS ACCOUNTING IS IMPORTAN IN THE HOSPITALITY INDUSTRY?

A proper accounting system is essential to any business whether big or small in order to manage its daily functions and keep the businesses running successfully.

For any successful business, the main obligation is to maximize profits, minimize any loss and at the same time maintain its position as a responsible entity within the society

Behind every successful business is a sound financial model. This simple theory holds true in any business, whether it is retail, manufacturing, or high tech. It most certainly is true in the hospitality business.

By employing basic accounting principles, hotel owners and managers have the information they need to optimize performance in every operational area, from inventory and payroll to sales and marketing. They can reduce expenses, be prepared to accommodate guests during peak business times, and scale back operations during slow periods. Rather than relying on intuition and reacting to events, successful owners have the financial facts readily available to proactively make the right decisions at the right time.

A good financial system goes well beyond developing an annual budget. The financial system needs to provide the mechanism for managers to easily track performance against the budget, identify issues and rapidly make adjustments, and create and use reports that will give them accurate financial status at any point in time. Just as importantly, there must be managers in place who are trained and accountable for meeting financial objectives.

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DIFFERENCE FINANCIAL ACCOUNTING WITH TH E FANANCIAL MANAGEMENT

There are two broad types of accounting information: Financial Accounts: geared toward external users of accounting information and Management Accounts: aimed more at internal users of accounting information

Although there is a difference in the type of: information presented in financial andmanagement accounts, the underlying objective is the same – to satisfy the information needs of the user.

Financial accounts describe the performance of a business over a specific period and the state of affairs at the end of that period. The specific period is often referred to as the " Trading Period" and is usually one year long. The period-end date as the " Balance Sheet Date" . Companies that are incorporated under the Companies Act 1989 are required by law to prepare and publish financial accounts. The level of detail required in these accounts reflects the size of the business with smaller companies being required to prepare only brief accounts.

The format of published financial accounts is determined by several different regulatory elements: Company Law, Accounting Standards and Stock Exchange.

Financial accounts concentrate on the business as a whole rather than analysing the component parts of the business. For example, sales are aggregated to provide a figure for total sales rather than publish a detailed analysis of sales by product, market etc.

Most financial accounting information is of a monetary nature

By definition, financial accounts present a historic perspective on the financial performance of the business

Management accounts are used to help management record, plan and control the activities of a business and to assist in the decision-making process. They can be prepared for any period (for example, many retailers prepare daily management information on sales, margins and stock levels). There is no legal requirement to prepare management accounts, although few (if any) well-run businesses can survive without them. There is no pre-determined format for management accounts. They can be as detailed or brief as management wish.

Management accounts can focus on specific areas of a business' activities. For example, they can provide insights into performance of: Products, Separate business locations (e. g. different hotels in chain) and

Departments / divisions.

Management accounts usually include a wide variety of non-financial information. For example, management accounts often include analysis of: Employees (number, costs, productivity etc.), Sales volumes (units sold etc.) and Customer transactions (e. g. number of calls received into a call centre)

Management accounts largely focus on analysing historical performance. However, they also usually include some forward-looking elements – e. g. a sales budget; cash-flow forecast