

Hair emporium essay

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Case Study: Hair Emporium Summary The Hair Emporium is a salon owned and managed by Rolando and Rosa. After years of success, and much research, they have decided to expand their business through franchising. As the hair care industry earns approximately \$16 million dollars annually in the US; Rolando and Rosa are sure they will be successful as they have a proven hair care system that works for women, men, and children (Judd/Justis, 2010).

Franchisees interested in opening their own Hair Emporium would need between \$65, 000 and \$136, 000 to open their own location with one fourth to half of the total investment needed in cash (Judd/Justis, 2010). The remaining funds will need to be secured via an outside source such as; banks and third-party lending institutions. In deciding to franchise their business Rolando and Rosa realized that in order to have a centralized way of doing business, that can be passed on to their subsequent franchisees, they must come up with various steps, standards, and methods for the daily operational tasks such as; accounting.

As the Hair Emporium has had difficulty in processing various accounting needs such as; paying taxes, Rolando and Rosa are concerned about how to train any franchisee on their way of handling accounting procedures. 1. Identify what type of accounting records and financial statements should be offered to the franchisees. As the owner of a franchised business it is the responsibility of the franchisor to have business operations nailed down and ironed out. The franchisor should have various manuals for the franchisee to use as guidelines and reference material in making decisions regarding the business.

In the case of the Hair Emporium, the recordkeeping manual would be the manual of concern for Rolando and Rosa. Understanding the various types of financial statements available to a business and selecting the statements that best suite the business is important. Financial statements assist the franchisor and franchisee in analyzing the financial condition of the business in order to make important financial decisions. The business may need more capital or need to invest to balance out the cash flow and the financial statements are the reports used in making these decisions.

In the case of the Hair Emporium Rolando and Rosa should use an income statement. This financial statement is used for recordkeeping of revenues verses expenses for a business over a given period of time (Judd/Justis, 2010). This statement shows the profits and/or losses of the business.

Another financial statement that would assist with the financial decisions of the Hair Emporium is cash flow statement. This statement allows the franchisor and franchisee to be aware of the businesses financial standings regarding their obligations to debt.

This statement shows if the business is in need of investment or needs to invest because of excessive cash flow. 2. Should balance sheets and operating statements be offered monthly or yearly? Give the pros and cons of doing each. In considering whether the balance sheet and operating statements of a business should be offered on a monthly or yearly basis one should first consider its use. The operating statement (income) is used as a way of recordkeeping for the business transactions. This financial statement outlines the business' revenue verses its expenses.

From the income statement the organization's annual statement is derived which is used for tax reporting. The income statement provides information concerning return on investment, risk, financial flexibility, and operating capabilities. For a new business being able to see profit and loss on a monthly basis is important. This allows the management team to be proactive in their decision making. As the success of any business is measured from its profit, the income statement would give the franchisor and franchisee the knowledge of how successful the business is.

The major advantage of the income statement is that it shows the profitability of the company over a period of time. The company can determine the major revenues it has earned through this income. Secondly, an income statement is also significant because it is based on the matching principal and it shows the expense incurred by a company to earn the revenues. Shareholders of a company are also interested in the net income because their dividends are paid out of the total income. Moreover, the income statement also helps the business to analyze their expenses and take into account the major streams of operating revenues of the company.

On the other hand, the major disadvantage of an income statement is that it is considered fiction because it is based on accrual accounting and it does not give cash transactions. The big three financial statements; income, cash flow, balance sheet, are used best when they are used on a monthly basis for review by the management team. Although the income statement can be used on a yearly basis; as it is the "holder" of the business' financial

standing and reviewing this document monthly gives the franchisee and franchisor the ability to make the best decisions for the business.

Although the balance sheet is part of the big three; this is one that could be reviewed on a yearly basis but for a new business reviewing this statement monthly would benefit the manager's knowledge. This statement is used to illustrate the business' assets, liabilities, and net worth (equity) and is referred to a summary of the financial balances of a company. Using balance sheets can have both its advantages and disadvantages. The advantages include full disclosure and ratio analysis while the disadvantages can include value discrepancies and transparency.

Full disclosure is one of the main purposes for balance sheets and is also one of its main advantages. It is now a requirement made by the Securities and Exchange Commission that all public companies have a 10K report (Calhoun, 2005). The 10K report must include a full disclosure of all financial statements detailed with notes explaining all assumptions. These details of a company's spending are available to the public and were implemented to deter companies from mis-claiming spending.

Balance sheets and financial statements are advantageous for the data that is needed to conduct a thorough ratio analysis. The fact that they are based on a system that is not market based, the accrual system of accounting, is an advantage in the sense that it is good to have a basis for comparing book value to market value. It also helps pinpoint any bargains the in the market. Disadvantages with balance sheets can be due to value discrepancies. These

make it difficult to know the real value of assets within a balance sheet and can translate into unreliable ratios.

A bigger disadvantage with balance sheets is the transparency of them. As they are reasonably easy for anyone to understand, this does make it easy for people to hide information, even with a full disclosure. 3. Explain why or why not there should be a recommendation on common accounting procedures for all franchisees. For franchise businesses establishing common accounting procedures would be nearly impossible. Every business is different, each franchise is part of a different industry, and with these differences comes varying accounting processes.

Although there isn't any common accounting procedures for all franchises there are generally accepted accounting guidelines used by every business when completing financial statements. These accounting guidelines are government mandated and used by all certified public accountants. 4. Provide at least three recommendations for Rolando and Rosa and rationale for the recommendations. A franchise company typically receives revenue in two ways: (1) from the sale of the initial franchises and related assets or services, and (2) from continuing fees, etc. , based upon operations of individual units (Calhoun, 2005).

Keeping this in mind the case of Rolando and Rosa the first recommendation would be for them to create some policies and procedures on bookkeeping for the business. They need to develop a standardized accounting system that would be a universal system (Fritzmeyer, 2001). This should be some system that can be passed from them as the franchisor to the franchisee.

This system should fall in line with all state and federal regulations regarding taxes, filing status for the company type, and all forms required filling for the business to be considered within regulation.

The second recommendation would be for Hair Emporium to offer an accounting service, done by a 3rd party company, to the franchisee as part of the fees paid. The fee assessed would be similar to some franchise systems that collect an advertising fee of 5% determined by their gross sales (Leone, 2008). This would ensure that the procedures are handled the same way across all franchises. It would ensure less mistakes and Rolando and Rosa would be able to ensure that the documents turned in to them for their tax reporting is accurate.

The third and final recommendation for the Hair Emporium would be for Rolando and Rosa to allow each of the franchises to utilize their own individual accounting system. This would take away the responsibility of Rolando and Rosa to develop a system, work out the possible kinks, and train every franchisee on said system. The franchisor would need certain documentation from the franchisee however; who prepares it, how the accounting is processed, and how it's tracked would be the responsibility of the franchisee solely. In the end there are various choices available to Rolando and Rosa regarding the proper accounting procedures to use for their business. What's most important is for them to research the accounting processes used by other business in their industry. Reference Calhoun, C. (2005). Accounting for the franchise; is it dead?. *Journal of Accountancy*, 139(2), 60-70. Fitzmeyer, J. (2001). Accounting for the franchise. *Journal of*

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