

Financial Management for the Hotel Industry



BMIH5007

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Executive Summary

Ratios are used to look at how well a business is doing on a day-to-day basis, how well it is able to pay its debts, and how well it is able to meet its goals for both its owners and its creditors. The primary purpose of the majority of hospitality businesses is to generate money. The goal of this research is to analyze Jurrys Inn's portfolio hotels' financial accounts. I have discussed four main types of ratio analysis in this study, which can be used to estimate the liquidity, profitability, and solvency of three distinct categories. When comparing Jurrys Inn's financial performance in 2019 to the next year 2020, the prior year was exceptionally successful.

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Introduction

The hospitality industry is a big part of the service industry. It includes smaller parts like hotels and accommodation, event management, amusement parks, transportation, travel companies, and other parts of the tourism industry (Byoun and Xu, 2015). Coming up with a range of financial ratios that is used to look at businesses in the industry is very crucial as the hospitality industry being a wide one. no matter what they do (LESSAMBO, 2019). The hospitality industry has a lot of tangible assets as well as fixed assets, so it needs a very definite set of financial ratios for analyzing financial statements to be able to accurately figure out how the industry and individual businesses are doing.

Analysis of Financial Statements

When it comes to financial variables that can be used to create ratios, the balance sheet and the income statement are the two most essential and generally available sources of information. These are the ones that appear to be the most universally recognized by the general public, at least (Joy Thomas , S.Rabiyathulbasariya, 2017). Due to the fact that almost all organizations generate financial statements, ratio analysis is employed in a wide variety of industries. As a result of the development of new ratios that are based on the information provided by the statement of cash flows, there has been a significant increase in the amount of activity in this field. When evaluating firms in the hospitality industry, financial ratios such as those given below might be useful (Morrison and O’Gorman, 2008).

Profitability Ratios:

- Gross Profit Margin= Gross Profit / Sales

$$= 5,050/5,500= 0.9181 \text{ (2019)}$$

$$= 5,150/6,000= 0.8583 \text{ (2020)}$$

- Net Profit Margin= Net Profit / Sales

$$= 4,008 / 5,500= 0.7287 \text{ (2019)}$$

$$= 4,073 / 6,000= 0.6788 \text{ (2020)}$$

Liquidity Ratios:

- Current Ratio = Current Assets / Current Liabilities

$$= 3,065 / 1,339= 2.2890 \text{ (2019)}$$

$$= 3,240 / 6,000= 2.0049 \text{ (2020)}$$

Gearing Ratios:

- Debt Ratio = Total Debt / Total Assets

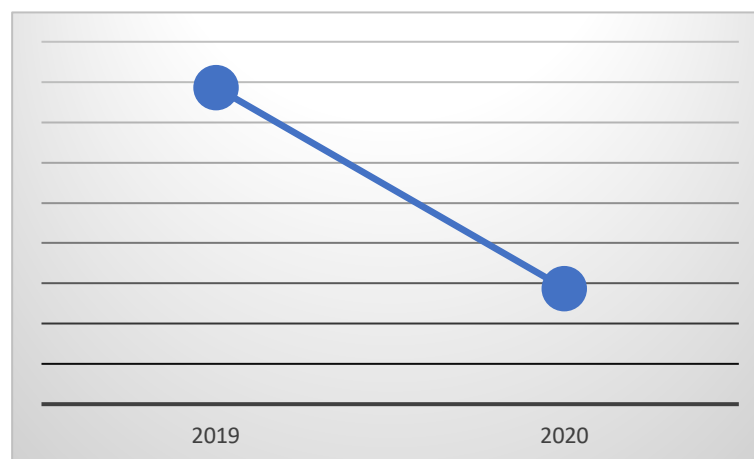
$$= 150 / 7,565 = 0.0198 \text{ (2019)}$$

$$= 145 / 7,890 = 0.0183 \text{ (2020)}$$

Financial Analysis Trends

Profitability

Net Profit Margin: Net Profit Margin shows how well the hotels studied turn their sales into profits after taking out all of their costs. The value of profitability ratio is extremely essential to stakeholders since it demonstrates them how profitable their company is & how well a company turns its revenue into profits that can be used by them (Husain et al., 2020).



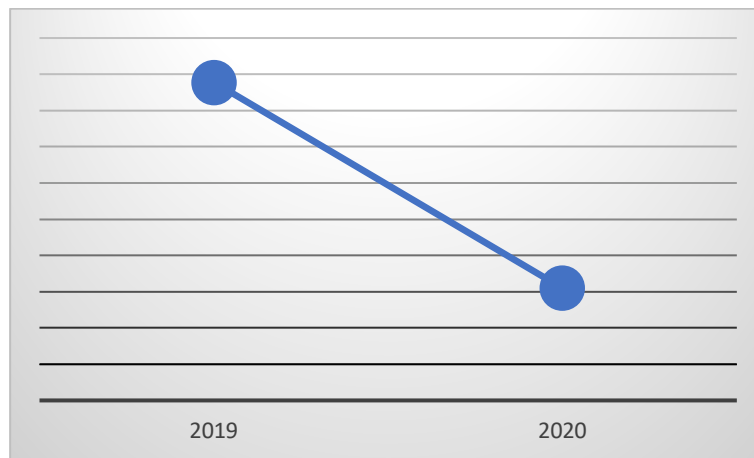
Graph: Net Profit Margin

At the end of 2019, Jurrys Inn's net profit margin was about 73%. This means that for every pound of sales, the company makes £0.73 in net profit. A lower net profit margin means that Jurrys Inn made less money in 2020 than it did in 2019. This means that the company made around £0.68 of net profit for every pound it made in sales that year.

Liquidity

Current Ratio: When you look at the current assets and current liabilities of the hotels you're studying, you can figure out if they have enough money to pay their current debts (Martin and Milas, 2010). In a situation where the value of the current

ratio is less than 1, this means that current liabilities surpasses current assets, which means that the company has a lot of problems with money.

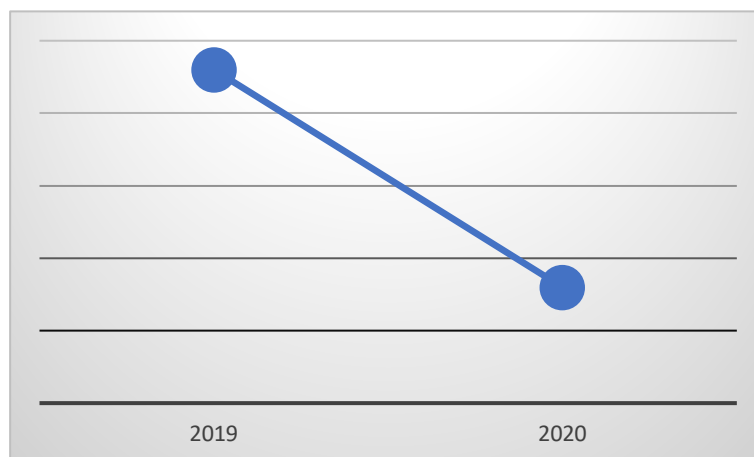


Graph: Current Ratio

The table above shows the abilities of the hotels we looked at. It was worth about 2.29 in 2019, but their cash asset ratio dropped to nearly 2.05. This means that Jurrys Inn can use its current assets to pay all of its debts right away.

Gearing

Debt Ratio: Debt Ratio compares the debt of the hotel being studied to its total assets. The range of debt ratio is from 0.00 to 1.00, and it goes up to 1.00.



Graph: Debt Ratio

Jurrys Inn's debt ratio was 0.02 in 2011. This means that the company has a low risk because of the reduction in the company's reliance on the debt and the increase in its equity position, this is beneficial to the company. (Maria and Andiani, 2021). In 2020,

the debt ratio rises to approximately 0.018. This is good for the company because it means the company is less reliant on borrowing money from other people, which is called leverage. When there prevails higher debt ratio, it means the company is taking more risk. It will be more difficult for the business to get loans for new projects as more of the company's assets are owned by its creditors.

Importance of Understanding Ratio Analysis for Hotel Management

There are many reasons why ratio analysis is important for a company. It can help the company figure out the hotel's financial situation (risk, operations effectiveness, solvency, liquidity, profitability and efficiency), as well as its trend of financial results that helps the hotel's stakeholders decide if they should invest in the company.

Analyzing financial statements: Interpreting the financial statements and data is important for everyone who works for or owns hotel business, both inside and outside the company. This helps understand the balance sheet and income statement (Purnomo, 2018). Managers of hotels use ratio analysis to figure out what they mean. There are different things that each stakeholder cares about the financial results. Equity investors, for example, care more about how strong it will be in the long run & how much dividends the company pays. Creditor wants to make sure that they will get their money back within the time frame.

Figuring out profitability: Profitability ratios can help figure that out. Return on Assets and Return on Equity help figure out how well the company can make money. Return on assets is the total net income divided by the total assets that are in the company. It means how many times does a company make money for every pound it owns (Nariswari and Nugraha, 2020). When you divide net income by the amount of money you own, you get your "return on equity." How well a company spends the money that its investors give it tells us about how well the company does. Ratios like the Gross Profit and Net Profit Margin, which show how much money the company makes. Margins are used to figure out how well a company can turn sales into profit.

Identifying financial solvency: For short-term obligations, it's meant that the debts of hotels that can be paid off in a year or less. For example, salaries, debts,

taxes, and other debts that need to be paid. It is used to figure out how easy it is for hotel management to get money.

Assessing of business risk: Analysing ratios is one of the best ways to figure out how much risk a hotel business has. Calculating the financial leverage helps management understand how much risk there is in, how much debt the business has and how much risk there is & how much it spends on fixed costs.

Benefits and Limitations of Ratio Analysis

Benefits:

1. Profit is the goal of every business. Context is needed to figure out how profitable a business is, and ratio analysis does that (Boháčková and Svatošová, 2012). People can figure out how profitable a company is by looking at things like its net profit margin, its gross profit margin, its expense ratio, and so on. These things show how profitable a company is. The management can use these ratios to find out where things are going wrong and improve them.

2. There are some ratios that show how well a company manages its assets and other resources. It is important to use assets and money wisely to avoid paying for things that don't need to be paid for (Cheng et al., 2018). In this case, the Turnover Ratio and the Efficiency Ratios will show you if you're mismanaging your money.

3. Every hotel business must make sure that some of its assets can be sold quickly if it needs money right away. When you look at things like the Current ratio and Quick Ratio, you can figure out how easy it is to get money from a company. These help a company stay in business for a short time.

4. There are some ratios that can help you figure out how long-term-stable the company is. They help you figure out if a company has too much debt or if it has too many assets. The management will need to quickly fix the problem so that the company doesn't go out of business in the future.

5. When managers look at a company's ratios, they should compare them to the industry standard to get a better idea of its financial health and fiscal position. They can correct things if they don't meet up with what people in the market want. If the hotel managers look at the ratios, they can also compare them to the ratios from last year to see how the company is progressing. People use this to look at trends.

Limitations:

- It is chancy to compare the ratios of two businesses that are going in different directions. When a company is trying to cut costs, in exchange for more market share, they might be willing to accept a lower profit margin. Instead, another firm in the same industry is putting more emphasis on customer service, which means that its costs and profit growth are higher, but it will never be able to compete with the first company in terms of revenue and profits. (Vogel, 2016).
- A change in the rate of inflation can make it hard to compare numbers from different years. Suppose, even though the inflation rate increased by 100 percent in a single year, sales would appear to have doubled over the previous year, despite the fact that they had not altered in anyway.
- When managers compare a ratio from a few years ago to one presently, they might get the wrong answer. In this case, for example, if you set up a restriction evaluation method, users might cut back on how much money they spend on things like fixed assets. In this case, for example, if managers set up a restriction evaluation method, they might cut back on how much money they spend on things like fixed assets. Financial ratio might say that the business is would just let its fixed asset base become too old, which would be bad for the them.
- They take information from the balance sheet to calculate some ratios. Bear in mind that the balance sheet information is current as it is updated on the last working day of the period ending, and not according to the beginning of the period. If the account balance significantly increased or decreased on the last day of the financial quarter, this can affect the ratio analysis.
- In accounting, there may be different rules for recording the same thing (Lee, 2005). Trying to compare different companies by their ratio results may be like trying to compare two different fruits. In some cases, one hotel might use accelerated depreciation and the other hotel might use straight-line depreciation, or the other might record sale at the gross balance and the other company at the net.

Conclusion

Management is in charge of protecting the business's assets, keeping costs down, and making the most money possible. Ratio evaluation is a common way for managers of hotels to keep an eye on how the operation is doing against set standards to see if operating budget goals are being met. A ratio that is simply a number does not appear to be very significant, as the ratio does not explicitly indicate whether the outcomes are good or negative. The aim of the study was to compare the financial strength of the Jurrys Inn using several financial ratios. The financial positions of the Jurrys Inn appears to be less stronger in 2020 than the previous year 2019.

Liquidity analysis based on the balance sheet revealed that Jurrys Inn is in the strong position with the current ratio (Fridson and Alvarez, 2011). The other types of financial liquidity, on the other hand, were at strong levels. The profitability of the Jurrys Inn was found to be satisfactory. The net profit margin denotes a low margin of safety and a higher risk; nevertheless, Jurrys Inn's profit margin ratio is higher in 2019 than that of the year 2020. Under the debt ratio, Jurrys Inn has a sufficient coverage ratio.

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