

BMIH5013/D Financial Management

Financial Statements

Register



Where Are We Now?

Module:	Contemporary Themes for the Hotel and Hospitality Sector
Week	Lecture Topic
1	Induction
2	Introduction to the Module, Financial Terminology, and assessment overview
3	Introduction to Supply, Demand & Price Setting Market Position
4	Key Characteristics of the Hospitality Industry and Financial Management Implications Role of Finance Manager and Finance Team
5	Cost structure Assessment one (1) support
W/C 28th Oct	READING WEEK-NO CLASSES / MID-SEMESTER BREAK
6	Introduction to budgeting and Working Capital Management
7	Risk Management and Financial Strategies
8	Revenue Management
9	Balance Sheet and Income Statement
10	P&L and Financial Stability Break even analysis
11	Module Feedback

Recap-What did we learn last week?

Revenue Management (RM)

What is RM?

Today's Objectives

1. Balance Sheet
2. Assignment 2

What is a Balance Sheet?

Balance Sheet

A **Balance Sheet** is a financial statement that shows a company's **financial position at a specific point in time**.

- It summarizes what the business **owns (assets)**, **owes (liabilities)**, and the **owners' equity (capital)**.

Formula:

Assets = Liabilities + Owners' Equity

Purpose of a Balance Sheet in Hotels

- Measures the hotel's financial strength and stability.
- Helps managers understand **resource allocation, debt levels, and investment needs.**
- Used by **owners, investors, lenders, and hotel management** for decision-making.
- Essential for evaluating **liquidity, solvency, and overall financial health.**

Components of a Balance Sheet

A. Assets

- Resources owned or controlled by the hotel that provide future economic benefits.

1. Current Assets (convertible to cash within 12 months)

- Cash & cash equivalents
- Accounts receivable (guest bills, corporate accounts)
- Inventory (food & beverage, linen, supplies)
- Prepaid expenses (insurance, rent)
- Marketable securities

2. Non-Current (Fixed) Assets

- Property, Plant & Equipment (PPE)
 - Hotel buildings
 - Land
 - Furniture & fixtures
 - Kitchen equipment
 - Laundry equipment
- Intangible assets
 - Franchise rights
 - Brand names
 - Goodwill
- Long-term investments

Components of a Balance Sheet

B. Liabilities

- Financial obligations the hotel must settle in the future.

1. Current Liabilities (due within 12 months)

- Accounts payable (suppliers)
- Short-term loans
- Accrued expenses (salaries, utilities)
- Taxes payable
- Unearned revenue (advance room bookings)

2. Long-Term Liabilities

- Long-term bank loans
- Mortgage on hotel property
- Bonds payable
- Deferred tax liabilities

Components of a Balance Sheet

C. Owners' Equity (Shareholders' Equity)

- Claims of the owners after liabilities are deducted from assets.

This includes:

- Capital contributed by owners/shareholders
- Retained earnings (accumulated profits)
- Reserves
- Owner withdrawals (in proprietorship/partnership hotels)

Example of a Balance Sheet structure in a Hotel

Assets

Current Assets

Cash
Accounts Receivable
Inventories

Non-Current Assets

Building
Furniture & Equipment

Total Assets

=

Liabilities & Equity

Current Liabilities

Accounts Payable
Accrued Wages
Advance Bookings

Long-Term Liabilities

Mortgage Loan
Bank Loan

Total Liabilities + Equity

Importance of Balance Sheet analysis in hotels

Liquidity Analysis: ability to meet short-term obligations.

- Current Ratio, Quick Ratio

Solvency Analysis: long-term financial stability.

- Debt-to-Equity Ratio

Asset Management:

- Evaluates efficiency of property and equipment usage.

Working Capital Management:

- Ensures smooth operations (room division, F&B, housekeeping).

Characteristics of Hotel Balance Sheets

- Asset-heavy due to large investments in land, buildings, and equipment.
- High fixed costs mean solvency and debt management are critical.
- Revenue seasonality affects current assets and liabilities.
- Frequent use of **advance deposits** (unearned income).

Prepare a Balance Sheet for Sunrise Luxury Hotel (as of 31st March 2025)

Case Study

Sunrise Luxury Hotel is preparing its annual financial statements. You have been provided with the following account balances. Your task is to **classify each item into Assets, Liabilities, or Equity**, identify **current vs. non-current**, and prepare a **properly formatted Balance Sheet**.

Sunrise Financial Data

- **Account Balances (in £)**
- Cash in Hand – **75,000**
- Bank Balance – **4,50,000**
- Accounts Receivable (Guests/Travel Agents) – **3,25,000**
- Food & Beverage Inventory – **1,80,000**
- Linen & Housekeeping Supplies – **95,000**
- Prepaid Insurance – **40,000**
- Land – **50,00,000**
- Hotel Building – **1,20,00,000**
- Furniture, Fixtures & Fittings – **18,50,000**
- Laundry & Kitchen Equipment – **12,00,000**
- Accumulated Depreciation – **15,20,000**
- Accounts Payable (Suppliers) – **3,95,000**
- Salaries Payable – **2,25,000**
- Long-Term Bank Loan – **40,00,000**
- Advance Room Bookings (Unearned Revenue) – **1,55,000**
- Owner's Capital – **1,20,00,000**
- Retained Earnings – **18,50,000**

Instruction

Classify each item as:

- **Current Asset**
- **Non-Current Asset**
- **Current Liability**
- **Long-Term Liability**
- **Equity**

And provide Subtotals

Then Calculate:

- Total Current Assets
- Total Non-Current Assets (less depreciation)
- Total Current Liabilities
- Total Non-Current Liabilities
- Total Equity

Instruction

Prepare the Balance Sheet

- Prepare a structured **Balance Sheet for Sunrise Luxury Hotel** as of 31st March 2025 using the format:

- **Assets**

- Current Assets

- Non-Current Assets (Net)

- Total Assets**

- **Liabilities & Equity**

- Current Liabilities

- Non-Current Liabilities

- Equity

- Total Liabilities & Equity**

Check Equation

Ensure

Total Assets = Total Liabilities + Equity



Assessment 2

DEADLINE: Tuesday 16th January 2026 by 23.59
2000 words Report

Report structure:

- ✓ Title/Cover page
- ✓ Generative AI Acknowledgement
- ✓ Executive Summary
- ✓ Table of contents
- ✓ Introduction
- ✓ Main body (with all the individual subheadings)
- ✓ Recommendations
- ✓ Conclusion
- ✓ Reference list

Quiz

Questions

1. Which of the following is a **current asset** of a hotel?
 - a) Land
 - b) Laundry equipment
 - c) Accounts Receivable
 - d) Mortgage loan
2. Advance room bookings (guest deposits) should be classified as:
 - a) Current asset
 - b) Current liability
 - c) Long-term liability
 - d) Equity
3. Which one is a **non-current asset**?
 - a) Linen & supplies
 - b) Prepaid insurance
 - c) Hotel Building
 - d) Salaries payable

Quiz

Questions

4. Given:

Current Assets = £1,165,000

Current Liabilities = £775,000

What is the **Working Capital**?

5. If a hotel has:

Total Assets = £19,695,000

Total Liabilities = £4,775,000

What is **Equity**?

6. True or False:

Accumulated Depreciation increases the value of non-current assets.

Quiz

Questions

7. A hotel purchased kitchen equipment for £1,200,000.

How should this be classified?

- a) Current asset
- b) Non-current asset
- c) Current liability
- d) Expense

8. Which equation must always balance?

- a) $\text{Assets} = \text{Revenue} + \text{Expenses}$
- b) $\text{Assets} = \text{Liabilities} + \text{Equity}$
- c) $\text{Cash} = \text{Profit}$
- d) $\text{Equity} = \text{Cash} - \text{Liabilities}$

Any questions.....?

I look forward to seeing you next week.

If you have any questions in the meantime,
please send an email from your student
account

e.wavei@uwtsd.ac.uk

Next week.....

Income Statement

Please have a look at the material on
Moodle, which will be made available
this Friday.