

Unit 2: Finance in the Hospitality Industry

Unit code: R/601/1789

QCF level: 4

Credit value: 15

● Aim

This unit will enable learners to develop practical understanding of the accounting techniques used to control costs and profits, and to support managers in making effective short-term decisions.

● Unit abstract

Learners will gain understanding of the sources of funding and income generation for business and services industries. They will also understand business in terms of the elements of cost and how to analyse business performance by the application of ratios.

Learners will have opportunities to investigate control systems, income generation and methods of measuring and analysing performance.

On completion of the unit, learners will be able to evaluate business accounts and apply the concept of marginal costing.

Learners must ensure that their evidence relates to the hospitality industry.

● Learning outcomes

On successful completion of this unit a learner will:

- 1 Understand sources of funding and income generation for business and services industries
- 2 Understand business in terms of the elements of cost
- 3 Be able to evaluate business accounts
- 4 Be able to analyse business performance by the application of ratios
- 5 Be able to apply the concept of marginal costing.

Unit content

1 Understand sources of funding and income generation for business and services industries

Funding: sources eg retained profits, loans, banks, investors, small business schemes, franchise, hire purchase, sponsorship, lease schemes, creditors, debt factoring

Income generation: methods eg sales, commission, sub-letting, sponsorship, grants, tracking mechanisms

2 Understand business in terms of the elements of cost

Elements of cost: sales; materials; consumables; labour; overheads; capital; gross and net profits; discount costing

Selling prices: product and service costing; formula to achieve a specific gross profit percentage; differential gross/net profit margins; marginal costing; effect of competition; freelance; commission; peak/off-peak trading

Control of stock and cash: methods eg storage, purchasing, cash, security, reconciliation, stock-taking

Taxation: income tax; Value Added Tax (VAT); corporation tax; schedules; rates; personal/capital allowances; post-tax profits, implications

3 Be able to evaluate business accounts

Trial balance: source; structure eg summary of accounts from sales, purchase and nominal ledgers

Final accounts: types eg sole trader, partnerships, limited company, trading account, profit and loss account, balance sheet, adjustments for depreciation, accruals, prepayments, bad debt provision; format eg vertical, double-entry, appropriation account; assets/liabilities eg capital, fixed, current, notes to accounts

Profit and cash budgets: purpose; types eg profit, cash flow, operating, master; variance analysis to include sales (volume and average spend), cost variances (raw material, labour, overhead), profit variances (gross and net)

4 Be able to analyse business performance by the application of ratios

Sales profitability ratios: gross and net profit; Return On Capital Employed (ROCE)

Liquidity ratios: current; acid test

Efficiency ratios: debtors and creditors payment periods; stock turnover

Financial ratios: interest earned; gearing

5 Be able to apply the concept of marginal costing

Costs categorisation and contribution: fixed and variable costs; contribution calculation eg product/customers, cost/profit/volume relationship

Application: break-even; profit/loss potentials; setting selling price and discounting

Learning outcomes and assessment criteria

Learning outcomes On successful completion of this unit a learner will:	Assessment criteria for pass The learner can:
LO1 Understand sources of funding and income generation for business and services industries	1.1 review sources of funding available to business and services industries 1.2 evaluate the contribution made by a range of methods of generating income within a given business and services operation
LO2 Understand business in terms of the elements of cost	2.1 discuss elements of cost, gross profit percentages and selling prices for products and services 2.2 evaluate methods of controlling stock and cash in a business and services environment
LO3 Be able to evaluate business accounts	3.1 assess the source and structure of the trial balance 3.2 evaluate business accounts, adjustments and notes 3.3 discuss the process and purpose of budgetary control 3.4 analyse variances from budgeted and actual figures, offering suggestions for appropriate future management action
LO4 Be able to analyse business performance by the application of ratios	4.1 calculate and analyse all ratios to offer a consistent interpretation of historical business performance 4.2 recommend appropriate future management strategies for a given business and services operation
LO5 Be able to apply the concept of marginal costing	5.1 categorise costs as fixed, variable and semi-variable for a given scenario 5.2 calculate contribution per product/customer and explain the cost/profit/volume relationship for a given scenario 5.3 justify short-term management decisions based on profit/loss potentials and risk (break-even) calculations for a given business and services operation

Guidance

Links

This unit may be linked to other units, including:

- *Unit 7: The Developing Manager*
- *Unit 8: Marketing in Hospitality*
- *Unit 19: External Business Environment*
- *Unit 21: Small Business Enterprise.*

It should be made clear to learners that all units have financial components.

This unit links to the following Management NVQ units:

- A1: Manage your own resources
- B6: Provide leadership in your area of responsibility
- B8: Ensure compliance with legal, regulatory, ethical and social requirements
- B10: Manage risk
- E1: Manage a budget
- E2: Manage finance for your area of responsibility
- E3: Obtain additional finance for the organisation
- F1: Manage projects
- F3: Manage business processes
- F12: Improve organisational performance.

Essential requirements

Adequate access to computer and appropriate financial software is essential. When giving presentations, learners must also have access to the latest technological equipment and software.

Tutors must develop suitable banks of case study materials based on real situations for demonstration and practice by learners. These must be in the context of the hospitality industry and include examples from different aspects of the industry, such as the front office, food and beverage costs, service costs etc

Employer engagement and vocational contexts

A visiting speaker, with some financial responsibility in the hospitality industry, will enhance delivery of the unit.