



Module 2

Financial management in tourism companies

Lesson 1- Introduction to accounting and financial management

1.1.- INTRODUCTION TO FINANCIAL ACCOUNTING

According to Roldán, (undated) Financial Accounting is a branch of the accounting area that deals with the systematization of information on the activities and economic situation of a company at a given moment in time and throughout its development.

Financial accounting allows for a historical and quantifiable record of the activities carried out by a company and the economic events that affect it.

1.1.1.- Objective of financial accounting

Financial Accounting has two main objectives, depending on the user of the information:

Internal: to provide valuable information about the financial position of the company which allows to evaluate the results of the decisions that have been taken in the past, to introduce changes and/or propose new strategies and to plan for the future.

External: it informs about the financial situation of a company which facilitates making comparisons and attracting potential investors. Financial accounting also facilitates control and monitoring by the relevant authorities.

Characteristics of Financial Accounting

1.1.2.- Essential characteristics

- Records the activities of the company in an orderly manner
- Allows a historical record of the company's evolution
- It is a language of common understanding in the area of business and investment
- It is based on commonly accepted rules, norms and principles
- In most countries it is mandatory (at least for companies that reach a certain minimum size)

1.1.3.- Basic elements of financial accounting

Financial Accounting is based on an ordered system where the basic unit is an account. It is in the form of a T, with two columns where the movements (income and expenses) of the period under analysis are recorded.

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The column on the right is called "Credit" and the column on the left is called "Debit". The same transaction can be recorded as both debit and credit depending on what exactly it represents in the account we are looking at.

The entries should be made as follows: (i) debits and credits are recorded on the debit side, and (ii) credits or expenses are recorded on the credit side.

The following simplified rule should be taken into account at the time of entry: negative assets and income accounts are added on the debit side and subtracted on the credit side, while positive liabilities, equity and income accounts are added on the credit side and subtracted on the debit side.

“DOUBLE-ENTRY” METHOD:

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Assets	Liabilities
<ul style="list-style-type: none"> • Cash • Temporary Investments • Accounts Receivable • Merchandise Inventory • Office Supplies • Buildings • Property & Equipment • Patents • Goodwill 	<ul style="list-style-type: none"> • Accounts Payable • Rent Payable • Salaries Payable • Estimated Warranty Liability • Dividends Payable • Long Term Liabilities • Discount on Bonds Payable • Tax Payable

1.1.4.- Types of accounts in financial accounting

There are two basic types of accounts for a company's financial accounting:

- Balance sheet accounts that reflect: the assets, the equity and the debts.
- Income and expense accounts.

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Then, at the end of the accounting period these accounts are ordered and closed to produce the Annual Accounts of the company. They include:

- Profit and Loss Account
- Balance Sheet
- Accounting Memory
- Statement of Changes in Equity
- Cash Flow Statement

In the next unit we will study each of them in detail.

1.1.5.- Spanish accounting regulations

Financial accounting in Spain is governed by the General Accounting Plan (PGC). The PGC was created in 1973 and updated in 2007.

TABLE OF ACCOUNTS: (small and medium enterprises)

- Group 1: We will collect all payment obligations on a L/T basis.
- Group 2: Fixed assets (land, machines, installations, intangible)
L/P collection rights.
- Group 3: Stocks.
- Group 4: P/L rights and payment obligations (frequent, usual, normal).
- Group 5: Financial accounts (D. eff., D. banks.)
Receivables and Payables P/L (not frequent)
- Group 6: Expenses and purchases.
Expenses (by nature, all other expenses)
- Group 7: Sales and Income (by nature).

_____ New plan for large enterprises _____

- Group 8: Expenses recognized (those we believe will occur in the future)
- Group 9: Recognised income.

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1.2.- INTRODUCTION TO FINANCIAL MANAGEMENT

According to Cabrera, Fuentes and Cerezo (2017), "financial management is one of the traditional areas that comprises a process of management and administration of each organization regardless of its size or the sector to which it belongs. It becomes indispensable to be able to carry out and execute the analysis, decisions and actions to evaluation processes, where they must be related to the strategy and financial means that are necessary to sustain the operation of the organization while promoting the profit margin for shareholders. That is why the financial function integrates all the tasks related to the achievement, use and control of resources. If it is understood that financial management is related to decision making regarding the size and composition of assets, at the level of financing structure and dividend policy, this leads one to think that each organization must and can define its strategic objectives from different perspectives, according to its needs".

1.2.1.- Objective of financial management

According to the previously referenced authors, "the objective of financial management for organizations is to ensure that the organization is managed with efficiency and effectiveness, since it is a question of facilitating technical, human and transparent management in the delicate process of the administration and the allocation of financial resources in the producing organizations of goods and/or services. It is for this reason that the proposal of a model with an integral, systemic approach is formulated and developed and that it leads to contributing to the process of making decisions, the model of this article raises the development of three sequential and logical phases: planning, execution and analysis and a last phase referring to control and decision".

1.2.3.- Functions of financial management

According to González, (2018): Financial resource needs are determined:

- Raise the stakes
- Describe the resources available
- Foresee the released resources
- Calculate external financing needs
- Seek funding
- Application of these financial resources, including cash surpluses
- Financial analysis, collecting and studying the information to understand the financial situation of the company.
- Economic and financial viability of investments

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1.2.4.- Basic elements of financial management

Part of the following elements:

- Balance Sheet
- Locking seats if required
- Closing the year to reach the Final Balance
- Obtaining the Maneuvering Fund
- Ratios for the Economic and Financial Analysis of the Company

The development from a general perspective of the mentioned elements will be reflected in the following unit.

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