

RURAL TOURISM: ACCOUNTING PRINCIPLES FOR PENSIONS

TURISMUL RURAL: PRINCIPII CONTABILE PENTRU PENSIUNI

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Abstract: Rural tourism has become over the years one of the most important parts of the Romanian tourism industry. Catering mostly to foreigners wanting to experience the Romanian rural life, rural tourism is also eco-friendly. But in the world of business, we need to think about the profit and costs. Therefore, the authors will explain some basic accounting principles used when keeping the books for a pension.

Rezumat: Turismul rural a devenit de-a lungul timpului una dintre cele mai importante părți ale industriei turistice Românești. Venind în principal în întâmpinarea turiștilor străini care doresc să experimenteze viața de țară în România, turismul rural este și ecologic. Dar într-o lume a afacerilor, trebuie să ne gândim la profituri și costuri. De aceea, autorii vor explica câteva principii contabile de bază pentru organizarea contabilității într-o pensiune turistică.

Key words: rural tourism, pension, accounting, cost, profit

Cuvinte cheie: turism rural, pensiune, contabilitate, cost, profit

INTRODUCTION

Rural tourism has become over the years one of the most important parts of the Romanian tourism industry. Catering mostly to foreigners wanting to experience the Romanian rural life, rural tourism is also eco-friendly. But in the world of business, we need to think about the profit and costs. Therefore, the authors will explain some basic accounting principles used when keeping the books for a pension.

The authors will talk about the costs centers – rooms, restaurant, souvenir shop- and what should be done in order to maximize the profit. Does collaborating with a travel agency insure more or less profit? How about offering daily trips to important tourist destination in the area? Are the types of rooms –single, double, dorm- important or not when drawing the clients? Do packages influence the level of occupancy?

Rural pensions depending on the products and services they offer, could generate income from different sources. Some of them only offer rooms while others offer other services as well, such as conference rooms, restaurant, souvenir shop, etc. In order to maximize the income, each business operating in the tourism industry, would have to establish exactly what services and products they offer to their clients.

Some of the profit centers linked to a rural pension include: rooms; restaurant; shops (usually souvenir shop); conference rooms and fitness rooms. For each of these profit centers the owners would try to maximize the profit. First step in this direction has to be taken by evaluating the sales potential. Once the potential established the owner can develop ways to add value to the main product and to use marketing strategies in order to sell its product at the best price.

OCCUPIED ROOMS AND THE INCOME THEY GENERATE

The rooms offered for boarding represent the main profit center in a pension. The profit is obtained when the rooming house “sells” the rooms at the higher price than the operating expenses.

Here is an example of a maximum income generated by a rooming house which offers

five rooms at a price of 50 RON per night.

Number of empty rooms: 5
Total number of empty rooms per year (100%): $365 \times 5 = 1825$
Optimal price per room: 50 RON
Maximum income generated by the rooming house per year:
 $1825 \times 50 = 91250 \text{ RON}$

However, few pensions manage to operate at a 100% rate of occupied rooms. If the owner takes into account the changes generated by the seasonal activity and the fact that some rooms might be unavailable in any time of the year then the owner can estimate a realistic occupied rooms rate of 60%.

The following example based on the previous one, shows the maximum income which can be obtained at a 60% rate of occupied rooms.

Number of rooms at a 60% rate of occupied rooms: $1825 \times 60\% = 1095$
Optimal price per room: 50 RON
Maximum income generated by the rooming house per year:
 $1095 \times 50 = 54750 \text{ RON}$

In both the examples above, the operating cost for the pension might be very low, especially if the owner and the family work for the pension. The related costs can be: towels and bed linen, electricity and water, a cleaning lady hired part time and maintenance expenses. Let's assume these expenses sum up to 4000 RON.

In this case the net profit generated by the rooming house is:

$54750 - 4000 = 50750 \text{ RON}$

If the owner has to pay other debts, interest and taxes, then the net profit will be diminished accordingly.

In order for the owner to increase the generated income, there are two strategies to use:

- increase the number of rooms "sold" per year
- increase the price per room

That can be obtained using the following methods:

- collaborating with tour operators in order to increase the number of rooms "sold"
- increase the number of tourists
- attract people who need temporary lodging over a longer period of time
- partnership with other rooming houses in order to attract groups of tourists

MAXIMIZING THE PENSION'S INCOME

Duration of stay

The main method to maximize income generated by a pension is to extend the duration of stay. In order to do that, it's necessary that the tourist has enough reasons to stay in a certain rural area. When a tourist or traveler chooses a certain destination, the person already knows how long their vacation will be.

There are several methods to determine the tourist to stay longer than planned:

- offering an extended travel package which includes a trip to a destination located far from the pension to add another boarding night
- creating events over the weekend which could make the client participate in (i.e. The Pork's Dinner before Christmas, Caroling)
- offering travel packages which include 3, 5 or 7 boarding nights at special prices for families with children and/or for couples (i.e. special package for Valentine's Day).

Types of rooms

The rooms can have different prices depending on:

- room size: single, double, apartment;
- bed size: single, double, matrimonial;
- bathroom size and equipment (bath tub, shower);
- view;
- room's location in the rooming house;
- other services included in the room price such as: breakfast, bath robe, fitness room, coffee, fridge, AC, a bottle of plum brandy (n.a. pălincă), etc.

Collaborating with local artisans

An often under-rated profit center is opening a souvenirs' shop. Most hotels don't offer enough space to such shops. It's a lost opportunity in many ways. Most tourists, especially those spending their holidays in the pension and those coming from abroad, want to buy souvenirs to remind them of the location where they spent their holiday. Along with offering the customers the satisfaction of buying genuine products, the shop will also generate income both for the rural pension and for the craftsmen and artisans

Collaborating with Tour Operators/Travel Agencies

Collaborating with an agency has the advantage of increasing the sales but at the same time the disadvantage of diminishing the profits. Also the tour operator assumes that since it will increase the rate of occupation for a longer period of time then it is entitled to ask for discounts.

However, the benefits of such collaborations are numerous and include the following:

- income which otherwise wouldn't have been obtained ("unsold" rooms);
- recognitions from other tour operators;
- new guests who could come back later on their own;
- new guests who could recommend other persons; the opportunity to extend the market and marketing;
- the possibility to obtain more profit from the profit centers.

CALCULATING THE ROOM PRICE

The price per room can be calculated in several ways. We'll be presenting the method which takes into account the costs and profit.

$$\text{Room Price} = \text{Fixed Costs} + \text{Variable Costs} + \text{Desired Profit}$$

The fixed costs are those costs that have to be paid no matter whether the pension has guests or not while the variable costs are those which occur once the guests arrive. This method starts by establishing a base price starting from the fixed costs to which the variable costs are added.

Step 1: Calculating the fix costs

This step includes calculating the costs regarding the management, advertising and marketing campaigns, interests, utilities, wages, storage and certain maintenance costs. These are the costs that have to be covered even when there are no guests in the pension. Then divide the estimated fixed costs by the total number of stays estimated for the next year.

Let's the example of a 6 rooms pension which estimates 60% occupation rate, the example is presented below. The fixed costs, as they are shown in the balance sheet for Dec 31, 2007, are 10752 RON and the number of stays for last year was 876.

$$\text{Fixed costs} = 10752 \text{ RON}$$

Number of stays = 876

$$\text{Base Price} = \frac{\text{Fixed costs}}{\text{No of stays}} = \frac{10572}{876} = 12,06 \text{ RON}$$

Step 2: Calculating the variable costs

The owner has to calculate the variable costs which occur to cover the tourists' needs which occupy the 876 rooms (over the year). Considering that the fixed costs represent 50% of the total operating expenses and the owner wants minimum 10% profit rate, then the variable costs will be about 40% of the total costs. This means, the price per room per night to cover all the operating expenses and generate 10% profit rate will be **24,12 RON**.

CONCLUSIONS

There is nothing more pleasurable than offering tourists a place to stay, where they can enjoy nature and local customs. But no matter how idyllic it sounds, the pensions' owners must take into account the financial and accounting part of their business. Unfortunately a lot of owners go way too far and assume that they can ask for extremely high prices during the peak seasons of Easter and Christmas, in order to compensate with the low season in the summer [since most of the pensions are located in the mountains]. Finding a point of equilibrium would be the best option both for the owner –who will see its pension filled all the time –and for the traveller –who would prefer to choose a lower price. Plus, if other activities such as hiking are added to the offer during summer, many tourists would prefer to do that rather than soak in the sun at the sea-side. A well promoted pension will always be a happy pension!

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