Accounting for Clubs: The Fundamentals of Financial Management

Accounting for Clubs: The Fundamentals of Financial Management

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FANSHAWE COLLEGE PRESSBOOKS
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Contents

Book Navigation vi
Acknowledgements 1
About this Book 2

Chapters

Chapter 1: Accounting Basics 5
Chapter 2: Understanding Financial Statements 12
Chapter 3: Analyzing Financial Statements 23
Chapter 4: Ratio Analysis "Interpreting the Data" 28
Chapter 5: The Budgeting Process 40
Chapter 6: Internal Controls 48
Chapter 7: Risk Management Accounting 55

References 63
Version History 64

Book Navigation

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To move to the next page, click on the "Next" button at the bottom right of your screen.

Next: 1.1. What is Academic Integrity? →

To move to the previous page, click on the "Previous" button at the bottom left of your screen.

← Previous: About This Guide

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To jump to a specific section or sub-section, click on "Contents" in the top left section of the page. Use the plus sign (+) to expand and the minus sign (-) to collapse the content sections. *(Note: On smaller screens, the "Contents" button is at the top of the page.)*

CONTENTS

About This Guide

Introduction

Academic Integrity at Fanshawe +

Academic Offenses +

Warning and Penalties −

3.1. Warnings and Penalties Explained

3.2. Let's Review: Warnings and Penalties Quiz

Acknowledgements

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Collaborators

This project was a collaboration between the author and the team in the OER Design Studio at Fanshawe. The following faculty and support staff were involved in the creation of this project:

- Shauna Roch, *Editor & OER Project Lead*
- Rosalyn Bourne, *Quality Assurance*
- Marcellous Henry, *Developer*
- Wilson Poulter, *Copyright Officer*
- Koen Liddiard, *Graphic Design Student*

About this Book

Accounting for Clubs: The Fundamentals of Financial Management introduces students to the core accounting and financial management concepts used in club operations. The book guides readers through accounting basics, financial statements, ratio analysis, budgeting, internal controls, and risk management, helping them understand how financial information supports effective decision-making in club settings.

Dedication

Debbie Foster, thank you for helping me understand bookkeeping, accounting and financial management. Your knowledge was the core of our business success!

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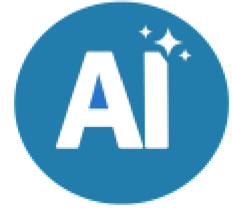
A Note About AI Use

This textbook was developed with assistance from artificial intelligence (AI) tools (Copilot). The author used Copilot to help brainstorm a structure for chapters 5, 6, and 7. Copilot was also used to suggest specific golf club examples for accounting topics in these chapters. All suggestions provided by CoPilot were reviewed and revised by the author. Wherever AI contributed to content development, the text-book includes a citation and the corresponding prompt to support transparency.



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CHAPTERS

Chapter 1: Accounting Basics

Chapter 2: Understanding Financial Statements

Chapter 3: Analyzing Financial Statements

Chapter 4: Ratio Analysis “Interpreting the Data”

Chapter 5: The Budgeting Process

Chapter 6: Internal Controls

Chapter 7: Risk Management Accounting

Chapter 1: Accounting Basics

Learning Objectives

By the end of this section, you should be able to:

- Explain the differences between managerial accounting and financial accounting.
- Steps in the accounting cycle
- Identify some of the users of accounting information and explain how they use it

The Role of Accounting

Accounting is often called "the language of business" because it communicates so much of the information that owners, managers, and investors need to evaluate a company's financial performance. These people are stakeholders in the business—they're interested in its activities because they're affected by them. The financial futures of owners and other investors may depend heavily on the business's strong financial performance.

In fact, a key purpose of accounting is to help stakeholders make better business decisions by providing them with financial information. You shouldn't try to run an organization or make investment decisions without accurate and timely financial information, and it is the accountant who prepares this information. More importantly, accountants make sure that stakeholders understand the meaning of financial information, and they work with both individuals and organizations to help them use financial information to deal with business problems. Actually, collecting all the numbers is the easy part. The hard part is analyzing, interpreting, and communicating the information. Of course, you also have to present everything clearly while effectively interacting with people from every business discipline. In any case, we're now ready to define accounting as the process of measuring and summarizing business activities, interpreting financial information, and communicating the results to management and other decision makers.

Fields of Accounting

Accountants typically work in one of two major fields. Management accountants provide information and analysis to decision makers inside the organization in order to help them run it. Financial accountants furnish information to individuals and groups both inside and outside the organization in order to help them assess the organization's financial performance. Their primary focus, however, is on external parties. In other words, management accounting helps you keep your business running while financial accounting tells the outside world how well you're running it.

Management Accounting

Management accounting, also known as *managerial accounting*, plays a key role in helping managers carry

out their responsibilities. Because the information it provides is intended for use by people performing a wide variety of jobs, the format for reporting it is flexible. Reports are tailored to the needs of individual managers and are intended to provide relevant, accurate, and timely information that will aid managers in making decisions. In preparing, analyzing, and communicating such information, accountants work with individuals from all the functional areas of the organization—human resources, operations (golf services, turf, food and beverage), marketing, etc.

"Role of Managerial Accounting"

Financial Accounting

Financial accounting is responsible for preparing the organization's financial statements—including the income statement (also called the profit/loss statement), the statement of owner's equity, the balance sheet, and the statement of cash flows—that summarize a company's past performance and evaluate its current financial condition. If a company is traded publicly on a stock market such as the TSX (Toronto Stock Exchange), these financial statements must be made public, which is not true of the internal reports produced by management accountants. In preparing financial statements, Canadian financial accountants adhere to a uniform set of rules called International Financial Reporting Standards (IFRS)—the basic principles for financial reporting issued by an independent agency called the Financial Accounting Standards Board (FASB). Users want to be sure that financial statements have been prepared according to IFRS because they want to be sure that the information reported in them is accurate. They also know that when financial statements have been prepared by the same rules, they can be compared from one company to another.

The Accounting System

- **Inputs –** Sales documents, Purchasing documents, Payroll, Various expenses, Banking information
- **Processing –** Entries are recorded in a journal or in accounting software (e.g., QuickBooks Online). Journal entries are transferred or posted into a ledger / categorized. Then all accounts are summarized
- **Outputs** – Are the reports from our entries, such as a financial statement (Balance Sheet, Income Statement & Cash Flow Statement)

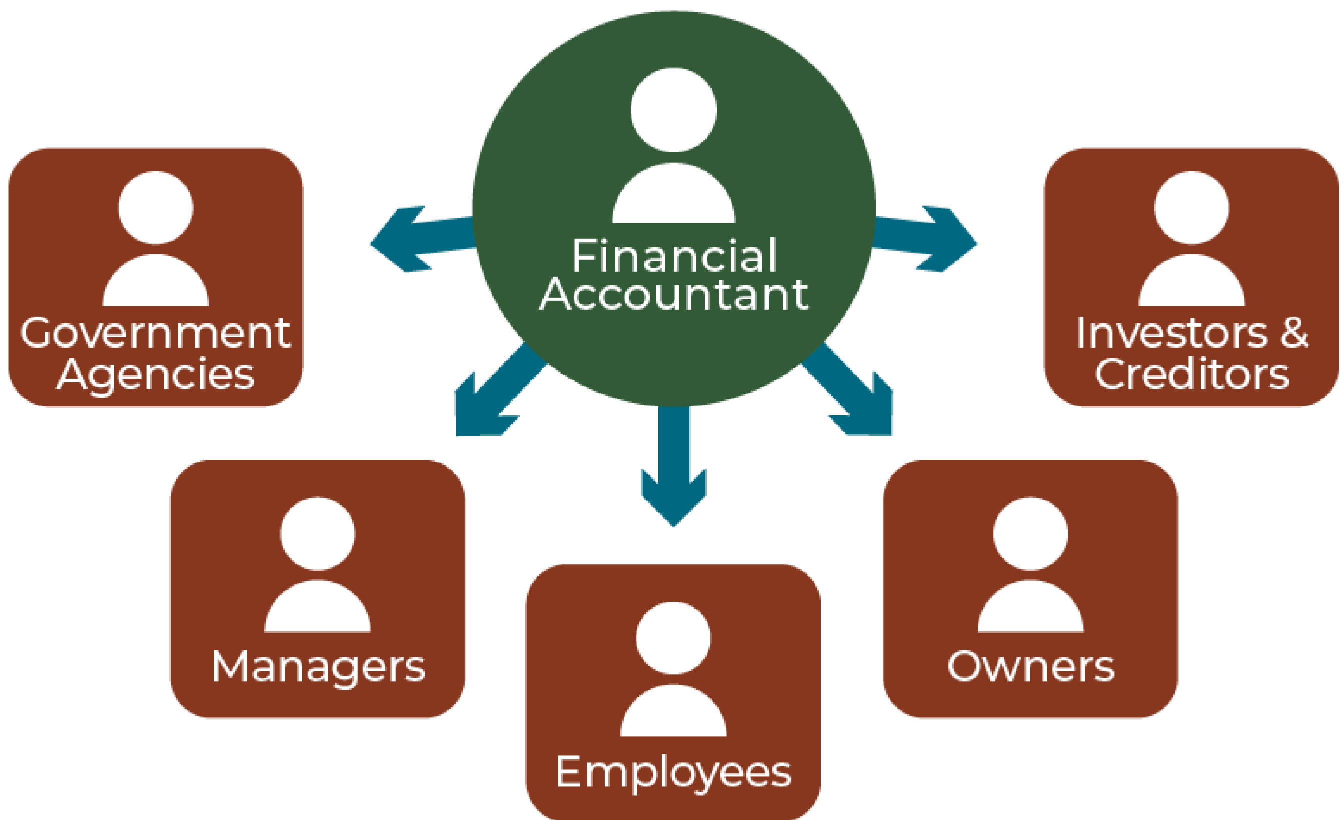
Steps in the Accounting Cycle

1. Analyze Documents ~ Sales Receipts, Expenses, etc.
2. Record Transactions in a Journal
3. Post or transfer journal entries to the general ledger
4. Take a trial Balance (this is an internal accounting report that lists the ending balances of all general ledger accounts at a specific point in time)
5. Prepare Financial Statements (Balance Sheet, Income Statement, Cash Flow Statement)
6. Review and analyze Financial Statements. Ratio analysis is used to determine if the golf club is meeting their financial goals.

*By reviewing financial statements often, managers can determine if there are favourable or unfavourable results within a given period of time. Waiting to review your financial statements until the end of the season is too late to identify and fix the problems!

Financial Accounting Information Users

The users of managerial accounting information are pretty easy to identify—basically, they're a club's managers. We need to look a little more closely, however, at the users of financial accounting information, and we also need to know a little more about what they do with the information that accountants provide them. Publicly traded companies will provide their financial accounting information to a wider set of stakeholders, including shareholders, potential investors, etc., than a privately held company, which will generate a single set of financial statements according to the International Financial Reporting Standards. Publicly traded companies will also provide their financial accounting information to the general public in order to showcase to potential investors the company's performance. Therefore, Publicly Traded companies will typically generate two sets of financial statements, one set of detailed statements in accordance with Canadian International Financial Reporting Standards (IFRS) and another set of simplified financial statements that can be more easily consumed by the general public. For example, ClubLink trades under the ticker symbol "TWC" on the Toronto Stock Exchange (TSX) as TWC Enterprises Limited. TWC is the parent company that owns and operates ClubLink, Canada's largest owner and operator of golf courses.



"The Role of Financial Accounting"

Golf Club "Controller"

A **Controller** at a golf course is the senior accounting professional responsible for managing the club's overall financial health and reporting directly to the General Manager, Owner, or Board of Directors. They oversee daily accounting operations, including payroll, accounts payable/receivable, budgeting, and financial reporting for golf operations, memberships, and events.

Core Responsibilities include;

- Financial Reporting & Analysis: Preparing monthly, quarterly, and annual financial statements, providing, and ensuring compliance with accounting standards.
- Budgeting & Forecasting: Partnering with department heads to manage operational and capital budgets, forecasting revenue from green fees and membership sales.
- Internal Controls: Developing and monitoring financial policies to protect club assets and managing cash flow.
- Staff Management: Leading the accounting or administrative department, including Payroll and Accounts Administrators.
- Audit & Tax Compliance: Leading annual audits and ensuring compliance with tax regulations, such as those from the Canada Revenue Agency.

Key Qualifications: Strong experience in accounting, usually requiring a CPA designation or equivalent. Proficiency in accounting software and financial management systems. Excellent communication skills to present financial data to the Board and General Manager (The Royal Ottawa Golf Club, 2024).

Career Alert: If you have a love for golf and a propensity for numbers and financial data, this could be a career for you!

Owners, Managers & Members

In summarizing the outcomes of a golf company's financial activities over a specified period of time, financial statements are, in effect, report cards for owners and managers. They show, for example, whether the company made a profit or not and furnish other information about the firm's financial condition. They also provide some information that managers and owners can use in order to take corrective action, though reports produced by management accountants offer a much greater level of depth.

Investors and Creditors

Investors and creditors furnish the money that a company needs to operate, and not surprisingly, they want to know how that business is performing. Because they know that it's impossible to make smart investment and loan decisions without accurate reports on an organization's financial health, they study financial statements to assess a company's performance and to make decisions about continued investment.

According to the world's most successful investor, Warren Buffett, the best way to prepare yourself to be an investor is to learn all the accounting you can. Buffett, chairman and CEO of Berkshire Hathaway, a company that invests in other companies, turned an original investment of $10,000 into a net worth of $66 billion in four decades, and he did it, in large part, by paying close attention to financial accounting reports (Forbes Magazine, 2016).

Government Agencies

Businesses are required to furnish financial information to a number of government agencies. Publicly-owned companies, for example—the ones whose shares are traded on a stock exchange—must provide annual financial reports to their respective provincial Securities Commission. For example, companies located in Ontario would provide financial reports to the Ontario Securities Commission (OSC), a federal agency that regulates stock trades and which is charged with ensuring that companies tell the truth with respect to their financial positions. Companies must also provide financial information to the Canadian Revenue Agency (CRA).

Other Users

A number of other external users have an interest in a company's financial statements. Suppliers, for example, need to know if the company to which they sell their goods is having trouble paying its bills or may even be at risk of going under. Employees and labour unions are interested because salaries and other forms of compensation are dependent on an employer's performance.

The previous figures illustrate the main users of management and financial accounting and the types of information produced by accountants in the two areas. In the next chapter, we'll learn how to prepare a set of financial statements and how to interpret them. We'll also discuss issues of ethics in the accounting community and career opportunities in the accounting profession.

Key Terms

Accounting is the language of business as it communicates so much of the information that owners, managers, and investors need to evaluate a company's financial performance.

Management accounting, also known as *managerial accounting,* plays a key role in helping managers carry out their responsibilities.

Financial accounting is responsible for preparing the organization's financial statements—including the income statement, the statement of owner's equity, the balance sheet, and the statement of cash flows.

Key Takeaways

1. Accounting is the process of measuring and summarizing business activities, interpreting financial information, and communicating the results to management and other decision makers.
2. Managerial accounting focuses on information produced for internal users, while financial accounting focuses on external reporting.

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Chapter 2: Understanding Financial Statements

Learning Objectives

By the end of this section, you should be able to:

- Explain the function of the income statement.
- Calculate revenue, expenses and net profit.
- Explain the function of the balance sheet.
- Calculate assets, liabilities, and shareholders' equity.
- Explain the function of the cash flow statement.
- Calculate a breakeven point given the necessary information.

Understanding Financial Statements

We hope that, so far, at least one thing is clear: If you're in the golf and club business, you need to understand financial statements. The law no longer allows high-ranking executives to plead ignorance or fall back on delegation of authority when it comes to responsibility for a firm's financial reporting. In a business environment tainted by episodes of fraudulent financial reporting and other corporate misdeeds, top managers are now being held responsible for the financial statements issued by the people who report to them. Top managers need to know how well the company is performing. Financial information helps managers identify signs of impending trouble before it is too late.

The Function of Financial Statements

- **Income Statement** = Shows sales, expenses, and whether or not a profit was made.
- **Balance Sheet** = Shows assets and liabilities, the amount invested in the business.
- **Statement of Cash Flows** = Show how much cash is coming in and going out.

Since this book is for an introductory course, attention is on the income statement, balance sheet, and cash flow statement only, even though other financial statements are mentioned.

“Bob’s Re-Gripping”

You decide that you want to start a home-based re-gripping business. You have gained some knowledge on how to re-grip golf clubs, and think you can do a good job soliciting customers.

One of the basic steps is understanding the material costs and how much to sell your service.

“Golf Grips” by Dan Perry, CC BY 2.0

The Income Statement

Let’s say that during your first month, you sell one hundred re-grips. Not bad, you say to yourself, but did I make a profit? To find out, you prepare an income statement showing revenues, or sales, and expenses—the costs of doing business. You divide your expenses into two categories:

- Cost of goods sold: the total cost of the goods that you’ve sold
- Operating expenses: the costs of operating your business, except for the costs of things that you’ve sold.

Now you need to do some subtracting:

- The difference between sales and cost of goods sold is your gross profit, also known as gross margin.
- The difference between gross profit and operating expenses is your net income or profit, which is the proverbial “bottom line.” Note, we’ve assumed you’re making money, but businesses can also have a net loss.

Below is your income statement for the first month. (Remember that we've made things simpler by handling everything in cash.)

Bob's Re-Gripping **Income Statement** **Month Ended April 30, 2026**		
Sales (100 x $10.00)		$1,000
Less cost of goods sold (100 x $6)		$600
Gross profit (100x ($10 – $6))		$400
Less operating expenses		
Salaries (paying yourself)	$240	
Advertising	$40	
Rental Equipment	$20	
	$300	
Net income (Profit) ($400-$300)		$100

Did You Make Any Money?

What does your income statement tell you? It has provided you with four pieces of valuable information:

1. You sold 100 units at $10 each, bringing in revenues or sales of $1,000.
2. Each unit (grip) that you sold cost you $6. So your cost of goods sold is $600 (100 units × $6 per unit).
3. Your gross profit—the amount left after subtracting cost of goods sold from sales—is $400 (100 units × $4 each).
4. After subtracting operating expenses of $300 – the costs of doing business other than the cost of products sold—you generated a positive net income or profit of $100. Because this is a small business, you can either keep this money as income or reinvest it in equipment for the business

The Balance Sheet

A balance sheet reports the following information:

- **Assets**: the resources from which it expects to gain some future benefit
- **Liabilities**: the debts that it owes to outside individuals or organizations
- **Owner's equity:** the investment in the business

Whereas your income statement tells you how much income you earned over some period of time, your **balance sheet** tells you what you have at a specific point in time.

Companies prepare financial statements on at least a twelve-month basis—that is, for a fiscal year which ends on December 31 or some other logical date, such as June 30 or September 30. Fiscal years can vary because companies generally pick a fiscal-year end date that coincides with the end of a peak selling period; thus, a fish processor might end its fiscal year in October, when the fish supply has dwindled. Most companies also produce financial statements on a quarterly or monthly basis. For Bob's Re-Gripping, you'll want to prepare them monthly to stay on top of how your new business is doing. Let's prepare a balance sheet at the start and end of your first month in business.

The Accounting Equation

To prepare a balance sheet, one must first understand the fundamental accounting equation:

Assets = Liabilities + Owner's/Member Equity

This simple but important equation highlights the fact that a company's assets came from somewhere: either from investments made by the owners (owners' equity) or from loans (liabilities). This means that the asset section of the balance sheet, on the one hand, and the liability and owner's equity section, on the other, must be equal, or balance. Thus, the term balance sheet.

Let’s prepare the two balance sheets we mentioned: one for the first day you started and one for the end of your first month of business. We’ll assume that when you started the business, you borrowed $400 from your parents and put in $200 of your own money. If you look at your first balance sheet below, you’ll see that your business has $600 in cash (your assets): Of this total, you borrowed $400 (your liabilities) and invested $200 of your own money (your owner’s equity). So far, so good: your assets section balances with your liabilities and owner’s equity section as follows:

Bob’s Re-Gripping Balance Sheet As of April 1, 2026	
Assets	
Cash	$600
Liabilities and Owner’s Equity	
Liabilities	$400
Owner’s Equity	$200
Total Liabilities and Owner’s Equity	$600

Now let’s see how things have changed by the end of the month. Recall that Bob’s Re-Gripping earned $100 during the month of September and that you decided to leave these earnings in the business. This $100 profit increases two items on your balance sheet: the assets of the company (its cash) and your investment in it (its owner’s equity). Below shows what your balance sheet will look like on April 30. You now have $700 in cash: $400 that you borrowed plus $300 that you’ve invested in the business (your original $200 investment plus the $100 profit from the first month of operations, which you’ve kept in the business).

Bob's Re-Gripping Balance Sheet As of April 30, 2026	
Assets	
Cash (original $600 plus $100 earned)	$700
Liabilities and Owner's Equity	
Liabilities	$400
Owner's Equity ($200 invested by owner plus $100 profits retained)	$300
Total Liabilities and Owner's Equity	$700

Breakeven Analysis

Let's take a short detour to see how this information might be put to use. As you look at your first financial statements, you might ask yourself: is there some way to figure out the level of sales you need to avoid losing money—to "break even"? This can be done using breakeven analysis. To break even (have no profit or loss), your total sales revenue must exactly equal all your expenses (both variable and fixed). Variable costs depend on the quantity produced and sold. Fixed costs don't change as the quantity sold changes; for example, you'll pay for your advertising whether you sell Grips or not. The balance between revenue and expenses will occur when gross profit equals all other (fixed) costs. To determine the level of sales at which this will occur, you need to do the following (using data from the previous example):

1. Determine your total fixed costs: **Fixed costs = $240 salaries + $40 advertising + $20 renal equipment = $300**
2. Identify your variable costs on a per-unit basis: **Variable cost per unit = $6**
3. Determine your contribution margin per unit: **Selling price per unit – variable cost per unit: Contribution margin = $10 selling price – $6 variable cost per unit = $4**
4. Calculate your breakeven point in units: fixed costs: **Contribution margin per unit: Breakeven in units = $300 fixed costs ÷ $4 contribution margin per unit = 75 units/grips**

Your calculation means that if you sell 75 units/grips, you'll end up with zero profit (or loss) and will exactly break even. To test your calculation, you can prepare a what-if income statement for 75 units in sales (your breakeven number). The resulting statement is shown in the table below.

Of course, you want to do better than just break even, so you could modify this analysis to a targeted level of profit by adding that amount to your fixed costs and repeating the calculation. Breakeven analysis is rather handy. It enables you to determine the level of sales that you must reach to avoid losing money and the level of sales that you have to reach to earn a certain profit. Such information will be vital to planning your business.

Bob's Re-Gripping Income Statement Month Ended April 30, 2026 (at breakeven level of sales = 75 units)		
Sales (75 x $10.00)		$750
Less cost of goods sold (75 x $6)		$450
Gross profit ($75 x ($10 – $6))		$300
Less operating expenses		
Salaries	$240	
Advertising	$40	
Rental Equipment	$20	
	$300	
Net income (Profit) ($300 – $300)		

The Cash Flow Statement

The **Cash Flow Statement** provides valuable information about a company's expenses and receipts and allows insights into its future income needs in order to be able to meet its future obligations (expenses and receipts). The cash flow statement reports cash inflows and outflows, and it will identify the amount of cash the company currently holds, which is also reported in the balance sheet.

Typically, the cash flow statement is reported on a month-to-month basis; however, a statement of cash flow

will consolidate month-to-month cash flow to meet the requirements of the International Financial Reporting Standards.

A statement of cash flow will report cash in three distinct areas of business:

- Cash from Operations
- Cash from Investing
- Cash from Financing

Now let's prepare the statement of cash flow for Bob's Re-Gripping for the one-month period ending April 30, 2026. Bob's Re-Gripping would have incurred cash from Operations in the form of Net Income incurred after deducting the month's expenses from the month's revenues, and would have also incurred cash from Financing from the initial $400 loan taken out to start the business and the additional $200 of personal income. As Bob's Re-Gripping did not invest in new equipment, machinery or other assets for the business or use prior cash flows and/or retained earnings to earn further investment income, Bob's Re-Gripping would not report any cash from investing activities.

Bob's Re-Gripping Statement of Cash Flow Month Ended April 30, 2026		
Beginning Cash		$0
Operating Activities		$100
Net Income from Operations	$100	
Investing Activities		$0
Financing Activities		$600
Increase in Short-Term Debt	$400	
Increase in Retained Earnings	$200	
Ending Cash Balance (Net Change)		$700

Financial Statement Analysis

Now that you know a bit about financial statements, it is important that owners, managers, investors, and creditors assess a business' performance and financial strength. You can gain a wealth of information from financial statements, but the key is to understand a few basic principles for "unlocking" it. Ratio Analysis is used to help interpret the data to see how your business is performing. Some of the most common ratios measure profitability, liquidity, debt, effectiveness and efficiency. This will be explored in further detail in your Accounting class.

Key Terms

The gross margin is the difference between sales and the cost of goods sold, which is your gross profit.

The income statement provides information about the sales, expenses, and whether or not a profit was made.

The balance sheet shows assets and liabilities, the amount invested in the business.

Statement of Cash Flows shows how much cash is coming in and going out.

Assets are the resources from which it expects to gain some future benefit.

Liabilities are the debts that it owes to outside individuals or organizations.

Owner's equity is the investment in the business.

Key Takeaways

1. The income statement captures sales and expenses over a period of time and shows how much a firm made or lost in that period.
2. The balance sheet reflects the financial position of a firm at a given point in time, including its assets, liabilities, and owner's equity. It is based on the following equation: assets – liabilities = owner's equity.
3. Breakeven analysis is a technique used to determine the level of sales needed to break even—to operate at a sales level at which you have neither profit nor loss.

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Chapter 3: Analyzing Financial Statements

Learning Objectives

By the end of this section, you should be able to:

- Identify key trends in a club's financial statements.
- Recognize increases, decreases, anomalies, and rebounds in financial data.
- Explain how revenue and expense changes may affect overall performance.
- Compare financial statement categories to understand relationships between numbers.
- Use financial statement analysis to support planning and decision-making.

We are going to examine the income statement of a golf course and point out what to look for and be mindful of as you review your year-end statements. The goal is to learn and identify some of the intricacies of reviewing your financial statements – how do the numbers speak to you? What went well? What can you do differently? What innovative ideas can you take to increase revenue? From the untrained eye, one may look at this golf course's income statement and see that revenues and profits are up, so clearly there's nothing else to see here. But in truth, there are disturbing trends evident in these numbers. If they can be spotted, researched, and an action plan for them created, they can be mitigated and turned around for the positive.

In this example, we're going to pick apart this financial spreadsheet and showcase the trends we are noticing, and highlight what next steps should be taken going into the next golf season to help ensure negative trends end and positive ones continue.

Sample Golf Course Financial Statement, 2023-2025

Revenue		**2025**		**2024**		**2023**
Green Fees	$	1,140,000	$	1,280,000	$	928,000
Memberships – Adults	$	156,000	$	168,000	$	173,000
Memberships – Couples	$	31,000	$	20,000	$	13,200
Memberships – Seniors	$	74,000	$	72,000	$	68,000
Memberships – Juniors	$	22,000	$	32,000	$	38,000
Tournaments	$	220,000	$	248,000	$	365,000
Dining Room	$	400,000	$	240,000	$	280,000
Snack Shack	$	150,000	$	125,000	$	132,000
Lounge	$	268,000	$	210,000	$	196,000
Pro Shop	$	505,000	$	485,000	$	482,000
Rentals	$	123,000	$	99,000	$	98,000
Lessons	$	22,000	$	33,000	$	37,000
Sundry	$	33,000	$	32,000	$	33,000
Total Revenue	$	**3,146,016**	$	**3,046,015**	$	**2,845,214**
Cost of Sales	$	2,450,000	$	2,430,000	$	2,230,000
Gross Margin	$	696,016	$	616,015	$	615,214
Expenses	$	**2025**	$	**2024**	$	**2023**
Advertising – Green Fees	$	21,000	$	28,000	$	32,000
Advertising – Memberships	$	10,000	$	10,000	$	9,000
Advertising – Food & Beverage	$	8,000	$	4,000	$	8,000
Accounting & Legal	$	32,000	$	31,000	$	29,000
Bad Debts	$	–	$	900	$	450
Bank Charges & Interest	$	4,200	$	3,500	$	2,900
Car Allowances	$	5,000	$	6,000	$	13,000
Dues, Fees & Travel	$	5,200	$	3,200	$	4,600
Interest & Long-Term Debt	$	98,000	$	87,000	$	82,000
Office Salaries & Benefits	$	164,000	$	132,000	$	128,000
Office Supplies	$	21,000	$	18,900	$	39,000
Promotion & Other	$	1,000	$	1,200	$	1,000
Telephone	$	6,000	$	5,500	$	5,200
Taxes & Insurance	$	28,000	$	27,000	$	25,500
Total Expenses	$	403,400	$	358,200	$	379,650
Profit	$	**292,616**	$	**257,815**	$	**235,564**

What to Look For

Increasing Trends

Increasing year-over-year revenue is a good sign for any business, but rising expenses can be a problem. There are times you would expect expenses to increase as revenue grows, but this is not always the case. In this financial statement, we are seeing great increases in green fees, pro-shop and rental sales and finally food and beverage sales. This is awesome to see, but why is it happening? Were the weather or course conditions particularly good this year? Did you have a very successful offer this season? What clubs did you carry in the shop this season? What about clothing lines? Did your members buy more pro-shop products or was it mostly public, why? What made the huge difference in food & beverage sales this year over last? By asking these questions, you can be sure of the reasons behind the trends you're seeing. Was it a fluke? Or were there actually changes made that led to this extra revenue? By digging just a little deeper and asking some questions, you can be sure you're making a solid plan for the following season.

Decreasing Trends

Decreasing revenue numbers are a troubling sign or an opportunity for improvement, depending on how you deal with them. In this example, we can see the membership sales as a whole are steadily dropping, despite couples and senior members showing increases. Both adult and junior memberships have shown steady drops year-over-year for the past three years. This is a problem that requires immediate attention. Tournament and lesson revenues have also been plummeting. From 2023 to 2025, tournament revenue dropped nearly 40%, and lessons are in the same boat with a drop of around 40%. These indicators show there's an issue here you should work to resolve. This is the time to review your competitor's offerings in this area and talk to your members/tournament organizers to determine the root cause of the drop.

Anomalies

Anomalies in financial terms are numbers that stand out or trends that stand out. In this chart, there are a few odd things happening that either **a)** don't make logical sense, or **b)** are much higher or lower than one would expect. Let's look at some of the logical oddities first. In this chart, we've seen increasing green fee revenue despite advertising expenses for green fees dropping steadily. This is odd; usually, the more you advertise, the more sales you'll generate. This is time to ask how your advertising in this space is performing? How did people hear about you, and who decided to come play at your course? The next oddity we spotted is the fact that pro-shop and food & beverage revenues went up significantly, despite seeing drops in memberships and tournaments. Why are members and tournament players not buying in the pro-shop and buying food & beverage? This is a question worth asking, because 'best guesses' get you nowhere. Another anomaly to focus on is increased expenses or revenues that are out of the norm. In this financial statement, there are a few numbers that stand out. In 2025, the $400,000 in dining room sales is interesting, and so is the office salaries increase of $164,000 – could these be related? Was a new chef hired, perhaps? There are a few other odd numbers on this chart, most of which were in previous years, where your data may be limited. Still, though, when looking at the big picture like this, you can get a much better sense of whether numbers are out of the ordinary.

Percent Increases

Another less noticeable anomaly this year is the percent increase in gross margin over the previous year. There was a 13% increase year-over-year in margin (revenue minus cost of sales) – that's awesome, but why? What

changed? Were we more profitable? How can we continue this trend? Another example in this chart is when you look at total food and beverage sales. When looking at 2025 compared to 2024, we see a 42% increase in total sales from the dining room, snack shack and lounge. That's a huge increase, but what drove it? By identifying these percent increases, you can gain additional perspective into what is really adding to your bottom line.

Percent Decreases

When it comes to revenue sources, decreases are generally a very bad sign. For this financial statement, we see revenue decreases in adult and junior memberships, as well as tournaments and lessons. Even though at the end of the day our total sales are up, these four profit sources are showing a serious decline. If it wasn't for our strong food and beverage sales, it's very likely this year would have seen an overall decline in revenue. This is why looking more closely at financial statements will help you better understand your performance for the year. It is your job to come up with a strategy to attempt to reverse these troubling trends. How can you get more memberships on the books? What about the tournament and lessons? With a little extra effort, you may be able to turn these numbers around and make 2026 an incredible year, combined with your fantastic food and beverage sales and course revenues. A final point here, when it comes to the % decrease in expenses, this can be good and bad. If your advertising spend is decreasing for revenue sources that are also decreasing, this is something you should fix. If your staffing costs are decreasing, and so are food & beverage sales, this may be because you're understaffed and providing a lower quality of service. Analyzing your financial statements and looking for correlations between the numbers is often a great way to identify areas for improvement, which also leads us to our next point.

Relativity

Many of your revenue sources impact your other revenues and expenses. Try not to look at each revenue and expense individually, but also in comparison to others. In 2025, we saw a large decrease in tournament revenue, but a big boost in green fees. Was this boost simply because the course was more available for public play, or was there another reason? Did the increase in large salary expenses this year have an effect on sales elsewhere? Did the added cost of higher-qualified staff impact the bottom line in a positive way? How did your advertising expenses relate to the amount of sales generated from each item you've advertised? Does your advertising budget align with your expected revenue per source? These are just a few examples of questions you can ask yourself when you take into account the whole picture of your expenses.

Stability

Stability in expenses is often a good sign (especially with increasing profit), but when you look at revenue sources, this could be a sign that you're plateauing and headed for a decline. For these financial statements, there are two items in revenues that are showing stability, and these are memberships as a whole and sundry revenue sources. Sundry in this instance could be revenue like club cleaning, advertising sales, interest from investments or other revenue sources. In our opinion, only the memberships are something to worry about in terms of trends. I would want to keep a close eye on membership sales going into the next season to ensure this slight upward trend continues/improves. In terms of expenses, we see a few that are stable – like membership, advertising, dues, fees & travel and promotions expenses. This is nice to see, but only when the revenue sources directly tied to them are not suffering because of it. We would suggest, in this instance, more money needs to be put into membership advertising and perhaps in different ways than before, to offset the decline we've been seeing in sales in specific membership types.

Rebounds

If you're regularly on top of your business financials, it's pretty easy to spot trends and implement changes to improve them. By looking for rebounds year over year in specific revenue and expense categories, you're given valuable information on whether the changes you implemented had an effect on the bottom line. In this example, there are many rebounding items that should be investigated further, and the specific action items you took that could have caused the change should be identified. For example, the large increase in green fee sales in 2024, the huge increase in dining room sales in 2025, and finally, the large increase in office salaries in 2025.

By identifying rebounds and the steps you may have taken that caused them, you can get a better sense of the impact your 'fixes' have had. We hope that helps you understand some of the intricacies of financial statements and how they tell an in-depth story about the health of your golf course.

Key Terms

Anomalies in financial terms are numbers that stand out or trends that stand out.

Key Takeaways

1. Financial statements tell a deeper story than whether total revenue or profit increased.
2. Clubs should look for increasing and decreasing trends across revenue and expense categories.
3. Anomalies, percentage changes, and unusual patterns should be investigated before making decisions.
4. Revenue and expenses should be compared rather than reviewed in isolation.
5. Financial statement analysis can help clubs identify concerns, build action plans, and guide future strategy.

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Chapter 4: Ratio Analysis "Interpreting the Data"

Learning Objectives

By the end of this section, you should be able to:

- Explain the purpose of ratio analysis in evaluating financial performance.
- Identify the main categories of financial ratios: liquidity, solvency, efficiency, and profitability.
- Calculate common financial ratios using accounting information.
- Interpret ratio results to assess a business's financial health.
- Compare ratio results across time, industry standards, or other businesses.
- Recognize the limitations of ratio analysis when making financial decisions

Overview of Financial Ratios

Financial ratios help both internal and external users of information make informed decisions about a business. A stakeholder could be looking to invest, become a supplier, make a loan, or alter internal operations, among other things, based in part on the outcomes of ratio analysis. The information resulting from ratio analysis can be used to examine trends in performance, establish benchmarks for success, set budget expectations, and compare industry competitors. There are four main categories of ratios: **liquidity, solvency, efficiency, and profitability**. Note that while there are more ideal outcomes for some ratios, the industry in which the business operates can change the influence each of these ratios has over stakeholder decisions. You will learn more about ratios, industry standards, and ratio interpretation if you go on to study accounting or finance in more detail.

Liquidity Ratios

Liquidity ratios show the ability of the business to pay short-term obligations if they came due immediately, with assets that can be quickly converted to cash. This is done by comparing current assets to current liabilities. Lenders, for example, may consider the outcomes of liquidity ratios when deciding whether to extend a loan to a company. A business would like to be liquid enough to manage any currently due obligations, but not too liquid, so that it may not be effectively investing in growth opportunities. Three common liquidity measurements are working capital, current ratio, and quick ratio.

Working Capital

Working capital measures the financial health of an organization in the short term by finding the difference between current assets and current liabilities. A business will need enough current assets to cover current liabilities; otherwise, it may not be able to continue operations in the future. Before a lender extends credit, they will review the working capital of the business to see if the business can meet its obligations. A larger difference signals that a business can cover its short-term debts, and a lender may be more willing to extend the loan. On the other hand, too large a difference may indicate that the business may not be correctly using its assets to grow. The formula for working capital is:

$$\textbf{Working Capital} = \textbf{Current Assets} - \textbf{Current Liabilities}$$

Using the fictitious company "ABC Golf and Country Club", working capital is computed as follows for the current year:

Working capital = 180,000 – 100,000 = $80,000

In this case, current assets were $180,000, and current liabilities were $100,000. Current assets were far greater than current liabilities for ABC Golf and Country Club, and they would easily be able to cover short-term debt.

The dollar value of the difference for working capital is limited, given the company's size and scope. It is most useful to convert this information to a ratio to determine the business's current financial health. This ratio is the current ratio.

Current Ratio

Working capital expressed as a ratio is the current ratio. The current ratio considers the amount of current assets available to cover current liabilities. The higher the current ratio, the more likely the company is to cover its short-term debt. The formula for the current ratio is:

$$\text{Current Ratio} = \left(\frac{\text{Current Assets}}{\text{Current Liabilities}}\right)$$

The current ratio in the current year for ABC Golf and Country Club:

Current ratio = (180,000 / 100,000) = **1.8**

A 1.8 ratio means the business has 180% as many current assets as current liabilities; typically, this would be plenty to cover obligations. This may be an acceptable ratio for ABC Golf and Country Club, but if it is

too high (for example, if the current ratio is 10), they may want to consider using those assets in a different way to grow the business.

Quick Ratio

The quick ratio, also known as the acid-test ratio, is similar to the current ratio except current assets are more narrowly defined as the most liquid assets, which exclude inventory and prepaid expenses. The conversion of inventory and prepaid expenses to cash can sometimes take more time than the liquidation of other current assets. A business will want to know what they have on hand and can use quickly if an immediate obligation is due. The formula for the quick ratio is:

$$\text{Quick Ratio} = \left(\frac{\text{Cash+Short-Term Investments+Accounts Receivable}}{\text{Current Liabilities}}\right)$$

The quick ratio for ABC Golf and Country Club in the current year is:

Quick ratio = (140,000 / 100,000) = **1.4**

A 1.4 ratio means the business has enough quick assets to cover current liabilities. When evaluating a business, we want to see that the quick ratio is above 1. A quick ratio below one means that the business does not have enough liquid assets to pay its debts and may be at risk of being insolvent.

Another category of financial measurement uses solvency ratios.

Solvency Ratios

Solvency implies that a business can meet its long-term obligations and will likely stay in business in the future. To stay in business, the company must generate more revenue than debt in the long term. Meeting long-term obligations includes the ability to pay any interest incurred on long-term debt. Two main solvency ratios are the debt-to-equity ratio and the times interest earned ratio.

Debt to Equity Ratio

The debt-to-equity ratio shows the relationship between debt and equity as it relates to business financing. A business can take out loans, issue shares, and retain earnings to be used in future periods to keep operations running. It is less risky and less costly to use equity sources for financing (issue

shares) as compared to debt resources (obtain a loan). This is mainly due to interest expense repayment that a loan carries as opposed to equity, which does not have this requirement. Therefore, a business wants to know how much debt and equity contribute to its financing. Ideally, a business would prefer more equity than debt financing. The formula for the debt-to-equity ratio is:

$$\text{Debt-to-Equity Ratio} = \left(\frac{\text{Total Liabilities}}{\text{Total Equity}}\right)$$

The information needed to compute the debt-to-equity ratio for ABC Golf and Country Club in the current year can be found on the balance sheet.

Debt to equity ratio = (150,000 / 100,000) = **1.5**

This means that for every $1 of equity (contributions from shareholders and past earnings of the firm), $1.50 is contributed from lenders. This could be a concern for ABC Golf and Country Club. This could be a red flag for potential investors that the business could be trending toward insolvency because they have too many obligations. ABC might want to get the ratio below 1:1 to improve its long-term business viability.

Times Interest Earned Ratio

Time interest earned measures the business's ability to pay interest expense on long-term debt incurred. This ability to pay is determined by the available earnings (profit) before interest and taxes (EBIT) are deducted. These earnings are considered the operating income. Lenders will pay attention to this ratio before extending credit. The more times a business can cover interest, the more likely a lender will extend long-term credit. The formula for times interest earned is:

$$\text{Times Interest Earned} = \left(\frac{\text{Earnings before Interest and Taxes}}{\text{Interest Expense}}\right)$$

The information needed to compute times interest earned for ABC Golf and Country Club in the current year can be found on the income statement.

Times interest earned = (43,000 / 5,400) = **7.96**

The $43,000 is the net profit before interest and tax. The 7.96 times outcome suggests that ABC Golf and Country Club can easily repay interest on an outstanding loan, and creditors would have little risk that ABC would be unable to pay. However, this idea that they could easily repay interest could change

if the business obtained loans or if interest rates changed. It could also change if the business environment changes, affecting their ability to generate revenue and the expenses they incur.

Another category of financial measurement uses efficiency ratios.

Efficiency Ratios

Efficiency shows how well a business uses and manages its assets. Areas of importance with efficiency are the management of sales, accounts receivable, and inventory. A business that is efficient typically will be able to generate revenues quickly using the assets it acquires. Let's examine four efficiency ratios: accounts receivable turnover, total asset turnover, inventory turnover, and days' sales in inventory.

Accounts Receivable Turnover

Accounts receivable turnover measures how many times in a period (usually a year) a business will collect cash from accounts receivable. A higher number of times could mean cash is collected more quickly, and that credit customers are of high quality. A higher number is usually preferable because the cash collected can be reinvested in the business at a quicker rate. A lower number of times could mean cash is collected slowly on these accounts, and customers may not be properly qualified to accept the debt. The formula for accounts receivable turnover is:

$$\text{Accounts Receivable Turnover} = \left(\frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}\right)$$

$$\text{Average Accounts Receivable} = \left(\frac{\text{Beginning Accounts Receivable}+\text{Ending Accounts Receivable}}{2}\right)$$

Many businesses do not split credit and cash sales, in which case an assumption is made that all sales are credit sales and therefore total sales or revenue would be used to compute accounts receivable turnover. Average accounts receivable is found by dividing the sum of beginning and ending accounts receivable balances found on the balance sheet. The beginning accounts receivable balance in the current year is taken from the ending accounts receivable balance in the prior year.

When computing the accounts receivable turnover for ABC Golf and Country Club, let's assume net credit sales make up $100,000 of the $120,000 of the revenue found on the income statement in the current year.

Accounts receivable turnover = (100,000/ (20,000+30,000)/2)

Accounts receivable turnover = (100,000/ 25,000) = **4**

An accounts receivable turnover of four times per year may be low for ABC Golf and Country Club. Given this outcome, they may want to consider stricter credit lending practices to make sure credit customers are of a higher quality. They may also need to be more aggressive in collecting any outstanding accounts receivable from customers and/or club members.

Days in receivables

The days in receivables ratio tells us how many days a customer's debt is outstanding before they pay. We use the Accounts Receivable Turnover ratio to calculate it.

$$\text{Days in receivables} = \left(\frac{365}{\text{Accounts receivable turnover}}\right)$$

Therefore, for ABC Golf and Country Club, we can calculate the days in receivables as follows:

Days in receivables = 365/4 = 91

This is an extremely long time to wait for customers to pay, and anything could happen to those customers during that period – for example, they could go out of business and therefore be unable to pay you. Collecting sooner is always better, and in most industries, the average period of time to give a customer credit is 30 days. This is very relevant in terms of private clubs that have "on account" privileges.

Inventory Turnover

Inventory turnover measures how many times during the year a business has sold and replaced its inventory. This can tell a business how well inventory is managed. A higher ratio is preferable; however, an extremely high turnover may mean that the company does not have enough inventory available to meet demand. A low turnover may mean the company has too much supply of inventory on hand. The formula for inventory turnover is:

Cost of goods sold (or Cost of sales) for the current year is found on the income statement/P&L. Average inventory is found by dividing the sum of beginning and ending inventory balances found on the balance sheet. The beginning inventory balance in the current year is taken from the ending inventory balance in the prior year.

ABC Golf and Country Club proshop inventory turnover is:

Inventory turnover = (60,000 / (35,000+40,000)/2)

Inventory turnover = (60,000 / 37,500) = 1.6

1.6 times is a very low turnover rate for ABC Golf and Country Club. This may mean the company is maintaining too high an inventory supply to meet a low demand from customers and members. They may want to decrease their on-hand inventory to free up more liquid assets to use in other ways.

Days' Sales in Inventory

Days' sales in inventory expresses the number of days it takes a business to turn inventory into sales. This assumes that no new purchase of inventory occurred within that time period. The fewer the number of days, the more quickly the business can sell its inventory. The higher the number of days, the longer it takes to sell its inventory. The formula for days' sales in inventory is:

$$\text{Days in inventory} = \left(\frac{365}{\text{Inventory turnover}}\right)$$

ABC Golf and Country Club proshop days' sales in inventory are:

Days' sales in inventory = 365/1.6 = 228 days

228 days is a long time to sell inventory. While industry averages dictate what an acceptable number of days to sell inventory is, in most cases, 228 days is unsustainable long-term. ABC Golf and Country Club will need to better manage its inventory and sales strategies to move inventory more quickly. This can also indicate the success of our buying strategy. For example, If the same patterned golf shirts are in stock at the end of the season, this indicates that we did buy based on the members demand for the product or we have priced the item too high and therefore need to provide a markdown to sell the product.

Total Asset Turnover

Total asset turnover measures the ability of a business to use its assets to generate revenues. A business would like to use as few assets as possible to generate the most sales or revenue. Therefore, a higher total asset turnover means the business is using its assets very efficiently to produce net sales. The formula for total asset turnover is:

$$\text{Total Asset Turnover} = (\frac{\text{Net Sales}}{\text{Average Total Assets}})$$

$$\text{Average Total Assets} = (\frac{\text{Beginning Total Assets}+\text{Ending Total Assets}}{2})$$

Average total assets are found by dividing the sum of beginning and ending total assets balances found on the balance sheet. The beginning total assets balance in the current year is taken from the ending total assets balance in the prior year.

ABC Golf and Country Club total asset turnover is:

Total asset turnover = (120,000 / (200,000+250,000)/2)

Total asset turnover = (120,000 / 225,000) = **0.53**

The outcome of 0.53 means that for every $1 of assets, $0.53 of sales revenue is generated. Over time, ABC would like to see this turnover ratio increase.

The last category of financial measurement examines profitability ratios.

Profitability Ratios

Profitability considers how well a business produces returns given its operational performance. The business needs to leverage its operations to increase profit. To assist with profit goal attainment, business revenues need to outweigh expenses. Let's consider three profitability measurements and ratios: profit margin, return on total assets, and return on equity.

Profit Margin

Profit margin represents how much of sales revenue has translated into income. This ratio shows how much of each $1 of sales is returned as profit. The larger the ratio figure (the closer it gets to 1), the more of each sales dollar is returned as profit. The portion of the sales dollar not returned as profit goes toward expenses. The formula for profit margin is:

$$\text{Profit margin} = (\frac{\text{Net profit}}{\text{Revenue or Sales}})$$

For ABC Golf and Country Club, the profit margin in the current year is:

Profit margin = 31,600 / 120,000 = 0.2633 = 26.33%

This means that for every dollar of sales, $0.26 returns as profit. If ABC thinks this is too low, the company could try to find ways to reduce expenses and increase sales.

Return on Assets (ROA)

The return on assets measures the business's ability to use its assets successfully to generate a profit. The higher the return (ratio outcome), the more profit is created from asset use. Average total assets are found by dividing the sum of beginning and ending total assets balances found on the balance sheet. The beginning total assets balance in the current year is taken from the ending total assets balance in the prior year. The formula for return on total assets is:

$$\text{Return on Total Assets} = (\frac{\text{Net Income}}{\text{Average Total Assets}})$$

$$\text{Average Total Assets} = (\frac{\text{Beginning Total Assets}+\text{Ending Total Assets}}{2})$$

ForABC Golf and Country Club , the return on assets for the current year is:

Return on assets = (31,600 / (200,000+250,000/2))

Return on assets = (31,600 / 225,000) = 0.1404 = 14.04%

Therefore, assets in total are returning $0.14 for every $1 of assets.

The higher the figure, the better the company is at using its assets to create a profit. Industry standards can dictate what an acceptable return is.

Return on Equity

Return on equity (ROE) measures the business's ability to use its invested capital (from shareholders) and retained earnings to generate income. The invested capital comes from shareholders' investments in the company's shares and its retained earnings and is leveraged to create profit. The higher the

return, the better the business is at using its investments to yield a profit. The formula for return on equity is:

$$\text{Return on equity} = (\frac{\text{Net profit}}{\text{Average total equity}})$$

$$\text{Average total equity} = (\frac{\text{Equity current year}+\text{Equity previous year}}{2})$$

Average total equity is found by dividing the sum of beginning and ending total equity balances. But how do we find these balances? The beginning total equity balance in the current year is taken from the ending total equity balance in the prior year.

For ABC Golf and Country Club, we will use the net income figure and assume no preferred dividends have been paid. The return on equity for the current year is:

Return on equity = (31,600 / (90,000 + 100,000)/2)

Return on equity = (31,600 / 95,000) = 0.3326 = 33.26%

The higher the figure, the better the business is at using the investments by shareholders and past profits to generate further profit. Industry standards can dictate what an acceptable return is.

Key Terms

Ratio analysis: A method of using financial ratios to evaluate business performance and financial health.

Liquidity: A business's ability to meet its short-term financial obligations.

Current ratio: A ratio that compares current assets to current liabilities.

Quick ratio: A ratio that measures short-term liquidity without relying on inventory.

Solvency: A business's ability to meet its long-term financial obligations.

Debt-to-equity ratio: A ratio that compares total liabilities to owners' equity.

Efficiency: How well a business uses its assets and resources to generate revenue.

Inventory turnover: A ratio that shows how often inventory is sold and replaced during a period.

Accounts receivable turnover: A ratio that measures how quickly a business collects money owed by customers.

Profitability: A business's ability to generate profit from its operations.

Gross profit margin: The percentage of sales revenue left after deducting cost of goods sold.

Net profit margin: The percentage of sales revenue remaining after all expenses are deducted.

Return on assets: A ratio that measures how effectively assets are used to generate profit.

Benchmarking: Comparing ratios to industry standards, past results, or similar businesses.

Financial health: The overall condition of a business based on its ability to pay debts, manage resources, and earn profit.

Key Takeaways

1. Ratio analysis helps users understand financial performance.
2. Ratios are grouped into liquidity, solvency, efficiency, and profitability.
3. Liquidity ratios measure short-term financial strength.
4. Solvency ratios measure long-term financial stability.
5. Efficiency and profitability ratios show how well a business uses resources to generate revenue and profit.

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Chapter 5: The Budgeting Process

Learning Objectives

By the end of this section, you should be able to:

- Explain the purpose of budgeting in club operations.
- Identify common revenue and expense categories in a golf club budget.
- Compare incremental, zero-based, and flexible budgeting approaches.
- Describe how seasonal factors affect operational budgets.
- Use capital budgeting techniques to evaluate long-term investments.

Budgeting helps businesses consider the costs of their strategies and plans (both short- and long-term). A good budgeting system will help a company reach its goals by allowing management to plan and control major categories of activity, such as revenue and expenses, and to predict and manage the cash required for these activities. Budgeting is a critical management tool in the golf course industry, helping operators plan revenues, control costs, and make informed investment decisions. Golf courses face unique challenges, seasonality, weather dependency, high fixed costs, and substantial capital investments in land and equipment. Therefore, understanding both operational budgeting and capital budgeting is essential for sustainable financial management.

All budgets are quantitative plans for the future and are constructed based on the business needs for which they are created. Depending on the complexity, some budgets can take months or even years to develop. The most common time period covered by a budget is one year, though it may range from strategic, long-term budgets to very detailed, short-term budgets. Generally, the closer the business is to the start of the budget's time period, the more detailed the budget becomes.

Operating Budget

The **operating budget** helps plan future revenue and expenses and results in a projected income statement. The operating budget has several subsidiary budgets that all begin with projected sales. The **sales budget** is the foundation for other operating budgets.
Golf Course Revenues

Golf course **revenue streams** typically include:

- Green fees
- Membership dues
- Initiation fees
- Power and Pull Cart rentals
- Club Storage

- Pro shop sales
- Food and beverage operations
- Weddings and Banquets
- Corporate Events & Tournaments
- Golf Lessons, Junior Camps and Clinics

Example: Revenue Budget

Revenue Source	Projected Annual Revenue
Green Fees	$950,000
Membership Fees	$600,000
Cart Rentals	$300,000
Pro Shop Sales	$250,000
Food & Beverage	$400,000
Tournaments & Events	$200,000
Total Revenue	**$2,700,000**

Golf Course Expenses

Expenses are often divided into:

Course Maintenance

- Grounds crew wages
- Fertilizer and chemicals
- Irrigation costs
- Equipment maintenance

Golf Operations

- Pro shop staff salaries
- Inventory purchases
- Software systems

Food and Beverage

- Staff wages
- Food and beverage inventory
- Kitchen supplies

Administrative Expenses

- Office salaries
- Marketing and advertising
- Insurance and utilities

Example: Expense Budget

Expense Category	Annual Cost
Course Maintenance	$850,000
Golf Operations	$350,000
Food & Beverage	$300,000
Administration	$250,000
Utilities & Insurance	$200,000
Total Expenses	**$1,950,000**

Operating Income

Operating income is calculated as:

$$\text{Operating Income} = \text{Total Revenue} - \text{Total Expenses}$$

Example: Operating Income

Total Revenue = $2,700,000
Total Expenses = $1,950,000
Operating Income = $750,000

Seasonal Impacts

Golf courses must adjust operational budgets for seasonal demand, weather-related disruptions, and staffing fluctuations. The National Golf Course Owners Association Canada's Pulse Report (2023) describes Canadian golf course operations as seasonal and tracks year-end performance and outlook indicators for operators, making it useful for supporting peak/off-season budgeting. Weather can affect golf course revenue and maintenance budgets, since unusually warm or poor weather can shift when maintenance work is needed and affect operating costs (United States Golf Association, 2012). Golf facilities experience demand fluctuations tied to weather patterns and peak playing seasons, necessitating seasonal workforce planning (Golfmanager, 2025).

Example: Seasonal Impacts

A course in Ontario may generate 80% of its revenue between May and September. Budgeting must account for lower winter revenues while still covering fixed costs (e.g., insurance, debt payments).

Incremental vs. Zero-Based Budgeting

Incremental budgeting uses previous budgets and actual performance as a baseline from which to build forward-looking budgets. Each line item, meaning each planned expense, is adjusted to reflect expected competitive activity, economic factors, consumer trends, and other applicable issues that potentially affect performance. Thus, incremental budgeting takes into consideration the changing competitive landscape and the organization's needs. In this approach, decision-makers make adjustments to year-over-year (YOY) budgets, meaning compared to the last year, to reflect anticipated changes to the business environment.

Zero-based budgeting assumes that the budget is built from "zero." That is, nothing is carried over or assumed from previous periods. Often, there is a temptation within organizations to justify activity with "that's what we've always done" or "last year, we did this." Those justifications imply that past activity, and the associated spend, will be repeated. However, within a zero-based budget approach, past activity and spend should NOT be assumed. The budget is not based on previous budgets or past performance. Instead, each expense needs to be justified before it will be added to the official budget. The benefit of a zero-based budget is that it forces decision-makers to scrutinize their assumptions about what has and will make their plan effective, prioritizing specific activities.

Flexible Budgeting

Flexible budgeting is the process of adjusting an original budget to reflect changes in sales volume or activity. It is more useful than a static budget, which remains fixed regardless of production level. A flexible budget is created at the end of the accounting period, whereas a static budget is created before the fiscal year begins.

Example: Flexible Budgeting

Budgeted rounds = $30,000
Actual rounds = $25,000

Variable costs (e.g., carts, maintenance supplies) should decrease accordingly, allowing managers to evaluate performance more accurately.

Capital Budgeting

Capital budgeting is a critical activity at any business. It helps senior management establish a long-term strategic direction for the company by evaluating different growth opportunities such as introducing new products, expanding into new markets or acquiring competing firms. At lower levels of the firm, it is invaluable for assessing product improvement ideas, cost-saving plans, and proposed capacity additions. Maintaining a constant flow of new investments is essential to a company's long-term profitability and survival. Golf courses are highly capital-intensive, making these decisions critical.

Common Capital Investments in Golf Courses

- Golf carts (fleet replacement)
- Irrigation systems
- Clubhouse renovations
- Maintenance equipment (mowers, tractors)
- Driving range upgrades
- Course redesign or expansion

Another reason for Capital Expenditures:

- *Meet government requirements*. For example, meeting the health code regulations in the kitchen.
- *Reduce certain operational costs.* For example, labour-saving machinery (e.g., a dishwasher).
- *Increase sales.* For example, adding a banquet room for more functions.
- *Replace an existing fixed asset*. For example, replacing old equipment. ie. Fire suppression system.

Capital Budgeting Techniques

There are several methods companies can use to evaluate capital projects; this section discusses two: the payback period and the accounting rate of return.

The payback period is the time required to recover a project's initial investment from its future cash flows. Companies may decide to accept only projects with a payback period below a specified cut-off point, such as 5 years.

$$\text{Payback Period} = \frac{\text{Project Cost}}{\text{Annual Cash Flow}}$$

Example: Payback Period

Example 1: New Cart Fleet

- Cost: $600,000
- Annual additional revenue: $150,000

Payback Period = $600,000 / $150,000 = 4

The investment is recovered in 4 years.

Example 2: Renovation

The manager at ABC Golf Club is considering a $80,000 renovation that would produce an annual cash flow of $25,000.

Payback Period = $80,000 / $25,000 = 3.2

The investment is recovered in 3.2 years.

Accounting rate of return (ARR) is a project's average net income divided by the investment. This is the only method that uses accounting estimates instead of cash flow estimates to determine a project's rate of return. This approach is popular among managers because it shows how a proposed project will affect a company's rate of return on assets over its life.

$$\text{Accounting Rate of Return (ARR)} = \frac{\text{Average Net Income}}{\text{Initial Investment}}$$

Exercise

The High Hills Resort & GC is considering the purchase of land and the construction of an 18-Hole golf course with a clubhouse. The total cost is estimated to be $1,800,000. The estimated annual cash flow on the project is $160,000, while the average annual net income is $130,000

1. Calculate the payback on the project.
2. Calculate ARR on the project.

Discuss the viability of this project

Solution

- Estimated Cost of Project – $1,800,000
- Annual estimated cash flow – $160,000

Average Annual Net Income – $130,000Payback Period = $1,800,000 / $160,000 = 11.25 years
ARR = $130,000 / $1,800,000 = 7.22%

Based on the outcome of this capital project, do you feel this is a viable investment?

Key Terms

Budget: A quantitative plan for future business activity.
Operating Budget: A plan for projected revenue and expenses.
Sales Budget: The starting point for many operating budgets.
Revenue Streams Sources of income, such as green fees, memberships, pro shop sales, food and beverage, and events.
Operating Income: Total revenue minus total expenses.
Incremental Budgeting: Budgeting based on prior budgets or past performance, adjusted for expected changes.
Zero-Based Budgeting: Budgeting from zero, where each expense must be justified.
Flexible Budgeting: Adjusting a budget based on actual activity or sales volume.
Static Budget: A fixed budget that does not change with activity levels.
Capital Budgeting: Evaluating long-term investments such as equipment, renovations, or expansion.
Payback Period: The time required to recover the cost of an investment.
Annual Cash Flow: The expected yearly cash generated by a project.
Accounting rate of return (ARR) is a project's average net income divided by the investment.

Key Takeaways

1. Budgeting helps golf clubs plan revenue, control costs, and manage cash flow.
2. Operating budgets are built around projected sales, revenues, expenses, and operating income.
3. Golf course budgets must account for seasonality, weather, staffing changes, and fixed costs.
4. Incremental, zero-based, flexible, and static budgets offer different ways to plan and evaluate performance.
5. Capital budgeting helps clubs evaluate major long-term investments, often using tools such as the payback period.

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Chapter 6: Internal Controls

Learning Objectives

By the end of this section, you should be able to:

- Explain the purpose of internal controls.
- Identify key internal control features.
- Describe common control risks in golf operations.
- Apply controls to revenue, inventory, payroll, and assets.
- Recommend controls to reduce errors, theft, and fraud.

Internal controls are the mechanisms, policies, and procedures an organization puts in place to safeguard its assets, ensure the integrity of its financial information, and facilitate compliance with applicable laws and regulations. These controls are fundamental to any organization's operational efficiency, financial reporting reliability, and compliance posture.

Within the golf course industry, whether public, private, resort, or municipal, internal controls are particularly critical due to:

- Multiple revenue streams (green fees, memberships, pro shop sales, food & beverage, tournaments).
- High cash handling volume.
- Seasonality and part-time staff.
- Inventory exposure.
- Complex scheduling and reservations systems.

Adequate internal controls help organizations mitigate the risk of asset loss, ensure the reliability of financial statements for decision-making purposes, and comply with laws and regulations, thereby avoiding fines and penalties. Moreover, a robust internal control system can enhance operational efficiency by improving the quality of information used for decision-making and optimizing risk management practices. Ultimately, internal controls are not merely regulatory requirements or administrative tasks; they are essential components of an organization's governance, risk management, and operational practices. They enable organizations to achieve their objectives, protect their stakeholders' interests, and maintain their reputation in the marketplace.

Characteristics of Internal Controls

Segregation of duties. Requires that someone other than the employee responsible for safeguarding an asset must maintain the accounting records for that asset. Also, employees share responsibility for related transactions, so that one employee's work serves as a check on another's.

- Separate staff handling.
- Cash collection (pro shop cashier).
- Recording revenue (accounting/bookkeeping).
- Bank deposits (manager or controller).

In food & beverage:

- Servers collect payment.
- Supervisors close POS batches.
- Voided transactions require supervisor approval
- Accounting reconciles reports.

Documentation & Record Keeping. Companies should maintain complete and accurate accounting records. One or more business documents support most accounting transactions. These source documents are an integral part of the internal control structure. For optimal control, source documents should be serially numbered.

The best way to ensure such accounting records is to hire and train competent, honest individuals. Periodically, supervisors evaluate an employee's performance to make sure the employee is following company policies. Inaccurate or inadequate accounting records invite theft by dishonest employees because theft can be concealed more easily.

- Tee sheet records for daily play.
- POS system receipts for all sales.
- Inventory purchase invoices.
- Payroll records for staff hours.

Physical Security Measures. Implementing locks, security systems, and surveillance to protect assets. These measures address the risk of theft, vandalism, or unauthorized access to physical assets. Assets in golf that need to be safeguarded include mowers, carts, and tools.

- Lockboxes and safes for cash.
- Restricted access to pro shop inventory.
- Secured beverage carts and alcohol storage.
- GPS tracking or lock systems for golf carts.

Approval Authorities. Requiring managerial approval for transactions above a certain threshold. This control mitigates the risk of fraudulent transactions or errors in financial reporting by ensuring oversight.

- Discount approvals on green fees or merchandise.
- Refunds issued only by supervisors.
- Vendor purchases are approved through purchase orders
- Membership discounts authorized by management.
- Voided transactions require supervisor approval

Golf Industry Considerations:

- Dynamic pricing (peak vs. off-peak tee times) requires controlled overrides.
- Tournament bookings require formal contracts and approvals. This should be completed by golf professional or tournament/event coordinator to ensure accuracy

Access Controls. Restricting access to systems, data, and facilities to authorized personnel only. This control addresses the risk of unauthorized access, which could lead to data breaches, theft, or sabotage.

- POS access restricted by job role
- Administration rights limited to managers
- Password-protected reservations systems
- Restricted accounting software access

Employee Training and Awareness Programs. Educating employees about policies, procedures, and the importance of controls. This preventive measure addresses the risk of errors or policy violations due to a lack of knowledge or understanding. In the golf industry, there is high staff turnover, which can increase control risk, and frequent staffing changes make training and onboarding important.

- Training on POS systems
- Cash handling procedures
- Fraud awareness
- Inventory management practices

Reconciliation. Regularly comparing accounting records with external sources (e.g., bank statements) to identify discrepancies. This control detects errors or irregularities in financial transactions.

Daily reconciliation of:

- POS sales vs. cash and credit receipts
- Tee sheet vs. revenue collected

Monthly bank reconciliations

- Inventory counts compared to recorded stock levels
- Compare rounds played (tee sheet) vs. revenue recorded
- Reconcile tournament billing vs. deposits received

Internal Audits. Conducting periodic reviews of operations and controls to identify weaknesses or non-compliance. This control addresses the risk of internal control failures and ensures compliance with policies and procedures.

Key Areas of Internal Control in Golf Operations

Revenue Controls

- Tee-time tracking and reconciliation
- Membership billing accuracy
- Tournament and event contracts
- Gift card and prepaid round tracking

Proshop Controls

- Inventory counts and shrinkage monitoring
- POS system integrity
- Pricing consistency
- Vendor purchase controls

Food and Beverage Controls

- Portion control and waste tracking
- Alcohol inventory management
- Separation of service and cash handling
- Daily sales reconciliation

Payroll and Controls

- Time tracking systems
- Approval of hours worked
- Seasonal employee management
- Segregation between HR, payroll processing, and approval

Capital Assets and Maintenance

- Equipment logs (usage and maintenance)
- Depreciation tracking
- Preventive maintenance schedules
- Theft prevention

What happens when a control is missing?

It is critical that businesses implement internal controls, but sometimes implementation or design of controls doesn't go to plan, and you may have a gap or weakness in your internal controls system that might result in an error or, more dangerously, intentional fraud. Another possibility is that you have a control that doesn't operate as designed. Staff can work around it, or it might be broken. In this instance, you have a control failure.

To minimize control weaknesses, businesses should regularly evaluate and test their internal controls. They should also conduct their risk assessments frequently in case a new risk arises that requires a new control.

Control Risks in Golf Course Operations

Read: 2023 Ironwood Golf Course Financial Controls Limited Review[PDF]

Discussion Question

1. What did the audit of Ironwood Golf Course's controls find?
2. Discuss some control measures that could be utilized at the golf course to improve operations.

Key Terms

Access controls: Restrictions that limit system, data, or facility access to authorized employees.

Approval authority: A control requiring manager approval for certain transactions, such as refunds, discounts, or purchases.

Control failure: A situation where an internal control does not work as intended or is bypassed.

Control risk: The risk that errors, theft, fraud, or policy violations will occur because controls are weak or missing.

Documentation: Records that support business transactions, such as receipts, invoices, tee sheets, contracts, and payroll records.

Internal controls: Policies and procedures used to safeguard assets, improve financial accuracy, support compliance, and reduce risk.

Physical security: Measures used to protect assets, such as locks, safes, restricted storage, surveillance, and GPS tracking.

Reconciliation: Comparing records to identify differences, such as matching POS sales to cash and credit receipts.

Segregation of duties: Dividing responsibilities so one employee does not control all parts of a transaction.

Key Takeaways

1. Internal controls help protect assets and reduce errors, theft, and fraud.
2. Golf courses need strong controls because they manage cash, inventory, payroll, equipment, and multiple revenue streams.
3. Segregation of duties helps prevent one person from controlling an entire transaction.
4. Accurate records, approvals, and reconciliations are essential for reliable financial information.
5. Weak controls can lead to lost revenue, inventory shrinkage, payroll errors, and asset misuse.

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In this chapter, AI was used to help generate the learning objectives and summary.
Prompt: "Please generate a short list of key takeaways. Please create no more than 5 short and concise learning outcomes based on the material."

Chapter 7: Risk Management Accounting

Learning Objectives

By the end of this section, you should be able to:

- Define risk management accounting in a club setting.
- Identify common financial and operational risks for clubs.
- Explain how budgeting and forecasting support risk management.
- Describe the role of internal controls in reducing risk.
- Identify risk assessment tools.
- Discuss emerging trends in risk management for golf clubs.

Risk management is the process of detecting, preventing, assessing, and mitigating present and potential risks to an organization's success. These risks can manifest in various ways, including financial, operational, strategic, compliance & regulatory, and reputation.

Types of Risks in Golf and Club Operations

Financial risks pertain to uncertainties associated with managing financial resources, assets, liabilities, and capital structures. These risks can impact an organization's financial performance,

- Revenue fluctuations (membership retention, green fee variability)
- Cost inflation (fertilizer, utilities, labour)
- Debt servicing pressures

Operational risks stem from an organization's internal processes, systems, and human factors. These risks relate to the day-to-day activities and functions that support the delivery of products and services.

- Course conditions affecting playability
- Equipment failure (irrigation systems, carts)
- Staffing shortages during peak seasons

Strategic risks are associated with uncertainties related to an organization's strategic objectives and long-term goals. These risks arise from factors such as changes in market dynamics, technological disruptions, competitive pressures, and shifts in consumer preferences.

- Competition from other clubs or leisure alternatives
- Misaligned pricing or membership models
- Poor capital investment decisions

Compliance and regulatory risks arise from failing to adhere to laws, regulations, industry standards, and internal policies governing organizational activities and conduct

- Labour law compliance
- Health and safety standards
- Environmental regulations (water use, pesticides)

Reputational risk is the potential harm to an organization's reputation and credibility resulting from its actions or decisions.

- Poor customer experience
- Service quality inconsistencies
- Negative online reviews

Accounting in Risk Management

Accounting can support risk management in the following ways.

- Budgeting and Forecasting are tools that can help analyze and predict future sales, expenses, and cash flow.

- Variance analysis examines the difference between budgeted and actual performance.
- Cost and Behaviour Analysis looks to understand the different cost classifications (fixed, variable, etc.) and how certain costs can be used in different ways
- Internal controls are the systems an organization uses to manage risk and reduce the likelihood of fraud.
- Key performance indicators (KPIs) are special measurements that help a business understand how well it's doing. They show if the business is meeting its goals or if it needs to make changes.

KPI Examples

- Revenue per round
- Average spend per member
- Labor cost % of revenue
- Course maintenance cost per acre

Key Risk Areas and Accounting Responses

Revenue Risk: Membership Volatility

Risk: Declining membership reduces predictable income.

Accounting Response:

- Track membership trends using cohort analysis.
- Use scenario modelling for membership levels.

Example: A club with 400 members paying $4,000 annually and 10% attrition = $160,000 revenue loss. Accounting model forecasts required new members or pricing adjustments.

Weather Risk

Risk: Rain or extreme weather reduces the number of rounds played.

Accounting Response:

- Develop flexible budgets tied to rounds played.
- Use historical weather data for forecasting.

Example: Budget: 25,000 rounds annually. Actual due to poor weather: 20,000 rounds. Lost revenue at $60/round, which works out to 5,000 × $60 = $300,000 shortfall

Cost Inflation Risk

Risk: Rising costs for turf management inputs and utilities.

Accounting Response:

- Perform variance analysis on inputs.
- Negotiate supplier contracts based on volume.

Example: Fertilizer budget = $120,000, Actual = $150,000, Variance = $30,000 unfavorable
Action: evaluate alternative suppliers or adjust pricing.

Food & Beverage (F&B) Risk

Risk: Low margins or inventory shrinkage.

Accounting Response:

- Monitor food cost % and beverage cost %.
- Implement inventory controls and waste tracking.

Example:
• F&B revenue: $500,000
• Cost of goods sold: $250,000
• Food cost % = 50% (target: 35%)
Action: adjust menu pricing or reduce waste.

Capital Investment Risk

Risk: Large investments (clubhouse renovation, irrigation systems) may not deliver expected returns.
Accounting Response:

• Conduct Net Present Value (NPV) and Internal Rate of Return (IRR) analysis.
• Include risk-adjusted discount rates.
Example: Irrigation system costs $1M but reduces water and labour costs by $120,000 annually:
• Payback period ≈ 8.3 years
• Decision depends on risk tolerance and financing

Risk Assessment Tools

Sensitivity analysis is the simplest form of risk analysis, showing how sensitive an output variable is to changes in an input variable. It looks at each input in isolation.

Example: If the green fee increases from $60 to $70, what happens if rounds drop by 10%?

In scenario analysis, various "scenarios" are created, which are combinations of several inputs or assumptions. The expected or most likely combination of inputs is called the base case scenario. The risk of alternative scenarios (best-case and worst-case) can be developed after the base case. The best-case scenario includes expected inputs in the event that the economy is booming or demand exceeds expectations. The worst-case scenario would be the rest of a poor economy, or if a new product or service is unpopular. When evaluating the various scenarios, it is important to consider the likelihood of each scenario actually occurring.

Best case: strong demand, stable costs
Worst case: poor weather + rising costs
Most likely: moderate performance

Break-even analysis identifies the point where the project generates enough cash flow to cover its costs, resulting in a zero NPV. It's particularly useful for evaluating the feasibility of a project under varying assumptions. Break-even rounds = Fixed Costs / Contribution Margin per Round.

Case: Private Golf Club Facing Declining Margins

A private golf club in Ontario is facing financial difficulties. They are experiencing a 5% annual decline in membership, from 300 to 285. Additionally, the food and beverage side of the business is currently operating at a loss, and overall maintenance costs are rising. They need to identify waste and pricing issues, and figure out why maintenance expenses are increasing year over year (cost/acre increasing beyond the historical norm).

What are some suggestions for what can be done?

- Introduce tiered membership pricing.
- Revise the F&B menu and implement portion control.
- Review maintenance practices and supplier contracts.
- Develop rolling forecasts instead of static budgets.

Emerging Trends in Risk Management for Clubs

- Data analytics and dashboards for real-time monitoring.
- Climate-related risk modelling (water scarcity, extreme weather).
- Dynamic pricing for tee times.
- Integration of Enterprise Resource Planning (ERP) across departments.
- Cybersecurity risks in member data systems.

Key Terms

Risk management: The process of identifying, assessing, preventing, and reducing risks that may affect an organization's success.

Financial risk: The risk that changes in revenue, expenses, debt, or cash flow will negatively affect the club's financial performance.

Operational risk: The risk of losses or disruptions caused by internal processes, equipment, staffing, systems, or day-to-day operations.

Strategic risk: The risk that long-term decisions, pricing models, competition, or capital investments may not support the club's goals.

Compliance and regulatory risk: The risk of failing to follow laws, regulations, industry standards, or internal policies.

Reputational risk: The risk that poor service, negative reviews, or organizational decisions may damage the club's reputation.

Budgeting: The process of planning expected revenues, expenses, and cash flows for a future period.

Forecasting: The process of estimating future financial or operational results using past data, trends, and assumptions.

Internal controls: Systems, policies, and procedures used to reduce risk, prevent fraud, protect assets, and support accurate financial reporting.

Key performance indicators (KPIs): Measurable values used to track whether the club is meeting financial and operational goals.

Scenario modelling: A planning tool that estimates outcomes under different assumptions, such as best-case, worst-case, and most-likely scenarios.

Sensitivity analysis: A risk assessment tool that shows how changes in one input, such as price or demand, affect an outcome.

Break-even analysis: A method used to determine the point at which revenues or cash flows are enough to cover costs.

Key Takeaways

This chapter explains how accounting supports risk management in clubs by helping managers identify, measure, monitor, and respond to financial and operational risks. It highlights tools such as budgeting, forecasting, variance analysis, internal controls, KPIs, and scenario planning as ways to support better decision-making and protect the club's long-term sustainability.

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Version History

This page provides a record of edits and changes made to this book since its initial publication. Whenever edits or updates are made in the text, we provide a record and description of those changes here. If the change is minor, the version number increases by 0.1. If the edits involve a number of changes, the version number increases to the next full number.

The files posted alongside this book always reflect the most recent version.

Version	Date	Change	Affected Web Page
1.0	June 25, 2026	First publication	N/A