

Contents

<i>Foreword by Helen Simpson, CAA</i>	<i>page</i> <i>xiii</i>
<i>Foreword by Mike Monk, ABTA</i>	<i>xv</i>
<i>Foreword by Tony Brown, IATA</i>	<i>xvii</i>
<i>Preface</i>	<i>xix</i>
<i>Acknowledgements</i>	<i>xxi</i>
<i>Introduction</i>	<i>xxiii</i>
1 Industry overview	1
1.1 International/Global travel and tourism	1
1.1.1 Economic impact	1
1.1.2 Trends	2
1.1.3 Regional trends	2
1.1.4 Forecasts	4
1.2 The UK travel and tourism market	5
1.2.1 Market size	5
1.2.2 Market sectors	6
1.3 Industry background	10
1.3.1 Regulations	11
1.4 Tour operators and the package holiday industry	12
1.4.1 All-inclusive tours	12
1.4.2 Consumer demand and expenditure	13
1.4.3 The supply structure and key players	13
1.4.4 The big four	15
1.5 Travel agents	21
1.5.1 Supply structure and key players	21
1.5.2 Consumer profile	22
1.5.3 The key players	22
1.5.4 The future	24
1.6 Scheduled and non-scheduled passengers airlines	25
1.6.1 Supply structure	26
1.6.2 Scheduled airlines	26
1.6.3 Charter airlines	26
1.6.4 Leading charter airlines	27
1.6.5 The future	28
2 Civil Aviation Authority (CAA)	29
2.1 Government ad EU regulation – the role of the Civil Aviation Authority	29

2.1.1	Policy implementation	29
2.1.2	Structure and scope of the CAA regulation	30
2.2	Air Tour Organisers' Licensing (ATOL) system	30
2.2.1	Who needs an ATOL?	30
2.2.2	Different forms of ATOL	31
2.2.3	The application process	32
2.2.4	Financial monitoring and review	34
2.2.5	Seat-only sales on scheduled flights	37
2.2.6	ATOL to ATOL sales	37
2.2.7	CAA returns	38
3	The Association of British Travel Agents (ABTA)	39
3.1	Introduction	39
3.2	The growth of ABTA	39
3.2.1	The Package Travel, Package Holidays and Package Tours Regulations 1992	39
3.2.2	The benefits for ABTA members and the distinction with the CAA	40
3.3	The internal structure of ABTA	41
3.3.1	Current membership	42
3.4	Membership rules and criteria	42
3.5	Membership rules – general	42
3.6	Membership rules – tour operators	44
3.7	Membership rules – travel agents	44
3.8	Financial criteria and regulations	44
3.9	Financial criteria and regulations – general	45
3.9.1	Reporting requirements – audited accounts	45
3.9.2	Reporting requirements – audited turnover certification	46
3.9.3	Reporting requirements – other	46
3.10	Financial regulations – tour operator	47
3.10.1	Capital requirement	47
3.10.2	Net recoverable current assets	47
3.10.3	Net asset deficits	48
3.10.4	Bonding – tour operators	48
3.10.5	Peak period bonding	49
3.10.6	Third-party bonding	50
3.11	New members – tour operators	50
3.11.1	New members' capital requirements	50
3.11.2	Reporting requirements of new members	50
3.12	Financial regulations – travel agent	51
3.12.1	Capital requirements	51
3.12.2	Bonding	51
3.12.3	Applicable risk turnover	51
3.12.4	Bonding requirements	52

3.12.5	TABRS – detailed calculations	52
3.13	New members – travel agents	53
4	Trade associations: International Air Transport Association (IATA)	54
4.1	Introduction	54
4.2	Structure of IATA	54
4.3	Agency Accreditation Programme	55
4.3.1	The application process for travel agents	55
4.4	Bonding requirement	57
4.5	The approval process	58
4.6	Annual financial review	58
4.7	The Billing and Settlement Plan	59
4.8	Ticketing procedures and training	59
4.9	IATA agency fees	59
4.10	The passenger sales agency agreement	60
4.11	Notification of changes	60
4.12	Quality reviews	60
5	Other industry bodies	61
5.1	Introduction	61
5.2	The British Incoming Tour Operators' Association	61
5.3	The Multiple Travel Agents Association	62
5.4	ARTAC World Choice	62
5.5	The National Association of Independent Travel Agents – Advantage Travel Centres	62
5.6	The Association of Independent Tour Operators	63
5.7	The Travel Trust Association	63
5.7.1	Operation of a TTA member's trust account	64
5.7.2	The TTA travel protection plan	64
6	Commercial operation within the UK travel industry	65
6.1	Introduction	65
6.2	The MMC report into the foreign package holiday industry	65
6.3	Defining the market, and defining monopoly	66
6.4	Evidence of complex monopoly and restrictive practices	67
6.5	The anti-competitive practices identified	68
6.6	Insolvency implications and responsibilities of directors	70
6.7	Definition of insolvency	71
6.8	Shadow director	71
6.9	Offences under the Insolvency Act 1986	72
6.9.1	Misfeasance/Breach of duty	73
6.9.2	Fraudulent trading	73
6.9.3	Wrongful trading	73

6.10	Restriction on reuse of company names	74
6.10.1	Rule 4.228	74
6.10.2	Rule 4.229	75
6.10.3	Rule 4.230	75
6.11	Preferences	76
6.12	Director's disqualification	77
6.13	Procedure for disqualification	78
6.14	Insolvency implications: what should directors do?	79
7	Commercial considerations for tour operators	80
7.1	Introduction	80
7.2	Sources of income	80
7.2.1	Selling holidays	80
7.2.2	Forfeit of deposits/Cancellation charges	81
7.2.3	Bank interest	81
7.2.4	Insurance	82
7.2.5	Holiday extras	82
7.2.6	Profit on foreign currency movements	83
7.2.7	Airport charge rebates	83
7.3	Costs associated with generating income	83
7.3.1	Accommodation	83
7.3.2	Transport	84
7.3.3	Brochures	84
7.3.4	Advertising and promotion	85
7.3.5	<i>Ex gratias</i> and compensation	86
7.3.6	Bonding	86
7.3.7	Holiday representatives	87
7.3.8	Sales team	87
7.3.9	Information technology	87
7.4	Identifying and managing the risks related to the income source	88
7.4.1	Nature of the market	88
7.4.2	Structure	88
7.4.3	Matching costs and revenues	91
7.4.4	Selling	92
7.4.5	Direct costs	94
8	Commercial considerations for travel agents	98
8.1	Background	98
8.1.1	Thomas Cook Group Limited	99
8.1.2	Going Places (part of the Airtours group)	99
8.1.3	Lunn Poly (part of the Thomson Travel Group)	99
8.2	Operation	100

9	Airline operation	104
9.1	Methods of acquiring aircraft	104
9.1.1	Outright purchase	104
9.1.2	Loan, hire purchase or finance lease	105
9.1.3	Operating lease arrangements	106
9.2	Audit considerations	107
9.3	Capacity management	107
9.3.1	Charter operations	107
9.3.2	Scheduled operations	109
9.3.3	Other capacity management issues	110
9.4	Maintenance	110
9.4.1	Available capital	110
9.4.2	Fleet size	111
9.4.3	Nature of operation	111
9.4.4	Capacity of maintenance facility	112
9.4.5	Relative costs	112
9.4.6	Audit considerations	112
9.5	Vertical integration	112
9.5.1	Audit considerations	113
9.6	Alliances	113
9.6.1	Equity ownership	113
9.6.2	Joint buying and maintenance	114
9.6.3	Reservation systems	114
9.6.4	Franchising	114
9.6.5	Audit considerations	115
10	Reservation and ticketing systems	116
10.1	Introduction	116
10.2	The traditional customer, agent, operator arrangement	116
10.3	Galileo	118
10.4	Sabre	119
10.5	Amadeus	119
10.6	Worldspan	119
10.7	Current developments	119
11	The euro and its impact on the travel industry	121
11.1	Introduction	121
11.2	1 January 1999	121
11.3	1 January 2002	122
11.4	1 July 2002	122
11.5	The implications for UK firms	122
11.5.1	Euro accounting under compunction	122
11.5.2	Euro accounting to maintain competitive edge	123
11.6	Immediate issues for the financial director and auditor	123

12	Accounting policies	126
12.1	Introduction	126
12.2	Tour operators	126
12.2.1	Income and cost recognition	126
12.3	Travel agents	129
12.3.1	Income and cost recognition	129
12.3.2	Stocks	131
12.4	Airline operators	132
12.4.1	Definition of turnover: point of income and costs recognition	132
12.4.2	Segmental reporting of turnover	133
12.4.3	Tangible fixed assets	134
12.4.4	Aircraft maintenance costs	140
12.4.5	Deferred expenditure	140
12.4.6	Frequent flyer programme	141
12.4.7	Stocks	142
12.5	Foreign exchange contracts	142
12.5.1	Translation of assets and liabilities in foreign currencies	142
12.5.2	Profits and losses from overseas subsidiaries	143
12.5.3	Forward currency contracts	144
12.6	Travel industry bonds and guarantees	144
13	Statutory audit considerations	
13.1	Introduction	146
13.2	Understanding the client business and its reporting requirements	146
13.3	Supporting the statutory audit report to members	149
13.4	Risk-based auditing	150
13.5	Travel agency	152
13.5.1	Commission income	152
13.6	The Billing and Settlement Plan (BSP)	153
13.7	Tour operating	154
13.7.1	Income and cost recognition	154
13.8	Resort expenditure	157
13.9	Accounting for foreign currency transactions	159
13.10	Airlines	159
13.11	Audit programmes	159
13.11.1	Travel agents	159
13.11.2	Tour operators	160
13.11.3	Airlines	160
14	Auditing client returns to the regulatory bodies	162
14.1	Introduction	162
14.2	Reporting to the regulators	163

14.3	Turnover certification	163
14.4	Net asset position	164
14.5	New businesses	165
14.6	Other returns	166
14.7	Duty of care	166
14.8	Summary	166
15	UK tax implications	167
15.1	Introduction	167
15.2	Tax implication of accounting policies	167
15.3	Trading status	168
15.4	Groups of companies	169
15.5	Choice of year end	170
15.6	Areas specific to the travel industry	170
15.6.1	Bonding	170
15.6.2	Foreign exchange gains and losses	171
15.6.3	Capital allowances	173
15.6.4	Operating leases, finance leases and hire agreements	174
15.6.5	Deposits	175
15.6.6	Brochures and advertising	176
15.6.7	Subscriptions	176
15.6.8	Sponsorship, conferences and entertaining	176
15.7	The overseas dimension	177
15.8	PAYE and P11D issues	179
15.9	Other sundry matters	179
15.10	Summary	180
16	VAT	181
16.1	Introduction	181
16.2	Scope	181
16.3	Application	184
16.3.1	Registration	184
16.3.2	Time of supply	184
16.3.3	Place of supply	185
16.3.4	Accounting	185
16.4	Exceptions and concessions	185
16.5	Calculations	185
16.6	Non-TOMS issues	189
16.7	Summary	190

Appendices

Appendix 1	CAA forms	192
Appendix 2	ABTA travel agent forms	197

Contents

Appendix 3	ABTA tour operator forms	207
Appendix 4	Accounting policies	209
Appendix 5	EC Directive 77/388, Article 26A	227
Appendix 6	VAT Act 1994, section 53	228
Appendix 7	The Value Added Tax (Tour Operators) Order 1987 (as amended)	229
Appendix 8	TOMS: end of year calculation	233
Appendix 9	Provisional margins and output tax for the next year	237
Appendix 10	The Package Travel, Package Holidays and Package Tours Regulations 1992	239
Glossary		262
Index		265