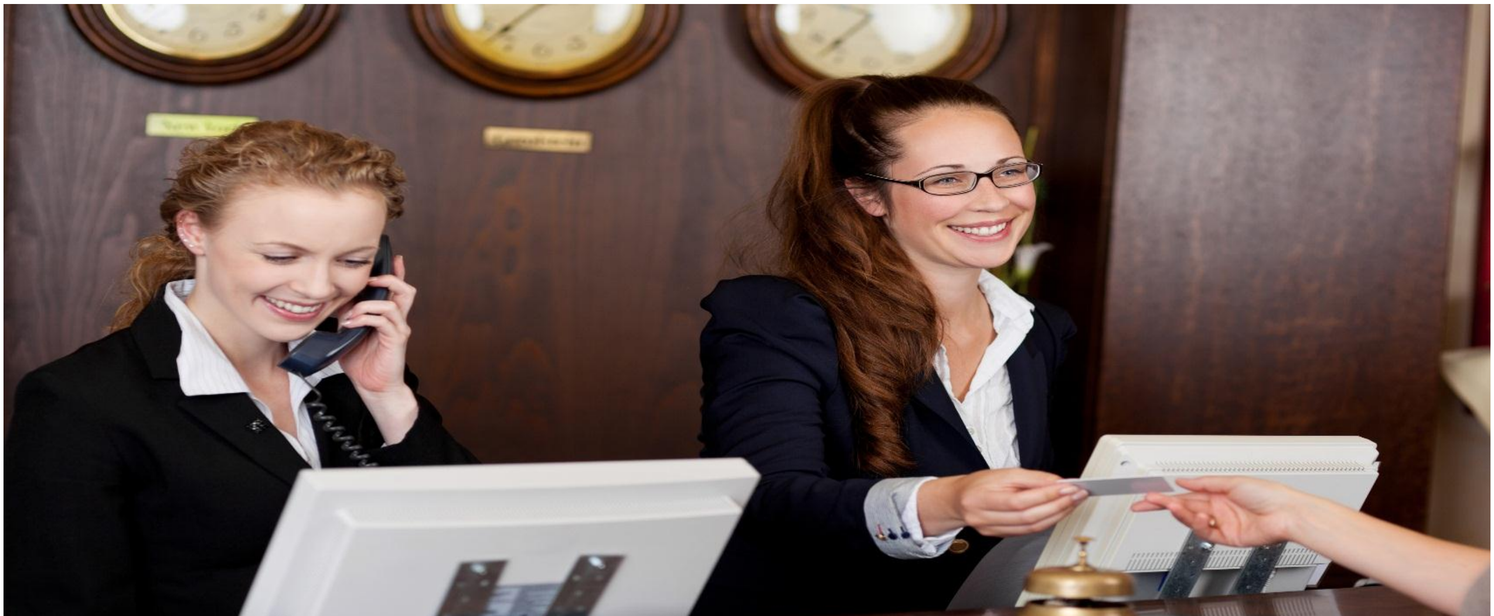

UNIT-10

Accounting in Hospitality

Learning Outcomes
By the end of this unit the learner will be able to:
✓ Describe basic principles of Accounting ✓ Analyze the Types of Accounts the Front Desk deals with

Unit 10

Accounting in Hospitality

What is an Account?

An account can be thought of as a box or some holding place, in which the details of different business deals have been placed within. The additions or withdrawals from the account are tallied and the final monetary amount is described as the balance. Even a single monetary transaction in a hotel can affect many different accounts. The front office accounts are a tool for maintaining records and information regarding the guest and non-guest monetary transactions. The most basic method of maintaining accounts is filling out the “T” form (it Looks like a T).

Account name

Charges Payments

Computers have taken over the job of the T Accounts. Regardless, the chief idea in using them is still the same.

Types Of Accounts At The Front Desk

1. **Guest Accounts:**

   A guest account is a detailed financial transaction record taking place guest and between the hotel and the guest. These accounts are established when guests confirm their reservations or when they register at the front desk. During the stay, it is the job of the front office to maintain records of all transactions associated with the balance of the guest’s account. Typically the front office will request payment for any outstanding bill in the settlement stage of the guest cycle. Sometimes, circumstances may dictate the need to have the guest make full or partial payment during other times of the guest cycle. For instance, in cases where the hotel has to enforce the house limit, guests crossing the limit may be requested to settle part or the entire remaining bill. When a house limit is put in place, settling the account is started, when the account balance goes over a pre-established limit, not at the check-out time.

2. **Non-Guest Accounts:**

   A hotel can extend in-house limits to local establishments or agencies, or groups sponsoring meetings as a way to promote itself. The front office will make non-guest accounts to keep track

of such transactions. Such accounts may also be known as house accounts or city accounts. Non-guest accounts are established when guests fail to settle accounts at departure time.
When the status of a guest changes to a non-guest, the obligation of the account settlement goes from the front office to the back office (accounts department). Unlike guest accounts, which are noted on a daily basis, non-guest accounts are usually billed in monthly cycles by the accounting department of the hotel.

Voucher:

A voucher outlines one transaction that has to be posted to the front office account. This file lists transaction information in detail and is collected from the source of the transaction. The voucher is then passed on to the front office to post onto the guest file. Normally, any service or merchandise purchased by the guest on credit must be supported by a voucher.

Types of voucher:

- Charge vouchers, such as, Restaurant/Bar check;
- Cask advance/Paid out voucher;
- Allowance vouchers and Correction vouchers; and
- Cash Vouchers

Basic Principles of Accounting:

- The amount paid to the hotel by the guest is added in the debit column. Hence, a debit (dr.) is money owed to the hotel by the guest.
- Any money obtained from the guest is added in the credit column. Hence a credit is money, including deposits made in advance, paid by the guest to settle their bills.
- The balance column shows a continuous difference between credits and debits calculated on of the premise "prior balance + debits – credits = net outstanding balance." This ideology is applied to every folio/bill in which all cash and credit transactions are noted for every hotel resident guest that add to or reduce the balance of a given guest. It is also known as a "guest account card." Some hotels refer to it as the Guest Weekly Bill. The debit transactions are noted on the left hand side of the folio and credits are noted to the right. The remaining balance is determined by subtracting the right from the left.

In a manual system, the folios are kept as hard copies in folio racks in the cabin of the cashier or the back office. In an automated system, the folios stay in the computer and a hard copy is printed out only when the guest is ready for check-out. Every entry into the folio is known as a posting. Each posting is recorded in the folio in a sequence according to transaction order on a given date. Upon creation of the account, the folio begins with a balance of zero. A debit entry increases the guest's remaining balance while a credit posting will lessen the outstanding balance. Upon the guest's departure the outstanding balance has to be brought back to zero through a cash payment or through an approved credit card to a direct billing account. Guest folio format:

Points to Remember With Regard to a Folio:

1. A folio is established immediately upon the guest's check in.
2. When the folio becomes operational, the opening balance is zero.
3. Vital information on the folio includes: Guest's Name, Room Number, Date of Arrival, Date of Departure, Room Rate, Address, and Billing Instructions. Every folio is also given a serial number which aids in maintaining control of folios for audit purposes.
4. The cashier is accountable for the guest folio until the time of the guest's departure.

Types Of Folios Used In Hotels

- Separate guest account card/folio: this is created, according to the individual or independent hotel guest, so the transactions made may be recorded.
- Group folio/master folio: Single folios are created for a group and all transactions made by the people in the group are recorded here
- Semi-Permanent or non-guest folios: This folio holds records of credit financial transactions made by the hotel's non-resident guests. It is also called the city account card or non-resident guest account card.
- Employee folio: If any financial transactions are made by hotel employees, there are noted here.
- Permanent/companies/airlines folio: Individual folios are kept for every company, agency, organization that the hotel has permanent billing agreements with.
- Split Folios: Split folios are created when two guests want to maintain separate accounts even though they share the same room. Room charges will be on one folio for sake of convenience, other charges will be put individually in the split folios. Another scenario is when a company executive wishes to keep two separate accounts one charging his/her company and the other recording his/her personal expenses.

Ledgers Used At the Front Desk

A front office ledger is a compilation of folio accounts at the front office. There are two main types used here:

1. Guest Ledger (Transient Ledger/ Front Office Ledger/ and the Room Ledger). The Guest Ledger is the sum set of all folio accounts of registered guests at the hotel (in-house guests) and any debit entry to the guest folio will not only enhance the guest's balance but, it will additionally enhance the net outstanding balance of the guest ledger.

2. City Ledger (Non-Guest Ledger). This records every account that does not belong to a resident guest. At the check-out time, if the resident guest's remaining balance is not brought to zero, it will, then, be switched from the Guest Ledger to the City Ledger. When the transfer takes place, the duty for the account collection switches from the front office to the accounting department (back office).

Accounts Which Are Included In City Ledger:

- Credit card payment accounts;
- Direct billing accounts {guests' whose bill will be settled by the company};
- Airlines;
- Travel agencies;
- Skipper's Account;
- Bad cheques account {Bounced cheques of guests};
- Disputed bills account; and
- Retention charges account from DNA guests

Account Aging:

A majority of City Ledger Accounts are cleared within 30 days of billing, which is generally good enough. But naturally, there will be some accounts that will take more time to collect.

The hotel needs to put some ways in place to track past amounts that are due that can be based on the dates of the incurred charges. This method of scheduled billing is typically known as account aging. In large establishments, the accounting department keeps an eye on the aging account while in smaller units the night auditor may take on this responsibility. An account age analysis sheet pinpoints the receivable accounts, which are 30, 60, or 90 days (or more) old. Accounts that are less than 30 days old are thought to be current. Accounts older than thirty are called overdue and the ones over 90 days are known as delinquent. The front office needs to keep a list of accounts that are more than 90 day old. Guests requesting for reservation on an overdue account can be requested to pay cash or by a valid credit card until the account becomes current.

Recording Business Transactions

Regardless of the way a business is run, whether it is a sole trader, company, or partnership, it will still go through all of the same kinds of transactions and only the scales will differ.

Generally, the transactions all establishments will carry out include the following:

- Making sales - selling goods or services to customers;
- Buying raw materials or goods to resell;
- Carrying out payments;

- Receiving payment - receipts - in return for goods and services;
- Paying money into and withdrawing cash from bank;
- Paying payroll expenses, such as, wages and salaries to workers; and
- Paying the owners (either as drawings or dividends). Drawings are amounts taken out of the business by the owner for their personal use paying taxes, such as, VAT.

The accounting records also yield detailed information to the directors or owners of the establishment. They should be able to show, for example, how much money the business owes and to whom, and how much money is owed to the business and who owes it, etc.

The Profit And Loss Account and Balance Sheet

Systems for Financial Accounting

The principal functions of noting commercial transactions in a system of accounting is to allow the business owners to:

a) To be able to establish its financial behaviour over a given time period – whether the business is earning or losing money over a given time period.

b) To be able to figure out its financial position at the end of that duration – what the business has earned and owes. The information is usually collected and provided regularly in the shape of financial statements (or accounts). The two chief types of financial statements are the PROFIT & LOSS ACCOUNT and the BALANCE SHEET (also known as the Income Statement and Statement of Financial Position).

Income Less Expenses = Profit or Loss

The balance sheet is a detail of all the financial values of each of the assets and liabilities of the establishment on the last day of the accounting cycle. Assets are the amounts belonging to the business while liabilities are the quantities that the establishment owes.

Fixed Assets Plus Current Assets Minus Liabilities = Capital

Income and Expenses

Every organisation generates income (or revenue) from multiple sources. A business sells its goods or services to consumers in return for cash. The cash generated is used to fund the activities of the establishment: buying raw materials used in the restaurants and factories, buying ready-made goods for forward sale, buying apparatus, paying off expenses, such as, salaries of staff, stationery, heating and lighting, and rent, etc. Intermittently, the establishment will get ready an accounting statement indicating the proceeds generated and the quantities spent. A reference to this type of a statement is made in the income statement in a very general way. Income statement is known as a trading, profit & loss account in businesses.

Capital and Revenue Expenditure

The acquisition and sale of things that will be employed in the business for a length of time instead of being resoled are known as capital transactions. This might include the acquisition of things like buildings, machinery or a vital improvement in earning ability. Such long - duration assets, are called FIXED ASSETS, may be purchased for cast but are normally bought on credit.

- Capital expenditure is considered to be an asset, a fixed asset that belongs to and is used by the business – hence, it will show in the balance sheet, and
- Revenue expenditure is subtracted as an expense when calculating the profit and so is shown in the profit and loss account.

Assets and Liabilities

The balance sheet lists the assets, liabilities, and capital of the establishment at the end of the accounting cycle, to which the financial accounts are linked. Alternatively, it is a statement of assets, liabilities, and the capital of an establishment at a given point in time – similar to a photograph.

In a balance sheet, the assets are grouped into fixed and current categories.

A fixed asset is one that is purchased to use in the business (as opposed to selling to the consumer), with the aim of making money from its use either directly or indirectly. These types of assets are added only infrequently and they cost a great deal compared to the overall finances of the company.

Current Assets are Either

a) Are goods belonging to the business with the goal of turning into cash inside one year; or
b) Cash, inclusive of the money in the bank that the business has. These assets are 'current' in the sense that they are circulating through the business continually and change form regularly e.g., stocks of goods for resale, debtors (known as accounts receivable), bank balance, and cash.

Liabilities are the amounts owed by the establishment and include:

(a) Loans (the money owed to the bank or institution that provided the loan);
(b) Creditors – which is also known as trade payables (i.e. suppliers to whom money is owed money by the business); and
(c) Bank overdraft.

Similar to assets, the different liabilities should be categorised individually, with divisions made between the following:

(a) Current liabilities, are the businesses debts that have to be paid in a fairly short time period (by convention, inside one year)

(b) Long-term liabilities (or deferred liabilities). ' Short-term' translates to within one year or less, 'long-term' translates to more than a year.

Capital

Capital (this is at times called 'owner's equity') is the sum invested by the owner (s) in the business. It is the business's liability because it is the amount the business owes the owner. At start, it is the amount put into the business (invested) by the owner. The capital can increase or decrease, as the business progresses, in the following way:

(a) **Capital introduced** – Extra cash (or other assets), which are put into the business, will enhance capital;

(b) **Profit** – All profits earned by the business belong to the owner (s) and hence are added to the capital; and

(c) **Drawings** – Any funds removed from the business by the owner (s) for personal needs will reduce capital. This can include money removed from the business, stock taken for personal use or personal expenses paid by the business. These costs should not be tolerated by the business, but by the owner whose financial dealings are separate.

Working Capital

Firms require funds to pay for their daily expenses. The moneys they are given to carry out these needs are known as the organisation's working capital. The chief sources of working capital are current assets, since these are the short-term assets that may be used to create cash. But, the establishment also has current liabilities and those have to be counted when deciding how much working capital is at hand.

Working Capital= Current Assets – Current Liabilities

So, working capital is the same as net current assets and a vital portion of the top half of the company's balance sheet. It is necessary for the business to have adequate working capital to fulfil all of its needs.

Profit And Loss Accounts

The Profit and Loss Account may be changed to reflect greater detail for the year - to -year comparison. For instance, you might want to segregate heat and light income in three different categories of oil, gas, and electricity, so if you choose to have a purge on energy costs, you will have the option to compare the effectiveness in the coming accounting period.

You may even want to separate sales from their relative expenses, so that the gross gains can be calculated for every section of the business. One example would be that you may want to show room sales, food sales, bar sales individually so that you can keep an eye on profitability of each section.

Additionally, the costs have to be segregated into food and bar items, to be able to calculate the cost percentages with accuracy. Percentages are used commonly as they are constant, regardless of fluctuations in sales levels.

The Inland Revenue recommends that a system be set up for recording all revenue and expenses. This may be achieved through a software programme, an account book or a ledger method. They also advise that you maintain all the important records up-dated, instead of leaving everything until the end of the year. Finally, keep in mind that all records have to be kept for a minimum of five years.

Recording Revenue

If you choose to use a computer software system, you can choose between many different software systems on the market. However, some of the software is excessive and you may not be able to fully utilise its capacity. But if you are still interested, then, you should use some of the better known ones, such as, Sage, QuickBooks, Dosh, and Clearly Business.

Cash is received Guest payment upon checkout or deposit receipt
Documentation of income spreadsheet
Complete bank credit slip and deposit income
Get bank statement and confirmation of all deposits credited

A simple system for recording revenue is as follows:

- Banking;
- Total banked;
- Deposits;
- Accommodation;
- Dinners;
- Bar;
- Telephone calls; and
- The cumulative total

You might want to divide sales and material costs to highlight 'departmental' gross profits, as discussed before. This kind of division permits you to make comparisons year after year, as well as to calculate the food and beverage gross profits individually. Details like this allow you to calculate your efficiency year after year. If needed, it can be made more precise by taking monthly stocks of beverage and food.

Recording Expenses

To be able to attain the above outlined information, precise records have to be kept regarding all of the expenses. Also, as previously stated, a computer programme may be used to help with this, if desired.

A simple system will appear like the one outlined in Figure below.

Delivery note/ invoice or bill from supermarket/store paid by cheque/ credit card/debit card/cash

↓

Enter daily into monthly expenses record

↑reconcile

Receive credit card and bank statements

A simple expense recording system

It is sensible to itemise the expenses in a format similar to that of the Profit and Loss Account. Using the breakdown of foods and beverages as an example, a record using headings similar to the ones below might be maintained -

- Telephone;
- Postage and stationery;
- Advertising;
- Vehicle expenses;
- Subscriptions and memberships;
- Repairs and maintenance;
- Cleaning supplies;
- Accountancy;
- Rates;
- Insurance;
- Heating and lights;
- Wages;
- Food; and
- Bar items

For daily recordings of the expenses, extra columns will be required to show the date, supplier name, and total invoice. You may also wish to add how the invoice was paid at the end of the column, e.g., a cheque number, debit card, credit card, or direct debit. The headings of the column may appear as follows:

Date	Supplier	Invoice total	telephone	Printing & Stat.	Etc.

A further complication might arise when, on one invoice or bill you have items, which relate to several different headings. This would be dealt with by breaking out the total into the different categories, as shown below:

Date	Supplier	Invoice total	Food	Bar	cleaning	Etc.
20/10			£500	£200	£100	

It is vital to record all of the expenses and sales daily.

Attach the invoice or bill at the back of the monthly record and hold on to each transaction for the running month together. When the month is over, place all records and expense sheet in an envelope and begin the new month fresh.

When the bank statement and credit card bills for the completed month arrive, take time to check off the entries from the expense sheet and reconcile the statement with the definite expenses sustained. If any bank debits do not match with the expense sheet, double check and if not resolved then make inquiries regarding the debit with the bank.

Should you not follow through with this routine daily, you will be buried under the bills and invoices, with an even greater temptation of putting them off until the end of the season. By then, the job will have become monumental and you might find mistakes in the bank statement that will be even harder to investigate due to the passage of time. If you lag behind, at least make certain to separate the information on a monthly basis so it is easier to deal with at a later date.

Petty Cash

At times, it is more convenient to pay small bills with cash and to accommodate this, draw a specific amount, say £500, for this purpose. A record of petty cash only shows each transaction corroborated with a receipt and a continuously decreasing cash balance. If you withdraw £100 and have a receipt for £75, then, place the £25 change along with the documentation for the amount from whom the purchase was made in the petty cash box. The item can be detailed as follows:
Petty Cash Analysis for the month of …………

Date	Supplier	Amount	Balance
2nd April 2012			£100
2nd April 2012	Wilko's (bread)	£75	£25

Balance Sheet

A balance sheet displays the business' financial standing at a given point in time. It is created at the end of the financial year, by the accountant, and is linked to the financial position on the date upon which the books are closed. It is feasible that it may change the next day. The balance sheet shows exactly how the business stands, while a profit and loss account shows how it got to that point. A balance sheet demonstrates the balance between total assets and liabilities of the business and its net value.

Budgeting

A budget is a plan that approximates the amount of sales income to be generated and the expenses that will be incurred to be able to meet the profit needs. The first step in developing a budget is to calculate sales. This ideally should be built upon a week-to-week basis. You should figure out the potential daily business, the amount guests will spend, and then multiply to obtain a weekly value. Finally, total the figures to get the monthly value and then, the annual estimates of sale.

The next step is to approximate expenses. Some costs are fixed and cannot be changed, whereas other costs differ, depending upon the business volume. Controlling the variable costs is essential to safeguard the profit margins. A more competent method is to work out every expense in terms of money to be spent, and then establish the actual cost figure. This way, you set a cost goal and it is more likely that you will work towards attaining this cost. As the expenses portion of the budget is being made, ask yourself repeatedly how the costs can be cut down without lowering standards and value for the guest.

If you end up being excessively conservative or optimistic in your budget, make quarterly revisions. The majority of businesses do this and it is sensible to work with as accurate predictions as possible. Advanced computer programs, along with simple spreadsheets, are very beneficial when making budgets.

Bank Charges

The charges are a specific amount for each transaction as follows:

- per cheque paid in
- per £100 of cash paid in
- for non-automated pay-ins, i.e. to a teller
- for automated pay-ins
- for direct debits
- for direct payment charges (Switch)
- for cheques written

Even if each change is for a very minor amount, it adds up to a lot over the period of a year. These changes might be negotiable with your bank. It might even be used to get information from the chief banks to ascertain their charges and choose the best one.

Credit Cards

In the letters mailed to the guests or your brochure, the acceptable methods of payment need to be clearly stated. If credit cards are not acceptable to you, then, state it clearly during this stage of the process.

The point against accepting credit cards in small business is that it is an additional cost that the operator has to meet.

Further Reading:

- ✓ ***Jerry J. Weygandt, (2005), Hospitality Financial Accounting***
- ✓ ***Jonathan Hales, (2005), Accounting and Financial Analysis in the Hospitality Industry***
- ✓ ***Peter James Harris, Peter A. Hazzard, (1992), Managerial Accounting in the Hospitality Industry***
- ✓ ***Peter Harris, (1995), Accounting and Finance for the International Hospitality Industry***