



UNIT-10

Accounting in Hospitality

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Describe Basic Principles of Accounting
- ✓ Analyse the Types of Accounts dealt with by the Front Desk

of such transactions. Such accounts are also 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 to settle the account moves 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 be posted 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 bill.
- The balance column shows a continuous difference between credits and debits calculated on the premise “prior balance + debits – credits = net outstanding balance.” This principle 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 on 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 cashier’s cabin 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 to check out. Each 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 reduce the outstanding balance. Upon the guest’s departure, the outstanding balance

has to be brought back to zero through a cash payment or 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 as soon as the guest checks 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. Each folio is also given a serial number which helps 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 that the transactions can 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: Any financial transactions made by hotel employees are noted here.
- Permanent/companies/airlines folio: Individual folios are kept for every company, agency and organisation with which the hotel has permanent billing agreements.
- 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 the sake of convenience, while other charges will be recorded individually in the split folios. In another scenario, a company executive may wish 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:

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 enhance both the guest's balance and 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 check-out time, if the resident guest's remaining balance is not brought to zero, it will be switched from the Guest Ledger to the City Ledger. When the transfer takes place, the responsibility for the account collection switches from the front office to the accounting department (back office).

Accounts Included In the City Ledger:

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

Account Aging:

The 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 have some means of tracking past amounts that are due, 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 considered current. Accounts older than 30 days are called overdue and those over 90 days are known as delinquent. The front office needs to keep a list of accounts that are more than 90 days old. Guests requesting reservations on an overdue account can be asked to pay in cash or by a valid credit card until the account becomes current.

Recording Business Transactions

Regardless of the way a business is run, be it a sole trader, company or partnership, it will still experience all 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 payments - receipts - in return for goods and services;
- Paying money into and withdrawing cash from the bank;
- Paying payroll expenses, such as wages and salaries to workers;
- Paying the owners (either as drawings or dividends). Drawings are amounts taken out of the business by the owner for their personal use or for 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 by whom, 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 are to allow the business's owners:

- a) To be able to establish its financial behaviour over a given time period – whether the business is earning or losing money over that period.
- b) To be able to work 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 main 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 detailed summary 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 restaurants and factories, buying ready-made goods for forward sale, buying apparatus, paying expenses such as staff salaries, stationery, heating and lighting, and rent, etc. Intermittently, the establishment will prepare 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 and 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 rather than being resold are known as capital transactions. This might include the acquisition of things such as buildings, machinery or a vital improvement in earnings ability. Such long-term assets are called **FIXED ASSETS**; they may be purchased with cash but are normally bought on credit.

- Capital expenditure is considered an asset, a fixed asset that belongs to and is used by the business – hence, it will show in the balance sheet;
- Revenue expenditure is subtracted as an expense when calculating the profit and is therefore 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 for 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) Goods belonging to the business, which the business intends to turn into cash within a year; or
- b) Cash, inclusive of the money the business has in the bank. 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 – also known as trade payables (i.e. suppliers to whom money is owed by the business);
and
- (c) Bank overdraft.

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

- (a) Current liabilities, which are the business’s debts that have to be paid in a fairly short time period (by convention, within a year)

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

Capital

Capital (sometimes 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. Initially, 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 is 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 the capital. This can include money removed from the business, stock taken for personal use or personal expenses paid by the business. These costs should be borne not 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. However, the establishment also has current liabilities, which have to be counted when deciding how much working capital is at hand.

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

Thus, 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; therefore, 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 in order that the gross gains can be calculated for every section of the business. For example, you may want to show room sales, food sales and bar sales individually in order to monitor the profitability of each section.

Additionally, the costs have to be segregated into food and bar items to enable you 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 keep all the important records up to date 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 decide to use a computer software system, you can choose between many different software systems on the market. However, some of the software is excessively complex and you may not be able to fully utilise its capacity. However, if you are still interested, you should use one 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:

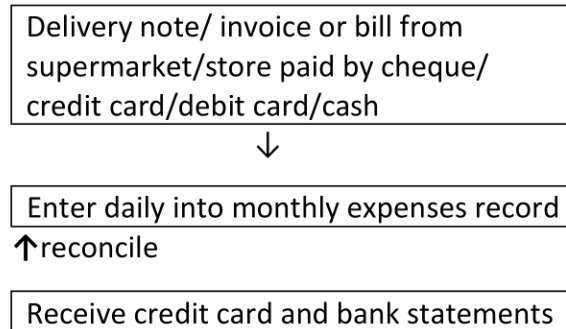
- Banking;
- Total banked;
- Deposits;
- Accommodation;
- Dinners;
- Bar;
- Telephone calls; and
- The cumulative total

You may want to divide sales and material costs to highlight 'departmental' gross profits, as discussed earlier. This kind of division permits you to make comparisons year on year, as well as to calculate the food and beverage gross profits individually. Details such as these allow you to calculate your efficiency year on year. If required, it can be made more precise by taking monthly stocks of beverages and food.

Recording Expenses

To be able to obtain the above information, precise records of all expenses have to be kept. In addition, 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 the Figure below.



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 lighting;
- Wages;
- Food;
- 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 one invoice or bill contains items relating to several different headings. This might be dealt with by breaking down 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 afresh.

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 incurred. If any bank debits do not match with the expense sheet, double-check them. If this does not resolve the matter, make inquiries with the bank regarding the debit.

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

Petty Cash

At times, it is more convenient to pay small bills with cash; you should 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, place the £25 change along with the documentation of the amount for which 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's 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 when the books are closed. It may feasibly change the next day. The balance sheet shows exactly how the business stands, while a profit and loss account shows how it reached 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 should ideally be built up on a week-to-week basis. You should work out the potential daily business, i.e. the amount guests will spend, and then multiply this figure to obtain a weekly value.

Finally, total the figures to obtain 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. In 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 might be reduced 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 predictions that are as accurate as possible. Advanced computer programmes, along with simple spreadsheets, are highly 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 charge is for a very minor amount, it adds up to a lot over the period of a year. These charges might be negotiable with your bank. It may be advisable to obtain information from the main banks to ascertain their charges and choose the best one.

Credit Cards

You should clearly state, in the letters sent to the guests or in your brochure, the acceptable methods of payment. If you do not accept credit cards, you should say so clearly during this stage of the process.

Some small businesses do not accept credit cards because they will incur an additional cost with this method of payment.

Further Reading:

- ✓ *Hospitality Accounting: Third Edition, (2021), By Steven M. Bragg*
- ✓ *Hospitality Industry Financial Accounting: Fourth Edition, (2015), By Raymond S. Schmidgall, Ph.D., CPA and James W. Damitio, Ph.D., CMA*
- ✓ *Hospitality Financial Accounting 2nd Edition, (2010), By Jerry J. Weygandt, Donald E. Kieso, Paul D. Kimmel, Agnes L. DeFranco*
- ✓ *Hospitality Management Accounting 9th Edition, (2006), By Martin G. Jagels*