

THIRD EDITION

ACCOUNTING ESSENTIALS FOR HOSPITALITY MANAGERS

CHRIS GUILDING



Accounting Essentials for Hospitality Managers

For non-accountant hospitality managers, accounting and financial management is often perceived as an inaccessible part of the business, yet understanding it is crucial for success. Using an “easy-to-read” style, this book provides a comprehensive overview of the most relevant accounting information for hospitality managers. It demonstrates how to organise and analyse accounting data to help make informed decisions with confidence.

With its highly practical approach, this third edition:

- quickly develops the reader’s ability to adeptly use and interpret accounting information to further organisational decision making and control;
- demonstrates how an appropriate analysis of financial reports can drive your business strategy forward from a well-informed base;
- develops mastery of the key accounting concepts through financial decision making cases that take a hospitality manager’s perspective on a range of issues;
- sets financial problems in the context of a range of countries and currencies;
- includes two new chapters concerning managerial finance issues and revenue management;
- includes accounting problems at the end of each chapter, to be used to test knowledge and apply understanding to real-life situations;
- offers extensive web support for tutors and students, providing explanation and guidelines for instructors on how to use the textbook and examples, PowerPoint slides, solutions to end of chapter problems, and student test bank and additional exercises.

This book is written in an accessible and engaging style, and is structured logically with useful features throughout to aid students’ learning and understanding. It is an essential resource for all future hospitality managers.

Chris Guilding is Professor of Hotel Management in the Department of Tourism, Leisure, Hotel and Sport Management at Griffith University, Australia. His teaching specialism is in management accounting and he has taught on the MBA, Masters in Hospitality Management, Professional Golfers Association, Australian Institute of Company Directors Course and undergraduate programmes.

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Third edition

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Contents

List of figures	xi
List of tables	xii
List of boxes	xiii
List of schedules	xv
List of exhibits	xvi
List of financial decision making and control in action cases	xviii
Preface	xix
1 Introduction: hospitality decision makers' use of accounting	1
Key characteristics of the hospitality industry	2
Accounting and business management	7
Accounting and hospitality decision makers	9
Uniform system of accounts	11
Organisational forms	13
2 Analysing transactions and preparing year-end financial statements	19
The balance sheet and income statement	20
Classifying transactions according to assets, liabilities and owners' equity	22
The importance of understanding financial accounting basics	27
3 Double entry accounting	33
Double entry accounting: some background concepts	33
Double entry accounting: a worked example	36
Journal entries	42
4 Adjusting and closing entries	47
Why do we need closing entries?	47
Why do we need adjusting entries?	48
Worked examples highlighting types of adjusting entry	49
5 Financial statement analysis	67
Profit performance	68
Financial stability	75
Ratios using operational measures	77

Contents

6	Internal control	89
	Internal control principles	91
	Internal control procedures used for specific hotel activities	94
	Bank reconciliation: an important internal control procedure	97
	Accounting for petty cash	104
7	Cost management issues	116
	Management's need for cost information	117
	Major cost classification schemes	118
	Qualitative and behavioural factors in management decisions	128
8	Cost-volume-profit analysis	137
	Contribution margin	137
	Breakeven analysis	139
	The assumptions of cost-volume-profit analysis	147
9	Budgeting and responsibility accounting	154
	Responsibility accounting	155
	Issues of cost, revenue, profit and investment centre design	158
	Roles of the budget	163
	Behavioural aspects of budgeting	166
	Technical aspects of budget preparation	169
10	Flexible budgeting and variance analysis	181
	Flexible budgeting	182
	Variance analysis	184
	Benchmarking	190
11	Performance measurement	199
	Shortcomings of conventional financial performance measures	200
	Key issues in performance measurement system design	202
	The balanced scorecard	208
12	Cost information and pricing	219
	Factors affecting pricing	221
	Traditionally applied pricing methods	223
13	Working capital management	238
	Cash management	239
	Accounts receivable management	246
	Inventory management	249
	Accounts payable management	250
	Working capital management	252
14	Investment decision making	260
	Accounting rate of return	261
	Payback	262
	Net present value (NPV)	263
	Internal rate of return	269
	Integrating the four investment appraisal techniques	270

15 Other managerial finance issues	279
What should be the over-riding business objective in financial management?	280
Agency issues	283
Trading shares in publicly listed companies	290
Share valuation	291
Dividends	293
Operating and financial leverage	296
16 Revenue management	307
Business characteristics conducive to revenue management application	308
Demand forecasting	310
Gauging a hotel's need for revenue management	311
Revenue management system requirements	315
Using rate categories and demand forecasts	318
Length of stay controls	319
Managing group bookings	321
Revenue management implementation issues	324
Words of caution in applying the revenue management philosophy	325
Solutions to first three problems in each chapter	331
Index	355



A range of further resources for this book are available on the Companion Website: www.routledge.com/cw/guilding

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Figures

9.1	An example of a hotel's organisation chart	156
9.2	A responsibility centre and its dimensions of accountability	156
9.3	A hierarchical perspective of responsibility centres' accountability	157
9.4	Budget difficulty and management performance	167
9.5	Kitchen and restaurant physical sequencing of events	170
9.6	The sequence in which budget schedules relating to kitchen activities are prepared	170
11.1	Overview of strategy-based balanced scorecard development	211
13.1	The impact of seasonality on asset investment	252
15.1	Different spans of leverage	297
16.1	Internal analysis of lost revenue	312

Tables

14.1	Present value factors for a single cash flow (PV)	264
14.2	Present value factors for an annuity (PVA)	265
15.1	Operating leverage – impact of sales increase on EBIT	297
15.2	Financial leverage – impact of EBIT increase on EPS	299
16.1	Competing hotels revenue comparison	313
16.2	Competing hotels occupancy, ADR and Revpar penetration	314

Boxes

1.1	Dimensions of sales volatility in the hospitality industry	3
1.2	The accounting implications of distinctive hospitality industry characteristics	6
1.3	Perspectives of hospitality decision makers on aspects of accounting	9
2.1	The main sections of a balance sheet	21
3.1	Key principles of double entry accounting	34
4.1	Adjusting entries and the nature of the accrual concept	48
4.2	A scenario highlighting the need for depreciation	57
5.1	Revpar: a comprehensive indicator of room sales performance	79
5.2	Revenue yield per seat: a comprehensive indicator of restaurant sales performance	81
6.1	The four objectives of internal control	90
6.2	Issues to consider when developing cash internal control procedures	95
6.3	Factors causing a difference between a company's recorded bank account balance and the bank statement balance	98
6.4	Internal control procedures that can be used to counter hotel-specific theft and fraud threats	107
7.1	Exploring cost objects: examples found in large restaurants	117
7.2	The nature of opportunity cost	118
7.3	Determining fixed and variable costs using the "high-low" method	124
7.4	The danger of treating average cost per unit as a constant	125
7.5	Using variable cost as a short-term pricing threshold	126
8.1	Calculating safety margin	142
8.2	Calculating breakeven: the case of two room types with different contribution margins	143
8.3	Determining the sales necessary to achieve a targeted profit	146
9.1	Highlighting a problem with ROI accountability	161
9.2	Calculating residual income	162
9.3	Factors affecting the accountability of a department's performance	167
11.1	11 key issues in performance measurement system design	203

Boxes

11.2	Four dimensions of balance in performance measures	205
11.3	Key features of the balanced scorecard (BSC) framework	209
11.4	Examples of hotel performance measures	214
12.1	Rule of a thousand approach to setting room rates	225
12.2	Relative room size approach to pricing	225
12.3	Revpar: a comprehensive room sales performance measure	229
12.4	Applying contribution pricing	231
13.1	Why is profit not the same as cash?	244
13.2	The five C's of credit management	246
13.3	Accounts receivable collection techniques	248
13.4	Using the EOQ model to determine optimal order size	249
13.5	The profit/risk trade-off in current liability financing	253
14.1	Finding an investment proposal's accounting rate of return	261
14.2	Finding an investment proposal's payback	262
14.3	Using discounting tables to find the present value of future cash flows	266
14.4	Finding an investment proposal's net present value	267
14.5	Calculating the cost of capital	268
14.6	Finding an investment proposal's internal rate of return	269
15.1	The importance of EPS return timing	281
15.2	Everyday agency relationship challenges	284
15.3	Misalignment of manager and shareholder goals	286
15.4	Problem with management contract fee determination	289
15.5	Valuing a share that provides a consistent annual dividend	292
15.6	Dividend payment – accounting implications and timeline	294
16.1	Using rate categories and demand forecasts to maximise revenue	318
16.2	Length of stay revenue management	320
16.3	Changing the timing of a group booking	321
16.4	Changing the size of a group booking	323

Schedules

2.1	The impact of Exhibit 2.1's ten transactions on the balance sheet	24
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Exhibits

1.1	Summary Income Statement prepared in <i>USALI</i> format	12
1.2	Key differences across organisational forms	14
2.1	Illustration of how transactions affect the balance sheet equation	23
2.2	Illustration of how the income statement is linked to the balance sheet via the statement of owners' equity	26
3.1	The double entry accounting framework	35
3.2	The Cash "T account"	35
3.3	Illustration of a general journal	42
4.1	Determining stock used in a periodic inventory system	54
5.1	Celestial Hotel Ltd Income statement for the year ending 31/12/20X1	68
5.2	Celestial Hotel Ltd Balance sheet as at 31/12/20X1	69
5.3	Dissecting ROI into profit margin and asset turnover	70
7.1	HighRollers' unallocated income statement for the three months ending 31 December 20X1	119
7.2	Methods used to allocate HighRollers' indirect costs to profit centres	121
7.3	HighRollers' income statement based on allocated indirect costs for the three months ending 31 December 20X1	122
7.4	RockiesResort income statement analysis	127
8.1	The DapperDrake Resort Income statement for the year ending 30 June 20X1 (Conventional format)	138
8.2	The DapperDrake Resort Income statement for the year ending 30th June 20X1 (Contribution margin layout)	138
8.3	Graphing breakeven	142
9.1	JazzFest pastry production labour costs	171
9.2	JazzFest projected sales demand for pastries	171
9.3	JazzFest budgeted production of pastries	172
9.4	JazzFest budgeted purchase of flour schedule (in kilograms)	172
9.5	JazzFest budgeted labour cost for pastry production	173
10.1	The Poplars Hotel Rooms Department Flexible budget performance report – month ending 30th April 20X1	183
10.2	Calculation of labour rate and efficiency variances	185
10.3	Calculation of material price and efficiency variances	187
10.4	Calculation of the selling price and sales volume variances	189
12.1	Comparing price discretion for wine and a room night	220

12.2	Poisson Restaurant – cost of ingredients used in fish salad	223
12.3	Using required rate of return to set room rates	227
13.1	BackWoods Retreat budgeted income statements for January, February and March	240
13.2	Information relating to BackWoods' projection of cash flows	241
13.3	Schedule of projected cash receipts for BackWoods Retreat	242
13.4	Schedule of projected cash disbursements for BackWoods Retreat	243
13.5	A cash budget for BackWoods Retreat	244
13.6	Accounts receivable aging schedule	247

Financial decision making and control in action cases

2.1	The General Manager's use of balance sheet information	27
3.1	The General Manager's interpretation of the retained earnings account	41
4.1	The F&B manager's choice of inventory control procedures	55
5.1	The Financial Controller and analysing ROI	74
6.1	Small business owner bank reconciliation statement preparation	103
7.1	The F&B manager and the decision to outsource	129
8.1	The Rooms Division Manager and breakeven analysis	140
9.1	Human Resource Managers' use of budgets when planning staffing levels	165
10.1	The Rooms Division Manager and variance analysis	186
11.1	Senior management establishing a balanced scorecard performance measurement system	212
12.1	The Sales and Marketing Manager and revenue management	230
13.1	The Financial Controller determining whether to take a trade discount	251
14.1	The Chief Engineer and investment appraisal	270
15.1	The Financial Controller and financial leverage	301
16.1	The Revenue Manager and price elasticity of demand	316

Preface

Welcome to *Accounting Essentials for Hospitality Managers*. This is the third edition of the book, although the book's first edition was entitled *Financial Management for Hospitality Decision Makers*. The re-titling of the book resulted from a concern that the words "financial management" convey a particular meaning to many accounting and finance academics. This meaning suggests a curriculum that encompasses corporate finance topics such as the cost of capital and capital structure. Such topics would be of interest to finance specialists working in the corporate head office of large hotel chains. They are not particularly pertinent, however, to managers operating at the hotel property level. This book is concerned with the key accounting tools and techniques that facilitate effective management in a hotel property. Hence the words "accounting" and "essentials" are included in the new title.

This edition of the book contains two new chapters: [Chapter 15](#), which is concerned with financial management topics not addressed elsewhere in the book, and [Chapter 16](#), which provides an accounting perspective on revenue management, which has become an increasingly important facet of hotel management in recent years. The number of problems appearing at the end of each chapter has also been expanded to a minimum of 12. For each chapter, solutions for the first three problems are provided at the back of the book. This is a self-help feature designed to further facilitate learning and enable students to review their understanding of concepts covered by the book.

The current era of growth and dynamic change in hospitality signifies that it is an exciting time to be involved with the industry. Like many other industries, the hospitality sector is experiencing heightened levels of competition and a growing need to apply appropriate management techniques to ensure commercial success. These factors increasingly signify that a hotel manager needs a working knowledge of accounting tools, techniques and procedures.

From my experience as an instructor of accounting generally, and hospitality management accounting in particular, I have found students tend to approach their first class with a degree of trepidation and an expectation that the subject will be dry and difficult to master. Through this book, I endeavour to make the subject material accessible and to demonstrate the relevance of accounting to all hotel managers in all but the smallest hotels. Recognition of the way that accounting can be usefully applied by the modern manager is a critical factor that

can stimulate a student's desire to master the material covered. Once relevance is appreciated, the student starts to explore the range of ways in which accounting can serve the hospitality manager.

The approach to topics covered has been designed to maximise the reader's sense that they are quickly mastering key accounting concepts. Such mastery will help the reader develop the courage to demand excellence of the hotel's accounting department where he or she works. This is a key step in the design of a quality accounting system. Too frequently, managers are "turned-off" by accounting jargon and the way accounting reports are presented. It is an unfortunate reality that accounting reports frequently appear to be designed by accountants for accountants. This problem is partially attributable to the fact that most qualified accountants have gained their qualification through demonstrating their understanding of the rules of external reporting (i.e., financial accounting, which is the branch of accounting concerned with the preparation of annual accounts for external parties, such as shareholders). When providing accounting information to managers within the hotel, however, reports should be designed with the decision making needs of the managers in mind. Hotel accounting systems can be greatly improved if managers play an active role in ensuring that accounting reports developed for their use are designed to be of maximum relevancy and are structured in a format that facilitates easy interpretation and use.

The book has been written with two specific audiences in mind. Firstly, it can serve as a valuable self-help tool for the practising hospitality manager interested in improving their appreciation of accounting techniques and procedures. Secondly, it has been designed to serve as a text that can be used in an accounting course in a hospitality-related programme of study. While the depth of the material covered signifies it would serve well as a stage two text, it can certainly be used in a first year of study, as no prior study of accounting is presumed.

In my view, not only can a well-designed book meet the needs of both the practitioner and student audiences, a well-balanced book is likely to result from addressing the needs of both audiences. Addressing the practising manager audience ensures that the book imparts information that is relevant to today's hospitality manager in a direct and readily accessible style. The reader will be able to quickly see the wood from the trees and gain an early appreciation of how concepts introduced can be applied in practice. Addressing a student audience ensures that the material covered provides a broad foundation. The problems provided at the end of each chapter give students the chance to practice applying issues raised in the chapters and also to gain exposure to the type of problems that can be encountered in examination situations. A review of these problems will also prove extremely beneficial to the practising manager, as deeper understanding of the material covered in the text will result from exposure to a range of real world decision making scenarios.

A distinctive aspect of the book is its international orientation. The hospitality industry is becoming increasingly international with large multi-national chains dominating the 5 and 4 star market segments. This factor, together with the drawing together of countries to form economic alliances such as the European

Economic Union signifies that a hotel manager's career path can involve some international work experience. Further, the clientele base of hotels is becoming more international as a result of increased international business and tourist travel. In combination, these factors highlight the need for a book that views hospitality accounting in a globalised context. Scenarios introduced and problems posed will draw on a range of international settings. This will develop the reader's familiarity with addressing financial problems in the context of a range of countries and currencies.

A second distinctive aspect of the book is its hospitality decision makers' orientation. This theme will be apparent from the problem solving approach used throughout the text. In each chapter this approach is reinforced by the inclusion of a case that takes a particular hospitality manager's perspective on an issue raised. Each of these cases is headed "Financial decision making in action" or "Financial control in action" and has a sub-heading relating to the hotel function and also the aspect of accounting in question.

The book can be viewed as comprising four main parts. After the introductory chapter, [Chapters 2 to 5](#) focus on financial accounting. [Chapters 6 to 12](#) focus on management accounting, [Chapters 13 to 15](#) focus on financial management issues and [Chapter 16](#) concerns revenue management. Each part can be approached independently of the other parts, i.e., if the reader is exclusively interested in management accounting, they can commence their reading at [Chapter 6](#) or [Chapter 7](#).

In [Chapter 1](#), in the course of providing an overview of the nature of accounting, the contents of the book are introduced. [Chapters 2, 3 and 4](#) build on one another to provide a grounding in financial accounting. While financial accounting does not represent the primary orientation of the book, a basic understanding of the workings of the financial accounting system can be highly beneficial to the hospitality manager, due to the importance of financial statements such as the balance sheet and income statement. It is difficult to overstate the importance of these statements as they represent a key resource used by outsiders to gauge an organisation's performance. The need for management to understand the mechanisms by which they are judged externally is clearly important. [Chapter 5](#) provides a structured approach that can be taken to analysing the statements produced by the financial accounting system.

[Chapters 6–16](#) have more of an internal (i.e., within a hotel) orientation. [Chapter 6](#) outlines significant internal control challenges that arise in hotels and describes procedures that can be implemented to counter these challenges. [Chapters 7–16](#) consider hospitality management decision making from the following perspectives:

- Classifying costs in order to facilitate decision making,
- Using cost-volume-profit analysis,
- Applying budgeting and responsibility accounting,
- Applying flexible budgeting and variance analysis,
- Designing appropriate performance measurement systems,

Preface

- Drawing on cost information to inform pricing decisions,
- How optimal decisions can be made with respect to working capital (i.e., cash, accounts receivable, inventory and accounts payable management),
- What financial techniques can be used in investment appraisal,
- How operating and financial leverage can be manipulated to increase net profit,
- What revenue management steps can be taken in an effort to increase total revenue.

The book has been designed to facilitate a flexible teaching and learning approach. While the sequencing of the chapters results from my view of the most appropriate order in which to present the material covered, many of the chapters can be read out of sequence. The only chapters that build on one another to such a degree that they should be read consecutively are [Chapters 2, 3 and 4](#) and [Chapters 9 and 10](#).

Should you have any suggestions in connection with how the book could be further strengthened in the next edition, it would be a pleasure to hear from you. Please contact me at my email address noted below.

I hope you find this book to be a stimulating read and that your career benefits from you gaining an enhanced appreciation of the merits of applying appropriately chosen accounting techniques and procedures in hospitality management.

Finally, I would like to thank the publisher, *John Wiley and Sons* for allowing me to draw some of [Chapter 6](#)'s material from the following book:

The Key Elements of Introductory Accounting, Guilding C., Auyeung, P. and Delaney, D.; John Wiley and Sons Australia Ltd; © 2006, 3rd edition; Reprinted with permission of John Wiley & Sons Australia.

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Introduction: hospitality decision makers' use of accounting

Learning objectives

After studying this chapter, you should have developed an appreciation of:

1. the accounting implications of key hospitality industry characteristics,
2. the nature of accounting and financial management,
3. some of the ways hospitality managers become involved in accounting,
4. what is meant by the “*Uniform System of Accounts for the Lodging Industry*”,
5. the basic differences between sole proprietorships, partnerships and companies,
6. the focus of this book.

1) Introduction

This book describes accounting and financial management procedures and analytical techniques in the context of hospitality decision making. The purpose of this introductory chapter is to set the scene for the remainder of the book.

The first section of this chapter describes key characteristics relating to the hospitality industry and outlines accounting implications associated with these characteristics. Then, an overview of the nature of accounting is provided. In the course of describing the nature of accounting, the overall structure of the book will be introduced. We will see that [Chapters 2–5](#) provide a grounding in hospitality financial accounting. [Chapters 6–12](#) introduce a range of topics relating to management accounting and will show how management accounting techniques and procedures are critically important to a host of hospitality decision making situations. [Chapters 13–15](#) focus on managerial finance issues and [Chapter 16](#) provides a financial perspective on revenue management.

This chapter's subsequent section highlights some of the many ways that different hospitality managers can apply accounting techniques and procedures to inform their decision making. The following section introduces an important accounting report: the income statement. This statement is introduced in the context of a description of the *Uniform System of Accounts for the Lodging Industry*. This system was developed in the US and is being

increasingly used in large hotels internationally. This signifies increased standardisation of the classification scheme used by hotels to record their financial transactions, and also greater standardisation of the financial performance reports produced by hotels. The chapter's final section describes the three main types of commercial organisation: sole proprietorship, partnership, and company.

2) Key characteristics of the hospitality industry

The hospitality industry encompasses a broad range of activities and types of organisation. Some of the industry's particularly visible players include restaurants and bars that provide dining and beverage services and also lodging operations that offer accommodation facilities. Restaurant organisations range from multinational companies to small street corner cafés. Similarly, lodging operations range from multinational hotels offering thousands of rooms worldwide to bed and breakfast operations offering a single guest room. At the bed and breakfast extreme, we have small family-run concerns with a limited service range, while at the other extreme we have multinational companies offering a range of services that include accommodation, dining and frequently conference, sports and leisure facilities. The hospitality industry's heterogeneity becomes apparent when we recognise that its diversity encompasses the following:

- Hotels
- Motels
- Restaurants
- Fast food outlets
- Pubs and bars
- Country and sport clubs
- Cruise liners.

This book is primarily focused on hotel management. This focus has been taken because the majority of large hotels provide most of the service elements offered by the hospitality organisations listed above. In addition, as many large hotels have to co-ordinate provision of a range of hospitality services under one roof, they confront a degree of management complexity not encountered in many other hospitality organisations that offer a narrower range of services. For example, a large hotel's organisational structure and accounting system must be designed with due regard given to co-ordinating a range of disparate functions that, in most cases, will at least include the provision of accommodation, restaurant and bar facilities. The disparity of these functions is apparent when we recognise that the sale of rooms can be likened to the sale of seats in the airline or entertainment industries, a parallel exists between food preparation in restaurant kitchens and production activities in the manufacturing industry, and bar operations can be likened to retailing. In addition to managing this disparate range of services, a hotel needs to co-ordinate a set of distinct support activities such as laundry, building and grounds maintenance, information systems, training, marketing, transportation, etc.

This disparate range of hospitality activities is housed within a single site (i.e., building and surrounds), that we refer to as a hotel. This creates a degree of site complexity which is exacerbated when we recognise that the location of the service provider is also the place where the customer purchases and consumes the services offered. While this is patently obvious to anyone who has been to a hotel, we should not forget that it is not the case in many other service industries (e.g., banking, transportation, telecommunications, law, accounting), or the manufacturing industry. This factor highlights a further dynamic of the hotel industry. Not

only is a hotel site the place where a broad range of activities are undertaken, it is the focal point of extensive and continual vigilance with respect to cleaning, maintenance and security. We can thus see that a hotel represents a complex site where distinct activities are conducted in close proximity to one another. Where the performance of one functional activity (e.g., cleaning) can be affected by the way another is conducted (e.g., maintenance), high interdependency is said to exist. Such high interdependency can create problems when attempting to hold one functional area (e.g., cleaning) accountable for its performance.

Not only is functional interdependency an issue when trying to hold a manager accountable for costs, it can be a problem when attempting to hold a manager responsible for a particular department's level of sales. For example, through no fault of her own, a food and beverage (F&B) manager may see her profits plummet as a result of a relatively low number of rooms sold by the rooms division. Such cross-functional interdependency needs to be recognised when identifying what aspect of a hotel's performance a particular manager should be held accountable for.

Sales volatility

The hotel industry experiences significant sales volatility. The extent of this volatility becomes particularly apparent when we recognise it comprises at least four key dimensions:

- economic cycle volatility,
- seasonal sales volatility,
- weekly sales volatility,
- intra-day sales volatility.

These dimensions of sales volatility and the implications they carry for hotel accounting are elaborated upon in [Box 1.1](#).

Box 1.1

Dimensions of sales volatility in the hospitality industry

- 1) **Economic cycle volatility:** Hotels are extremely susceptible to the highs and lows of the economic cycle. Properties with a high proportion of business clients suffer during economic downturns due to significantly reduced corporate expenditure on business travel. Hotels offering tourist accommodation also suffer during economic downturns due to families reducing discretionary expenditure on activities such as holidays and travel. This high susceptibility to the general economic climate highlights the importance of hotels developing operational plans only once careful analysis has been made of predicted economic conditions.
- 2) **Seasonal sales volatility:** Many hotels experience seasonal sales volatility over the course of a year. This volatility can be so severe to cause off-season closure for some resort properties. The decision whether to close

should be informed by an appropriately conducted financial analysis such as that described in [Chapter 7](#). Seasonal sales volatility can also pose particular cash management issues. During the middle and tail-end of busy seasons, surplus cash balances are likely to result, while in the off-season and the build up to the busy season, deficit cash balances are likely to arise. The need for careful cash planning and management is discussed in [Chapter 13](#).

- 3) **Weekly sales volatility:** Hotels with a high proportion of business clients will experience high occupancy (i.e., a high proportion of rooms sold) from Monday to Thursday, and a relatively low occupancy from Friday to Sunday. By contrast, many resort hotels have relatively busy weekends. As will be seen in [Chapter 16](#), accurate forecasting of demand will inform management's decision making with respect to the amount and timing of room rate discounting. Forecasting is also discussed in the context of budgeting in [Chapter 9](#).
- 4) **Intra-day sales volatility:** Restaurants experience busy periods during meal times, while bars tend to be busiest at night times. This intra-day demand volatility has led to widely-used pricing strategies such as "early bird specials" in restaurants and "happy hours" in bars. Hotel pricing issues are discussed in [Chapters 12 and 16](#). In addition to these dimensions of intra-day sales volatility, staffing needs have to be considered in light of issues such as the front desk experiencing a frenetic early morning period processing check-outs and a second, more protracted, busy period in the late afternoon processing check-ins.

High product perishability

Relative to many other industries, there can be limited scope to produce for inventory in food-service operations. A significant proportion of food inventory is purchased less than 24 hours prior to sale, and much food preparation is conducted within minutes of a sale. There is thus a very short time span between order placement, production and sale. Many menu items cannot be produced in advance of sales due to their high perishability.

Perishability is even more apparent with respect to room and banquet sales. In these contexts, perishability can be described as "absolute", as, if a room is not occupied on a particular night, the opportunity to sell that room that night is lost forever. No discounting of a room's rate the following day can reverse this loss. This situation also applies to conference and banqueting activities. The high perishability associated with rooms, conferencing, banqueting and food underlines the importance of accurate demand forecasting. With respect to food, an accurate forecast of the mix and level of demand can result in the maintenance of all options on a menu during high demand periods, and minimal cost of food scrapped during low demand periods. With respect to rooms, an accurate forecast of room demand can enable appropriate pricing decisions to be made as part of an attempt to maximise revenue. Appropriate room demand management is particularly important, as

room sales can be the prime driver of sales of many of a hotel's other services (e.g., restaurant, bar, etc.).

High fixed component in cost structure

A high proportion of a hotel's costs do not vary in line with sales levels. These costs are referred to as "fixed". The high fixed cost structure of hotels results from rent (a significant investment is required to buy land and build a hotel), as well as fixed salary costs associated with administrative and operational staff needed to manage, operate and maintain a hotel. The high proportion of fixed costs signifies that an important issue in hotels concerns the determination of the level of sales necessary to achieve breakeven (i.e., cover all fixed costs).

A considerable proportion of fixed costs result from periodic refurbishment of rooms and also investment in the hotel's physical infrastructure such as kitchen and laundry equipment. In accounting, we refer to such long-held assets of the organisation as "fixed assets". In [Chapter 4](#) we will see how the purchase of a fixed asset results in depreciation (the allocation of a fixed asset's cost over its useful life), and in [Chapter 14](#) techniques that can be used to appraise fixed asset investment proposals are described.

Labour intensive activities

If you visit the typical modern factory, you are likely to be struck by the highly automated and capital-intensive nature of the production process. Procedures are scheduled by computers and robotic engineering is used extensively in physical processing. This capital intensity in the conduct of work lies in stark contrast to what you see when entering a hotel. Major hotel activities include room housekeeping, restaurant food preparation and service as well as bar service. Despite the advent of the machine and computer age, the physical conduct of all of these activities has changed little over the last fifty years. They continue to have a high labour component. Relative to many other industries, we can conclude that activities conducted in the hotel industry are still highly labour intensive.

This high labour intensity highlights the need to develop performance measures that monitor labour productivity. Performance indicators such as restaurant sales per employee hour worked are described in [Chapters 5](#) and [11](#). In addition, the need to analyse the difference between the actual cost of labour and the budgeted cost of labour can represent a significant dimension of labour cost management. In [Chapter 10](#) we will see how differences between budgeted and actual labour cost can be segregated into labour rate and labour efficiency variances.

The distinctiveness of these hotel characteristics that have just been described underlines the degree to which hotel accounting systems need to be tailored to the particular needs of hotel management. In combination, these characteristics signify that a hotel represents a fascinating arena in which to consider the application of accounting. [Box 1.2](#) provides a summary of accounting implications associated with each of the hospitality industry characteristics just described.

Box 1.2

The accounting implications of distinctive hospitality industry characteristics

Hospitality Industry Characteristic	Accounting Implication
1. Disparity and interdependency of functions	Care must be taken when determining a functional area's scope of accountability. Due to their influence on sales and expenses, some managers can be held profit accountable (e.g., a restaurant manager). Due to no direct influence on sales, others can only be held cost accountable (e.g., a training manager). Factors affecting departmental performance can be complex in hotels, however. If room occupancy affects F&B sales, care must be taken if attempting to hold an F&B manager profit accountable.
2. High sales volatility	Hotel activity can be highly volatile over the course of an economic cycle, a year, a week, and a day. As noted in Box 1.1 , this issue highlights the importance of accurate budgeting and forecasting systems to aid discounting decisions with respect to room rates and restaurant menu prices.
3. High product perishability	The absolute perishability of rooms, conference and banquet services and the relative perishability of food underlines the importance of accurate hotel demand forecasting as part of the budgeting process. Generally, the most important aspect of forecasting is room occupancy, as room sales drive the sales levels of other hotel activities. Accurate restaurant forecasting provides the basis for maintaining a full menu of options and minimising the cost of food wastage. With respect to rooms, forecasting accuracy can enable appropriate room rate discounting decisions.
4. High fixed costs	Hotels involve considerable investment in fixed assets such as buildings on prime land as well as extensive furnishings, fittings and equipment. This investment generates high rent and depreciation cost (discussed in Chapter 4), which, together with significant salary costs, result in hotels having a high fixed cost structure. High investment highlights the importance of using appropriate financial analysis when appraising the relative merits of proposed investments.
5. Labour-intensive activities	The high labour intensity apparent in many hotel activities highlights the importance of monitoring differences between actual labour cost and budgeted labour cost and also using performance measures that focus on labour productivity.

3) Accounting and business management

Accounting is often referred to as the “language of business”. Accounting concerns information systems that record business activities in financial terms and consolidate the information recorded to produce reports that convey a business’s financial achievements to decision makers such as managers and shareholders. Two distinct arms are evident in accounting: financial accounting and management accounting.

Financial accounting concerns the preparation of financial reports for external users such as shareholders, banks and government authorities. In order for these financial reports to be meaningful, it is important that they are produced in a standardised way and are seen to be reliable. Consider the implications arising if investors lost faith in the reliability of accounting reports produced by companies. As financial accounting reports represent a key source of information used by the investing community when deciding whether to buy a company’s shares, a lack of confidence in accounting systems would translate into a sense of deficient information and a reluctance to invest. This would inhibit the ability of economically viable companies to expand, which in turn would carry negative implications for employment, availability of goods and services, and our standard of living. For the sake of a healthy economy, it is therefore critically important that a reliable financial accounting system that engenders trust in reported data is established. The importance of reliability in financial reporting is a significant factor that lies behind the considerable resources expended in connection with auditing company accounts. This book provides an introduction to the basics of financial accounting, to provide hotel managers with an appreciation of the financial accounting reporting process and the ability to conduct an informed analysis of the statements produced by the process.

Management accounting concerns the provision of financial information to internal management. This information is designed to help managers in their decision making and control of businesses. Financial information sought by hotel managers includes determining the cost of providing a meal to inform the menu pricing decision, determining how many delegates need to attend a conference in order to achieve breakeven, and determining what level of profit is made by each selling unit of a hotel to inform any rationalization decision to close down a unit. The provision of all these types of financial information falls within the scope of management accounting. In addition to introducing the basics of financial accounting, this book describes management accounting and tools and techniques that can aid hospitality managers in their efforts to ensure efficient and effective management of resources.

For most organisations, the accounting system represents the most extensive and all-encompassing information system. This is because accounting information is based primarily on the most fundamental common denominator in business, i.e., money. A front office manager might talk of the number of check-ins processed, a restaurant manager may talk of the number of covers served, a laundry manager may talk of the weight of linen processed and a housekeeping manager may talk of the number of rooms cleaned. While each manager refers to different operational factors when talking of their respective activities, they are all familiar with the terms “cost” and “profit”. Cost and profit are denominated in monetary terms and this underlines the degree to which the accounting system is the organisation’s most pervasive and all-encompassing information system. It is also the only information system that measures the economic performance of all departments within an organisation. When we recognise the pervasive nature of the accounting information system and the fact that we are living in a time that is frequently described as “the information age”, we begin to appreciate the critically significant role of accounting in promoting effective business management.

Introduction: hospitality decision makers' use of accounting

Individuals from different functional areas should play an active accounting role by demanding excellence in the design of accounting systems. We sometimes need to remind ourselves that accounting system design is too important to be left solely to accountants. Specific accounting information needs that fall outside the scope of conventional accounting system design will have to be flagged by managers with decision making and control responsibilities. There is boundless scope for tailoring an accounting information system, however the onus is on managers to inform the accounting service providers how the information provided should be tailored to meet their decision making needs.

In the last few years, there appears to have been a strong movement away from accounting's traditional "command and control" philosophy to more of an "inform and improve" philosophy. Despite this, some question the appropriateness of using financial measures to direct and control businesses. Criticisms include:

- Financial measures focus on symptoms rather than causes. Profit may decline because of declining customer service. It might therefore be more helpful for management to focus on monitoring the quality of customer service delivery, rather than profit.
- Financial measures tend to be oriented to monitoring past short-term performance. This can hinder forward-looking, longer-term initiatives such as a quest to develop a strong hotel chain image amongst customers.

Some of these criticisms have led to greater importance being attached to a breadth of financial and non-financial performance indicators, e.g., Kaplan and Norton talk of the "Balanced Scorecard" (Kaplan and Norton 1996). Developing a mix of financial and non-financial performance measures in the context of a balanced scorecard management approach is discussed in [Chapter 11](#). Despite such developments, given the importance attached to published financial statements by the investing community, continued management emphasis on financial controls is to be expected.

[Chapters 2, 3, 4 and 5](#) provide a progressive introduction to the workings of financial accounting systems. In [Chapter 2](#) we will see how, like a coin, a financial transaction has two sides. These two sides signify that all financial transactions have a double impact on the business. In [Chapters 3 and 4](#) we will see how the two sides of the "financial transaction coin" are referred to as debits and credits. It is important that you gain an understanding of the double entry bookkeeping system as it is a fairly fundamental aspect of accounting. An analogy can be drawn between the manner in which knowing the alphabet serves reading and writing and the way in which an appreciation of the double entry accounting system will aid your capacity to exercise appropriate financial management. Once you have mastered the basics of double entry accounting, you will have a grounding that will allow you to begin considering how accounting information can be tailored to the specific financial decision making needs that arise in a hotel. It is from the information stored in the double entry accounting system that an income statement (profit and loss statement) and balance sheet are periodically prepared. These statements, which represent key indicators of an organisation's financial health and performance, are also described in [Chapters 2 and 3](#). [Chapter 5](#) provides an overview of how year end financial accounts can be analysed.

The book's subsequent chapters have more of a management decision making and control orientation. The management issues addressed concern: the importance of internal control in hotels and what steps can be taken to strengthen internal control ([Chapter 6](#)), facilitating decision making and control through cost analysis and management ([Chapters 7 and 8](#)), responsibility accounting and budgetary control ([Chapters 9 and 10](#)), performance measurement ([Chapter 11](#)), using cost information to inform pricing decisions ([Chapter 12](#)), managing

elements of working capital such as cash, accounts receivable, inventory and accounts payable (Chapter 13), and conducting financial analyses of investment proposals (Chapter 14). Chapter 15 reviews a range of managerial finance issues and Chapter 16 provides a financial perspective on revenue management.

4) Accounting and hospitality decision makers

A theme of this book concerns viewing accounting from a range of different hospitality management functional perspectives. This theme will be evident from the book's many worked examples that show how particular accounting applications are pertinent to a broad array of hospitality management decision making situations that can arise. To underline the theme still further, however, each chapter contains a particular case that shows how an accounting issue raised in the chapter can be considered from a particular hotel function's perspective. Each case is headed "Financial Decision Making in Action" or "Financial Control in Action" and has a sub-heading relating to the hotel function and also the aspect of accounting in question.

To provide you with an early sense of the importance of accounting to a range of hospitality decision makers, an overview of these cases is provided in Box 1.3. The particular hospitality functions identified are based on Burgess' (2001) listing of the typical membership of an executive committee in a large leisure hotel.

Box 1.3

Perspectives of hospitality decision makers on aspects of accounting

Hotel Function	Accounting aspect or tool	Significance of the accounting aspect or tool
General Manager	A general manager needs to understand the nature and workings of the main financial statements. Many managers incorrectly believe that asset values recorded in the balance sheet represent the assets' worth (see Chapter 2).	Senior managers are increasingly benchmarking the performance of hotels within chains. Real estate inflation rates need to be considered if conducting an analysis using asset values of hotels bought in different time periods. This is because balance sheets report historical cost and not current value of assets.
	Senior managers with no accounting training also sometimes incorrectly believe that the retained earnings account in the balance sheet represents cash that can be accessed (Chapter 3).	Retained earnings is frequently a large account appearing in a balance sheet. It represents the accumulation of all profits reinvested in the hotel since its inception. Poor cash planning will occur if senior management believe it represents cash.