Chapter 1

Hospitality Industry Accounting

# Highlights

* Unique Aspects of the Hospitality Industry
* The Purpose of Accounting in the Hospitality Industry
* Branches of Accounting
* Why Hospitality Managers Use Managerial Accounting
* The Uniform System of Accounts
* Ethics and Hospitality Accounting

# Learning Outcomes

1. Describe the primary purpose of accounting in the hospitality industry.
2. List and summarize the purpose of each of the five branches of accounting.
3. Explain why managerial accounting in the hospitality industry is different from managerial accounting used in other industries.
4. Identify the specific Uniform Systems of Accounts appropriate for the hospitality business you manage.
5. Summarize your ethical responsibilities as a managerial accountant in the hospitality industry.

# Lecture Outline

## Unique Aspects of the Hospitality Industry

* **Hospitality** can be defined as the friendly and charitable reception and entertainment of guests or strangers.
* While each of the industry sub-segments are very different and can be classified in very different ways (for example, profit vs. non profit; or corporate vs. privately owned), one way to classify them is by their emphasis on either lodging or food and beverage (F&B) services. It is the emphasis on providing lodging and meals (in a variety of settings) that distinguishes those who are considered to be working in the “hospitality” industry.
* Within the lodging and food services industries are a variety of related fields, including hotels, restaurants, clubs, resorts, casinos, cruise ships, theme parks; the recreation and leisure market: arenas, stadiums, amphitheaters, civic centers, and other recreational facilities; the convention center market; the education market: colleges, universities, and elementary and secondary school nutrition programs; the business dining market: corporate cafeterias, office complexes, and manufacturing plants; the health care market: long-term care facilities and hospitals; and the corrections market: juvenile detention centers and prisons.
* The number of opportunities offered by the hospitality industry is significant, as are the opportunities for those managers who understand and can utilize their hospitality accounting skills.

## The Purpose of Accounting in the Hospitality Industry

* **Accounting** is the process of recording financial transactions, summarizing them, and then accurately reporting them. An **accountant** is a person skilled in the recording and reporting of financial transactions.
* Accounting is utilized by all managers in business. Accounting in the hospitality industry is utilized every time a guest purchases food, beverages, or a hotel guest room.
* Businesspersons estimate their costs before they decide to build hospitality facilities and often seek loans from banks to help them. Banks want to know about the proposed business’s estimated financial performance before they decide to lend it money.
* The owners of a hospitality facility want to monitor their business's financial condition; investors want to put their money in businesses that will conserve or increase their wealth. To monitor their investments, owners and investors seek out and rely upon accurate financial information.
* Accounting is not the same as management; accounting is a tool used by good managers.
  + Hospitality managers must learn to use accounting techniques as well as their education, experience, values, and goals to make the very best management decisions possible for themselves and the businesses they are responsible for managing.

## Branches of Accounting

### Financial Accounting

* Business accountants who specialize in **financial accounting** are skilled at recording, summarizing, and reporting financial transactions. Financial transactions include **revenue**, the term used to indicate the money you take in, **expense**, the cost of the items required to operate the business, and **profit**, the dollars that remain after all expenses have been paid.
* Financial accounting also includes accounting for **assets**, which are those items owned by the business; **liabilities**, which are the amounts the business owes to others; and **owners’ equity**, which is the residual claims owners have on their assets, or the amount left over in a business after subtracting its liabilities from its assets. These transactions can be used to develop the following accounting equation used to construct a business’s balance sheet.

### Cost Accounting

* + **Cost accounting** is concerned with the classification, recording and reporting of business expenses.
* For cost accountants, a **cost**, or expense,is most often defined as “*time or resources expended by the business.”*
* Cost accountants determine costs by departments, by business function or area of responsibility, and by the products and services sold by the business.

### Tax Accounting

* A **tax** is simply a charge levied by a governmental unit on income, consumption, wealth, or other basis.
* **Tax accounting** concerns itself with the proper and timely filing of tax payments, forms, or other required documents with the governmental units that assess taxes.
* Professional tax accounting techniques and practices ensure that businesses properly fulfill their legitimate tax obligations.
* Some of the taxes hospitality managers may be responsible for include **occupancy taxes**, **sales taxes** and **payroll taxes**.

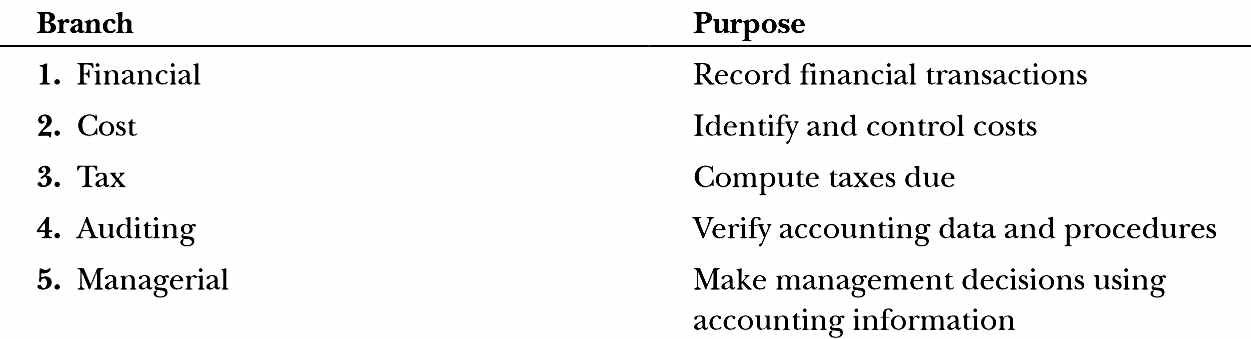
### Auditing

* The auditing branch of accounting is chiefly concerned with the accuracy and truthfulness of financial reports. It is designed to point out accounting weaknesses and irregularities and thus prevent accounting fraud.
* An **audit** is an independent verification of financial records. An **auditor** is the individual or group of individuals that completes the verification.
* The auditing branch is also concerned with safeguarding the assets of a business from those unscrupulous individuals who would seek to defraud or otherwise take advantage of it.
* The total collapse of the Enron Corporation in late 2001, as well as other highly publicized business failures, demonstrates the importance of auditing. Rampant violation of standardized accounting rules led Enron’s investors, creditors, employees, and others to believe the company was financially sound when, in fact, it was not.
* In part because of the potential damage that could be done by unscrupulous corporate managers, in 2002 the United States Congress passed the **Sarbanes-Oxley Act (SOX)**. This law provides criminal penalties for those found to have committed accounting fraud, and also covers the regulation of auditors assigned the task of verifying a company’s financial health.
* Individuals who are directly employed by a company to examine that company’s own accounting procedures are called **internal auditors**. **External auditors** are individuals or firms who are hired specifically to give an independent (external) assessment of a company’s compliance with standardized accounting practices.
* In larger hotels, the **controller**, who is the person responsible for managing the hotel’s accounting processes, may serve as the auditor. In very large properties, full-time individuals are employed specifically to act as the property’s in-house auditors.

### Managerial Accounting

* **Managerial accounting** is the system of recording and analyzing transactions for the purpose of making management decisions.
* Its proper use requires skill, insight, experience, and intuition. These are the same characteristics possessed by the best hospitality managers.
* A brief summary of the branches of accounting and the main purpose of each are shown in Figure 1.1.

### FIGURE 1.1 Branches and Purposes of Accounting



* In the United States, those individuals recognized as highly competent and professional in one or more of the branches of accounting have earned the designation of **Certified Public Accountant (CPA)**. To become a CPA, a person must meet the requirements of the state or jurisdiction in which they want to practice.
* Another certification that may be earned is the **Certified Management Accountant (CMA)**. A CMA assists businesses by integrating accounting information into the business decision process.
* Hospitality professionals who work extensively in the areas of accounting and technology often become members of the **Hospitality Financial and Technology Professionals (HFTP)**. HFTP offers its own certifications for hospitality professionals working in the accounting and technology areas, and provides a global network for them.

## Why Hospitality Managers Use Managerial Accounting

* **Hospitality accounting** is not a separate branch of accounting, but it is a very specialized area that focuses on those accounting techniques and practices used in restaurants, hotels, clubs, and other hospitality businesses.
* Those practicing managerial accounting in the hospitality industry have specialized knowledge. That knowledge is the result of learning the intricacies of the restaurant or hotel business and then applying what they know to a financial analysis process.
* Refer to Figure 1.2 for a hospitality accounting term quiz which will confirm some of the reasons why managerial accounting is a separate field of study.

## The Uniform System of Accounts

* Many hospitality companies require that their managers use a series of suggested (uniform) accounting procedures created specifically for their own segment of the hospitality industry.
* A **uniform system of accounts** simply represents agreed upon methods of recording financial transactions within a specific industry segment.
* In the hospitality industry, some of the best known of these uniform systems are:
* **Uniform System of Accounts for Restaurants (USAR)**, developed for the restaurant industry by the National Restaurant Association (NRA).
* **Uniform System of Accounts for the Lodging Industry (USALI)**, developed for the lodging industry by the Hospitality Financial and Technology Professionals (HFTP) and the Educational Institute (EI) of the American Hotel & Lodging Association (AH&LA).
* **Uniform System of Financial Reporting for Clubs (USFRC)**, a club accounting resource for club managers, officers, and controllers produced through the joint efforts of Hospitality Financial and Technology Professionals (HFTP) and the Club Managers Association of America (CMAA).

### Ethics and Hospitality Accounting

* Sometimes it may not be clear whether an actual course of action is illegal or simply wrong. An accounting activity may be legal, but still the wrong thing to do.
* **Ethics** refers to the choices of proper conduct made by an individual in his or her relationships with others. Ethical behavior refers to behavior that is considered “right” or the “right thing to do.”
* How individuals determine what constitutes ethical behavior can be influenced by their cultural background, religious views, professional training, and their own moral code.
* **Ethical Guidelines:**

1. Is it legal?
2. Does it hurt anyone?
3. Am I being honest?
4. Would I care if it happened to me?
5. Would I publicize my action?

* Ethical behavior is always important to responsible individuals as well as their organizations. There are rules that must be followed if a manager’s financial records are to be trusted and if the interpretations made about that financial data is to be perceived as honest.

# Consider the Cost: Suggested Answers

1. The hospitality industry is unique in many ways. This is especially true about the manner in which bookkeeping and accounting tasks are undertaken. In addition to the variable pricing models referred to in this case study (and in use by most hotels), accounting in the hospitality industry is different from accounting in other businesses in a number of important areas including:
2. Terminology
3. Accounting periods
4. Inventory perishability

*Terminology:* Hospitality managers and hospitality accountants speak their own industry-specific language. Terms such as food cost percentage, plate cost, portion cost, and check average are unique to the food service industry. Similarly, ADR, RevPAR, cost per occupied room (CPOR), and net ADR are among the financial terms unique to the hotel industry. Managerial accountants working in the hospitality industry learn and apply these and myriad other industry-specific terms on a regular basis.

*Accounting Periods:* In most industries accounting periods can easily be classified into 24-hour days. In the hotel industry, however, days are actually concluded at the point in time at which the night auditor completes the night audit. Similarly, a food service operation open late on a Saturday night will achieve sales up to midnight of Saturday, as well as sales in the early morning hours of Sunday morning. Understanding how to address these small, but significant, accounting period variations illustrates just one area in which knowledge of the hospitality industry assists managerial accountants in the completion of their work.

*Inventory perishability:* The hotel industry is unique in that the products remaining unsold at the conclusion of a day cannot be sold in the future. Unlike, for example the retailer selling luggage or clothing, the products sold by a hotel must be sold each day, or the inventory (a specific room on a specific night) disappears forever. The luggage or clothing retailer knows that a piece of luggage or clothing remaining unsold on Monday night may be sold on Tuesday morning. Because that is not true in the hotel industry, managers must approach the pricing of their inventory is a very different manner.

It should be clear to students, upon their completion of this chapter, that accounting in the hospitality industry is a unique activity. Because that is true, instructors can point out that, in the overwhelming majority of cases, hospitality employers will seek out individuals with a knowledge and understanding of the hospitality industry as they fill management positions requiring industry-specific knowledge.

# Apply What You Have Learned: Suggested Answers

1. In addition to recording and accounting for beverage sales, beverage managers must understand how to record the expenses required to operate their beverage departments, as well as how to calculate the profit (or loss) generated by the department. These are just two of the many accounting-related tasks that must be mastered by all managers responsible for the successful operation of a beverage department.
2. In order to maintain accurate records about costs in a beverage department, managers must understand well the costs related to the purchase of the alcoholic and non-alcoholic beverage products they will be selling. As a second example, they must also know how to calculate, record and analyze the cost of labor needed to properly service the beverage department’s guests.
3. All beverage managers will perform a variety of accounting-related tasks. Student answers to this question will vary, but the tasks of all beverage managers will likely include conducting regular counts of product inventory and the effective scheduling of beverage department employees.
4. Even the best hospitality managers cannot be successful unless they utilize industry-specific managerial accounting skills. Hospitality managers must use their specialized industry knowledge to properly analyze the financial results of their operations and to ensure their operations’ continued profitability.

# Exam Bank

1. The primary purpose of accounting is to report on an organization’s
2. **money and valuable property.**
3. revenue potential.
4. proper staffing levels.
5. estimated market value.

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.1: Describe the primary purpose of accounting in the hospitality industry.

1. The best definition of an accountant is a person who
2. **is skilled in the recording and reporting of financial transactions.**
3. holds the title of “general manager” in a business.
4. can read complex financial documents.
5. has completed one or more college courses in accounting.

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.1: Describe the primary purpose of accounting in the hospitality industry.

1. When does accounting for a business begin?
2. **Before the business opens**
3. The first day a business operates
4. At the end of a business’s first month of operation
5. At the end of a business’s first year of operation

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.1: Describe the primary purpose of accounting in the hospitality industry.

1. When properly used, accounting helps hospitality managers
2. **make better decisions.**
3. ensure no errors occur when decisions are made.
4. avoid making difficult decisions.
5. make all of the operational decisions that must be made.

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.1: Describe the primary purpose of accounting in the hospitality industry.

1. Which is a question that could NOT be best answered strictly on the basis of accounting data?
2. **Which current bartender should we promote to Head Bartender?**
3. At what price should we sell our 12 ounce New York Strip steaks?
4. How much does our business spend monthly for utility services?
5. What was the average selling price of our hotel rooms last month?

Answer: A

Shuffle Answers: Yes

Difficulty level: Hard

Learning Outcome: 1.1: Describe the primary purpose of accounting in the hospitality industry.

1. Items owned by a business are referred to as
2. **assets.**
3. revenue.
4. liabilities.
5. income.

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.2: List and summarize the purpose of each of the five branches of accounting.

1. Assets = Liabilities + Owners’ Equity, is referred to as the
2. **basic accounting equation.**
3. double-entry accounting formula.
4. general ledger formula.
5. auditor’s compliance equation.

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.2: List and summarize the purpose of each of the five branches of accounting.

1. Which branch of accounting concerns itself with the independent verification of financial records?
2. **Auditing**
3. Tax accounting
4. Cost accounting
5. Managerial accounting

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.2: List and summarize the purpose of each of the five branches of accounting.

1. Which is the primary concern of financial accounting?
2. **Recording financial transactions**
3. Identification of tax payments
4. Control of costs
5. Financial management decision making

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.2: List and summarize the purpose of each of the five branches of accounting.

1. Which governmental entity establishes standards, and then awards qualified individuals the Certified Public Accountant (CPA) designation?
2. **State**
3. Federal
4. County
5. City

Answer: A

Shuffle Answers: Yes

Difficulty level: Hard

Learning Outcome: 1.2: List and summarize the purpose of each of the five branches of accounting.

1. Which statement best describes hospitality accounting?
2. **It is a NOT a separate branch of accounting**
3. It is a separate branch of accounting
4. It is used only by hotel managers
5. It is used only by restaurant managers

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.3: Explain why managerial accounting in the hospitality industry is different from managerial accounting used in other industries.

1. What is true about those professionals using managerial accounting in the hospitality industry?
2. **They must have specialized knowledge**
3. They must be a Certified Management Accountant (CMA)
4. They must be a Certified Public Accountant (CPA)
5. They must have successfully completed a college course in accounting

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.3: Explain why managerial accounting in the hospitality industry is different from managerial accounting used in other industries.

1. ADR is a financial term used by hospitality professionals working in
2. **hotels.**
3. clubs.
4. restaurants.
5. bars.

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.3: Explain why managerial accounting in the hospitality industry is different from managerial accounting used in other industries.

1. The formula used to calculate a contribution margin is
2. **Selling price - Product cost**
3. Selling price x Product Cost
4. Rooms revenue / Rooms available to sell
5. Rooms available to sell / Rooms revenue

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.3: Explain why managerial accounting in the hospitality industry is different from managerial accounting used in other industries.

1. Which would be the greatest industry-related challenge to managers who do NOT have an understanding of hospitality accounting?
2. **They lack specialized knowledge**
3. They cannot learn the industry
4. They are not CPAs
5. They cannot learn accounting

Answer: A

Shuffle Answers: Yes

Difficulty level: Hard

Learning Outcome: 1.3: Explain why managerial accounting in the hospitality industry is different from managerial accounting used in other industries.

1. The uniform system of accounts used by managers in a specialized segment of the hospitality industry are
2. **a series of standardized accounting procedures.**
3. a series of mandatory accounting procedures.
4. those accounting procedures required by federal law.
5. those accounting procedures required by state law.

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.4: Identify the specific Uniform Systems of Accounts appropriate for the hospitality business you manage.

1. The USALI is a series of standardized accounting procedures used by
2. **hotel managers.**
3. club managers.
4. bar managers.
5. restaurant managers.

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.4: Identify the specific Uniform Systems of Accounts appropriate for the hospitality business you manage.

1. The USAR is a series of standardized accounting procedures used by
2. **restaurant managers.**
3. club managers.
4. full-service hotel managers.
5. select-service hotel managers.

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.4: Identify the specific Uniform Systems of Accounts appropriate for the hospitality business you manage.

1. The USFRC is a series of standardized accounting procedures used by
2. **club managers.**
3. restaurant managers.
4. full-service hotel managers.
5. select-service hotel managers.

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.4: Identify the specific Uniform Systems of Accounts appropriate for the hospitality business you manage.

1. Which uniform system of accounts gives hoteliers and their accountants a consistent and easily understood “roadmap” to record revenues, expenses and to report a hotel's overall financial condition?
2. **USALI**
3. USAR
4. USAHI
5. USFRC

Answer: A

Shuffle Answers: Yes

Difficulty level: Hard

Learning Outcome: 1.4: Identify the specific Uniform Systems of Accounts appropriate for the hospitality business you manage.

1. It is most important that financial information is always presented in a manner that is both legal and
2. **ethical.**
3. delivered electronically.
4. easy to calculate.
5. current.

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.5: Summarize your ethical responsibilities as a managerial accountant in the hospitality industry.

1. Ethics refers to the choices of proper conduct made by an individual in his or her
2. **relationships with all others.**
3. personal life only.
4. business life only.
5. relationships with superiors only.

Answer: A

Shuffle Answers: Yes

Difficulty level: Easy

Learning Outcome: 1.5: Summarize your ethical responsibilities as a managerial accountant in the hospitality industry.

1. If an action is legal
2. **it can still be unethical.**
3. it cannot be unethical.
4. it is always ethical.
5. it is most often unethical.

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.5: Summarize your ethical responsibilities as a managerial accountant in the hospitality industry.

1. Society’s views of acceptable behavior, as well as specific laws affecting manager’s actions
2. **change continually.**
3. should not be changed.
4. cannot be changed.
5. are rarely changed.

Answer: A

Shuffle Answers: Yes

Difficulty level: Medium

Learning Outcome: 1.5: Summarize your ethical responsibilities as a managerial accountant in the hospitality industry.

1. Which is NOT a question managers should ask when assessing whether or not a course of action is ethical?
2. **Will I get caught?**
3. Would I publicize my action?
4. Am I being honest?
5. Is it legal?

Answer: A

Shuffle Answers: Yes

Difficulty level: Hard

Learning Outcome: 1.5: Summarize your ethical responsibilities as a managerial accountant in the hospitality industry.