



OVERVIEW

Hospitality is one of the world's most exciting and rewarding industries. If you choose it for your career, you will select from a wide variety of employers, locations, and daily job activities that can lead to your success and personal satisfaction. In this chapter, you will review some important ways in which the hospitality industry is unique. You will also learn the definition of accounting and how accounting helps managers like you use financial information to make good decisions. As you learn that there are several specialty areas (called branches) within accounting, it will become clear to you and you will understand why knowing about hospitality managerial accounting, the specialty area of accounting examined in this text, will help you improve the operating effectiveness of any restaurant, hotel, club, bar, or institutional facility you manage. Finally, you will learn about some of the important ethical responsibilities you will assume when you apply managerial accounting principles to the hospitality business you are responsible for managing.

CHAPTER OUTLINE

- 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
- The Blue Lagoon Water Park Resort: A Case Study
- Can You Do the Math?
- Apply What You Have Learned
- Key Terms and Concepts
- Test Your Skills

LEARNING OUTCOMES

At the conclusion of this chapter, you will be able to:

- ✓ Explain the primary purpose of accounting and each of the five branches of accounting.
- ✓ Explain why managerial accounting in the hospitality industry is different from managerial accounting used in other industries.
- ✓ Recognize the Uniform Systems of Accounts appropriate for the hospitality business you manage.
- ✓ Recognize your ethical responsibilities as a managerial accountant in the hospitality industry.

Unique Aspects of the Hospitality Industry

Whether you are reading this book for a class, to improve your business skills, or simply to better understand managerial accounting, you probably are familiar with the term **hospitality**. Hospitality can be defined as the friendly and charitable reception and entertainment of guests or strangers. Hospitality also refers to a specific segment of the travel and tourism industry. The question of precisely which specific businesses should or should not be included as part of the hospitality segment of travel and tourism is subject to open debate and honest disagreement. As a result, those colleges and universities that offer educational programs in hospitality may elect to call them either Hospitality Management or Culinary, Hotel, and Restaurant Management, or Travel and Tourism Management, or Restaurant Management, or Hotel Management, or Institutional Management or any of

a number of other name variations. The difficulty with precise classification is clear when you realize that, for most industry observers, each of the ten following individuals are considered to be hospitality managers:

Hospitality Manager	Job Title
Brenda	Director of food services for a 5,000-student school district
Jorge	Managing director of a 750-room resort hotel
Samantha	Regional manager of a 500-unit quick-service restaurant (QSR) chain with responsibility for the 30 units in her assigned territory
Carl	General manager of a 75-room limited service, all-suite hotel near a city's airport
Karin	Manager of a 400-member country club offering dining services and an 18-hole golf course
Trahill	Director of sales and marketing for a 2,000-room casino hotel
Jack	Food and beverage director for the Student Union of a 30,000-student university
Shay	Dietary services director at a 500-bed hospital
Nuntima	Front office manager at a 350-room full-service hotel
Eddie	Chef/owner of "Chez Edward," an exclusive and upscale 60-seat restaurant

While each of the industry sub-segments these managers work in are very different and can be classified in very different ways (for example, profit versus nonprofit; or corporate versus privately owned), one way to classify them is by their emphasis on either lodging or food and beverage (F&B) services.

The authors recognize the potential over-simplification of such a classification but also believe that 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.

When hospitality is defined as the lodging and food services industries, it can include a variety of managers in related fields. These include 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.

When all of the different segments of the hospitality industry are included, it is easy to see that there are literally hundreds of specialized management positions available. 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.

With such a diverse hospitality management audience, the challenge of creating a "hospitality managerial accounting" text such as this one is daunting. But as you will discover as

you read this book, the authors have worked very hard to assemble a managerial accounting text that can be of maximum help to the widest possible range of hospitality practitioners.

The Purpose of Accounting in the Hospitality Industry

Some hospitality students believe that learning accounting is very difficult. *It will not be difficult for you.* The term “accounting” originated from Middle French (*acompter*), which itself originated from Latin (*ad + compter*) meaning “to count.” As a result, you already have years of experience as an accountant (a counter)! A more detailed definition of **accounting** is the process of recording financial transactions, summarizing them, and then accurately reporting them. As a result, a good definition for an **accountant** is simply a person skilled in the recording and reporting of financial transactions.

Just as you learned in elementary school about the rule that says $2 + 2$ always equals 4, accountants in business have developed their own specialized rules and procedures that govern counting, recording, and summarizing financial transactions as well as analyzing and reporting them. This book will explain many of the accounting rules and procedures that are frequently utilized by professional hospitality managers.

In the business world, as well as in many other fields, accounting is used to report (account for) an organization’s money and other valuable property. Accounting is utilized by all managers in business and especially by those in the hospitality industry. In fact, in almost every hospitality job, accounting is important. Accounting in the hospitality industry is utilized every time a guest purchases food, beverages, or a hotel guest room.

Accounting in business occurs even before a hospitality facility ever opens. This is so because businesspersons estimate their costs before they decide to build their facilities and often seek loans from banks to help them. Those banks will assuredly want to know about the proposed business’s estimated financial performance before they decide to lend it money.

Accurate accounting is important to many other individuals in the hospitality industry. The owners of a restaurant or hotel will certainly want to monitor their business’s financial condition. These owners may be one or more individuals, partnerships, or small or very large corporations, but they all care about the performance of their investments. Investors in the hospitality industry generally want to put their money in businesses that will conserve or increase their wealth. To monitor whether or not their investments are good ones, investors will always seek out and rely upon accurate financial information. When it is properly done, accounting is simply the process of providing that information.

Accounting is actually quite a large field of study. To understand why accounting plays such a significant role in business, consider just a few examples of the type of basic and important questions the discipline of accounting can readily answer for hospitality managers:

1. What was the total sales level achieved by our business last month?
2. What was our most popular menu item? What was our least popular one?
3. What was the average selling price of our hotel rooms last week? Was that higher or lower than our competitors?

4. Are we more or less profitable this month than last month?
5. What is our company realistically worth if we were to sell it today?

The above are some of the questions hospitality managers can utilize accounting to answer. However, it is important to understand that accounting is not the same as management. Accounting is a tool used by good managers. To understand why you, as a talented hospitality manager, will play a more important decision-making role in your business than will the field of accounting, consider these examples of the type of questions that *cannot* be best answered by using accounting information alone.

1. Our hotel swimming pool currently closes at 10:00 p.m. Would we sell more guest rooms if the pool were to remain open 24 hours per day instead? How many?
2. Should I select Jackie or Samuel as the person assigned to train our new dining room wait staff?
3. Should the size of the fish portion used to make our signature “Blackened Trout” be 8 ounces or 11 ounces?
4. Would our country club members prefer to have an increase in the number of inexpensive, or of higher quality (but more costly) wines, when we create the club’s new wine list?
5. Would our new 500-room resort be more successful if it were built in Punta Cana in the Dominican Republic, or is the future of the Riviera Maya near the city of Tulum in Mexico likely to become, in the long term, a more popular tourist destination?

Notice that in each of these questions, the best decision requires that you utilize your own experience and judgment of what is “right” for your guests, your business, your employees, and yourself. As a result, while accounting alone could not make the decisions called for in the questions above, when properly used, it can help you make *better* decisions about these types of issues than those that would be made by managers who do not understand how accounting could help them. The purpose of this book is to teach you how to use accounting techniques as well as your own education, experience, values, and goals to make the very best management decisions possible for yourself and the businesses you are responsible for managing.

Branches of Accounting

Proper accounting includes both recording financial information and also accurately reporting it. Some accountants are skilled at one or both of these processes. Most of those who work as accountants recognize that there are actually very specialized fields or branches of accounting. While some of these branches do overlap, they include:

- Financial accounting
- Cost accounting

- Tax accounting
- Auditing
- Managerial accounting

Most hospitality managers are not accountants, but it is important for them to understand the function of the accounting work performed in each of these branches.

Financial Accounting

Business essentially consists of the buying and selling of goods and services. In the hospitality industry, the items sold by businesses are typically food, beverages, and hotel rooms. Depending upon the specific area within hospitality, however, a wide variety of other products and items such as travel or activities like golf, gaming, and entertainment may be sold to guests. 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.

These transactions can be used to develop the following profit-oriented formula:

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

Financial accounting also includes accounting for **assets**, which are those items owned by the business, and **liabilities**, which are the amounts the business owes to others. Finally, financial accountants record and report information about **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 equation for the balance sheet:

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

In this book, you will discover that the work of financial accountants can be extremely helpful to professional hospitality managers. In later chapters, we will examine, in detail, how these accountants do some of the important parts of their jobs.

To understand how financial accounting can help hospitality managers, consider the case of Faye Richards. She is interested in buying her own small pizza shop. The shop would be located in a strip shopping center and would sell primarily pizzas, hot subs, and soft drinks. Some of the many financial considerations Faye would have as she tries to decide if buying the shop is a good idea would be:

1. How much revenue do pizza shops like this typically achieve on an average day?
2. What do pizza shops normally spend to properly staff their stores?

3. How much should I spend on the equipment I need to buy to make the food I will sell?
4. Given the size and location of my store, what is a reasonable price to expect to pay for obtaining insurance for my business?
5. How much money am I likely to make for myself during the first year I own the store?

Faye can get important information from her financial accountant, but she will also need managerial skills and her own intuition and talents to provide answers to some of the other business questions she will face.

Cost Accounting

Cost accounting is the branch of accounting that is concerned with the classification, recording, and reporting of business expenses. Because all businesses seek to control their costs and not waste money, those who operate businesses are very concerned about where they spend their money.

For cost accountants, a **cost**, or expense, is most often defined as “time or resources expended by the business.” To understand why cost accounting is so important, consider Mike Edgar, the manager of a private country club. Reporting to Mike, among others, are those individuals responsible for the operation of the club’s golf course, pro shop, swimming pools, and food and beverage services. Each of these major areas will expend money to achieve the goals Mike and the club’s members set for them.

It is very unlikely that Mike could know, on a daily basis, about all the purchases his staff will make. Mike however, will be responsible to the club’s members for the money they have spent. Because this is true, it will be important for Mike to have a reliable system in place that allows him to fully understand what has been purchased, who purchased it, and the reason for the purchase.

Cost accountants determine costs by departments, by business function or area of responsibility, and by the products and services sold by the business. They create systems to classify costs and report them in ways that are most useful to those who need to know about how a business spends its money.

Some of the kinds of questions that cost accountants could help Mike answer include:

1. How much does it cost the club to host one member who is playing golf?
2. What were the total costs of utilities (water, electricity, and natural gas) incurred by the country club last month?
3. Did it cost more this year to fertilize the golf course than it did last year?
4. Are all managers in the country club accounting in the same manner for the cost of the meals eaten during work hours by their staff?
5. Does it cost more money to operate our country club than other clubs of the same size and type?

The work of cost accountants is critical for hospitality managers who seek to fully understand the costs of operating their businesses. As a result, throughout this text, we will utilize many of the techniques that have been developed by these accounting specialists.

Tax Accounting

A **tax** is simply a charge levied by a governmental unit on income, consumption, wealth, or other basis. In the United States, governmental units that can assess taxes include townships, cities, counties, states, and various agencies of the federal government. As a result, nearly all businesses are subject to paying some taxes.

Tax accounting is the branch of accounting that 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.

In the hospitality industry, managers are required to implement systems that will carefully record any taxes that will be owed by their businesses. Consider, for example, Latisha Brown, the general manager of a 220-room full-service hotel located in her state's capital and very near the airport. The work of tax accountants could help Latisha ensure that she has the systems in place to:

1. Record the **occupancy tax** her hotel must pay. This tax, which is the money paid to a local taxing authority based upon the amount of revenue a hotel achieves when selling its guest rooms, is typically due and payable each month for the room revenue the hotel achieved in the prior month.
2. Maintain records of the total taxable revenue achieved by the hotel and collect all money required to pay the **sales tax** that will be due as a result of realizing those sales.
3. Address specific tax-related questions, such as, "Is the hotel required to collect and pay occupancy tax on those guests who were assessed a no-show charge because they failed to arrive at the hotel when they had a confirmed reservation?"
4. Monitor changing laws to ensure that all **payroll taxes** due on those individuals employed by Latisha are properly recorded and submitted.

As you can see from these very few examples, the work of tax accountants is critically important to hospitality managers. Throughout this text, we will often examine how the specific actions taken by hospitality managers will affect the amount of taxes the businesses they manage must pay.

Auditing

An **audit** is an independent verification of financial records. An **auditor** is the individual or group of individuals that completes the verification. As you have seen, the accurate reporting of financial transactions is important to many different entities including managers, owners, investors, and taxing authorities. The auditing branch of accounting is chiefly concerned

with the accuracy and truthfulness of financial reports. It 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.

When financial transactions are not reported truthfully, it is very easy for many individuals to suffer great harm. The total collapse of the Enron Corporation in late 2001, as well as other highly publicized business failures such as Global Crossing and World-Com, demonstrate the importance of auditing. In each of these cases, investors, employees, and other stakeholders lost billions of dollars. In fact, the word “Enron” has now become synonymous with accounting fraud. Enron filed for bankruptcy on December 2, 2001, a consequence of the combination of too much debt and some unusually risky investments. Business failures are not unusual and it is certainly important to note that Enron did not go bankrupt because it violated accounting rules. Rampant violation of standardized accounting rules, however, led Enron’s investors, creditors, employees, and others to believe the company was financially sound when, in fact, it was not. If properly performed, the auditing branch of accounting is designed to point out accounting weaknesses and irregularities and thus prevent accounting fraud of this type.

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)**. Technically known as the Public Company Accounting Reform and Investor Protection Act, this law provides criminal penalties for those found to have committed accounting fraud. Sarbanes-Oxley covers a whole range of corporate governance issues including the regulation of auditors assigned the task of verifying a company’s financial health. Ultimately, Congress determined that a company’s implementation of proper accounting techniques was not merely good business, it would be the law and violators would be subject to prison terms.

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The 2002 Sarbanes-Oxley Act became law to help rebuild public confidence in the way corporate America governs its business activities. The Act has far-reaching implications for the tourism, hospitality, and leisure industry. To examine an overview of its provisions, go to:

www.sarbanes-oxley.com/section.php

Not surprisingly, as a result of SOX, the role of auditor and the techniques used in auditing have become increasingly important. Individuals who are directly employed by a company to examine that company’s own accounting procedures are called **internal auditors**. They can play a valuable role in assessment because they usually understand the company’s business so well. **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 the hospitality industry, managers of smaller restaurants, clubs, and lodging facilities most often serve as their own in-house auditors. If the facility they manage is part of a larger company or chain of units, their company may also employ auditors. In larger hotels, the **controller**, who is the person responsible for managing the hotel's accounting processes, may serve as the auditor or, in very large properties, full-time individuals are employed specifically to act as the property's in-house auditors.

As you have learned, auditors not only help ensure honesty in financial reporting, they play an important role in devising the systems and procedures needed to help ensure the protection and safeguarding of business assets. As a result, hospitality managers use auditors and auditing techniques to address many internal questions, a few of which are:

1. Are all purchases we make supported by the presence of a legitimate invoice before we process payment?
2. Are guest adjustments from their bill supported by written documentation explaining why the bill was adjusted?
3. Is all the revenue reported as achieved by the business fully documented and **reconciled** (compared and matched) to deposits ultimately made in the business's bank accounts?
4. Are wages paid to all employees supported by a written and verifiable record of hours worked?

The best auditors help ensure that financial records are accurate as well as assist managers in reducing waste and preventing fraud. In this text, the procedures, techniques, and strategies developed by this important branch of accounting will often be utilized to help you learn to become the best hospitality manager you can be.

Managerial Accounting

Managerial accounting is the basic topic of this book as well as the final branch we will examine. To clearly understand the purpose of managerial accounting, assume that Karen Gomez is the person responsible for providing meals to international travelers on flights from New York to Paris. She manages a large commercial kitchen located near the John F. Kennedy Airport. Karen's clients are the airlines who count on her company to provide those who have chosen to fly with them tasty and nutritious meals at a per-meal price the airline finds affordable.

One of Karen's clients wishes to add a new flight beginning next month. The evening flights will carry an average of 500 travelers, each of whom will be offered one of two in-flight meal choices for dinner. The client would like to provide each flier with a choice of a beef or a chicken entree. To ensure that the maximum number of fliers can receive their first choice, should Karen's company plan to provide each flight with 500 beef and 500 chicken entrees? The answer, most certainly, is no.

To prepare 1,000 meals (500 of each type) would indeed ensure that each traveler would always receive his or her first meal choice, but it would also result in the production of 500 wasted meals (the 500 meals *not* selected) on each flight. Clearly, it would be difficult for Karen to provide the airline with cost-effective per-meal pricing when that many meals would inevitably be wasted. The more cost-effective approach would be to accurately forecast the number of beef and chicken entrees that would likely be selected by each group of passengers, and to then produce that number. The problem, of course, is in knowing the optimum number of each meal type that should be produced. If Karen had carefully and properly recorded previous meal-related transactions (entrees chosen by fliers on previous flights) she would be in a much better position to use managerial accounting to estimate the actual number of each entree type the new passengers would likely select. If she had done so, she would be using managerial accounting. **Managerial accounting** is simply the system of recording and analyzing transactions for the purpose of making management decisions of precisely this kind.

Because you utilize accounting information (historical records in this specific case) to make management decisions, managerial accounting is one of the most exciting of the accounting branches. Its proper use requires skill, insight, experience, and intuition. These are the same characteristics possessed by the best hospitality managers. As a result, excellent hospitality managers most often become excellent managerial accountants.

The branches of accounting we have reviewed and the main purpose of each can be very briefly summarized as shown in Figure 1.1.

Now that you have reviewed the major branches of accounting, it may be easier to understand why it is so important for businesses to employ highly skilled professionals to perform their accounting functions. 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. These requirements, which vary from state to state, are established by law and administered by each state's Board of Accountancy. Once certified, most CPAs join the American Institute of Certified Public Accountants (AICPA), which is the national, professional organization for all Certified Public Accountants.

FIGURE 1.1 Branches and Purpose of Accounting

Branch	Purpose
1. Financial	Record financial transactions
2. Cost	Identify and control costs
3. Tax	Compute taxes due
4. Auditing	Verify accounting data and procedures
5. Managerial	Make management decisions using accounting information

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The AICPA is the national, professional organization for all Certified Public Accountants. Its mission is to provide members with the resources, information, and leadership that enable them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients. You can view the AICPA website at:

www.aicpa.org

When you arrive, click on “About Us,” then click on “AICPA Code of Professional Conduct.”

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. In order to become a CMA, professionals must meet the educational and experience requirements of the designation, and they must complete the CMA examination, which includes the general areas of business analysis, management accounting and reporting, strategic management, and business applications. The certification also requires compliance with ethical standards and practices. The Institute of Management Accountants (IMA) is the organization that grants the CMA certification.

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The IMA is a professional organization for Certified Management Accountants. Its mission is to provide a dynamic forum for management accounting and finance professionals to develop and advance their careers through certification, research and practice development, education, networking, and the advocacy of the highest ethical and professional practices. You can view the IMA website at:

www.imanet.org

When you arrive, click on “About IMA.”

Those hospitality professionals who work extensively in the areas of accounting and technology often become members of the **Hospitality Financial and Technology Professionals (HFTP)**. HFTP was formed in 1952 and has its headquarters in Austin, Texas. It offers its own certifications for hospitality professionals working in the accounting and technology areas, and it provides a global network for them.

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You can view the Hospitality Financial and Technology Professionals (HFTP) website when you go to:

www.hftp.org

When you arrive, click on “About Us” to learn about its goals and the programs offered to its members.

The majority of hospitality managers are *not* likely to become CPAs or even certified members of HFTP. As a practicing hospitality professional, you are most likely interested in learning how using accounting information in the management jobs you will hold can help you make better, more informed decisions. Because that is true, before you start to learn more about managerial accounting, it is important for you to understand exactly *why* you should learn more about it.

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. If hospitality were very similar to other industries, there would be little reason to create a separate book about, or even to study, managerial accounting for hospitality. It is true that accountants in the hospitality industry follow the same rules as accountants in any other field. The hospitality industry, however, like the people who work in it, is unique. Those who would maintain that any managerial accountant or CPA can be equally effective as one very familiar with the hospitality industry fail to recognize the culture, history, language, and norms that differentiate this exciting field.

To confirm some of the reasons why managerial accounting is a separate field of study, take the hospitality accounting term quiz in Figure 1.2.

As you may have discovered by taking the quiz, 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. Managers in the hospitality industry have found that it is helpful to standardize some aspects of their own industry segment’s accounting procedures. They have done so by creating standardized, or uniform, methods of reporting their financial accounts.

FIGURE 1.2 Hospitality Accounting Term Quiz

Match the hospitality accounting term on the left with its corresponding manager's definition on the right.

Hospitality Term	Manager's Definition (Formula)
1. ADR	a. Selling price – product cost
2. Check average	b. Cost of goods sold / revenue
3. Occupancy %	c. Fixed costs / contribution margin %
4. Sales break-even point	d. Rooms sold / rooms available for sale
5. RevPar	e. EP weight / AP weight
6. Profit margin	f. Total sales / number of guests served
7. Product cost %	g. Room revenue / rooms available
8. Product yield %	h. Beginning inventory + purchases – ending inventory
9. Contribution margin	i. Net income / total sales
10. Cost of goods sold	j. Room revenue / rooms sold

Turn to the next page to find out the number of questions you got right, and then read the following test results key.

Test Results Key	
Number Correct	Rank
9–10	Chief Executive Officer (CEO): Congratulations! You are already a star! With your current knowledge, you can quickly learn to be an exceptional managerial accountant in the hospitality industry.
7–8	Company Vice President: You are well on your way to mastering all of the concepts you must understand to become an excellent managerial accountant.
5–6	District Manager: Achieving this score means you already have the conceptual skills and understanding you will need to move up rapidly.
3–4	Unit Manager: You know more than most. Experience and more practice will help you advance rapidly.
2 or less	Don't worry! When you finish learning the material in this book you will get a perfect score!

The Uniform System of Accounts

It is helpful when all managers in a segment of the hospitality industry utilize the same guidelines for recording and computing their financial data. The manner in which operating statistics are compiled and in which revenue (or expense) data is reported can be very significant to the proper interpretation of that data.

Laws exist requiring owners to properly report and pay taxes due, to file certain documents with the government, and to supply accurate business data to various other entities. As a result, 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. These are called a **uniform system of accounts** and simply represent 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 the Lodging Industry
- Uniform System of Accounts for Restaurants
- Uniform System of Financial Reporting for Clubs

Uniform System of Accounts for the Lodging Industry (USALI). The hotel industry was one of the first of the segments within hospitality to encourage its members to standardize their accounting procedures. In the United States, the first uniform system of accounts for the lodging industry was developed in New York in 1925 by members of the Hotel Association of New York City Inc.

The USALI is now developed by the Hospitality Financial and Technology Professionals (HFTP) and the Educational Institute (EI) of the American Hotel & Lodging Association (AH&LA). The USALI gives hoteliers and their accountants a consistent and easily understood “roadmap” to record revenues, expenses, and a hotel’s overall financial condition. It is continually updated as those in hotel management stay abreast of the many changes occurring in their industry.

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You can purchase a copy of the most current Uniform System of Accounts for the Lodging Industry from the Educational Institute of the American Hotel and Lodging Association. To visit its website, go to:

www.ei-ahla.org

When you arrive, click on “Products” then “Books” to arrive at a location that allows you to browse and review all of their publications (including the Uniform System of Accounts).

Uniform System of Accounts for Restaurants (USAR). The Uniform System of Accounts for Restaurants, prepared for the National Restaurant Association (NRA) by Deloitte and Touche LLP, assists restaurant operators by suggesting a common language for the industry and by giving them an opportunity to compare the results of one restaurant

Answers to the Hospitality quiz:

1. j; 2. f; 3. d; 4. c; 5. g; 6. i; 7. b; 8. e; 9. a; 10. h

to another and one accounting period to another. In addition, it allows those managers using it to compare the financial results of their own operation to industry norms.

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You can purchase a copy of the most current Uniform System of Accounts for Restaurants from the National Restaurant Association. To visit its website, go to:

www.restaurant.org

When you arrive, click on “Store.”

Uniform System of Financial Reporting for Clubs (USFRC). Club management is another example of an industry segment that requires specialized knowledge and thus, its own uniform system of accounts. The USFRC is a club accounting resource for club managers, officers, and controllers. It is produced through the joint efforts of Hospitality Financial and Technology Professionals (HFTP) and the Club Managers Association of America (CMAA). The USFRC is a financial reporting system geared specifically to member-owned, not-for-profit city and country clubs.

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You can actually review the Table of Contents of the Uniform System of Accounts book created for club managers if you visit the Club Managers Association of America website. To do so, go to:

www.cmaa.org

When you arrive, click on “Education” then “Books and Publications” to arrive at a location that allows you to browse and review all of their publications (including the Uniform System of Accounts).

Whenever practical and possible, hospitality managers working in a specific segment of the industry should seek out and then use the uniform system of accounts that has been developed especially for them.

Ethics and Hospitality Accounting

The hospitality industry is one of the most honorable, exciting, and rewarding industries in the world. It will continue to offer its members solid employment opportunities and serve as the backbone of many local economies only if its current managers maintain the

integrity of those who have gone before them. Among a variety of responsibilities, this includes preparing and presenting their important financial information in a manner that is both legal and ethical.

Sometimes it may not be clear whether an actual course of action is illegal or simply wrong. Put another way, an activity (including an accounting activity) may be legal, but still the wrong thing to do. As a future hospitality manager, it is important that you are able to make this distinction. **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.” Consistently choosing ethical behavior over behavior that is not ethical is important to your long-term career achievements. This is so because hospitality managers often will not know what the law may actually require in a given situation. When managerial activities are examined, employers, in many cases, will simply consider whether a manager’s actions were intentionally ethical or unethical.

How individuals determine what constitutes ethical behavior can be influenced by their cultural background, religious views, professional training, and their own moral code. It is certainly true that the definition of ethical behavior may vary based upon an individual’s own perception of what is ethical. While it may sometimes be difficult to determine precisely what constitutes ethical behavior, the five guidelines in Figure 1.3 can prove to be very useful when you are evaluating the ethical implications of a specific decision or course of action.

An example of the way an individual would actually apply the five ethical guidelines is demonstrated in the following hypothetical situation:

Assume that you are the controller of a large hotel. Along with the food and beverage director, executive chef, director of sales and marketing, and other managers in the hotel, the general manager has assigned you to assist in the planning of your hotel’s New Year’s Eve gala. The event will require a large amount of wine and champagne. As part of your responsibilities, you conduct a competitive bidding process with the wine purveyors in your area and, based upon quality and price, you concur with the food and beverage Director’s recommendation that you place a very large order (in excess of \$20,000) with a single purveyor. One week later, you receive a case of very expensive champagne, delivered to your home with a nice note from the purveyor’s representative stating how much he appreciated the order and that he is really looking forward to doing business with you in the years ahead. What do you do with the champagne?

Ethical Analysis

Your first thought may be the most obvious one and that is, you drink it. However, it is hopeful that you will first apply the five questions of the ethical decision-making process to your situation.

1. Is it legal?

From your perspective, it may not be illegal for you to accept a case of champagne. However, there could be liquor laws in your state that prohibit the purveyor from

FIGURE 1.3 Ethical Guidelines**1. Is it legal?**

Any course of action that violates written law or company policies and procedures is wrong.

2. Does it hurt anyone?

Is the manager accruing benefits that rightfully belong to the owner of the business? Discounts, rebates, and free products are the property of the business, not the manager.

3. Am I being honest?

Is the activity one that you can comfortably say reflects well on your integrity as a professional, or will the activity actually diminish your reputation?

4. Would I care if it happened to me?

If you owned the business, would you be in favor of your manager behaving in the manner you are considering? If you owned multiple units, would it be good for the business if all of your managers followed the considered course of action?

5. Would I publicize my action?

If you have trouble remembering the other questions, try to remember this one. A quick way to review the ethical merit of a situation is to consider whom you would tell about it. If you are comfortable telling your boss about the considered course of action, it is likely ethical. If you would prefer that your actions go undetected, you are probably on shaky ethical ground. If you wouldn't want your action to be read aloud in a court of law (even if your action is legal), you probably shouldn't do it.

gifting that amount of alcoholic beverage. You must also consider whether or not it is permissible within the guidelines established by the company for which you work. In this case, violation of a stated or written company policy may subject you to disciplinary action or even the termination of your employment.

2. Does it hurt anyone?

When asking this question you have to recognize who the stakeholders are in this particular situation. How might others in your company feel about the gift you received? After all, you probably agreed to work for this hotel at a set salary. If benefits are gained because of decisions you make while on duty, should those

benefits accrue to the business or to you? Besides, any gifts received by you will most likely be paid by your business through future price increases.

3. Am I being honest?

Do you really believe that you can remain objective in the purchasing/bid aspect of your job and continue to seek out the best quality for the best price, knowing that one of the purveyors rewarded you handsomely for last year's choice and may be inclined to do so again?

4. Would I care if it happened to me?

If you owned the company you work for, and you knew that one of the managers you had hired was given a gift of this size from a vendor, would you question the objectivity of that manager? Would you like to see all of your managers receive such gifts? Would you be concerned if they did?

5. Would I publicize my action?

Would you choose to keep the champagne in the event that you knew that tomorrow, the morning headlines of your city newspaper were going to read:

“Controller and Food and Beverage Director of Local Hotel Each Receive Case of Champagne After Placing Large Order with Purveyor: Hotel Owners to Investigate”

Your general manager would see it, other employees would see it, all of the other purveyors that you are going to do business with would see it, and even potential future employers would see it.

What are some of the realistic alternatives to keeping the champagne?

1. Return it to the purveyor with a nice note telling them how much you appreciate it but your company policy will not allow you to accept it.
2. Turn the gift over to the general manager to be placed into the normal liquor inventory (assuming that the law will allow it to be used as such).
3. Donate it to the employee Christmas party.

Use the five questions listed in Figure 1.3 to evaluate each of these three courses of action. See the difference? If you are like most managers, each of the three alternatives presented will “pass” the five-question test while the alternative of accepting the champagne for personal use will not.

Just as the ethical nature of a manager's daily actions can be examined, so too can that manager's approach to recording and reporting financial data. Everyone would agree that hospitality managers should follow any laws that regulate the reporting of financial information. Laws do not exist, however, to cover every situation that future managerial accountants will encounter. Society's views of acceptable behavior, as well as specific laws, are constantly changing. Ethical behavior, however, 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. As you continue through this text, you will see that, in many instances, hospitality managers may be faced with ethical choices about how they report and assess financial data. As well, in your own career, you will likely find many instances in which you are faced with ethical choices about your own managerial decisions. It is important to understand that each management decision you make partially shapes and helps define the type of manager you are as well as the type you are perceived to be by others. In nearly all instances in which a company's financial officers have deceived its investors and owners, there have been instances where lapses in ethical judgments have directly resulted in significant harm to the company's shareholders and employees.

In the following chapters, you will discover exactly how hospitality managers use the information you have already learned, new information (that you will learn) related specifically to the hospitality industry, and their own personal skills to analyze their businesses using managerial accounting techniques for the hospitality industry. As you have seen, however, the hospitality industry is very broad. As a result, some of those managerial accounting techniques that may be of great interest to a hotel manager may be of much less interest, for example, to the manager of a carry-out pizza store. As authors of a managerial accounting text, it is important that we create a book that will serve the widest possible audience. Even so, we realize that the specific interests of a future hotel general manager will vary from that of a student interested, for example, in a career in college and university food services.

The Blue Lagoon Water Park Resort: A Case Study

To study what managers must actually know and do to utilize managerial accounting, we will examine the challenges of the Blue Lagoon Water Park Resort.

Everybody understands swimming pools. You have outdoor swimming pools and indoor swimming pools. So far, that's pretty easy to understand. But, when you combine Disney World, Sea World, Wet 'N Wild, Great Wolf Lodge, and Kalahari Water Park Resort & Convention Center, things start to get more difficult to understand. When does a hotel with an indoor water park reach the status of a hotel water park resort? For Paige Vincent, the challenge of fully understanding the answer to that question was about to begin. She had just been offered (and accepted) the position of general manager of the 50,000-square-foot Blue Lagoon Water Park Resort. An indoor park with 240 guest rooms, the facility was a destination resort that would also be one of the largest hotels in a 200-mile area.

The investment group that owned the park and had hired Paige was impressed with her undergraduate degree in hospitality, her ten years of progressive advancement with a well-known full-service hotel chain, and her five years of multi-unit food service operations experience. A commitment to outstanding guest service was one of Paige's greatest strengths. However, she also knew that she had impressed the park's owners with her knowledge of the financial management skills needed to operate a facility expected to gross in excess of \$25,000,000 per year in total revenue with \$14,000,000 plus in rooms revenue alone.

The new job paid well but was a big one. In addition to being responsible for 150 full- and part-time employees, as general manager, Paige was responsible for all of the resort's operating units including:

- 240 guest rooms and suites with an average daily rate (ADR) of \$200 (including room and park admission fees) and an average hotel occupancy of 80%.
- A 50,000-square-foot water play area with:
 - Four-story water slides (2)
 - Hot tub/whirlpools (3)
 - Kiddie pool play area with two slides
- Adults only lounge area
- Snack bar
- Full service restaurant
- Full service bar and lounge
- Guest activity areas including:
 - Video arcade
 - Retail store
 - Tanning/spa facility
 - Exercise facility
- Employee cafeteria

Paige understood well that it would take all of the managerial accounting skills she possessed, as well as many new ones she would learn, to effectively manage the Blue Lagoon. She was excited about her new position and very anxious to get started.

In addition, Joshua Richards is the owner of Joshua's Restaurant located across the street from the Blue Lagoon Water Park Resort. He offers a simple American-style menu including beef, chicken, pork, and seafood items. He averages approximately \$2,540,000 in revenues per year with a 260-seat restaurant (averaging 2.14 turns) and an average selling price per person of \$12.50.

In this book, we will use, when practical, the Blue Lagoon Water Park Resort and Joshua's Restaurant as our reference points for managerial accounting activities. As you examine the issues facing Paige Vincent and Joshua Richards, you will actually be examining

many of the accounting-related issues you yourself will face as a managerial accountant in your own specialty area.

fun on the Web!

If you have not personally visited a major indoor water park, you can take a mini-tour of a facility that is larger than, but similar to the hypothetical one Paige Vincent will be managing in this text. To do so, go to:

www.Kalahariresort.com

This very large park is one of the most popular in the Wisconsin Dells area.

Can You Do the Math?

Some students begin their managerial accounting course concerned that they will have difficulty with the math portion of the course. Answer the following questions and then score yourself to see if you will have difficulty with the math presented in this text.

go figure!

Questions

- A. $2 + 2 =$ _____
- B. $6 - 2 =$ _____
- C. $8 \times 2 =$ _____
- D. $16 / 2 =$ _____
- E. $(8 + 2) / 2 =$ _____

Answers

- A. 4
- B. 4
- C. 16
- D. 8
- E. 5

Did you get all the answers correct? OF COURSE YOU DID! The math in this book is no harder than the questions you just answered. Trust us! Because you got all the answers correct, you easily have the math skills you will need to successfully learn the material in this text. That is true because the mastery of managerial accounting is primarily related to knowing *which* numbers to use in a calculation and how to interpret the results of the calculation, not the application of advanced mathematics!

In this text, you will learn about the specific managerial accounting methods, procedures, and strategies used by those managing hospitality businesses. Because you now know that the field of accounting can be specialized by branches as well as by the business in which accountants may work, this book's title *Managerial Accounting for the Hospitality Industry*, should give you a very clear idea about the useful, interesting, and fun things you will learn about accounting in the remaining chapters.

Apply What You Have Learned

Samara Tate couldn't have been happier. As she looked back on the past two years, she realized just how much her hard work had paid off. First, she had been hired as a waitress at the exclusive Sycamore Country Club working in the "Members Only" dining room. Then, as she continued to work part-time at the Club and pursue a degree in hospitality management, she had been promoted to banquet bartender. After one year in that position, she had been promoted to banquet bar supervisor. Her knowledge and strong leadership skills had impressed the Club's managers as much as her personality had impressed the Club's membership.

Now, just as she was about to graduate, the Club's food and beverage director called Samara into her office to offer her the job of beverage manager. It was an important job, as the Club's beverage department grossed over \$500,000 per year. Samara was excited about the opportunity and the pay!

1. Properly accounting for beverage sales is an important part of a beverage manager's job. What are two additional, specific areas of financial accounting that would be important for Samara to understand if she is to succeed in her new job?
2. Maintaining accurate records about costs is an important part of nearly every manager's job. Name two hospitality-specific areas of costs that you think would be important for Samara to understand well if she is to excel in her new job.
3. Assume that Samara accepts the beverage manager's position. Identify at least two specific tasks she is likely to be assigned to which she would be required to apply her knowledge of managerial accounting.
4. Do you think Samara could do a good job of managing the Club's entire beverage department without a good understanding of the way managerial accounting information is used by hospitality managers? Why or why not?



Key Terms and Concepts

The following are terms and concepts discussed in the chapter that are important for you to know as a manager. To help you review, please define the following terms.

Hospitality Accounting	Sales tax	Hospitality Financial and Technology Professionals (HFTP)
Accountant	Payroll taxes	Hospitality accounting
Financial accounting	Audit	Uniform system of accounts
Revenue	Auditor	Uniform System of Accounts for the Lodging Industry (USALI)
Expense	Sarbanes-Oxley Act (SOX)	Uniform System of Accounts for Restaurants (USAR)
Profit	Internal auditors	Uniform System of Financial Reporting for Clubs (USFRC)
Assets	External auditors	Ethics
Liabilities	Controller	
Owners' equity	Reconcile	
Cost accounting	Managerial accounting	
Cost	Certified Public Accountant (CPA)	
Tax	Certified Management Accountant (CMA)	
Tax accounting		
Occupancy tax		



Test Your Skills

Complete the Test Your Skills exercises by placing your answers in the shaded boxes.

- Match the branch of accounting that would be best used to answer the following questions.

	Question	Branch of Accounting
a.	How should I record transactions associated with cash, payroll, and short-term debt?	
b.	How much does it cost to pay for maintenance for my swimming pool this year?	
c.	What occupancy tax is owed by the hotel this month?	
d.	How should I record transactions associated with revenue, expenses, and profit?	
e.	How much sales tax should we have collected this month?	
f.	Are all food purchases made this month documented with legitimate invoices?	
g.	If I wanted to achieve a profit of \$10,000 in the month of April, how many pizzas will I need to sell?	

h.	Are all bonuses paid to managers supported by documented revenue performance measures?	
i.	What were the total costs of salaries and wages incurred by the restaurant this month?	
j.	Would it be more profitable if I made my potato salad by scratch or purchased it pre-prepared?	

2. Richard owns a coffee bean shop that sells gourmet coffee and chocolates. Prepare both weekly and monthly profit formulas so that Richard has a good idea about his current profit situation.

WEEK	REVENUE	EXPENSES	PROFIT / LOSS
1	\$956.34	\$1,258.75	
2	2,286.45	1,687.54	
3	2,678.91	2,563.87	
4	1,875.23	1,378.95	
Month			

- a. In which week did Richard have the most profit?
- b. Did Richard show a profit for all four weeks? If not, which week(s) did he experience a loss?
- c. As the owner, Richard wanted a profit of \$1,000 for the month. Did he reach his goal?
3. Laurie Tenk is a purchasing agent for a restaurant chain. One of her suppliers has been late on deliveries the past two weeks. She has discussed this with the salesperson, and he assures her that the problem will be solved. In an effort to "make things right," the salesperson delivers two cases of hot dogs to her office for "sampling." She plans to have a backyard barbecue this weekend for her neighbors. The free hot dogs would lower her cost of this event considerably.
- From an ethical point of view, how should she handle this situation? Explain your decision-making process and defend your answer. Use the five Ethical Guidelines in this chapter as a basis for your answer to explain what should be done with the hot dogs.
- a. Is it legal?
- b. Does it hurt anyone?
- c. Am I being honest?
- d. Would I care if it happened to me?
- e. Would I publicize my action?
- f. What should be done with the two cases of hot dogs?

4. The chief financial officer (CFO) of a publicly-owned restaurant chain notices that the "bonus" for the chief executive officer (CEO) is much higher than anticipated for the year. She suspects that the CEO is committing corporate fraud by embezzling the extra money. She notifies the CEO of this discrepancy, but is told that she has calculated the amount incorrectly.
- a. How would this suspected fraud be legally detected?
 - b. What legislation does this fall under?