



# 3

## Accounting Department Organization and Operations

### Learning Objectives

1. To understand how hotel accounting departments are organized and operate.
2. To understand how restaurant accounting is organized and operates.
3. To understand the difference between on-property accounting and regional or corporate accounting.
4. To learn how hospitality managers work with accounting departments in the preparation of financial statements.

### Chapter Outline

#### Organization Charts

- Full-Service Hotels
- Accounting Departments
- Smaller Hotels (Fewer Than 100 Rooms)

#### Accounting Operations in Full-Service Hotels

- Accounting Department Operations
- Hotel Department Operations and Relationships with Accounting
- Monthly Preparation of Financial Reports

#### Accounting Operations in Restaurants and Smaller Hotels

- Financial Statement Preparation
- Purchasing and Inventories
- Wage and Cost Controls

## Summary

### Hospitality Manager Takeaways

### Key Terms

### Review Questions

This chapter discusses accounting structures for large hotels, small hotels, and chain restaurants with a focus on the organization and operation of accounting departments in full-service hotels. Full-service hotels are defined as hotels that have from 250 rooms to more than 2,000 rooms; in addition these establishments provide sleeping rooms, operate food and beverage outlets, provide catering functions and meeting room rentals, and offer gift shops, valet laundry, health workout facilities, bellmen, a concierge, and other services and amenities that are typically included in larger hotels. A wide range of hotels are included in the full-service category, such as corporate hotels, airport hotels, suburban hotels, convention hotels, and resorts. Because of the wide range of activities and the large amounts of revenues and profits generated, full-service hotels have accounting departments in the hotel to take care of all the accounting responsibilities.

Because smaller hotels and select-service hotels do not offer their guests such a wide range of amenities and services, they do not require an onsite accounting department. Their accounting functions are coordinated by a regional or corporate accounting structure, which includes a centralized accounting department that handles the accounting activities of the individual hotels. These hotels provide information daily to the corporate accounting office, which then prepares reports and information and sends them back to the individual hotels for their use and review.

The accounting operations of chain restaurants are similar to the accounting operations of smaller hotels. A regional or corporate accounting office provides the accounting services for each individual restaurant. It is the responsibility of each restaurant to provide the daily operating information to the corporate accounting office, which then prepares the necessary accounting statements and operating information for the restaurant.

Independent operators of small hotels and individually owned restaurants will either do their own accounting or hire an outside accounting company to handle all accounting requirements and to prepare financial reports.

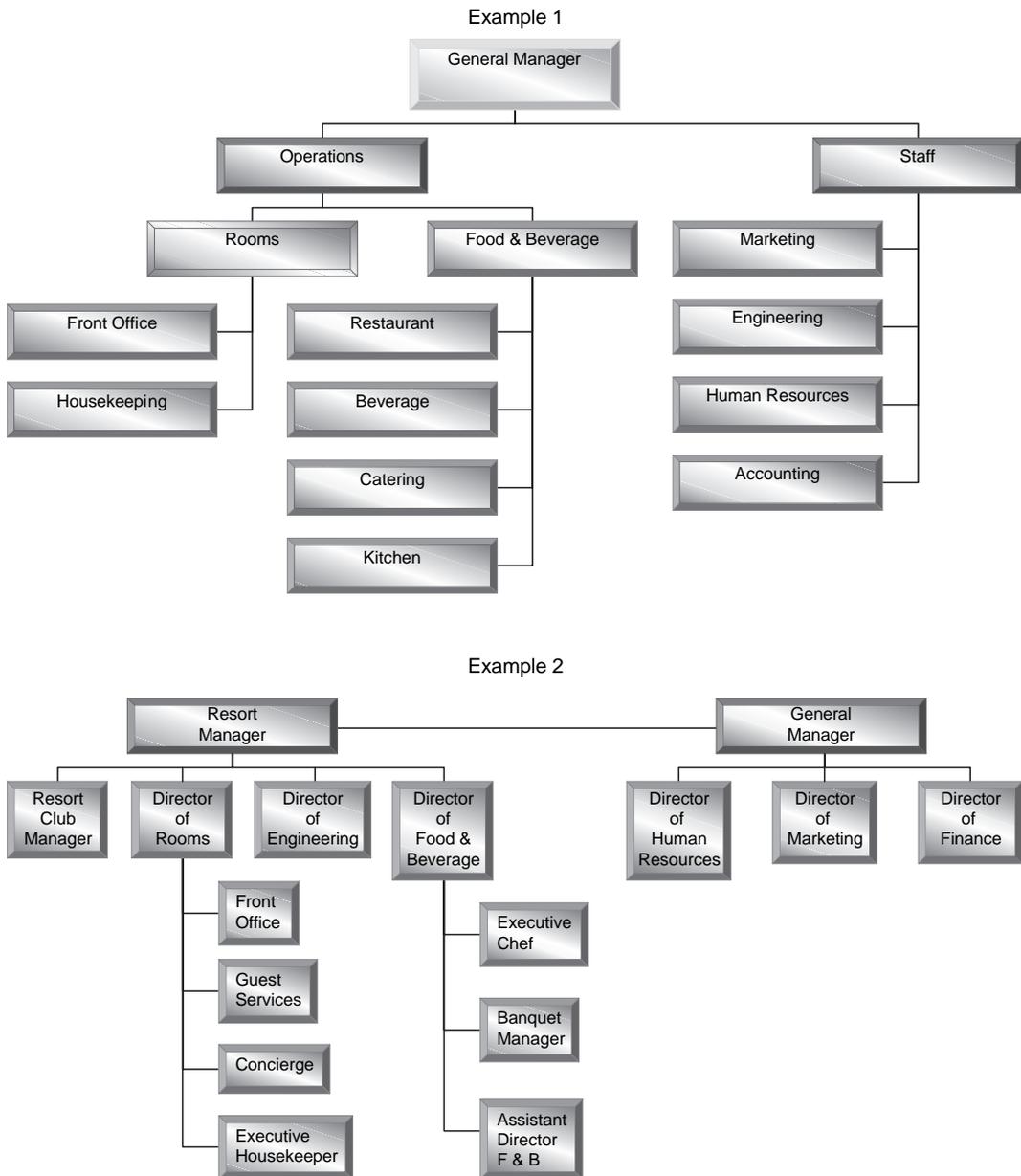
## Organization Charts

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An **organization chart** is a diagram of the structure and relationships of a specific business unit. It can include job titles, **direct reporting** relationships, areas of responsibility, and lines of communication among different job levels. We will discuss several organization charts as we describe the role and relationships of accounting departments.

### Full-Service Hotels

Figure 3.1 contains two examples of organization charts for a full-service hotel. It includes four levels of responsibility divided into the two main types of business activities: **operating departments** and **staff departments**.



**FIGURE 3.1** Full-service hotel organization charts.

### **General Manager**

This is the top level of authority and responsibility. The **General Manager** is responsible for all the different activities and operations of the hotel. The General Manager relies on specific senior managers to operate the separate and distinct operating departments in the hotel. These are divided into two areas. The **operations departments** have direct interaction with paying or external customers and generate revenue and profits for the hotel. There are two main departments: the rooms department and the food and beverage department. The **staff departments** support the operating departments and their direct interaction is with internal customers—the operating department employees. There are four main departments: sales and marketing, human resources, engineering, and accounting.

### **Executive Committee or Leadership Team**

The group of senior managers on the **Executive Committee** or Leadership Team has the direct responsibility for the overall operations of the departments under their leadership. These leaders directly report to the General Manager. They are experts in their operations, generally will have more than 10 years of experience, and will have worked in several hotels in several different positions. The General Manager relies on them to take care of the detailed aspects of operations, including product and service delivery, guest relations, service levels, revenues and profits, and employee development. Typical titles for these positions are listed in Table 3.1.

### **Department Heads**

This group of managers has the direct responsibility for the operations of one specific department. **Department heads** report directly to an Executive Committee member and generally will have more than five years of experience in several hotels in several different positions. The Executive Committee member relies on Department Heads to take care of the daily operations of the department. Examples of key hotel department heads are the Front Office Manager, Executive Housekeeper, Director of Restaurants, Director of Catering, and Executive Chef.

**TABLE 3.1**  
**Executive Committee Titles**

<b>Operations</b>	<b>Staff</b>
<b>Rooms</b>	<b>Sales and Marketing</b>
Resident Manager or Rooms Division Manager	Director of Sales and Marketing
	<b>Human Resources</b>
<b>Food and Beverage</b>	Director of Human Resources
Food and Beverage Director	<b>Engineering</b>
	Director of Engineering or Chief Engineer
	<b>Accounting</b>
	Director of Finance or Controller

### ***Line Managers***

This group of managers actually run the departments. **Line managers** are divided into the a.m., or morning shift, and the p.m., or afternoon/evening shift. They directly interact with the employees and the customers. They supervise and direct the employees in performing their specific responsibilities to take care of and service guests. They also deal directly with guests in the normal department operations or taking care of specific requests or handling specific guest problems and complaints. The line managers are also entry-level managers or managers in their first management position. Their job responsibilities include providing operational information to the accounting department, such as wage schedules, processing payroll, purchasing, physical inventories, Profit and Loss (P&L) Statement critiques, and revenue forecasting. Examples of line managers are Assistant Front Desk Managers, Assistant Housekeeping Managers, Assistant Restaurant Managers, Assistant Catering Managers, and Kitchen Managers.

The second example of a hotel organization chart demonstrates different responsibilities and relationships. Notice that the General Manager shares some of the primary responsibility with the Resort Manager. The Resort Manager has responsibility for the rooms and food and beverage, the main operating departments as well as for resort club operations (time share or vacation club) and engineering. Notice that there is also a difference in the departments reporting to the Director of Rooms and the Director of Food and Beverage. The Director of Human Resources, Director of Marketing, and Director of Finance along with the Resort Manager report directly to the General Manager.

This example offers a different way that a hotel can structure its operations. Each of these examples offers strengths and advantages depending on how the hotel chooses to operate. One is not necessarily better than the other, just different.

## **Accounting Departments**

We will now discuss in detail the organization and structure of the Accounting Department. As we can see from the hotel organization chart, the Accounting Department is one of the staff departments with the Director of Finance or Controller responsible for all accounting operations and reporting to the General Manager. The accounting staff includes both managers and hourly employees. Figure 3.2 contains two accounting organization charts for a typical full-service hotel. Following are details about the positions and responsibilities of the accounting department.

### ***Director of Finance/Controller***

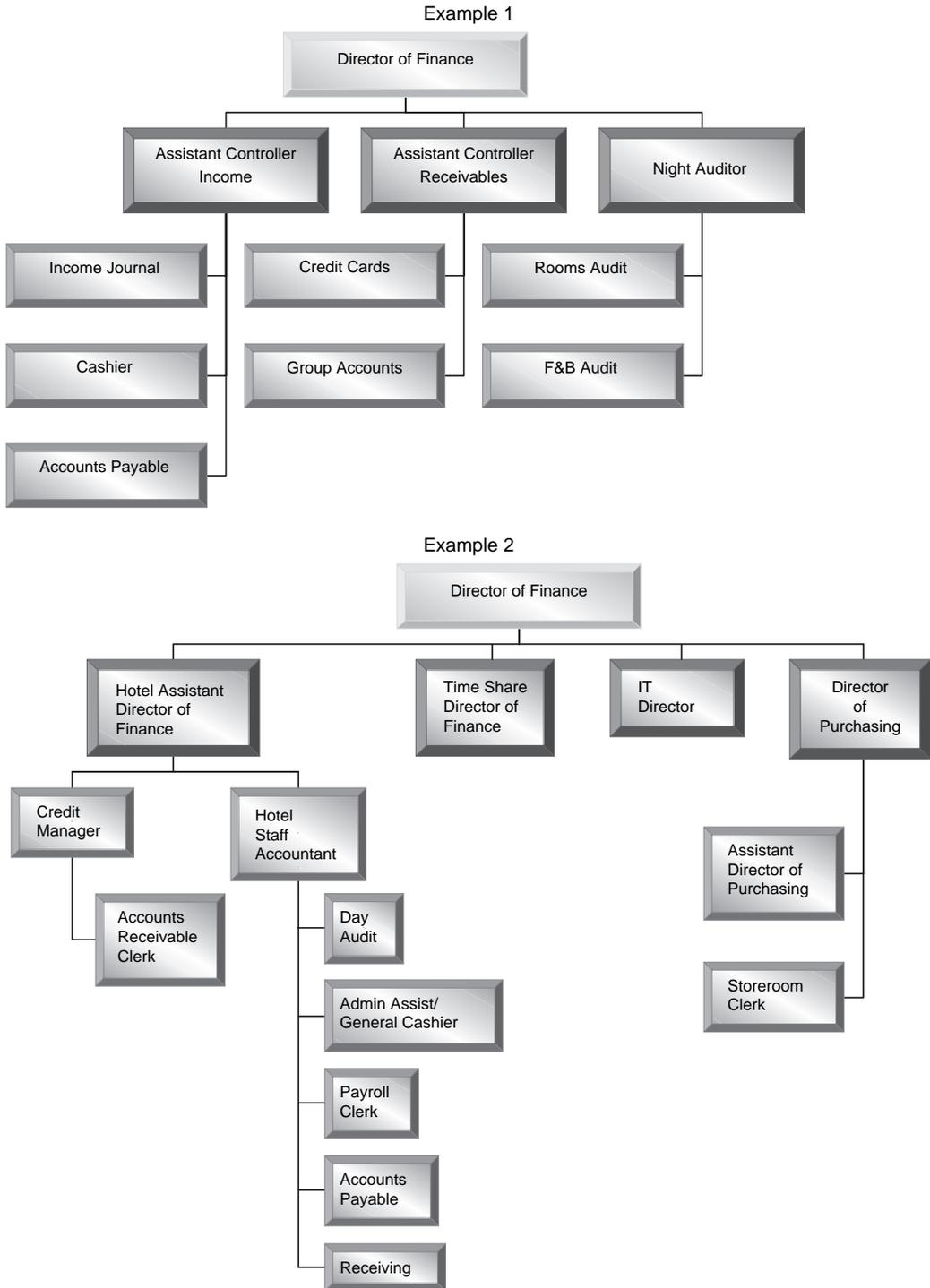
This Executive Committee member is responsible for all accounting department operations. Although there is a staff that actually perform these responsibilities, the **Director of Finance** is responsible for ensuring that all accounting information for the hotel is accurate, correct, and conforms to Generally Accepted Accounting Principles. Specifically, the Director of Finance does the following:

1. Prepares the monthly financial statements, primarily the P&L Statement, but also reconciles the Balance Sheet or Asset and Liabilities (A&L) Accounts and the Statement of Cash Flows.
2. Supervises all activities of the different accounting functions.
3. Prepares the annual operating budget and the annual capital expenditure budget.
4. Analyzes and critiques all monthly financial statements and weekly revenue and wage forecasts.
5. Is a financial advisor to all hotel managers and their operations.
6. Coordinates all communication with regional and corporate offices.
7. Prepares all financial statements and presentations for hotel owners.

### ***Assistant Controller of Income Accounting and Operations***

The **Assistant Controller** is often a department head and oversees several of the important aspects of accounting operations and their involvement with hotel department operations. These responsibilities include the following:

1. Assists the Director of Finance in hotel accounting activities including reconciling A&L Accounts, preparing P&L critiques, capital expenditure accounting, weekly revenue and wage forecasts, productivity analysis, and any other activities requested by the Director of Finance.
2. Closes each month and assists in the preparation of monthly P&L Statements, including adjusting A&L Accounts, processing transfers, verifying physical inventories, and coordinating corporate entries.
3. Performs hotel audits.
4. Assists rooms and food and beverage operations managers.
5. Supervises accounting employees in the following activities:
  - a. ***Income Journal***. Records all hotel revenues and prepares daily, weekly, and monthly revenue reports.
  - b. ***General Cashier***. Handles all the cash operations of the hotel, including verifying department deposits, preparing daily hotel deposit, maintaining hotel change bank, assisting with department bank audits, and assisting with all cash-handling activities.
  - c. ***Accounts Payable***. Processes the payment of all hotel purchases and invoices ensuring compliance with hotel purchasing procedures and coordination with operating departments. This includes proper coding of invoices to appropriate accounts, timely payments, maximizing discounts, and reconciling accounts payable.
  - d. ***Payroll***. Processing the payroll for hourly and management employees.



**FIGURE 3.2 Accounting Department organization charts.**

***Assistant Controller Receivables***

This manager is responsible for the billing and collection of all revenues and **accounts receivable** due the hotel. He or she oversees several areas of billing and collection and is especially involved in group accounts at larger convention hotels and resorts. These responsibilities include the following:

1. Assists the Director of Finance in hotel accounting activities including reconciling cash accounts (there could be many), reconciling credit card statements, and generating a positive cash flow for the hotel. These are important responsibilities because they have a major impact on maximizing cash flow for the hotel.
2. Assists in closing each month or accounting period and preparing financial statements.
3. Reviews the aging accounts to effectively manage current, 30- to 60-day, 60- to 90-day, and over 90-day accounts. Prepares information for bad debt write-offs and coordinates activities with collection agencies when necessary.
4. Coordinates group billings, including direct billing approvals, account preparation and review, and group account collection.
5. Supervises the employees in the following accounts receivable activities:
  - a. Group account management including pre-meetings, account review during the group's stay in the hotel, and post-meetings to ensure proper authorization and processing of all group charges.
  - b. Credit card collection, including the timely billing, processing, and collection of credit card payments. Reconciliation of all credit card charge-backs and guest disputes.
  - c. Credit Manager in proper credit review and approvals and preparing information for credit and write-off meetings.

***Night Auditor***

This manager is responsible for the processing and auditing of all accounting and operational information for each day. She or he is also responsible for operating the all-night (or 11 p.m. to 7 a.m.) front desk shift. These responsibilities include the following:

1. Records and balances the day's transactions for each hotel department. This includes room revenues, food and beverage revenues, catering and meetings revenues, gift shop revenues, and any other revenue-producing departments.
2. Rolls the date after all accounting transactions are audited and in balance. This means closing all the information for the previous day and setting up all the information and systems for the next day.
3. Prepares daily management reports including daily revenue reports, discrepancy reports, and the next-day guest reservations.

4. Ensures that all guests checking in and out of the hotel are taken care of efficiently.
5. Supervises the employees in the following auditing activities:
  - a. Rooms revenue posting and auditing.
  - b. Food, beverage, and banquet revenue posting and auditing.
  - c. Front desk clerks in front desk operations.

### **Smaller Hotels (Fewer Than 100 Rooms)**

Smaller hotels do not generate the volume and range of revenues and expenses as do full-service hotels, and therefore they do not require an on-property accounting office. If they



**WeKoPa Golf Clubhouse, Fountain Hills, Arizona**  
**WeKoPa Golf Club**

WeKoPa Golf Club is located east of Phoenix on the Ft. McDowell Yavapai Nation reservation. It has 18 spectacular holes of golf set in the Arizona Sonoran desert. Because it is located on a reservation, there will never be any buildings or roads to obstruct its natural beauty. A second 18 holes will be open in 2006 and a 250-room Radisson Resort next to the golf course will open in late 2005.



Photo: WeKoPa Golf Club

**WeKoPa #14**

The main departments in a Golf Club include golf operations, golf course maintenance, restaurant and lounge, and often banquets and catering for small meetings or social functions like weddings. The 10,000-square-foot clubhouse includes a full-service restaurant, bar, and conference room. What do you think will happen to the revenues for WeKoPa when the second 18 holes open up? What do you think will happen to the revenues for WeKoPa when the 250-room resort opens? Draw an organization chart for WeKoPa and show how you think these departments will report to the General Manager. (WeKoPa means Four Peaks in the Ft. McDowell Yavapai language. You can see the Four Peaks in the distance in the picture of the 14th hole.)

are part of a national hotel chain, the General Manager or owner will be responsible for providing daily operational information to the corporate accounting office. This person will then process the information into reports and return it to the hotel for its information and use.

If the hotel is privately owned, the owners will either assume the responsibility for all accounting information and reports or they will hire an outside accounting service to

provide these services for them. Because these hotels are privately owned, they do not have as many reporting requirements and regulations as publicly owned hotels have. They do need to meet state and local tax-reporting requirements.

### ***Individual Restaurants***

Individual restaurants that are part of national chains have similar accounting relationships and reporting procedures as small chain hotels. Each individual restaurant is responsible for providing daily operating and accounting information to the corporate office, which processes the information and returns reports to the restaurant for its use. If the restaurant is privately owned, the same accounting responsibilities and relationships exist as for individually owned hotels.

## **Accounting Operations in Full-Service Hotels**

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The Accounting Department is a staff department that supports all other departments in the hotel with regard to accounting procedures and hotel operations. It works with these departments to provide services and information that will assist them in operating their departments on a daily basis.

### **Accounting Department Operations**

The Accounting Department records and processes the previous day's hotel activities. Refer to the Accounting Department Organization Chart in Figure 3.2. Each day the individual sections within the Accounting Department receive the paperwork and records or processes the information to update accounts and prepare reports. Consider the following examples.

#### ***Income Journal***

The **income journal** records the previous day's revenues in the appropriate account. Room revenues are recorded in individual accounts (or market segments) for transient, group, and contract. This includes the previous day's revenue and the month-to-date revenue. The same process is used for recording breakfast, lunch, and dinner revenues for a restaurant and revenues for breakfast, lunch, dinner, coffee breaks, receptions, meeting room rental, and audio/video for the Catering Department. Beverage revenues are recorded in liquor, beer, wine, and soft drink accounts.

The income journal also records and balances the method of payment for each account. For example, total room sales must equal or balance with cash receipts, credit card payments, and company or personal checks. This balancing function is important because it ensures that the revenue recorded equals money received.

<u>Recorded Revenues</u>	=	<u>Method of Payment</u>
<i>Transient Room Revenues</i>		<i>Cash Payments</i>
<i>Group Room Revenues</i>		<i>Credit Card Payments</i>
<i>Contract Room Revenues</i>		<i>Check Payments</i>
		<i>Direct Billing/Accounts Receivable</i>
<i>Total Room Revenues</i>	=	<i>Total Receipts and Deposit</i>

Here is an example for a typical day:

Transient room revenues	\$12,500	Cash payments	\$ 1,600
Group room revenues	4,800	Credit card payments	10,400
Contract room revenues	<u>1,200</u>	Check payments	2,500
		Direct billing	<u>4,000</u>
Total room revenue	\$18,500 =	Total receipts/deposits	\$18,500

### ***General Cashier***

The daily functions of the **General Cashier** are to collect, balance, and consolidate all of the operations department deposits into one deposit for the hotel, which goes to the bank each day. The General Cashier balances the cash and checks in each deposit to the same amounts posted for that day in the income journal account. In our example, the daily hotel deposit prepared by the General Cashier should be \$4,100—the amount of cash and checks collected for the day.

The credit card payments and direct billing are not part of the hotel deposit until the actual checks are received. In our example, the credit card sales for the day of \$10,400 will generally be received within 48 hours via electronic transfer directly into the hotel's cash bank account and will not be a part of any hotel deposit. The \$4,000 direct billing should be received within 30 days, and the actual check would be added to the day's deposit on the day that it is received.

The General Cashier also maintains a change bank for the hotel. This consists of keeping an adequate supply of coin and small currencies—one-, five-, and ten-dollar bills—to be used by the hotel departments in making change for their customers. The General Cashier will send a change order to the bank at the same time the deposit goes to the bank. This change order will include larger currency of twenty-, fifty-, and hundred-dollar bills submitted by the hotel to the bank, which will be exchanged for smaller currency and returned to the hotel the next day.

### ***Accounts Payable***

Each day, the **Accounts Payable Clerk** will receive invoices to be paid. The procedures for paying invoices will include verifying information such as a manager's signature confirming the accuracy of the invoice and authorizing its payment, the amount to be paid, the date that it needs to be paid by, and the account that it will be coded or charged to. It

is the accounts payable clerk's responsibility to verify this information before writing the check.

Accounts payable checks are generally written during the week and mailed once a week or on a daily basis to take advantage of discounts and to meet due dates. Much of this process is now done electronically on computers, and part of the accounts payable clerk's responsibility is to review and check the payments for accuracy and to ensure that they balance to the backup documentation.

### ***Accounts Receivable***

Each day, the **Accounts Receivable Clerk** receives all the direct billing accounts to be processed for collection. Direct billing is when a company has been preapproved to have its bill sent at the end of the function with payment being expected within 30 days from checkout. The two main categories of accounts receivable are credit cards and direct billing.

The credit card documentation for the day includes totals for each credit card. Individual guest room accounts are closed out or transferred to a credit card master account when the guest checks out. For example, the hotel might have 10 guests owing \$1,800 pay their accounts by American Express. These 10 individual room accounts are zeroed out, transferred to the American Express master account, and sent to accounts receivable for processing. Another 15 guests might pay with Visa or MasterCard for \$4,600 and \$4,000, respectively. In our example, the total credit card billings of \$10,400 for the day become \$10,400 of credit card receipts within 48 hours when the electronic transfer of funds from each credit card company is deposited directly into the hotel's bank account.

The \$4,000 of direct billing will be monitored by accounts receivable personnel to ensure that there are no problems and that the company will review, approve, and issue the check for payment in a timely manner. When the check is received, it will be added to that day's deposit.

The Accounts Receivable Department also handles guest disputes and problems. Credit card chargebacks occur when a guest disputes the charge on his or her credit card. Accounts receivable will research the problem and provide proper documentation, such as signatures and guest checks, that verifies that the charge is valid and correct; the department will then return the documentation to the credit card company so that it will rebill the customer.

### ***Night Audit***

The **Night Auditor** and his or her staff receives, audits, reconciles, and balances all the day's transactions; prepares daily reports that state total revenues; updates accounts; and ensures that all the day's transactions balance and are correct. A big challenge for the night auditor and his or her staff is to research and find problems or mistakes and properly correct them in a timely manner. They have to do this during the all-night shift when none of the employees or managers is available to answer questions or assist in finding mistakes. They must rely on their ability to research the paperwork and transactions to find and correct any problems.

With the development of new technologies some hotels are now able to perform the night audit functions the next morning. Modern property management systems and POS systems can perform the audit functions. These audit reports are reviewed the next morning. Therefore, day audits are now a common occurrence.

## **Hotel Department Operations and Relationships with Accounting**

Each department in the hotel is responsible for providing the expected products and services to the customer following established hotel policies and procedures. The accounting department assists the other departments in following appropriate procedures. Following are examples of how an operating department might interact with accounting.

### ***Front Office***

Managers in the front office will work with the Income Journal Clerk by reviewing the daily room revenue information that they record. They can look at average room rates by market segment, rooms sold by market segments, and any adjustments to revenues in reviewing the previous day's operations. They can compare actual sales with forecasted, budgeted, and last year's sales. They constantly work with the General Cashier by requesting change for front desk cashiers, helping to research any cash-handling problems such as shortages in banks or deposits, and processing or reimbursing petty cash requests. They work with the Accounts Payable Clerk by forwarding invoices for payments, checking on account numbers, researching invoice problems, and generally ensuring that all invoices approved for payment are correct. They hand the day's work over to the Night Auditor at 11 p.m., who will check in any remaining guests and begin the process of auditing the day's work.

### ***Restaurant and Catering***

Managers in the restaurant and catering departments work with the accounting office in much the same manner as do the Front Office managers. Instead of market segments, these managers are interested in meal period information (breakfast, lunch, and dinner) to analyze their sales. The rest of their interactions are the same as those for the Front Office managers.

### ***Staff Departments***

The Sales and Marketing, Human Resources, and Engineering departments primarily interact with the Accounts Payable Clerk in processing invoices for payment. Because these departments have no revenues, they do not have any direct interaction with the Income Journal Clerk or General Cashier.

## **Monthly Preparation of Financial Reports**

We need to refer back to the four steps in the Financial Management Cycle Presented in Chapter 2:

1. The Operations Department produces the numbers.
2. The Accounting Department prepares the numbers.
3. The Accounting Department and Hotel Management analyze the numbers.
4. Hotel Management applies the numbers to Operations to change and improve.

We have just discussed the first step—Operations produces the numbers. Now we will discuss the second step—Accounting prepares the numbers.

Hotels or restaurants prepare either monthly financial reports or accounting period reports. The process is the same for both. The difference is the time period covered. The monthly reports are prepared at the end of each month and include operating results for 28, 30, or 31 days depending on the month. Although this makes for consistent comparison to the same month for a previous year, there are some problems with comparing results to the previous month when that month might contain more or fewer days in it. For example, comparing February, March, and April results will involve 28 days, 31 days, and 30 days, respectively, of operating results. Comparing these three months will require some adjusting, such as calculating daily averages to make the comparisons more meaningful.

Accounting periods all have 28 days and four weeks. There are 13 accounting periods in a year, all with the same number of days in each period. This makes comparisons to previous periods or previous years consistent. Each week in an accounting period always begins on the same day, ends on the same day, and involves the same number of days. For example, a workweek could begin on Saturday and end on Friday. However, monthly financial statements are more common, and the 13 accounting periods only include 364 days so there has to be an adjustment every seven years to get back to an end-of-the-year close to December 31.

Regardless of whether a company is on a monthly or an accounting period basis, the process of closing the books and preparing the financial statements is generally the same. For consistency purposes, we will talk about monthly closings. The process of closing the month includes the following activities:

1. *Preclosing information.* Several days before the end of the month, invoices, physical inventories, and transfers documenting entries will be due to the Accounting Office. This is to give everyone time to review and check the numbers reported for accuracy. If a problem arises, there is time to recheck the information.
2. *Month end.* This is the first day of the next month. The Accounting Office goes through a process of closing out all of the hotel accounts and posts entries for the previous month. For example, the income journal, the cumulative sales recorded for the month, is totaled, balanced, verified, and then closed out. The income journal for the next month is then opened, and all of the income or revenue accounts are set up for the new month. The Accounts Payable Clerk verifies with hotel managers that all invoices that should be paid for and charged to that month have been

received and inventoried and there will be a clean and consistent cutoff for the month. Once all the necessary operating information is received from the hotel departments, the Accounting Office verifies the information and enters it into the proper accounts on the proper reports. The main report is the monthly P&L. All accounting entries that reflect hotel revenues and expenses for the month must be entered in the proper account on the monthly P&L. This includes entries to adjust accounts in the A&L so that the balances on the account books equal the balances of physical inventories or computer reports. The monthly P&L already has the budget and last year's information, and the month-end closing collects and reports the actual information for the current month.

3. *Postclosing review.* The first draft of the monthly P&L is available within one or two days. The Director of Finance and Assistant Controllers then review the information to correct mistakes or make allocations and adjust entries to finalize the information on the P&L. Although this is primarily an accounting function, the Accounting Managers will be talking with Hotel Managers to ensure that any corrections made are proper and accurate. When these entries are completed and entered into the computer system, the final monthly P&L is generated. This P&L will include results for the current month and year-to-date (YTD).

## Accounting Operations in Restaurants and Smaller Hotels

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The accounting operations of restaurants and smaller, select service hotels are handled in a similar manner. Chain restaurants such as Red Lobster and Chili's as well as select service hotels such as the Fairfield Inn and Hampton Inn are examples of this type of operation. The size and range of operations do not warrant an onsite accounting office. Therefore, these operations utilize regional or corporate accounting offices to provide required accounting functions.

The accounting process in these operations is based on daily communication with the **corporate accounting office**. The operating results at the end of the day are transmitted to the corporate accounting office where they are processed and returned to the hotel or restaurant. It is the General Manager's responsibility to ensure that required operating information is submitted in a timely and accurate manner. While the General Manager can delegate this responsibility to his or her managers, it is ultimately the General Manager's responsibility to make sure that all procedures are followed correctly.

### Financial Statement Preparation

At the end of each day, the restaurant or hotel will close out the day's operating information accumulated in its POS system. This will include meal period revenues, customer

counts, wage costs, and any other expenses for the day. The p.m., or closing manager, is responsible for ensuring that all the day's operating information is sent at the end of each day. The corporate accounting office collects, summarizes, and reports the information and returns it to the restaurant or hotel the next morning. The next day, the a.m., or opening manager, will review the information for accuracy and completeness and make any necessary corrections. This daily information also includes month-to-date information and is used by the restaurant managers in operating their restaurants.

A similar process is followed at the end of the month for the monthly closing. This process is more involved and includes taking physical inventories, verifying revenue and wage information, and ensuring the accuracy of the month-end cutoff date. The corporate accounting office prepares the monthly P&L and any other trend or summary reports and returns it to the restaurant in three to five days.

Customer counts and revenues are forecasted each week for the next two weeks. These forecasts update the budget for the upcoming weeks and are based on the current business conditions that the restaurant is experiencing. These forecasts are used to schedule wages and determine purchase quantities.

## **Purchasing and Inventories**

Food, beverage, and operating supplies are purchased weekly through a centralized purchasing system. This computer program contains inventory level status, daily and weekly consumption amounts, prices, order quantities, and other pertinent purchasing information. The restaurant manager responsible for this function ensures that all the pricing and paperwork are complete and accurate; verifies delivery quantities, prices, and invoices; conducts month-end physical inventories; and processes invoices for payment.

Although it is an advantage to have a sophisticated purchasing system to use, it is the manager's responsibility to ensure that all information submitted is accurate. This requires a knowledge of restaurant standards and operations, of the accounting process, and of the importance of current and ongoing communication with the corporate accounting office to ensure that the system is working as intended.

## **Wage and Cost Controls**

Along with food costs, wage and benefit costs are the largest and most important expenses to be controlled in operating a restaurant. Wage costs are reviewed daily to ensure productivity standards are met and waste minimized. This process starts with the preparation of the next week's wage schedule based on the average volumes and employee labor hours for the previous several weeks. Relationships between guest counts and labor hours are established and used to schedule and control wage costs.

The wage departments in a restaurant can be divided into service, bar and hostess, and kitchen or heart of the house. Wage standards are established for each of these depart-

ments, and then the wage schedules are prepared for the upcoming week based on forecasted customer counts. An additional part of managing wage costs is controlling overtime. Each overtime labor hour includes a 50% premium—in other words, an overtime labor hour costs 50% more than a regular labor hour.

Another reason controlling wage costs is so important is that for every wage dollar there is an associated benefit cost. Most companies provide benefits to their hourly and management employees. This cost is split between the company and the employees. Typically, a company can pay from 20% to 40% in benefit cost for every wage dollar. This means that for every wage dollar paid, the restaurant will pay an additional 20 to 40 cents for benefits. If a restaurant is effectively controlling wage costs, they will be effectively controlling benefit costs. If they are not effectively controlling wage costs, they will also not be controlling benefit costs.

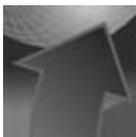
## Summary

The Accounting Department or Office in a hotel supports and assists the operating departments in a hotel. It interacts daily with these other departments exchanging information, assisting with problems, and preparing daily, weekly, and monthly management reports to be used by the operating departments in their daily business.

An organization chart describes the responsibilities and relationships provided by a department or business unit. The Accounting Department Organization Chart shows the different management levels and the functions or activities that the department is responsible for providing to the hotel. The typical management structure in the accounting office for a full-service hotel includes the Director of Finance, Assistant Controller, Night Auditor, and the hourly employees. The accounting functions are divided into the income responsibilities, accounts receivable responsibilities, and night audit responsibilities.

The Accounting Department provides important assistance to the other departments in the hotel. The operating departments provide operating information to accounting, and accounting prepares financial information for the other department managers to use. The relationships between accounting and operating departments can be linked back to the Financial Management Cycle. The first step is “operations produce the numbers”; in the hotel industry, that refers to the rooms, food and beverage, and other staff departments. The second step is “accounting prepares the numbers.” That is what we have talked about in this chapter. Without operations, accounting would have no information to prepare and report.

Small hotels and individual restaurants rely on corporate or regional accounting offices to provide all accounting services. Each hotel or restaurant sends operating information at the end of the day to the centralized Accounting Office, which records the information and prepares reports that are sent back the next day to the hotel or restaurant. Accurate and timely communications are essential to the successful operation of these systems.



## Hospitality Manager Takeaways

1. The Accounting Office offers support and assistance for all hotel managers. Employees in the Accounting Office take the operational information from the departments and prepare accounting reports for all managers to use as a management tool and to measure financial performance.
2. Hospitality managers have to know what operating information they need to provide to the Accounting Office so that the two departments can work together in analyzing and applying the financial information to improve hotel operations.
3. Hospitality managers need to understand and provide relevant operating information to the Accounting Office, and they must understand and be able to use the financial information prepared by accounting in operating their departments.



## Key Terms

**Accounts Payable**—The accounting function responsible for paying all invoices of the hotel.

**Accounts Receivable**—The process of billing and collecting accounts settled after the guest or company has checked out of the hotel.

**Assistant Controller**—A manager in the accounting office who reports to the Director of Finance and oversees specific functions in the accounting office, either income operations or accounts receivable.

**Corporate Accounting Office**—A central location that provides accounting support and services for individual hotels or restaurants operated by the company.

**Department Head**—A manager who is directly responsible for a specific hotel department. Department heads report to an Executive Committee Member and have line managers and supervisors reporting to them.

**Direct Report**—The managers and positions who report directly to a senior manager.

**Director of Finance**—The Executive Committee Member directly responsible for all accounting operations in a hotel.

**Executive Committee**—The members of senior management who report directly to the General Manager and are responsible for specific hotel departments. Department heads report to an Executive Committee Member.

**General Cashier**—The accounting function responsible for maintaining change for the hotel and for collecting department deposits and consolidating them into one deposit that goes to the bank daily.

**General Manager**—The senior manager in the hotel who is responsible for all hotel operations. All positions and activities are the responsibility of this person.

**Income Accounting**—The section of the accounting office that is involved with recording income, paying expenses, and assisting other hotel managers.

**Line Manager**—The entry-level management position that has face-to-face interaction with the customers and is responsible for operating the different shifts of a hotel department.

**Night Audit**—The accounting office function that receives, audits, reconciles, and balances all of the day's transactions; prepares daily reports; and ensures that the previous day's transactions are correct and in balance.

**Operating Department**—A hotel department that records revenues and produces a profit by providing products and services to the guests.

**Organization Chart**—Describes the reporting relationships, responsibilities, and operating activities for a department or business unit.

**Staff Department**—A hotel department that assists and supports the hotel operating departments.



## **Review Questions**

1. Name the two operating departments and the four staff departments in a full-service hotel.
2. Identify three areas of the accounting office and describe what their duties and responsibilities include.
3. What management position is responsible for delivering products and services every day to the guests?
4. What management position is responsible for all of the operations of a hotel?
5. Describe the operations and responsibilities of a corporate accounting office.
6. Identify three types of operating/financial information that a corporate accounting office returns daily to a restaurant for its review and use.
7. What is the most important financial report for hotel department managers that is prepared monthly by the accounting department?
8. Explain the differences, advantages, and disadvantages of monthly P&Ls when compared to 28-day accounting period P&Ls.