

Managing the Financials

OPENING DILEMMA

The night auditor has been unable to track down a \$35.50 shortage in balancing the night audit. He suspects that it occurred because of a posting error on a paid-out on behalf of a guest or food service department staffperson.

The lodging industry has always prided itself on its ability to maintain up-to-date records of outstanding guest balances (Figure 8-1). The front office processes a multitude of charges and payments every day, requiring a well-organized bookkeeping system. This chapter addresses how those guest charges are processed.

CHAPTER FOCUS POINTS

- Common bookkeeping practices performed in the front office
- Forms used to process guest charges and payments
- Account ledgers
- Procedures for processing guest charges and payments
- Procedures for transferring guest and city ledgers to accounts receivable
- Importance of standard operating procedures for posting and the night audit

FIGURE 8-1

The electronic folio displays all the data on a guest's stay that is held within the PMS. Photo courtesy of Wyndham Reading Hotel, Reading, Pennsylvania.



Common Bookkeeping Practices

Debits and Credits

Knowledge of basic bookkeeping methods enables the front office manager to understand the reasons for following particular procedures when handling financial transactions. This ability greatly assists the front office manager in training front desk clerks and night auditors. Instead of teaching the staff which keys to press on the keyboard to process a transaction, the manager explains why a charge must be posted in a certain way; this facilitates bookkeeping procedures. Many of you have already taken a basic accounting course or have had experience with a bookkeeping system. However, this chapter does not assume any previous knowledge of accounting procedures.

Assets are items that have monetary value. **Liabilities** are financial or other contractual obligations or debts. These two concepts provide the basics for a bookkeeping system. Examples of assets include ownership of a cell phone, a textbook, or two tickets to a concert. Examples of liabilities include a contract to pay for the cell phone on a monthly basis, a contract to pay for a car, or a promise to pay a friend for word processing a term paper. Guest charges are financial obligations that are owed to a hotel; these are considered an asset for the hotel. If a guest prepays an account, this is a liability to the hotel because the hotel must return the money to the guest at checkout.

TABLE 8-1 Effects of Debits and Credits on Assets and Liabilities

	DEBIT	CREDIT
ASSETS	increases	decreases
LIABILITIES	decreases	increases

Assets and liabilities are increased and decreased by an organized set of accounting practices. These are called **debits**, which refer to an increase in an asset or a decrease in a liability, and **credits**, which refer to a decrease in an asset or an increase in a liability. Debits and credits provide a basis for the hotel bookkeeping system. They provide the power (mechanical means) to increase and decrease assets and liabilities for the guest and the hotel. The effects of debits and credits on assets and liabilities are shown in Table 8-1.

While this definition may be easy to remember, it is sometimes difficult to apply. However, if you apply it with regard to the type of account, you should have no problem. The following examples demonstrate how to apply debits and credits.

If a guest charges \$100 on a credit card for goods and services in the hotel on any one day, the individual charges are processed as a debit (an increase) to the guest account and an asset to the hotel's accounts receivables. A credit (an increase) of an equal value is applied to the respective departmental sales accounts (a **revenue account**, part of owner's equity).

If a guest pays \$100 in advance to reserve a room, this amount is processed as a credit (an increase) to the guest account (the hotel's advance payments, a liability). A debit (an increase) of an equal amount is applied to the hotel's cash account (an asset).

Forms Used to Process Guest Charges and Payments

Folio, Transfers, and Paid-out Slips

The folio, transfers, and paid-out slips are documents that allow for the documentation and transfer of charges and payments to a guest's account (Figure 8-2). In a property management system, the electronic folio is stored in the computer memory until a hard copy is required. The hard copy of the electronic folio is a standard folio that lists the date of transaction, item, transfer slip number for referral, debit or credit amount, and updated balance. The **transfer slip** allows the desk clerk to transfer an amount of money from one account to another while creating a paper trail. A **paid-out slip** (a numbered form that authorizes cash disbursement from the front desk clerk's bank for products on behalf of a guest or an employee of the hotel) documents the authorized payment of cash

FIGURE 8-2

The front desk clerk will post a credit card payment on a guest's folio. Photo courtesy of The Breakers.



to a vendor or an employee for a quick purchase of materials for the hotel. In a hotel with a PMS that interfaces with point-of-sale departments, the transfer of charges incurred by the guest or the transfer of a portion of one guest's bill to another guest's folio is done automatically.

The front desk clerk uses these forms in **posting** charges and payments, which is the process of debiting and crediting charges and payments to a guest folio. The night auditor then tracks the procedures the front desk clerk used in posting. These forms assist in maintaining control of bookkeeping activities in the front office.

Account Ledgers

Guest Ledger and City Ledger

The guest ledger is a collection of folios (records of guests' charges and payments) of current guests of the hotel. The city ledger is a collection of folios of unregistered hotel guests

who maintain accounts with the hotel. These guests may submit cash advances for a future purchase of the hotel's goods and services, such as a deposit on a banquet or on a reservation. The hotel may also offer personal billing accounts to local businesspeople; these are also part of the city ledger. Unregistered hotel guests may keep open accounts for entertaining clients, for example. All of the folios are held in a **folio well**, a device that holds the individual printed hard-copy guest folios and city ledger folios, or bucket that provides the physical dimensions of the guest ledger and city ledger.

The accurate and timely processing of all these accounts assists the front office manager in maintaining hard copies of guests' financial transactions with the hotel. These accounts are collectively referred to as the hotel's **accounts receivable**—what guests owe the hotel. The accounts receivable consist of two categories, the guest ledger and the city ledger.

Tracking a guest stay from initial reservation through checkout provides examples of the many charges and payments that affect the guest ledger (Table 8-2). Likewise, following the activities of the unregistered guest shows how city ledger accounts are affected (Table 8-3).

TABLE 8-2 Transactions Affecting the Guest Ledger

State in Guest Cycle	Type of Transaction
Reservation	<ul style="list-style-type: none"> • Deposit on future reservation • Return of deposit on reservation due to cancellation
Registration	<ul style="list-style-type: none"> • Prepayment of account
Guest stay	<ul style="list-style-type: none"> • Charge for room and tax • Charge for food and beverages and gratuities • Charge for purchases in gift shop • Charge for parking • Charge for valet • Charge for phone calls • Charge for in-room movies • Charge for cash advance
Checkout	<ul style="list-style-type: none"> • Payment of outstanding balance • Return of credit balance to guest • Transfer of charges to another account • Correction of posting errors

TABLE 8-3 Transactions Affecting the City Ledger

Nonregistered Guest Activity	Type of Transaction
Food and beverage	<ul style="list-style-type: none"> • Deposit on upcoming function • Return of deposit due to cancellation • Charge for food and beverages • Payment for food and beverages
Business/entertainment	<ul style="list-style-type: none"> • Charge for food and beverages • Payment for food and beverages
Office and retail rental	<ul style="list-style-type: none"> • Rental charge • Payment of rental charge
Parking rental	<ul style="list-style-type: none"> • Parking charge • Payment of parking charge

Posting Guest Charges and Payments

As mentioned earlier, processing guest charges and payments is referred to as *posting* (increasing and decreasing assets and liabilities). Posting adds or subtracts guest charges and payments to the guest's individual account. Again, the accurate and timely posting of guest charges and payments is important to maintaining accurate financial records, as the guest may decide to check out at any time during the day and will require an accurate statement of transactions at that time.

Posting charges and payments in a hotel with a PMS greatly increases the accuracy of the posting. Each of the PMS posting module options, as listed in Figure 4-11, allows the front desk clerk to post the charges and payments that a guest incurs during his or her stay. With relative ease, the guest's electronic folio can be updated at the time of purchase of goods and services. Figure 8-3 is an example of an electronic folio to which charges and payments have been posted with a PMS.

Point-of-Sale

The point-of-sale option allows the front office computer to interface with the computers in other departments. In a hotel, when the front office interfaces with the restaurant, the front office computer terminal accepts and automatically posts charges made in the restaurant (the point of sale) to a guest's folio. Any department (gift shop, recreational facilities, room service, and telephone) in the hotel that can serve as a point of sale (the place where a product or service is purchased) must be able to interface with the front office to post charges to the guest's account. This electronic transfer ensures that the charge is posted to the guest folio in a timely manner and increases the accuracy of the posting. (See Figure 8-4.)

FIGURE 8-3 Posting charges electronically to a folio.

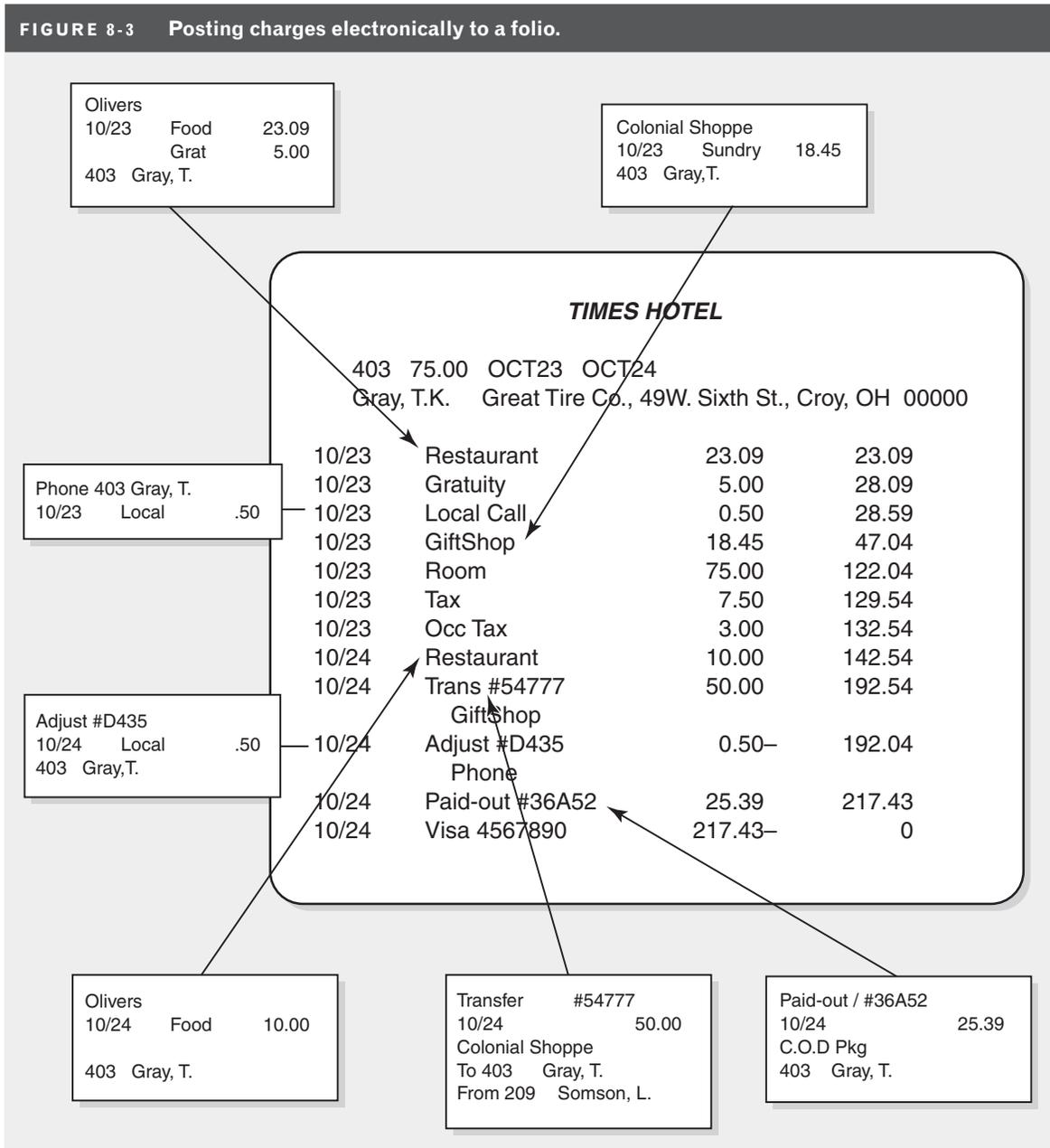


FIGURE 8-4

When guests incur charges in the dining room, these are immediately posted electronically to the guest folios via the point-of-sale terminal. Photo courtesy of Omron Systems, Inc.



Room and Tax

The room option of the posting module has been described as a “blessing” by front office employees who used to work with a mechanical posting machine. In a mechanical front office system, the desk clerk or night auditor physically removed each guest folio from its file, placed the folio into the posting machine, depressed the correct keys, removed the folio from the posting machine, and then refiled it. In a hotel with a PMS, the desk clerk automatically posts charges to individual electronic folios by activating the room option. While the PMS is posting room charges, the clerk is free to do other tasks.

The tax option is often activated with the room option because most properties are required by state or local laws to charge and collect sales and occupancy taxes from guests. The tax option posts the appropriate taxes to the guest folio when the room charge is posted.

Transfers and Adjustments

The transfer and adjustment options enable front office personnel to correct errors in and make requested changes to the guest folio. The charges posted to a guest's electronic folio at times must be transferred to another folio, or adjustments to the amounts must be made. For example, a guest may discover that his or her hotel bill will be picked up by a corporation in the city. The bill had been guaranteed with the guest's credit card. The front desk clerk must transfer the guest's charges from the folio in the guest ledger to the corporation's house account in the city ledger. Another guest may claim that a charge from room service should have been charged to the person who was sharing the room. In this case, the front desk clerk adjusts (removes) the charge from one guest folio and transfers it to the other guest folio.

A guest may question charges for a phone call, movie viewing, or other services. The desk clerk can immediately adjust the account, depending on the authorized financial correction flexibility policy. This policy spells out the guidelines for a desk clerk to follow in adjusting a guest's account. For example, a guest may refuse to pay for a telephone call because it should have been posted to the folio of the guest who was sharing the room. Otherwise, the front office shift supervisor or front office manager will authorize the adjustment. It is important to remember that immediate correction of errors may influence a guest's perception of a hotel's service. The policy on authorized financial correction flexibility reflects the quality of service the hotel wants to deliver.

All of these transfers and adjustments can be made easily with a PMS. Also, the adjustments are at once reflected in all the guest and departmental accounts affected by the change, with very little paperwork. This system makes the night auditor's job of verifying the integrity of accounts much easier.

Paid-Out

The paid-out option is used to track authorized requests for cash paid out of the desk clerk's cash drawer. Desk clerks may be required to pay immediately for goods and services on behalf of guests, such as delivery of flowers, valet services, and COD (cash on delivery) packages. These charges are usually preauthorized by the hotel on behalf of the guest. The amount paid out can be charged to the guest's folio and reflected in the desk clerk's cash balance and the departmental account in one process. This saves the tedious effort of initiating a paper trail and also avoids the possibility of human error.

FRONTLINE REALITIES



A guest in the hotel has reviewed her account and says the person who was sharing the room incurred the \$12.15 phone charges. The guest wants you to take care of this. How would you proceed?

Miscellaneous Charges

The miscellaneous charges option is included in a PMS to allow the desk clerk to post charges that are atypical of the majority of hotel properties. If a hotel has, for example, a recreational facility that lacks a point-of-sale terminal, this option may be engaged. This feature can also be used to post miscellaneous charges to the city ledger accounts.

Phone

The phone option is included in a PMS for properties that do not have an interface with the call-accounting system. With the call-accounting interface, the charges for local and long-distance phone calls, plus surcharges, are posted automatically. Without the interface, the desk clerk must manually post the phone charge on the electronic folio.

Display Folio

The display folio option permits the front desk clerk or other authorized members of the management staff to view a guest's electronic folio at any time. If a guest requests the current balance on his or her folio, the desk clerk can produce a hard copy of the folio with a few keystrokes. After the guest reviews the hard copy, he or she may indicate that a certain charge is in error. This discrepancy can be resolved prior to checkout.

Reports

The reports option allows the front office manager to organize data in a way that is useful to the controller and the management team. The night auditor can cross-check departmental totals from the restaurant, phone service, gift shop, or recreational facility with the amounts charged to the guest folios. These data can be shared with department managers to provide feedback for evaluating marketing programs and cost-control efforts. Figure 8-5 illustrates the types of reports that can be obtained.

Transferring Guest and City Ledgers to Accounts Receivable

The debits and credits incurred by guests and future guests of the hotel are maintained as back office accounts receivable (monies owed to the hotel). Once the guest has received the goods and enjoyed the services of the hotel, then this financial record must be transferred to the master accounts receivable for the hotel. If a guest's folio shows a debit balance (an amount the guest owes to the hotel) of \$291 and the guest wants to pay that off by charging \$291 to his MasterCard, then the amount is transferred to the MasterCard accounts receivable.

FIGURE 8-5 Reports created with the posting module.**Olivers Restaurant 1/28 2,315.92**

M	Total	Room CHG	V	M/C	JCB	DC
B	750.25	125.90	67.50	35.87	234.00	.00
L	890.67	25.00	124.50	340.00	150.00	75.00
D	675.00	235.00	56.98	75.00	221.75	125.00

GRAYSTONE LOUNGE 1/28 1,496.48

1.	780.09	121.00	.00	.00	45.00	.00
2.	456.98	75.00	35.80	87.30	89.60	75.40
3.	259.41	12.90	.00	.00	.00	.00

COLONIAL SHOPPE 1/28 1,324.72

1.	571.97	153.98	.00	76.43	121.56	.00
2.	752.75	259.93	82.87	83.76	25.71	.00

ROOM 1/28 4,529.56**TAX 1/28 452.95****ADJUST 1/28 66.04**

OLIVERS	23.98	#X4567
OLIVERS	5.98	#X4568
PHONE	.50	#X4569
PHONE	.50	#X4570
OLIVERS	27.54	#X4571
PHONE	7.54	#X4572

PAID OUT 1/28 143.20

OLIVERS	45.00	#45A41-SUPPLIES
OLIVERS	12.00	#45A42-SUPPLIES
ROOM 701	32.45	#45A43-FLOWERS
ROOM 531	3.75	#45S44-COD
ADMIN	50.00	#45A45-SUPPLIES

PHONE 1/28 578.15

LD	450.61
LOC	127.54

Another type of transaction involves the **back office accounts payable**, amounts of money prepaid on behalf of the guest for future consumption of goods or services (sometimes referred to as *back office cash accounts*), such as when a guest deposits a sum of money for a future stay. For example, the personal check a guest sends to the hotel, dated February 5, for a stay on the following December 21 must be credited first to the hotel's back office accounts payable or back office cash account and then to the guest's folio. This amount of money is held for the guest's arrival on December 21. When the guest arrives on December 21, the guest folio is brought to the front of the folio well and activated upon registration.

These examples demonstrate that the activities in the guest ledger and city ledger are not isolated. They are reflected in the back office account. The guest ledger and city ledger are temporary holding facilities for the guest's account. The back office accounts are the permanent arenas for financial processing.

Importance of Standard Operating Procedures for Posting and the Night Audit

Standard operating procedures for processing charges and payments are used for the night audit, which is performed to balance the day's financial transactions. The financial activities recorded in the guest ledger, city ledger, and various departments within the hotel must be processed accurately. It is not uncommon for a night auditor to spend many hours looking for a small or large dollar amount to correct a discrepancy in the accounts. Errors can often be traced to a front desk clerk who transposed a dollar amount (\$35.87 entered as \$53.87) or transferred a charge to an incorrect account (\$20.50 valet charge as a \$20.50 restaurant charge). However, it is difficult to detect if a desk clerk used an incorrect folio (room 626 instead of room 625). An experienced night auditor can usually pinpoint the error and resolve discrepancies caused by transposing figures or picking up incorrect accounts.

Because of the tedious effort required to resolve such errors, front office managers must thoroughly train front office personnel to process guest charges and payments correctly. This training program must include a statement of behavioral objectives, preparation and demonstration of detailed written procedures to follow when posting charges and payments, preparation and discussion of theoretical material that explains debits and credits, explanation of all related backup paperwork, clarification of the relationship of front office accounting procedures to back office accounting procedures, and delivery of hands-on training on the PMS. Such training efforts pay off in reduced bookkeeping errors and better customer service.

Solution to Opening Dilemma

The night auditor should check paid-out slips with accompanying invoices from floral shops, dry cleaners, specialty shops, and the like, or receipts from suppliers to determine if posting figures were transposed.

Chapter Recap

This chapter described procedures for processing guest charges and payments in a front office that uses a property management system. This process is based on knowledge of basic bookkeeping concepts—assets, liabilities, debits, and credits—as they apply to the guest ledger and city ledger. Folios, transfers, and paid-out slips form a communication system to track the charges and payments from the various departments and guests. The interface of the property management system with the point of sale was presented as it affects the guest bookkeeping system. Transferring accounting data from the guest ledger and city ledger to the back office accounts was also discussed. The importance of adhering to standard operating procedures in processing guest charges and payments for the night audit was emphasized. The preparation of a training program for new front office personnel was cited as a way to ensure that this goal is achieved. These operating procedures are essential to maintaining the integrity of the guest's bill and streamlining the hotel's bookkeeping process.

End-of-Chapter Questions

1. List some assets a student may hold. List some liabilities a student may incur. What differentiates the two terms?
2. In your own words, define the bookkeeping terms *debit* and *credit*. What power do they have in a bookkeeping context?
3. What forms are used in the various departments and the front office to provide records of a guest's charges and payments? Describe each. What are the purposes of these forms?
4. What is an electronic folio? How would you describe this to a front desk clerk who just started to use a PMS?
5. What is the guest ledger? Give an example of something included in it. Describe how you would post a check for prepayment of two nights' room rate.

6. What is the city ledger? Give an example of something included in it. Describe how you would post a check for prepayment of a social reception.
7. Give examples of the financial transactions that may occur during a guest stay.
8. Give examples of the financial transactions in which the nonregistered guest may be involved.
9. If you are employed in a hotel that uses a property management system that interfaces with a point-of-sale department, describe the procedure for posting a guest charge or payment.
10. Why are the guest and city ledgers considered only temporary holding areas for financial transactions? Where are such records permanently maintained?
11. Why is careful and accurate posting of charges and payments so important to the night audit? How can a front office manager ensure that posting is done correctly?

CASE STUDY 801

Ana Chavarria, front office manager, has just finished talking with Cynthia Restin, the night auditor, who has spent the majority of her shift trying to track down three posting errors totaling \$298.98. Last Tuesday night, a charge of \$34.50 was posted to the wrong department in the city ledger; on Wednesday night, a paid-out in the amount of \$21.85 had no financial document attached to the paid-out slip; and on Thursday, a \$250.00 prepayment on a social event was credited to a city ledger account as \$520.00. Cynthia told Ana that she has been at The Times Hotel for more than ten years and, in her experience, such mistakes are usually the result of improper training of new front desk clerks. Ana thanked Cynthia for the information and told her she would look into the matter.

Ana called Mary Yu, lead person on the first shift, into her office. Mary trained the new front desk clerks, Henry Yee and Tony Berks. Both Henry and Tony were good trainees and seemed to under-

stand all the tasks involved in operating the property management system. Ana asked Mary to relate the procedure she used to train these new recruits.

Mary says she described the property management system to them and then let them post some dummy charges on the training module. Then she had them correct each other's mistakes. After they had practiced for 15 minutes, the front desk became very busy, and they had to turn the training mode off and activate the regular operating mode. Henry posted several paid-out charges and transfers. Tony was a little more reluctant to touch the machine, but after the coffee break, he wanted to try to post guest payments.

Ana realizes that the development of a training program is her responsibility, and she has let that responsibility slip. How would you help Ana prepare an effective training program that teaches new front desk clerks why and how to post guest charges and payments?

CASE STUDY 802

Ana Chavarria, front office manager of The Times Hotel, has gathered her front office staff at a meeting to discuss the current policy on adjusting guest charges. Several guests have completed and returned guest comment cards indicating that requests for adjustments on their accounts were delayed.

Luis Jimenez recalls that one guest had requested that a \$10.25 phone call be removed from his account because he did not make that call. Another guest wanted an \$8.95 movie charge deducted from her bill because she did not watch the movie. Luis said he referred these guests to the front office supervisor on duty, which made both guests angry. The

guests who were waiting in line for service were also annoyed.

Lavina Luquis had a similar situation, but she decided to just deduct the disputed \$32.95 lunch charge without approval. The front office supervisor on duty reprimanded Lavina and told her, “All adjustments are handled by me.”

Ana wants to update the hotel’s policy on authorizing adjustment of guest accounts. Give her guidelines on dollar amounts that can be adjusted without the supervisor’s approval and describe some situations in which adjustments can be applied.

Key Words

accounts receivable

assets

back office accounts payable

credit

debit

folio well

liabilities

paid-out slips

posting

revenue account

transfer slip