

Hospitality Accounting

Steven M. Bragg

Table of Contents

Chapter 1 – Introduction to Hospitality Accounting	1
Learning Objectives	1
Introduction	1
Characteristics of the Hospitality Industry	1
Hotel Organizational Structure.....	2
The Controller Job Description	3
Decisions Requiring Accounting Information.....	4
Financial and Managerial Accounting	5
The Structure of this Book.....	6
Summary	8
Review Questions	9
Review Answers	10
Chapter 2 – The System of Accounting.....	11
Learning Objectives	11
Introduction.....	11
Financial Accounting Basics.....	11
Accounting Frameworks.....	12
Accounting Principles.....	13
The Accounting Cycle	14
Accounting Transactions	15
Types of Transaction Cycles	15
Source Documents.....	16
Double Entry Accounting.....	16
The Accounting Equation	17
Journal Entries.....	19
The Accruals Concept.....	20
The Chart of Accounts.....	20
Major Journal Entries	22
The Ledger Concept	23
Posting to the General Ledger	24
General Ledger Overview.....	25
The Trial Balance.....	25
The Trial Balance Format	26
The Extended Trial Balance.....	27
The Realization Concept.....	28
Accrual Basis of Accounting.....	28
Cash Basis of Accounting	29
Converting Cash Basis to Accrual Basis Accounting.....	29
Summary	30
Review Questions	31
Review Answers	32
Chapter 3 – The Financial Statements.....	33
Learning Objectives	33
Introduction.....	33
Income Statement Overview	33
The Single-Step Income Statement.....	35
The Multi-Step Income Statement.....	36
The Multi-Period Income Statement	37
Hospitality Income Statement Format.....	37
The Balance Sheet.....	39
The Common Size Balance Sheet	42
The Comparative Balance Sheet	43

Table of Contents

The Statement of Cash Flows	44
The Direct Method	45
The Indirect Method	47
Limitations of the Financial Statements	47
Summary	48
Review Questions	49
Review Answers	50
Chapter 4 – Receivables and Payables Accounting	51
Learning Objectives	51
Introduction	51
Accounting for Accounts Receivable	51
Accounting for Deposits	53
Accounting for Cash Sales	53
Remitting Sales Taxes	54
The Accounts Receivable Aging Report	55
Accounting for Bad Debts	55
Direct Write-Off Method	55
Allowance for Doubtful Accounts	56
Accounting for Accounts Payable	57
Accounting for Petty Cash	59
Petty Cash Transfer Form	60
Petty Cash Voucher	60
Petty Cash Book	61
The 1099 Vendor	62
Summary	64
Review Questions	65
Review Answers	66
Chapter 5 – Payroll Accounting	67
Learning Objectives	67
Introduction	67
Employee Time Tracking	67
Gross Pay Calculations	68
Hourly Rate Plan	68
Overtime	69
Tips	70
Types of Payroll Taxes	71
Social Security Tax	71
Medicare Tax	72
Unemployment Taxes	72
Income Tax Withholdings	73
Benefits and Other Deductions	75
Net Pay	76
Remitting Payroll Taxes	76
Types of Tax Deposit Schedules	76
Monthly Deposit Schedule	77
Semiweekly Deposit Schedule	78
Federal Unemployment Deposit Schedule	78
Remittance Method	78
The Form 941 Quarterly Federal Tax Return	79
State Tax Remittances	79
Payments to Employees	79
The Payroll Register	80
Form W-2	82
Payroll Journal Entries	83
Types of Payroll Journal Entries	83

Table of Contents

Primary Payroll Journal Entry.....	84
Accrued Wages.....	85
Manual Paycheck Entry.....	85
Employee Advances.....	86
Accrued Vacation Pay.....	86
Tax Deposits.....	87
Summary.....	87
Review Questions.....	89
Review Answers.....	90
Chapter 6 – Inventory Accounting.....	91
Learning Objectives.....	91
Introduction.....	91
The Periodic Inventory System.....	91
The Perpetual Inventory System.....	92
The Physical Inventory Count.....	93
Inventory Cost Layering Overview.....	95
The First in, First Out Method.....	96
The Last in, First Out Method.....	97
The Weighted Average Method.....	98
Estimating Ending Inventory.....	99
Gross Profit Method.....	99
Retail Inventory Method.....	100
Cost of Food Consumed.....	101
Cost of Sales Account Classifications.....	101
Summary.....	101
Review Questions.....	102
Review Answers.....	103
Chapter 7 – Fixed Asset Accounting.....	104
Learning Objectives.....	104
Introduction.....	104
What are Fixed Assets?.....	104
Fixed Asset Classifications.....	105
Accounting for Fixed Assets.....	106
The Capitalization Limit.....	106
The Base Unit.....	107
The Initial Measurement of a Fixed Asset.....	108
The Purpose of Depreciation.....	108
Depreciation Concepts.....	109
Accelerated Depreciation.....	109
Sum-of-the-Years' Digits Method.....	110
Double-Declining Balance Method.....	111
Straight-Line Method.....	111
Units of Activity Method.....	112
MACRS Depreciation.....	112
The Depreciation of Land.....	114
The Depreciation of Land Improvements.....	114
Depreciation Accounting Entries.....	114
Accumulated Depreciation.....	115
Asset Derecognition.....	116
Abandoned and Idle Assets.....	117
Asset Disposal Accounting.....	117
Summary.....	118
Review Questions.....	119
Review Answers.....	120

Table of Contents

Chapter 8 – Interest Capitalization..... 121
Learning Objectives 121
Introduction..... 121
Overview of Capitalized Interest..... 121
When to Capitalize Interest 122
The Interest Capitalization Period..... 122
The Capitalization Rate 123
Calculating Interest Capitalization..... 124
Summary 126
Review Questions 127
Review Answers 128

Chapter 9 – Debt Accounting..... 129
Learning Objectives 129
Introduction..... 129
Basic Debt Accounting..... 129
The Amortization Schedule 131
Reconciling the Debt Account 131
Summary 132
Review Questions 133
Review Answers 134

Chapter 10 – Income Taxes..... 135
Learning Objectives 135
Introduction..... 135
Sole Proprietorship Taxes..... 135
Partnership Taxes..... 138
C Corporation Taxes 142
S Corporation Taxes 144
Tax Reduction Strategies for Small Businesses..... 147
Summary 148
Review Questions 149
Review Answers 150

Chapter 11 – Other Accounting Topics 151
Learning Objectives 151
Introduction..... 151
Startup Costs..... 151
Advertising Costs..... 151
Gift Cards 152
Summary 155
Review Questions 156
Review Answers 157

Chapter 12 – Controls 158
Learning Objectives 158
Introduction..... 158
The Proper Balance of Control Systems..... 158
The Nature of Risk 160
Control Principles..... 160
The Failings of Internal Controls..... 161
Preventive and Detective Controls..... 162
Manual and Automated Controls 162
Constructing a System of Controls 163
Common Fraud Risk Factors..... 163
Hospitality Industry Risk Characteristics..... 164
Hospitality Industry Fraud..... 165

Table of Contents

Specific Controls	166
Controls for the Small Organization	172
Summary	172
Review Questions	174
Review Answers	175
Chapter 13 – Pricing Methodologies.....	176
Learning Objectives	176
Introduction	176
Price Elasticity of Demand.....	176
Cross Price Elasticity of Demand	178
Pricing Perception.....	178
Market-Based Pricing.....	179
Dynamic Pricing.....	180
Pricing Segmentation.....	180
Cost Markup Pricing (Meals).....	182
Investment-Based Pricing (Room Rates).....	184
Hubbart Formula (Room Rates)	184
Hubbart Formula (Meal Pricing).....	186
Menu Engineering.....	187
Contribution by Meal Period	188
Discounting of Room Rates.....	189
Room Revenue Yield Analysis	191
Price Increase Considerations.....	192
Non-Profit Pricing.....	192
Summary	193
Review Questions	194
Review Answers	195
Chapter 14 – Ratio and Trend Analysis	196
Learning Objectives	196
Introduction.....	196
Interpretation of Financial Statements	196
Horizontal Analysis.....	197
Vertical Analysis.....	198
Current Ratio	199
Quick Ratio	200
Accounts Payable Turnover Ratio	201
Accounts Receivable Turnover Ratio.....	201
Inventory Turnover Ratio.....	202
Fixed Asset Turnover Ratio.....	202
Sales to Working Capital Ratio	203
Debt to Equity Ratio	204
Fixed Charge Coverage	204
Net Profit Ratio.....	205
Return on Net Assets	205
Hotel Operating Ratios.....	206
Paid Occupancy Percentage.....	206
Complimentary Occupancy Percentage	207
Average Occupancy per Room	207
Average Room Rate	207
Revenue per Available Room	208
Revenue per Available Customer.....	208
Hotel Market Share.....	209
Restaurant Operating Ratios.....	210
Seat Turnover.....	210
Average Food Service Check	210

Table of Contents

Ratio of Beverage to Food Revenue	211
Limitations of Ratio Analysis.....	211
Summary	212
Review Questions	213
Review Answers	214
Chapter 15 – Cost Concepts	215
Learning Objectives	215
Introduction.....	215
The Economics of Cost Management.....	215
What is Cost?	216
Basic Cost Types.....	216
Fixed Costs	216
Variable Costs	217
Mixed Costs.....	217
Step Costs.....	219
Differential Costs	219
Discretionary Costs.....	220
Committed Costs	220
Sunk Costs.....	220
The Cost Allocation Conundrum.....	221
Advantages of Cost Management.....	222
Summary	222
Review Questions	224
Review Answers	225
Chapter 16 – Cost-Volume-Profit Analysis.....	226
Learning Objectives	226
Introduction.....	226
Contribution Margin.....	226
Breakeven Point.....	227
Margin of Safety.....	229
Cost-Volume-Profit Analysis.....	230
Cost-Volume-Profit Cautions.....	232
Sales Mix.....	233
Summary	234
Review Questions	235
Review Answers	236
Chapter 17 – Operations Budgeting	237
Learning Objectives	237
Introduction.....	237
The Advantages of Budgeting	237
The Disadvantages of Budgeting.....	238
The Operations Budget	239
The Operations Budget Format.....	239
Revenue Projections.....	240
Expense Projections.....	242
The Flexible Budget	243
Formulation of the Budget.....	243
The Long-Range Budget.....	245
Variance Analysis	245
Types of Variances	246
Selling Price Variance.....	247
Sales Volume Variance.....	247
Purchase Price Variance	247
Material Yield Variance.....	248

Table of Contents

Labor Rate Variance.....	248
Operating without a Budget.....	248
Summary.....	250
Review Questions.....	251
Review Answers.....	252
Chapter 18 – Capital Budgeting.....	253
Learning Objectives.....	253
Introduction.....	253
Overview of Capital Budgeting.....	253
Time Value of Money.....	253
Present and Future Value Tables.....	255
Cost of Capital Derivation.....	257
Cost of Debt.....	257
Cost of Preferred Stock.....	257
Cost of Common Stock.....	257
Weighted Average Cost of Capital.....	258
Net Present Value Analysis.....	258
Terminal Value.....	260
Internal Rate of Return.....	261
Incremental Internal Rate of Return.....	261
Profitability Index.....	262
Breakeven Analysis.....	262
Payback Method.....	263
Real Options.....	265
Capital Expenditure Proposal Analysis.....	266
Information Recordation.....	267
Separate Spreadsheet.....	267
Separate General Ledger / Subledger Accounts.....	267
Separate Accounting Module.....	268
Summary.....	268
Review Questions.....	269
Review Answers.....	270
Chapter 19 – The Lease or Buy Decision.....	271
Learning Objectives.....	271
Introduction.....	271
The Lease Arrangement.....	271
The Lease or Buy Decision.....	271
Leasing Concerns.....	272
Leasing Advantages.....	273
Summary.....	274
Review Questions.....	275
Review Answers.....	276
Chapter 20 – Cash Management.....	277
Learning Objectives.....	277
Introduction.....	277
The Difference between Net Income and Cash Flow.....	277
The Bank Reconciliation.....	278
The Daily Bank Reconciliation.....	279
The Cash Forecast.....	280
The Short-Term Cash Forecast.....	281
The Medium-Term Cash Forecast.....	283
The Need for Cash Concentration.....	284
Cash Sweeping.....	285
The Zero Balance Account.....	285

Table of Contents

Multiple Sweep Arrangements	286
Sweeping Rules.....	286
Sweep Costs	287
Summary.....	287
Notional Pooling.....	287
Notional Pooling Problems.....	287
Notional Pooling Costs.....	288
Summary.....	288
Cash Concentration Best Practices	288
Cash Concentration Alternatives	289
Accounting for Cash Concentration Transactions	289
Investments	290
Accounting for Investments—Dividends and Interest Income.....	292
Stock Dividends and Stock Splits.....	293
Noncash Dividends.....	293
Summary	293
Review Questions	294
Review Answers	295
Chapter 21 – Working Capital Management.....	296
Learning Objectives	296
Introduction.....	296
The Cash Conversion Cycle.....	296
Accounts Receivable Enhancements	296
Credit Enhancements	297
Billing Enhancements	298
Collection Enhancements	298
Accounts Receivable Policies	300
Inventory Enhancements.....	300
Inventory Policies	300
Accounts Payable Enhancements	301
Terms Renegotiation	301
Early Payment Discounts.....	301
Payment Processing Frequency	302
Accounts Payable Policies.....	302
Summary	302
Review Questions	303
Review Answers	304
Glossary.....	305
Index	311