



MANAGERIAL ACCOUNTING  
FOR THE HOSPITALITY INDUSTRY

LEA R. DOPSON • DAVID K. HAYES

SECOND EDITION



WILEY



# Managerial Accounting for the Hospitality Industry

Second Edition

**Lea R. Dopson**

**David K. Hayes**

**WILEY**

VP AND EDITORIAL DIRECTOR	George Hoffman
EDITORIAL DIRECTOR	Veronica Visentin
EDITORIAL ASSISTANT	Ethan Lipson
EDITORIAL MANAGER	Gladys Soto
CONTENT MANAGEMENT DIRECTOR	Lisa Wojcik
CONTENT MANAGER	Nichole Urban
SENIOR CONTENT SPECIALIST	Nicole Repasky
PRODUCTION EDITOR	Linda Christina E
PHOTO RESEARCHER	Alicia South-Hurt
COVER PHOTO CREDIT	© Alzay/Shutterstock; © Dmitry Kalinovsky/Shutterstock

This book was set in ITC New Baskerville Std 10/12 pt by SPi Global and printed and bound by Lightning Source, Inc.

Founded in 1807, John Wiley & Sons, Inc. has been a valued source of knowledge and understanding for more than 200 years, helping people around the world meet their needs and fulfill their aspirations. Our company is built on a foundation of principles that include responsibility to the communities we serve and where we live and work. In 2008, we launched a Corporate Citizenship Initiative, a global effort to address the environmental, social, economic, and ethical challenges we face in our business. Among the issues we are addressing are carbon impact, paper specifications and procurement, ethical conduct within our business and among our vendors, and community and charitable support. For more information, please visit our website: [www.wiley.com/go/citizenship](http://www.wiley.com/go/citizenship).

Copyright © 2017, 2009 John Wiley & Sons, Inc. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923 (Web site: [www.copyright.com](http://www.copyright.com)). Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030-5774, (201) 748-6011, fax (201) 748-6008, or online at: [www.wiley.com/go/permissions](http://www.wiley.com/go/permissions).

Evaluation copies are provided to qualified academics and professionals for review purposes only, for use in their courses during the next academic year. These copies are licensed and may not be sold or transferred to a third party. Upon completion of the review period, please return the evaluation copy to Wiley. Return instructions and a free of charge return shipping label are available at: [www.wiley.com/go/returnlabel](http://www.wiley.com/go/returnlabel). If you have chosen to adopt this textbook for use in your course, please accept this book as your complimentary desk copy. Outside of the United States, please contact your local sales representative.

ISBN: 978-1-119-29965-3 (PBK)  
ISBN: 978-1-119-29953-0 (EVALC)

***Library of Congress Cataloging in Publication Data:***

Names: Dopson, Lea R., author. | Hayes, David K., author.  
Title: Managerial accounting for the hospitality industry / Lea R. Dopson, David K. Hayes.  
Description: 2nd Edition. | Hoboken : Wiley, 2017. | Revised edition of the author's *Managerial accounting for the hospitality industry*, c2009. | Includes bibliographical references and index.  
Identifiers: LCCN 2016037501 (print) | LCCN 2016038993 (ebook) | ISBN 9781119299653 (pbk.) | ISBN 9781119299530 (EVALC) | ISBN 9781119299387 (pdf) | ISBN 9781119299271 (epub)  
Subjects: LCSH: Hospitality industry—Accounting. | Managerial accounting.  
Classification: LCC HF5686.H75 D67 2017 (print) | LCC HF5686.H75 (ebook) | DDC 647.94068/1—dc23  
LC record available at <https://lccn.loc.gov/2016037501>

The inside back cover will contain printing identification and country of origin if omitted from this page. In addition, if the ISBN on the back cover differs from the ISBN on this page, the one on the back cover is correct.

## ABOUT THE AUTHORS

**Lea R. Dopson** is Dean and James A. Collins Distinguished Chair of The Collins College of Hospitality Management at Cal Poly Pomona. Previously, she was Department Chair of Hospitality and Tourism Management at the University of North Texas, and she taught at Cal Poly Pomona, the University of Houston, and Texas Tech University. Dr. Dopson holds an Ed.D. from the University of Houston, and an MBA and BS in Restaurant, Hotel, and Institutional Management from Texas Tech University. Her areas of teaching include hospitality managerial accounting, hospitality finance, and food and beverage cost controls. She has published in a variety of journals and has presented her research at numerous conferences. She has also co-authored with David Hayes, *Food and Beverage Cost Control*, published by John Wiley & Sons, which is presently in its sixth edition. Dr. Dopson has an ardent interest in international education, as is demonstrated by her creation of a MS in International Sustainable Tourism joint degree between the University of North Texas and Centro Agronómico Tropical de Investigación y Enseñanza (CATIE), Costa Rica. Also, Dr. Dopson lived 9 months in Zimbabwe, Africa, developing a degree program in international hospitality and tourism. In addition to her academic career, she has held various unit and corporate hospitality management positions with Texas Tech Foodservice, Sheraton Hotels, and Bristol Hotels.

**David K. Hayes** earned his Ph.D. in Education from Purdue University, as well as MS and BS degrees in Hotel and Restaurant Management. He held faculty positions at Purdue University, Texas Tech University, and the University of Houston. At Texas Tech University, he founded the Restaurant Hotel and Institutional Management (RHIM) program and served as Chair of the Department of Nutrition, Education and Restaurant/Hotel Management. Dr. Hayes was Vice President of the Educational Institute (E.I.) of the American Hotel & Lodging Association (AH&LA) and was responsible for the development of industry training programs utilizing advanced technology delivery systems. An industry practitioner as well as academician, he was the Owner/General Manager of the full-service Clarion Hotel and Conference Center in Lansing, Michigan. An accomplished author, his scholarly articles have appeared in *The Cornell Quarterly*. He has written 12 books, including texts translated into Spanish, Japanese, Chinese, Portuguese, and Croatian. He is now a full-time author who divides his professional writing and industry advising activities between offices in Okemos, Michigan and Gulfport, Mississippi.



# CONTENTS

**ABOUT THE AUTHORS** iii

**PREFACE** ix

## **1 Hospitality Industry Accounting** 1

---

- Unique Aspects of the Hospitality Industry 1
- The Purpose of Accounting in the Hospitality Industry 3
- Branches of Accounting 5
- Why Hospitality Managers Use Managerial Accounting 11
- The Uniform System of Accounts 13
- Ethics and Hospitality Accounting 15
  
- Apply What You Have Learned 19
- Key Terms and Concepts 20
- Test Your Skills 20

## **2 Accounting Fundamentals Review** 24

---

- Bookkeeping and Accounting 24
- The Accounting Equation 26
- Recording Changes to the Accounting Equation 27
- Generally Accepted Accounting Principles 37
- The Hospitality Business Cycle 48
  
- Apply What You Have Learned 52
- Key Terms and Concepts 52
- Test Your Skills 53

## **3 The Income Statement** 58

---

- The Purpose of the Income Statement 58
- Income Statement Preparation 63
- Income Statement Analysis 83
  
- Apply What You Have Learned 104
- Key Terms and Concepts 104
- Test Your Skills 105

## **4 The Balance Sheet 113**

---

The Purpose of a Balance Sheet 113  
Balance Sheet Formats 119  
Components of the Balance Sheet 126  
Balance Sheet Analysis 138

Apply What You Have Learned 144  
Key Terms and Concepts 145  
Test Your Skills 145

## **5 The Statement of Cash Flows 156**

---

Understanding Cash Flows 157  
The Purpose of the Statement of Cash Flows (SCF) 158  
Sources and Uses of Funds 160  
Creating the Statement of Cash Flows 167  
Statement of Cash Flows Analysis 182

Apply What You Have Learned 185  
Key Terms and Concepts 186  
Test Your Skills 186

## **6 Ratio Analysis 196**

---

Purpose and Value of Ratios 197  
Types of Ratios 200  
Comparative Analysis of Ratios 243  
Ratio Analysis Limitations 245

Apply What You Have Learned 247  
Key Terms and Concepts 247  
Test Your Skills 248

## **7 Food and Beverage Pricing 258**

---

Factors Affecting Menu Pricing 258  
Assigning Menu Prices 262  
Menu Price Analysis 269

Apply What You Have Learned 287  
Key Terms and Concepts 287  
Test Your Skills 288



**8 Revenue Management for Hotels 294**

---

Establishing Room Rates 294  
Revenue Management 307  
Non-Room Revenue 320

Apply What You Have Learned 324  
Key Terms and Concepts 324  
Test Your Skills 325

**9 Managerial Accounting for Costs 334**

---

The Concept of Cost 334  
Types of Costs 336  
Cost/Volume/Profit Analysis 354

Apply What You Have Learned 362  
Key Terms and Concepts 363  
Test Your Skills 363

**10 Forecasting in the Hospitality Industry 373**

---

The Importance of Accurate Forecasts 374  
Forecast Methodology 376  
Utilizing Trend Lines in Forecasting 393

Apply What You Have Learned 396  
Key Terms and Concepts 397  
Test Your Skills 397

**11 Budgeting and Internal Controls 402**

---

Importance of Budgets 403  
Types of Budgets 405  
Operations Budget Essentials 408  
Developing an Operations Budget 409  
Monitoring an Operations Budget 417  
Cash Budgeting 427  
Managing Budgets through Internal Control 434

Apply What You Have Learned 439  
Key Terms and Concepts 440  
Test Your Skills 440

**12 Capital Investment, Leasing, and Taxation 450**

---

Capital Budgeting 451

Capital Investment 454

Financing Alternatives 467

Taxation 475

Apply What You Have Learned 483

Key Terms and Concepts 484

Test Your Skills 484

**Index 493**

# PREFACE

*Managerial Accounting for the Hospitality Industry* is a book that we the authors were particularly excited and privileged to develop and to now revise for this new edition. We view it as an essential book not merely because the topic of managerial accounting is so important, but more critically because the success of hospitality students themselves is so important.

In addition to their “people skills,” all hospitality professionals must possess “numbers skills.” Hospitality is a business, and it has been said that accounting is the language of business. A clear understanding of that language simply must be acquired by all who wish to achieve their business’s financial and profit objectives. It is the goal of this book to provide each reader with that crucial understanding.

Together we have over 60 years experience teaching students who wish to make a professional career in the field of hospitality. During those years, at many institutions and at a variety of instructional levels, we have consistently found that the students we teach have had difficulty understanding and applying accounting concepts in general and managerial accounting concepts specifically. For many students, accounting – the language of business – was perceived as a *foreign language* and one that they did not easily grasp. Our personal experience, however, as well as our admiration for the abilities of our students, convinced us that the root cause of this situation rests more with the lack of appropriate instructional tools and techniques available to the instructors teaching these students than with the interest or capability of the students themselves.

Alternative managerial accounting texts present accounting as if their hospitality readers wish to be accountants. Most simply do not. We recognize, significantly, that readers first, and foremost, desire to be hospitality *managers*. As such, they will legitimately want to know precisely how the accounting skills they will acquire by reading this book can help them better do their jobs. Through a myriad of practical hospitality examples such as this that clearly illustrate accounting concepts, this text shows managers exactly how to use accounting information to achieve their professional and personal goals.

## New in the Second Edition

The first edition *Managerial Accounting for the Hospitality Industry* met with great success, and we are convinced this revised second edition is even better, in part due to the addition of these exciting new features:

**NEW! Updated financial statements that incorporate changes in the Uniform System of Accounts for Restaurants (USAR) and the Uniform System of Accounts for the Lodging Industry (USALI).** All financial statements in this revised version of the text have been reformatted to conform to the recommendations presented in the newly released 8<sup>th</sup> edition of the USAR and the 11<sup>th</sup> edition of the USALI.

**NEW! Here’s How It’s Done** “Here’s How It’s Done” is a new feature used to assist students in areas where math concepts may be challenging. Simple step-by-step

instructions on how frequently used calculations are made help readers see exactly how to apply mathematical procedures to areas of importance.

**NEW! Consider the Cost Case Studies** These new, real-life scenarios, added to each chapter, allow readers to directly apply the concepts presented in the text to realistic challenges they will likely encounter as managers. Instructors can incorporate this new feature as in-class discussions or as take-home assignments.

**NEW! Managerial Accounting Around the World** The hospitality industry is increasingly globalized. This unique feature, presented in each chapter, illustrates the importance of understanding managerial accounting from a global perspective.

**Special Areas of Emphasis in the Second Edition** Our combined years of teaching hospitality management at the undergraduate, graduate, and continuing professional education levels have helped enormously to shape this textbook's original content and this revision. Specifically, the following became special areas of emphasis as we developed this new edition:

**Simplification of Presentation** The readers of our text have always been our primary focus, and we are delighted to find that, again and again, creative graphics and clearly written narrative help to enhance the book's reader-friendliness and, as a result, present complex ideas in easily understandable ways. We took special care in this edition to review each paragraph and sentence to ensure the content they contain was presented in the clearest possible manner.

**“Test Your Skills” Expansion** User feedback indicates that the end-of-chapter “Test Your Skills” feature is extremely popular. This feature is often used for in-class assignments, class discussions, and homework assignments. As a result of this great interest, the number of Test Your Skills items presented in this edition has been doubled from the number included in the first edition.

## **To the Student**

Learning managerial accounting by reading this book will be fun. That's a promise from us to you. It is an easy promise to keep because working in the hospitality industry is fun. And it is challenging. Learning managerial accounting (accounting used by managers) will be exactly the same: *fun and challenging*. In this book, you will see how hospitality managers actually evaluate and apply accounting information.

If you work hard and do your best, you will find you do have the ability to master all of the information in this text. When you do, you will have gained an invaluable management tool that will enhance your company's performance and, by doing so, advance your own hospitality career.

## **To the Instructor**

Students who begin to learn managerial accounting, like those students seeking to acquire any new language, will encounter a new vocabulary, unique ways of thinking, and even new ways of applying what they have learned. In many ways, learning accounting, the language of business, is exactly like learning a foreign language.

As any adult who has tried knows well, learning a new language can be hard and the difficulty inherent in learning to *speak* it well is often underestimated by those who are already *fluent* in the language. The result, when applied to managerial accounting, is that knowledgeable and well-intentioned teachers find too many of their students struggle, are left behind, and do not ultimately become fluent in the language.

It was our goal to apply to managerial accounting the best foreign language instructional practices we could identify. As hospitality/culinary professionals, we were quite pleased to find that there are five clearly identifiable (and constant) ingredients in the standardized recipe for extremely successful foreign language instruction. The application of these same learning principles, so effective in teaching students other new languages, helps solve the real instructional dilemma faced by managerial accounting teachers and students in so many hospitality programs. The five key ingredients identified and enthusiastically incorporated in the development of this text are as follows:

1. **An Early Start:** Countries whose students are highly multilingual begin widespread or compulsory education in foreign languages by age 8. Applying this principle, we sought to develop an accounting text that could be used by students as they first enter their hospitality programs. Freshman in four-year programs, first year community college students, entry-level culinary arts students, and all those with little to no previous background in accounting will find the book immediately applicable and easy to understand. This is so because, uniquely, the book does not rely on any prerequisite accounting courses to fulfill its educational purpose.
2. **Significant Student Interest:** Some hospitality students see themselves more as *people* persons than *numbers* persons. That's O.K. But learning accounting can be just as fun and exciting for people persons as it is for numbers persons. All hospitality students, we believe, are keen to learn about their industry. This book harnesses that student interest by constant reference to how the accounting information they are learning applies *directly* to the fascinating field of hospitality management and the student's own future success.
3. **A Well-Articulated Conceptual Framework:** In the design of any successful instructional program, there are two key questions that must be painstakingly addressed. Simply put, these are:
  - What must be taught?
  - In what order shall it be taught

We were privileged to have the opportunity to access the best teaching practices and experiences of outstanding hospitality practitioners and educators nationally as we carefully constructed the book's content and order of information. Experienced managerial accounting instructors will find all of the core topics they teach have been incorporated and in a manner they will find greatly aids their students' comprehension and retention.

4. **Ample Practice Time:** Language instructors know that one of the best ways for their students to become fluent is to "practice" – A lot! In recognition of this fact, an extensive number of practice problems and illustrations were developed for this text. Thus, a great number of financial formulas and statements are presented in the text, precisely at the point where they are most meaningful.

This text goes further however. In many cases, an accounting problem is of a *conceptual* or *theoretical* nature. Instructors who assign these type questions will find they require students to critically apply accounting concepts they have learned, as well as their own values and beliefs, to solve important business problems.

5. **Effective Assessment Tools:** The best educational programs carefully and accurately measure student progress. The importance of student assessment goes far beyond the simple assignment of a grade at semester's end. Identification of areas in which students may need further instruction, ease of administration, and exam quality were all factors meticulously incorporated into the extensive assessment tools developed for this book. The importance, to students as well as instructors, of

measurement and evaluation examinations, quizzes, and other tools that are perceived as both fair and error free is critical and what we strove for during the writing of this book.

It is our belief that the careful and consistent application of these five successful teaching techniques, combined with accurate and up-to-date managerial accounting information, unite to make this new version unsurpassed for making students of all abilities fluent in the fascinating and fun-to-learn language known as *Managerial Accounting for the Hospitality Industry*.

## **Text Content**

This is a book about the theory and practice of managerial accounting techniques in the hospitality industry. In the usual introduction to an applied accounting text such as this, the authors will proudly say something along the lines of “*this book is not based upon a bunch of ivory tower theories,*” implying, of course, that the use of theory in teaching is somehow suspect. Typically, they then go on to describe their own book in terms such as “practical, real-world, down-to-earth, and/or realistic.” We have found that it is a good idea to be suspect when such qualifiers are used. The famed management consultant Dr. W Edwards Deming was fond of saying: “*No Theory, No Learning.*” He was correct.

Deming knew well that the purpose of well-developed theories is to explain, predict, or advise. The content of this book was carefully chosen to achieve these three goals. Thus, it is practical, because practicality enhances learning by allowing students to apply new information (accounting) in a setting interesting and familiar to them (hospitality). But it is also unabashedly theoretical because practical advancements in any endeavor result from carefully examining old theories and improving upon them (which, after all, is why the newest version of the Boeing 787 travels a good bit faster than the Wright Brother’s original aircraft). Thus, with the goal of effectively aiding in teaching the theory and the practice of managerial accounting, the authors created a manuscript with 12 chapters, divided among four major parts:

### **Part I: Accounting Fundamentals:**

Part I introduces readers to the foundations of managerial accounting and contains the following chapters:

1. *Hospitality Industry Accounting*
2. *Accounting Fundamentals Review*

In this critical underpinning part, readers will learn about the different types of accounting used by those in business, why generally accepted accounting principles (GAAP) are applied and their own ethical responsibilities related to the reporting of financial information.

### **Part II: Financial Statements**

Part II of the text examines in detail the three most important financial documents utilized by managerial accountants as well as how financial ratios are used to evaluate and analyze these documents. It contains the following four vital chapters:

3. *The Income Statement*
4. *The Balance Sheet*
5. *The Statement of Cash Flows*
6. *Ratio Analysis*

In this part, readers are introduced to the key financial documents they will prepare and analyze. The chapter on ratio analysis teaches them the most up-to-date means of examining the information contained in these critical documents.

### **Part III: Management of Revenue and Expense**

Part III of this text introduces readers to specific activities they will use to manage their revenues and expenses. The following chapters are included in this part:

7. *Food and Beverage Pricing*
8. *Revenue Management for Hotels*
9. *Managerial Accounting for Costs*

These chapters teach readers exactly how hospitality professionals use managerial techniques to optimize their revenues and analyze their costs to maximize profitability.

### **Part IV: Accounting Information for Planning**

In the concluding part of the text, readers are given the information needed to plan for the current and future success of their businesses. Chapters included in this part are as follows:

10. *Forecasting in the Hospitality Industry*
11. *Budgeting and Internal Controls*
12. *Capital Investment, Leasing, and Taxation*

This part contains a range of topics and information important to managerial accountants including forecasting restaurant and hotel revenues. In addition, the various types of budgets used by managerial accountants in hospitality are presented, as well as information about the development and monitoring of these budgets. The text concludes with a chapter containing important information about capital budgeting, the computation of rates of investment returns, leasing, and taxation.

## **Text Features**

From a reader's perspective, the features of a textbook are often as important as its content. Thoughtfully designed textbook features make the content presented easy to read, easy to understand, and easy to retain. Readers will find that *Managerial Accounting for the Hospitality Industry* is especially reader-friendly. The following strategically designed features help readers learn the concepts of managerial accounting:

- **Overview:** Each chapter begins with a brief narrative overview. This is simply a quick and easy guide to the chapter's contents. Overviews make it easy for readers to see what the chapter is about and what they will learn by reading it.
- **Chapter Outline:** The chapter outline at the beginning of each chapter shows the listing for each topic in order of their introduction and provides a simple way to quickly find material within the chapter.
- **Learning Outcomes:** Each chapter utilizes this short feature to explain in concise and clear terms (and before any content is presented), exactly what a reader will be able to *do* when they have mastered the chapter's content. This feature makes it easy for readers to see what the chapter is about and the skills they will obtain by reading it.
- **Here's How It's Done:** These special exercises provide scenarios that involve stepped out calculations using the formulas or concepts presented within each chapter to illustrate the various key accounting principles and the use of accounting formulas.

- **Fun on the Web!:** The importance of the Internet as a learning tool cannot be overlooked in any field of study. The student-friendly *Fun on the Web!* feature identifies useful websites to visit and gives readers specific instructions about what they should do, consider, and learn when they visit each site.
- **Managerial Accounting Around the World:** More than ever before, students embarking on careers in the hospitality industry find that their management positions will take them to foreign countries and expose them to new customs and new ways of doing business. This feature introduces students to some of the managerial accounting–related complexities they will discover as members of the increasingly globalized hospitality industry.
- **Consider the Cost:** This new feature, included in each chapter, presents readers with brief scenarios/vignettes describing common challenges faced by managerial accountants in the hospitality industry, as well as thought-provoking questions designed to make readers consider how these issues can best be addressed.
- **Apply What You Have Learned:** Each chapter contains a chapter ending, “true-to-life” mini-case study, designed to make readers think about how they would personally use the information they have learned to respond to managerial accounting–related challenges they may encounter in their careers. Thought-provoking questions are included at the end of this feature to assist students in considering the solutions they would implement when addressing the issues raised in the case study.
- **Key Terms and Concepts:** As is true with many areas of specialization within hospitality management, managerial accountants certainly speak their own language. Readers often need help in remembering key vocabulary terms and concepts they should have mastered after reading a section of a book. Thus, *Key Terms and Concepts* are listed at the conclusion of each chapter (and in the order in which they were presented) to provide a valuable study aid.
- **Test Your Skills:** This capstone feature consists of accounting “word problems” to be solved using the information and skills learned in the chapter. It is included in each chapter and allows readers the chance to apply and practice, in a variety of hospitality settings, the concepts they have now mastered. Requiring, in nearly all cases, multiple calculations to complete the problem set, this feature also provides valuable opportunities to learn about creative ways hospitality professionals utilize managerial accounting to address operational problems. All Test Your Skills problems are designed to be answered using Excel spreadsheets and these are included on the text’s companion website.

## Instructor and Student Resources

To help instructors effectively manage their time and to enhance student learning opportunities, several significant educational tools have been developed specifically for this text. An Instructor’s Manual, a Student Study Guide, and a Companion Website are all provided to assist instructors and students in the teaching and learning process.

**Instructor’s Manual.** As an aid to instructors, an Instructor’s Manual has been developed for this text. The manual includes for each chapter:

- PowerPoint slides
- Suggested answers for “Consider the Cost”
- Suggested answers for “Apply What You Have Learned”
- Answers to chapter-ending “Test Your Skills” problems
- A Test Bank including exam questions and answers keyed to chapter learning objectives



**Companion Website.** This segment of Wiley’s website devoted entirely to this book ([www.wiley.com/college/dopson](http://www.wiley.com/college/dopson)) includes very important resources for instructors’ use to enhance student learning. These are given as follows:

**PowerPoint slides.** These easy-to-read teaching aids are excellent tools for instructors presenting their lectures via computer or for those who wish to download the 650+ slides and present them as overhead transparencies.

**Consider the Cost suggested answers.** Instructors will be able to access suggested answers to the “Consider the Cost” scenarios located in each chapter within the password-protected Instructor’s companion website.

**Apply What You Have Learned suggested answers.** Instructors will be able to access suggested answers to the “Apply What You Have Learned” mini-cases at the end of each chapter within the password-protected Instructor’s companion website.

**Test Your Skills spreadsheet answers and formulas.** Instructors will be able to access answers and formulas to the “Test Your Skills” spreadsheet exercises at the end of each chapter within the password-protected portion of the Instructor’s companion website.

**Test Bank.** Instructors utilizing the book’s companion website will find a password-protected bank of multiple choice exam questions that identify the learning objective addressed by each question as well as the questions’ correct answers.

**Instructor’s Manual.** Instructors can access a password-protected electronic version of the Instructor’s Manual on the Instructor’s companion website.

**Frequently Used Formulas for Managing Operations.** Students can print the formulas, making them more “mobile” for studying than in the book. Students absolutely love this feature.

## **Acknowledgments**

*Managerial Accounting for the Hospitality Industry* has been designed to be the most technically accurate, flexible, and reader friendly teaching resource available on the topic. We would like to acknowledge the many individuals who assisted in its development:

Special appreciation goes to Allisha Miller, a partner in Panda Professionals Hospitality Education and Training ([www.pandapros.com](http://www.pandapros.com)) for her detailed work in ensuring the “Test Your Skills” exercises and spreadsheets are as accurate and user-friendly as possible. Thanks also goes to Peggy Richards Hayes, a self-proclaimed non-accountant but also the individual singly most responsible for ensuring that this text would be easy to read, easy to understand, and easy to remember. Her insightful, pointed, kindly (and sometimes brutally) offered reactions to each page of this revision manuscript will undoubtedly help ensure the success of this effort. Her unwavering confidence that we could “make it clearer to make it better!” and insistence that we do so ensured the final text met and ultimately exceeded our goals of clarity.

We also wish to thank the Dopson family: Thandi, Lorelei, Tutti, Terry, and Laurie for their endless patience and support throughout the process. In addition, we thank Raktida Siri and Nancy Kniatt for all of their efforts in helping with detailed minutia and supplemental materials. All are greatly appreciated.

Particular mention is appropriate for those professionals who reviewed the original draft outlines of each chapter and those readers who carefully reviewed each chapter draft as it was written and rewritten. We also want to recognize those hospitality practitioners and instructors who participated in a thorough review of each chapter’s final version. For comment, collaboration, and constructive criticism on the manuscript, we thank our original reviewers:

Greg Charles, Western Culinary Institute  
Stephen M. LeBruto, University of Central Florida  
Basak Denizci, University of South Carolina  
Michael C. Dalbor, University of Nevada, Las Vegas  
Ben K. Goh, Texas Technical University  
Ronald Jordan, University of Houston  
Hyung-il Jung, University of Central Florida  
Sueanne Kubicek, Northern Arizona University  
James Mawhinney, Pennsylvania Culinary Institute

Experienced authors know the value of a quality publisher in the development of an outstanding manuscript. We are continually impressed with the high standards exhibited by Veronica Visentin; Director Psychology, Culinary, Hospitality and Business. The efforts expended by Veronica to bring this text to full completion were truly prodigious. We are deeply grateful, as will be the students who read this text, for all of the staff at Wiley for their intellect, patience, and faithfulness in producing this exciting book. It is our desire that all of those reading this text will come to appreciate and justly value the beauty of the new language they will learn to speak by using this newest edition of *Managerial Accounting for the Hospitality Industry*.

Lea Dopson, Ed.D.  
*Pomona, CA*

David K. Hayes, Ph.D.  
*Okemos, MI*

# Hospitality Industry Accounting

## CHAPTER OUTLINE

- 1 Unique Aspects of the Hospitality Industry
- 2 The Purpose of Accounting in the Hospitality Industry
- 3 Branches of Accounting
- 4 Why Hospitality Managers Use Managerial Accounting
- 5 The Uniform System of Accounts
- 6 Ethics and Hospitality Accounting
- 7 Apply What You Have Learned
- 8 Key Terms and Concepts
- 9 Test Your Skills

## Overview

---

Hospitality is one of the world's most exciting and rewarding industries. When you choose it for your career, you will be able to choose from a wide variety of employers, locations, and daily job activities that can lead to your professional 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 be clear to you 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 operations you are responsible for managing.

## Unique Aspects of the Hospitality Industry

---

**Learning Outcome 1:** Describe the primary purpose of accounting in the hospitality industry.

If 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 the travel and tourism industry is subject to honest difference of opinion and diverse perspective. As a result, the colleges and universities that offer educational programs preparing students for careers in the hospitality

**LEARNING OUTCOMES**

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

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

industry may elect to call the programs Hospitality Management, Culinary Arts Management, Hotel and Restaurant Management, Travel and Tourism Management, Restaurant Management, Hotel Management, Institutional Management, or any of a number of similar name variations. The difficulty with precisely classifying who is, or is not, a member of the hospitality industry becomes clearer when you realize that for most industry observers, each of the 10 following individuals would be considered professional hospitality managers:

Hospitality Manager	Job Title
Sofianna	Director of food services for a 5000-student public school district
Alberto	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
Bethie	Manager of a 800-member country club offering dining services, swimming pool, and an 18-hole golf course
Trahill	Director of sales and marketing for a 2000-room casino hotel
Jackson	Food and beverage director for the Student Union of a 30,000-student university
Amanda	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 emphasizing locally sourced ingredients

**Fun on the Web!**

According to the U.S. Commerce department, more than 25 subsectors make up the travel and tourism industry. The three sectors of accommodations, lodging, food service, and air travel, account for more than 50% of the industry's total sales. Accommodations is the largest of the three subsectors and accounts for 19% of total travel industry output. Food services is the second largest and accounts for more

than 16% of travel and tourism-related output, while air travel accounts for nearly 16%. To learn more about the size and economic impact of the travel and tourism industry, go to

<http://selectusa.commerce.gov/industry-snapshots>

When you arrive at the site, choose "Travel, Tourism and Hospitality."

While each of the industry subsegments these managers work in is very different and can be classified in very different ways (e.g., profit vs. nonprofit, or corporate vs. privately owned), one good way to classify them is by their emphasis on either lodging accommodations or food and beverage (F&B) services.

The authors not only recognize the potential over simplification of such a classification but also believe that it is the act of providing away-from-home lodging and meals (in a variety of settings), which most distinguishes those 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 fields include clubs, resorts, casinos, cruise ships, theme parks; the recreation and leisure market such as arenas, stadiums, amphitheaters, civic centers, and other recreational facilities; the convention center market; the education market such as colleges, universities, and elementary and secondary school nutrition programs; the business dining market such as corporate cafeterias, office complexes, and manufacturing plants; the healthcare market such as long-term care facilities and hospitals; and the corrections market such as juvenile detention centers, jails, 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 created a managerial accounting text that can be of maximum help to the widest possible range of hospitality managers.

## 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 an old Middle French word (*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** would be 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 their investments are good ones, investors will always seek out and rely upon accurate financial information. When it is done properly, the accounting process provides that important 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 it 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 just a few of the many 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. Should I select Jackie or Samuel as the person assigned to train our new dining room wait staff?
2. Should the portion size of fish used to make our signature "Blackened Trout" be 8 ounces or 11 ounces?
3. 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?
4. Our hotel swimming pool currently closes at 10:00 p.m. Would our guests be happier if the pool were to remain open 24 hours per day instead? Would that increase the number of times they returned to stay with us? By how many?
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 profitable tourist destination for us?

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

---

Learning Outcome 2: List and summarize the purpose of each of the five 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 the function of the accounting work performed in each of these branches is important for them to understand.

## Financial Accounting

---

In nearly all cases, a business essentially consists of the buying and selling of goods and/or 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 spa services 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 when your business makes a sale, **expense**; the cost of the items required to operate your business; and **profit**, the amount of money that remains after all your expenses have been paid.

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

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

Financial accounting also includes accounting for **assets**, which are the items owned by a business, and **liabilities**, the amounts the business owes to others. Finally, financial accountants record and report information about **owners' equity**, the amount remaining in a business after subtracting its liabilities from its assets.

These transactions can be used to develop the following equation, which is so important and is known as the basic **accounting equation**, or the balance sheet equation (see Chapter 4).

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

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

To better 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 determine whether buying and operating the shop is a good idea would be

1. How much revenue do pizza shops like this typically achieve on an average day? An average month?
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? How much in future years?

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 these and other business questions she must address.

## Cost Accounting

---

**Cost accounting** is the branch of accounting that is concerned with classifying, recording, and reporting a business's expenses or costs. 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 "the time or resources expended by a business."

To better 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 F&B services. Each of these major areas will expend money to achieve the goals set for them by Mike and the club's members.

It is very unlikely that that Mike could know, on a daily basis, about all the purchases his staff will make. Mike will, however, 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, business function or area of responsibility, and 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 the following:

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 country club managers accounting for the cost of the meals eaten during work hours by their departmental staff in the same manner?
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.



## Fun on the Web!

The control of costs is important to every business and especially so in the restaurant business. Professionals working in the F&B industry have a variety of tools available to them to help manage their costs. One of the very best is the textbook *Food and Beverage Cost Control* written by the same author team that produced this book.

You can review the table of contents of this extremely popular book by going to

[www.wiley.com](http://www.wiley.com)

When you arrive at the Wiley website, select “Culinary & Hospitality” and then choose “Accounting” to select and examine this book’s most recent edition.

## 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. 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 state or local **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 tax** 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 that must be paid by the businesses they manage.

## Auditing

An **audit** is an independent verification of financial records. An **auditor** is an 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

## Fun on the Web!

The 2002 SOX 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.sec.gov/about/laws.shtml](http://www.sec.gov/about/laws.shtml)

When you arrive at the site, choose "Sarbanes–Oxley Act of 2002."

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 unfair advantage of it. Properly performed, the auditing branch of accounting is designed to point out accounting weaknesses and irregularities and thus help prevent accounting fraud.

In part because of the potential damage that could be done by unscrupulous corporate managers, the U.S. Congress passed the **Sarbanes–Oxley Act (SOX)**. Technically known as the Public Company Accounting Reform and Investor Protection Act, the law provides criminal penalties for those who are 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 fines or even prison terms.

Not surprisingly, as a result of SOX, the role of the auditor responsible for conducting an audit, or review, of the accounting methods and techniques used by a company has become increasingly important. Individuals who are directly employed by a company to examine the 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 in-house 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 specifically to act as the property's in-house auditors are employed.

Auditors not only help ensure honesty in financial reporting, but they also 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 as follows:

1. Are all purchases we make supported by the presence of a legitimate invoice before we process payment for it?
2. Are any guest adjustments from their initial 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 bank statements that list actual deposits made into the businesses 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. They also 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 primary topic of this book as well as the final branch of accounting we will examine. To clearly understand the purpose of managerial accounting, assume that Karen Gomez is the person responsible for providing in-flight 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 airlines find 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 entrée. 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 entrées? The answer, most certainly, is no.

To prepare 1000 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 entrées that would likely be selected by each group of passengers and 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 consistently recorded previous meal-related transactions (entrées chosen by fliers on previous flights), she would be in a much better position to use this information to estimate the actual number of each entrée 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 it consists of utilizing accounting information (historical records in this specific case) to make informed 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 are summarized in Figure 1.1.