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Front Office Accounting

WHILE FRONT OFFICE ACCOUNTING may seem intimidating at first, it is actually grounded in straightforward logic and requires only basic math skills. A front office accounting system monitors and charts the transactions of guests and businesses, agencies, and other non-guests using the hotel's services and facilities. The front office's ability to perform accounting tasks in an accurate and complete manner will directly affect the hotel's ability to collect outstanding balances.

This chapter will examine the fundamentals of front office accounting, including creating and maintaining accounts, tracking transactions, following internal control procedures, and settling accounts.

Accounting Fundamentals

An effective guest accounting system consists of tasks performed during each stage of the guest cycle. During the pre-arrival stage, a guest accounting system captures data related to the type of reservation guarantee and tracks prepayments and advance deposits. When a guest arrives at the front desk, the guest accounting system documents the application of room rate and tax at registration. During occupancy, a guest accounting system tracks authorized guest purchases. Finally, a guest accounting system ensures payment for outstanding goods and services at the time of check-out.

The financial transactions of non-guests may also be processed within the parameters of front office accounting. By allowing authorized non-guest transactions, a hotel can promote its services and facilities to local businesses, or track transactions related to conference business. The area of non-guest accounts also includes the accounts of former guests which were not settled at check-out. The responsibility for collecting on non-guest accounts shifts from the front office to the back office accounting division.

In brief, a front office accounting system:

- Creates and maintains an accurate accounting record for each guest or non-guest account
- Tracks financial transactions throughout the guest cycle
- Ensures internal control over cash and non-cash transactions
- Records settlement for all goods and services provided

A front office accounting system is uniquely tailored to each hotel operation. Accounting system terminology and report formats often differ from hotel to hotel or chain to chain. The following sections provide a brief review of some general concepts of front office accounting.[1]

Accounts

An **account** is a form on which financial data are accumulated and summarized. An account may be imagined as a bin or container that stores the results of various business transactions. The increases and decreases in an account are calculated and the resulting monetary amount is the **account balance.** Any financial transaction that occurs in a hotel may affect several accounts. Front office accounts are recordkeeping devices to store information about guest and non-guest financial transactions.

In its simplest written form, an account resembles the letter T:

Account Name

Charges	Payments

This form of recording is called a **T-account.** The growing use of front office computers has diminished the popularity of T-accounts. However, T-accounts remain a useful tool for teaching bookkeeping principles. For a front office account, *charges* are increases in the account balance and are entered on the left side of the T. *Payments* are decreases in the account balance and are entered on the right side of the T. The *account balance* is the difference between the totals of the entries on the left side and the right side of the T-account.

Front office accounting documents typically use a **journal form.** In a non-automated or semi-automated recordkeeping system, a journal form might contain the following information:

Description of Account	Charges	Payments	Balance

Similar to a T-account, increases in the account balance are entered under char- decreases in the account balance are entered under p tem, charges and payment settlement stage of the guest cycle. Certain circumstances may require the guest to make a partial or full payment at other times during the guest cycle. For example, if the front office is to enforce the hotel's house limit, guests who exceed that limit may be asked to settle part or all of the **outstanding balance.** When there is a house limit, account settlement action is initiated when the account balance exceeds a predetermined limit, not at the time of check-out.

Non-Guest Accounts. A hotel may extend in-house charge privileges to local businesses or agencies as a means of promotion, or to groups sponsoring meetings at the hotel. The front office creates **non-guest accounts** to track these transactions. These accounts may also be called *house accounts* or *city accounts.* Non-guest accounts are also created when a former guest fails to settle his or her account at the time of departure. When the guest's status changes to non-guest, the responsibility for account settlement shifts from the front office to the back office. Unlike guest accounts, which are compiled daily, non-guest accounts are normally billed on a monthly basis by the hotel's accounting division.

Folios

Front office transactions are typically charted on account statements called **folios.** A folio is a statement of all transactions (debits and credits) affecting the balance of a single account. When an account is created, it is assigned a folio with a starting balance of zero. All transactions which increase (debits) or decrease (credits) the balance of the account are recorded on the folio. At settlement, a guest folio should be returned to a zero balance by cash payment or by transfer to an approved credit card or direct billing account.

The process of recording transactions on a folio is called **posting.** A transaction is *posted* when it has been recorded on the proper folio in the proper location, and a new balance has been determined. When posting transactions, the front office may rely on handwritten folios (if it is using a non-automated system), machine-posted folios (with a semi-automated system), or computer-based electronic folios (with a fully automated system).

Regardless of the posting technique used, the basic accounting information recorded on a folio remains the same. In a non-automated or semi-automated recordkeeping system, guest folios are maintained at the front desk. In a fully automated recordkeeping system, electronic folios are stored in a computer and can be retrieved, displayed, or printed on request.

There are basically four types of folios used in front office accounting. They are:

- **Guest folios:** accounts assigned to individual persons or guestrooms
- **Master folios:** accounts assigned to more than one person or guestroom; usually reserved for group accounts
- **Non-guest** or **semi-permanent folios:** accounts assigned to non-guest businesses or agencies with hotel charge purchase privileges
- **Employee folios:** accounts assigned to employees with charge purchase privileges

Additional types of folios are frequently created by front office management to accommodate special circumstances or requests. For example, a business guest may request that his or her charges and payments be split between two personal folios: one to record expenses to be paid by the sponsoring business, and one to record personal expenses to be paid by the guest. In this situation, two folios are created for one guest. If the room and tax portion are to be separated from other charges, the room and tax is posted to the *room folio.* This is sometimes called the *A folio.* Food, beverage, telephone, and other charges are posted to the *incidental folio* or *B folio.*

Every folio should have a unique serial number. Folio serial numbers are needed for many reasons. First, they serve as identification numbers that help ensure that all folios are accounted for during an audit of front office transactions. Second, folio numbers may be used to index information in automated systems. Automated systems frequently create folio numbers when reservations are made. Folio numbers are then transferred to the front desk for use during registration. Finally, folio numbers can provide a chain of documentation. In non-automated and semi-automated systems, folios have specific lengths and can hold only a limited number of postings. When a balance must be carried forward to a new folio, the old folio number should be shown as a reference of where the balance originated.

Vouchers

A **voucher** details a transaction to be posted to a front office account. This document lists detailed transaction information gathered at the source of the transaction. The voucher is then sent to the front office for posting. For example, hotel revenue outlets use vouchers to notify the front office of guest charge purchases which require posting. Several types of vouchers are used in front office accounting, including cash vouchers, charge vouchers, transfer vouchers, allowance vouchers, and paid-out vouchers. Most computer systems require few vouchers, since terminals interfaced with a front office computer are capable of electronically transmitting transaction information directly to electronic folios.

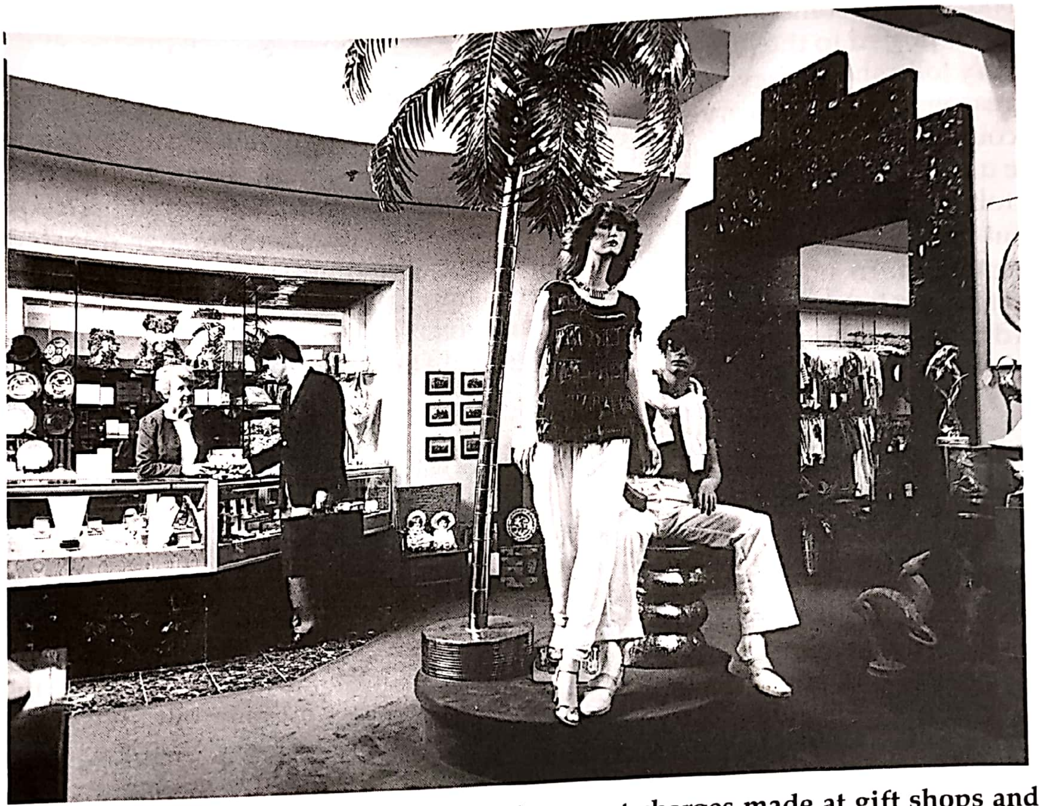
Points of Sale

The term **point of sale** describes the location at which goods or services are purchased. Any hotel department that collects revenues for its goods or services is considered a revenue center and thus, a point of sale. Large hotels typically support many points of sale, including restaurants, lounges, room service, laundry and valet service, parking garages, telephone service, fitness centers, athletic facilities, and shops. The front office accounting system must ensure that all charge purchases at these points of sale are posted to the proper guest or non-guest account.

Some hotels offer guest-operated devices that also function as points of sale. Similar to an actual revenue outlet, these devices result in charges that must be posted to guest folios. Two such devices are in-room movie and in-room vending service systems.

The volume of goods and services purchased at scattered points of sale requires a complex internal accounting system to ensure proper posting and documentation of sales transactions. Exhibit 7.1 charts the flow of information that results when a guest charges a restaurant purchase to his or her guest account. A computerized **point-of-sale (POS) system** may allow remote terminals at the points of sale to communicate directly with a front office computer system. Automated POS systems may significantly reduce the amount of time required to post charge purchases to guest folios, the number of times each piece of data must be handled, and the number of posting errors and after-departure (late) charges. Overall, automation helps front office staff create a well-documented, legible folio statement with a minimum number of errors.

No matter the location, points of sale must provide some basic information when posting a charge through a remote terminal or submitting a voucher to the front desk. The information includes the amount of the charge, name of the point of sale outlet,



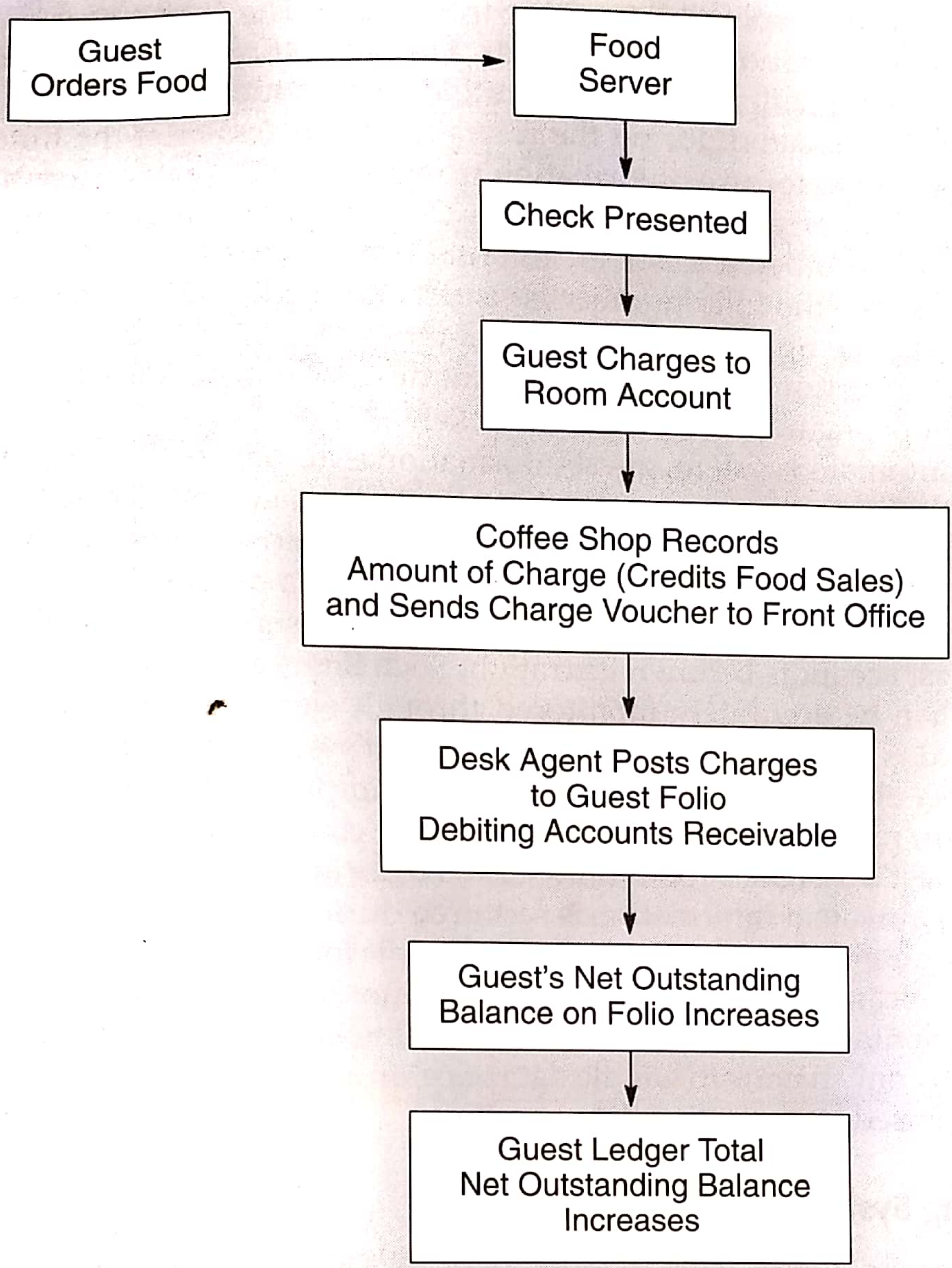
Front office accounting systems ensure that guest charges made at gift shops and other points of sale are posted to the proper guest account. (Courtesy of the Hyatt Regency Grand Cypress, Orlando, Florida)

room number and name of the guest, and brief description of the charge. If the charge is being submitted by voucher, the signature of the guest and the identity of the employee submitting the charge are also required. If the charge is posted through a remote terminal, the employee identification is captured by the computer terminal and forwarded to the folio, along with the time of the posting. Posting through an automated terminal still requires a guest signature on a sales slip or voucher for audit purposes or in case there is any dispute regarding the purchase or the amount.

Ledgers

A **ledger** is a summary grouping of accounts. The front office ledger is a collection of front office account folios. The folios represented in the front office are a part of the front office **accounts receivable ledger.** An **account receivable** represents money owed to the hotel. Front office accounting commonly separates accounts receivable into two subsidiary groups: the **guest ledger** (for guest receivables) and the **city ledger** (for non-guest receivables).

Guest Ledger. The guest ledger refers to the set of guest accounts that correspond to registered hotel guests. Guests who make appropriate credit arrangements at registration may be extended privileges to charge purchases to their individual account folios during their stay. Guests may also make payments against their outstanding balance at any time during occupancy. Guests' financial transactions are recorded onto guest ledger accounts to assist in tracking guest account balances. In some front office operations, the


Guest Orders Food
Food Server
Check Presented
Guest Charges to Room Account
Coffee Shop Records Amount of Charge (Credits Food Sales) and Sends Charge Voucher to Front Office
Desk Agent Posts Charges to Guest Folio Debiting Accounts Receivable
Guest's Net Outstanding Balance on Folio Increases
Guest Ledger Total Net Outstanding Balance Increases

The task of accurately and completely recording all transactions that affect guest ledger accounts is the responsibility of the front office. The front office also records all transactions which affect non-guest accounts. The back office accounting division is ultimately responsible for collection of non-guest ledger accounts.

Guest folios are created during the reservations process or at the time of registration. To prepare a folio for use, information from the guest's reservation or registration record must be transferred to the folio. Non-automated and semi-automated systems commonly use prenumbered folios for internal control purposes. When prenumbered guest folios are used, the folio number is usually entered onto the guest's registration card for cross-referencing. Manually posted or machine-posted guest folio cards used in non-automated operations are stored in a front desk folio tray. A folio tray may also be referred to as a posting tray, folio well, or bucket.

In a fully automated system, guest information is automatically transferred from an electronic reservation record or captured at registration and entered onto an electronic folio. Electronic folios are automatically cross-referenced with other computer-based records within the front office system. In some systems, a preliminary electronic folio is created automatically and simultaneously with the reservation record. This enables postings to guest accounts before registration. Such items as prepayments and advance deposits can then be accurately monitored through electronic recordkeeping. Since a registration card is also created in a fully automated system, it is stored in the folio tray by room number along with the appropriate pre-stamped credit card voucher.

At check-in, reservations data are verified and combined with room rate information and the guest's assigned room number to create an in-house electronic folio. For a walk-in guest, equivalent information is captured during registration and entered into a front office computer terminal. Creating an electronic folio within a front office computer system can significantly reduce the possibility of transactional account-entry errors. One of the major advantages of electronic data processing is that captured data need only be handled once. By only having to handle data once, an automated system can significantly reduce errors caused by repetitive data handling.

Recordkeeping Systems

The formats of guest and non-guest account folios may be different, depending upon the front office recordkeeping system.

Non-Automated. Guest folios in a manual system contain a series of columns for listing individual debit (charge) and credit (payment) entries accumulated during occupancy. At the end of the business day, each column is totaled and the ending balance is carried forward as the opening folio balance of the following day.

Semi-Automated. Exhibit 7.2 contains a form of guest folio used in a semi-automated recordkeeping system. Guest transactions are printed sequentially on a machine-posted folio. The information recorded for each transaction includes the date, department or reference number, amount of the transaction, and new balance of the account. The folio's outstanding balance is the amount the guest owes the hotel, or the amount the hotel owes the guest in the event of a credit balance at settlement. The column labeled *previous balance pickup* provides an audit trail within the posting machine framework that helps prove the current outstanding balance is correct. If the semi-automated posting is done by mechanical equipment, it does not retain individual folio balances. This means that

ROOM	(LAST) NAME (FIRST) (INITIAL)	RATE	FOLIO NUMBER	403131
STREET ADDRESS		OUT	PHONE READING	OUT
CITY, STATE & ZIP		IN		IN
			FROM FOLIO	
NO. PARTY	CREDIT CARD	CLERK	TO FOLIO	

DATE	REFERENCE	CHARGES	CREDITS	BALANCE	PREVIOUS BALANCE PICKUP
Jul 27 A	RESTR 103	** 14.25		* 14.25	A* 14.25
Jul 27 A	ROOM 103	** 60.00		* 74.25	A* 74.25
Jul 27 A	LDIST 103	** 6.38		* 80.63	A* 80.63
Jul 27 A	MISCCR 103		** 18.38	* 62.25	A* 62.25
Jul 27 A	PAID 103		** 62.25	* .00	
				Last Balance Amount Due	

ROOM	(LAST) NAME (FIRST) (INITIAL)	RATE	FOLIO NUMBER	403131
STREET ADDRESS		OUT	PHONE READING	OUT / IN
CITY, STATE & ZIP		IN	FROM FOLIO	
NO. PARTY	CREDIT CARD	CLERK	TO FOLIO	

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Jul 27 A	MISCCR 103		** 18.38	* 62.25	A* 62.25
Jul 27 A	PAID 103		** 62.25	* .00	
				Last Balance Amount Due	

the guest's credit card and electronically transmitting this information to the credit card company with a request for an amount guarantee. Once a line of credit has been approved, guests are authorized to make charge purchases. These transactions are communicated manually by vouchers or electronically from remote points of sale locations to the front desk for proper account posting.

Guests who pay cash for accommodations at registration are typically not extended charge purchase privileges. These guests are typically called **paid-in-advance** or **PIA guests.** In a fully automated front office accounting system, PIA accounts are typically set to a *no-post* status. Since point-of-sale terminals throughout the hotel have immediate access to stored account information, a no-post status account is one that cannot accept charge purchase transactions. This means that revenue center cashiers will not be able to post charges to a guest whose account has a no-post status. In non-automated and semi-automated properties, a PIA list is manually distributed to all revenue centers. While this list has the same effect as the computer no-post status, it may not be as easy to use or as current.

Local businesses or residents may apply to the hotel and qualify for house accounts. Charge purchases for house accounts, like those for guest accounts, move from the hotel's revenue centers to the front office for posting. Since all point-of-sale transaction vouchers are collected by the front office every day, it is logical for the front office to audit both guest and non-guest accounts.

Credit Monitoring

The front office must monitor guest and non-guest accounts to ensure they remain within acceptable credit limits. Typically, a line of credit is set for guests who establish charge privileges during the reservations or registration process. Guests who present an acceptable credit card at registration may be extended a line of credit equal to the **floor limit** authorized by the issuing credit card company. This means the front office may not have to seek approval on the credit card as long as the charges do not exceed an amount specified by the credit card company. However, the front office may still need to verify the card's validity. Guest and non-guest accounts with other approved credit arrangements are subject to limitations established by the front office. These internal credit restrictions are called **house limits.**

Front office management may need to be notified when a front office account approaches its credit limit. Such accounts are called **high risk** or **high balance accounts.** The front office auditor, or night auditor, is primarily responsible for identifying accounts which have reached or exceeded predetermined credit limits. The front office may deny additional charge purchase privileges to guests with high balance accounts until the situation is resolved. Most front offices periodically review the guest ledger during the day to ensure that guests have not exceeded their approved credit limits. Automated front offices may have a computerized guest list printed on demand that highlights the names of guests whose accounts are near or over their approved credit limits. Front office management may ask the credit card company to authorize additional credit, or request the guest to make a partial payment to reduce the outstanding account balance.

In larger hotels, there may be a full-time credit manager to review high balance accounts. A credit manager may also request additional authorization from credit card companies for guests near or over their floor limits. In addition, it is the credit manager's responsibility to obtain settlement from present and past guests who have not settled their accounts. In smaller hotels, this responsibility is given either to the front desk manager or to the accounting division.

Account Maintenance

A folio is used to record transactions which affect a front office account balance. Guest folios must be accurate, complete, and properly filed since guests may inquire about their account balance or check out of the hotel with little or no advance notice. Transaction postings conform to a basic **front office accounting formula.** The accounting formula is:

Previous Balance	+	Debits	−	Credits	=	Net Outstanding Balance
PB	+	DR	−	CR	=	NOB

Recall that debits increase the balance of an account, while credits decrease the account balance.

This formula can be applied to the folio shown in Exhibit 7.2. The guest registered on July 27; the first debit—a charge purchase of $14.25—occurred that evening in the hotel's restaurant. Since the front office received no cash payment or credit, the first net outstanding balance on the account is $14.25:

PB	+	DR	−	CR	=	NOB
$0.00	+	$14.25	−	$0.00	=	$14.25

Or, stated another way:

Previous Balance:	$ 0.00
+ Debits:	+ 14.25
− Credits:	− 0.00
= Net Outstanding Balance:	$14.25

Later that evening, the night auditor posted the guest's room and room tax charges ($60) to the account. This transaction, which appears on the second line of the folio, results in a new net outstanding balance:

PB	+	DR	−	CR	=	NOB
$14.25	+	$60.00	−	$0.00	=	$74.25

Next, the guest's long-distance telephone call was posted, resulting in a $6.38 debit posting. The front office later applied a miscellaneous credit (account allowance) of $18.38, and received a cash payment of $62.25 from the guest at check-out. When each of these transactions is applied, the front office posting formula yields a zero net outstanding balance for the account:

PB	+	DR	−	CR	=	NOB
$74.25	+	$6.38	−	$0.00	=	$80.63
$80.63	+	$0.00	−	$18.38	=	$62.25
$62.25	+	$0.00	−	$62.25	=	$ 0.00

At this point, the guest checks out of the hotel and the account is brought to a zero balance and is properly closed.

Tracking Transactions

Charge purchase transactions must be correctly documented in order for the front office to properly maintain accounts. Front office staff rely on accounting vouchers to provide a reliable set of documentation. A major concern of the front office accounting process involves the communication of transactional information from remote points of sale to the front office. The night audit is intended to verify transactional data to ensure that the front office collects accounts receivable balances for all goods and services the hotel provides.

A transaction initiates activity within the front office accounting system. From an accounting perspective, nothing happens until a transaction occurs. For this reason, the front office accounting system can be described as a **transactional accounting system.** Proper posting procedures depend on the nature of the transaction and its monetary value. A transaction can be classified as:

- Cash payment
- Charge purchase
- Account correction
- Account allowance
- Account transfer
- Cash advance

Each type of transaction will have a different effect on the front office accounting system. Each may be communicated to the front office through the use of a different type of voucher, which will help simplify eventual auditing procedures. Most semi-automated front offices require that each voucher be imprinted with transaction information by the front office posting machine. Imprinting provides visual proof that the nature and amount of the voucher were correctly posted to the guest's folio. This procedure also simplifies the night audit routine.

Cash Payment

Cash payments made at the front desk to reduce a guest's net outstanding balance are posted as credits to the guest or non-guest account, thereby decreasing the balance of the account. The front office may use a **cash voucher** to support such transactions. Only cash payment transactions which take place at the front desk will create entries that appear on a front office account folio. Front office account balances are also affected by cash payments made to settle an account or to prepay accommodations. Guests who register and pay cash in advance for their stay may be given a copy of their folio before their stay as proof of payment.

When cash is paid for goods or services at a location other than the front desk, no entry will appear on the account folio. The "account" for this transaction is created, increased, settled, and closed at the point of sale, thereby eliminating the need for front office documentation or posting. For example, a cash payment for a guest's lunch in the hotel's restaurant would not appear on the guest's folio. In addition, some hotels sell items such as newspapers at the front desk. When guests pay for these items with cash, there simply is no charge to post to any account.

Charge Purchase

Charge purchases represent deferred payment transactions. In a deferred payment transaction, the guest (buyer) receives goods and services from the hotel (seller), but does not pay for them at the time they are provided. A charge purchase transaction (debit) increases the outstanding balance of a folio account.

If the transaction occurs somewhere other than at the front desk, it must be communicated to the front desk for proper folio posting. In non-automated and semi-automated properties, this communication is normally accomplished by means of a **charge voucher,** also referred to as an *account receivable voucher.* When the revenue center in which the charge originated uses a form to record the sale (for example, a guest check in the dining room), the form itself is usually considered a source document. To communicate the existence of this transaction, the support document (a voucher) is filled out and sent to the front desk for posting. Many non-automated and semi-automated hotels use a multi-part food and beverage check. When the guest signs the charge to his or her room, a copy of the check goes to the front desk for posting in place of a voucher.

Account Correction

An account correction transaction resolves a posting error on a folio. By definition, an account correction is made on the same day the error is made, *before* the close of business (that is, before the night audit). An account correction can either increase or decrease an account balance, depending on the error. For instance, an account would need to be adjusted if a front desk agent inadvertently posted a lower than normal room rate for a particular guestroom. In this instance, the account correction would increase the guest's folio balance. If a higher than normal room rate had been accidentally posted, then the account correction would decrease the account's balance. A **correction voucher** is used to document an account correction transaction.

Account Allowance

Account allowances involve two types of transactions. One type of account allowance is a decrease in a folio balance for such purposes as compensation for poor service or rebates for coupon discounts. Another type of account allowance corrects a posting error detected *after* the close of business (that is, after the night audit). Such an error will be separately entered into the accounting records of the appropriate revenue centers, thereby also correcting their accounting records.

An account allowance is documented by the use of an **allowance voucher.** Allowance vouchers normally require management approval. Exhibit 7.3 contains sample account correction and account allowance vouchers which may be used in a semi-automated property.

Account Transfer

Account transfers involve two different accounts and tend to have offsetting impacts on subsequent account balances. For example, when one guest offers to pay a charge posted to another guest's folio, the charge will need to be transferred from the first account to a second account. A **transfer voucher** supports the reduction in balance on the originating folio and the increase in balance on the destination folio. An account transfer may also occur when a departing guest uses a credit card to settle his or her

Exhibit 7.3 Sample Accou

ROOM # DATE AMOUNT 221538

DO NOT WRITE IN ABOVE SPACE

DATE SYMBOL AMOUNT

DO NOT WRITE IN THIS SPACE

TOTALS EFFECTED

EXPLANATION

AMOUNT	CASHIER	APPROVED

NCR Systemedia Group
481250

CORRECTION

ROOM # DATE AMOUNT

311811

DO NOT WRITE IN ABOVE SPACE

DATE 19

NAME ROOM OR ACCT. NO.

DATE SYMBOL AMOUNT

DO NOT WRITE IN THIS SPACE

EXPLANATION

NCR Systemedia
481205

ALLOWANCE

SIGNATURE

disbursed by the front office on behalf of a guest (and charged to the guest's account as a cash advance) is typically called a **paid-out.** In some front office operations, a paid-out voucher is used instead of a cash advance voucher.

In the past, front office staff often allowed guests to sign a paid-out slip and receive cash on account; this is no longer common practice. However, a guest who orders a floral delivery, for example, may request that the front desk agent accept the order and pay for the flowers at time of delivery. Since the guest most likely will not leave money at the front desk for this purpose, payment by the front office constitutes a cash advance on the guest's behalf. The front office may pay for the delivery on the presumption that the guest will reimburse the front office. Front office policy should dictate how cash advances are to be handled.

Internal Control

Internal control in the front office involves:

- Tracking transaction documentation
- Verifying account entries and balances
- Identifying vulnerabilities in the accounting system

Auditing is the process of verifying front office accounting records for accuracy and completeness. Each financial interaction produces paperwork which documents the nature and dollar amount of the transaction. For example, consider the transaction that occurs when a guest charges a meal to his or her individual folio. This transaction will likely be supported by the restaurant's guest check, cash register recording, and charge voucher. The charge voucher is prepared in the revenue center and sent to the front office as notification of the transaction. In a semi-automated front office, a front desk agent, in turn, retrieves the guest's folio, posts the charge purchase transaction, refiles the guest folio, and files the charge voucher. Later that day, the front office auditor ensures that all vouchers sent to the front office have been properly posted to the correct accounts. In the case of this example, the auditor will match the front office total of charges from the dining room to the total reported by the dining room. Discrepancies in accounting procedures are easy to resolve when complete documentation is readily available to substantiate account entries.

Front Office Cash Sheet

The front office is responsible for a variety of cash transactions which may affect both guest and non-guest accounts. Proper cash handling procedures and controls must be established, implemented, and enforced.

Most non-automated or semi-automated operations require front office cashiers to complete a **front office cash sheet** that lists each receipt or disbursement of cash. The information contained on a front office cash sheet is used to reconcile cash on hand at the end of a cashier shift with the documented transactions which occurred during the shift. A front office cash sheet provides separate columns to record transactions affecting guest accounts, non-guest (or city ledger) accounts, and miscellaneous transactions. Front office policy may also require the completion of a cash voucher as support documentation for cash transactions affecting front office accounts. A sample front office cash sheet is shown in Exhibit 7.4.

The most common entry on a front office cash sheet is the money collected from departing guests during check-out. When guests pay on their accounts, the cashier typically records the amount paid, the room number, and the folio number on the front office cash sheet. If a guest has paid for his or her accommodations in advance of check-out, the front desk agent records this payment to offset room and tax charges which are posted subsequently. The front desk agent's cash entries will frequently render a zero folio balance. If a voucher is used in the posting process, some front offices may not require employees to make an entry on the front office cash sheet for cash account settlement. The cash voucher takes the place of the cash sheet in this type of transaction.

The front office cash sheet also provides space for itemizing cash disbursements or paid-outs. When a guest charges a room service purchase to his or her account, for example, he or she may include the server's tip in the total transaction charge. If the front office cashier pays the server his or her tips on the day room service is provided, this transaction will be recorded on the front office cash sheet as a paid-out transaction. Since the amount of cash on hand at the front desk will be lowered by the amount paid to the server, the front office accounting system must be capable of tracking this type of transaction. Similar action is followed if the front office accepts and pays for any delivered item on the guest's behalf. Guest reimbursement is not usually immediate; cash advances tend to be collected at check-out as part of normal folio settlement.

Cash Banks

A second set of front office accounting control procedures involves the use of front office cashier banks. A **cash bank** is an amount of cash assigned to a cashier so that he or she can handle the various transactions that occur during a particular workshift. Good

Cashiers using cash banks must carefully handle all transactions that affect th bank. (Courtesy of the Opryland Hotel, Nashville, Tennessee)

ıg the amount of paid-outs ($49), the front office cashier will arrive at a ne ɔt position ($826):

$$\$952 - \$175 + \$49 = \$826$$

An **overage** occurs when, after the initial bank is removed, the total of th s, negotiables, and paid-outs in the cash drawer is greater than the net c s. A **shortage** occurs when the total of the contents of the drawer is less than receipts. Neither an overage nor a shortage is typically considered "good" b management when evaluating the job performance of front office cashiers. and shortages are determined by comparing the cash totals of the cashier's p st the actual cash, checks, and negotiables in the cashier's bank.

A **due back** occurs when a cashier pays out more than he or she receives; i s, there is not enough cash in the drawer to restore the initial bank. Due ba ual in the front office. A special kind of due back may occur when a cashier checks and large bills during a shift. This can make it difficult to restore the without including the checks or large bills. Since checks and large bills are n l for processing transactions, they are usually deposited with other receipt ently, the front office deposit may be greater than the cashier's net cash re the excess *due back* to the front office cashier's bank. Front office due ba ally replaced with small bills and coins before the cashier's next workshift, t ing the cash bank to its full and correct amount. Due backs do not reflect po gatively on the cashier's job performance, and may occur when net cash r or out of balance.

(A) GUEST ACCOUNTS

1. Accounts Receivable per audit:

a.	_______	Sleepers	$ ____________
b.	_______	After departure charges	____________
c.	_______	Prepaid accts. with charges	____________
d.	_______	Disputed accounts	____________
e.	_______	Delinquent accounts (over 60 days)	____________
f.	_______	Skips	____________
g.	_______	Tour vouchers	____________
h.	_______	Employee accounts	____________
i.	_______	Intercompany accounts	____________

Settlement of Accounts

The collection of payment for outstanding account balances is called account **settlement.** Settlement involves bringing an account balance to zero. An account can be brought to a zero balance as a result of a cash payment in full or a transfer to an approved direct billing or credit card account. All guest accounts must be settled at the time of check-out. Transfers to approved deferred payment plans move outstanding guest folio balances from the guest ledger to the city ledger.

Although guest account settlement normally occurs at check-out, guests may make payments against outstanding folio balances at any time. Non-guest folio balances may be initially billed on the day the transaction occurred. Settlement may be due in 15 to 30 days, depending on front office policy. For example, consider the case of a guest who makes a guaranteed reservation but does not show up, often called a *no-show* guest. The account cannot be settled at check-out, since the guest never registered. Instead, the front office sends a statement to the guest for the amount of the guarantee, hoping to collect the account balance in 15 to 30 days. If the guarantee was made by credit card, the hotel may have an agreement with the credit card company to bill it for the no-show guest. The amount of the guarantee is then transferred to the credit card part of the accounts receivable ledger for collection.

Summary

A front office accounting system monitors and charts the transactions of guests and businesses, agencies, and other non-guests using the hotel's services and facilities. The front office's ability to perform accounting tasks in an accurate and complete manne will directly affect the hotel's ability to collect outstanding balances.

A front office accounting system is uniquely tailored to each hotel operation. Accounting system terminology and report formats often differ from hotel to hotel. In general, an account is a form on which financial data are accumulated and summarized. Th increases and decreases in an account are calculated and the resulting monetary amoun is the account balance. All the financial transactions that occur in a hotel affect accounts Front office accounts are recordkeeping devices to store information about guest an non-guest financial transactions. For a front office account, charges are increases in th account balance and are entered on the left side of the T. Payments are decreases in th account balance and are entered on the right side of the T. Front office accounting docu ments typically use a journal form.

A guest account is a record of financial transactions between a guest and the hote Guest accounts are created when guests guarantee their reservations or when they regis ter at the front desk. A hotel may also extend in-house charge privileges to local bus nesses or agencies as a means of promotion, or to groups sponsoring meetings at th hotel. The front office creates non-guest accounts (also called house accounts or city a counts) to track these transactions.

Front office transactions are typically charted on account statements called folios. folio is a statement of all transactions (debits and credits) affecting the balance of a sing account. All transactions which increase (debits) or decrease (credits) the balance of th account are recorded on the folio. At settlement, a guest folio should be returned to zero balance by cash payment or by transfer to an approved credit card or direct billi account. The process of recording transactions on a folio is called posting. A transacti is posted when it has been recorded on the proper folio in the proper location, and a new balance has been determined.

There are basically four types of folios used in the front office: guest folios, master folios, non-guest or semi-permanent folios, and employee folios. Additional types of folios are frequently created by front office management to accommodate special circumstances or requests.

A voucher details a transaction to be posted to a front office account. This document lists detailed transaction information gathered at the source of the transaction. The voucher is then sent to the front office. Auditing is the process of verifying front office accounting records for accuracy and completeness.

The term point of sale describes the location at which goods or services are purchased. Any hotel department that collects revenues for its goods or services is considered a revenue center and thus, a point of sale. A computerized point-of-sale (POS) system may allow remote terminals at the points of sale to communicate directly with a front office computer system. Automated POS systems may significantly reduce the amount of time required to post charge purchases to guest folios, the number of times each piece of data must be handled, and the number of posting errors and after-departure (late) charges.

A ledger is a grouping of accounts. The front office ledger is a collection of front office account folios. The folios used in the front office form part of the front office accounts receivable ledger. An account receivable represents money owed to the hotel. Front office accounting commonly separates accounts receivable into two subsidiary groups: the guest ledger (for guest receivables) and the city ledger (for non-guest receivables). The guest ledger is the set of guest accounts that correspond to registered hotel guests. Guests who make appropriate credit arrangements at registration may be extended privileges to charge purchases to their individual account folios. The city ledger, also called the non-guest ledger, is the collection of non-guest accounts. If a guest account is not settled in full by cash payment at check-out, the guest's folio balance is transferred from the guest ledger in the front office to the city ledger in the accounting division for collection.

Most non-automated or semi-automated operations require front office cashiers to complete a front office cash sheet that lists each receipt or disbursement of cash. The information contained on a front office cash sheet is used to reconcile cash on hand at the end of a cashier shift with the documented transactions that occurred during the shift. Front office policy may also require the completion of a cash voucher as support documentation for cash transactions affecting front office accounts.

Establishing and monitoring the credit of guests is often the responsibility of the credit manager. In many cases, these tasks may be part of the front desk manager's duties. The credit manager assists guests in establishing credit as well as reviews the guest and non-guest ledger to ensure that accounts do not exceed established credit limits.

Endnotes

1. For further discussion of basic hospitality industry accounting principles, see Raymond Cote, *Understanding Hospitality Accounting I*, 3d ed. (East Lansing, Mich.: Educational Institute of the American Hotel & Motel Association, 1995) and *Understanding Hospitality Accounting II*, 2d ed. (East Lansing, Mich.: Educational Institute of the American Hotel & Motel Association, 1991). The Educational Institute also offers courses based on these texts. For further information, contact the Educational Institute at Box 1240, East Lansing, MI 48826 or call (517) 353-5500.

Key Terms

account
account balance
account receivable
accounts receivable ledger
allowance voucher
auditing
cash advance voucher
cash bank
cash voucher
charge voucher
city ledger
correction voucher
credit (cr)
debit (dr)
double-entry bookkeeping
due back
employee folio
floor limit
folio
front office accounting formula
front office cash sheet
guest account
guest folio
guest ledger
high balance account
high risk account
house limit
journal form
ledger
master folio
net cash receipts
non-guest account
non-guest folio
outstanding balance
overage
paid-in-advance (PIA) guest
paid-out
point of sale
point-of-sale (POS) system
posting
semi-permanent folio
settlement
shortage
T-account
transactional accounting system
transfer voucher
voucher

Review Questions

1. What are the specific functions of a front office accounting system? What tasks are performed during each stage of the guest cycle?
2. What is the purpose of an account? How are transactions recorded in an account? How are guest accounts and non-guest accounts different?
3. What are the four types of folios in common use in front office accounting? How is a folio related to an account?
4. What is a point of sale? How can fully automated point-of-sale systems and guest-operated devices streamline the flow of accounting information to the front office?
5. What information is necessary to create a folio? How does the process differ in non-automated, semi-automated, and fully automated front office recordkeeping systems?
6. What is the basic front office accounting formula? How is it used in posting transactions?

7. How does accounting for a cash payment differ from accounting for a cash advance at the front desk?

8. What items are recorded on a front office cash sheet? How does a cash sheet help ensure internal control in the front office?

9. What are overages, shortages, and due backs? How might these conditions reflect on a front office cashier's job performance?

10. What is the difference between an account correction and an account allowance? Why is it important to differentiate between the two?

Case Study

One of the major problems with front office accounting at the Magic Crest Hotel is monitoring guest and non-guest accounts. For some reason, management has always extended local businesses and government officials charge privileges, the idea being that, with the convenience of deferred payments, local patrons would be more likely to dine and/or host clients at the hotel. This program has proved to be highly successful. The volume of purchases charged to such non-guest accounts now approximates the level of sales incurred by registered guests. Unsure if this is a good or bad situation, Mr. Aerial, the front office manager, requests the front office accounting staff to study the problem and to report its findings at next week's meeting.

At its weekly front office meeting, the front office accountant, Ms. Letsche, reports that there are at least three problems related to the hotel's non-guest charge purchasing policies: its impact on the daily hotel audit, the billing procedures to collect payment, and the number of applications for additional non-guest accounts.

When asked to be more specific, she begins with a review of the daily hotel audit. She states that since the front office receives charge vouchers from the hotel's revenue centers, it is the front desk agent's responsibility to separate guest from non-guest accounts. Since registered guest charges are posted by room number, one would think it easy to sort those charges from the others. Unfortunately, the non-guest account numbers are also three digits, thereby making the sorting more time consuming. Mr. Aerial asks if it is really necessary to separate the charges and Ms. Letsche explains that it is, since the hotel must maintain accurate guest folio balances. She further states that the non-guest vouchers are accumulated and posted on Saturday afternoons, when the hotel's business is less hectic.

The billing procedures to collect non-guest account balances are tricky. Since the hotel bills non-guest accounts on the last day of each month, some charges occurring in a particular month may not be posted in time to appear on that month's bill. In addition, non-guest accounts usually are not paid in a timely fashion. In fact, 47% of last month's non-guest account balances remain unpaid and tomorrow is the date of the next billing cycle. Mr. Aerial explains that the local customers are important to the hotel and suggests that maybe Ms. Letsche is over-sensitive to the billing problems.

Lastly, Ms. Letsche relates the fact that there are at least ten new applications for non-guest accounts. She has instructed her staff not to authorize any new accounts without her written approval. She further states that she is reluctant to authorize any additional non-guest accounts and looks to Mr. Aerial for advice. Convinced of the positive aspects of such business, Mr. Aerial directs her to approve the requests and to assign account numbers effective the first day of next month. Ms. Letsche so instructs her staff.

1. What ideas would you suggest to facilitate a more effective processing of guest and non-guest charge vouchers? How might the daily audit be aided by such changes? Is the accumulated postings routine for non-guest accounts an effective plan?
2. What could be done to improve the hotel's billing of non-guest accounts? What could be done to improve collection of outstanding balances?
3. What are the advantages and disadvantages to having a high volume of non-guest accounts? What about the cost of carrying and collecting outstanding balances? How might the hotel's cash flow be affected by such transactions?

REVIEW QUIZ

When you feel you have covered all of the material in this chapter, answer these questions. Choose the *best* answer.

True (T) or False (F)

T F 1. One of the functions of a front office accounting system is to ensure internal control over non-cash transactions.

T F 2. The term *point of sale* describes the location at which goods and services are purchased.

T F 3. The guest ledger includes the accounts of guests who have checked out.

T F 4. An account allowance occurs when one guest offers to pay a charge posted to another guest's folio.

T F 5. A cash voucher is an amount of cash assigned to a cashier to handle various transactions that occur during a particular workshift.

Multiple Choice

6. The difference between total payments and total charges to an account is called the:

   a. account receivable.
   b. account balance.
   c. debit.
   d. credit.

7. The process of recording transactions on a folio is called:

   a. settlement.
   b. posting.
   c. auditing.
   d. balancing.

8. If a guest account is approaching its floor limit, it may be identified by the front office auditor as a(n) __________ account.

   a. high risk
   b. unbalanced
   c. restricted purchase
   d. PIA

... Evaluation

After answering all of the questions in the Review Quiz, check your answers with the Review Quiz Answer Key found at the back of this book. For each question you got wrong, write its learning objective number next to it. This helps you identify learning objectives you might need to re-study in order to fully understand the chapter. To find the page numbers of the material that corresponds to each learning objective, turn to the list of learning objectives at the beginning of this chapter.