

Chapter Objective

The reader understands the importance of Guest Accounting and is able to identify various vouchers and accounting tools; is able to present the correct bill to departure guest. Well versed in handling of cash and credit modes of the settlement of bill and is able to identify night auditor's importance and functions.

A superb marketing job done by the hotel, an efficient and very professional attitude and a number of services etc. provided by the hotel, would be incomplete if the hotel does not have systematized, developed and accurate guest accounting system and procedures. This will help achieve the hotel's profitability. Guest accounting basically means keeping an accurate and up to minute account of all that is to be received or paid to the guest at any time. The hotel staff must take financial activities very seriously, so as to safeguard the hotel's profitability and for this the guest accounting system should keep track of all that is to be collected and/or paid to the guest. Front office is the centre for the guest's financial activities with the hotel, and the accounting department analyze the same, compile figures and finally make the financial statements showing the property's profitability.

Basics of Keeping Accounts

An account is a record of a business transaction and on this document financial data are recorded and summarised (i.e.) increase or decrease in account and the resulting monetary amount is the account balance and contains information about the transaction and it is a device for recording increase or decrease in an asset, liability or equity, item. To understand better it is written in the form of 'T'. The increases are written on the left or right side of the 'T' format depending upon the type of account. For example, the increases will be written on the left side if the transaction effects an '*asset account*' (which means what the business owns) and the decreases will be written on the right side. Further, all that the business owes to outsiders are called *liabilities* and if there are any increase in liabilities then they are recorded on the right side and decrease in liabilities are recorded on the left side of the 'T' format. *Equity account* (what the hotel owes to its investors) is also treated like a liability and is treated in the same way while recording. Standard terminology '*debit*' and '*credit*' are used to denote entry on the left and right side of the 'T' format respectively. These are abbreviated as 'dr'

and 'cr'. In double entry book-keeping system, as the name suggests, every transaction is recorded twice (debit to one account and credit to another account). For example, if there is a cash sale of food of Rs. 750/- then this sale will be written in 'T' format for two separate accounts i.e. cash and food sales as follows.

Dr.	Cash	Cr.	Dr.	Food Sales	Cr.
Rs. 750/-					Rs. 750/-

The same can also be written as:

Debit Cash	Rs. 750/-
Credit Food Sales	Rs. 750/-

This is called as *journal*. A journal has columns description of account charges, payments, and balance). Increase in account balance are entered under charges, and the decrease in account balances are entered under payments. The journal is the first record of the transaction. Hence we can summarize that the original recording is done on journals, which can be in any form such as cash registers, tapes, computer, records, accounting paper or folio. The next step is transferring of the total of the information in journals to the ledger. Hence *ledger* can be called as grouping of the accounts used by the business and provides information necessary to prepare various accounting reports. Ledgers are summary of journals. The totals entered into journals are carried to specific accounts.

It is important that a proper record of all the expenses made and revenue generated is maintained by every business organization for various reasons. For this, three main accounting reports are prepared.

1. **Profit and loss statement:** This statement tells as to how much money has been earned or lost during a specific period of time (which will be depending on the volume of the business). This statement is also called as *income statement*.
2. **Balance sheet:** At a given time, the position of assets, liabilities and equity of a business are shown by this statement. Usually it is prepared at the end of the financial year of the business. This is also called as the *statement of financial conditions*.
3. **Statement of changes in financial position:** The statement is a summary of financing and investing activities of the organization and includes a report as to what extent the hotel organization has generated funds from operations. Like balance sheet this statement is also prepared at the end of the financial year. Any changes in the working capital during this specified period are also recorded in it.

Ledger

It is a principal book of the set used for recording trade transactions containing debtors and creditors accounts. It is a book in which accounts of a guest (resident as well as non-resident) are recorded. All credit transactions made by the guests as well as deposits made by them are

recorded. It is a grouping of accounts. A front office ledger is a collection of accounts folio. The folios used in the front office, form a part of front office account receivable ledger (money owed to the hotel). Guest financial transactions are recorded on to the guest ledger account to track receivable balances. A ledger is an important book for the preparation of Profit and Loss account and Balance Sheet of an organization.

Ledgers are basically classified into two types: (I) Personal and (II) Impersonal.

Personal Ledger: This ledger is used in Hotel Business for recording the personal accounts of guests or debtors and creditors and hence personal ledger has two aspects – one ledger for debtors called debit ledger and the other credit ledger.

(I) Personal Ledger

(a) **Ledger for Debtors:** In this accounts of debtors are recorded i.e. account of all those from whom the money is to be collected by the hotel are recorded in this ledger. This outstanding amount is on account of services and goods provided by the hotel to the Guest (Rooms, Food and Beverages, etc.). Debtors ledger are maintained for (i) in house guests and (ii) for those guests who have left the hotel without settling their bill. For the first category i.e., for the accounts of those guests who are still staying in the Hotel, the hotel maintains Visitors Tabular ledger and for the second category debtors i.e., for the accounts of those guests who have left the hotel without paying their bill the hotel maintains a different type of debtors ledger called City ledger. (This records transactions of various types of debtors such as credit card holders, Airlines vouchers holders, Travel vouchers issued by Travel Agents and Government Departments allowed credit facilities, etc.)

(b) **Ledger for Creditors:** In this ledger the details of transactions of the creditors (persons or companies or establishments whom the hotel has to pay for suppliers, etc.) are maintained.

(II) **Impersonal Ledger:** Maintained for recording the impersonal accounts and depending upon the type of impersonal accounts such as revenue, expenses and assets and liabilities, two types of impersonal ledgers, (a) Trade ledger and (b) General ledger are maintained.

(a) **Trade Ledger** – For accounts which have direct relation to trade (sales, purchase and expenses, etc.) this type of ledger are maintained.

(b) **General Ledger** – Where accounts of assets and liabilities are maintained.

The accounts receivable in a hotel is separated into two groups: (1) Guest Ledger, (2) City Ledger.

1. Guest Ledger (also called as transient ledger, front office ledger and room ledger)

Guest ledger is the total set of all accounts of guests registered in the hotel (in-house guest). The guest arrives and registers at the hotel and his room account (folio) is opened. Now from this time onwards any purchases made by the guest of services, facilities and amenities at any time are charged to his room account and similarly all payments made by the guest are recorded in it.

Let us suppose that the resident guest of the hotel goes to the restaurant and orders his meal. The waiter serves meal to him and after that presents the bill to him. The guest signs

the bill/check and charges it to his room account. That means the amount is to be recorded in his guest folio and the guest will pay later (either during his stay or at the time of departure or may be even later). The waiter will take the signed check back to the restaurant cashier who would record the amount of charge (credits food sales) and will then send it to the front office cashier. He will post this to guest folio, thereby debiting accounts receivable. The result of this entry on folio would increase the guest's net outstanding and the guest ledger total net outstanding increases.

Anytime front office posts a charge to guest folio the outstanding increases by that amount and anytime the guest pays to hotel front office the net outstanding decreases by that amount. An easy formula for this is:

$$\text{Opening balance} + \text{Charges} - \text{Credits} = \text{Net outstanding.}$$

It is important for the front office desk to keep the guest account always current, i.e., to post all charges (debits) and credits (cash) immediately in guest's account. Staff of the hotels operating on manual or mechanical system must always keep the above formula in mind. In fully automatic systems and also in machine posting system debits and credits are automatically put into proper columns on the folio.

Rectification and Changing of Figures Posted by Mistake

Many times due to mistake and misunderstanding (which may result in overcharging the guest), it is necessary to make adjustments in amounts charged to guest account. These may be due to posting error, rates negotiations, dissatisfactory services, so on and so forth. This requires changes in figures and should be authenticated by some senior member of staff. Generally there are two ways to rectify account mistakes: (i) correction and (ii) allowance.

(i) Correction

This can be done only on the same day when the mistake has been made and the amount concerned can be altered in the accounts, i.e. before the business day is closed out. It cannot be done on the next day.

(ii) Allowance

Once a mistake has been overlooked and is posted on the folio it can not be corrected, because the revenue has been counted and posted to the revenue journal. In such cases the only way is to adjust off the amount by deducting it from departments revenue journal.

SAMPLE FORMAT OF CORRECTION VOUCHER

SAMPLE FORMAT OF ALLOWANCE VOUCHER

S.No.	Date
Room No.	Amount
Name	
Total effected	
Explanation	
Amount	Cashier
	Approved

S.No.	Date
Room No.	Amount
Name or Account No	
Date	
Explanation	
.....	
Signature	

In both the above mentioned cases i.e. the corrections and allowances, a voucher slip of either correction or allowance (as the case may be) must be made. This must be signed by the person who prepares it and authenticated by a senior. Further, the allowance amount is written in VTL and then in allowance book (details of allowance book are given later in this book).

2. City Ledger (Also called as non-guest account)

City ledger records accounts that do not belong to resident guest of the hotel. At the check-out time if the resident guest's account is not brought to a net outstanding of zero then whatever amount is outstanding balance, the same is transferred from guest ledger to city ledger. (Guests holding credit cards, and guests whose bills have to be forwarded to companies, airlines, travel agents, government departments etc.) In other words, city ledger is a debtor's ledger. The account in such cases will be closed at the time of payment or at the time of writing off the amount as bad debt. Apart from this the city ledger will also have a number of other accounts such as *direct bills* which means bills of those guests who have checked out without settling their bill because the instructions about them is that bill is to be sent to the guest's company etc. This also includes airlines billing/travel agency account as the airline/travel agency respectively has agreed to pay the guest's bill, and credit card billing, where the credit card company has agreed to pay the guest's bill. Apart from these the city ledger will also record bad cheques account (bounced cheques of guest), skippers' account (accomits of there guest who leave the hotel, without paying their bill), disputed bills account, retention charges account from guaranteed reservation from DNA guests and late charges accounts (the amount that could not be posted before the check out of the guest). An efficient method for keeping track of post due accounts should be used. for example AGE ANALYSIS method. It will provide at a quick glance how old (30, 60 or 90 days) is the outstanding account.

AGE ACCOUNTS RECEIVABLE ANALYSIS

Aged accounts Receivable as on							S.No.
Name	Balance	Current	Up to 30	31-60	61-90	91-120	120+
Mr. J	6488.60		6488.60				
Mr. B	15835.75						15835.75
Mr. C	9575.00	4000.00	5575.00				
Total	31899.35	4000.00	12063.60				15835.75

Cash Paid Out

Cash advances made on behalf of the guest by the hotel are debits and their net result on the guest account balance will be an increase in balance while any payments made by guest to