

FRONT OFFICE ACCOUNTING

Front office accounting is actually grounded in straight forward logic and basic math skills. A front office accounting system monitors and charts the transactions of guest and businesses, agencies, and other non-guests using the hotels services and facilities. The front offices ability to perform accounting tasks in a perfect and complete manner will directly affect the hotels ability to collect the hotels outstanding balances.

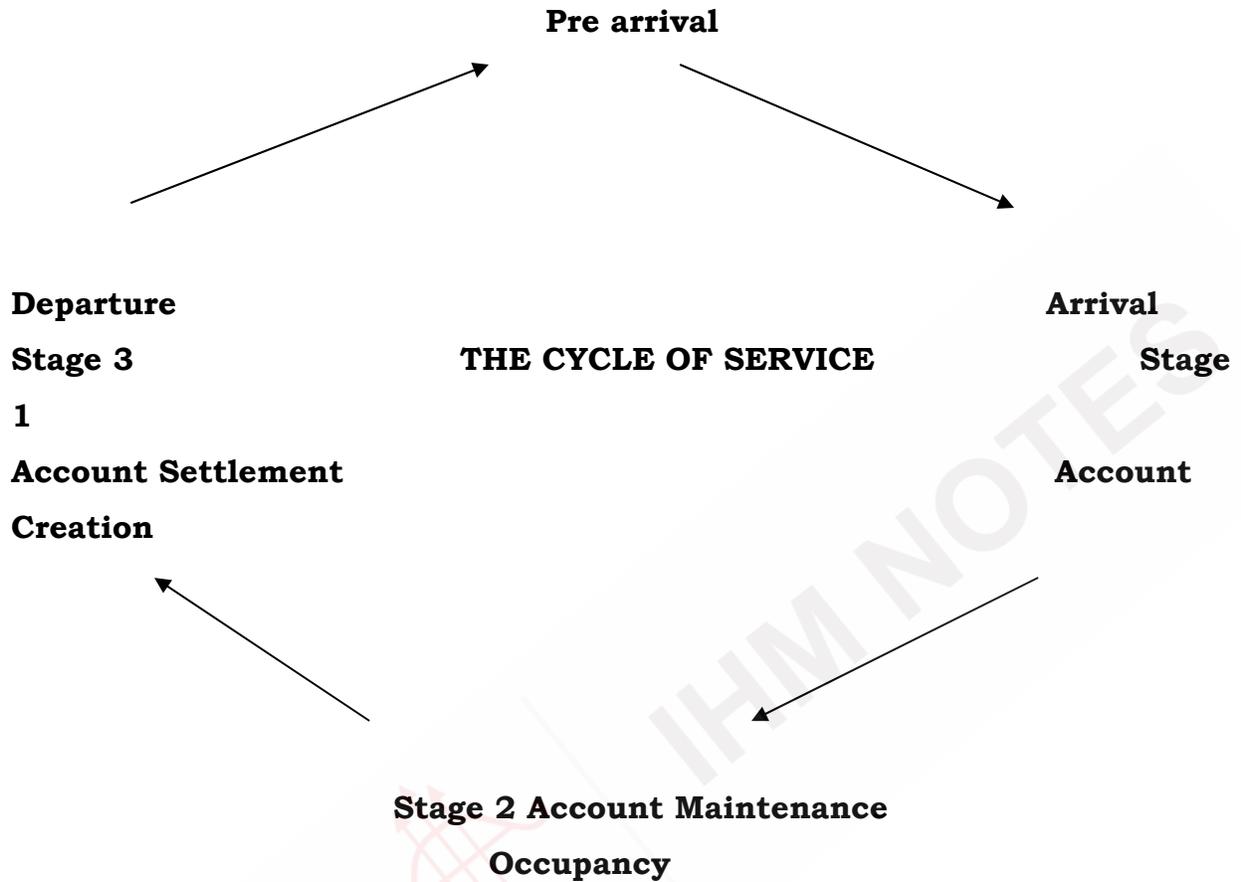
Accounting Fundamentals

An effective guest account system consists of tasks performed during each stage of guest cycle. During the pre-arrival stage, the guest accounting system captures data related to the type of reservation guarantee and tracks pre payments 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, the system ensures payment for outstanding goods and services at the time of check out.

In brief the front office accounting system:

- Creates and maintains an accurate accounting record for each guest / non-guest account
- Tracks financial transactions throughout the guest cycle
- Ensures financial control over cash and non-cash transactions
- Record settlements for all goods and services produced

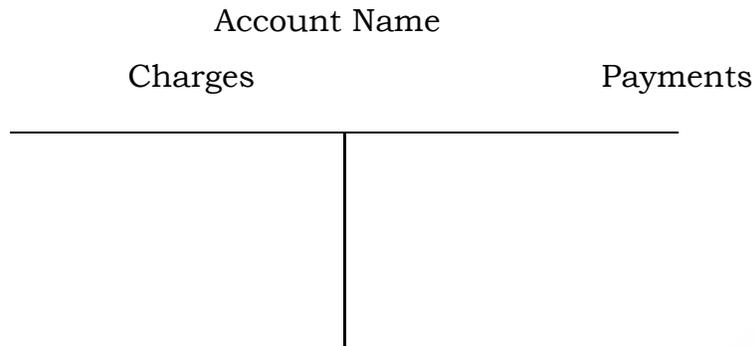
Guest Accounting Cycle



Accounts

An account is a form on which financial data are summarized. An account may be imagined as a bin or a container which stores the results of various business transactions. The increases and decreases in an account are calculated and 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 about guest and non-guest financial transactions.

In the simplest written form, an account resembles the letter T .



This form of recording is called a **T – account** .The growing use of front office computers has diminished the popularity T accounts. For a front office account *charges*

are increases in the account balance and are entered on the left side of the T-account. *Payments* are decreases in the account balance and are entered on the right side of the T-account. 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 record keeping system, the 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 charges, while decreases in the account balance are entered under payments. In a fully automated system, charges and payments may be listed in a single

column with the amounts of payments placed within parentheses or noted with minus signs to indicate their effect (a decrease) on the account balance.

In accounting terminology, the left side of an account is called the debit side (abbreviated dr.) and the right side is called the credit side (abbreviated cr.). Debit and credits do not imply anything good or bad about an account. The value of debits and credits results from the use of double entry book keeping , every transaction creates entries that affect at least two accounts. The sum of the debit entries created by a transaction must equal the sum of the credit entries created by that transaction. This fact forms the basis for an accounting process called the night audit.

Guest Account

A **guest account** is a record of financial transactions which occur between a guest and the hotel. Guest accounts are created when guests guarantee their reservations or when they register at the front desk. During occupancy, the front office is responsible for and records all transactions affecting the balance of a guest account. The front office usually seeks payment for any outstanding guest account balance during the 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 eg., if the front office is to enforce the hotels house limit, guest who exceeds that limit may be asked to settle part or all of the **outstanding balance**. When there is a house limit, accounts settlement action is initiated when the account balance exceeds a predetermined limit, not at the time of check out.

Non-Guest Account.

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 account** to track such 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 status changes to non-guest, the responsibility for account settlement shifts from the front office to the accounting department. 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 statement called **folios**. A *folio* is a statement of all transactions (debits & 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 balances 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 hand written folios (if it is using a non-automated system), a 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 record keeping system, guest folios are maintained at the front desk. In a fully automated record keeping 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 guest rooms

- **Master folios:-** accounts assigned to more than one person or guest room; 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. Executives like Sales and Marketing Director, Front Office Manager may charge the hotel for travel and entertainment to promote the business

Additional types of folios are frequently created by front office management to accommodate special circumstances or requests. For e.g... 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, & one to record personal expenses to be paid by the guest. This is referred to as a **split folio**. 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, & 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 system. 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 & semi-automated systems, folios have specific length & can hold only a limited number of postings. When a balance must be carried forward to a new folio, the old folio numbers 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. 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, transfer vouchers, allowance vouchers and paid-out vouchers. Most computer systems require few vouchers since terminals are interfaced with the front office computer.

Points of sale

The term point of sale describes the location at which goods and services are purchased. Any hotel department that collects revenues for its goods and services is considered a revenue Centre and thus, a point of sale. Large hotels support many point of sale, including restaurants, lounges, room service, laundry etc. The front office accounting system must ensure that all charge purchases at these point of sale are posted to the proper guest or non-guest account.

Automated POS system may significantly reduce the time required to post charge purchase to guest folios, the number of time each piece of data must be handled, the number of posting errors and late charges.

No matter the location, the point of sale must provide some basic information when posting a charge through a remote terminal or submitting a voucher to the front desk. This information includes the amount of the charge, name of the point of sale outlet, room number and name of the guest and a brief description of the charge. If a charge is being submitted by a 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 terminal and forwarded to the folio, along with the time of posting. Posting through an automated terminal still requires a guest signature

on a voucher for audit purposes and 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 folio represented in the front office are a part of the front office 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 maybe 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. The guest ledger may be called transient ledger, front office ledger or rooms ledger. Deposits received from future reservations are usually posted to the advance deposit ledger, which is part of the guest ledger.

City Ledger

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 guests' folio balance is transferred from the guest ledger in the front office to the city ledger in the accounting division for collection. At the time of account transfer, the responsibility for account collection shifts from the front office to the accounting division. The city ledger can contain credit card payment

accounts, direct billing accounts and accounts of past guests due for collection by the hotel.

Creation and Maintenance of Accounts

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 accounting department is ultimately responsible for collection of non-guest ledger accounts. Guest folios are created during the reservation 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 pre-numbered folios for internal control purposes. 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 called a posting tray, folio well or bucket.

In a fully automated systems, guest information is automatically transferred from an electronic reservation record or captured at registration and entered onto an electronic folio. 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 pre payments and advance deposits can thus be accurately monitored.

At check-in reservations data are verified and combined with room rate information and the guest's assigned room number to create an electronic folio. For a walk-in guest, equivalent information is captured during registration and entered into a front office computer terminal. One of the major advantages of electronic data processing is that captured data need only be handled once.

Recordkeeping Systems – Assignment

Charge Privileges

To establish an in-house line of credit, a guest may be required to present an acceptable credit card or a company billing authorization at the time of registration. Credit can be established at the time of reservations by obtaining the number and expiration date of 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.

Guests who pay cash for accommodation at registration are typically not extended charge purchase privileges. These guests are called **paid-in-advance guests** or **PIA guests**. In a fully automated system, PIA accounts are set to 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. In non-automated and semi-automated properties, a PIA list is manually distributed to all revenue centers. Local businesses or residents may apply to the hotel and qualify for house accounts.

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

$$\text{PB} \quad + \quad \text{DR} \quad - \quad \text{CR} \quad = \quad \text{NOB}$$

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 zero balance as a result of cash payment in full or a transfer to an approved company or travel agency account. Transfers to approved deferred payment plans move outstanding guest folio balance from the guest ledger to the city ledger.

ASSIGNMENTS

1. Guest accounting Recordkeeping Systems
 - Manual (formats of Guest weekly bill and Visitor's tabular ledger)
 - Semi-automatic (format of posting machine folio)
 - Automated
2. Formats
 - Guest folio
 - Charge Voucher
 - Allowance Voucher
 - Paid-out Voucher

Include notes on Tracking Transactions

Recommended Reading

- *Managing Front Office Operations* by Michael L.Kasavana and Richard M.Brooks
- *Front Office Management* by S.K.Bhatnagar
- *Accommodation Services* by Vivienne O'Shannessy
- *Hotel Front Office* by Sudhir Andrews