CONTENTS

Foreword xv
Preface xvii
Acknowledgments xxiii

Part 1 Creating a Foundation

Chapter 1 Introduction to Numbers, Accounting, and Financial Analysis 1
Introduction 2
Numbers: The Lifeblood of Business 2
  Definitions and Formulas 2
  Customers, Associates, and Profitability 3
Career Success Model 5
  Technical Skills 6
  Management/Leadership Skills 7
  Financial Skills 8
  Marketing Skills 8
  High Performance Organizations 9
Financial Statements 9
  The Profit and Loss Statement 9
  The Balance Sheet 11
  The Statement of Cash Flows 12
  The Statement of Stockholders Equity 14
Revenues: The Beginning of Financial Performance 15
  Formulas 16
  Market Segments 19
  The Customer 20
Profit: The Ultimate Measure of Financial Performance 21
  Department Profit 21
  Rooms Department 22
  Restaurant Department 22
  House Profit or Gross Operating Profit 22
  Net House Profit or Adjusted Gross Operating Profit 23
Profit Before and After Tax 23
  Summary 24 • Hospitality Manager Takeaways 24 •
  Key Terms 24 • Formulas 25 • Review
  Questions 25 • Practice Exercises 26
Chapter 2 Foundations of Financial Analysis 28
Introduction 29
Fundamental Methods of Financial Analysis 29
  Two Important Tools 29
  The Financial Management Cycle 30
Comparing Numbers to Give Them Meaning 31
  Budget 31
  Forecast 31
  Last Year 31
  Previous Month or Period 32
  Pro Forma 32
Other Goals 32
Measuring Change to Explain Performance 33
Using Percentages in Financial Analysis 34
  Calculating Percentages 34
  What Percentages Measure 35
Four Types of Percentages Used in Financial Analysis 36
  Cost or Expense Percentages 36
  Profit Percentages 36
  Mix Percentages 37
  Percentage Change 38
Trends in Financial Analysis 40
  Short- and Long-Term Trends 40
  Revenue, Expense, and Profit Trends 40
  Company and Industry Trends 41
  General Economic Trends—National and International 41
Summary 42 • Hospitality Manager
Takeaways 43 • Key Terms 43 • Formulas 43 • Review Questions 44 • Practice Exercises 44

Chapter 3 Accounting Department Organization and Operations 47
Introduction 48
Organization Charts 48
  Full Service Hotels 48
  Accounting Department 52
  Smaller or Select Service Hotels 55
Accounting Operations in Full Service Hotels 57
  Accounting Department Operations 57
Part 2  Financial Statements and Management Reports

Chapter 4  The Profit and Loss Statement (P&L)  67
Introduction  68
Hotel Consolidated P&L Statements  68
   Revenue Centers and Profit Centers  69
   Expense Centers and Support Costs  71
   Fixed Costs, Fees, and Other Deductions  72
   Hotel Profit Levels  72
Formats for Consolidated P&L Statement  77
   Titles  77
   Horizontal Headings  78
   Vertical Headings  78
   Examples of Consolidated P&L Statement  78
Department P&L Statements  85
   The Four Major Cost Categories  85
   Revenue and Profit Department P&Ls  87
   Expense Center Department P&Ls  88
   Fixed Cost Department P&Ls  88
Analyzing Department P&L Statements  89
   Summary  90 • Hospitality Manager
   Takeaways  91 • Key Terms  91 • Review
   Questions  92 • Practice Exercises  92

Chapter 5  The Balance Sheet (A&L) and Statement of Cash Flows  93
Introduction  94
The Balance Sheet or Asset and Liability Statement  94
   Definition  94
Working Capital 100
Capitalization 101
The Relationship between the Balance Sheet and the P&L Statement 102
Managers' Use of Balance Sheet Accounts in Daily Operations 102
Business Operating Cycle 102
Similarities and Differences between the Balance Sheet and the P&L Statement 104
The Statement of Cash Flows 106
Definition 107
Cash Flow and Liquidity 107
Classifications of Cash Flow 109
Source and Use of Funds Statement 110
Summary 112 • Hospitality Manager Takeaways 113 • Key Terms 113 • Review Questions 113 • Practice Exercises 114

Chapter 6 Hotel Management Reports 115
Introduction 116
Internal Hotel Management Reports 116
Definition 116
Types and Uses 117
Daily Reports 118
Daily Revenue Report 118
Labor Productivity Report 122
Weekly Reports 126
Weekly Revenue Forecast 127
Weekly Wage and Cost Scheduling 127
Profitability Forecasting 127
Monthly Internal Management Reports 127
Monthly or Accounting Period P&L Statement 128
Profitability, Retention, and Flow-Through 128
Monthly P&L Statement Critiques 131
Summary 132 • Hospitality Manager Takeaways 132 • Key Terms 133 • Review Questions 133 • Practice Exercises 134

Chapter 7 Revenue Management 135
Introduction 136
RevPAR—Revenue per Available Room 136
Definition 136
Part 3  Budgets and Forecasts

Chapter 9  Budgets  178
  Introduction  179
  The Use of Budgets in Business Operations  179
    Definition  179
    The Four Types of Budgets  180
  Annual Operating Budgets  184
    Consolidated Hotel Budget  184
    Revenue and Expense Department Budgets  184
    Fixed Expense Department Budgets  185
  Formulas and Steps in Preparing a Budget  186
    The Goals of an Operating Budget  186
    Methods of Preparing Budgets  186
    Revenue Budgets  187
    Expense Budgets  188
    Profit Budgets  190
  Capital Expenditure Budgets  190
    Definition  190
    Characteristics  191
    Preparing Capital Expenditure Budgets  191
  Summary  193  •  Hospitality Manager
  Takeaways  194  •  Key Terms  194  •  Review Questions  195  •  Practice Exercises  195

Chapter 10  Forecasting: A Very Important Management Tool  197
  Introduction  198
  Forecasting Fundamentals  198
    Definition  198
    Last Year, Budgets, and Forecasts  199
  Types and Uses of Forecasts  200
    Forecasting Relationships with Last Year and the Budget  200
  Weekly, Monthly, Quarterly, and Long-Term Forecasts  201
Contents

Revenue, Wages, and Operating Expense Forecasts 202
Revenue Forecasting 205
   The Importance of Room Revenue Forecasts 205
   Volume: The Key to Forecasting 206
Wage Forecasting and Scheduling 209
   Wage Forecasting Fundamentals 209
   Labor Standards, Forecasting, and Ratios 209
   Summary 210
   Hospitality Manager
   Takeaways 210
   Key Terms 211
   Review
   Questions 211
   Practice Exercises 211

Part 4 Other Financial Information

Chapter 11 Corporate Annual Reports 252
Introduction 253
   The Purpose of Corporate Annual Reports 254
      Definition 254
      Regulations and Independent Auditors 254
      Public Relations 256
      Uses of Corporate Annual Reports 256
   The Message to Shareholders 257
      Performance for the Year 257
      Company Culture 258
      Strategies for the Future 258
   The Content of the Corporate Annual Report 260
      Operating and Financial Results by Brand, Concept, or Division 260
      Other Corporate Themes and Information 263
   Financial Results for the Year 263
      Independent Auditors Report and Management Responsibilities Report 263
      The Three Main Financial Statements 264
      Notes to Consolidated Financial Statements 265
      Summary 265
      Hospitality Manager
      Takeaways 265
      Key Terms 266
      Review
      Questions 267
      Practice Exercises 267

Chapter 12 Personal Financial Literacy 268
Introduction 269
   Personal Financial Literacy 269
      Definition 269
      Personal Income Statement 270
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Cash Flow</td>
<td>271</td>
</tr>
<tr>
<td>Personal Balance Sheet</td>
<td>272</td>
</tr>
<tr>
<td>Managing Personal Finances</td>
<td>275</td>
</tr>
<tr>
<td>The Rat Race</td>
<td>275</td>
</tr>
<tr>
<td>Evaluating Your Personal Financial Position</td>
<td>276</td>
</tr>
<tr>
<td>Developing Financial Literacy</td>
<td>276</td>
</tr>
<tr>
<td>Evaluating Assets and Sources of Income</td>
<td>277</td>
</tr>
<tr>
<td>Company Programs</td>
<td>277</td>
</tr>
<tr>
<td>Individual Investment Accounts</td>
<td>279</td>
</tr>
<tr>
<td>Retirement Planning</td>
<td>279</td>
</tr>
<tr>
<td>Summary</td>
<td>283</td>
</tr>
<tr>
<td>Takeaways</td>
<td>284</td>
</tr>
<tr>
<td>Key Terms</td>
<td>284</td>
</tr>
<tr>
<td>Review</td>
<td></td>
</tr>
<tr>
<td>Questions</td>
<td>285</td>
</tr>
<tr>
<td>Practice Exercises</td>
<td>285</td>
</tr>
<tr>
<td>Glossary</td>
<td>286</td>
</tr>
<tr>
<td>Index</td>
<td>293</td>
</tr>
</tbody>
</table>