Hospitality Financial Accounting

SECOND EDITION

Jerry J. Weygandt Ph.D., C.P.A.

Arthur Andersen Alumni Professor of Accounting University of Wisconsin

Donald E. Kieso Ph.D., C.P.A.

KPMG Emeritus Professor of Accounting Northern Illinois University

Paul D. Kimmel Ph.D., C.P.A.

Associate Professor of Accounting University of Wisconsin–Milwaukee

Agnes L. DeFranco Ed.D., C.H.E., C.H.A.E.

Professor of Hospitality University of Houston



JOHN WILEY & SONS, INC.

BRIEF CONTENTS

TO THE INSTRUCTOR

STUDENT OWNER'S MANUAL

- 1 Hospitality Accounting in Action 1
- **2** Accounting Principles 30
- 3 The Recording Process 66
- **4** Adjusting the Accounts 102
- 5 Completion of the Accounting Cycle 136
- 6 Financial Statements 168
- 7 Financial Statement Analysis 204
- **8** Accounting for Merchandising Operations in Hospitality 232
- 9 Inventories and Cost of Goods Calculation 260
- 10 Internal Control and Cash 288
- **11** Payroll 318
- 12 Accounting for Receivables and Payables 346
- 13 Long-Term and Intangible Assets 380
- 14 Sole Proprietorships, Partnerships, and Corporations 410

APPENDIX A

Specimen Financial Statements: PepsiCo, Inc. 454

APPENDIX B

Subsidiary Ledgers and Special Journals 482

DETAILED CONTENTS

CHAPTER 1	Elements of Financial Statements 35 Operating Guidelines 36	
HOSPITALITY ACCOUNTING IN ACTION FEATURE STORY: Financial Reporting: A Matter of	Assumptions 36 Monetary Unit Assumption 37 Economic Entity Assumption 37 Time Period Assumption 37	
Trust 1 What Is Accounting? 2	Going Concern Assumption 37 Principles 37	
Who Uses Accounting Data? 4 Brief History of Accounting 5 Distinguishing between Bookkeeping and Accounting 6 Accounting and You 6	Full Disclosure Principle 40 Cost Principle 40	38
The Building Blocks of Accounting 7 Ethics—A Fundamental Business Concept 8 Generally Accepted Accounting Principles 8 Assumptions 9 Basic Accounting Equation 11	Constraints in Accounting 41 Materiality 42 Conservatism 42 Summary of Conceptual Framework 42 Financial Statement Presentation—An International Perspective 43	
The Accounting Cycle and the Flow of Information 14	Using the Building Blocks Transaction Analysis 45 Summary of Transactions 50	
The Uniform System of Accounts and Financial Reporting 15 Lodging Industry 16 Foodservice Industry 16 Club Industry 16 Spa Industry 16 Gaming Industry 17	Financial Statements 52 Income Statement 52 Retained Earnings Statement 52 Balance Sheet 54 Statement of Cash Flows 54	
Accounting and Financial Management in Hospitality 17	CHAPTER 3	
Hotel Operations 17 Hotel Accounting Department Organization 20 Foodservice Operations 22	THE RECORDING PROCESS FEATURE STORY: No Such Thing as a Perfect World 67	66
Club Operations 23 Appendix The Accounting Profession 25 Public Accounting 26 Private Accounting 26 Not-for-Profit Accounting 26	The Account 68 Debits and Credits 69 Debit and Credit Procedures 69 Stockholders' Equity Relationships 72 Expansion of the Basic Equation 73 The Accounting Cycle 73	
CHAPTER 2	Steps in the Recording Process 74 The Journal 75 The Ledger 77	
ACCOUNTING PRINCIPLES 30	The Recording Process Illustrated 81	
FEATURE STORY: Certainly Worth Investigating! 31 The Conceptual Framework of	Summary Illustration of Journalizing and Posting 87	
Accounting 32 Objectives of Financial Reporting 33 Qualitative Characteristics of Accounting Information 34	The Trial Balance 88 Limitations of a Trial Balance 89 Locating Errors 91 Use of Dollar Signs 91	

xxi

Electronic Data Processing 92	Correcting Entries—An Avoidable Step 151
Comparative Advantages of Manual versus Computerized Systems 92 A Look into the Future 93	Classified Balance Sheet 154 Standard Classifications 154 Classified Balance Sheet, Illustrated 158
CHAPTER 4	CHAPTER 6
ADJUSTING THE ACCOUNTS 102	FINANCIAL STATEMENTS 168
FEATURE STORY: Timing Is Everything 103	
Timing Issues 104 Selecting an Accounting Time Period 105 Fiscal and Calendar Years 105 Accrual- versus Cash-Basis Accounting 105 Recognizing Revenues and Expenses 106 The Basics of Adjusting Entries 107 Types of Adjusting Entries 108 Adjusting Entries for Prepayments 108 Adjusting Entries for Accruals 115 Summary of Basic Relationships 120 The Adjusted Trial Balance and Financial Statements 122 Preparing the Adjusted Trial Balance 122 Preparing Financial Statements 122 Alternative Treatment of Prepaid Expenses and Unearned Revenues 124 Prepaid Expenses 124 Unearned Revenues 126 Summary of Additional Adjustment Relationships 127	The Income Statement 170 Multiple-Step Income Statement 174 Departmental Income Statement 175 Consolidated Income Statement 176 Classified Balance Sheet 176 Relationship between the Income Statement and the Balance Sheet 177 The Statement of Cash Flows: Purpose and Format 178 Purpose of the Statement of Cash Flows 179 Classification of Cash Flows 179 Classification of Cash Flows 179 Significant Noncash Activities 180 Format of the Statement of Cash Flows 181 Usefulness of the Statement of Cash Flows 182 Preparing the Statement of Cash Flows 183 Indirect Method for Statement of Cash Flows 185 First Year of Operations—2008 185 Second Year of Operations—2009 189
	Second Tear of Operations 2007 107
COMPLETION OF THE ACCOUNTING CYCLE 136	CHAPTER 7
FEATURE STORY: Everyone Likes to Win 137	FINANCIAL STATEMENT ANALYSIS 204
Using a Work Sheet 138	FEATURE STORY: "Follow That Stock!" 205
Steps in Preparing a Work Sheet 138 Preparing Financial Statements from a Work Sheet 141 Preparing Adjusting Entries from a	Basics of Financial Statement Analysis Need for Comparative Analysis Tools of Financial Statement Analysis 206 207
Work Sheet 144 Closing the Books 144 Preparing Closing Entries 145 Closing Entries, Illustrated 147	Horizontal Analysis 207 Balance Sheet 208 Income Statement 208 Retained Earnings Statement 210
Posting of Closing Entries 147 Preparing a Postclosing Trial Balance 149 Summary of the Accounting Cycle 150	Vertical Analysis 210 Balance Sheet 210 Income Statement 211

Ratio Analysis 213 Liquidity Ratios 214 Profitability Ratios 217 Solvency Ratios 220 Summary of Ratios 221 Limitations of Financial Statement Analysis 222	Recording Purchases of Merchandise 266 Recording Sales of Merchandise 267 Cost of Goods Sold 268 Determining Cost of Goods Purchased 268 Transfers In and Out 270 Food Cost Calculations 271 Beverage Cost Calculations 271 Income Statement Presentation 272
Estimates 222 Cost 222 Alternative Accounting Methods 223	Inventory Costing under a Periodic Inventory System 273
Atypical Data 223 Diversification of Firms 223 CHAPTER 8 ACCOUNTING FOR MERCHANDISING	Using Actual Physical Flow Costing— Specific Identification 273 Using Assumed Cost-Flow Methods—FIFO, LIFO, and Average Cost 274 Financial Statement Effects of Cost-Flow Methods 278
OPERATIONS IN HOSPITALITY 232	Using Inventory Cost-Flow Methods Consistently 280
FEATURE STORY: Selling Dollars for 85 Cents 233 Merchandising Operations 234 Operating Cycles 235 Inventory Systems 236	Inventory Errors 281 Income Statement Effects 281 Balance Sheet Effects 282
Recording Purchases of Merchandise Purchase Returns and Allowances 240 Freight Costs 241 Purchase Discounts 241	Statement Presentation and Analysis 282 Presentation 282 Analysis 283
Recording Sales of Merchandise 243 Sales Returns and Allowances 244 Sales Discounts 245	INTERNAL CONTROL AND CASH 288
Completing the Accounting Cycle 246 Adjusting Entries 246 Closing Entries 247	FEATURE STORY: Minding the Money in Moose Jaw 289 Internal Control 290
Summary of Merchandising Entries 247 Work Sheet for a Merchandiser 248	Principles of Internal Control 291 Limitations of Internal Control 296
Using a Work Sheet 248 CHAPTER 9	Cash Controls 296 Internal Control over Cash Receipts 297 Internal Control over Cash Disbursements 300
INVENTORIES AND COST OF GOODS CALCULATION 260	Use of a Bank 302 Making Bank Deposits 302 Writing Checks 302
FEATURE STORY: \$12,800 Worth of Blueberry Muffins! 261	Bank Statements 304 Reconciling the Bank Account 305
Inventory Basics 262 Classifying Inventory 263	CHAPTER 11
Determining Inventory Quantities 263 Inventory Accounting Systems 265	PAYROLL 318
Periodic Inventory System 266 Recording Transactions 266	FEATURE STORY: Payroll: A Manageable Cost in the Hospitality Industry 319

ayroll Defined 320	Sales Tax Payable 368	
Fair Labor Standards Act 323	HAPTER 13	371
Gross Earnings 324 Payroll Deductions 325	ONG-TERM AND ITANGIBLE ASSETS ATURE STORY: Time to Relax 381	380
Maintaining Payroll 327 Maintaining Payroll Department Records Recognizing Payroll Expenses and Liabilities 329 Recording Payment of the Payroll 329 Tipped Employees 330 Tip Reporting 331 mployer Payroll Taxes 336 FICA Taxes 336 Federal Unemployment Taxes 336	Determining the Cost of Long-Term Assets Land 384 Land Improvements 384 Buildings 384 Equipment 385 Depreciation 386 Revising Periodic Depreciation 394 Expenditures during Useful Life 395 Long-Term Asset Disposals 396 tangible Assets 401 Patents 402 Copyrights 402 Trademarks and Trade Names 402 Franchises and Licenses 403	383
HAPTER 12		
CCOUNTING FOR RECEIVABLES	Goodwill 403 HAPTER 14	
CCOUNTING FOR RECEIVABLES ND PAYABLES 346 SCHARLE STORY: Fingneing His Dreams 347	Goodwill 403 HAPTER 14 OLE PROPRIETORSHIPS,	
CCOUNTING FOR RECEIVABLES ND PAYABLES SATURE STORY: Financing His Dreams 347 PA	Goodwill 403 HAPTER 14 OLE PROPRIETORSHIPS, ARTNERSHIPS, AND	410
CCOUNTING FOR RECEIVABLES ND PAYABLES SATURE STORY: Financing His Dreams 347 CCOUNTS Receivable 348 Types of Receivables 348 Recognizing Accounts Receivable 349 Valuing Accounts Receivable 350 Disposing of Accounts Receivable 357 On	Goodwill 403 HAPTER 14 OLE PROPRIETORSHIPS, ARTNERSHIPS, AND	410
CCOUNTING FOR RECEIVABLES ND PAYABLES SATURE STORY: Financing His Dreams 347 CCOUNTS Receivable 348 Types of Receivables 348 Recognizing Accounts Receivable 349 Valuing Accounts Receivable 350 Disposing of Accounts Receivable 357 Credit Policies 360	Goodwill 403 HAPTER 14 OLE PROPRIETORSHIPS, ARTNERSHIPS, AND ORPORATIONS ATURE STORY: "Two All Beef Patties, ecial Sauce, Lettuce, Cheese, Pickles,	410
CCOUNTING FOR RECEIVABLES ND PAYABLES SATURE STORY: Financing His Dreams 347 CCOUNTS Receivable 348 Types of Receivables 348 Recognizing Accounts Receivable 349 Valuing Accounts Receivable 350 Disposing of Accounts Receivable 357 CREDIT Policies 360 The Credit Department 360 The Credit Department 360	Goodwill 403 HAPTER 14 OLE PROPRIETORSHIPS, ARTNERSHIPS, AND ORPORATIONS ATURE STORY: "Two All Beef Patties, ecial Sauce, Lettuce, Cheese, Pickles, nions on a Sesame Seed Bun" 411	410
CCOUNTING FOR RECEIVABLES ND PAYABLES SATURE STORY: Financing His Dreams 347 CCOUNTS Receivable 348 Types of Receivables 348 Recognizing Accounts Receivable 349 Valuing Accounts Receivable 350 Disposing of Accounts Receivable 357 CONTROL Policies 360 The Credit Department 360 The Credit Policy before, during, and after the Event 360	Goodwill 403 HAPTER 14 OLE PROPRIETORSHIPS, ARTNERSHIPS, AND ORPORATIONS ATURE STORY: "Two All Beef Patties, ecial Sauce, Lettuce, Cheese, Pickles, nions on a Sesame Seed Bun" 411 ILLE Proprietorships 412 Association of Individuals 413	

The Corporate Form of Organization and Stock Transactions 420	APPENDIX B
Characteristics of a Corporation 420 Forming a Corporation 424 Corporate Capital 424 Accounting for Common Stock Issues 429	SUBSUDIARY LEDGERS AND SPECIAL JOURNALS 482 FEATURE STORY: Different Roads for Different
Accounting for Treasury Stock 432 Preferred Stock 436	Folks 483 Expanding the Ledger—Subsidiary Ledgers 484
Dividends 438 Cash Dividends 438 Stock Dividends 441 Entries for Stock Dividends 442 Effects of Stock Dividends 443	Nature and Purpose of Subsidiary Ledgers 484 Example 485 Advantages of Subsidiary Ledgers 486
Stock Splits 443 Retained Earnings 445 Retained Earnings Restrictions 446 Prior Period Adjustments 447 Retained Earnings Statement 447	Expanding the Journal—Special Journals 487 Sales Journal 488 Cash Receipts Journal 490 Purchases Journal 495 Cash Payments Journal 496
APPENDIX A	Effects of Special Journals on the General Journal 498
SPECIMEN FINANCIAL STATEMENTS: PepsiCo, Inc. 454	Photo Credits 505 Index 507