



**H O S P I T A L I T Y
M A N A G E M E N T
A C C O U N T I N G**

E I G H T H E D I T I O N

M A R T I N G . J A G E L S

M I C H A E L M . C O L T M A N



J O H N W I L E Y & S O N S , I N C .

C O N T E N T S

P R E F A C E v

CHAPTER 1	BASIC FINANCIAL ACCOUNTING REVIEW	1
CHAPTER 2	UNDERSTANDING FINANCIAL STATEMENTS	51
CHAPTER 3	ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS	97
CHAPTER 4	RATIO ANALYSIS	131
CHAPTER 5	INTERNAL CONTROL	189
CHAPTER 6	THE BOTTOM-UP APPROACH TO PRICING	239
CHAPTER 7	COST MANAGEMENT	293
CHAPTER 8	THE COST-VOLUME-PROFIT APPROACH TO DECISIONS	325
CHAPTER 9	OPERATIONS BUDGETING	361
CHAPTER 10	STATEMENT OF CASH FLOWS AND WORKING CAPITAL ANALYSIS	411
CHAPTER 11	CASH MANAGEMENT	457
CHAPTER 12	CAPITAL BUDGETING AND THE INVESTMENT DECISION	491
CHAPTER 13	FEASIBILITY STUDIES—AN INTRODUCTION	521
CHAPTER 14	FINANCIAL GOALS AND INFORMATION SYSTEMS	545
APPENDIX	COMPUTERS IN HOSPITALITY MANAGEMENT	573
	GLOSSARY	593
	INDEX	603

P R E F A C E

Welcome to the eighth edition of *Hospitality Management Accounting*! Your studies of the hospitality, tourism, and service industries are taking place during a time of amazing growth and success. Around the world, new operations are being created, while established companies continue to expand their products and services, which, in turn, enhances competition. This increasing growth and competition affects not only hospitality operators, but also the potential customers they seek to serve.

Across the industry, hospitality operators and managers are relying on managerial accounting techniques to help them thrive in this expanding environment. The industry as a whole is becoming more cost and profit conscious, while potential customers are placing increased importance on price, quality, and the level of services they receive. Hospitality industry providers have begun focusing greater attention on increasing their revenue, minimizing costs, and maximizing profit levels, without affecting the quality of service they can provide, relative to the cost of providing those services.

Hospitality Management Accounting continues to evolve with the industry, to give students a solid understanding of how they can use managerial accounting skills in their future careers. This text makes no attempt to cover the detailed concepts and mechanics of financial accounting, or the detailed procedures of bookkeeping. However, Chapter 1 presents a complete review of the basic fundamentals of financial accounting. The scope and content is designed for the student who is taking courses that are related to the managerial aspects of the hospitality industry and are, by their nature, accounting oriented. Although most of the chapters are quite complete, they are not, nor are they meant to be, exhaustive. This book is introductory in nature and it is hoped that the reader will be prompted to independently explore some of the topics in other books where they are discussed in greater detail.

NEW TO THE EIGHTH EDITION

- All material, including and especially the exercises and problems, has been thoroughly checked and rechecked to allow for greatest accuracy.

- Chapter 1 has been revised so straight-line, units-of-production, sum-of-the-year's-digits, and double-declining depreciation methods are discussed in detail and consolidated into one chapter.
- In Chapter 2, the section on inventory control methods has been revised to improve conceptual understanding, with greater emphasis placed on perpetual inventory.
- The section on the statement of cash flows is now incorporated into Chapter 10 so its discussion along with that of working capital can be examined sequentially.
- The problems section at the end of each chapter has been expanded to allow students to test their skills and comprehension of the chapter concepts.
- Key terms are now boldfaced within the text to help students identify those concepts that are key to understanding hospitality managerial accounting.

ORGANIZATION

The book is designed to give students both a conceptual understanding and a practical use of internal accounting information. The structure and sequence of topics in the book were carefully planned to serve as a basis for developing managerial accounting procedures, quantitative analysis techniques, and reporting concepts. For the eighth edition, all information, procedures, and concepts have been updated, and several chapters have been revised significantly.

Chapter 1, "Basic Financial Accounting Review," has been revised to provide a condensed view of basic financial accounting concepts. Coverage of the fundamental accounting equation has been expanded to improve student understanding and emphasize the equation's purpose, how changes to the equation are developed, recorded, and implemented, and how those changes affect the basic accounting equation. Also included are straight-line, units of production, sum-of-the-year's digits and double-declining depreciation methods. The concept of adjusting entries has been expanded in greater detail, and the discussion of the accounting cycle of a profit-oriented business has also been expanded.

In Chapter 2, "Understanding Financial Statements," greater emphasis is given to creating an income statement, statement of ownership equity, and balance sheet. Inventory control methods have been revised to improve conceptual understanding, with greater emphasis placed on perpetual inventory.

In Chapter 3, "Analysis and Interpretation of Financial Statements," the discussion and illustrations of comparative balance sheets and comparative income statements have been improved and expanded. Several supporting illustrations have also been revised and modified to enhance student understanding.

The discussion of liquidity ratios in Chapter 4, “Ratio Analysis,” has been supplemented with enhanced illustrations showing how changes in the current accounts affect the current ratio as well as working capital. The illustrations have been expanded to support the discussion of liquidity and turnover ratios. The trend continues as credit sales are rapidly changing toward credit card sales from accounts receivable or house accounts, and credit card ratios have been expanded in conjunction with accounts receivable.

The text and illustrations in Chapter 6, “The Bottom-Up Approach to Pricing,” have been revised to better explain the nature and purpose of this pricing method and how it can be compared to a completed income statement. Greater emphasis is placed on the techniques to determine operating income (income before tax) and net income (after tax).

In Chapter 8, “The Cost–Volume–Profit Approach to Decisions,” emphasis is placed on the relationship between breakeven sales volume and breakeven unit sales. Breakeven is discussed in detail to ensure that students have a clear understanding of this concept before going on to learn how added cost functions are brought in to complete a profit volume analysis.

Chapter 10, “Statement of Cash Flows and Working Capital Analysis,” contains a detailed discussion of the statement of cash flows, indirect method, with supporting illustrations. By covering the statement of cash flows and working capital sequentially, students can follow a clear progression through the chapter and see how key operating, financial, and equity accounts are used to develop a statement of cash flows and a working capital analysis. The discussion of working capital analysis stresses the strong link between the statement of cash flows and the working capital analysis.

Although they are not essential components of a managerial accounting course, Chapter 13, “Feasibility Studies—An Introduction,” and Chapter 14, “Financial Goals and Information Systems,” can be used in class as supplemental chapters at the discretion of the professor.

Wherever new material has been incorporated within the text, exercises and problems have been added to test student assimilation of the new material.

FEATURES

The book contains several pedagogical features in every chapter to help students grasp the concepts and techniques presented:

- *Introductions* introduce the key topics that will be presented in the chapter. *Chapter objectives* list the specific skills, procedures, and techniques that students are expected to master after reading the material.

- *Key terms* are in bold within the text so that students can easily familiarize themselves with the language of managerial accounting and develop a working vocabulary.
- *Computer applications* are included at the end of each chapter that explain how managers and accountants are using computers to process accounting information and improve managerial decision making.
- The *chapter summary* concisely pulls together the many different points covered in the chapter to help trigger students' memories.
- *Discussion questions* ask students to summarize or explain important concepts, procedures, and terminology.
- An *ethics situation* for each chapter challenges students' decision-making abilities and teaches them to look beyond the numbers and consider how accounting information can be used to affect other areas of a hospitality operation.
- *Exercises* have been upgraded and expanded to tie together concepts from each chapter.
- *Problems* test students' basic accounting skills and the application of concepts. Each chapter has been upgraded.
- The *case* at the end of each chapter has been upgraded to ensure understanding of managerial accounting applications and developing conceptual understanding and analysis techniques using realistic business examples. The chapter case problem is tied together with other cases throughout the book and builds on the concepts learned in previous chapters. Thus, each chapter's case will build on or rely on information a student derived in a preceding chapter's case as a starting point or as a source of supplemental information.
- The *glossary* has been expanded to summarize the key terms presented in the text.

SUPPLEMENTARY MATERIALS

A *Student Workbook* (0-471-46637-9) is available to accompany this text. It contains an outline summary of the key topics in each chapter, a short series of word completion, true/false, and multiple-choice questions, short exercises, and comprehensive problems. The word completion, true/false, and multiple-choice questions are oriented toward a conceptual understanding of the chapter material, while the short exercises and comprehensive exercises are practical and application oriented. Solutions to these questions and problems are included after each chapter. Following a three-chapter sequential block, the workbook contains a three-chapter self-review test, with answers included, so students can gauge their progress through the course.

An *Instructor's Manual* (0-471-46636-0) is also available. It contains detailed solutions to each chapter's exercises, problems, and cases, all of which have been thoroughly checked for accuracy. Alternative math solutions are shown where possible throughout the exercise and problem solutions. Course instructors may select the print version of the *Instructor's Manual* or go to **www.wiley.com/college/** for an electronic version of the *Instructor's Manual* and an electronic true/false and multiple choice test bank.

A C K N O W L E D G M E N T S

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