**Ind YEAR BHM - FRONT OFFICE MANAGEMENT**

**FRONT OFFICE COMPUTER APPLICATIONS**

A *Property Management System* contains sets of computer software packages capable of supporting a variety of activities in front and back office areas. The four most common front office software packages are designed to help front office employees perform functions related to:

* Reservations Management
* Rooms Management
* Guest account Management
* General Management

Rooms Management Module

Room Status

Registration

Room Assignments

Room Rate Information

General Management Module

Revenue Analysis

Operating Statistics

Financial Analysis

Guest History

Guest Accounting Module

Folio Management

Credit Monitoring

Transaction Tracking

Reservations Module

Availability/Forecasting

Reservation Records

Reservation Confirmations

Room Pricing

Yield Management

# **Reservations Management Software**

A computer based reservations package enables a hotel to rapidly process room requests and generate timely and accurate rooms, revenue, and forecasting reports. A property using a front office computer system can receive data sent directly from a central reservations office. Computerized in-house reservations records, files, and revenue forecasts are immediately updated as reservation data are received at the hotel. Modern systems allow two-way communication between the central reservations office and hotel computers. In this way, accurate hotel guestroom inventories and pricing are communicated between both systems.

In addition, previously received reservation data can be automatically reformatted into pre-registration materials, and a current expected arrival list can be produced. Current reservations management software also includes upgraded rate control features, guest history modules, and more detailed property information such as bed types, guestroom views, and special features.

Reservation management software can also track deposits due, request deposits, and record deposit payments made.

# **Rooms Management Software**

Rooms management software maintains current information on the status of rooms, provides information on room rates, assists in room assignment during registration, and helps front office personnel coordinate guest services. A rooms management module can also be used to provide rapid access to room availability data during the reservation process. Rooms management software can provide the front desk employees with a summary of each room’s status. The front desk employee simply enters the room ‘s number at a computer system terminal and the current status of the room appears immediately on the terminal’s display screen. With a computerized system, changes in room status are instantaneously communicated to the front desk. In addition, front desk agents can enter a guest’s specific requests into the computer to find a room that exactly meets his or her needs.

# **Guest Account Management Software**

The guest accounting module monitors predetermined guest credit limits and provides flexibility through multiple folio formats. At checkout, previously approved outstanding account balances can be automatically transferred to an appropriate accounts receivable file for subsequent billing and collection.

When the hotel’s revenue outlets are connected to the front office computer system, remote electronic cash registers can be used to communicate guest charges to the front office, which are then automatically posted to appropriate electronic guest folios.

# **General Management Software**

General management software cannot operate independently of other front office software packages. General management applications tend to be report-generating packages that depend on the data collected through reservations management, rooms’ management, and guest accounting management programs. In addition to generating reports, the general management module serves as the normal link between the front and back office computer system interface applications.

## **Back Office Interfaces**

Although front and back office software packages can be independent of one another, integrated systems offer the hotel a full range of control over a variety of operational areas. Such areas include room sales, telephone call accounting, payroll, and account analysis. The four most popular back office application modules are:

1. **Financial Accounting System** which consists of:

* *General ledger accounting software*, consisting of accounts receivable and accounts payable software packages. Accounts receivable software monitors guest accounts and accounts billing and collection when integrated with the front office guest accounting module. Accounts payable software tracks hotel purchases and helps the hotel maintain sufficient cash flow to satisfy its debts.
* *Payroll accounting software* processes such data as time and attendance records pay distribution, and tax withholdings.
* *Financial reporting software* helps the hotel develop a chart of accounts in order to produce balance sheets, income statements, and transactional analysis reports.

*2.* **Material Management System** It covers the entire material management function such as requirement, planning, purchase, receipt, stock accounting. Issues are recorded. This system should provide information for effective decision making and book keeping.

* Purchasing requirements reporting aids better order decisions.
* Easy monitoring of stock
* Automatic reminders on pending purchase orders
* Historical purchase vendor/cost analysis for lower purchase costs
* Aids spot stock taking

3. **Management Information System** The MIS system should provide statistical information to the management to assist in decision making and control. Comparison of budget with actuals, automatic MIS data collections to provide business and sales analysis etc. are some features. The timely and accurate information would ensure increased revenues, higher occupancy and cost savings.

4. **Personnel Management System** The personnel management system should integrate the requirements for effective career planning, personnel administration and payroll.

* Comprehensive data aids personnel career planning and manpower development
* Extensive reporting capabilities and employment profiles
* Comprehensive payroll system with automatic calculations and printing of pay slips

5**. Food and Beverage cost control systems** This module is the most important area of concern in hotel operations- the savings possible through control of food and beverage material usage.

* Should automatically pick up issues and costing from Material Management System.
* Should automatically pick up sales details from POS outlets
* Beverage control and bar control system

**Property Management System Interfaces**

# **Non-guest operated interfaces**

* *A point-of-sale (POS) system* allows guest account transactions to be quickly transmitted from remote revenue centers to the PMS for automatic posting to electronic guest folios.
* *A call accounting system (CAS)* directs, prices, and tracks guestroom telephone use for automatic posting to electronic folios.
* *An electronic locking system (ELS)* may interface with the rooms management application to provide enhanced guest security and service.
* *An energy management system (EMS)* can automatically control the temperature, humidity, and air movement in both public spaces and guestrooms through a rooms management interface.

# **Guest operated interfaces**

In some properties, guests may inquire about in-house events and local activities through automated information devices in public areas or the guestroom. Guests may review their folios and checkout of the hotel in the comfort and privacy of their guestrooms. In-room televisions or computers interfaced with a guest accounting module enable guests to simultaneously access folio data and to approve and settle their accounts by selecting a pre-approved method of settlement.

In-room computers linked to external computer information services can permit guests to access airline schedules, local restaurant guides, entertainment guides, stock market reports, video games etc.

An *in-room movie* system can be interfaced with the front office accounting module or can function as an independent system. When interfaced with the accounting module, the system is capable of automatically posting charges to an electronic folio when the television is set on a pre-coded channel. Incorporating a preview channel can significantly reduce the number of pay television or movie charges disputed by guests.

There are two types of *in-room beverage service* systems:

*Non-automated honor bars*: It consists of beverage and snack items in both dry and cold storage areas within a guestroom. The bar’s beginning inventory level is recorded, and the hotel employees on a daily basis note changes in inventory. Appropriate charges for missing or consumed items are posted to the guest’s folio.

*Fully automated guestroom vending machines*: They contain fiber-optic sensors that record the removal of stored products from designated compartments. When a sensor is triggered, the vending machine sends appropriate information to a dedicated microprocessor and, in turn, to the front office accounting module for folio posting.

The *in-room fax machine* enables guests to send and receive faxes directly from their rooms. The fax machines are connected to the hotel telephone system, which automatically calculates the cost of the fax and forwards the charge to the front desk computer. Guests can even receive a printed copy of their folio through the fax machine with this system.

**Selecting a Property Management System**

This section focuses on the components that should be included when deciding to adopt a PMS. The decision-making process begins with understanding the importance of needs analysis performed by a team of frontline staff members. The needs analysis should focus on the flow of the guests through the hotel and interdepartmental communication needs. A review of administrative paper work produced by management in all areas of the hotel is also a consideration. After management has gathered relevant data concerning the operational needs, it must objectively determine whether a computer will help to improve guest service. Other important concepts covered here include software selection considerations and computer hardware terminology. A review of how people interact with computers and how a hotel must make provisions while hardware is being installed is also offered. The importance of computer training and planning a backup power source for continued computer operation is reviewed. The often overlooked maintenance agreement and the very important financial pay back complete the discussion of selecting a PMS.

**Importance of a need analysis**

 Selecting a new equipment for a hotel property is best done after a needs analysis is performed. A needs analysis indicates the flow of information and services of a specific property to determine whether the new equipment – in this case, computers - can improve the flow. The bottlenecks that occur at registration or the lack of information from the H/K dept. on the occupancy status of a room can be alleviated by the use of computers at the front desk. Only after the completion of an operational flow analysis can computer applications be developed to improve the situation.

Installing and operating a PMS is not inexpensive, and the cost of installing and operating a system that does not meet the specific needs of a particular property is exorbitant.

A system that works very well for one downtown hotel may not meet the needs of a downtown hotel in another city of a motel in the same area. All the technological gadgetry in the world will not impress a guest if the equipment fails to deliver service. The system must meet the needs of the staff as well as the guests. An inappropriate PMS will produce control reports that are not useful to management; the functions of such software is therefore become limited, and the cost of the system exceeds its value. For eg, a hotel owner who believes that PMS would speed up registrations and decides to purchase a system that does not allow housekeeping staff to input a room status from the guest room phone will be disappointed.

**Procedure for performing a needs analysis**

 The following list shows the procedure for performing a needs analysis.

1. Select a team to analyzes needs
2. Analyze the flow of guest through lodging property
	* Reservations
	* Registrations
	* Guest accounting
	* Checkout
	* Night auditing
	* Guest history
3. Analyze the flow of information from other departments to the front office.
4. Analyze the administrative paper work produced in other departments.
5. Review the information’s gathered in steps 2 3 4
6. Evaluate the needs that have been identified- such as controlled reports, communication, and administrative paper work produced in other departments- in terms of importance
7. Combine needs to determine desired applications

**Selecting a team**

The first and most important step in performing a needs analysis for adopting a PMS in a hotel is to select a team to determine the reports and information being generated. The analysis team should include employees at both the management and the staff levels. Such a team is better able to see all aspects of the operations; management can provide input on all objectives, while staff is more aware of day to day needs.

**Analysis the flow of guest through the hotel**

The second step in the needs analysis is to analyze the flow of guests through the visit to the property, which provides a structure for this very detailed analysis process. The guest stay does not start at registration but at the time the reservation is made.

Issues that can be analyzed are quite diverse. They include

analyzing the ease with which the telephone system can be used

the availability of room occupancy status for guests on any specific date

the length of time it takes to complete a reservation request,

methods for gathering guest information upon check in at the process for ensuring the correct posting of guest changes,

the time required for a guest to check out,

the procedure used to resolve to a guest’s dispute of charges

* the process for posting meal and phone charges just before check out.
* How is the information assembled in the night auditing?
* How long does it take to produce this information?
* Also determine if the guest information already on hand from the reservation, registration and guest accounting is being applied for additional visit.

**Communicating information**

 The third step in the need analysis process is to look at the information coming from other depts. to the front office. How is information concerning occupancy status received from the HK dept.? How can a guest report emergency or fire on the property? How do the F&B dept. and the gift shop report guest charges? How does the marketing and sales dept. determine if blocks of rooms available on certain dates? How does the engineering dept. monitor energy use in guest rooms? How does the security dept. ensure the integrity of guest keys? A good PMS can embrace all of these lines of communication.

**Reviewing Administrative Paperwork**

The fourth step is to review the administrative paper work produced in the hotel that is necessary to assist management. How does the HR dept. maintain personal files and former employee reports? How are functions books and individual functions sheets maintained? How are tickler files, files used to prompt notice of when certain events will be occurring, maintained? What method is used to devise daily menu specials?

**Management Review of information**

In the fifth step of this analysis, management must take charge of the information compiled to determine if needs are being met. Is the marketing and sales dept. making mistakes because incorrect information concerning the inventory of available rooms was provided by the F O staff? Is desk clerk unable to check the occupancy status of guest room because the HK dept. is not providing immediate information? Have misquotes on room rates caused lost revenue for the hotel?

The significance of each need and the consequences if the need is not met are then established. Customer satisfaction and quality of service as well as financial implication are considered. How often have conventions not been booked because accurate information on room availability was not at hand? How much revenue was lost as a result?

**Assessing needs based on findings**

The final step in the analysis is to combine various operational and administrative needs to determine which computer applications are appropriate for the property. Often the shared use of a room inventory data base is as well worth the financial investment. A word- processing program to produce direct- mail letters, regular correspondence, and daily menus may also justify a particular module of a PMS. The needs analysis enables you to know what you do not need and will help you choose from the many systems available.

**Choosing software**

The effectiveness of a PMS depends on selecting software that allows management to increase guest satisfaction and to access financial and information data for control purposes. The information obtained from the needs analysis will provide a frame work for evaluating the numerous software packages on the market today.

Each software package offers numerous features; it is important to choose one package that is most appropriate for your needs. Software of the market today includes those guest service, accounting, information options that are standard in the hotel industry. Investigate the guest service features, accounting options and information applications to determine which PMS is best for the property. If it is felt that the applications of a particular software package will not help to manage the property, that adding a particular guest service will not increase guest satisfaction, that no significant savings will result from producing more sophisticated accounting reports, that the arrangement of historical information of the guests will not be beneficial, then that particular PMS should not be adopted. The function of proper software selection is to assist the hotel in doing a better job. Only the particular property can decide which applications are most useful for the property.

**Fidelio Hotel Management System**

Fidelio Hotel Management System is a completely integrated system package designed to maximize the efficiency of the hotel.

* It is a highly flexible system
* Highly user friendly and user definable software with pull down menus
* Has its own special anti-virus file
* Has user definable night audit
* The package enhances inter departmental co-ordination
* Can create extensive guest history for unlimited years
* Complete graphical plan illustrations of each floor allow monitoring and controlling the occupancy of every room
* Initial cost is high and underutilization could be expensive

*Reservation module*

This module includes various types of reservations like individual, company, group, airline, travel agent etc. Availability is displayed by room type or on the basis of yield management principles, and has unlimited availability period. Ability to form a standard/modified confirmation letter and automatic printing of the same for companies or agents.

*Group Allotment Management*

Create room blocks, search view and modify a block, create a block header. Block can be rigid or elastic (overbooking possible/not possible). Block any combination of rooms type with various rate codes or rates, enter a cut off date, create a group master and multiple paymaster.

*Yield Management*

The concept of yield management ie. the management of yield of revenue in relation with the available room and what shall be the best possible rate structure for the rate availability and charges in the strategy for selling the room of the hotel ie. reject low price business even if not full when it can predict that the room can be sold to a higher paying customer.

*Packaging*

A package refers to a deal in which the guest is given other services also along with room in the rate. Fidelio module offers two ways of handling packages a. basic package module

 b. advance package module

For basic package Fidelio module can configure (i) print package on guest folio (ii) package prices can be added or included to the rate (iii) multiple posting possibilities such as every night, certain nights of the week etc.

The advanced package module includes maximum integration between POS and front office Fidelio. POS charges are always posted to Fidelio. When certain services are inclusive in rates, Fidelio creates an allowance for the guests.

*Check in and Ongoing*

This module covers various aspects like ability to enter complete and modify guest data, handling of walk ins, individual check in of group members etc. This module also covers possibility to modify all reservation data, ability to enter fixed charges and billing instructions at check in, credit card number check, automatic room assignment, credit limit etc.

*Guest History*

This module can create profiles for individuals, guests, companies, agents and sources, assign a number to the guest, enter special room features for the guest, possibility to put the guest on all payment cash basis, override the overbooking parameters for VIP etc.

*Check out*

This module has user definable folio formats in different languages, ability to enter individual and additional text for each folio, automatic printing of folio with department code text, modify previous billing instruction at check out, total or partial transfer of folio to and from another room, unlimited combination of payment mode etc.

*Rooms Management*

Room status can be changed through telephone interface, display room status at any time with function keys, floor plan options, can check for clean, dirty, out of order, assigned rooms and discrepancies.

*Reporting Systems*

This module covers up user definable menus for

a. guest in-house b. reservations c. guest history d. financial e. night audit f. statistics g. shift report etc.

*Night Audit*

It features user definable night audit, handling of no shows, balance control and audit trail report, automatic postings of all fixed charges and room rates, posting of telephone charges by telephone interface etc.

*Micros*

Fidelio ‘OPERA’ Enterprise System(OES) is a multi-tier application that leverages the oracle database, speed, reliability, functionality and ease of use. The OES design takes advantage of the latest internet technology allowing various hotel companies to host the data and application centrally.

*Interfaces*

The Fidelio system has the capability of interfacing with the following

1. Fidelio sales and catering
2. Back office systems
3. CRS
4. Credit Card Interface
5. Telephone and call accounting
6. POS
7. Door locking systems
8. Minibar
9. Energy Management
10. 10.Voicemail
11. Paging System

**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**

**Pre arrival**

**Departure Arrival**

**Stage 3 THE CYCLE OF SERVICE Stage 1**

**Account Settlement Account Creation**

 **Stage 2 Account Maintenance**

 **Occupancy**

647.94/MS/JAN 2012

NO: [7 ] / IInd BHM

**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 .

 Account Name

 Charges Payments

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**

 PB + DR - CR = 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*

**CHECK-OUT AND SETTLEMENT**

• Checkout and settlement describe the activities associated with the final stage of the guest cycle (i.e. departure).

**Check-out and Account Settlement:**

• The major activities, which are conducted at departure, include:

1. Resolving outstanding guest account balances

2. Updating room status information

3. Creating guest history records

Guest account settlement depends on an effective front office accounting system that maintain accurate guest folios, verifies and authorizes a method of settlement and resolves discrepancy in account balances. Most front office requires a guest to specify during registration an eventual method of settlement.

**Departure Procedure**:

• At checkout, front office clerks shall:

*1.Check for mails, messages, and faxes*

*2.Check for safe deposit box, or in-room safe keys*

*3.Departure Errand Card to be prepared by the bell boy*

*3. Post all outstanding charges*

*4. Verify account information*

*5. Inquire about additional recent charges*

*6. Present the guest folio for guest signature*

*7. Verify the method of payment*

*8. Process the account payment (i.e. zeroing out the account)*

*9.Take a feedback from the guest regarding his stay*

*10. Update the room status*

Check out affords the front office yet another chance to make a positive impression on the guest. The front desk agent should check for any messages, faxes or mail awaiting guest pick up. The front desk agent should also verify that the guest has cleared his or her safe deposit box or in-room safe and returned the key.

To ensure that the guest folio is accurate and complete, the front desk agent should process any outstanding charges that need posting. In addition, the front desk agent should ask the guest if he or she incurred any recent charges and make the necessary postings to the guest folio.

Traditionally, at check out, the guest is presented a final copy of his or her account folio for review and settlement. During this time, the front desk agent should ask how the guest intends to settle his account, regardless of which method of settlement the guest specified during the registration process. A guest may establish credit by presenting a credit card at check-in.

After determining how the guest will pay, the front desk agent should then bring the guests’ account balance to zero. This is typically called *zeroing out* the account. A guests’ account balance must be settled in full for an account to be considered zeroed out. As long as the hotel has received full payment or is assured of full payment, the account will be settled with a zero balance. If an account is to be paid by company, it must be transferred to a city ledger and billed through the account receivable system.

**Presentation and Settlement of Bill**

A departing guest can settle his bill by a number of ways. Mainly they can be grouped into two: cash and credit.

**I. Cash Mode:**

The cash mode includes payment of bill in Indian rupees and acceptable foreign currency such as dollars and pounds etc. This also includes payment by travelers cheques which can be of Indian rupees or foreign currency) against the bill and issues him with a cash receipt. If the guest has paid in foreign currency and there is any balance amount to be given back to the guest then the same is given in Indian rupees. An **encashment certificate** is also issued to the guest. A cash payment in full at check-out will bring a guest account balance to zero. A guest may have had a credit card imprinted at registration, even though he or she intended to settle the account by cash. The front desk agent should destroy the guests’ credit card voucher imprinted at registration when the guest pays the account in full with cash.

**Foreign Currency Transactions:**

The tourism industry in any country is a prime source for the generation of foreign exchange. Governments would, therefore like to keep a close tab on the flow of foreign currency. The stipulations for a hotel are:

1. The hotel should have a license called ‘Restricted Money Changers License’ to exchange foreign currency.
2. Someone must be authorized to deal in foreign exchange transactions, normally the front office cashier.
3. Exchange is done only in local currency
4. Exchange rates must be displayed prominently at the exchange points. The rates are governed by the RBI which updates them on a daily basis
5. Foreign currency exchange can be only extended to resident guests.

**Procedure for accepting Foreign Currency:**

The front office cashier has to follow certain procedures as stipulated by the RBI while receiving foreign exchange. The procedure is as follows:

1. Request the guest for his/her passport and determine the credentials such as name and photo identification, place of issue, date of issue, and date of expiry of the passport.
2. Confirm that the guest is a resident of the hotel.
3. Check if the foreign exchange is accepted by the Government. Normally transactions are done for dollars, sterling pounds, euros and yen.
4. Receive the cash or Travelers Cheque.
5. Calculate the total amount of local currency to be paid by multiplying the foreign currency total amount by the exchange rate displayed.
6. Fill in details in the Foreign Exchange Encashment Certificate which comes in serially numbered books for better control.
7. Request the guest to sign the Travellers Cheque if it is the instrument of exchange. Make sure that the signature tallies with the earlier signature on the TC.
8. Request the guest to sign the Foreign Exchange Encashment Certificate and compare the signature with the passport.
9. Give the total amount of local currency with the original Foreign Currency Encashment Certificate to the guest.
10. Attach the second copy of the Foreign Currency Encashment Certificate to the notes or Travellers Cheque.
11. Leave the third copy of the certificate in the certificate book.
12. Fill in details in the Record of Foreign Currency Transactions. This is a control sheet of all foreign currency transactions in a shift.

**Settlement of bill through** ***Travellers Cheques***: Travellers Cheques are issued by various banks in various denominations, for example, Rs.50/-, 100/- or Rs.500/- etc. Suppose a person wants to buy travellers cheque worth Rs.10000/- in the denominations of Rs.500/-, he will fill up a form, be required to deposit Rs.10,000/- in the bank and he would be issued with 20 nontransferable travelers cheques of Rs.500/- value each. A certain amount of commission may have to be paid by him to the bank.

There are two spaces for the buyer’s signature. At the time of purchase he has to sign at one of the places in the presence of the issuing authority. i.e., the bank manager or his representatives. He is issued with counterfoils, also called as record slips. Other details on the travelers cheque are, (a) number of the cheque, (b) a date column, (c) the amount of cheque is printed on the face of the travellers cheque, and (d) the signatures of the bank authority etc. *Travelers cheque is as good as cash.*

**Difference between an Ordinary Cheque and a Travellers Cheque**

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| --- | --- |
| **Ordinary Cheque** | **Travellers Cheque** |
| * 1. For issuing a cheque a person should have a bank account (either current or saving).
	2. Any amount can be filled in the cheque as they are blank
	3. Only one signature is needed of the holder
	4. Ordinary cheques are valid only for 3-6 months
	5. These cheques can be crossed for account payee
	6. No slip/list of lost, damaged or stolen cheques is issued by bank.
	7. Cheque may bounce as the balance in account may be less than the cheque amount.
	8. Not safe as someone might force the owner to sign the cheque.
 | * + 1. No need of any bank account for purchasing and encashing of travelers cheques.
		2. Have a fixed amount printed on its face and available in different denominations.
		3. Two signatures are required (one in the presence of issuing authority and second in the presence of encashing authority)
		4. Valid for indefinite period of time unless dated.
		5. No such provision.
		6. Many banks issue a stop list or stolen and damaged cheques.
		7. No such possibility as the amount is already printed on the face of the cheque.
		8. Quite safe because the second signature has to be put in front of the encashing authority.
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At the time of settlement of bill the cashier of the hotel presents the bill to the guest and if the guest intends to settle his bill by travellers cheque, the cashier asks him to countersign at the specified place on the face of cheque and tallies his signature with the first signature. A travellers cheque cannot be encashed if the second signature does not tally with the first one.

The cashier should also ensure that the travellers cheque is not predated. Once the date is put on the travellers cheque it is valid for only six month, otherwise, the cheques are good until used and there is no time limit for their encashment. The cashier should **confirm** **the identity** of the guest by asking for his passport or driving license etc. form safety and security point of view. Ensure that the cheque is not damaged, mutilated or changed in any way before accepting it. Check the exchange rate (in case of foreign currency travelers cheque) before converting into Indian Rupees. Any balance shall be paid in Indian Rupees. An **encashment certificate** shall be issued to the guest.

Travellers cheques are a very safe and convenient way of transporting currency. There is no danger even if they are stolen, snatched on a gun point etc. as they will be encashed only when they will be signed by the holder in the presence of the encashing authority and the second signature tallies with the first signature. The advantage of travellers cheques is that it has double check system because of two signatures and chances of it bouncing like an ordinary cheque are not there.

A foreign travellers cheque must be treated like foreign currency and the necessary records and statements and certificates must be maintained like in case of foreign currency and required records should be sent to Reserve Bank of India by the hotel.

**2. Credit Mode.**

Credit mode of payment includes (**i) Airlines vouchers (ii) Company Account Payment**, **(iii) Travel Agency Vouchers (iv) Credit Card Payment, (v) Personal Cheque** payment by the guest.

1. **Airlines vouchers:** Some airlines give **MAO** (Meal and Accommodation Order) and **PSO** (Passengers Service Order) to the layover passengers travelling from one destination to another. The passengers are provided with specified meals and the accommodation by the hotel on the basis of the same for which the payments are made by the airline.
2. **Company accounts:** Directors and other top executives of various Corporate Companies keep travelling from one place to another very frequently. The companies issue authorization letters to their executives on the basis of which they get services such as accommodation etc. from the hotel. At the time departure the **guest signs his bills** and checks out. The hotel sends this signed bill to the company which makes the payment.
3. **Payment by Travel Agency Voucher**: Generally a travel agent who sells a package to a tourist collects the money from the tourist in advance which includes accommodation and the other service charges. Travel agency voucher indicates that the guest has prepaid to the travel agency amounts for accommodation etc. and the recovery of such amounts are made from the travel agent and not from the guest. The travel agent sends copy of voucher to the hotel at the time of booking and gives the record copy to the traveler who submits his copy to the hotel at the time of arrival. The receptionist should tally both the copies. Most of the travel agents voucher includes the services to be offered to the guest. The front office cashier should take the following steps in this case:
	1. Receive the travel agency voucher and see what billing instructions are mentioned in the folio. Read billing instruction very carefully as sometimes the travel agent might instruct the hotel to collect the payment from the guest directly.
	2. Read the voucher carefully and determine whether it has been issued from a bonafide agency as issued by the accounts department of the hotel.
	3. See that all the expenses / charges are covered by the voucher.
	4. If the voucher is from a foreign travel agency, get it authorized by the Lobby Manager.
	5. Ask the guest to sign on the reverse of the travel agency voucher.
	6. The guest should sign the folio at the time of check-out.
	7. Attach the voucher and the folio(s) together.
	8. The hotel sends the original voucher along with the guest bill (including all department vouchers) for payment.
	9. Usually within a month the travel agent makes the payment of the bill to the hotel.
4. **Settlement of Bill through Credit Card:** It is one of the most commonly used methods of bill settlement by a guest. It is a small, convenient to carry plastic card issued by banks.

Every credit card has an authorized amount by the bank as an authorized limit called the **floor limit**. If the amount of guest bill is within the authorized limit then at the time of departure the guest has to sign a **credit card voucher**. At the time of arrival, when the arriving guest indicates that he will use credit card for the bill settlement, he is requested by the receptionist to produce his credit card. The card has the name of the guest, the number and validity date embossed on it and the receptionist makes sure the following:

* 1. The hotel accepts the company’s credit card.
	2. The card is not an expired card (he checks the expiry date)
	3. The card is not a stolen card (he consults the stop lists /black list / cancellation bulletin sent regularly by the credit card company). In case the card is stolen or an expired one the receptionist, after informing the guest, should take and cut it with a cutter or scissor and then send to the credit card company to avoid any further misuse of the card. For this he may be rewarded by the credit card company.
	4. **Floor limit**: The limit up to which the guest can be given the credit If the bill amount exceeds the credit limit of the card, the cashier must take permission from the Credit Card Company for the over-limit amount. This is called as **over-limit authorization number**. The limit varies from company to company. Sometimes the color of the card, like green, white and golden, etc indicate the credit limit.
	5. He should check the validity of the card by passing it through a special magnetically charged validation machine called the **magnetic strip reader**. This process is also called as **“Card Approval**” process. Once satisfied, the receptionist shall pass it through an imprinter along with charge slip and take the impression on them. In case of scanty baggage guest or an unknown guest the receptionist should request the guest to sign some blank charge slip in advance. At the time of departure the guest is presented with the bill along with the charge slips, which he signs. Ask him to produce his credit card and check his signatures. Make a “charge record” which should have the total amount in Indian rupees payable by the guest, credit card number, the name of the card holder, the name of the hotel, date of charges, the bill number etc. Three copies of charge records, which sometimes is also called as billing statement are made (one copy is hotel’s copy, also called as service establishment copy, second copy is for credit card company and third copy called as card holder’s copy is returned to the guest ( a copy of the bill may be attached with this charge record in case guest requests for it)

In order to avoid any dispute at a larger stage the hotel must retain all the original bills of the guest till the payment is cleared. The payment of the bill is made to the hotel by the credit card company which in turn collects the payment from the guest directly by sending a monthly statement. This monthly statement not only contains the hotel’s bill but the details of his other purchases at other places also.

* 1. **Reserving Credit:** The front office may reserve a specified amount of pre-authorized credit in a guest’s credit card account to ensure payment for

 goods and services.

(v)**Payment by Personal Cheques:** Normally payments by personal cheques are not accepted. Inform the guest politely that payments by personal cheques are not entertained. In case of further insistence from guests, ask them to contact the lobby manager for an authorization. On the receipt of the authorization from the Lobby Manager, give the application for payment by personal cheques. Check the details of the cheque and make sure that it has been marked ‘A/c Payee Only’ and is duly filled. Compare the signature on the cheque with that on application form. Enter details in the front Office cashier’s report. Settle the bill.

(vi) **Combined settlement method:** A guest may elect to use more than one settlement method to bring the folio balance to zero. For example, the guest may make a partial cash payment and make the remaining payment by credit card. In this case, depending on which combination, front office clerk shall proceed by preparing different kinds of vouchers.

2. **Sales minded cashiers!**

• As guests tend to depart from the hotel, the cashiers shall approach them in the following way:

1. Provide them comment cards and encourage them to use these very cards
2. Thank the guest for choosing the hotel and wish him/her a safe trip
3. Ask the guest whether he/she is considering returning to the property on any return trip to the area. Cashiers might sometimes accept future reservations!

III- **Check Out Options:**

• There are a lot of innovative ways to check out apart from the traditional way. Below are two commonly used check out options (apply usually only to guests who have provided valid credit cards at registration):

1. ***Express check out***: This is usually convenient for guests who decide to check out very early in the morning. In fact, at night, bellboys (for example) shall slip the guest folio under the expected departure guestroom. When the guest wakes up, he/she shall sign the gust folio, and the credit card voucher, leave the room, give back the room key to the bellboy, and depart.
2. ***Self-check out***: Guests might check out using self-check out terminals situated at public areas or in their rooms if in-room check out systems are integrated with front office main frame.

*3****. Late check out:***

 Late check out refers to the situation where guests check out after the hotel's established check out time. Late check out shall not be considered as a guest right, rather a privilege which might be honored by the front office manager upon room availability whether free of charge or charged a late check out fee.

**Unpaid Account Balances:**

No matter how carefully the front office monitors a guests’ stay, there is always the possibility that the guest will leave without settling his bill. After departure charges or outstanding balances represent unpaid account balances.

• Unpaid account balances occur because of the following reasons, most of which are because hotels do not operate fully-automated systems:

1. A departing guest honestly forgetting to settle his/her account
2. Late charges (being one of the most important reasons)
3. Skippers

• In order to minimize late charges, front office clerks shall:

1. Post transactional vouchers as soon as they arrive at the front desk
2. Survey front office equipment, voucher and folio racks for non-posted charges before the front office clerk checks a guest out
3. Ask departing guests whether they have incurred any charge purchase or placed long distance telephone calls, which do not appear on their final folio

**Account Collection:**

•Guest accounts not settled at checkout by cash payment in full, regardless of the credit established, are transferred from the guest ledger to the city or the non-guest ledger for collection. At that time the guest account is transferred from the control of the front office to the hotel’s accounting division. Typically city ledger accounts include :

1. Credit card billing to authorized credit card companies
2. Direct billing to approved company and individual accounts
3. Travel agency accounts for authorized tours and groups
4. Bad check accounts resulting from departed guests whose personal checks were returned unpaid
5. Skipper accounts for guests who left the hotel without settling their accounts
6. Disputed bills accounts for guests who refused to settle their accounts because of a discrepancy
7. Guaranteed reservation accounts for billing and tracking no show guests
8. House accounts for non- guest businesses and promotional activities
9. Late charge accounts for guests who checked out before some charges were posted to their accounts
10. House accounts for non-guest business and promotional activities

• In order to receive all their city ledger accounts, hotels shall devise effective and efficient account receivables billing procedures. To do so, every property shall try to find answers to the following questions:

1. When are outstanding accounts balances payable?
2. How many days shall separate each two consecutive invoices?
3. How to contact the departed guests whose accounts is not yet paid?

• After coming with answers to the above mentioned questions, hotels, then, shall depending on the amount of money to be collected, and the geographical distance that separates the hotel from the guest billing address, opt for one of the following collection schedules:

1. Aggressive (short cycle) collection schedule
2. Lenient (long cycle) collection schedule

 **Account aging**:

• Account aging refers to the method(s) of tracking past due accounts based on the dates the charges were incurred. To illustrate, credit card payment accounts usually have ages of maximum one month. However, some other non-guest accounts (ex. late charges, disputed bills, bad checks and skippers accounts) might have ages measured in months, and even years. Below, is the terminology associated with each account age:

**•Less than 30 days accounts ⇒ Current Accounts**

**•More than 30 days accounts ⇒ Overdue Accounts**

**•Older than 90 days accounts ⇒ Delinquent Accounts**

 **Front Office Records:**

• The major two front office records that are stored at departure are guest history records (which are stored alphabetically) and guest folios (stored numerically)

 **Guest History Records:**

• Guest history records are collections of personal & financial data about guests who have stayed at the hotel. Maintaining guest history records helps the hotel better understand its clienteleand determine guest trends when they develop. Moreover, these very records might serve as a source of mailing list or to identify guest characteristics that are important to strategic marketing. In addition, they serve to develop and place advertisements that appeal to the types of clientele the hotel attempts to attract. Finally, guest history records point out the need for a new, supplementary, or enhanced services.

• Moreover, even though guest history records are stored in the front office department, they are handed to marketing department, whenever needed. In fact, marketing department might make use of guest history records to create a program to reward frequent guests with a free stay after a certain number of visits, or as an indicator to watch out for future repeat guest reservations in order to increase the hotel’s repeat business market share.

• Guests tend to remember the friendliness, convenience, and special services that distinguishes one property from another. This is called competitive advantage.

**Assignments:**

1.Draw neat formats of:

1. Encashment Certificate
2. Record of foreign currency transactions.
3. Travel Agency Voucher
4. Application for payment by Personal Cheque

2. Explain the procedures for Self-Check-Out and Express

 Check-Out.

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**CREDIT CONTROL**

In many hotels, guests are allowed to enjoy hotel services and facilities on credit. In other words, hotels will receive payment only on or after a guest’s departure. In these cases, the hotels must take some measures to ensure that guests’ accounts will be settled in full and at the agreed time. Otherwise a lot of revenue will be lost and cash flow problem will arise.

**The Meaning of Credit Control**

Credit control refers to the various measures taken by a hotel to ensure that guests settle their accounts in full at an agreed time.

Controlling credit is the responsibility of the credit manager or clerk, who is a member of the accounts department. However, the process also necessitates that specific measures be taken by various departments of a hotel at different phases of the guest cycle. A credit manager cannot fulfill his or her role unless all hotel staff cooperate and perform their own credit control duties.

**Why Credit Control is Necessary?**

Hotels, like any other businesses, need to have a healthy cash flow in order to survive and succeed, and try to achieve this by exercising control over the credit given to guests. The cash flow of a hotel is the money which moves in and out of the business.

**Objectives of Credit Control Measures:**

The main objectives of credit control measures are:

* ***To prevent walk out (skips):*** Walk outs are guests who leave a hotel without settling their accounts. They include guests who deliberately intend to leave the hotel without paying their accounts as well as those who do not realize that they have to check out with the cashier. This is because they know that their companies have agreed to settle their accounts.
* ***To reduce the problems caused by walk-out guests*** as well as the lost revenue, they cause a great deal of inconvenience to a variety of people, such as the cashier, who will not have verification of bills, the housekeeper, who will not know the room status, the management, who may decide to instigate legal proceedings, and the police, who would have to alert other properties in their search for the guest.
* ***To prevent late settlement of accounts.*** Since most accounts are settled by the guests on departure, there are few problems of late settlement for these accounts. But corporate or travel agent accounts are sent to the companies or travel agents after the guests have departed. While hotels usually expect that a cheque for settlement should be received within 30 days, in some cases they may have to wait a long time before a cheque is actually received. In some instances the agent or company may go out of business before settling the invoice, in which case the hotel does not receive any payment.

Delay in payments can cause cash flow problems for a hotel. When companies or travel agents take time to settle their accounts, the threat of a bad debt should be considered. Bad debts are incurred when a debtor (a person who owes the hotel money) does not settle the account. Therefore, the account has to be written off, resulting in lost revenue to the hotel. It is, therefore, important that the accountant carefully checks the debtor’s collection period, and any accounts which have not been paid within a certain time period must be followed up.

* ***To avoid guests’ dissatisfaction***. Guests feel embarrassed and annoyed if, on checking out, they discover that they cannot satisfactorily settle their accounts for reasons such as a credit card not being accepted by the hotel, possession of insufficient cash to pay at the account, refusal by the hotel to accept certain foreign currency, or their account balance being over the hotel’s house limit. The credit card organization refuses to approve a charge if the guest has crossed the floor limit.

Many of the possible causes for skippers, late payments and guests’ dissatisfaction when settling their accounts are the responsibility of the front office cashier and accounts department. Common causes for these problems may include:

* unclear instructions to the guest at check-in (e.g. not informing the guest which credit card or foreign currency is or is not acceptable.)
* lack of communication between departments (e.g. the credit manager not notifying the cashier when a guests’ account is over the hotel’s credit limit.)
* Breakdown in front office procedures (e.g. the front desk or reservations clerk not checking the blacklist for previous walk outs)

Various procedures are necessary to ensure that these problems are minimized, and can include the following;

* Give the guest clear instructions at check in regarding account settlement.
* Notify the guest when their account has reached the hotel’s credit limit.
* Provide a list of previous skips to all relevant departments.
* Ensure good coordination and communication between all departments on matters relating to guests’ charges.
* Ensure that guests with company accounts have been notified that the account has to be verified and signed before check out.

Non settlement and delayed payment of accounts seriously hamper the cash flow of a hotel. However, most of these problems can be avoided or minimized if credit control policies are set up by a hotel, and if all the staff concerned takes great care in following credit control procedures.

**Hotel Credit Control Policy:**

Hotel will normally allow guests to charge their hotel expenses to their room account. To ensure that final settlement is paid, hotels must be certain that the guests are able to pay their bills in full before they are given credit. The credit limit (sometimes called the house limit) refers to the maximum level to which a guest’s bill can amount before some form of settlement is required. Credit limits may vary, and often depend on the guest’s reservation status and the method of payment.

In general, hotels tend to allow credit to three types of guest (although this depends very much on a hotels’ policy):

* those who have guaranteed bookings with the hotel
* those whose accounts will be settled by their companies
* those who will settle their accounts by credit cards.

**Guests with guaranteed bookings:**

Most hotels give credit to guests who have guaranteed their bookings (either by a credit card or a deposit). These guests are allowed to enjoy the hotel facilities and services on credit, and to settle their accounts personally at check out.

On the other hand, walk in guests and guests with non-guaranteed bookings or late bookings are usually not given any credit if they settle their bills by cash. They are usually required to prepay their room rate, together with a deposit for incidental expenses, at check in. If a walk in guest pays an advance deposit or gives a credit card for imprint in order to cover accommodation and incidental expenses, then credit status may be allowed.

**Settlement by corporate accounts:**

When a company wishes to have credit facilities at a particular hotel, the hotel will have to check to ensure that the company is solvent, ie., that it is capable of paying its accounts. The hotel will need a reference from the company’s bank; if the reference is favorable, the company is approved to receive services on credit. The company will then be listed on the list of credit approved companies prepared by the accounts department. This list will be distributed to the reservations department, reception and sales office so that other sections or departments can know clearly which companies are entitled to credits at the hotel. However, a hotel often approves different credit limits for different companies. For example:

* A large local firm which regularly reserves a large number of rooms at the hotel and which has a good record of settling bills promptly will have a high credit rating. It may be allowed to have a large balance outstanding on individual accounts and the company’s total account before payment is asked for.
* A new company, a small company, or a company which has been late in settling its account may be given a low credit rating. The company will be required to settle the bill once the account has reached a certain limit.

**Accounts Settled by Credit Card:**

In most hotels, credit is also given to guests who settle their accounts by credit cards that are accepted by the hotel.

To ensure that guests and hotel personnel are aware of which credit cards can be used, signs are displayed at the front desk and relevant payment areas, showing which credit cards are acceptable. This policy can be emphasized to hotel personnel during training sessions and their induction programs, so as to ensure that guests are not embarrassed at check out. It is important that they and all hotel personnel are fully aware of which cards are accepted. Credit cards may have different floor limits agreed by the card issuing company.

**Credit Control Measures During Occupancy:**

Most transactions between a guest and a hotel take place during a guest’s occupancy. Therefore, during this phase of a guest’s stay the hotel needs to monitor the credit given to guests very closely. This is achieved by monitoring bills with *high balances.*

The cashier will monitor all the bill totals against the hotel’s set credit limit. Each day, a ***high-balance report*** will be produced which lists all the accounts whose totals are near to or in excess of the limit.

The reception, night auditor or the credit manager is usually responsible for handling accounts with high balances. The guests will be asked to settle their account to date, and a new account will be started for the rest of their stay. The credit manager will send the bill, together with an accompanying letter, to the guest’s room, asking the guest to settle the account with the reception. If the guest has any queries about their account or the credit policy, the reception or the Assistant Manager should explain them to the guest.

Sometimes, guests may fail to call at the reception desk as requested. In this case, the Assistant Manager has to contact the guest personally. They may telephone the guest in their room, or contact them when they next collect their keys from the front desk. In serious cases, where the guest cannot be reached and has made no attempt to see management or the front desk staff, their room will be double-locked. This means that the guest has to contact the assistant manager before they can be let into their room.

**Credit Control Measures By Other Sales Departments:**

Whenever a guest wants to charge a service from a sales outlet to their account, the staff in that outlet must check the credit status of the guest carefully. They must check that:

* the guest is a resident and/or has an account at the hotel
* the guest is allowed to charge services to their account.

**Remember:**

* A walk in may not be allowed to charge services to their account and consequently will have to settle the incidentals by cash or credit card at the sales outlet.
* If the guest is part of a tour, their package may allow a meal in the hotel but only up to a certain value (e.g.$10.00). Any excess on the bill must be settled at the sales outlet. Often the front desk will issue these guests with vouchers, which the guest will hand to the restaurant captain or head waiter upon entering the hotel restaurant.

**The Advantages of Using Computers:**

Computerization speeds up the transfer of guest information and is useful, for the same reason, in transferring charge information from different departments. Computers, therefore, help to ensure that guests’ accounts are always accurate and up to date.

A computerized accounting system is also useful in controlling credit. Computers can automatically monitor bill totals and produce high balance reports, thereby notifying the cashier when to seek higher approval on credit cards. The computer can also be programmed to prevent charges from being added from other departments when the guest is not allowed credit.

**Activity: Explain using a flow chart the various credit control measures at check out, and the reasons for such measures.**

**Credit Control Measures After Guest Departure:**

Corporate accounts or travel agents’ accounts are not settled at check out. Therefore, after a guests’ departure these forms of account will be transferred to the city ledger held by the accounts department, which holds an individual account for each company. At the end of each month, the accounts department will send statements of these accounts to the companies for settlement. It is expected that payment will be made within 30 days.

However, some companies may be late in setting their accounts. In such cases, follow up measures need to be taken by the accounts department to speed up the payment. An example of the procedure is as follows, however, the time frame may be reduced in many hotels.

1. After having failed to receive payment within 30 days, telephone the company as a reminder.
2. After 45 days, write officially to the company, requesting immediate payment.
3. After 60days send a strongly worded letter. Possibly threaten legal action.
4. If nothing has been received after 90 days, proceed with legal action through the hotel’s solicitor. At this point the hotel accountant may have to consider writing off the bill as a bad debt.

**Preventing Walk Outs (Skips)**

Because a walk out cost the hotel not only in lost revenue, but also in actual food and drink costs, much is done to prevent this type of occurrence. Front office staff should take great care when dealing with newly arrived guests. It may be possible for staff to identify potential walk outs by paying closer attention to the behavior of the guest, and to thus take measures to guard against them.

**On Arrival:**

When guests arrive, the bell staff should check the number of bags, and assess their weight. People who intend to walk out sometimes have very little luggage, or carry empty suitcases which they will leave behind in the room when they walk out.

**During the stay**

Extravagant purchasing patterns can be a feature of walk outs, so the cashier should monitor the guests’ account carefully. A person who intends to walk out is more likely to order expensive meals, and eat and drink form room service. The hotel credit limit can be reached quickly.

**On the day of departure:**

The hall porter may contact a departing guest to request the time to collect the luggage. By doing this, the porter will keep the bags in store until the guest has paid their account. Some hotels have a system of luggage passes. When the guest has checked out with the cashier they are issued a receipt or luggage pass. The guest will then show the receipt to the porter who, knowing that the account has been settled, will release the luggage.

**The Right of Lien:**

On some occasions, a guest may be unable to pay the account, and in this case the hotel can exercise right of lien. The right of lien means that a hotel has the legal right to detain a guest’s suitcase, and the belongings which they bring into the hotel, if they are unable to settle the account. However, the hotel is not allowed to keep the clothes which the guest is wearing.

If a guest cannot pay the account (e.g. if they have lost their travelers’ cheques) then the hotel may keep some of the luggage as security until the account is settled. This means that the guest could leave he hotel to arrange finance and then return to pay the bill and have the luggage returned.

If the guest cannot pay the bill and the luggage has to be held, the hotel does have the right to sell that luggage to recover the debt. However, there are various conditions attached to the sale:

* The luggage or belongings must be held by the hotel for a t least six weeks and then sold by public auction.
* The sale must be advertised in the press.
* After the sale any surplus of cash (after deducting the amount of the guest’s account) has to be returned to the guest.

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**Assignment**

1. **List the names of major credit cards.**
2. **Draw formats of**
	* **Guest Ledger High Balance Report**
	* **Notification of high balance**

**Recommended Reading:**

**Principles of Hotel Front Office Operations by Sue Baker**

**CASH CONTROL**

 **Internal Control**:

• In the hotel industry, the main purpose of internal control is to:

* track transaction documentation,
* verify account entries and account balances, and
* to identify vulnerabilities in the accounting system.

The keyword to internal control is **auditing**, which is the process of verifying front office accounting records for accuracy and completeness.

• The front office is responsible for a variety of cash transactions which may affect both guest and non-guest accounts. Proper cash handling procedures and controls must be established, implemented and enforced. Below are some forms that are of extreme importance to internally control, one of the most vital assets in the hotel i.e. cash:

1- **Front office cash sheet:**

• The front office cash sheet lists each cash receipt or disbursement of cash. The information contained on a front office cash sheet is used to reconcile cash on hand at the end of a cashier's shift with the documented transaction that occurred during the same shift. The most common entry on a front office cash sheet is the money collected from departing guests during check-outs.

The front office cash sheet also provides space for itemizing cash disbursements. This may include paid outs or server’s tips included in the total transaction charge by the guest.

**Activity: Draw the format of a front office cash sheet**

2- **Cash Bank, House Banks, Float, Imprest or Petty Cash**:

• Cash Bank is the amount of cash assigned to a cashier so that he/she can handle the various transactions that occur in a particular work shift.

• At the beginning of each shift, all cashiers must sign their cash banks and at the end of the shift, shall deposit all cash, checks, and other negotiable instruments in the general cashier's safe deposit box. Good control procedures require that only the person who signed for the bank have access to it during the shift. Moreover, at the end of each shift, cashiers should watch out for cash discrepancies (i.e. any difference between front office cash sheet and the actual amounts in their cash drawers). Cash discrepancies might have the form of **cash overages or shortages**.

•Lastly, cashiers might come up with the **net cash receipt**, which is:

Amount of all cash, cheques, and other negotiable instruments in cashier’s drawer – amount of the initial cash bank

Net Cash Receipts are the amount of cash, cheques and other negotiable items in the cashier’s drawer, minus the amount of the initial cash bank, plus the paid outs.

An **overage** occurs when, after the initial bank is removed, the total of the cash, cheques, negotiables and paid-outs in the cash drawer is greater than the net cash receipts.

A **shortage** occurs when the total of the contents of the drawer is less than the net cash receipts.

Neither an overage nor a shortage is typically considered “good” by front office management when evaluating the job performance of a front office cashiers.

A **due back** occurs when a cashier pays out more than what he or she receives, in other words, there is not enough cash in the drawer to restore the initial bank.

Due backs do not reflect positively or negatively on the cashier’s job performance, and may occur when net cash receipts are in or out of balance.

Each cashier begins the shift of each day with an exact amount of bank and everything in excess of the bank is ***turned into*** the accounting office at the close of the day.

**3-** Audit control**:**

• Along with the fact that hotels might employ internal control auditors, at least once in a year, (especially for hotels traded in the stock market), they use the services of an external certified public accountants responsible for approving hotel's accounts.

VI- **Settlement of Accounts**:

• One of the responsibilities of front office agents is to settle guest accounts, which means the eventual collection of payment for outstanding account balances (i.e.: bringing account balances to zero). This is usually ensured either by full cash payment, transfer to an approved credit card, special program, or direct billing account.

**THE NIGHT AUDIT**

Chapter Outline

Functions of the Night Audit

Operating Modes

The Night Audit Process

Verifying the Night Audit

Since Hotels operate 24 hours a day, seven days a week, the front office must regularly review and verify the accuracy and completeness of guest and non-guest accounting records. A front office audit process is intended to fulfill this need.

The audit is a daily review of guest account transactions recorded at the front desk against revenue center transactions. This routine helps guarantee the reliability and thoroughness of front office accounting. The front office audit also includes active non-guest accounts. A successful audit will result in balanced guest and non-guest accounts, accurate account statements, appropriate account credit monitoring, and timely reports to management. An effective audit also increases the likelihood of correct account settlement.

The front office audit is usually called the night audit because hotels generally perform it during the late evening hours. Before the implementation of automated front office systems, the most convenient time to perform the audit was during the late evening and early morning hours when front office auditors could work with minimal interruption. Also, most hotels have an ***accounting day* or *hotel day*** that defines the daily charging period of the hotel. The night audit closes the books on one hotel day and opens the books on another.

In a computer-based, fully automated front office, the audit is usually called a **system update** since computer files are electronically updated as part of the audit routine.

**Functions of the Night Audit**

The main purpose of the night audit is to verify the accuracy and completeness of guest and non-guest accounts against revenue center transaction reports. Specifically, the night audit is concerned with the following functions:

*. Verifying posted entries to guest and non-guest accounts.*

*. Balancing all front office accounts.*

*. Resolving room status discrepancies.*

*. Monitoring guest credit limitations.*

*. Producing operational and managerial reports.*

**The Role of the Night Auditor**

Performing the night audit requires attention to accounting detail, procedural controls, and guest credit restrictions. The night auditor should also be familiar with the nature of cash transactions affecting the front office accounting system. The night auditor typically tracks room revenues, occupancy percentages, and other standard operating statistics. In addition, the auditor prepares a daily summary of the cash, check, and credit card activities that occurred at the front desk. These data reflect the front office's financial performance for the day. The night auditor summarizes and reports the results of operations to front office management. The hotel's accounting division (which is primarily responsible for back office auditing) may also use night audit data in preparing

additional statistical analyses.

**Establishing an End of Day**

The night auditor generally works the night shift, from 11 P.M. to 7 A.M., compiling, balancing, and reviewing the transactions from the previous day. Each front office must decide what time will be considered the end of its accounting (or hotel) day. *An end of day is simply an arbitrary stopping point for the business day.* The front office must establish an end of day so that the audit can be considered complete through a specific, consistent point in time. Usually, the closing time of hotel revenue outlets determines the

end of day. For hotels with 24-hour room service, restaurants, the official end of day is the time when a majority of outlets close.

Typically, the business day ends when the night audit begins, which is usually well after the night shift begins. For example, if a night audit begins at 1:30 A.M., the hotel's business day would end at 1:30 A.M. The period from 1:30 A.M. until the audit is completed is referred to as *audit work time*. Normally, transactions requiring front office accounting attention that are received during audit work time are not posted until the audit is completed. These transactions are considered part of the next business day.

**Cross-Referencing**

Hotel departments generate volumes of paperwork in order to document transactions. For each revenue center transaction, the originating revenue center classifies and records the transaction type (cash, charge, or paid-out) and its monetary value.

Front office personnel post an entry to the appropriate guest or non-guest folio based on the documentation received. Typically, a voucher is used to communicate transactional information.

A front office accounting system depends on transactional documentation to establish accurate records and maintain effective operational controls. Transactional documentation identifies the nature and amount of a transaction, and is the basis for data input into a front office accounting system. This documentation normally consists of charge vouchers and other support documents.

For internal control purposes, an accounting system should provide independent supporting documentation to verify each transaction. In a non-automated or semi-automated operation, supporting documents produced in different point of sale outlets and a front office guest folio provide cross-reference information.

Although the night auditor receives information on room revenues from the room rack or folio bucket, the night auditor should also check room rate postings on guest folios against the housekeeping department's report of occupied rooms and the front desk room rack. This is often called a *bucket check.* The bucket check helps ensure that rates have been posted for all occupied rooms and helps reduce the occupancy errors caused when front desk agents do not properly complete check-in and check-out procedures.

Similarly, food and beverage postings to guest and non-guest accounts are usually based on vouchers or guest checks sent from the revenue outlet to the front desk. The restaurant's register tape or sales journal can be used as a cross-reference to prove front desk postings.

The night auditor relies on transactional documentation to prove that proper front office accounting procedures have been followed. The auditor's review of daily postings reconciles front office accounts with revenue center and departmental records.

**Account Integrity**

Sound internal control techniques help ensure the accuracy, completeness, and integrity of front office accounting procedures. An effective front office technique involves separating job functions so that no single individual is wholly responsible for accounting for all phases of a transaction. Proper internal control technique calls for different front office staff to post, verify, and collect for sales transactions at the front desk. If a front desk agent were allowed to sell a guestroom, post the charge, verify the posting, and collect cash for the room, no one else would be able to detect mistakes or possible embezzlement. In many front offices, the night auditor is the only person empowered to post room rates and room tax charges to a guest folio.

The night auditor helps ensure that the front office receives payment for goods and services rendered. The night auditor establishes guest and non-guest account integrity by cross-referencing account postings with departmental source documentation. The audit process is complete when the totals for guest, non-guest, and departmental accounts are *in balance* (that is, proven correct). As long as the audit process presents an *out-of-balance* position, the audit is considered incomplete. In essence, an out-of-balance position exists when the charges and credits posted to guest and non-guest accounts throughout the day do not match the charges and credits posted to the departmental revenue sources. An out-of-balance condition may require a thorough review of all account statements, vouchers, support documents, and departmental source documentation.

**Guest Credit Monitoring**

Supervising the credit limits of guest and non-guest accounts helps maintain the integrity of a front office accounting system. Establishing lines of credit or credit limits depends on many factors, such as credit card company floor limits, the hotel's house limit, and the guest's status or reputation as a potential credit risk. The night auditor should be familiar with these limits and how they relate to each guest and non-guest account. High account balances should be noted as part of the posting process. At the close of each business day, the night auditor should identify those guest and non-guest accounts that have reached or exceeded assigned credit limits. These accounts are typically called high balance accounts. A report listing high balance accounts, or a *high balance report*, should be prepared for appropriate front office management action.

**Audit Posting Formula**

Regardless of how the night audit is conducted, the basic account posting formula applies:

Previous Balance + Debits - Credits = Net Outstanding Balance

 PB + DR - CR = NOB

**Operating Modes**

Night audit procedures may be performed manually, mechanically, or electronically. The following sections briefly explain how each of these three operating modes is used in the night audit routine.

**Non-Automated**

In a non-automated (manual) system, four forms are typically used to complete the audit process. The system also uses transactional vouchers produced by the hotel's revenue centers and sent to the front desk for processing. The four common night audit forms are:

*. Daily and supplemental transcripts*

*. Guest and non-guest folios*

*. Front office cash sheets*

*. Audit recapitulation sheets*.

**Daily and Supplemental Transcripts**

*A daily transcript, is used in manual and semi-automated hotels as a detailed report of all guest accounts. The daily transcript indicates those guest accounts that had transactional activity on that particular day. A supplemental transcript is often used to record the day's transactional activity for non-guest accounts.* Together, the daily transcript and a supplemental transcript detail all transactions occurring on a single day.

A daily transcript is typically detailed by revenue center, transaction type, and transaction total. The daily transcript and the supplemental transcript form the basis for a consolidated report of front office accounting data against which revenue center totals can be checked. The total of charged purchases reported by the hotel's coffee shop, for example, should equal the total amount of coffee shop charge purchases posted to guest and non-guest accounts. Daily and supplemental transcripts can facilitate the night audit routine by identifying out-of-balance figures in advance of a detailed review.

Information from these two transcripts, along with data from the front office cash sheet, may be transferred to a *recapitulation sheet*. The daily account recapitulation sheet provides a one-day, comprehensive summary of front office accounting transactions.

**Semi-Automated**

One of the most important developments in the history of front office accounting has been the account posting machine. Posting machines record guest charges on folios and simultaneously perform a number of other activities that simplify the work of front desk agents and night auditors. Posting machines may be electromechanical or electronic. Mechanical posting machines are capable of producing only a limited number of departmental totals, do not retain individual folio balances, and cannot be connected to other equipment (such as food and beverage point-of-sale systems).

Electronic posting machines are really computers in many respects. They can be programmed to have more departmental totals than a mechanical machine. In addition, many electronic posting machines can store folio balances in memory and automatically advance the folio to the next blank space for printing. Some have limited abilities to connect to other equipment for posting purposes. Due to the ever decreasing cost of personal computers, mechanical posting machines are no longer manufactured.

Typically front desk agents post charges to guest and non-guest account folios based on charge vouchers received from the hotel's revenue outlets. Machine posting to folios involves locating the folio, removing it from the folio bucket, entering the account's previous balance into the posting machine, posting the charge, balancing the folio, and refiling it in the folio bucket. If the front desk agent enters an incorrect previous balance or an incorrect transaction value, the new account balance will be in error and the night audit will be out of balance. This is referred to as a pickup error. This problem does not occur with electronic posting machines, which can store previous account balances and thereby eliminate pickup errors.

When an account folio is posted in a semi-automated system, several other actions take place simultaneously:

* The voucher used to initiate the posting is imprinted with the same information posted to the account folio. This procedure provides machine-printed verification that the voucher has been posted to a valid front office account.
* Identical transaction information is printed onto an internal machine paper tape to serve as a permanent journal record and as part of the hotel's internal audit trail. (An audit trail is an organized flow of source documents detailing each event in the processing of a transaction.).
* The amount of each posted charge is added to (or subtracted from) the running departmental total for the revenue center originating the posting. Revenue center totals can assist the night auditor in determining whether the audit is in balance and complete.

Forms produced in a semi-automated audit system include a front office cash report and a night audit summary report, sometimes called a *D card*. The D card provides information that enables the night auditor to determine if the front office accounting system is in balance.

Essentially the D card shows the opening balance for the day (which is the previous day's closing balance); provides a running record of all the debits (additions) and credits (subtractions) posted through the machine; and produces a net outstanding balance. If the net outstanding balance proves the total postings entered on guest and non-guest folios equal to the totals of the vouchers posted, the front office accounting system is presumed to be in balance. If the D card ending balance does not match the total folio balance for the day, the system is assumed to be out of balance.

**Fully Automated**

Of the three operating modes, the fully automated audit process is by far the fastest and most efficient and reliable.

* Fully automated systems can be interfaced with point-of- sale equipment, call accounting systems, and other revenue center devices for quick, accurate, and automatic postings to electronic guest and non-guest account folios.
* Extensive audit functions can be performed in a fraction of the time needed in non-automated or semi-automated operating modes. Computer-based systems enable the night auditor to spend more time auditing transactions and analyzing front office activities and less time performing postings and bookkeeping entries.
* Monitoring account balances and verifying account postings require a simplified procedure that compares guest ledger and non-guest ledger audit data with the front office daily report for balancing. When these documents are out-of-balance, there is usually an internal computer problem or an unusual data handling error.
* A computerized front office accounting system retains previous balance information for guest and non-guest accounts, along with appropriate transactional details in its electronic database. Front office staff are guided through a series of steps and may need to input various data elements in response to system-generated directives or commands relative to the night audit routine.
* The computer performs numerous mathematical verifications to ensure postings are correct. For example, a range check will recognize postings of unusual size, such as a $15 charge being posted as $1,500.
* Since most front office accounting systems are capable of tracking each posting by time, shift, employee, folio number, and revenue center, they maintain a detailed audit trail of transactional activity.
* Computer systems can also organize, compile, and print records faster than can be done manually.
* In a night audit, a front office computer can process a large quantity of data, perform numerous computations, and generate accurate account totals. A system update is often used to perform many of these automated functions. System updates are run daily to establish an audited end of day and allow for report production, system file reorganization, and system maintenance. Computerized front office accounting systems also offer rapid access to information, thereby enabling front office management to more knowledgeably manage operations. Reports detailing revenue data, occupancy statistics, advance deposits, arrivals, no shows, room status, and other operational information can be generated on request, or as part of the regular system update routine.

**The Night Audit Process**

The night audit focuses on two areas: the discovery and correction of front office accounting errors and the creation of accounting and management reports. From an accounting point of view, a night audit ensures the integrity of front office accounts through a cross-referencing process. Guest and non-guest accounts are compared with source documents from revenue centers to prove individual transaction entries and account totals. Discrepancies found during a night audit must be corrected so that the front office accounting system is in balance.

The following steps are common to the sequence of a night audit:

1. Complete outstanding postings.

2. Reconcile room status discrepancies.

3. Balance all departmental accounts.

4. Verify room rates.

5. Verify no-show reservations.

6. Post room rates and taxes.

7. Prepare required reports.

8. Prepare cash receipts for deposit.

9. Clear or back up the system.

10. Distribute reports.

In a computer system update, several of these steps may be condensed or combined. The following sections examine these front office audit procedures from an operational perspective.

**Complete Outstanding Postings**

One of the primary functions of the night audit is to ensure that all transactions affecting guest and non-guest accounts are posted to appropriate folios before the end of the day. It is important to accurately post and account for all transactions on the day they occur. Charges posted with the wrong date will confuse guests and severely complicate cross-referencing. Posting errors can be problematic and can lead to discrepancies and delays at check-out. Traditionally the first step of the night audit is to complete all outstanding postings. While sound front office practice dictates that transactions be posted to the proper accounts as they are received, the night auditor must confirm that all transactions received at the front desk have been posted before starting the audit routine. In addition to completing the posting function, the night auditor verifies that all vouchers for revenue center transactions are posted. If the hotel supports point-of-sale or call accounting systems interfaced with a front office accounting system, then the previously posted totals should be verified to ensure that all outlet charges have been posted.

**Reconcile Room Status Discrepancies**

Room status discrepancies must be resolved in a timely manner since imbalances can lead to lost business and cause confusion in the front office. Errors in room status can lead to lost and uncollectible room revenues and omissions in postings. The front office must maintain current and accurate room status information to effectively determine the number and types of rooms available for sale. For example, if a guest checks out but the front desk agent. fails to properly complete the check-out procedure, the guest's room may appear occupied when it is really vacant. This error in procedure could prevent the room from being rented until the error is discovered and corrected. In manual and semi-automated hotels, before the end of the day, the night auditor reconciles discrepancies between the daily housekeeper' s report and the front office room status system (the room rack and guest folios in manual and semi-automated hotels). To minimize errors, housekeeping departments typically require staff to record the perceived status of all rooms serviced. The auditor must review front office and housekeeping department reports to reconcile and finalize the occupancy status of all rooms for a given night.

If the housekeeping report indicates that a room is vacant, but the front office believes it is occupied, the auditor should search for an active room folio and registration card. If the folio exists and has a current outstanding balance, there are several possibilities:

. A guest may have departed but forgotten to check out.

. A guest may be a skipper who left with no intention of checking out.

. A front desk agent or cashier may not have properly closed the folio at check-out.

After verifying that the guest has left the hotel, the night auditor should process the check-out and set the folio aside for front office management review and follow-up. If the folio has been settled, the front office room status system should be corrected to show that the room is vacant. The night auditor should verify the guest folio against the housekeeping and the room status reports to ensure that all three are consistent and in balance. In a computerized system, the check-out process is normally linked to a rooms management function that automatically monitors and updates the room's status. Few, if any, room status discrepancies should occur in a computerized front office system, but the night audit process is still necessary to ensure accuracy.

**Balance All Departments**

The night audit process can become quite complicated when errors are discovered. It is generally considered more efficient to balance all departments first and then look for individual posting errors within an out-of-balance department. The night auditor typically balances all revenue center departments using source documents that originated in the revenue center. The night auditor seeks to balance all front office accounts against departmental transaction information. Vouchers received at the front desk and other documents are totaled and compared with revenue center summaries. Even fully automated front office accounting systems rely upon source documents to help resolve discrepancies as they arise. When the front office accounting system is out of balance, the correctness and thoroughness of account postings must be investigated. A detailed department audit (by shift or by cashier) may be conducted and individual postings reviewed until the front office accounting error is corrected. **The process used to balance the revenue center departments is often called the trial balance.** The night auditor completes the trial balance before verifying the final system balance and creating final night audit reports. The trial balance usually uncovers any corrections or adjustments that need to be made during the night audit process. Night auditors often perform the trial balance before posting room and tax-charges. Doing so can simplify the final night audit procedure. If the trial balance was correct and the final balance is wrong, the auditor can deduce that the error must relate to the room and tax posting. It is important to note that a mathematical balance in guest and non-guest accounts against departmental totals does not necessarily mean that the proper accounts were selected for posting. Posting the correct amount to an incorrect account would still present an in-balance total. This type of error usually goes unnoticed until a guest has a problem with the validity of an entry on his or her statement.

**Verify Room Rates**

The night auditor may need to complete a room revenue and count report. This report provides a means for analyzing room revenues since it shows the rack rate (price) for each room and the actual rate at which the room was sold. If a room's rack and actual rates do not match, the night auditor should consider several factors:

. If the room is occupied by a member of a group or by a corporate-rate customer, is the discounted rate correct?

. If there is only one guest in a room and the actual rate is approximately half the rack rate, is the guest part of a shared reservation? If he or she is, did the second guest register?

. If the room is complimentary, is there appropriate supporting back-up for the rate (for example, a complimentary room authorization form)?

The proper use of room revenue and count information can form a solid basis for room revenue analysis. The night auditor may be required to produce a copy of this report for review by front office management. Some hotels today measure room revenue potential against actual room revenue. The actual room revenue posted is compared with the rack rate of the rooms occupied for the night. The comparison may be shown as a percentage. The night auditor may be responsible for calculating this number and reporting it as part of the night audit or it may be done automatically by the front office computer system.

**Verify No-Show Reservations**

The night auditor may also be responsible for clearing the reservation rack or filing and posting charges to .no-show accounts. In posting no-show charges, the night auditor must be careful to verify that the reservation was guaranteed and the guest never registered with the hotel. Sometimes duplicate reservations may be made for a guest or the guest's name maybe misspelled and another record accidentally created by the front office staff. If these are not identified by front office or reservations staff, the guest may actually arrive but appear to be a no-show under the second reservation. No-show billings must be handled with extreme care. A front desk agent who does not record cancellations properly may cause clients to be billed incorrectly. Incorrect billing may lead the credit card company to reevaluate its legal agreements and relationship with the hotel. Incorrect billing may also cause the hotel to lose the guest's future business and (if applicable) the business of the travel agency that guaranteed the reservation. All front office staff must adhere to established no-show procedures when handling reservation cancellations or modifications.

**Post Room Rates and Taxes**

Posting room rates and room taxes to all guest folios typically takes place at the end of day. Once room rates and taxes are posted, a room rate and tax report may be generated for front office management review. The ability to electronically post room rates and room taxes on demand is surely one of the most frequently cited advantages of an automated front office system over manual and semi-automated systems. Once the

night auditor has verified the room rates to be posted, the computer can auto-post numerous room rate and room tax charges to the appropriate electronic folios in a matter of minutes. With manual or semi-automated systems, the procedure required to post room rate and room tax can be very tedious and time consuming. In addition, automatic charge postings are accurate, with no chance for pickup, tax calculation, or posting errors.

**Prepare Reports**

The night auditor typically prepares reports that indicate the status of front office activities and operations. Among those prepared for management review are the **final department detail and summary reports, the daily operations report, the high balance report, a**nd other reports specific to the property. Final department detail and summary reports are produced and filed along with their source documents for accounting division review. These reports help prove that all transactions were properly posted and accounted for. The daily operations report summarizes the day's business and provides insight into revenues, receivables, operating statistics, and cash transactions related to the front office. This report is typically considered the most important outcome of the front office audit. The high balance report, identifies guests whose charges are approaching an account credit limit designated by the hotel (the house limit). In a computerized front office system, the computer may be programmed to produce many management reports on demand. For example, the high balance report may be produced at any time during the day as a continuing check on guest transactions and account balances. In addition, other reports are usually created at this time by the night audit. A report showing each group in the hotel,. the number of rooms occupied by each group, the number of guests for each group, and the revenue generated by each group is common. This report helps the hotel sales department with the group history. The same type of report may be generated for guests on package plans or guests staying in the hotel due to a special promotion or advertising program. Other reports may list guests who stay frequently and guests who are VIPs. In automated hotels, this type of marketing information can be automatically tracked, sorted, and reported.

**Deposit Cash**

The night auditor frequently prepares a cash deposit voucher as part of the night audit process. The night auditor compares the postings of cash payments and paid-outs (net cash receipts) with actual cash on hand. A copy of the front office cashier shift report may be included in the cash deposit envelope to support any overage, shortage, or due back balances. Since account and departmental balancing often involve cash transactions, accurate cash depositing may depend on an effective audit process.

**Clear or Back Up the System**

In manual and semi-automated front office operations, totals must be cleared from the system after the night audit is complete. Manual systems are cleared by simply moving the closing balance from the night audit report to the opening balance of the next day's report. In semi-automated operations, the totals in the posting machine must be brought to a zero balance. The night auditor controls this function so that the possibility of fraud is minimized. As each account is reduced to zero, a separate card (sometimes called a *Z card*) is used to verify the zero balance. A *Z card* is usually submitted with the night audit work to show that all accounts have been properly reset. In semi-automated systems, typically only the ending balance is maintained in the posting machine. Since a computer system eliminates the need for a room rack, reservation cards, and a variety of other traditional front office forms and devices, front office accounting depends on the continuous functioning of the computer system. A system back-up in the night audit routine is unique to computerized front office systems. Back-up reports must be run and various media duplicated in a timely manner so that the front office can continue to run smoothly. End-of-day reports can be developed and automatically generated by a front office computer system. Normally, at least two guest lists are printed for back-up and emergency use: one for the front desk and one for the switchboard. Computer-generated front office information should also be copied (backed up) onto magnetic tape or magnetic disk, depending on the system configuration. A system back-up should be conducted after each night audit and stored in a safe place. Many computer systems have two types of system back-up. A daily back-up simply creates a copy of front office electronic files on magnetic tape or magnetic disk. The second type of system back-up is performed once or twice a week. This back-up not only copies daily information, but eliminates account and transaction information deemed to no longer be of value. Following this procedure will reduce the overall amount of computer storage required for back-up.

**Distribute Reports**

Due to the sensitive and confidential nature of front office information, the night auditor must promptly deliver appropriate reports to authorized individuals. The distribution of night audit reports is the final step in the night audit routine, and is important to efficient front office operations. Informed managerial decisions can be made if all night audit reports are completed accurately and delivered on time.

**Verifying the Night Audit.**

Numerous types of posting, mathematical, and clerical errors can be identified through an effective night audit. Among the most typical errors are those involving previous balance pickup, transpositions, and misplaced folios.

**Pickup Errors**

In manual and semi-automated front office systems, front desk agents must access the previous balance of an account folio, post the debits and credits, and calculate a new current balance. If the previous balance is entered (picked up) incorrectly, the resulting ending balance will be incorrect. This can happen whenever a posting is made to a folio, not just during the night audit. Pickup errors are frequently the most time-consuming errors to locate and correct; it is often necessary to review all previous and ending balances on every folio in order to identify the error.

**Transposition Errors**

A transposition error is one of the easiest to identify. This type of error occurs when numbers related to a transaction are. reversed-for example, entering $523 into a posting machine rather than the actual previous balance of $532. A transposition error can usually be identified by subtracting the smaller number from the larger number and dividing by 9. If the result is a whole number (as in the above example), the problem is most likely a transposition error.

**Missing Folios**

Many times, a manual or semi-automated front office system is out of balance because a folio has been filed incorrectly or has been removed from the folio bucket. After check-out, front desk agents move accounts pertaining to check-outs to the forward section of the folio bucket. Sometimes, front desk agents forget to relocate closed folios and the folio is improperly refiled behind the room tab in the bucket. Other times, a current folio may be filed in the front part of the folio bucket when it should be returned to its proper place elsewhere in the bucket. Sometimes, questions may arise on a particular account, such as a high-balance account. In order to investigate the proper account, the front office credit manager may need to remove the folio from the bucket for review. If this happens, the front desk agent removing the folio should always leave a signed note stating that he or she has temporarily removed the folio, along with the name of the guest on the folio and the folio number. When a folio is missing, the night audit simply will not balance. In automated hotels, where folios are stored electronically, missing folios are not an issue.

**Automated System Update**

A system update in a computerized front office system accomplishes many of the same functions as a non-computerized night audit routine.

System updates are run daily to enable computer system file reorganization, system maintenance, and report production and to provide an end-of-day time frame. A front office computer system may be connected with remote communications to revenue outlet devices for automatic postings. The front office computer system may support point-of-sale interfaces, call accounting technology, in-room movies and in room vending, and the like. Its interface capability enables the system to control and monitor charges made at remote revenue outlets throughout the hotel. Management policy usually dictates the extent of system interface application. The night auditor should routinely review interface procedures to ensure the proper handling of automatically posted transactions from revenue outlets.

 In the case of guaranteed reservation no-shows, for example, postings may be programmed to flow automatically to a billing file. If a transaction needs to be independently posted, the guest's electronic folio can be displayed on a computer terminal screen for posting. Once complete, the folio can be placed back into electronic storage and printed on demand.

In some front office computer systems, the balancing of front office and department accounts is continuously monitored through an on-line accounting system. As a charge purchase is entered at a remote point-of-sale terminal, for example, the charge may be instantaneously posted to an electronic guest folio and an electronic departmental control folio. *A control folio is a computer-based internal accounting file that supports all account postings recorded by an operating department.* To balance departments, the front office computer system tests all non-control folio entries against individual control folio transactions. An imbalance is just as likely to identify a problem in automatic posting techniques as a shortcoming in front office accounting procedures. Detailed departmental reports can be generated and checked against account postings to prove account entries at any time during the day.

Front office computer systems may also generate computer-printed copies of several other files as a safeguard against system failure. Activity reports, guest lists, room status reports, account statements, and the like may be printed and held as a hedge against system failure. Since front office computer systems deal with information and not physical inventories, the cash deposit procedures relevant in a non-computerized property are still often maintained.