

7. Front Office – Accounting

Accounting section of any business or organization tracks, records, and manages the financial transactions of the business with its customers and clients. The accounting department handles the financial health and tracks the performance of any business directly. It is helpful for the management to take appropriate decisions.

When it comes to a hotel business, accounting is managing expenses and revenue. It provides a clear information to the guests thereby avoiding any unpleasant surprises to the guests. Let us know more about the accounts section of front office.

What is Front Office Accounting?

It is a systematic process in which the front office accounting staff identifies, records, measures, classifies, verifies, summarizes, interprets, organizes, and communicates financial information for a hotel business.

In the simplest form, a front office account resembles English alphabet 'Block-T'.

| Account Name | |
|--------------|----------|
| Charges | Payments |

In the domain of front office accounting, the charges are entered on the left side of the 'T'. They increase the account balance. The payments are entered on the right side of the 'T'. They decrease the account balance.

Basic Front Office Accounting Formula

$$\text{Net Outstanding Balance} = \text{Previous Balance} + \text{Debit} - \text{Credit}$$

Where **debit** increases the outstanding balance and **credit** decreases it.

Most of the contemporary hotel businesses employ automated accounting system.

Objectives of Front Office Accounting System

The objectives of accounting system are:

- To handle transactions between the guests and the hotel accurately.
- To track the transactions throughout the guest's occupancy.
- To monitor the guest's credit limit.
- To avoid possibility of any fraud.
- To organize and report the transactional information.

Types of Accounts

There are following typical accounts in hotel business dealing with customers:

- Guest Account
- Non-guest or City Account
- Management Account

Difference Between Guest and City Account

Here are some prominent differences between a guest and a city account:

| Guest Account | City Account |
|--|---|
| It is the record of financial transactions between the guests and the hotel. | It is the record of financial transactions between the non-guests and the hotel. |
| It is created at the time of reservation or registration. | It is created when a guest fails to settle the bill completely at the time of check-out. |
| It is maintained by the front office completely. | It is maintained by the Accounts section in back office. |
| It records all financial transactions of a guest from check-in till check-out. | It records financial dues not paid or partially paid by the guests at the time of check-out from the front office to the back office. |
| Guest account is compiled on a daily basis. | City account is compiled on a monthly basis. |

Management Account

Some hotels allow the managers to entertain the guests' queries or grievances, or any possibility of acquiring a business deal over a brief interaction with the guests. For example, if a guest has some problem about the hotel policy, the manager calls the guest for interaction over a coffee or a drink and tries to resolve the same. The expenses towards this interaction are then recorded on the management account.

Folios and Types

A folio is a statement of all transaction that has taken place in a single account.

The front office staff records all the transactions between the guest and the hotel on the folio. The folio is opened with zero initial balance. The balance in the folio then increases or decreases depending upon the transactions. At the time of check-out, the folio balance must return to zero on settlement of payment.

Types of Folios

There are following major types of folios:

- **Guest:** Assigned to charge for individual guests.
- **Master:** Assigned charge for group/organization.
- **Non-guest:** Assigned for non-resident guest.
- **Employee:** Assigned for hotel employee to charge against coffee shop privileges.

Postings and Types

The process of recording the entries on the folio is called '**Posting**' of transactions. There are two basic types of postings:

- **Credit:** They reduce the guest's outstanding balance. These entries include complete or partial payment, or adjustments against tokens.
- **Debit:** They increase the outstanding balance in the guest account. Debit entries include charges under restaurant, room-service, health center/spa, laundry, telephone, and transportation.

Vouchers and Types


Vouchers are detailed documentary evidences for a transaction. It transfers the transaction from its source to the front office. Vouchers are used to notify the front office about guest's purchases or availing of any service at the hotel.

The following typical vouchers are used in the hotel:

- Cash Receipt Voucher
- Commission Voucher
- Charge Voucher
- Petty Cash Voucher
- Allowance Voucher
- Miscellaneous Charge Order (MCO)
- Paid-out Voucher (VPO)
- Transfer voucher

Here are some typical vouchers.

Petty Cash Voucher

| | | |
|--|----------------------|----------------------|
|  Company Name PETTY CASH VOUCHER | | |
| No. _____ | DATE: _____ | |
| Name : | Amount | |
| Branch Name : | Dhs. | Fils |
| Details : | | |
| | | |
| | | |
| | | |
| A/C Name: | | |
| A/C Code : | | |
| | TOTAL DHS. | |
| | | |
| approved by | prepared by | received by |

Payment Voucher

| | | |
|---|----------|-----------|
| <h1 style="margin: 0;">Payment Voucher</h1> | | |
| PV No: _____ | | |
| Amount: | Date: | |
| Method of Payment | | |
| Cash: | Check#: | |
| To: | | |
| The Sum of: | | |
| Being: | | Payee: |
| Approved By: | Paid By: | Signature |

Payment Voucher Template

Ledger and Types

The ledgers are a group of accounts. There are two ledgers the front office handles:

- **Guest ledger:** A set of all guest accounts currently residing in the hotel.
- **Non-guest ledger:** A set of all unsettled, departed guest accounts.

There are two other types of ledgers used in the hotel. Both types of ledgers are used by back office accounting section as given:

- **Receivable ledger:** The back office accounting staff mails the bills and statements to the guests after their departure without settling the bills and ensures the payments for services provided.
- **Payable ledger:** The staff handles amounts of money paid in advance on behalf of the guest to the hotel for future consumption of goods and services.

Account Settlements

There are various issues regarding account settlement:

Orientation of Account Settlement

By Guest: The guest settles own account by cash/credit card/cheque.

By Organization: The organization settles guest account by transferring money to the hotel account.

Methods of Account Settlement

There are following popular methods of account settlement:

Account Settlement in Local Currency: A guest can pay in terms of a local currency where the payment is not chargeable with conversion fees.

Account Settlement in Foreign Currency: If the guest prefers to pay in foreign currency, the service of payment by the bank is chargeable for around 3% to 6% of the total payable amount.

Account Settlement Using Traveler Check: Travelers' cheques, the pre-printed cheques in the denominations of major world currencies are a good option to paying by cash.

Debit Card: Use of magnetic cards for payment against account is most common today. Paying by debit cards is as good as paying by cash as the amount of money is instantly transferred from the guest's bank account into the hotel's bank account.

In case of credit card settlement, the accounting staff mails the charge vouchers signed by guests to the credit card company; preferably within a specified time. The credit card company then settles the guest account by transferring money against it.

Credit Settlement by Organization: Many national, international, private, or public organizations send their employees or students for attending workshops, seminar, or meetings. Such organizations tie-up with the hotel for paying the bills of their employees on credit. The organizations reserve accommodations depending on the number of room nights (number of rooms × number of nights the representatives are expected to occupy). This is popularly known as account Settlement using Direct Billing.

In **direct billing account settlement**, the front office staff verifies guest folios and transfers the guest account to non-guest or city account. The hotel's back-office accounting verifies the guest folios and is responsible to collect the direct billing amount from a direct billing agency such as embassy, university, or organizations.

The accounting section also notifies the guests that if the direct billing agency fails or refuses to pay the charges then the guests need to settle the account by paying them from their pocket.

Combined Account Settlement: A guest can settle account by paying partial amount in cash and remaining amount on credit. The front office staff needs to prepare the supporting document for such kind of payment and hands it over to the back-office accounts.