Hospitality Management Accounting: Current Problems and Future Opportunities

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Hospitality Management Accounting: Current Problems and Future Opportunities

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Abstract

This paper discusses areas for future research opportunities by addressing accounting issues faced by management accountants practicing in hospitality organizations. Specifically, the article focuses on the use of the uniform system of accounts by operating properties, the usefulness of allocating support costs to operated departments, extending our understanding of operating costs and performance measurement systems and the certification of practicing accountants.

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Introduction

Financial statements produced by accountants are used to communicate financial information about hospitality enterprises to a number of interested internal and external parties. Yet accounting involves much more than simply the production of financial reports. It consists of several fields including, but not limited to, financial, auditing, tax, systems, and managerial. In this article we focus on managerial accounting. Below we outline some of the current issues in managerial accounting and offer some avenues for future research.

Throughout the 20th century considerable research has been conducted in accounting. Much of this research occurred in the area of financial accounting. The major focus on financial accounting is for good reason! Generally accepted accounting principles (GAAP), which are the foundation for the principles of accounting, relate primarily to financial accounting. To help insure that the statements are prepared according to GAAP, the firm’s general purpose financial statements are audited by independent accountants. The audit process results in an audit opinion that indicates whether the statements reflect fairly the financial position, the operating results, and the cash flows of the entity. This reporting requirement is imperative given the capital markets’ reliance on financial information in the United States.

Managerial accounting has received much less attention than financial accounting. Managerial accounting’s primary focus is information for internal decision-making and control. With the exception of the past few years, little innovation has occurred in management accounting practices since the beginning of the 20th century. Hospitality managerial accounting has received even less attention. There are many hospitality managerial accounting issues that deserve research attention. This paper presents several issues that should be explored as the new
millennium dawns. Below we discuss areas where research could help determine new 
management accounting practices and procedures. These areas include research on the behavior 
of operating costs, usefulness of performance measures, allocation of overhead costs and 
acceptance and usage of the Uniform System of Accounts. We also discuss how The Hospitality 
Financial and Technology Professionals can be helpful in advancing this research and in the 
certification of their members reflecting the growing professionalism of hospitality accountants.

**Acceptance and Usage of Uniform Systems of Accounts**

The major financial statements of hospitality enterprises reflect the financial position, the 
operating results, and the cash flow of the business. They are produced for both internal and 
external use. As such, they serve as scoreboards reflecting what has occurred in the past. 
Managers use the recently produced financial statements to help direct future operations and to 
account to owners on the financial consequences of their actions. In addition, because these 
financial statements are to provide information that is useful for predicting the amount, timing 
and uncertainty of future cash flows, investors use the historical results for making investment 
decisions.

In addition to preparing general purpose financial statements, an industry standard of 
reporting property-level information has been developed for the various segments of the 
hospitality industry. In general, these standardized reports, referred to as the uniform system of 
accounts, are as follows:

- Uniform System of Accounts for the Lodging Industry (USALI),
- Uniform System of Accounts for Restaurants (USAR),

Financial experts in the various segments of the hospitality industry developed each of these uniform systems. The uniform systems have been revised many times during the past century. The uniform systems for the lodging and food service segments were originally produced in the 1920s. Each serves as a turnkey system as it provides financial reports for a new operation. In addition, the uniformity that results from firms voluntarily adopting the uniform system allows management to compare the financial performance of operating units. Finally, each uniform system is the basis on which industry averages are produced by trade associations, creditors and consulting firms.

Given the usefulness of the various uniform systems of accounts, it follows that most businesses operating in hospitality segments would be expected to utilize the appropriate uniform system of accounts at some level of analysis. Research reveals otherwise. Kwansa and Schmidgall (1999) in a recent survey of lodging controllers determined that 76% of lodging operations were using the USALI. But only 11% of these controllers responded that they were following it “completely”, while 65% indicated “in most but not all respects”. Further, Kwansa and Schmidgall found that only 9% of the respondents’ self-rating of their knowledge of the USALI was excellent. Just over 51% indicated “good” while 29% indicated “fair” and the remaining 11% indicated “poor”. Finally, these researchers tested the knowledge of their respondents in three specific areas where the USALI had been changed with the 9th revised edition. They found that (1) only 23% understood the proper accounting for preopening expenses, (2) only 35% of the respondents understood the proper accounting for gratuities received for banquet service, while (3) 85% understand the proper accounting for china, glassware, and related types of items.
A natural avenue for future research would be to investigate what economic and social factors motivate firms to adopt or reject the uniform system of accounts. Do the firms that do not use these systems have more useful reporting systems or, would they prefer to follow the uniform system but have resource constraints that prohibit implementation? Since the financial statements are in essence the scoreboards, if hospitality businesses are to be financially successful they should use reporting systems that best reflect the financial results. The Hospitality Financial and Technology Professionals (HFTP) formerly the International Association of Hospitality Accountants views their major role as educating hospitality financial executives. Since the decision to adopt an accounting system by a business is often made by the financial executives of the business, the HFTP can be most influential in educating and encouraging their members to adopt the recommended standardized accounting systems for their businesses. The HFTP has published several articles in their publication, The Bottomline, since the release of the 9th revised edition of the USALI in 1996. Still more education will be necessary as the new millennium commences if the uniform system is to be fully utilized in the lodging industry.

In addition, studies similar to Kwansa and Schmidgall should be undertaken in the clubs and foodservice segment to determine the usage of each segment’s uniform system. The National Restaurant Association, publishers of the USAR, have stated in the preface of recent editions of their uniform system book that the USAR has proven to be the Association’s “best seller”. However, sales of the book and actual usage may not be the same. Only future research will reveal the extent of actual usage of the uniform systems and possibly what future steps are required to encourage greater usage of the uniform systems for restaurants and clubs.
Allocation of Overhead Costs by Lodging Operators

The data provided in the detailed USALI accounts are primarily used by the management of lodging businesses. If properties follow the USALI then the income statement consists of three major sections:

- A section covering operated departments which reports the revenues and the directly related expenses of profit centers, e.g. the rooms department.
- A section displaying the undistributed operating expenses including administrative and general, marketing, property operation and maintenance, and utility expenses. These expenses are not allocated to profit centers though they indirectly benefit them.
- A final section includes management fees, fixed charges, and income taxes. These expenses are not allocated to profit center either.

The principal motivation why the USALI does not ascribe most operating expenses to the operated departments is to insure uniformity in accounting across a variety of property types. Thus, the primary emphasis of the uniform system is for financial reporting purposes.

For most lodging properties undistributed operating expenses, combined with management fees, rent, property taxes, and insurance, comprise a considerable portion of the total expenses for a period. Geller and Schmidgall (1980) suggested that these “overhead” costs should be allocated for the important business decisions including pricing, staffing, expansion, refurbishing and renovation. The allocation of these overhead costs would result in financial statements reflecting profitability by profit center down to income tax expenses. Schmidgall and Malk (1992) state that knowing how each operational area is performing is vital for managing
the financial success of lodging operations. Further, they state that profit centers not fully burdened with overhead costs produce misleading results and that a seemingly profitable department may be a loser after overhead costs are added. Turkel (1993) suggested the primary income statement for lodging operations be fully allocated statements. The process of allocating overhead costs has been presented by Coltman (1998), Geller and Schmidgall (1980), Schmidgall (1996), and even in the USALI (1996).

While the discussion above has focused on the usefulness of cost allocation for understanding the full cost of operating a profit center, cost allocation may also be helpful in motivating department managers to consume costly resources more efficiently. This might occur, because once managers are held accountable for additional costly resources, they have more of an incentive to understand the nature of the resources they are consuming and how the resource’s cost arises. The USALI specifically states, “If assigning these costs is deemed to be valuable to management for decision making, efforts to determine a reasonable and fair basis for assigning costs are encouraged. This cost assignment, however, should be supplemental to the presentation of the departmental results after they have been stated in accordance with the Uniform System of Accounts for the Lodging Industry” (USALI, 1996).

Clearly, no authoritative accounting body requires the lodging industry to prepare fully allocated statements. Turkel (1993) recently criticized the preparers of the USALI for not “requiring” fully allocated income statements. Recommendations for fully allocated statements appear to be largely ignored according to Damitio and Schmidgall (1994). Seventy-eight percent of the lodging respondents to their survey indicated they did not allocate overhead costs. The major reason for not allocating overhead costs was “certain overhead costs are beyond the control of department heads”. The authors agreed that some overhead costs were likely beyond
the control of department heads but suggested the primary reason for allocating costs should be to reflect the profitability of profit centers after full allocation. They concluded that education is required in order to convey the advantages that occur from using fully allocated statements.

As the next millennium nears, the reasons and need for fully allocated income statements are as strong as in the past. Though the lodging industry is currently enjoying very profitable times, in only a few years the lean times so often realized in the past are likely to occur. Therefore, we urge the financial community within the lodging industry to experiment with the use of fully allocated income statements as a means to more clearly understand how the costs of their operations relate to revenue generating activities. Further, we believe the HFTP is the proper organization to lead the educational effort required and the financial management committee of the AH & MA responsible for revising the USALI could specifically spearhead this effort.

**Behavior of Operating Costs**

For a number of years the lodging industry has been tracking and reporting categories of operating expenses for lodging properties following the various editions of the uniform system of accounts. In the United States summary statistics of these costs are reported in various industry publications such as PKF Trends and HOST Reports. These publications provide summaries of expenses by industry segment as a percent of revenues and on a per available room basis. An operator can use these summaries to determine how a property’s costs compare to industry averages computed by segment, size, rate and location. The lodging industry is somewhat unique in providing such detailed expense information. Unfortunately, these summaries are silent
regarding how expenses arise in the industry or how managers can learn to control these expenses.

Within the past two decades, facing intense competition, industries have been critically reexamining their costing systems (Cooper and Kaplan, 1987, 1991). Cooper and Kaplan (1987) provide numerous examples that outline how an inadequate understanding of the behavior of costs can systematically distort the cost estimates of producing products and services. An inaccurate understanding of cost behavior could provide faulty guidance to managers on how to identify areas for cost reduction. Understanding how costs behave is also critical for creating accurate budgets that are needed for planning and performance measurement (Schmidgall and Ninemeier, 1987; Harris, 1995; DeFranco, 1997). For instance, the benefits of cost-volume-profit techniques rely on a reasonable understanding of cost behavior. While some attempts at broad estimates of cost behavior are provided in Rushmore, Ciraldo and Tarras (1999), we know little about how costs arise in the hotel industry. This may in part be due to the fact that the Uniform System of Accounts provides no prescription for how these expenses should be controlled.

Some research into the behavior of lodging property rooms and restaurant department expenses is reviewed in Harris (1995). Generally, the research has focused on separating the fixed and variable components of costs. Although a partitioning of costs into a fixed and variable component is very useful for prediction and sensitivity analysis, most properties have a number of factors that may be impacting costs simultaneously. Enz and Potter (1998) examined factors explaining differences in undistributed operating expenses for a number of properties in a full-service hotel chain. In addition to documenting that undistributed expenses per available room, many of which are traditionally considered as fixed expenses, increase with occupancy rate, cost of living, hotel type and number of revenue sources, Enz and Potter document that properties
realize economies of scale but diseconomies of scope. Specifically, diseconomies of scope were documented because properties catering to a number of customer segments had higher undistributed operating expenses than those properties focusing on one or few segments even after controlling for all of the other factors discussed above. As such, their findings are consistent with cost management arguments articulated by Kaplan (1983, 1984) that state that the product line and service channel variety lead to more complex operations which, in turn, results in a disproportionate increase in costs.

Clearly, there is a lot to learn about the behavior of operating expenses. Research using the cost-hierarchy framework outlined in Cooper and Kaplan (1991) would help the industry understand how many property-level costs are incurred. A critical examination of the accuracy of more advanced costing systems, such as activity-based costing, needs to be undertaken. But research cannot stop there. Because every resource is consumed to generate a revenue, as we begin to learn more about the drivers of costs, accountants will need to interact with marketing personnel to frame the analysis in a cost-benefit format. For instance, classic economic analysis would suggest that customers are willing to pay more for items that more closely match their preferences. Therefore, accountants’ cost analysis will be incomplete until we begin to understand what type of price premiums consumers are willingly to pay for the added product or service. While above we have discussed diseconomies of scope that may occur because of the impact of service complexity on costs, understanding where economies of scope are present in the industry is also important. For instance, some hospitality companies may be realizing cost savings through their recent practice of centralizing certain services across brands such as reservations, yield management, maintenance, and snowplowing and other grounds keeping activities for a group of properties in the same geographic area. At this time the cost savings
from this practice has not been documented. In summary, the industry could benefit from a more thorough understanding of drivers of operating expenses and the incremental revenues these drivers produce.

**Performance Measurement**

The choice of performance measures is one of the key challenges facing hospitality organizations today. Performance measures help organizations define and implement strategy. They are also an integral part of the current practice of value-based management with its emphasis on creating value for the shareholder. Performance measurement is also a critical component of human resource management. These measures are the basis for directing employee behavior and for providing a framework for employee learning. Moreover, the design and choice of performance measurement system is an integral part of the evaluation and compensation of managers. Given the importance of the performance measurement system to the organization, it is surprising how little we know about what measures should be used and how they should be combined to have the desired benefits.

While it is clear that no one performance measure will suffice, there is still uncertainty concerning what the attributes of good performance measures are and how many performance measures are needed for a firm to have a successful performance measurement system (Geller, 1985). One valuable attribute would be that the measure is related to the value generating process of the firm. This would suggest that a measure, whether financial or non-financial, is useful if it is related to an organization’s future cash flows or future profitability. In this sense, the measure is valuable because it is predictive. While this is an important attribute for purposes of valuation
Another important use of a performance measure is in human resource management. A measure can be useful for human resource management if it is helpful in guiding and directing employee behavior by focusing the employee on activities that management want the employee to attend to. In this situation an important attribute of a performance measure is that the measure should be easy to understand by the employee. Employees can only act on measures when they understand how their actions impact the measure. In addition, because performance measures are often used for determining compensation, a good measure should be related to employee effort and yet not easily manipulated by managers. There are a number of performance measurement issues for hospitality firms. Below we discuss the usefulness of the performance measurement system for prediction, or a relevant measure for valuation, and for human resource management.

At the reporting entity level, a measure can have value if it is useful to owners and shareholders in estimating shareholder value. While much research suggests that investors rely heavily on accounting earnings to determine value, many lodging companies seem to spend a considerable amount of resources reporting alternative measures of performance. For instance, many taxable lodging companies devote resources to a discussion of earnings before interest and taxes (EBITDA). Real estate investment trusts focus on funds from operations (FFO). The Securities and Exchange Commission’s Financial Reporting Release No. 1 outlines the Commission’s stance on alternative measures of performance (section 202.01):

If accounting income computed in conformity with generally accepted accounting is not an accurate reflection of economic performance for a company or an industry, it is not appropriate solution to have each company independently decide what the best measure of its performance should be.... Where measurement of economic performance is an industry-wide problem, representatives of the industry and the accounting profession
should present the problem and solutions to the FASB.... Until new and uniform measurement principles are developed and approved for an industry, the presentation of measures of performance other than net income should be approached with extreme caution.

Given the industry’s focus on alternatives to accounting earnings, what is the industry’s motivation for these alternative measures? We know very little about how useful these alternative performance measures are for investors. An exception is Vincent (1999), who documents that both net income and funds from operations measures have information content for REIT investors. Many taxable hospitality firms prominently report measures such as EBITDA in their annual reports. The 9th edition of the Uniform System of Accounts (Hotel Association of New York, 1996) also provides a line for EBITDA in its income statement. However, we are not aware of any research that examines the usefulness of this measure in the hospitality industry relative to traditional earnings numbers.

While the discussion above focused on the use of financial performance measures for prediction, another area of importance is the growing recognition of the use of non-financial performance measures. A number of recent studies suggest that non-financial performance measures such as customer satisfaction, internal processes, and improvement activities are related to future financial performance (Kaplan and Norton, 1992, 1996; Singleton-Green, 1993). Using cross-sectional data from 77 Swedish firms from diverse industries, Anderson et al. (1994) document that, after controlling for past return and a time trend, a firm’s return on assets (ROA) is positively associated with customer satisfaction measured six months earlier. Ittner and Larcker (1998) examine the relation between customer satisfaction and firm performance using
customer-level data obtained from two large service companies and find that customer satisfaction measures are related, albeit with some decreasing returns, to the subsequent year’s customer retention, usage and profits. Foster and Gupta (1997), using two years of data from a beverage distributor, document an inconclusive link between customers’ satisfaction and profits the distributor realizes from the customers. Anderson et al. (1997) find weaker or negative association between customer satisfaction and return on investment in Swedish service firms.

In the lodging industry Banker et al. (1999) analyzed six years of monthly data for 18 properties of a hotel chain. They document that at this chain non-financial measures related to customer satisfaction and process are related to future gross operating profit. Much more work needs to be done in the lodging industry to understand the links between financial and non-financial measures of performance. At the operating level, developing predictive non-financial measures could help in capital budgeting. For instance, if companies can link certain performance measures to future cash flows, then these measures can be used in helping to ascertain the net present value of new capital projects.

In addition to issues of the predictive ability of performance measures, there are very important questions regarding the types of measures that should be used to evaluate, monitor and compensate employees (Woods et al., 1998). Many of these issues also pertain to designing effective management company contracts and franchising agreements. While certain performance measures are useful for valuation simply because of their predictive ability, measures used in employee compensation and performance review are used primarily to motivate and guide employees to take actions in the best interest of the firm (Natarajan, 1996). Hence, performance measures may have value for contracting if they influence someone to take an action that is in the best interest of the business. Two areas receiving much interest are (1)
income measures that charge managers for the use of capital, such as residual income and Stern Stewart’s EVA®, and (2) non-financial measures of employee performance.

Residual income performance measures are rapidly being incorporated in a number of firms (see Ittner and Larcker, 1998). Residual income, and more refined measures of residual income such as EVA®, is constructed by subtracting from operating income a charge for the use of costly debt and equity capital. This type of income measure assumes that managers are only adding value when the income exceeds the cost of capital. The benefit of a residual income performance measure is that it encourages management to attend to the balance sheet and to encourage managers to only maintain assets in the business when are providing an adequate return. A recent study by Wallace (1997) documents that firms adopting residual income-based compensation plans for their managers were found to have reduced their asset base and increased key asset turnover ratios.

The important question for the hospitality industry is would the implementation of residual income measures be useful in motivating and evaluating managerial performance? Moreover, should residual income measures be the basis for the incentive fees in management contracts? Clearly, absent these types of measures managers may have incentives to over-invest owner resources to generate above line sales growth and income after undistributed operating income. However, how much control over a lodging property’s assets does a manager have? Research on residual income measures also has implications for management contracts. A number of articles have documented the variety of incentive fees that exist in management contracts. While very few of these contracts base incentive fees on residual income measures, it would be helpful to learn which type of contract results in enhanced performance.
Non-financial performance measures are also an integral part of any employee performance measurement system. Because managerial actions are likely to first result in non-financial outcomes such as quality or customer satisfaction (Hauser et al., 1994), non-financial performance measures are useful in measuring and rewarding managerial performance. Ittner et al. (1997) report that 36% of the companies in their study used non-financial measures in executive compensation. With respect to the hospitality industry, Banker et al. (1999) report that a number of hotel companies compensate property-level managers based in part on non-financial measures. While little is known about whether the implementation of non-financial performance measures in compensation contracts leads to improved performance, Banker et al. document that the implementation of an incentive plan that incorporated non-financial measures resulted to improved unit profitability.

The use of non-financial performance measures in performance review is an important area for research in the lodging industry. Moreover, this area of research should extend to the study of non-financial performance measures in the design and monitoring of franchise contracts. One of the biggest problems in franchising arrangement is monitoring the quality compliance of franchisees and understanding the financial impacts of poor performing franchisees on corporate performance. It is likely that non-financial measures can help resolve some of these problems.

**Certification: Needed Now More Than Ever**

Nearly everyone knows the three initials, “CPA”, following a person’s name stand for Certified Public Accountant. These initials mean the individual has met standards and fulfilled requirements to earn the coveted designation. Thousands of associations utilize professional
certification to recognize individuals for both their dedication to their chosen profession and their ability to perform to set standards. Most certified professionals believe that the certification process is one of the most important steps one makes in career development. Major reasons for professional certification include the following:

1. Certification demonstrates one’s commitment to their profession. Receiving certification shows one’s peers, supervisors and, in turn, the general public commitment to a chosen career and one’s ability to perform to set standards. Since university degrees can no longer represent the full measure of professional knowledge and competence in today’s evolving job market, certification sets one apart as a leader in their field.

2. Certification reflects achievement as a certified professional has displayed excellence in their field or industry and fulfilled set standards and requirements.

3. Certification establishes professional credentials, since it recognizes one’s individual accomplishments. Certification serves as an impartial, third-party endorsement to one’s knowledge and experience.

4. Certification improves career opportunities and advancement, as it gives one the advantage when being considered for a promotion or other career opportunity.

5. Certification prepares one for greater on-the-job responsibilities. Certification is often a voluntary professional commitment to an industry or field of knowledge. It is a clear indicator of your willingness to invest in your own professional development.

6. Certification offers greater professional recognition from peers and one can expect increased recognition from their peers for taking the extra step in their professional development.
7. Certification raises the professionalism of one’s company and it identifies it as being committed to employing quality professionals.

Being certified in various hospitality fields is highly visible given the following designations:

- Club managers \( \text{CCM} \)
- Hotel managers \( \text{CHA} \)
- Hospitality technology specialists \( \text{CHTP} \)
- Hospitality accountants \( \text{CHAE} \)
- Hospitality educators \( \text{CHE} \)
- Food and beverage executives \( \text{CFBE} \)
- Human resource executives \( \text{CHRE} \)
- Hospitality sales professionals \( \text{CHSP} \)

The above are only a few of the many professional designations held by hospitality professions. Therefore, since initials after one’s name suggest excellence, failure to have earned the initials may well lead one’s peers and superiors to question not only one’s knowledge but also abilities.

The Hospitality Financial and Technology Professionals (HFTP) in 1981 established the Certified Hospitality Accountant Executive (CHAE). Since that time nearly 800 hospitality accountants have earned their CHAE. Eight hundred may seem impressive but it is a small minority of the current membership of the HFTP, which exceeds 4000. Geller and Schmidgall (1984) found that 8% of HFTP members held the CHAE designation and that 26% had not earned at least a baccalaureate degree. Of the respondents who had earned at least a bachelor’s degree, 56% majored in accounting. Geller et al. (1990) updated the 1984 study and determined 17% of the respondents (members of HFTP) held the CHAE designation and 24% had not earned at least a bachelor’s degree. The most common major, held by 55% of the respondents, was in accounting.
Tse (1989) surveyed the HFTP membership and found results very similar to Geller et al. (1990). Fourteen percent held the CHAE designation while 30% had not earned at least a four year college degree. Schmidgall and Damitio (1996) updated the Tse 1989 study for the HFTP and found 16% had earned the CHAE and 27% had not graduated with at least a bachelor’s degree. Neither of Tse or Damitio and Schmidgall studies revealed the major of the college graduates.

Clearly, the percentage of HFTP members earning the CHAE has leveled off in the mid-teens. In addition, many accounting professionals in the hospitality industry do not have at least four year college degrees and many did not do major in accounting. Therefore, it is even more important that these hospitality accountants earn their CHAE to reflect their knowledge of hospitality accounting.

A major key to increasing professionalism in hospitality accounting is reflected by the CHAE designation. Therefore the HFTP should give an even greater emphasis to the benefits of certification as they communicate with their members. HFTP regional chapters should be strongly encouraged by the international association to hold seminars to assist their members in preparing for the CHAE examination. As the new decade dawns, we believe professionalism in hospitality accounting must be pushed more than even before!

Future Opportunities for Research in Management Accounting

This article has reviewed some of the critical areas of concern for management accountants. Below we emphasize some key avenues for future research in hospitality managerial accounting. Reviews of the research literature and current practice suggest that much
of our understanding of cost behavior and the current design of our cost management systems evolved out of the uniform system of accounts. While this system is important for providing uniform financial reporting for owners and other external parties, it falls short when it comes to managing the day to day operations of a hospitality company. To help managers to better understand the impact of their decisions on operating costs and revenues, and to design more effective control systems, managerial accountants in the hospitality industry need to ask what types of information we could provide to facilitate decision making and control. In this vein, properties need to begin experimenting with reporting profit center performance that provides a more realistic view of the resources consumed by operating departments by tracing or allocating undistributed operating costs to the operated departments. Given the potential problems associated with arbitrary allocations of costs, much research shall be required to help determine appropriate apportionment techniques and the costs and benefits of assigning undistributed operating costs to operated departments. Related research should examine alternative forms of responsibility centers within a property. It is not clear that the current organizational form supported by the uniform system of accounts with a separate rooms, food, beverage, telephone and other miscellaneous departments is preferred over other business unit systems (Quek, 1995) that would require alternative accounting systems.

In addition, to help motivate and reward employees, and to generate value for the owner, accountants for hospitality companies need to think seriously about explicitly implementing or expanding non-financial performance measurement systems. The hospitality industry was one of the first industries to track non-financial measures on customers. Many hospitality companies have already incorporated these measures in the compensation plans of their executives. However, little is known about how these non-financial measures are related to future financial
performance. Establishing this link would be very useful for designing contracts and for capital budgeting. A logical area for research on non-financial performance measures is in the area of capital budgeting. For instance, the analysis of the future cash flows of many new capital investments could be sharpened if the benefits of a proposed capital project could be linked first to non-financial consequences and then to financial consequences. In fact, because all activity analysis should be framed in a cost-benefit, non-financial measures can be very useful in situation where a financial consequence is not readily available. Moreover, non-financial measures could play an important role in motivating more employees and other agents, such as by including non-financial measures in management and franchise contracts. Because these types of contracts must be defensible in a court of law it is going to take a concerted effort by researchers to address the link between current non-financial performance measures and future financial performance.

These lines of research, as well as other discussed above, cannot be implemented in a vacuum. Rather, in the future managerial accountants need to work closely with members in marketing, human resources, properties, etc. to insure that the accounting system fits into the overall organizational design and culture of the property.
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