4

The Profit and Loss (P&L) Statement

Learning Objectives

1. To understand the information contained in a Consolidated Profit and Loss (P&L) Statement
    a. Revenue and profit centers
    b. Expense centers
    c. Fixed or overhead expenses
2. To understand the different profit measures contained in a Consolidated P&L and what they mean
3. To become familiar with the different formats for Consolidated P&Ls
4. To understand the information contained in Department P&Ls
5. To understand the four main expense categories of Department P&Ls
6. To understand how the financial information on a Consolidated P&L is used as a management tool and to measure financial performance

Chapter Outline

Hotel Consolidated P&L Statements

- Revenue and Profit Centers
- Fixed Expenses or Investment Factors
- Hotel Profit Levels

Formats for a Consolidated P&L

- Title
- Horizontal Headings
- Vertical Headings
- Examples of Consolidated P&L Formats

This is the most important chapter in the book for a hospitality manager. The Profit and Loss (P&L) Statement is the financial statement that hospitality managers need to understand completely. It is the financial statement that they will use to measure the financial performance of their departments and to monitor and improve the daily operations of their departments. The P&L provides a way for managers to measure the financial performance of their departments by comparing actual monthly operations to the budget established for the month, to last year's monthly performance, to the previous month's performance, and to the most recent forecast.

The P&L is the financial report that involves hotel managers in all four steps of the Financial Management Cycle. First, the managers operate the departments that provide the products and services to customers that produce the numbers—revenues, expenses, and profits. Second, the managers ensure that the numbers that are submitted to accounting are accurate and consistent so that the financial reports prepared by accounting are accurate and useful. Third, hotel managers must be able to analyze and discuss the numbers to determine how well hotel operations are meeting established goals and budgets. This includes providing critiques and details of operations that can assist them and accounting managers in determining the best or next course of action to take regarding operating their departments. Fourth, hotel managers are the ones responsible for applying the numbers back to operations by implementing changes for improvement or corrections to solve problems.

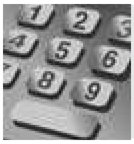
The P&L also provides information that is connected to both the Balance Sheet (Assets and Liabilities [or A&L] Statement) and the Statement of Cash Flow. A hospitality manager who understands these relationships will be able to use these financial statements more effectively in operating their departments.

Hotel Consolidated P&L Statements

The Consolidated P&L for a hotel is a summary P&L that lists the department totals for revenues, profits, and expenses. Only the department totals for revenues, profits, and expenses are included in the Consolidated P&L. It is a true summary report showing the important financial results for each department in the hotel.

Revenue and Profit Centers

Both of these names refer to operating departments that produce revenues (sales) and profits. The terms *revenue* and *sales* are interchangeable. The terms **revenue centers** and **profit centers** are also interchangeable. Specifically, these departments provide products and services to the customers who pay for these services. Employees record the sales on cash registers or point-of-sale (POS) computer systems. That is why these operating departments are referred to as revenue centers. They receive and record revenues from customers. Examples of revenue centers in full-service hotels are the rooms department, restaurants, lounges, catering and banquets, the gift shop, and telephone departments. Resorts include these same revenue centers, as well as golf, spas, tennis, and recreation revenue centers. Exhibit 4.1 presents an example of revenue centers in a Consolidated P&L.



E X H I B I T 4 . 1

SAMPLE CONSOLIDATED P&L FOR A HOTEL

Flagstaff Hotel
Consolidated P&L Statement
June 30, 2004

	Current Period*			Year to Date*		
	Actual	Budget	Last Year	Actual	Budget	Last Year
Room Revenues	$100	$102	$ 95	$ 675	$640	$625
Telephone Revenues	6	6	5	34	35	34
Gift Shop Revenues	8	7	7	41	41	39
Miscellaneous Revenues	3	3	3	18	18	18
Restaurant Revenues	15	15	14	73	71	70
Beverage Revenues	6	6	6	29	30	29
Banquet Revenues	23	20	18	150	140	135
Subtotal F&B Revenues	$ 44	$ 41	$ 38	$ 252	$241	$234
Total Hotel Revenues	$161	$159	$148	$1,020	$975	$950

* Revenues are reported in thousands of dollars or (000).

Exhibit 4.1 shows the revenue for the current period and year-to-date (YTD) for the revenue centers of the hotel. This part of the Consolidated P&L only reports revenues. A quick review of the financial results for the current period shows that the hotel's actual sales of $161,000 were $2,000 over budget and $13,000 over last year. It is good financial performance when actual results exceed the budget and last year. The hotel's actual performance YTD is also exceeding the budget and last year's performance—actual revenue of $1,020,000 to a budget of $975,000 and last year's performance of $950,000.

The next section of the Consolidated P&L shows profits for the revenue center after all department operating expenses are paid. The direct costs of operating each revenue center are charged to each department, and the detail is shown by line account in the Department P&L. The total expenses are subtracted from the total revenues to produce total department profit for each revenue center. The consolidated P&L contains two entries for each revenue center: total revenues and total profits. That is why the two terms are interchangeable—revenue center or profit center. Both terms refer to operating departments that produce revenues and profits. Exhibit 4.2 presents an example of how department profits are shown on a Hotel Consolidated P&L.

E X H I B I T 4 . 2

SAMPLE PROFIT CENTERS OF A CONSOLIDATED P&L

Flagstaff Hotel
Consolidated P&L Statement
June 30, 2004

	Current Period*			Year to Date*		
	Actual	Budget	Last Year	Actual	Budget	Last Year
Room Revenues	$100	$102	$ 95	$ 675	$640	$625
Telephone Revenues	6	6	5	34	35	34
Gift Shop Revenues	8	7	7	41	41	39
Miscellaneous Revenues	3	3	3	18	18	18
Restaurant Revenues	15	15	14	73	71	70
Beverage Revenues	6	6	6	29	30	29
Banquet Revenues	23	20	18	150	140	135
Subtotal F&B Revenues	$ 44	$ 41	$ 38	$ 252	$241	$234
Total Hotel Revenues	$161	$159	$148	$1,020	$975	$950

	Current Period*			Year to Date*		
	Actual	Budget	Last Year	Actual	Budget	Last Year
Rooms Profit	$66	$67	$63	$439	$416	$406
Telephone Profit	1	1	1	6	6	6
Gift Shop Profit	2	2	2	11	10	10
Miscellaneous Profit	3	3	3	18	18	18
Restaurant Profit	2	2	2	12	12	11
Beverage Profit	2	2	2	12	12	12
Banquet Profit	8	7	6	53	49	47
Subtotal F&B Profits	$12	$11	$10	$ 77	$ 73	$ 70
Total Hotel Department Profit	$84	$84	$79	$551	$523	$510

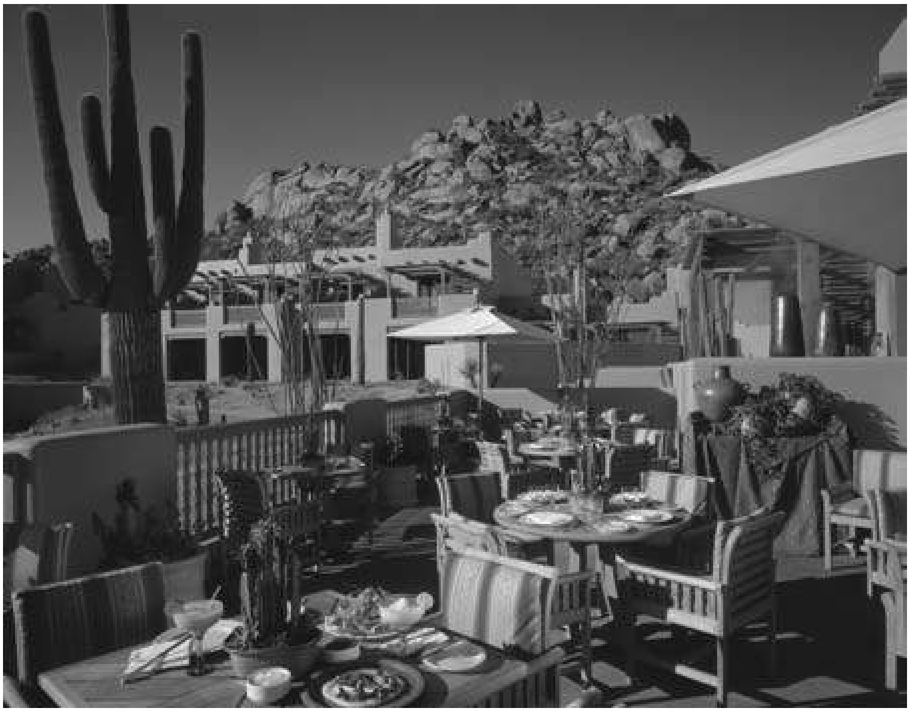
* Numbers reported are in thousands of dollars (000).

This section of the Consolidated P&L shows the department profit for each revenue center. The profit numbers include all revenues less expenses for each department for the current period and YTD. A review of Total Hotel Department Profits of $84,000 for the period show that they are equal to the budget of $84,000 and $5,000 over last year's $79,000. The $551,000 of YTD profits are $28,000 over budget and $41,000 over last year. Again, these are good YTD financial results because the hotel's actual profits are over the budget and over last year's performance.

Expense Centers

Expense centers are the staff departments in a hotel. They can also be called **deductions from income**. They do not generate any revenues or profits. Their budget only includes expenses, which is why they are called expense centers. They only have total department expenses on the Consolidated P&L. These total expenses include wage expenses, benefit expenses, and other operating expenses for each staff department. Exhibit 4.3 is an example of the expense centers on a Consolidated P&L.

Three of these expense centers are based on allocations. They are Accidents, Training, and National Sales and Marketing. Allocation means that a set dollar amount or percentage of sales is charged to these departments each month. The money goes into a corporate account and is used to cover company or national programs. In the Accident Department, the company has one insurance policy that covers all the hotels. The alloca-



Crescent Moon Restaurant Patio
Four Seasons Resort, Scottsdale, at Troon North

This Four Seasons resort offers 210 casita rooms in two-story buildings located on 40 acres of the High Sonoran Arizona desert. This picture features the patio seating of the Crescent Moon Restaurant. Guests can dine inside or outside at this restaurant, enjoy outside lunch or dinner at the Saguara Blossom outdoor pool restaurant, dine at the Acacia specialty restaurant, or enjoy 24-hour casita dining. Note in the background the two-story casita buildings. This resort recently expanded the indoor meeting space to over 20,000 square feet. It also features 14 treatment rooms in the 12,000-square-foot spa.

From this information, list the name and number of revenue centers for the Four Seasons Scottsdale and draw an organization chart of how these departments report to an Executive Committee member and the General Manager. Since Four Seasons Hotels and Resorts are in the luxury market segment, do you think the rooms sales mix will be higher or lower than a typical resort? What do you think the different profit center percentages are in the high, shoulder, and low seasons? Do you think the Food & Beverage revenues rely on a higher average check or higher customer counts to maximize revenues?

tion charges each hotel the appropriate amount to cover employee and guest accident premiums and expenses for the specific hotel. The training allocation pays for a corporate training department that provides training to all the hotels. The National Sales and

EXHIBIT 4.3

SAMPLE EXPENSE CENTERS OF A CONSOLIDATED P&L

Flagstaff Hotel
Consolidated P&L Statement
June 30, 2004

	Current Period*			Year to Date*		
	Actual	Budget	Last Year	Actual	Budget	Last Year
General and Administrative	$12	$12	$11	$ 71	$ 72	$ 71
Heat, Light, and Power	7	7	6	43	42	40
Repairs and Maintenance	15	15	15	92	90	88
Accident Expense	4	4	4	25	25	24
Training Expense	2	2	2	12	12	12
Sales and Marketing	15	14	13	90	85	83
National Sales and Marketing	6	6	6	70	68	66
Total Expense Centers	$61	$60	$57	$403	$394	$384

* Numbers are in thousands of dollars (000).

Marketing allocation collects money from each hotel that is used at the corporate level to pay for national advertising and promotional campaigns and regional or national sales officers.

The rest of the expense centers include the wage, benefit, and operating expenses for the department. There is an Executive Committee Member in charge of each department who is responsible for managing all department expenses and ensuring that they are productive and within the established budget.

Fixed Expenses or Investment Factors

The last expense category on the Consolidated P&L is the **Fixed Expenses**, also known as **Investment Factors** or Overhead Expenses. These expenses are constant or fixed and are generally not affected by hotel volume levels or activity. They are the result of contracts, bank loans, fees, some taxes, and insurance policies. Often these costs are determined for the year and spread over each month in equal amounts. Examples of fixed accounts are lease expenses, bank loans, insurance costs, licenses and fees, and depreciation. Hotel management has little ability to control these expenses. They are already set and have to be paid for out of hotel revenues regardless of whether the hotel is having a good month or year or a bad month or year.

These fixed amounts can be large and difficult to pay unless the hotel is operating at high levels. During slow months or low seasons, these amounts remain the same or fixed and must still be paid. These are the difficult times for a hotel. However, when a hotel is busy and revenues and profits are increasing, these expenses do not go up but remain constant or fixed. So when the hotel is doing well, fixed expenses are more easily paid and should result in higher profits. When the hotel is not doing well, there is less money available to pay the fixed expenses, and this eats into profits.

Hotel Profit Levels

There are several levels of profits in a hotel, each measuring a specific aspect of hotel performance. Each Executive Committee Member is responsible for specific departments and performance. The profit terms can change from company to company, but the concepts and formulas are the same. We will discuss Department Profits, Total Department Profits, House Profit, Net House Profit, and Profit before and after Taxes.

Department Profits

The formula for **department profits** is revenues minus expenses equals profit. The Consolidated P&L records the revenues and profits for each operating department. The Resident Manager or Director of Rooms Operations is responsible for Rooms Department Profit and the Director of Food and Beverage is responsible for Restaurant, Beverage, and Banquet department profit. The Executive Committee Member, along with her or his management and hourly employees, can control or direct all the revenues and expenses for the departments.

Total Department Profits

The formula for **total department profits** is adding up and totaling the department profits for each operating department in the hotel. The Total Department Profits amount identifies the total profit dollars produced by the profit centers and, in our example, measures the management performance of the Resident Manager and Director of Food and Beverage in maximizing the profits for their departments. Total Department Profit is the dollar amount available to pay all other hotel expenses.

House Profit

Also called Gross Operating Profit, the formula for **House Profit** is Total Department Profit minus Total Expense Center Costs. The Expense Center costs represent the other costs incurred by the staff departments to support the operating departments in providing products and services to the guests. A specific Executive Committee Member is also responsible for each expense center and is expected to control costs and achieve productivity and budget standards for his or her department. Refer to Figure 3.1 in Chapter 3, the "Full-Service Hotel Organization Chart," and the departments listed in the expense centers section of this chapter to see the departments that make up expense centers and to identify the Executive Committee Member responsible for controlling that department expense.

House Profit is an important profit measure because it identifies hotel management's ability to maximize revenues, control expenses, and maximize profits. It is the hotel profit measure used to calculate management bonuses because the managers have the ability to affect and control procedures and activities to maximize profits and to minimize and control expenses. House Profit also identifies the profit or dollar amount hotel operations turns over to the General Manager to pay hotel fixed costs.

Net House Profit

Also called Adjusted Gross Operating Profit, the formula for **Net House Profit** is House Profit minus Fixed Expenses. This is the dollar amount or profit that remains after the hotel has recognized all revenues and paid all operating and fixed expenses. It is the profit amount the hotel has produced that is available to pay all applicable taxes and to be divided among the hotel owner and hotel managers based on management contracts. Ownership accounting is important because it identifies which fixed expenses, reserve accounts, and taxes will be paid by either the owner, the management company, or any other investors or business entity that has an interest in the hotel. Exhibit 4.4 is a Consolidated P&L through Net House Profit.

Profits before and after Taxes

Taxes are the last expense the hotel must pay. The term **Profit before Taxes** refers to the final dollar profit that has recognized and accounted for all hotel revenues and expenses. This includes the payment of several operational or sales taxes. The final expense is income taxes (or corporate taxes). Profit before Taxes is the profit amount that is subject to corporate taxes. The corporate tax is calculated and paid, and the remaining amount is **Profit after Taxes**. This is the final profit amount that is divided among any owners and management companies involved in operating the hotel.

Formats for a Consolidated P&L

Exhibits 4.1 through 4.4 show the Consolidated P&L format used by Marriott Hotels. The P&L is arranged to present the financial information in a logical and clear format. We will look at the organization and format for Consolidated P&Ls in this section. Three separate sections make up the format of a P&L.

Title

This is a basic but important part of any financial statement. The **title** gives the reader specific information about the financial statement so that the reader will know what the numbers represent. The title includes the following information:

1. Name of the hotel or restaurant
2. Type of financial statement

EXHIBIT 4.4

CONSOLIDATED P&L

Flagstaff Marriott
Consolidated P&L Statement
June 30, 2004

	Current Period*			Year to Date*		
	Actual	Budget	Last Year	Actual	Budget	Last Year
Room Revenues	$100	$102	$ 95	$ 675	$640	$625
Telephone Revenues	6	6	5	34	35	34
Gift Shop Revenues	8	7	7	41	41	39
Miscellaneous Revenues	3	3	3	18	18	18
Restaurant Revenues	15	15	14	73	71	70
Beverage Revenues	6	6	6	29	30	29
Banquet Revenues	23	20	18	150	140	135
Subtotal F&B Revenues	$ 44	$ 41	$ 38	$ 252	$241	$234
Total Hotel Revenues	$161	$159	$148	$1,020	$975	$950
Rooms Profit	$ 66	$ 67	$ 63	$ 439	$416	$406
Telephone Profit	1	1	1	6	6	6
Gift Shop Profit	2	2	2	11	10	10
Miscellaneous Profit	3	3	3	18	18	18
Restaurant Profit	2	2	2	12	12	11
Beverage Profit	2	2	2	12	12	12
Banquet Profit	8	7	6	53	49	47
Subtotal F&B Profits	$ 12	$ 11	$ 10	$ 77	$ 73	$ 70
Total Hotel Department Profit	$ 84	$ 84	$ 79	$ 551	$523	$510
General and Administrative	$ 12	$ 12	$ 11	$ 71	$ 72	$ 71
Heat, Light, and Power	7	7	6	43	42	40
Repairs and Maintenance	10	10	10	62	60	58
Accident Expense	4	4	4	25	25	24
Training Expense	2	2	2	12	12	12
Sales and Marketing	15	14	13	90	85	83
National Sales and Marketing	3	3	3	19	19	18
Total Expense Centers	$ 53	$ 52	$ 49	$ 322	$315	$306
House Profit	$ 31	$ 32	$ 30	$ 229	$208	$204
Fixed Expenses	20	20	20	120	120	120
Net House Profit	$ 11	$ 12	$ 10	$ 109	$ 88	$ 84

* Numbers are in thousands of dollars (000).

3. Time period covered for the financial statement

The financial information in Exhibits 4.1 through 4.4 is for the Flagstaff Hotel and is the Consolidated P&L Statement for June 30, 2004.

Horizontal Headings

The headings across the top of a P&L statement tell how the financial information is arranged and organized according to time periods and type of financial information reported. The **horizontal headings** include the following information:

1. The financial information for the current accounting period or current month
2. The YTD financial information, which cumulates the financial information for all accounting periods or months as of the current date
3. The actual numbers, budget numbers, and last year's numbers for the current accounting period or current month
4. The YTD actual numbers, YTD budget numbers, and YTD last year's numbers
5. Columns for the dollars and percentages for each of the previous categories

These horizontal headings arrange and organize the financial information so that it can be read logically and clearly.

Vertical Headings

The headings down the side of a P&L statement provide the names of the accounts or departments that the numbers will be organized into and reported for. The **vertical headings** include the following:

1. Revenue centers for operating department revenues. This includes the revenues for individual departments such as rooms and food and beverage and the total of the revenues for all the departments in the hotel.
2. Profit centers for operating department profits. This includes the profits for individual departments such as rooms and food and beverage and the total of the profits for all the departments in the hotel.
3. Expense centers for the staff or supporting departments. This includes the total operating expenses for each department that is an expense center and the grand total of all the expense centers in the hotel.
4. Fixed expenses, which identify those expenses that do not change from month to month and are constant. This department can also be called investment factors or overhead costs.
5. Profit levels including Total Department Profits, House Profits, Net House Profits, and Profits before and after Taxes.

Examples of Consolidated P&L Formats

Following are examples of other formats that can be used for Consolidated P&L Statements. We will start with the format that we have used in this chapter.

HOTEL P&L EXAMPLE 1

THE FLAGSTAFF MARRIOTT HOTEL

	Current Period or Month Actual Budget Last Year in Dollars and as a Percentage	YTD Period or Month Actual Budget Last Year in Dollars and as a Percentage
Revenue		
Rooms		
Telephone		
Gift Shop		
Restaurant		
Lounge		
Banquet		
Total Food and Beverage		
Other Income		
Total Revenues		
Department Profits		
Rooms		
Telephone		
Gift Shop		
Restaurant		
Lounge		
Banquet		
Total Food and Beverage		
Other Income		
Total Department Profits		
Expense Centers		
General and Administrative		
Credit Card Discounts/Commissions		
Heat, Light, and Power		
Training		
Accidents		
Sales		
Local Advertising		
National Advertising		
National Sales		
Total Expense Centers		
House Profit		
Investment Factors or Fixed Expenses		
Profit Contribution or Net Operating Profit		
Taxes		
Profit after Tax		

In the second and third formats, notice how the horizontal headings are moved around but essentially show the same financial information for the same time periods. The vertical headings are moved to the center of the P&L and have some of the same terminology and some that is new. They all measure specific areas and types of financial results.

HOTEL P&L EXAMPLE 2

THE FLAGSTAFF OMNI HOTEL

Current Period		Year to Date
Actual Budget Last Year		Actual Budget Last Year
in Dollars and as a Percentage		in Dollars and as a Percentage
	Total Hotel Rooms	
	Total Rooms Occupied	
	Revenue Occupancy Percentage	
	Average Room Rate	
	REVPAR	
	Gross Operating Revenues	
	Room Revenue	
	Food Revenue	
	Beverage Revenue	
	Total Food and Beverage Revenue	
	Telephone Revenue	
	Other Revenue	
	Total Gross Operating Revenues	
	Department Profits	
	Rooms Department	
	Food Department	
	Beverage Department	
	Total Food and Beverage Department Profit	
	Telephone Department	
	Other Departments	
	Total Department Profits	
	Administrative and General	
	Management Fee	
	Advertising and Sales	
	Repairs and Maintenance	
	Heat, Light, and Power	
	Total Deductions from Income	
	Gross Operating Profit	
	Fixed Expenses	
	Earnings before Interest, Taxes, Depreciation, and Amortization	

HOTEL P&L EXAMPLE 3

THE FLAGSTAFF FOUR SEASONS HOTEL

Month						Year to Date					
Act	Act	Budget	Budget	Last Yr	Last Yr	Act	Act	Budget	Budget	Last Yr	Last Yr
$	%	$	%	$	%	$	%	$	%	$	%

Occupancy Percentage
Total Average Rate
REVPAR

Total Rooms Revenue
Total Food Revenue
Total Beverage Revenue
Total F&B Revenue
Total Telephone Revenue
Total Other Departments Revenue
GROSS OPERATING REVENUE

Rooms Net Profit
F&B Net Profit
Telephone Net Profit
Total Other Departments Profit
TOTAL DEPARTMENT PROFITS

Administrative and General Department Total
Accidents Department Total
Repairs and Maintenance Department Total
Heat, Light, and Power Department Total
TOTAL DEDUCTIONS

Gross Operating Profit
Taxes and Insurance
PROFIT BEFORE FEES

Management Fees
Other Management Fees
Four Seasons Incentive Fees
NET OPERATING PROFIT

Rent Expense
Depreciation
Amortization
Other Expense
Gain/Loss Expense
Income Tax
NET PROFIT

Notice how the horizontal headings in the following format for a restaurant P&L are arranged to show different time periods for financial results. This format focuses on the current monthly trend of financial results by comparing the current month to the two previous months. These results also show some guest count information in addition to dollar information in the YTD section. The vertical headings are again found in the middle of the P&L to separate the activity for the current month from the YTD activity. This is just a different way to present the financial information.

RESTAURANT P&L EXAMPLE 1

THE FLAGSTAFF RESTAURANT

Monthly Activity					Year to Date Activity			
2 Months Ago	1 Month Ago	Current Month	Actual Last Year		Current Year (Dollars)	Per Guest	Last Year (Dollars)	Per Guest
				Total Guests				
				Lunch				
				Dinner				
				Take-Out				
				Lunch Sales				
				Dinner Sales				
				Take-Out Sales				
				Total Food Sales				
				Total Beverage Sales				
				Total Add-on Sales				
				Total Sales				
				Food Cost				
				Nonfood Cost				
				Beverage Cost				
				Other Cost				
				Total Cost of Sales				
				Hourly Wage Cost				
				Management Cost				
				Benefit Cost				
				Total Wage Compensation				
				Variable Expenses				
				Manageable Expenses				
				Utilities Expenses				
				Other Expenses				
				Total Manageable Expenses				
				Facilities Expense				
				Marketing Expense				
				Total Restaurant Earnings/Net Income				

These four examples show how the financial results of a business can be presented in different formats in a P&L so that readers can learn about the financial performance of a company or business. A company determines how it wants to organize the financial information in the P&L so that the information can be used both as a management tool and to measure financial performance. *A hospitality manager should be comfortable reading and using a Consolidated P&L in any format.*

Department P&L Statements

Consolidated P&L statements provide summary information of the financial operations of a hotel, including department totals for revenues, profits, and expenses. The **Department P&L Statements** provide detailed operating information for individual departments. They are the P&Ls that hotel managers use to measure the financial performance of revenues, profits, and expenses and as a management tool to help them operate their departments more efficiently and productively. In addition to the revenues recorded on a department P&L, there are four major **expense categories**: cost of sales, wages, benefits, and controllable or direct operating expenses. We will discuss in more detail revenue center department P&Ls and expense center department P&Ls.

Revenue Centers

The department P&Ls for revenue centers are composed of revenues, cost of sales, wages, benefits, direct operating expenses, and department profit. Exhibit 4.5 shows the format for a department P&L. Notice that the title and horizontal headings are the same; only the vertical headings or accounts are different. Within each major expense category are many individual line accounts that collect all the operating information for that particular expense. For example, the individual accounts under the wage category include management wages, hourly wages, and other wages. Individual line accounts in the direct operating expenses category can include the china, glass, silver, and linen accounts, as well as other accounts. During the month, each expense incurred is classified or coded to the appropriate expense account in each department. At the end of the month, the accounting office collects, records, and reports all the operating information by account. This is the financial information included in each account total on the department P&L.

Expense Centers

The department P&Ls for expense centers are composed of wages, benefits, direct operating expenses, and total department expenses. Because they do not sell any product or service, there are no revenues or cost of sales. All other expense categories are the same as in the revenue centers. Their main responsibility is to manage their expenses efficiently and stay within established budgets or forecasts.

Fixed Expenses

There is a separate department for recording the fixed expenses of a hotel. There is only one expense category, and that is fixed expenses. There are no revenues, cost of sales, wages, or benefits categories. Only single-line accounts that provide the total expenses

E X H I B I T 4 . 5

DEPARTMENT P&L FORMAT

Flagstaff Hotel
Restaurant Department P&L
June 30, 2004

	Current Period			Year to Date		
	Actual	Budget	Last Year	Actual	Budget	Last Year
Revenues						
Breakfast						
Lunch						
Dinner						
Total Revenues						
Food Cost						
Hourly Wages						
Management Wages						
Other Wages						
Total Wage Cost						
Medical Costs						
Insurance Premiums						
Vacation Pay						
Unemployment Insurance						
Total Benefit Cost						
China						
Glass						
Silver						
Linen						
Paper Supplies						
Menu Expense						
Sales and Promotion						
General Expense						
Total Direct Operating Expenses						
Total Restaurant Department Profit						

such as loan payments, lease payments, insurance costs, depreciation expenses, and licenses and fees are contained in the fixed expense department.

The individual department P&Ls are directly connected to the organization charts that were presented in Chapter 3. There will be a specific manager in charge of each individual department P&L. For example, in a large convention hotel or resort, the Food and Beverage Director will have final responsibility for many restaurant and bar outlets as well as the banquets and meetings departments. But she or he will have a department head who is directly responsible for all the restaurants. Examples of these department heads and their direct P&L responsibilities are shown here:

Director of Catering	Banquet and Meetings department P&L
Restaurant Manager	Restaurant department P&L
Room Service Manager	Room Service department P&L
Beverage Manager	Lounge or Beverage department P&L
Executive Chef	Kitchen P&L

The Food and Beverage Director will meet with each one of these department heads to review their operations and assist in any way. But it is up to the department head and her or his team of shift managers to operate their respective departments efficiently, meeting established goals, budgets, and forecasts.

One final type of department to mention is **allocation departments**. These types of departments have their monthly costs allocated back to the departments that use their services. Two examples of allocation departments are the Laundry Department that is allocated back to the laundry accounts in the rooms, restaurant, and banquet departments and the Employee Cafeteria, which is allocated back to the employee meal accounts in the benefit category for each department that has employees.

Summary

P&L Statements measure the financial performance of a business. Hotels use two main types of P&Ls: the Consolidated P&L and the Department P&L. The Consolidated P&L is mainly used to report and measure financial performance, whereas the Department P&L is used as a management tool to provide managers with more detailed financial information, which they can use to operate their departments.

The Consolidated P&L is a hotel summary P&L that is arranged by revenue centers, profit centers, and expense centers. It also has several levels of profit measures. Total Department Profit measures the profitability of all the operating departments. House Profit measures the profits remaining after expense center costs are deducted from Total Department Profits. It reflects management's ability to successfully maximize revenues and minimize expenses. Net House Profit is the profit remaining after fixed expenses are paid from House Profit and is a good measure of the financial profitability of a hotel.

The Department P&L provides specific financial information on the operations of each department. The six main categories on a Department P&L are revenues, cost of sales, wage expense, benefit expense, direct operating expense, and department profit. There are specific line accounts within each of these main categories that further break down and identify expenses so that they can be measured and effectively controlled. Hospitality managers spend a lot of time using their department P&Ls to help them operate their departments.

The P&Ls are organized in a format that enables the reader to easily read and identify financial information contained in the P&L. The format can be different, but the financial information contained in a P&L will generally be the same. There are three main areas in the format of a P&L. First, the title identifies the report, time period, and company name. Second, horizontal headings include current month or period financial information organized into actual, budget, and last year's and year to date financial information also organized into actual, budget, and last year. Third, vertical headings identify the department revenue, expense, and profit accounts and are organized with revenues at the top and profits at the bottom.

Hospitality Manager Takeaways

1. **The Consolidated P&L is a summary P&L for a hotel that reports total revenues, profits, or expenses for the departments in a hotel.**
2. **The Department P&L provides detailed operating information in specific line accounts for each individual department in a hotel. A specific hotel manager is directly responsible for the financial performance of each hotel department.**
3. **The total revenues and profits on each Department P&L are the same as the total revenues, profits, or expenses reported on the Consolidated P&L. In accounting terms, these numbers tie into or balance to each other on both P&Ls.**
4. **The Department P&L contains one revenue, four main expense categories, and total department profit or expense. Each of these main categories contains individual line accounts that collect all the specific revenues or expenses for the month that are classified or coded to each specific account.**
5. **Both Consolidated and Department P&Ls can have different formats that organize and report the financial results. Each company chooses the format that will work best for that particular company.**

Key Terms

Allocations—The portion of an expense charged to a specific hotel for services received in connection with expenses incurred at the corporate level on behalf of all the hotels or restaurants in the company.

Deductions from Income—The same as expense centers. The direct expenses of staff departments that support the operating departments of a hotel by providing products and services to customers.

Department P&L Statements—A P&L statement for one specific department that includes all revenue and expenses in detail that are involved in operating that department.

Department Profits—The dollar amounts remaining in revenue centers/profit centers after the department recognizes all revenues and pays all expenses associated with operating that department for a specific time period.

Expense Categories—The four major categories for collecting and reporting department expenses: cost of sales, wages, benefits, and direct operating expenses.

Expense Center—A staff department that supports the hotel operating departments: sales and marketing, engineering, human resources, and accounting. It has no revenues or cost of sales, just wages, benefits, and direct operating expenses.

Fixed Expenses—Direct expenses of a hotel that are constant and do not change with different volume levels of hotel business.

Horizontal Headings—The headings across the top of a P&L that identify the type, time, and amount of financial information.

House Profit—The profit amount that includes all revenues and expenses controlled by hotel management and measures management's ability to operate the hotel profitably. It is calculated by subtracting total expense center costs from total department profits.

Investment Factors—Another term for hotel fixed expenses that are constant regardless of the volume levels of the hotel and include expenses like bank loans, lease payments, certificates and licenses, depreciation, and insurance expenses.

Net House Profit—Identifies the amount of profit remaining after all hotel revenues are recorded and all direct hotel expenses are paid. It is equal to house profit minus fixed expenses.

Profit after Taxes—The amount of profit remaining after corporate taxes are paid that is divided among owners, management companies, and any other entities having an interest in the hotel.

Profit before Taxes—The same as Net House Profit. The profit amount remaining after all hotel operating expenses have been paid.

Profit Center—An operating department that produces revenues that result in a profit by providing products and services to customers. It includes revenues, expenses, and profits and is a term that is interchangeable with *revenue center*.

Revenue Center—An operating product that produces revenues by providing products and services directly to customers. It includes revenues, expenses, and profits.

Titles—The top portion of a financial statement that tells the name of the company, the type of report, and the time period covered.

Total Department Profits—The summation of the individual department profits of a hotel. Provides the amount of profit resulting from the operating departments of a hotel.

Vertical Headings—The names of the departments, categories, and accounts on the side or center of a P&L that identify the type and amount of financial information recorded on the P&L.

Review Questions

1. Define and name the four main classifications of accounting information contained in a Consolidated P&L.
2. Define and name the five main revenue and expense categories contained in a Department P&L.
3. Name and describe four different profit levels and what they measure.
4. Name the three sections of the format for a P&L.
5. Draw the format for a Consolidated P&L using the three sections in question 4.
6. Draw the format for a Department P&L using the three sections in question 4.
7. Refer to the hotel organization chart in Chapter 3. Identify at least one hotel department that each Executive Committee Member is responsible for.
8. Why do you think this is the most important chapter in this book?