

G L O S S A R Y

The technical words and terms used in this text are briefly explained in this glossary. For more expanded definitions and discussions, the reader should refer to the text itself.

Accelerated depreciation: a method of depreciation that gives greater amounts of depreciation expenses in the earlier years of an asset's life. See also *Depreciation*.

Account: a record in which the current status (or balance) of each type of asset, liability, owners' equity, sales revenue, and expense is kept.

Accounting cycle: a recurring series of steps that occurs during each accounting period.

Accounting equation: assets = liabilities + owners' equity. Sometimes referred to as the *balance sheet equation*.

Accounting period: the time period covered by the financial statements.

Accounts payable: amounts due to suppliers (creditors); a debt or a liability.

Accounts receivable: amounts due from customers or guests (debtors); an asset.

Accounts receivable aging: preparing a schedule classifying receivables in terms of time left unpaid.

Accounts receivable average collection period: the number of days the average receivable remains unpaid.

Accounts receivable turnover: annual sales revenue divided by average accounts receivable.

Accrual basis: as opposed to cash accounting, a method of accounting whereby transactions are recorded as they occur and not when cash is exchanged; the matching of sales revenue and expenses on periodic income statements regardless of when cash is received or disbursed.

Accrued expenses: expenses that have been incurred but not paid at balance sheet date; a liability.

Accumulated depreciation: the total depreciation that has been shown as an expense on the income statements since the related assets were purchased. See also *Depreciation*.

Acid test ratio: see *Quick ratio*.

Activity ratios: see *Turnover ratios*.

Adjusted trial balance: a trial balance of accounts after period-end adjustments have been made. See also *Trial balance*.

Adjustments: entries made at the end of each accounting period in journals and then in the accounts so that the accounts have correct balances under the accrual accounting method.

Allowance for uncollectable accounts: an amount established to cover the likelihood that not all accounts receivable outstanding at balance sheet date will be collected.

Amortization: a method of writing down the cost of certain intangible assets (such as franchises or goodwill) in the same way that depreciation is used to write down the cost of tangible fixed, or long-term assets.

Asset: a property or resource owned by a business.

Asset shrinkage: the decline in value of assets during bankruptcy.

Audit: a verification of accounting procedures and records.

Audit tape: a continuous chronological record of each transaction recorded in a cash or sales register. The tape can usually only be removed at the end of each day by authorized accounting office personnel.

Audit trail: an internal control method that allows each business transaction to be traced back from its initial source document through each step of the recording process.

Average checks: sales revenue divided by number of people served during a certain period of time. Sometimes called average cover or average spending.

Average cover: see *Average checks*.

Average rate of return (ARR) method: a method of measuring the value of a long-term investment. The equation is net annual saving divided by average investment.

Average room rate: room revenue divided by number of rooms used during a certain period of time.

Average spending: see *Average checks*.

Bad debt: an account receivable considered or known to be uncollectible.

Bad debts allowance: see *Allowance for uncollectible accounts*.

Balance: the amount of an account at a point in time.

Balance sheet: a statement showing that assets = liabilities + owners' equity. A balance sheet shows the financial position of a company at a point in time.

Bank float: the difference between the bank balance shown on a company's records and the actual balance of cash in the bank.

Bank reconciliation: a monthly or periodic procedure to ensure that the company's bank account balance amount agrees with the bank's statement figure.

Beverage cost: see *Cost of sales*.

Bond: a form of financing by a company. A bond is a debt or long-term liability to be repaid with interest over time.

Book value: initial cost of an asset or assets less related accumulated depreciation.

Breakeven equation or formula: an equation useful in making business decisions concerning sales levels and fixed and variable costs.

Breakeven point: the level of sales at which a company will make neither an income nor a loss.

Bridge financing: see *Interim financing*.

Budget: a business plan, usually expressed in monetary terms. See also *Incremental budgeting* and *Zero-base budgeting*.

Budget cycle: the sequence of events covered by a budget period from initial budget preparation through comparison of actual results with budgeted estimates.

Business entity: the concept that a business, and business transactions, should be kept separate from personal transactions of the business's owners.

Capital asset: see *Fixed asset*.

Capital budget: a budget concerning long-term, or fixed, assets.

Capital rationing: occurs when only a limited amount of funds is available for long-term investments during a budget period, and even profitable investment proposals are deferred to future budget periods.

Capital stock: the amount of money raised by a company from issuing shares.

Capital surplus: the amount of money raised by a company in excess of any par or stated value of the shares.

Cash basis: a method of accounting (as opposed to accrual accounting) whereby transactions are only recorded at the time cash is received or disbursed.

Cash budget: a budget concerned with cash inflows and cash outflows.

Cash disbursements: money paid by cash or by check for the purchase of goods or services.

Cash flow from operating activities margin ratio: cash flow from operating activities divided by sales revenue.

Cash flow from operating activities to current liabilities ratio: cash flow from operating activities divided by average current liabilities.

Cash flow from operating activities to interest ratio: cash flow from operating activities plus interest divided by interest.

Cash flow from operating activities to total liabilities ratio: cash flow from operating activities divided by average total liabilities.

Cash management: cash conservation and the management of other working capital accounts to maximize effectiveness of the company's use of cash.

Cash receipts: cash or checks received in payment for sale of merchandise or services.

Chattel mortgage: a long-term debt or mortgage secured by the chattels (e.g., equipment and furniture) of the business. See also *Mortgage*.

City ledger: in a hotel, the accounts receivable for guests who have charge privileges in food and beverage areas, and the accounts of room occupants who have left and have charged their accounts.

Collateral: assets pledged by a company as security for a loan.

Collusion: two or more people working together for fraudulent purposes.

Common-size vertical statement: one financial statement presented with all data in both dollar and percentage figures.

Common stock: a form of stock or shares issued by a company to raise money.

Comparative horizontal statements: financial statements for two or more periods presented so that the change in each account balance from one period to the next is shown in both dollar and percentage terms.

Concentration banking: a method of accelerating the flow of funds from individual units in a chain operation to the company's head office bank account.

- Conservatism principle:** a principle of accounting to help ensure sales revenue and assets are not overstated or expenses and liabilities understated.
- Consistency principle:** a principle of accounting to help ensure that financial statements are comparable from one period to the next.
- Contra-account:** accounts with a balance that is shown on the “wrong” side of the balance sheet as a reduction of a related account, for example, allowance for bad debts shown as a reduction of accounts receivable.
- Contribution margin:** the difference between sales revenue minus cost of sales.
- Contribution statement:** a form of income statement presentation whereby variable costs are deducted from sales revenue to show contribution margin, and then fixed costs are deducted from contribution margin to arrive at net income.
- Contributory income:** see *Departmental income*.
- Controllable cost or expense:** a cost that is controllable by an individual (such as a department head) in a company.
- Cost:** the price paid to purchase an asset or to pay for the purchase of goods or services. Also frequently used as a synonym for expense.
- Cost center:** a department (such as maintenance) in a hospitality operation that generates no sales revenue.
- Cost management:** an awareness of the various types of cost and the effect that the relevant ones have on individual business decisions.
- Cost of sales:** generally referred to simply as food cost or beverage cost. Calculated by adding beginning of the accounting period inventory to purchases during the period, and deducting end of the period inventory, adjusting where necessary for items such as employee meals and/or interdepartmental transfers.
- Cost variance:** the difference between budgeted cost and actual cost.
- Cost-volume-profit analysis:** an analysis of fixed and variable costs in relation to sales as an aid in decision making. See also *Breakeven equation*.
- Credit:** 1. an entry on the right-hand side of an account; 2. to extend credit or to allow a person to consume goods or services and pay at a later date.
- Credit invoice:** an invoice prepared by a supplier showing, for example, that goods delivered to a company have been returned as unacceptable.
- Credit memorandum:** a dummy credit invoice made out by a company prior to receipt of a credit invoice from the supplier.
- Creditor:** a person, or company, to whom a firm owes money.
- Current assets:** cash or other assets likely to be turned into cash within a year.
- Current dollars:** historic (previous periods’) dollars converted to terms of today’s dollars for purposes of comparison.
- Current liabilities:** debts that are due to be paid within one year.
- Current liquidity ratios:** ratios that indicate a company’s ability to meet its short-term debts.
- Current ratio:** the ratio of current assets to current liabilities.
- Day rate:** the rate charged by a hotel or motel for the use of a room for a portion of the day and not overnight.
- Debenture:** a form of financing by a company. A debenture is a debt or long-term liability to be repaid with interest over time.
- Debit:** an entry in the left-hand side of an account.
- Debt:** money owed to a person or organization; an obligation.
- Debt to equity ratio:** the amount of debt (liabilities) expressed as a ratio of stockholders’ equity.
- Declining balance depreciation:** a method of accelerated depreciation whereby higher amounts of depreciation expense are recorded in the earlier years of an asset’s life.
- Deferred expense:** an expense that has been incurred that is going to be written off over a period of time greater than one year.
- Deficit:** a deficit situation exists when losses accumulated since a business began exceed accumulated net incomes.
- Demand, elasticity of:** see *Elasticity of demand*.
- Department budget:** an operating budget prepared for an individual department in a multidepartment organization.
- Departmental income:** the income of an individual operating department after direct expenses have been deducted from sales revenue; sometimes referred to as *contributory income*.
- Dependent variable:** an item that is affected by what happens to another item. For example, labor cost is affected by level of sales; labor is the dependent variable.
- Depreciation:** a method of allocating the cost of a fixed asset over the anticipated life of the asset, showing a

- portion of the cost, for each accounting period of the life, as an expense on the income statement.
- Derived demand:** the business that one department has as a result of business in another department, for example, cocktail lounge revenue resulting from customers having drinks while eating in the dining room.
- Direct cost or expense:** an expense that can be distributed directly to an operating department and generally controllable by that department.
- Discount:** a reduction of the amount paid on a purchase because of prompt payment.
- Discounted cash flow:** a method of converting future inflows and/or outflows of cash to terms of today's dollars.
- Discount grid:** a table that shows the additional hotel room occupancy required to compensate when rack rates are discounted at various percentages.
- Discretionary cost or expense:** one that could be incurred but does not have to be at the present time.
- Dividend:** an amount paid out of net income, after tax, to stockholders as a return on their investment in the company.
- Double-declining balance depreciation:** A method of accelerated depreciation that allocates a larger amount of depreciation expense in the earlier years of the life of an asset.
- Double-entry accounting:** an accounting procedure that requires equal debit and credit entries in the accounts for every business transaction. This ensures the accounting equation is kept in balance.
- Double-occupancy rate:** the percentage of rooms occupied in a hotel or motel that are occupied by more than one person.
- Drawings:** see *Withdrawals*.
- Earnings per share:** net income for the year divided by average shares outstanding during the year.
- Elasticity of demand:** the effect that a change in price has on demand for a product or service.
- Expenditure:** payment in cash for purchase of a good or service, or incurrence of a liability for purchase of a good or service.
- Expense:** goods or services consumed or used in operating a business.
- Feasibility study:** a study prepared prior to starting a new business or expanding an existing one, to indicate whether the proposal seems feasible and will provide an adequate return on the investment.
- First-in, first-out (FIFO) inventory costing:** a method of inventory costing where the earliest items purchased are assumed to be the first ones used.
- Financial accounting:** information provided to users outside of a business that are in some way concerned or affected by the performance of the business.
- Financial position:** the financial condition of a business as indicated by its balance sheet.
- Financial statements:** a balance sheet and an income statement and, where appropriate, a statement of retained earnings, a statement of source and use of working capital, and other supporting information.
- Financing:** raising money by debt (liability) or equity (owners).
- Financing, interim:** see *Interim financing*.
- Fiscal year:** an annual accounting period that is twelve months.
- Fixed asset:** asset of a long-term or capital nature that will be depreciated over a number of years.
- Fixed asset turnover:** annual sales revenue divided by average fixed assets.
- Fixed budget:** one that is not flexible or variable; one that is not adjusted to compensate for various possible levels of sales or revenue.
- Fixed charges:** indirect costs such as property taxes, insurance, interest, and depreciation. Sometimes referred to as indirect costs. See also *Direct cost* and *Undistributed operating cost*.
- Fixed cost or expense:** a cost that does not change, in the short run, with changes in volume of business.
- Flexible budget:** a budget based on more than one level of possible sales revenue.
- Float (or bank):** an amount of money advanced to an employee for change-making purposes. See also *Bank float*.
- Folio:** the account of a guest staying in a hotel or motel. Usually kept in the front office until paid.
- Food cost:** see *Cost of sales*.
- Franchise cost:** the cost to purchase the right to use the name and/or services of another organization.
- Full cost accounting:** The manager of a sales revenue operation knows the minimum sales revenue to be generated to cover all costs, even though control of some costs is not their responsibility.
- Full disclosure principle:** a principle of accounting whereby financial statements provide all the relevant information that a reader of them should have.

General ledger: a book of accounts holding those accounts from which the financial statements are prepared.

Generally accepted accounting principles (GAAP): Accounting principles developed over time and accepted as accounting rules, methods, and procedures used as a uniform basis to be used as a guide in the preparation of financial statements.

Goal congruence: the alignment of organizational goals with the personal and group goals of subordinates and superiors.

Going concern: an accounting assumption that a business entity is to remain in business indefinitely.

Goodwill: the value of an established business, based on its name or reputation, above the value of its tangible assets.

Graph: a method of illustrating accounting information in pictorial form.

Gross profit: sales revenue less cost of sales.

Gross return on assets: income before interest and income tax divided by total average assets for the period.

Guest account: see *Folio*.

Historic cost: the cost of something at the same time it was paid for, not adjusted to current cost.

Hospitality managerial accounting: specialized internal information to a business's managers responsible for directing and controlling operations within the hospitality industry.

House accounts: the accounts of guests staying in a hotel. See also *City ledger*.

Hubbart formula: a method of calculating required average room rate so that at a particular level of occupancy all costs will be covered and a desired return on investment achieved.

Income statement: a financial statement showing money earned from sales of goods and services, less expenses incurred to earn that income, for a period of time; sometimes referred to as the *profit and loss statement*.

Income summary: An account that receives the sums of all sales revenue and expense accounts when they are closed to a zero balance. The final balance of the income summary account will represent net income or net loss which is transferred to the capital account(s) or the retained earnings account.

Incremental budgeting: a method of budgeting whereby an increase, generally on a percentage ba-

sis, is automatically applied to last year's budget. See also *Zero-base budgeting*.

Independent variable: an item that is not affected by what happens to another item. For example, guest room sales are not affected by the number of maids on duty; room sales are the independent variable.

Indirect cost or expense: a cost not allocated directly to an operating department. See also *Direct cost*, *Fixed charges*, and *Undistributed operating cost*.

Integrated banking: see *Concentration banking*.

Integrated pricing: a method of reviewing prices in two or more departments to ensure products are not priced independently of each other.

Interim financing: financing that is required for a new project from the time that construction is started until the project is completed. Sometimes referred to as *bridge financing*.

Internal audit: an appraisal of the operating and accounting controls of an establishment to ensure that internal control and procedures are being followed and assets adequately safeguarded.

Internal control: a system of procedures and forms established in a business to safeguard its assets and help ensure the accuracy of the information provided by its accounting system.

Internal rate of return (IRR): a method of measuring the value of a long-term investment using discounted cash flow. See also *Discounted cash flow*.

Inventory: merchandise (generally food and beverages) purchased but not yet used to generate sales revenue. See also *Physical inventory*.

Inventory turnover: cost of sales for a period of time divided by the average inventory for that period.

Investment: money loaned to a company either by way of a debt (liability) or equity (stock).

Invoice: document prepared to record the sale of goods or services and giving details about the transaction and total value of the sale.

Invoice approval form: a form or stamp showing that all necessary control steps have been carried out to ensure that an invoice is correct and can be paid.

Joint cost or expense: one that is shared by more than one department.

Journal: accounting record summarizing business transactions as they occur prior to posting the information to the individual accounts.

Journal entry: the recording of a business transaction in a journal.

Kiting: writing a check on one bank, failing to record it as a disbursement, and depositing it in another bank for fraudulent purposes.

Lapping: a method of fraud that can occur when an employee has complete control of accounts receivable and payments received on these accounts.

Last-in, first-out (LIFO) inventory costing: a method of inventory costing where the most recently purchased items are assumed to be the first ones used.

Lease: the renting of a building and/or equipment, usually in lieu of a purchase.

Leasehold improvements: architectural and interior design changes made to rented (leased) premises.

Ledger: a book of accounts in which business transactions are entered after having been recorded in journals.

Leverage: a method of financing whereby more debt (liabilities) is used than equity (owners' investment) to finance an operation.

Liability: a debt; an obligation.

Liquidation: the closing of a business by selling its assets and paying off the liabilities.

Liquidity: the financial strength of a business in terms of its ability to pay off its short-term or current liabilities without difficulty; a healthy working capital position; a good current ratio.

Loan: an amount borrowed; a debt; a liability.

Loan principal: the repayment of the initial amount borrowed on a loan is a principal payment as distinct from interest that is in addition to principal payments.

Lockboxes: a special bank service to speed up the collection of accounts receivable.

Long-range cash flow: a cash flow budget for periods of time generally in excess of one year.

Long-term asset: see *Fixed asset*.

Long-term budget: a budget for a period of time generally in excess of one year.

Long-term liability: a debt or obligation to be paid off more than one year hence.

Long-term solvency ratio: ratio that indicates a company's ability to meet its long-term liabilities as they fall due; an example is the debt to equity ratio.

Loss: an excess of expenses over sales revenue.

Management by objectives (MBO): a concept based on the assumption that employees can be committed to their work, allowing for maximum involvement and participation in setting subgoals, personal goals, and performance standards for judging employees' work.

Manager's daily report: a report prepared daily, generally by the accounting office, to indicate each day's key business operating statistics, such as room occupancy percentage and average food check by meal period.

Marginal cost or expense: see *Variable cost or expense*.

Marketable securities: investments in notes or similar securities that can be readily converted into cash.

Market segment: a type of customer (such as business travelers) with whom an operation does business.

Market segment profit analysis (MSPA): a method of analyzing both sales and expenses (including indirect expenses) by market segment to determine the most profitable segments.

Market value: the current value of an asset, sometimes known as replacement value.

Markup: the difference between the cost of an item and its selling price.

Master budget: the overall budget for an establishment embracing all other budgets.

Matching principle: a principle of accrual accounting relating expenses to the sales revenue earned during a period regardless of when the cash was received or the expenses paid.

Materiality concept: the significance of an item in relation to the total business. If an item is not significant, other accounting principles may be ignored for reasons of practicality.

Memorandum invoice: a temporary, dummy invoice prepared in the absence of a proper invoice.

Menu engineering: a method of menu analysis that combines each menu item's contribution margin (gross profit) with its popularity, or the demand for that item by the restaurant's customers.

Mission statement: a statement detailing the purpose of a business.

Modified T account: This account is a basic skeleton of a general ledger account used in an academic setting for beginning accounting students. The T account format focuses directly on the debit or credit posting of the account by showing how a posting affects the balance of the account. The modified

- T account identifies the account by name and the name of the account identifies the account as normally being either a debit or credit balanced account.
- Mortgage:** a long-term debt or liability generally secured by using long-term assets (such as land and/or building) as collateral. See also *Chattel mortgage*.
- Moving average:** a method of forecasting that takes an average of the previous n periods of business and uses that average as the basis for the next period's forecast.
- Mutual exclusivity:** a mutually exclusive alternative requires that if only one of a number of proposals (such as a long-term investment) is accepted, all others will be rejected.
- Net assets:** see *Net worth*.
- Net book value:** see *Book value*.
- Net income:** total sales revenue from sales and other income less total expenses.
- Net income to revenue ratio:** net income divided by sales revenue and multiplied by 100.
- Net present value (NPV):** a method of measuring the value of a long-term investment using discounted cash flow. See also *Discounted cash flow*.
- Net return on assets:** net income after income taxes divided by total average assets for the period.
- Net worth:** total assets less total liabilities; it equals owners' equity.
- Noncontrollable costs or expenses:** costs or expenses that are generally fixed in nature and a manager cannot influence the amount spent in the short run, such as rent or interest.
- Notes payable:** a liability documented by a written promise to pay at a specified time.
- Note receivable:** an asset documented by a written promise from the borrower to pay it.
- Objectivity principle:** a principle of accounting requiring all business transactions to be documented in writing.
- Obligation:** see *Debt*.
- Occupancy percentage:** the ratio of rooms occupied to rooms available expressed in percentage terms.
- Operating budget:** a budget concerned with sales revenue and/or expenses.
- Operating cost:** see *Expense*.
- Operating department:** a department concerned with a particular segment of a business such as rooms or food.
- Operating leverage:** the relationship between fixed and variable expenses; high fixed expenses compared to variable expenses indicate high operating leverage.
- Operating ratios:** key business ratios (such as restaurant seat turnover and guest room occupancy percentage) that are often calculated daily.
- Opportunity cost:** the cost of not doing something. If a company does not invest surplus cash, the interest income not gained by this is the opportunity cost.
- Organization chart:** a document showing levels of responsibility and authority, and lines of communication for an establishment.
- Outstanding check:** a check issued in payment of a debt that has not yet been cashed by the payee or that has been cashed in but has not yet been deducted from the payer's bank account.
- Ownership equity:** total assets minus total liabilities; net worth.
- Partnership:** an unincorporated business owned by two or more persons.
- Payback period method:** the time it takes to recover an investment; initial investment divided by net annual cash saving.
- Periodic inventory:** a method of inventory control where the quantity of each item in stock is not known until an actual physical count of storeroom quantities is taken, usually at each month-end.
- Periodicity:** an accounting principle that states that the operating results of a business should be monitored by preparing financial statements for periods of time.
- Perpetual inventory:** a method of inventory control where a continuous record is maintained for each item in stock on a perpetual inventory card of items received and items issued and a running balance of the quantity of each item in stock is constantly updated.
- Perpetual inventory card:** a form that is used to record the movement of all items in and out of storage rooms. One card is used for each item.
- Petty cash:** a fund of money controlled by an individual from which minor purchases of goods or services can be paid.
- Physical inventory:** the actual counting, recording, and pricing of assets.
- Posting:** recording of business transactions in accounts, or from journals to accounts.

- Preferred stock or shares:** a form of stock or share issued by a company to raise money, generally ranking before common stock with reference to dividends.
- Prepaid expense:** an expense paid for and shown as an asset until it is matched up with related sales revenue and shown as an expense. See *Matching principle*.
- Present value:** see *Discounted cash flow*.
- Price earnings ratio:** for a company whose shares are publicly traded, market price per share divided by earnings per share.
- Price variance:** difference between budgeted price and actual price.
- Product differentiation:** a method of presenting a product or service in a different way from competitors, for example, by creating a unique ambience or providing superior service.
- Profit:** see *Net income*.
- Profit and loss statement:** see *Income statement*.
- Profit center:** a department (such as the rooms department) that generates profit or net income while controlling costs.
- Profit margin:** see *Net income to revenue ratio*.
- Profit to sales ratio:** see *Net income to revenue ratio*.
- Profitability:** the net income of a company related to the value of its assets, to the owners' equity, and to sales revenue.
- Profitability ratios:** ratios that measure profitability such as return on assets, return on investment, and net income to sales revenue.
- Pro forma:** forecast or tentative figures; a budgeted income statement is a pro forma statement.
- Proprietorship:** an unincorporated business owned by a single individual.
- Prorate:** to allocate an amount on a logical basis; for example, to allocate overall company rent expenses to the operating departments on a basis of square footage occupied by each department.
- Purchase order:** a form prepared by the purchasing department authorizing a supplier to deliver needed goods and services to the establishment.
- Purchase requisition:** a form, usually prepared by a department head, requesting the purchasing department to buy required goods or services. See also *Requisition*.
- Purchasing department:** the department responsible for ensuring that supplies, equipment, and services are available to the establishment as required.
- Quantity variance:** the difference between budgeted and actual quantity.
- Quick assets:** cash and readily convertible securities and/or receivables.
- Quick ratio:** the ratio of quick assets to current liabilities.
- Rack rate:** the normal maximum rate charged for a hotel guest room.
- Ratio:** the relationship of one item to another. For example, \$2,000 of current assets to \$1,000 of current liabilities would be a 2:1 ratio.
- Ratio analysis:** the use of various ratios to monitor the ongoing progress of a business.
- Receiving report:** a form, completed daily, listing all goods received for the day.
- Regression analysis:** a statistical method that can be used in such areas as breaking down semifixed or semivariable expenses into their fixed and variable components and that can also be used in forecasting the sales revenue in one department (such as food) based on the sales revenue in another (such as rooms).
- Relevant cost or expense:** one that is important and to be considered in a particular business decision.
- Replacement value:** see *Market value*.
- Requisition:** a form, completed by an authorized person, requesting that needed items be issued from the storeroom.
- Residual value:** This is the estimated value of a physical long-lived asset at the end of its estimated useful life for depreciation purposes. The term also applies to the estimated value of a leased asset at the end of its leased life.
- Resort hotel:** generally one that has extensive recreational facilities.
- Responsibility accounting:** a method of accounting in which department heads or managers are made responsible for the departmental profit achieved.
- Retained earnings:** accumulated net income less accumulated losses less any dividends paid since the business began.
- Return on assets:** see *Gross return on assets*.
- Return on investment:** net income after income tax divided by average owners' equity for the period.
- Revenue:** money earned from sales and/or income received in exchange for goods or services.

Revenue center: Revenue is generated but has little or no direct costs associated with its operation, such as the leasing of floor space within a major operation to a separate entity provides revenue to the major operation, all of which is profit.

Revenue management: a flexible pricing policy for rooms that adjusts quickly to supply and demand, with the objective of selling all rooms at all times.

Revenue mix: the ratio of sales revenue among various departments in a multidepartment establishment. See also *Sales mix*.

Revenue per available room (REVPAR): calculated by dividing total room revenue by available rooms or by multiplying occupancy percentage by average room rate.

Risk: Possible deviation of actual cash flows from forecasted cash flows.

Room rate: the price charged for a guest room in a hotel or motel.

Room rate ratio: a hotel's actual average room rate for a period of time expressed as a percentage of the potential or maximum average room rate.

Sales: see *Revenue*.

Sales check: a document used in food and/or beverage operations to record the sales of goods.

Sales mix: the ratio of what people select from various menu items offered. See also *Revenue mix*.

Scrap value: see *Trade-in value*.

Seat turnover: number of seats available in a food and/or beverage operation divided into the number of seats used or occupied during a particular period.

Semifixed or semivariable cost or expense: one that has both fixed and variable elements and is neither entirely fixed nor entirely variable in relation to sales.

Share: see *Common stock* and *Preferred stock*.

Short-term budget: a budget prepared for a period of time generally less than a year.

Skip: a person who has consumed goods or services in an establishment and has left without paying the bill.

Social goals: goals that are generally nonfinancial in nature but that may have an effect, positive or negative, on financial results.

Solvency: the ability of a company to meet its debts as they become due.

Standard cost or expense: what the cost should be for a particular level of sales or revenue.

Statement of business purpose: see *Mission statement*.

Statement of cash flows: a financial statement, produced at least annually, that uses the income statement, beginning and end of the year balance sheets, the statement of retained earnings, and other information to show all sources and uses of cash for the year.

Statement of changes in working capital: a statement showing in dollars the amount of change from one period to the next in each individual current asset and current liability account.

Statement of retained earnings: a statement showing previous balance sheet figures, plus net income for the period, less any dividends paid during the period, to arrive at current period-end retained earnings.

Statement of source and use of working capital: a statement showing previous period working capital balance plus funds received during the period (sources) less funds paid out during the period (uses) to arrive at current period-end working capital.

Stock: see *Common stock* and *Preferred stock*.

Stockholder: an investor who owns shares in a company by way of common and/or preferred stock.

Stockholders' equity: see *Ownership equity*.

Stock redemption: the purchase by a company of shares that it had originally sold to investors or stockholders.

Straight-line depreciation: a method of depreciation whereby equal portions of the amount paid for an asset are shown as an expense during each accounting period of the life of the asset.

Strategic budget: a long-term budget for periods of time generally in excess of one year.

Sum-of-the-years'-digits depreciation: a method of accelerated depreciation that allocates larger amounts of depreciation as an expense during the earlier years of the life of an asset.

Sunk cost or expense: a cost incurred that is no longer relevant and cannot affect any future decisions.

T account: a simplified form of account in the shape of a T, with account title on top, debit on the left, and credit on the right.

Trade-in value: the scrap or cash value of an asset at the time its useful life is over or when it is exchanged with cash for a new asset.

Transaction: a business event requiring an entry in the accounting records.

Trend index: in a series of periods of operating results, the result for the first (base) period is given the value of one hundred. Subsequent period results are then given a number higher or lower than one hundred to better reflect each period's change relative to the base year.

Trend results: business operating results compared for a number of sequential periods.

Trial balance: a totaling of all debit balances and credit balances in accounts to ensure that total debits equal total credits.

Turnover ratios: ratios that measure the activity of an asset during an accounting period, such as inventory turnover.

Unadjusted trial balance: this trial balance shows each general ledger account and its balance before any adjusting entries are made to the accounts to correct sales revenue and expenses.

Undistributed operating cost or expense: one that is not normally controlled by or the responsibility of an operating department. See also *Direct cost* and *Fixed charges*.

Uniform System of Accounts: a method of presenting financial statement information so that comparison is made easier between establishments or with hospitality industry averages.

Units-of-production depreciation: method of depreciation basing expense on number of units used or produced by the asset during an accounting period to total estimated units to be used or produced during the life of the asset.

Variable budget: see *Flexible budget*.

Variable cost or expense: one that increases or decreases in direct, or linear, fashion with increases or decreases in related sales or revenue.

Variance analysis: a method of comparing budgeted figures with actual results breaking differences down into quantity variance and price or cost variance.

Volume: level of sales expressed in dollars or units.

Voucher: a document supporting a business transaction

Voucher system: a method of preparing special documents (vouchers) to support each purchase transaction to help control disbursements.

Weighted average inventory cost: a method of inventory costing where the average cost of each item in stock is recalculated each time more of that item is purchased and received.

Window dressing: a method of adjusting current asset and current liability accounts to improve the current ratio.

Withdrawals: monies taken out of a business by individual owners in a proprietorship or partnership (similar to dividends in an incorporated company).

Working capital: current assets less current liabilities.

Working capital management: see *Cash management*.

Working capital turnover: sales revenue divided by average working capital for the period.

Working papers: informal accounting records prepared as an aid to completion of the formal accounting records.

Yield management: a method in a hotel of matching customers' rooms purchase patterns and their demand for rooms to derive more precise occupancy forecasts and develop appropriate room rates to maximize revenue.

Yield statistics: actual total room revenue for a period of time divided by potential sales revenue for that period and multiplied by 100.

Zero-base budgeting: a method of budgeting that starts from a zero base and requires budget managers to justify each element of the present budget as well as any requested additions to it. See also *Incremental budgeting*.