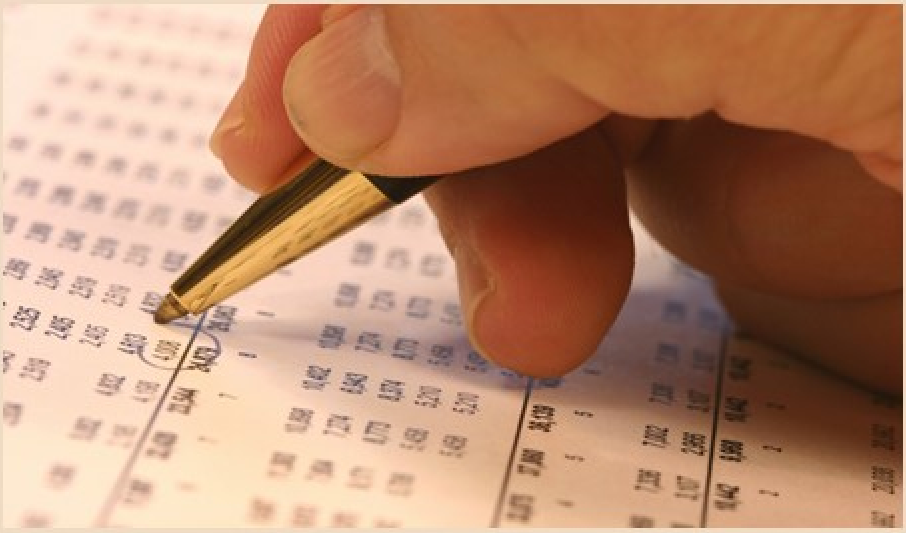
Private Club
Performance Management

Accounting on the Go



Ed Rehkopf

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Topical Index

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#03

Teachable Moments

Accounting Basics – 2

Bookkeeping

Bookkeeping is the exacting discipline underlying accounting. In its most basic form, bookkeeping is the recording of detail for every business transaction. In terms of your personal finances it is the faithful and exact recording of every check you write from your personal checkbook. While some people do a sloppy job of entering the amount of checks written and subtracting the amount from the balance in their checking account, in the business world bookkeeping (or the recording of each transaction) must be done carefully and exactly. This is so because the flow of money being recorded, unlike the bookkeeper's personal finances, does not belong to the bookkeeper; rather it belongs to the owner(s) of the business who expects care and accuracy in accounting of its funds.

Debits and Credits

Debits and credits are the most basic, but also the most confusing part of bookkeeping, except for those trained and experienced in their daily use.

Debits are accounting entries that increase Asset or Expense accounts and decrease Liability and Income accounts. They always appear on the left side of an accounting entry.

Credits are just the opposite. They decrease Asset or Expense accounts and increase Liability and Income accounts and are found on the right side of an accounting entry.

For the most part, managers and supervisors do not need to concern themselves with this detail of bookkeeping as the determination of debits and credits is either done by computers (the Point of Sale system or Accounting software) or by the Controller.

Double Entry Bookkeeping

Given the detail that must be recorded in each business transaction and the large number of daily transactions, bookkeeping is prone to data entry errors. In the early days of business accounting, a system was devised to "prove" the accuracy of entries by requiring the debits and credits of each transaction to be equal. This double entry balanced revenues and expenses with changes in the business' assets, liabilities, and owners' equity.

Keeping your personal checkbook is a single-entry system in that you enter the amount of your check once. A variation of this personal checkbook is the One-Write Check writing system, a simplified business account system where you record the amount of a check twice – once in the cash (or funds) expended column and the second time in one of the expense category columns. The "check" on accuracy is that the total of the cash expended column must equal the total of all the expenses category columns.

Take Away: As we get started in our review of accounting practices and terminology, there are some basic things we must understand.

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Teachable Moments

Accounting Basics – 7

Departmental Schedules

In order to give more operating detail to the managers with bottom line responsibility for their departments, the club's monthly operating statement breaks down the club's income and expenses into the respective profit and cost centers.

For profit centers, the departmental schedule provides the following categorized statement:

Income

Less Cost of Goods Sold
(for those departments with retail sales)

= Gross Profit

Less Payroll and Related Expenses

Less Other Operating Expenses

= Net Income

Cost centers have a schedule that categorizes expenses as follows:

Payroll and Related Expenses

Plus Other Operating Expenses

= Total Expenses

There can be some variation in these common formats from club to club. If you have any questions about report formats, see your Controller.

Take Away: As we get started in our review of basic accounting practices and terminology, there are some basic things we must understand.

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#09 *Summary of Financial Responsibilities – 1*

Zero-Based Budgeting. Budgeting is the process of establishing a financial operating and capital plan for a future fiscal year. Budgets are formulated using history, benchmarks, knowledge of upcoming events or trends, and one's best professional judgment. Zero-Based Budgeting requires managers to create new budgets from scratch each year.

Comparing Actual Performance to Budget – Once approved, budgets are the financial plan for the year. Managers are responsible for comparing actual performance to budgets on a monthly basis and intervening as necessary to achieve budget goals.

Achieving Revenues – Achieving revenue projections is one of the two primary means of meeting budgets (the other being controlling expenses). Managers are responsible for monitoring revenues and aggressively intervening when revenues fall short.

Controlling Cost of Goods Sold – Departments with retail operations (Golf, Food, Beverage, and Tennis) also must control the cost of goods sold and investigate high cost of goods sold by Cost of Goods Sold Analysis. Managers can do this by ensuring accurate Monthly Resale Inventories, carefully tracking Departmental Transfers and Adjustments, and using an Annual Retail Buying Plan.

Controlling Payroll Costs – Payroll is the single largest expense in club operations. Payroll costs are the most significant expense that Managers must control. The Pay Period Summary Report, PCPM Form 229, and the Departmental Payroll Summary Analysis, PCPM Form 230, are effective tools to compare actual to budgeted payroll costs.

In order to control payroll costs, it is essential that Managers have timely and accurate data regarding their departmental payroll cost. Essential to getting this data is correctly following timekeeping procedures, setting schedules to meet forecasted levels of business, and the dogged determination to track payroll expenses closely to ensure that budgets are not exceeded.

Controlling Other Expenses – Other Expenses comprise all the other departmental operating expenses. Managers can control these expenses by carefully reviewing expenditures on a monthly basis, using Tools to Beat Budget to monitor expenses by expense category, and by periodic in-depth reviews of significant expense accounts**.**

Benchmarking – Benchmarking is the act of measuring operating performance. Each Department Head is required to track detailed benchmarks for his or her area of the operation.

Pricing. The starting point for meeting revenue projections is proper pricing of products and services to ensure a sufficient markup to cover associated expenses. Pricing should be reviewed on a periodic basis to assure that budgeted margins are being maintained.

Purchasing. Some managers are responsible for purchasing materials, supplies, and inventories for their departments. Managers must be familiar with all company purchasing policies to properly fulfill these responsibilities.

Take Away: Managers are responsible for the financial performance of their clubs/departments.

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Teachable Moments

#12 Budgeting – Statement of Assumptions

Managers preparing budgets should state their assumptions when calculating their major revenues and expense items, particularly payroll. By building data entry cells into your budget spreadsheets that allow you to calculate revenues based upon volume indicators (such as rounds of golf, meals served, etc.) and average sale (such as golf fees per round, average meal check, etc.), you can quickly calculate revenues while allowing reviewing managers and owners to easily understand how you came up with your projections. See example below for golf revenues based upon projected rounds and average fees per round.

The same concept applies to forecasting payroll costs since overall payroll cost is the result of the number of payroll hours (volume) times the average hourly wage. Again, use a spreadsheet that allows you to enter these two key pieces of data to quickly calculate your payroll projections for future periods.

Private Club Performance Management has designed budget spreadsheets with data entry cells for both revenues and payroll.

Other assumptions in your budget may require a “notes” column or your may attach an assumptions page to your budget spreadsheet.

OAK HILL COUNTRY CLUB **GOLF OPERATIONS**

Member Rounds	20,400	1,000	1,200	1,400	1,500	2,000	2,100	2,000	1,900	2,000	2,200	1,900	1,200
Guest Rounds	3,050	100	150	200	250	350	350	320	280	300	350	300	100
Total Rounds	**23,450**	**1,100**	**1,350**	**1,600**	**1,750**	**2,350**	**2,450**	**2,320**	**2,180**	**2,300**	**2,550**	**2,200**	**1,300**
Green Fees/Guest Rd		75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00
Cart Fees per Round		16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00
Merchandise Sales/Rd		12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
INCOME	**Annual**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Cart Fees	375,200	17,600	21,600	25,600	28,000	37,600	39,200	37,120	34,880	36,800	40,800	35,200	20,800
Guest Fees	228,750	7,500	11,250	15,000	18,750	26,250	26,250	24,000	21,000	22,500	26,250	22,500	7,500
Golf Merchandise	281,400	13,200	16,200	19,200	21,000	28,200	29,400	27,840	26,160	27,600	30,600	26,400	15,600
Club Repair Income	4,550	100	100	1,200	1,200	300	300	250	[illegible]	[illegible]	[illegible]	[illegible]	100
Handicap Income	4,060	2,500	1,200	180	180				[illegible]	[illegible]	[illegible]	[illegible]	
Club Rental Income	2,100	100	100	100	100	100	100	100	[illegible]	[illegible]	[illegible]	[illegible]	100
Lessons	10,450	500	500	750	1,000	1,200	1,200	1,000	[illegible]	[illegible]	[illegible]	[illegible]	500
Total Golf Income	906,510	41,500	50,950	62,030	70,230	93,650	96,450	90,310	[illegible]	[illegible]	[illegible]	[illegible]	[illegible],600

Data entry cells.
By multiplying fees per round by number of rounds, you automatically get revenue projections.

Take Away: By building date entry cells in a spreadsheet and basing your revenue projections on the volume and average member spend, you not only automatically calculate revenues, but reviewers can easily see the basis for your revenue assumptions. The same concept applies to forecasting payroll cost using the number of hours and the average hourly wage.

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Revenue Generation and Accounting – 1

Without enough revenues a private club will fail. When a club does not meet its revenue projections, it can result in staff and spending cutbacks or member assessments. The surest way to ensure the ongoing success of your club is to provide the goods and services members want with high levels of personalized service. This will encourage member patronage of the club and the resulting revenues will keep the club vibrant and successful.

In any club there are many different revenues, from dues income to golf fees and merchandise sales, to guest fees, to food and beverage sales, to catering income, to activity fees. Each of the revenues is allocated to different profit centers based upon the desires of the board and the organization of the club and its operating departments. Typically a club will have a golf department and food and beverage department, as well as tennis, activities, aquatics, and other revenue generating departments, depending upon the amenities of the club. Dues income may be allocated to the Administrative and General department or shown as a separate line on the Summary Income Statement.

Categorizing Revenues

Within any given profit center the revenues may be categorized in any way that provides management with a more detailed breakout of where revenues come from. In the golf department, for instance, revenues are usually separated into Green Fees, Cart Fees, Merchandise Sales, and any other significant revenue sources such as Lessons, Outing Income, Club Repair, etc. Those revenue sources that produce little or irregular income would usually be lumped together in a Miscellaneous Income category.

The primary purpose of categorizing revenues is to give management a more detailed understanding of the ebb and flow of the more significant revenue categories. Though categorizing revenues is helpful to understanding your business, you can enhance your understanding significantly in real time by a variety of revenue benchmarks. See Benchmarking, Accounting on the Go topics 32-36, for more information.

Revenue Accounting

Most of the club's daily revenue transactions are recorded on Point of Sale terminals which capture all the transaction details and summarize them by shift and day. Some club income such as monthly dues or annual locker fees are automatically billed on the members' monthly statement and recorded at that time.

Take Away: Revenues are the lifeblood of any business. Understanding where they come from and the factors that impact them such as volume, pricing, and average sale are critical to remaining profitable.

Expenses and Accounting – 1

In addition to payroll, operating departments have another major expense category – Other Operating Expenses. Some departments – those with retail operations such as food and beverage, pro shops, and general stores – will also have a Cost of Goods Sold Expense.

Other Operating Expenses

Other Operating Expenses are all those monthly expenses that a department incurs other than payroll and purchasing goods for resale. These expenses are usually broken down into multiple expense categories that allow the manager to monitor his or her more significant expenses.

The number of Other Expense categories will depend upon how many or how large individual expenses are that are charged to that category. While it makes no sense to create and monitor an expense category with only a few dollars of expense each month, it is probably important to have an expense category for utilities if your department uses a lot of electricity, water, or natural gas and maybe even have separate expense categories for each if the expenses are significant.

Other Operating Expenses can include both one-time expenses like the purchase of a document shredder and ongoing contacted service expenses such as kitchen hood cleaning or copier lease payments. The important thing with Other Operating Expenses is to have enough detail to provide you with a good understanding of where the money goes that you spend to operate your department, both in individual months and the total year-to-date.

By closely watching your Other Operating Expenses each month when you get your financial statements, you can see whether you are on track to meet budget or whether you are overspending.

Tools to Beat Budget, which we discussed in Accounting on the Go topic 15, provides an better way to monitor your expenses as you incur them while creating a detailed record of your expenditures throughout the year. Using this tool will make budgeting for future years far easier and more accurate, while less time consuming to develop.

Take Away: Other operating expenses includes all the other normal, ongoing expenses of operating your department. Pay close attention to these to avoid overspending. Note extraordinary or unbudgeted expenses that may impact your ability to meet budget.

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Teachable Moments

Receiving

When received, all purchased items must be inspected to ensure the correct item, count and/or weight, and that all items are undamaged or unspoiled. It is also important that any authorized employee receiving a purchased item carefully inspect the item to ensure it is the item ordered, is complete, intact, and has the correct count and/or weight.

Items received should be carefully compared to items listed on the packing slip, purchase requisition, or purchase order. The receiving employee indicates the order is correct and complete by writing "Received," signing, and dating the packing slip, purchase requisition, or purchase order.

After inspecting the order and ensuring that it is correct and intact, the employee should file the receiving paperwork (packing slip, purchase requisition, or purchase order) in a departmental receiving file until the vendor invoice is received.

Upon receipt of the vendor invoice, the authorized employee will:

1. Attach the approved purchase requisition, purchase order, and/or packing slip to the invoice,
2. Stamp and date the invoice with an invoice coding stamp supplied by the accounting office,
3. Initial and date the invoice coding stamp if the invoice agrees with the items received, and
4. Resolve any discrepancies as soon as possible with the vendor and note resolution on the invoice.

The invoice is then coded with the appropriate expense coding, approved by the department head, and forwarded to the accounting office for processing and payment. The accounting office will process invoices on a regular schedule and then submit them to the general manager for approval.

In approving invoices for payment, the general manager should cancel or invalidate the invoice by marking through it and signing it (or some other indelible marking to indicate it has been approved for payment and cannot be submitted again for another payment). Once approved, disbursements are made.

Take Away: Managers who receive merchandise and supplies for the club must be familiar with and consistently follow receiving policies.

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Teachable Moments

Inventories

All resale stocks must be inventoried on a monthly basis. Such routine inventories are used as a control mechanism to verify the amount of stock on hand, to determine the cost of goods sold, and to ensure that the operation does not run out of any item of stock unexpectedly.

Department heads for food, beverage, and any retail operations, such as golf shop, tennis shop, or general stores, will ensure that inventories are properly conducted. A limited number of well-organized storerooms will make monthly inventories easier and less time consuming to conduct. Those responsible for food and beverage resale inventories may also want to let stock levels dwindle in the period leading up to inventories to make the count less time-consuming.

Responsible department heads will conduct their monthly inventories on the last day of each month, or if that day falls on a day the club is closed or extremely busy, the department head with the concurrence of the controller may conduct the inventory on the previous or next day. Regardless of the date selected, the exact date of the inventory must be entered on the top of any inventory count sheets. If the day of the inventory is materially different from the end of the period, then sales and inventory must be aligned as closely as possible to give the most accurate cost of goods sold.

Responsible department heads will organize their work and storage areas to ensure that they are set up to allow as quick and efficient an inventory as possible. Techniques to do this include:

- Noting counts on “unbroken’ boxes,” i.e., those boxes that have not yet been opened.
- Removing items from “broken” boxes to ensure that the box is not mistaken as being “unbroken.”
- Establishing specified locations for the storage of each stock item.
- Ensuring that the order that items appear on inventory count sheets is the same order that stock is stored on shelving (suggested for food & beverage, but not retail inventories). This is not always possible but can aid greatly in efficient inventories.
- Separate inventory locations should be inventoried separately and then combined on a spreadsheet or consolidated inventory report.
- Create and follow a map for counting inventory locations so that you do not inadvertently skip a section.
- Create written instructions for conducting departmental inventories to use as an aid in training those who conduct inventories.

Take Away: Without timely and accurate inventories the cost of goods sold calculation will not be accurate contributing to erratic monthly swings in cost of goods sold.

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#31 *Monthly Review of Financial Performance*

General managers should conduct monthly reviews of Operating Statements with department heads.

In order to ensure that the club meets the financial objectives of its annual operating budget, it is imperative that all department heads monitor their monthly performance closely and be prepared to answer questions about their department's performance and give reasons for any significant variance from budgeted amounts.

On a monthly basis after the final statement is prepared and distributed, the controller should set up a schedule of meetings for department heads to meet with the general manager and controller to review their department's performance.

Department heads will bring their individual copies of the Tools to Beat Budget binder to the meetings.

Department heads must also be prepared to present plans to remedy significant or ongoing shortfalls in revenue or overages in expense categories.

Preparing for the Meeting. Managers can best prepare for their monthly meeting by ensuring that their Tools to Beat Budget binder is accurate and up-to-date.

They must also review their financial statements in detail, noting any under budget revenue and over budget expense categories. Items with significant deviations from budget must be investigated so that these anomalies can be explained to the general manager.

Significant shortfalls in revenue should be analyzed and a plan drawn up to address the shortages. Such a plan would normally include marketing efforts to increase member traffic, special events or sales to increase revenues, or price increases to generate more revenue from the same volume of business (though managers must always keep in mind that volume may decrease with any price increase).

Often an expense category will be over budget due to timing issues – this happens when a budgeted expense is incurred earlier in the fiscal year than originally anticipated. Such an "over budget" occurrence will come back in line with budget in future months at the time when the expenditure was planned. Sometimes, the increased expenses may be the result of an unanticipated event, such as equipment breakdown and repair or an arising opportunity necessitating the purchase of new equipment or materials.

In any case the department head must be prepared to explain discrepancies and answer the general manager's questions about budget variances and what actions will be taken to remedy the situation.

Take Away: A monthly review of operating performance gives department heads an opportunity to brief the general manager on the operating results of their "businesses."

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Teachable Moments

Tools to Benchmark

The tools needed to benchmark are usually readily available to the department head.

1. **Benchmarking Spreadsheets**
   - Private Club Performance Management has designed benchmarking spreadsheets for each of a club's operating departments. There are multiple spreadsheets (usually three) for each department, representing their monthly, year-to-date, and year-to-year benchmarks.
   - At the end of each month, department heads will need to transfer their monthly totals into the appropriate monthly column in their year-to-date spreadsheet. At the end of the year, they will need to transfer their annual totals into the year-to-year spreadsheet. At this point they should save the file for that year and create a new file for the new year using the "Save As" function in Excel. Once saved under the name of the new year, the monthly and year-to-date spreadsheets should be "zeroed out" and the year changed to prepare to receive the new year's data.
2. **Access to the monthly financial statements for his operation.** In most clubs, accounting departments will provide copies of the financial statements and departmental schedules to department heads on a "need to know" basis. That is, the F&B manager will receive the schedules for the food and beverage operations, but not for other departments.
3. **Access to cash register tapes or POS reports on a daily basis.** These sources have a wealth of information that often goes unused. The trick is to select only that data which is most useful for comparison and establishing trends. Further, attention must be paid to providing reports that are both meaningful and concise. The general manager and other interested parties have little time to sort through reams of data and complicated, hard-to-read reports.
4. **Access to a personal computer (PC).** This tool is indispensable in tracking large amounts of data over time.
5. **The skills to use basic business software.** In order to take advantage of the power of a PC, department heads must learn to use basic business software, including word processing and spreadsheet software.

Take Away: The means to benchmark include the standards tools and resources available to department heads and managers. They merely need to capture daily data and enter it into the benchmarking spreadsheets.

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Teachable Moments

The Executive Metrics Report

Every month the club board, finance committee, general manager, and department heads receive copies of the club's financial statement made up of the balance sheet and operating statement prepared by the club controller. The intent is to provide all stakeholders with a summary report of the club's financial performance. Additionally, the operating statement is formatted to compare the most recent month's performance to the same month last year and year-to-date performance compared to last year.

While all this is well and good and customary for the industry, this summary information is long on overview, but woefully short on meaningful detail. Further, the presentation of information does little to allow discovery and analysis of emerging trends.

Certainly, a greater level of detail is available within the financial accounting and reporting system, but it requires special effort to dig it out, format it, and present it for analysis. Given this, doesn't it make far more sense to use a system that routinely presents key underlying detail? Examples would include sales detail such as volume of business and average sale by department, key payroll detail such as overtime hours and benefits cost, membership numbers by category, and month-to-month and year-to-year comparisons of summary operating statement lines.

The simple solution to providing a deeper level of information for ease of analysis is to make the Executive Metrics Report (EMR) a key component of the monthly financial reporting package. The EMR is made up of important operating metrics tracked by the financial accounting and payroll systems, along with key department benchmarks, both of which are formatted to provide month by month and year by year comparisons.

While every general manager and club board may have their own ideas of what metrics to include, Club Resources International has developed an Executive Metrics Report that covers key operating data. Each club can take this basic format and customize it for their own needs and preferences. For a sample Executive Metrics Report see *PCPM Best Practice Series – Benchmarking Operations*. The EMR spreadsheet can be found in Club Benchmarking Resources on the PCPM Marketplace store.

The Executive Metrics Report is a significant enhancement to a club's financial reporting and provides all stakeholders with important and timely data regarding the health and financial well-being of their club. While it takes some effort to set up initially, the ongoing benefits for all concerned make it well worth the effort.

Note: The Executive Metrics Report does not contain the wealth of detail that is found in departmental benchmark reports. Rather it is a summary report that is forwarded to the general manager and board members that allows them to monitor the health and performance of clubs. The Executive Metrics Report is prepared by the controller and forwarded with each Monthly Financial Statements to whoever receives it.

Take Away: The Executive Metrics Report is a significant enhancement to the monthly financial reporting package in that it routinely provides key metric trend lines.

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Teachable Moments

Glossary of Terms – 1

The following accounting terms are those with which all managers should be familiar. The definitions have been adapted to eliminate some of the more technical language typically found in accounting dictionaries and which have little application for club managers.

Accounting Periods – the periods by which a club's financial performance are balanced and reported, usually monthly and summarized annually.

Accounting Standards, Policies, and Procedures (SPPs) – the written requirements of a club's accounting system, practices, and procedures.

Accounts – the categories by which the club's financial transactions are recorded. Accounts fall into the following categories – Revenues, Expenses, Assets, Liabilities, and Owners' Equity.

Accrual Basis for Accounting – a method of accounting whereby an effort is made to record expenses in the period that they were incurred and to match revenues with the expenses incurred to generate them.

Assets – economic resources of the club; can be both tangible and intangible.

Assets, Intangible –non-physical resources such as goodwill, business methodologies, and trademarks.

Assets, Tangible – resources that are physical in nature, such as furniture, fixtures, equipment, etc.

Asset Management – system of policies and procedures to keep track of the tangible assets of the club.

Average Sale (or Transaction) – the average sale in a revenue category for a specific period computed by dividing the total revenue by the number of revenue transactions; one of the two underlying variables that make up all club revenues, the other being "volume."

Average Hourly Wage – the average wage for a position or department for a specific period computed by dividing the total wages paid by the number of hours worked (not including salaries).

Balance Sheet – a financial report that reflects the club's assets and liabilities as of a specific moment in time – usually the end of each accounting period. The basic formula for the Balance Sheet is Assets = Liabilities + Owners' Equity

Benchmark – a standard of measurement; any data or operating statistic that is an indicator of operating performance. Examples include meal counts, average meal check, cost of goods sold, meals served per payroll hour, etc.

Benchmarking – the act of measuring operational performance.

Best Practice – an action, condition, or process that optimizes the efficiency and profitability of a business.

Bookkeeping – the recording of detail for every business transaction.

Bottom Line Responsibility – the financial accountability that a manager has for the operation or portion of the operation for which he or she is responsible.

Budget Assumptions – the underlying rationale for the various projections in a budget.

Budget – the club's financial operating and capital plan for a future period, usually a 12-month fiscal year.

Cash Basis for Accounting – accounting method whereby revenue and expenses are recorded as they occur.

Chart of Accounts – listing of entire ledger of accounts used to classify the financial activity of the club.

About the Author

Ed Rehkopf is a graduate of the U.S. Military Academy and received a Masters of Professional Studies degree in Hospitality Management from Cornell's School of Hotel Administration. During his long and varied career, he has managed two historic, university-owned hotels, managed at a four-star desert resort, directed operations for a regional hotel chain, opened two golf and country clubs, worked in golf course development, and launched a portal web site for the club industry.