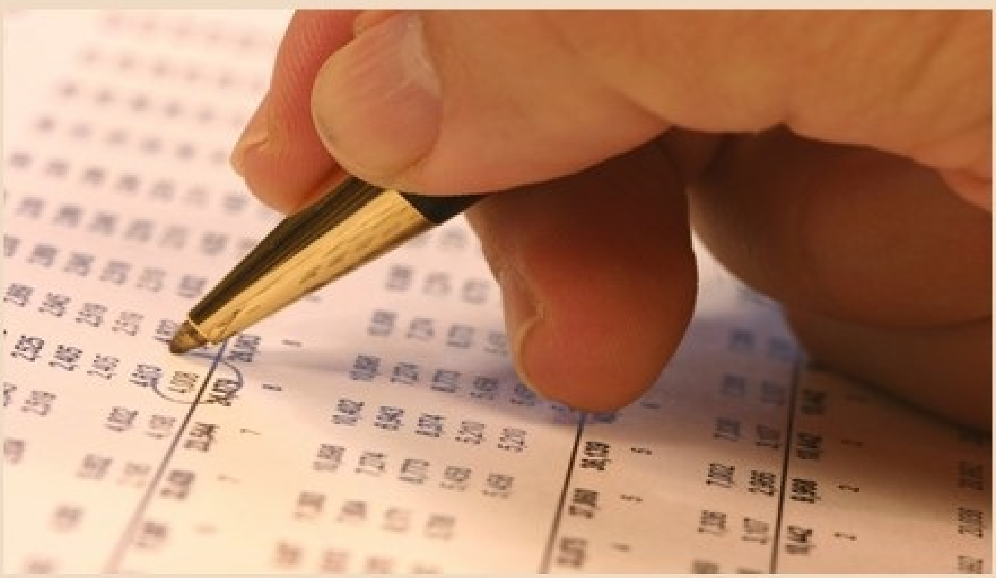
Private Club Performance Management

Basic Accounting and Financial Management for Club Managers



Ed Rehkopf

Copyright 2009
Ed Rehkopf

For internal use only at the purchasing club or organization.
Materials purchased from Private Club Performance Management website are for the exclusive use of the purchaser, individually or as an organization, and may not be reproduced, copied, distributed or resold to others, individually or collectively, outside the purchasing organization.

Disclaimer

All information in purchased documents is provided for guidance only.
Private Club Performance Management makes no legal representation as to their accuracy or efficacy. Purchasers should always review personnel and financial matters with their professional legal and financial advisors.

Table of Contents

© 2009 – Ed Rehkopf

© 2009 – Ed Rehkopf

INTRODUCTION

Accounting, when taken in the totality of its purpose, disciplines, and jargon, can seem a bewildering thicket of confusion for the layman. Everything from Generally Accepted Accounting Principles, to debits and credits, to balance sheets seems designed to be as obscure and confusing as possible. Yet the purpose of accounting is quite simple – to record and "account" for all the business transactions of an enterprise.

To demystify accounting and to provide a basic understanding of the most prevalent accounting activities in clubs, Private Club Performance Management has developed this handbook for managers and supervisors.

The underlying premise of this handbook is to put all the accounting activities that managers encounter in the pursuit of their duties into the simplest terms possible. Whenever appropriate we do this by comparing them to something we each do routinely; that is, to keep track of our personal finances.

We hope that this material will be helpful and will make a sometimes-confusing subject a little bit clearer. As you progress through your career and have more exposure to the principles and terms of accounting, you will find that much of it will become second nature, but the foundation for your understanding will be the basics presented here.

Note: Specific accounting forms are mentioned in various parts of this document. These forms can be found at *PCPM, Operational Resources, Club Forms* on the PCPM Marketplace store.

© 2009 – Ed Rehkopf

I – ACCOUNTING BASICS

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

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 amounts 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 probably 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 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.

© 2009 – Ed Rehkopf

Cash or Accrual

There are two ways to account for the flow of money through a business – on a cash or accrual basis. In cash accounting, a transaction is recorded at the time money is received in payment for goods or services rendered or when money is paid by the business for goods or services received. It is the same as when you write a check for groceries – you record the expense in your checkbook on the date you write the check under the expectation that the check will be presented to your bank and the funds for the groceries will be moved out of your account and into the grocer's account on or about that date.

When a business' funds are accounted for on an accrual basis, 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. The best example of this is payroll expense. Let's say a business pays its employees bi-weekly (that is, every two weeks on Friday). Each monthly accounting period is made up of a little more than two pay periods or 28 days (excepting February during non-leap years). Because of the year-to-year variations of the calendar, most often the last day of a month does not fall on the last day of a pay period. This requires the business to allocate the cost of partial pay periods to the appropriate accounting period.

> Example: The second pay period in May ends on Friday, May 29th. Two days of the following pay period fall into the May, while 12 days fall into the June accounting period. While the payroll expense of the pay period will not be paid to employees until the middle of June, the payroll cost for May 30th and 31st must be accounted for, and thus accrued, in May.

Profit Center vs. Cost Center

The operating departments of a club are either a profit center or cost center. Those departments that generate revenues, as well as the associated departmental expenses, such as golf, food and beverage, activities, tennis, etc., are profit centers. Those who do not generate revenues, but incur expenses, such as golf course maintenance, membership, administrative and general, etc., are cost centers.

Bottom Line Responsibility

Bottom line responsibility is the financial accountability that a manager has for the operation or portion of the operation for which he or she is responsible. For the general manager of a club, he or she has bottom line responsibility for the entire club operations. For the department head – say the food & beverage director – he or she is responsible for the bottom-line performance of the F&B department.

General Ledger

The general ledger is the accounting record that summarizes chronologically all the transactions that occurred since a business began operating. This ledger is the historical record of all the business' transactions.

The accounting department can print out the general ledger detail for a department's accounts for any specific accounting period or range of dates which summarizes all income and expenses transactions affecting the department's performance during that period.

Chart of Accounts

The chart of accounts is a listing of a business' entire ledger of accounts used to classify all the activity of that business. These accounts are categorized according to the business' balance sheet and operating statement – asset accounts, liability accounts, stockholders' (or owners') equity accounts, income accounts, and expense accounts. All monies received and spent by the business must be classified (coded) to existing accounts to be properly accounted for. Each account in the chart of accounts will have an account name and number to identify it. The name briefly describes the account, while the account number fosters accuracy.

The following are definitions of the account categories:
- **Assets** are economic resources.
- **Liabilities** are creditors' claims on the resources of the company.
- **Stockholders'** (or owners') **equity** is the stockholders' (or owners') claim on the assets of the firm. Stockholders' equity is generally comprised of two parts:
  - **Contributed capital** reflects the assets invested by the owners in exchange for ownership interest, and
  - **Retained earnings** represent the earnings, or profits, realized by a company since its formation in excess of any dividends (or funds) distributed to shareholders (or owners).
- **Revenues** are a measure of the inflow of assets (or the reduction in liabilities) from selling goods and providing services to customers.
- **Expenses** are a measure of the outflows of assets (or increases in liabilities) used up in generating revenues.

Accounting Periods

Accounting periods are the periods of time by which a business' accounts are balanced and reported – usually monthly and summarized annually.

Fixed versus Variable Expenses

Expenses are broadly classified as either fixed or variable. A fixed expense is one that you incur whether you have any customers walk through the door. Examples of fixed expenses would be management salaries, the basic charges for the club's phone system, lease payments on vehicles and equipment, the cost of the club's business and liquor licenses, and debt service (payments made to retire any debt of the club). On the other hand, variable expenses are those expenses incurred as a result of the use of the club by members. Examples would be that portion of utility costs attributable to varying levels of activity, consumable supplies such as dishwashing chemicals, and hourly wages of line employees.

Volume versus Average Sale

Revenues at a club are made up of two components: How many members visit the club and how much each member spends on average during each visit. The reason that breaking down sales into these two components is key is that should sales decline, it is important to know if it's because fewer members are visiting, or they are spending less on each visit. Since the solution to each of these problems is different, knowing whether the problem is declining volume or average sale is critical to turning things around.

Classifying Revenues and Expenses by Category

While most of us have one source of income (our paycheck) and make no effort to classify our personal expenses by category (for instance how much we spend for food or utilities or on operating our car), the theory and discipline of operating a business demands that both revenues and expenses be categorized to provide a better understanding of where the money comes from and where it goes.

One way you might do this on a personal level if you had multiple sources of income, would be to have a separate checking account for each source and to write checks from the different accounts to pay those bills associated with each income. For instance, let's say you had a side business building decks for customers. Not only would you have a separate checking account to deposit your earnings in, but you would pay for building materials by writing checks from that account.

In the business world, you don't have separate checking accounts for each revenue source, but you must carefully account for the flow of money and classify revenues and expenses by categories just the same.

Point-of-Sale System

A point-of-sale (POS) system is an automated business transaction recording device where sales transactions are recorded (rung up) at the point-of-sale on a computer terminal. A point-of-sale system is made up of the hardware (computer terminals) and software to record the detail and summary of all sales transactions. It is linked electronically to the business' accounting software and greatly improves the accuracy and timeliness of tracking sales transactions.

© 2009 – Ed Rehkopf

II – FINANCIAL STATEMENTS

Financial Statements are **summary** reports that provide information to owners, management, and other stakeholders about the financial performance of a business. There are basically two forms of financial statements with which you should be familiar – the balance sheet and the operating (or income) statement. Sometimes the operating statement is called the profit and loss statement (or P&L, for short).

Balance Sheet

The balance sheet is a snapshot in time that reflects the assets and liabilities of the club at a specific date (time). It is equivalent to an individual's statement of net worth – how much they are worth when all liabilities (money owed) are subtracted from all assets (money and value of possessions owned).

The basic formula for a club balance sheet is:

Assets = Liabilities + Stockholders' Equity

This formula is computed at specific moments in time (the end of monthly or annual operating periods) and is a snapshot of the club's value at that time.

Operating Statement

The operating statement is a report covering an accounting period that shows whether the club made money or not. It would be equivalent to individuals adding up all income in each month and subtracting all the month's expenses to see if they were living within their means.

The basic formula for the operating statement is:

Income – Operating Expenses = Profit or (Loss)

While this formula represents the basic operating statement format, clubs typically expand upon this formula to break expenses down into the more significant expense categories – cost of goods sold (for retail operations), payroll and related expenses, and other operating expenses. The format for a typical club operating statement is as follows:

Income

***Less* Cost of Goods Sold**

= Gross Profit

***Less* Payroll and Related Expenses**

***Less* Other Operating Expenses**

= Net Operating Income (or Loss)

© 2009 – Ed Rehkopf

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.

© 2009 – Ed Rehkopf

III – SUMMARY OF MANAGERS' FINANCIAL RESPONSIBILITIES

Managers are responsible for the financial performance of their clubs/departments. There are a number of specific elements associated with this responsibility, which we have broken down into the following broad categories:

Budgeting – Budgeting is the process of establishing a financial operating and capital plan for a future period (usually a year). Budgets are formulated using history, benchmarks, knowledge of upcoming events or trends, and one's best professional judgment.

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 for non-F&B operations, i.e., pro shops, general stores, ships stores, etc.

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 ensure that budgeted margins are being maintained.

Purchasing – Managers are responsible for purchasing materials, supplies, and inventories for their departments. Managers must be familiar with all purchasing policies (Accounting Policies – 4000 Series) to properly fulfill these responsibilities.

© 2009 – Ed Rehkopf

Expense Coding – Managers are responsible for ensuring that invoices for all purchased items are coded to appropriate expense accounts in a timely, accurate, and consistent manner (see 14 Finance and Accounting Tips to Improve Your Operation).

Inventory Management and Security – Given that high inventory levels tie up capital that might be put to better use elsewhere, managers must use common sense and good business judgment to maintain inventories at levels that balance business demands, lower pricing for bulk purchases, perishability of stock, and available warehousing space.

Inventories must be kept secured with access limited to as few individuals as possible. Storerooms must be kept neat, clean, and organized to facilitate physical inventory counts and minimize damage and spoilage.

Merchandise inventories should be purchased using an *Annual Retail Buying Plan, PCPM Form 221*, and by constant monitoring of inventory levels and product mix while minimizing markdowns. All special sales of merchandise during the year should be noted and marked down items analyzed in comparison with the Annual Retail Buying Plan to ensure that lessons are learned from buying missteps.

Asset Management – Managers are responsible for protecting the assets assigned to their departments and in their care.

Inventories – Periodic inventories are required for various assets. See inventory policies (Accounting Policies – 4500 Series) for more information.

Internal Control – Managers are responsible for ensuring the efficiency of their operations and the security of all assets in their care. Further, they must ensure they follow all requirements of the club's internal control plan (Accounting Policies – 9000 Series).

Point-of-Sale Transactions – The initial entry for all revenue data is through point-of-sale systems. Managers are responsible for training their employees to correctly use the POS system and to retrain as necessary when a pattern of errors is evident in their departments.

Accounting Standards, Policies and Procedures – Managers should be familiar with all aspects of the club's Accounting Standards, Policies and Procedures. Managers are expected to follow all Accounting Policies and Procedures and recommend changes as necessary.

Reference: Accounting Policy, A-1004

IV – BUDGETING

Budgeting is the act of establishing a plan for the financial performance of the club for the coming operating period – usually a year but broken down into monthly projections for both income and expenses.

The importance of a budget is that it allows the manager with bottom line responsibility to estimate future revenues and expenses and then track actual performance against the budget month to month during the year. This is done with the understanding that if you are missing your revenue projections or your expenses are running high, you can intervene to do something about it before the end of the period.

This is especially important when the club has plans to expand operations, renovate facilities, buy new equipment or technology, or spend funds on any other important project or improvement in the club. If these plans are dependent upon the club continuing to perform at a certain profit level to generate the funds to pay for the improvements and the net operating income is not meeting projections, it may require the club to borrow money, assess members, or otherwise raise capital for the improvements.

Forecasting Revenues

The first step in preparing a budget is to forecast revenues for the period the budget will cover. This is relatively easy to do if your club has an operating history. Simply review the revenues month by month for the past year. Unless there is a significant change in the business or marketplace, last year's month by month revenues are the best indicators of revenues for the coming year. One must always keep in mind, though, that revenues can be affected by changes in the number of members, varying average expenditures by members, or changes in pricing. Such variations will require adjustments from the historical results.

The accuracy of revenue forecasting can be enhanced dramatically by the discipline of benchmarking revenues day by day and month by month throughout the year. Benchmarking revenues will be discussed in greater detail in Section XII.

The reason forecasting revenue is the first step is that revenues are greatly dependent upon the volume of business which also directly impacts variable staffing and other operating expenses.

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 reviewers to easily understand how you came up with your projection. See example at the top of the next page.

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 such data entry cells for both revenues and payroll. These can be found in *Club Benchmarking Resources* on the PCPM Marketplace store.

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**

	Annual	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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	[illegible]	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	[illegible]	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	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Handicap Income	4,060	2,500	1,200	180	180			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Club Rental Income	2,100	100	100	100	100	100	100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lessons	10,450	500	500	750	1,000	1,200	1,200	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Golf Income	906,510	41,500	50,950	62,030	70,230	93,650	96,450	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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

Cost of Goods Sold

Cost of goods sold is computed for any retail (or resale) item that is sold to members by the club (see the formula for computing cost of goods sold in Section VIII). Examples are merchandise in the pro shops, general store, activity outlets, or food and beverage. For the purposes of budgeting, you should use the historical average cost of goods sold percentage for each category of retail sales to determine your cost of goods sold for that category. Keep in mind that the historical cost of goods sold percentage may need to be adjusted along with pricing to achieve a more desirable goal for the coming year.

To budget your cost of goods sold, simply multiply your projected sales in each revenue category by the desired cost of goods sold percentage.

> For example: if you are projecting $400,000 of a la carte food sales in the dining room and the historical cost of food sold is 40%, simply multiply $400,000 times 40% to get the projected cost of food, in this case - $160,000.

Payroll and Related Expenses

Payroll is the single largest expense in club operations and can be one of the most difficult to control. As with revenues, the best indicator of payroll costs in future periods is the historical record. Knowing what was spent month by month in previous years helps to forecast payroll cost in future years, though it can be dramatically affected by varying levels of business and staffing or by increases in wages for employees.

Payroll cost is made up of two variable components. The first is the total number of hours worked by hourly employees. Second is the level of compensation for each employee which affects the average hourly wage. In addition to salaries and wages, the club also pays various payroll taxes – some of which are directly dependent upon the amount of wages paid such as Social Security and Medicare, another is based upon the club's history of unemployment claims. Benefit cost depends upon the number of employees eligible for benefits and the benefit choices of individual employees. The best way to budget payroll taxes and benefit costs is to base them upon the historical percentage from the previous year. In other words, if payroll taxes and benefit costs ran 13.8% of total salary and wages for the previous year, that percentage would be a good basis to estimate benefit costs for the coming year. You must realize, though, that this percentage is only valid so long as the number of employees eligible for benefits and their benefit choices remain relatively constant. If not, adjustments will need to be made.

© 2009 – Ed Rehkopf

Other Operating Expenses

The best way to budget for other operating expenses is to have a good idea of what you spent in each expense category each month of the previous year, while factoring in any known price increases from vendors or new products or services you intend on purchasing in the coming year. It is also helpful to understand the amount of each expense category that is a fixed expense (that is, recurring regardless of member activity) or a variable expense. In the case of variable expenses, you may be able to multiply last year's expense-to-sales ratio by the coming year's projected sales to determine the level of expenses.

Tools to Beat Budget

Tools to Beat Budget is a powerful real time accounting program that will not only to help you beat budget during any given operating period, but also to help you do a better job of budgeting in future years. It is based upon the premise that, if your department or club was your own business, you would pay close attention to each expenditure of funds you made. The equivalent in your personal finances is to maintain your current bank balance by accurately subtracting the amount of each check you write in your check register. The only differences in Tools to Beat Budget are that you don't operate your own business (though since your long-term employment prospects depend upon the job you do in running your department, you probably should think of it as your own business) and the need to keep separate registers for each of your expense categories. See Section V for greater detail on using Tools to Beat Budget.

© 2009 – Ed Rehkopf

V – TOOLS TO BEAT BUDGET (REAL TIME ACCOUNTING)

Tools to Beat Budget is a Real Time Accounting program devised by Private Club Performance Management to:

- Assist managers with bottom line responsibility in meeting the goals of their annual operating budget.
- Help managers become more familiar with the details of their operation.
- Provide managers with more real time information about the health and well-being of their operation.
- Make it far easier to prepare accurate budgets in coming years.

The concept behind Tools to Beat Budget is no different than an individual monitoring personal income and expenses each month. While simple in concept, Tools to Beat Budget does require managers to view each expense account (payroll and other operating expenses) as if their balances were maintained in a separate checkbook. Therefore, managers must deduct all expenses as incurred and keep a declining balance on each account.

Note: To avoid missing any invoices, department managers should check with your controller to make sure you receive copies of all invoices for your department that might go directly to the accounting office. A printout of your department's General Ledger detail will allow you to see all posted charges to your expense accounts.

Tools to Beat Budget Program

The Tools to Beat Budget program is made up of the following elements which are filed under the appropriate tabs in a 3-ringed Tools to Beat Budget binder:

Annual Budget. Each department has a budget comprised of a departmental schedule, departmental revenue assumptions (profit centers only), and departmental payroll cost assumptions. Each department's budget is the financial plan for that department for the fiscal year.

Monthly Profit & Loss Schedules. Actual profit and loss schedules for each month which are prepared and distributed by the club's accounting office. The monthly P&L's report actual financial performance for the period and compare it to the budget. The monthly P&L's also compare year-to-date (YTD) actual performance to budget.

Weekly Revenue Reports. Reports prepared and distributed weekly which show revenues by department (profit center only). This report also compares YTD actual to YTD budgeted revenues. You should use this report to compute your key departmental revenue benchmarks which can be compared to budgeted benchmarks. *The format and time frame for this report may vary from club to club, but the essential information of actual revenues for the department must be included in the binder. The weekly time period of the report is important because the week is the basic comparable period of business activity; that is, each day of the week and the weekly totals are comparable to other weeks and last year when evaluating seasonal club activity.*

A sample Weekly Revenue report, PCPM Form 203, can be found under Operational Resources, Club Form on the PCPM Marketplace store.

Pay Period Summary Reports, PCPM Form 229. Reports prepared and distributed for each pay period that show payroll costs by department. (Private Club Performance Management strongly recommends using a bi-weekly pay period for the reasons explained here). This report also compares YTD actual to YTD budgeted payroll cost. Finally, it computes the average hourly wage by department and compares it to the budgeted amount. *The format for this report may vary from club to club, but the essential information of payroll costs for the department must be included in the binder.*

© 2009 – Ed Rehkopf

Cost of Goods Analysis. This worksheet is available for those departments with retail sales, i.e., golf, food, beverage, tennis, and other retail outlets. Department heads can compute and track their cost of goods percentage and compare it with the budgeted cost of goods. In addition, use the *Cost of Goods Sold Analysis, PCPM Form 24*4, to record your cost of goods sold numbers month to month to help analyze trends.

Other Expense Log. These worksheets (*Expense Log, PCPM Form 233* and *Expense Log Summary, PCPM Form 234*) allow department heads to record their monthly other operating expenses each month by expense account. By keeping these logs, department heads will know how much they have spent of their budgeted amount for each expense category.

Note 1: Resale purchases such as food and beverage and retail items are not considered other operating expenses and expense logs are not kept for these items. They will be accounted for in the food and beverage cost of goods sold calculation. It is still a good idea for department heads of resale departments to get the general ledger detail of such purchases and file them in your Tools to Beat Budget binder.

Note 2: In tracking remaining budgeted balances in expense accounts, managers must understand that "budgeted but unspent amounts" are not an open invitation to spend the funds simply for the sake of spending them. Also, managers must not take an overage in one expense account and code it to another for the sake of hiding the overage. Such miscoding misstates the performance of the department, is misleading when trying to identify problems, and will be misleading when using the misstated numbers as historical records to create the next year's budget.

As with any other management tool, Tools to Beat Budget is only as valuable to a manager as the effort put into it. Managers should keep in mind that if their operation was their own business, each of the tools would be a necessary part of maintaining the business' profitability. While you don't own your operations, your management responsibility to ensure financial performance is just as much a necessity.

Reference: Accounting Policy, A-3506

Instructions on how to set up a Tools to Beat Budget program can be found on the PCPM Marketplace store.

VI – REVENUE GENERATION AND ACCOUNTING

Revenues are the lifeblood of any business. Without enough revenues a business will soon go out of business. 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 owners 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 originate. 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 Section XII, Benchmarking, for more information.

Pricing

An underlying driver of revenues is the pricing of all a club's goods and services, including monthly dues, various golf fees, merchandise, food and beverage, guest fees, and any other items for which the club charges its members and guests.

How much a club charges for its goods and services is greatly dependent upon the quality of the club, its price point in the marketplace, the desires of its owner(s) or board of directors, and what the members feel is reasonable for the quality and services (or value) provided. While ownership usually has a fixed idea of what the club's pricing should be, the establishment of pricing in the various departments is usually based on management's sense of the club's quality and what the market will bear, as well as some measure of trial and error.

Prices for all goods and services should be reviewed with some frequency, usually prior to the annual budgeting cycle. Year-to-year cost pressures may result in an increase in member dues, as well as various club fees. The cost of food and beverage commodities is usually more volatile and may require more frequent price reviews, as when menus are changed seasonally.

© 2009 – Ed Rehkopf

While management in conjunction with the owner(s) or board will establish a club's pricing, the basic economic rule of "volume following price" must be kept in mind. This rule says that generally when prices are increased, volume of patronage declines; conversely, when prices decline, volume of patronage increases. In other words, management must keep in mind that large or frequent increases in prices may result in less member patronage, particularly if members are not happy with the club's quality and question its value.

Volume vs. Average Purchase

As mentioned before, monthly financial statements provide summary information. Critical details can be masked by summary data. For instance, food sales are made up of two variables – the number of members dining (volume) and the average amount spent by each member (average check). Not knowing the trends of these underlying variables can lull a manager into complacency if sales are up, when in fact patronage is down but masked by higher menu prices.

When considered in this light, there are two very important variables underlying the total sales for any period:

- The volume of sales transactions (i.e., the number of members who purchase products or services), and
- The average amount spent by each member when making a purchase.

This underlying information is important because variations in one or the other can mean different things and require different responses from management.

The solution to the problem is to benchmark the underlying data of volume and average sales transaction. When this is done, management can pinpoint the cause of declining revenues and take appropriate action. For example: if volume is down, but each member is spending the same or more money, member traffic needs to be stimulated. If traffic is the same or better, but members are spending less, management needs to consider ways to increase the average sale through specials, staff up-selling, etc. If both volume and average sale are down, it may indicate price sensitivity of members, and may require lowering menu prices to increase traffic, changing the menu, or investigating what other dining options members may be using.

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 incomes such as monthly dues or annual locker fees are automatically billed on the members' monthly statement and recorded at that time.

© 2009 – Ed Rehkopf

VII – PAYROLL AND ACCOUNTING

All managers and supervisors, but particularly those with bottom line responsibilities, must be concerned about the implications of payroll cost for a club's profitability. In a labor-intensive business such as ours, it takes a lot of people to do all the things necessary to operating a club, particularly those providing high levels of service.

Single Largest Expense

Payroll and related expenses are typically the single largest expense in club operations. Of all the things a manager must do well, monitoring and controlling payroll costs is one of the most important.

Component Factors

There are several factors that will determine a club's overall payroll cost. These include:
- Compensation cost
- Number of hours worked
- Amount of overtime
- Payroll taxes and benefit costs

Compensation Costs

Compensation costs include salaries and wages. In any department there are typically one or two supervisors who are salaried and exempt from overtime while the rest of the staff are paid an hourly wage and are subject to payment of overtime.

While supervisors have control over rates of pay for hourly employees, there are some constraints as well:
- Federal wage and hour laws require that staff be paid at least the federal minimum wage. Some states and municipalities have also established minimum (or "living") wage requirements and clubs in those jurisdictions must comply with them.
- Prevailing industry or local pay scales will also dictate what a supervisor must offer an individual to do a job. In a strong economy with low unemployment, clubs find themselves paying well above minimum wage for entry-level unskilled or semi-skilled employees.
- In the free market system, a supervisor may have to pay a higher rate to employ someone with certain skills or experience. Ultimately, the offer and acceptance to work hinge on a meeting of the minds between an employer who needs certain skills and experience and an applicant who has certain compensation requirements.
- A supervisor must also keep in mind what he is paying current employees when making an offer to an applicant who will be doing essentially the same work. In other words, a supervisor must consider issues of pay parity when setting rates of pay for new hires.
- Pay parity is important in compensating women and minorities. Unfortunately, many businesses have historically discriminated against these groups in parity of compensation.
- Finally, a supervisor will be constrained by the requirements of his operating budget when making offers to applicants and offering pay increases to existing staff.

Within these parameters, a supervisor has some leeway in making a wage offer and exercises control over her labor cost by prudent hiring and departmental wage level decisions.

While a supervisor has no control over the levels of taxation, these costs are directly dependent on the amount of wages paid. Since total wages paid is dependent upon number of hours worked, supervisors can help control tax costs by keeping hours worked to a minimum consistent with quality expectations and standards.

Scheduling Staff

The number of hours worked by employees is directly dependent upon the work schedule that you establish for your employees. While it may be natural to assume that the more staff you have scheduled for any particular shift, the better your service levels will be, experience has shown that being overstaffed can frequently lead to poor service, as boredom, lack of urgency, and lack of productivity pervade the operation.

There are three things supervisors can do to consistently maintain service levels:

- First, forecast your business levels based on past benchmarks
- Hire people with hustle and count on them to shift into overdrive when they get busy.
- Jump in yourself to help during the busiest periods, which requires that you know when the busiest periods are – which is easily determined when you benchmark revenues or volume of activity.

Monitoring Payroll Hours Daily

You can also ensure you meet your payroll budget by monitoring hours worked by employees daily. Recognizing the significant cost of payroll, this is **the most important things you can do to control costs**.

Since most sizeable operations have electronic timekeeping systems, it is easy to pull up daily reports to verify that everyone is only working those hours scheduled, and that no one is "milking the clock," punching in early, or working unauthorized overtime. Daily monitoring of hours worked will also allow you to spot employees who may potentially get into an overtime situation later in the work week. This permits you to alter schedules to avoid overtime.

Verification of Hours

At the end of each pay period, it is a manager's responsibility to verify that all hours on timekeeping reports were, in fact, worked and that any mis-punches are corrected before the reports are sent for payroll processing. Given that hours must be verified quickly at the end of the period to meet payroll submission deadlines, it is strongly suggested that supervisors verify their employees' hours as the pay period progresses and not wait until the last day to do it all. This is inherently easy if managers are monitoring payroll hours daily. It's a simple process of verifying hours worked each day as daily employees' hours are checked.

Overtime

Since overtime hours are 50% more expensive for the club than regular hours, supervisors must be vigilant in avoiding unnecessary overtime.

For the record, let us say that sometimes overtime is the correct response to unexpected business levels or employee absences, but ongoing high levels of overtime without a manager monitoring it and taking action is an organizational dysfunction that must be corrected.

The first and most important step in controlling overtime is to carefully monitor employee work hours on a daily and weekly basis. If you do this, you'll see in advance if any employee is on track to work more than forty hours in a week. In most cases, you'll be able to take corrective action to avoid the overtime.

© 2009 – Ed Rehkopf

Legal Issues

Paying employees correctly and in a timely manner is not only critical to morale, but also a requirement of federal labor laws. Recognizing the serious nature of our responsibilities to properly compensate employees for their effort and labor, all managers must completely understand their responsibilities and execute them promptly and properly.

Payroll Policies and Procedures

All managers must read and thoroughly understand the club's payroll policies and procedures, (Personnel Policies – 4000 series), found on the Private Club Performance Management website.

Additional Information

For more detailed information and strategies for controlling your payroll costs, see *Controlling Payroll Cost - Critical Disciplines for Club Profitability*.

VIII – EXPENSES AND ACCOUNTING

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 a number of expense categories that allow the manager to monitor his or her significant expenses.

The number of other operating 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 to 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 Section V, provides an even 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.

Cost of Goods Sold

Cost of goods sold is the true cost of selling retail items considering the cost of purchasing resale items and the price charged members for those same items after all discounts and adjustments. Given that items are purchased for resale at different times and different prices and those same items are then resold to members at different times and different prices, computing cost of goods sold (CoGS) could be a complex matter.

Fortunately, Generally Accepted Accounting principles allow for a far easier computation.

CoGS = Beginning Period Inventory + Resale Purchases during the Period – Ending Period Inventory ± Adjustments & Transfers

If you stop and consider the logic behind this formula, it makes perfect sense that this computation would yield the actual cost of selling retail items during a given period.

The beginning period inventory (or the ending period inventory from the last accounting period) is the dollar value of resale inventory on hand at the start of the period. Inventories (or physical counts of resale stock) are usually conducted on or around the last day of each month.

© 2009 – Ed Rehkopf

Purchases during the accounting period are those additional items of retail stock that were purchased during the month and whose dollar value was therefore added to the stock on hand.

Note: Managers must clearly understand that for the above cost of goods formula to be accurately computed, it is critical that delivered resale items be properly entered in the POS, that invoices be correctly coded for the period in which the items were received, and the coded invoices promptly delivered to the accounting office for processing. In other words, for your cost of goods sold to be accurate, both your POS inventory and the general ledger account must contain the data entry from each delivery.

The ending period inventory (again conducted on or around the last day of the period) represents the dollar value of stock remaining after sales during the month. By subtracting the value of the ending inventory from the value of the beginning inventory plus all purchases, you get the value (or cost) of those items sold to members.

Since there are always minor adjustments such as refunds on returned items and items transferred from one department to another, and food and beverage transferred from the dining operation to activities for a club-sponsored event, these items must also be taken into account – therefore, the plus or minus adjustments and transfers in the formula above.

Finally, the actual cost (or value) of resale items sold is divided by the retail sales for the period to determine what percentage of total retail sales was spent for those items purchase by members. Put another way, it represents the amount of cost for each dollar in retail sales.

$$\textbf{Costs of Goods Sold \%} = \frac{\textbf{Cost of Goods Sold}}{\textbf{Retail Sales for the Period}}$$

A quick method for following your cost of goods sold is to assume that the beginning and ending inventories will be roughly equivalent. Thus, by simply tracking the amount of your resale purchases during a given accounting period and dividing that amount by your sales, you can have a quick check on your cost of goods sold.

Target Cost of Goods Sold

When retailers set prices for their resale items, they usually have in mind a target cost of goods sold percentage. Obviously, the more they charge for an item the lower the cost of goods sold. But there are limits as to what retailers can charge for their resale items, such as what the market will bear and what competitors are charging for similar items.

Departments with resale operations will budget with a projected cost of goods sold percentage – for retail shops it's usually around 70%, for food it usually ranges between 35% and 50% depending upon the quality and type of operation. Alcoholic beverages usually have a lower cost of sales, though again it varies from club to club depending upon the quality of the operation, the size of shots poured, and the price charged.

Whatever the target cost of goods sold, that is what the department head has budgeted, and he or she must ensure that actual performance is at or below the target to ensure profitability.

Investigating Cost of Goods Issues

One of the major issues with tracking one's departmental cost of goods sold is extreme variation from month to month. Often, a department will have an extraordinarily high CoGS % one month, followed by a low one the following month. The problem with such fluctuation is that it lulls the manager into a habit of waiting to see if out-of-line CoGS will come back in line the next period. The danger in this is that if the problem is related to pilferage or theft, the manager allows it to continue for some time before investigating or acting.

© 2009 – Ed Rehkopf

What this means is that managers must take great pains to conduct accurate monthly inventories and thoroughly investigate any out-of-line CoGS as they happen. Private Club Performance Management has provided several tools to help managers do this. *Cost of Goods Sold Analysis*, Accounting Policy A-1511, provides a detailed explanation of those factors that can contribute to out-of-line CoGS. Also, *Cost of Goods Analysis, PCPM Form 244*, can be used as a checklist to try to find contributing factors. The simple act of benchmarking the dollar amounts of your inventories and your cost of goods sold percentage month to month on the cost of goods analysis form will help you spot inventory problems.

Lastly, two Accounting Policies, *Monthly Resale Inventories – Food, Beverage, & Retail, A-4501*, and *Investigation of Inventory Discrepancies, A-4509*, both give helpful tips to better organize your storerooms and conduct more accurate inventories.

IX – PURCHASING MERCHANDISE AND SUPPLIES

Purchasing and handling merchandise and supplies is a major responsibility for managers. Retail operations such as pro shops, general stores, and food and beverage outlets purchase resale merchandise and products on a regular basis. The need to purchase at the best price and receive and handle incoming items properly requires the ongoing focus of department heads.

Even those without resale operations may purchase large quantities of consumable supplies such as cleaning products, ware wash chemicals, pool chemicals, laundry products, etc. These consumable supplies can represent a major cost for the club and their purchase price, handling, and use should be carefully monitored by managers.

Purchasing

A club should establish purchase authority and limits for all club purchases. Managers should make themselves fully aware of these requirements by reviewing Accounting Policy, *A-4001, Purchase Authority and Limits*.

Managers involved in purchasing must always seek the best price by shopping around with multiple purveyors as required by Accounting Policy, *A-4005, Competitive Pricing*.

Purchasing managers must also understand the pitfalls of receiving gifts from vendors and purchase rebate programs as spelled out in Accounting Policies, *A-4010, Gifts from Vendors* and A-*4015, Purchase Rebate Programs*. Managers must abide by the highest standard of ethics as spelled out in these policies, as well as the Managers Code of Ethics.

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 approval stamp supplied by the Accounting Department,
3. Initial and date the invoice 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 department for processing and payment. See Expense Coding, Section X, for further information. The accounting department usually processes invoices weekly and then submits them to the general manager for approval. Once approved, disbursements are made.

Storing

All storerooms used for storage of resale and consumable inventories must be properly secured and organized. It is also important that managers establish par stocks storage areas to provide ready access to reasonable levels of inventory for daily operating needs.

Storerooms

1. Proper storage of inventories reduces damage and spoilage of stock.
2. Proper organization (appropriately labeled shelving and items stocked on shelves in the same order as listed on inventory sheets) will reduce the amount of time needed to conduct month-end inventories. Cases of product should not be opened until previously broken-down cases are fully consumed.
3. To reduce spoilage, stock should be rotated so that older stock is used first.
4. Inventories represent assets of the club and must be safeguarded.
    a. Access must be limited to as few employees as possible.
    b. Doors to storerooms must be closed and locked at all times.
    c. Keys to storerooms must be assigned to specific individuals by means of a key register and a key control plan must be in place to ensure proper issuance and recovery of keys. Lost keys must be reported to the general manager immediately. Keys to these areas must be closely controlled.

Par Stocks

1. Consumable items of inventory must be available to line employees, but only in sufficient quantity to meet daily needs.
2. These stocks should be established at "par" levels and replenished daily by supervisors by means of inventory and issue forms. Such par stocks might include restaurant paper supplies, alcoholic beverages, sodas, snack mix for the bar, and other items consumed during normal operations.
3. Par stocks should be kept in secured lockable closets, drawers, cabinets, and other easily accessible locations for use by line staff.

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.

© 2009 – Ed Rehkopf

Procedures

1. Inventory Timing. 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. Again, consult with the Controller in this case.

2. Inventory Count

   a. 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.

   b. Techniques to do this include:

      (1) Noting counts on "unbroken" boxes, i.e., those boxes that have not yet been opened.

      (2) Removing items from "broken" boxes to ensure that the box is not mistaken as being "unbroken."

      (3) Establishing specified locations for the storage of each stock item.

      (4) 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 other retail inventories such as pro shops). This is not always possible but can aid greatly in efficient inventories.

      (5) Separate inventory locations should be inventoried separately and then combined on a spreadsheet or consolidated inventory report.

      (6) Create and follow a map for counting inventory locations so that you do not inadvertently skip a section.

3. Inventory Count Sheets. For retail inventories, a point-of-sale inventory list can be printed and used as count sheets. Food and beverage department heads may want to design a spreadsheet with each item of stock listed to serve as count sheets. In order to ensure the validity of the inventory counts, the count sheets should not have expected counts for each item.

4. Inventory Accountability. To ensure an accurate inventory count, it is helpful to have one individual assigned the responsibility of making the count. This way, the club achieves accountability for the results.

5. Due Dates. Responsible departments heads should submit resale inventories to the accounting office no later than the 5th of each month (or a due date according to the requirements of the general manager or controller).

Responsibilities

1. Department heads are responsible for:

   a. The proper and accurate conduct of inventories and the timely submission of inventories to the controller.

b. Training staff to conduct the inventory properly. Department heads may delegate the task of conducting actual inventory counts, but should avoid always selecting the same individual to conduct inventories, must periodically spot check the results of subordinate's inventory counts, and must be personally involved in the inventory on at least a quarterly basis.

c. Reviewing the inventory before submitting to the accounting office, as is evidenced by a signature on the count sheet(s).

2. The accounting office is responsible for reviewing inventories, making any adjustments as necessary, and computing the cost of goods sold.

3. Periodically, the controller or an accounting office representative may participate in the inventory count to double check procedures and verify accuracy.

Investigation of Inventory Discrepancies

It is club policy that all significant discrepancies in inventory counts, and cost of goods sold be investigated to determine the cause.

There are two types of retail inventory discrepancies:

1. Physical count versus POS system.
2. Value of physical count versus general ledger.

One or both can exist and need to be evaluated and can have different reasons for the discrepancy.

Accurate inventories are essential to proper financial accounting and reporting. Significant discrepancies can adversely affect the cost of goods sold and, if erroneous, distort the true financial performance of a department or club.

Since the formula to determine cost of goods sold starts and ends with inventories, responsible department heads must ensure that they are accurate.

Often inventory errors are corrected by subsequent inventories, but the danger of waiting for future months to solve the problem is that if the worst case of theft or pilferage is the cause, the true nature of the problem may not be discovered until significant loss is incurred.

The following items must be checked to find discrepancies:

1. Inventory counts. Are they correct?
2. Stock in **all** storerooms and par stock locations included in counts.
3. Extension of counts times unit costs verified by calculator tape attached to count sheets.
4. All transfers recorded and turned in to the accounting office.
5. Retail – major variances between physical count and point-of-sale inventory must be checked, item by item.
6. Retail – was all new stock entered into the POS inventory before or after the physical inventory?

© 2009 – Ed Rehkopf

7. Retail – if necessary, review daily sales reports to determine the number of a stock item sold.
8. Retail – were all resale purchases correctly coded?

X – EXPENSE CODING

Purchaser Must Code

Those managers who purchase also have the responsibility to properly code all invoices so that the expenses may be properly classified on financial statements. To properly code expenses managers will need a copy of the club's chart of accounts from the controller.

Consistent Coding

In order to maintain consistency in the classification of expenses, managers must ensure that they code consistently. While most expenses are self-evident and easily classified, some unusual or one-time expenses require careful consideration. For example: poster board and magic markers purchased to make posters advertising upcoming events – should they be expensed to office supplies or marketing expense?

Where they are expensed is not nearly as important as consistently classifying them in future periods. When expenses are not consistently coded or miscoded, it misstates the performance of the department, is misleading when trying to identify problems, and will be misleading when using the misstated numbers as historical records to create the next year's budget. To ensure that expenses are classified consistently, managers should create an Expense Dictionary.

Expense Dictionary

An expense dictionary is nothing more than an alphabetized journal (purchased from an office supply store) where the purchasing manager notes all expenses as classified. In short order the expense dictionary will include all normal and ongoing expenses. As unusual and one-time expenses are classified by account name and number, the manager will record the classification in the expense dictionary. Should the same or similar expense be incurred in the future, the purchasing manager will refer to the expense dictionary and know exactly which account to code the new expense.

In lieu of using an alphabetized journal, managers can record the same information in an MS-Excel spreadsheet alphabetically. In either case, the expense dictionary is a handy reference to assist the purchasing manager in consistently coding expenses.

Multiple Codes on One Invoice

Another coding challenge occurs when a purchasing manager receives a vendor invoice with multiple purchased items needing to be coded to different expense accounts. Depending upon the number of items needing to be coded to different accounts, the purchasing manager may simply calculate the dollar amounts needed to be coded for each account and note them separately on the invoice.

For complicated invoices with multiple items needing to be expensed to many accounts, managers should consider using an MS-Excel spreadsheet to breakout expenses (including sales tax and shipping) to the different expense accounts. The benefit of using the spreadsheet is that it can automatically subtotal expenses by category and "prove" these amounts back to the total of the invoice. See an example using a *Multiple Expense Coding Sheet, PCPM Form 245*, on the next page.

Multiple Expense Coding Sheet **Department:** **GC Maintenance**

Vendor: Acme Wholesale Products Invoice #: 08-14307 Inv Date: 22-Aug-08

Tax Total $142.10 Ship Total $39.50 Inv Total $2,286.72

Expense Code: 490-214
Category: Fertilizer

Line Item(s)	Line Item Cost
Hydro-Grow 420	1,342.78
10-20-40 Mix	642.50
Subtotal	1,985.28

Expense Code: 490-222
Category: Fuel, Oil, Lubricants

Line Item(s)	Line Item Cost
2 cases 30w Oil	79.89
Subtotal	79.89

Expense Code: 490-538
Category: Seed/Sod/Stolons

Line Item(s)	Line Item Cost
100 lbs Fescue seed	39.95
Subtotal	39.95

Expense Code:
Category:

Line Item(s)	Line Item Cost
Subtotal	0.00

Always check to make sure that the invoice totals "prove."

Exp Code	Expense Category	Category Cost	% Allocation	Allocated Tax	Allocated Shipping	Category Total
490-214	Fertilizer	1,985.28	94.3%	134.01	37.25	2,156.54
490-222	Fuel, Oil, Lubricants	79.89	3.8%	5.39	1.50	86.78
490-538	Seed/Sod/Stolons	39.95	1.9%	2.70	0.75	43.40
0	0	0.00	0.0%	0.00	0.00	0.00
	Subtotal	2,105.12		142.10	39.50	2,286.72
	Invoice Total			142.10	39.50	2,286.72

Coding Standards

Coding standards are established to ensure that all purchasing managers correctly code their invoices and that all coded invoices turned in to the accounting office are coded correctly and accurately. Correct and accurate coding of invoices by all purchasing managers would greatly reduce the workload of club controllers, thereby permitting them to focus on other pressing issues and assisting department heads and the general manager with accounting outreach programs.

One controller estimates that 50% of the time spent in processing payables could be saved by purchasing managers correctly and accurately coding their invoices.

Coding standards for all invoices include:

1. Using a coding stamp. This stamp should be ordered by your controller and distributed to all managers who will be coding invoices. See the sample to the side.
2. Entering the month and department to which the expenses will be charged.
3. Entering the general ledger account code from the club's chart of accounts.
4. Entering the corresponding total dollar amount to charge to each account code.
5. A detail notation indicating what the charge(s) are for.
6. The coding manager's signature or initials.
7. The date the coding takes place.

Oak Hill Country Club

Month: *August/08* Dept: *GC Maint*

GL Code: *490-214* Total: *2,156.54*
GL Code: *490-222* Total: *86.78*
GL Code: *490-538* Total: *43.40*

Detail: *Fertilizer/Oil/Seed*

Approval: *J.M. Smith* Date: *8/24/08*
Approval: ____________ Date: ____________

Sample Stamp

What Your Signature (or Initials) Means

Mark Clayton, Chief Financial Officer for East West Partners Club Management, provided this excellent reminder of what a manager is certifying when he approves an invoice for payment.

"When approving and submitting an invoice for payment, a department head or manager must understand that they are certifying to the controller and general manager that the item (or service) is valid to pay because:

1. **You Ordered It**
   Beware of companies that send out fake invoices to see who will simply pay it because somebody figures someone else probably ordered it or that someone else got it.
2. **You Received It**
   Check the shipping address on the invoice. It should have come to your club. It should not have been drop shipped somewhere else. Make sure it wasn't a delivery for the club down the street with the similar sounding name – let them pay for their own stuff!
3. **You Inspected It**
   Don't let your employees quickly sign for stuff so that the delivery guy can be on his way. Make sure you received exactly what you are signing for.

© 2009 – Ed Rehkopf

4. **It Is the Right Item**
   Is it what you expected, and will it be used? Is it what you contracted for?
5. **It Is the Right Price**
   Is it the price they quoted you?
6. **It Is the Right Quantity**
   Is it the amount you ordered? Did they short you or send too much to see if you'll pay for it because you'll think that you'll probably use it eventually anyway?
7. **It Is Complete**
   If you are authorizing payment for a contracted service make sure it is complete to your satisfaction before you pay a vendor in full.

If you can't say **YES** to all of those statements then you need to ask some questions and do some research before you submit anything for payment (after all, you would be that careful if this was your money being spent). Take the extra time – this is YOUR responsibility."

Conclusion

While coding invoices can be a time-consuming and monotonous task, it is nevertheless an essential one for the proper accounting of club expenses and the preparation of accurate financial statements. The quality and accuracy of your financial statements begins with you!

XI – COMPARING ACTUAL PERFORMANCE TO BUDGET

Requirement

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 will 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.

The monthly review of operating statements meeting is also an excellent opportunity for the general manager and department heads to review progress toward the goals of their departmental annual work plan – a key requirement of performance management.

© 2009 – Ed Rehkopf

XII – BENCHMARKING

Purpose

Benchmarking is the act of measuring operational performance. The idea is to establish the measurements that reflect the norm of business performance. Measures of historical performance become the standard by which current and future operations may be evaluated.

The general manager is ultimately responsible and accountable for the performance of the operation and, therefore, has the greatest vested interest in knowing how the club is performing.

But just as the responsibility for managing individual departments has been delegated to department heads, the responsibility for departmental performance rests squarely with these managers. Department heads have the specialized knowledge, skills, and abilities for their areas of the operations to function at high levels of efficiency and member satisfaction. As a result, it is department heads who have the basic responsibility to benchmark their individual operations.

Ultimately, performance and benchmarking are shared responsibilities, directed and monitored by the general manager.

What Should Be Benchmarked?

There are several things that should be benchmarked in club operations. These include:

- Revenues, both aggregate and by type, for profit centers.
- Expenses for profit and cost centers.
- Inventories
  - Resale
    - Food
    - Beverage
    - Retail
  - Consumables
- Retail sales mix for departments with a retail sales component, such as pro shops, general stores, and food and beverage operations.
- Processes to track specific tasks or events.

Sources of Data

The raw data that should be benchmarked comes from several sources:

- Information that is already being collected and reported by the accounting/financial reporting system.
- Information that is being collected by point-of-sale devices, but not tracked over time or reported.
- Currently uncaptured data – the collection of this information may require ingenuity and initiative on the part of the manager.

Tools to Benchmark

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

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, which can be found as part of *Club Benchmarking Resources* on the PCPM Marketplace store.

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.

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.

Access to POS reports daily
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.

Access to a personal computer (PC)
This tool is indispensable in tracking large amounts of data over time.

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.

Cautions

There are several cautions that must be given to managers preparing to benchmark.

There are as many aspects of an operation to measure as time, resources, and ingenuity will allow.
Managers have limited time to spend on the process of collecting, organizing, summarizing, and analyzing data and should avoid a common pitfall – allowing benchmarking to become an end rather than a means to a better understanding of the business. As a result, they should select their benchmarks carefully. Key benchmarks must represent operational practices and processes that are essential to departmental success or to solving problems.

Data used in benchmarking must be defined and collected in a consistent manner.
If for the past five years a club dining room has defined meal counts by servers counting the number of members on each check and entering that information into the POS, it will not do to change the definition of a meal to the number of entrees sold. Such comparisons will be distorted. At the very least, if such a change is necessary, it should be prominently noted and considered when comparing data from different periods. While this is usually a problem for data collected by hand, it should also be kept in mind if POS devices are changed or reprogrammed.

Often problems occur with consistency when procedures for collecting data are not well defined or collected by different individuals with an imperfect understanding of the process. If a procedure calls for all guests entering a pool to be counted separately from members, an inattentive or poorly trained lifeguard may lump everyone together. Care must be taken to train accounting or other employees who take numbers from POS reports to ensure they get the right numbers. Mistakes are made when several numbers must be selected and added together to serve as a key benchmark. The opportunity for error increases proportionally with the number of different people assigned this task and the number of manual steps involved in obtaining or deriving data.

Other measures that require subjective evaluations such as rest room inspection scores may be distorted by one inspector who has a radically different understanding of what a clean bathroom is. In such cases, it is best to limit the number of people conducting inspections or attempt to train all inspectors to a uniform standard.

When comparing data, it is important to compare like to like.
Comparing lunch sales for one month to dinner sales for another month is meaningless. The two meal periods have different member dining patterns and menu prices are significantly different.

Ensure that benchmarks measure practices and processes with only one variable.
If this is not done, one or the other, or both variables interacting could cause changes to the benchmarked data. For example, if a department head wants to determine and track food sales per day but the dining room is open 9 hours a day four days a week and 12 hours a day the other two, there are two variables involved in this benchmark – the variability of member traffic and the variability of hours open. A better solution would be to measure and compare dining room sales by day of the week thereby eliminating the variability of hours open.

A major pitfall in benchmarking is drawing conclusions from too small a sample of data.
The smaller the sample of measurements; the less reliable are the conclusions. Ideally, benchmarking works best in large organizations where large numbers of like events take place. For example, McDonalds will have a statistically sound sample to benchmark sales of Big Macs at its tens of thousands of outlets. There is far less statistical accuracy for a steak house that may sell only a hundred 16-ounce Porterhouse steaks in each week.

While the smaller sample does not preclude establishing a benchmark, it does mean that any conclusions drawn from such a sample are subject to wider margins of error. Say the owner of that same steak house forecasted selling a hundred 16-ounce steaks a week and ordered accordingly. When a busload of cattlemen on the way back from their national convention stopped to eat, the restaurant naturally ran out. The lesson learned from this experience is not to order two hundred steaks a week, but to plan for next year's convention.

As department heads work with benchmarks, they quickly learn which benchmarks are suspect because of small sample size. Yet there is even virtue in working with suspect benchmarks as department heads learn the subtleties of interpreting related benchmarks to draw a more complete picture of their operations' performance.

When two pieces of data are compared to generate a benchmark, either a small sample size or extreme volatility in one or the other, can have a major impact on the resultant benchmark.
For example, outerwear sales from the golf shop represent a small number of the total retail transactions. If outerwear sales per member is tracked as a statistic, that benchmark could increase dramatically during a prolonged period of cold, rainy weather. If the benchmark is used to determine the amount of outerwear purchased for the next season, the shop may end up with too much outerwear. Such benchmarks should be used with care.

© 2009 – Ed Rehkopf

As an Aid to Budgeting

The revenue benchmarks that you track day by day, month by month throughout the year will help you forecast revenues for the coming year during the annual budgeting process. There is no better way to create your revenue assumptions in a way that any reviewer can easily understand than by creating data entry cells in a budget spreadsheet for your volume projection (rounds of golf, meals served, number of items sold) and the average sale (green fee per round, average dinner check, average retail sale). When these two projected variables are multiplied by each other, they will yield your projected revenue for each revenue category. See the example below.

> *Recognizing that, absent significant change or abnormal events, the recent past is the best predictor of the future, these benchmarks can help project future rounds per period and revenues per round. All it takes is a little informed judgment and knowledge of upcoming events or trends that may impact the forecast.*
>
> *By setting up a bank of data entry cells in a spreadsheet (shaded below), we define the assumptions underlying our revenue projections at the same time we create those projections. Nothing could be simpler – spreadsheet formulas are set up to automatically multiply the number of rounds by the benchmark for each revenue category to project future income.*

Assumptions	Oct	Nov	Dec	Annual
Projected Rounds	3,300	2,800	2,250	28,550
Historical Benchmarks				
Green Fees/Round	21.40	20.15	18.75	22.20
Cart Fees/Round	12.75	12.35	12.00	12.90
Merchandise Sales/Round	1.75	1.85	3.05	2.50
Practice Range Income/Round	1.35	1.05	1.50	1.45
Projected Income				
Green Fees	$70,620	$56,420	$42,188	$633,810
Cart Fees	$42,075	$34,580	$27,000	$368,295
Merchandise Sales	$5,775	$5,180	$6,863	$71,375
Practice Range Income	$4,455	$2,940	$3,375	$41,398

Projected Revenues using Rounds and Revenue per Round Benchmarks

> *Such clearly stated assumptions make it easy for superiors and owners who review the budget to understand how the projections were made. It also makes it easy for the operator who has missed his projections in each period to go back and see why they were missed – either not enough rounds of golf or lower revenues per round.*

Likewise, your payroll benchmarks of hours worked and average hourly wage will allow you to quickly forecast your payroll cost period by period, for each month, and for the year.

The added advantage of using volume and average sale (and hours worked and average hourly wage) to build your budget is that you can easily change assumptions for one or the other, or both, and see what impact it has on your revenues or payroll cost. Using the example above, say you have projected your green fees for the year, but realize that revenues are not keeping pace with rising costs. By raising your green fee per round by 6%, you can quickly see if this price increase is enough to meet the needs of your expected financial performance.

The Executive Metrics Report

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 operating statement to whoever receives it.

The Executive Metrics report may be modified to fit the unique operation of each club, though as much of the standardized information as possible should be provided.

Archiving Benchmarks

Department heads have the greatest need to know the details of their operations and should, therefore, archive their monthly benchmarks for future reference, analysis, and comparison. The easiest way to do this is to save each month's benchmarking spreadsheet under the name of the month, e.g., "July '08" or "Jan 2006." Each of the monthly files for a particular year should be filed in a folder named for the year.

The controller who prepares the Executive Metrics Report should save each years completed (i.e., December) report under the name of that year and start a fresh spreadsheet for the new year.

More information on the Executive Metrics Report can be found in *Club Benchmarking Resources*.

XIII – POINT-OF-SALE SYSTEMS

Point-of-Sale System

Point-of-sales (POS) systems are computerized data entry systems that record all the detail of sales transactions at the "point-of-sale" computer terminal. Point-of-sale systems have generally replaced the mechanical and electro-mechanical cash registers of old – devices that were used to record, classify, total, and report sales transactions.

As computerized systems, modern-day POS systems capture and record far more data and allow that data to be reported in far greater detail than ever. Examples of such detail would include tracking time of sales, shift totals by clerk or server, sales mixes, and open tickets; communicating with food preparation areas; maintaining inventories; allowing automatic touch screen data entry thereby simplifying the job of clerks and servers; and many customized reporting features.

The basic purpose of the POS system is to:

- Maintain accurate records of member transactions and to post charges to members' accounts,
- Capture and report as much detail on each transaction as possible,
- Speed service by transmitting food and beverage orders to food and beverage prep staff, and
- Help monitor and control inventories.

Importance of Programming

Managers must work closely with POS salespeople to understand the features of the POS to take full advantage of its many features.

Given the extensive features on most POS systems, responsible managers must clearly think through their operations and ensure that the system is properly programmed to generate all the data the manager might need about sales and revenues. Examples include tracking the number of sales for each category (appetizers, desserts, specialty drinks, and wines sold by the glass and bottle) in addition to the total dollar sales amount and defining a "meal" to enable computation of average check by meal period (this can be either specific menu items being defined as lunch or dinner items or by counting diners by meal period).

Importance of Training

The number of features on POS systems requires that employees be well-trained in their use. While most sales transactions are simple and straightforward, there are a few transactions that can complicate the server or clerk's jobs, such as split tickets, changed orders, returned items, complimentary items, and discounts given for damaged goods, slow service, or other complaints.

Managers should continually evaluate the effectiveness of the POS and employee's skill in using it. Most problems stem from poorly trained or untrained users. Refresher and retraining should be given as needed.

Managers should also fully understand the POS system's capabilities and programing to take full advantage of this powerful accounting tool.

CONCLUSION

As we said at the beginning of this handbook, accounting can be a complex and confusing subject for the uninitiated. We hope that the material contained here has been helpful in laying out the club's expectations regarding financial responsibilities. We also trust that you now have a better understanding of those responsibilities and can better help your general manager and controller manage the financial performance of your department and club.

About the Author

Ed Rehkopf is a graduate of the U.S. Military Academy and received a Master 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 luxury-budget hotel chain, opened two golf and country clubs, worked in golf course development, and launched a portal web site for the club industry.