

Hospitality Financial Leadership – Critical Importance of Accruals and Deferrals



A lot gets written about certain things in the hotel industry and others not so much as a mention. I am not saying it is simply a matter of blatant favoritism or anything like that but it is not lost on me that certain items get the limelight. In this piece, I am going to shine a light on two of the hotel team's third-line mainstays. This pair keeps us on track month after month and they need a little more respect.

Part of respect comes from understanding their function and how important it is to the team's performance. Without this pair playing well, we are doomed. Each part of our operation needs to understand how they work and be sure to include them on each and every outing.

When we look into the business systems in our hotel, we want to see two things clearly every time.

We want to know the latest score relative to the budget and last year both for the current month and YTD.

On top of that, we want to know where the improvements need to be made in order to get back on track so we can make our numbers at the end of the year.

This pair of agents is like the defensive line in a football team. A good show means nothing gets by them, nothing gets through without proper authorization and credentials.

In order to produce an accurate picture of the business's financial performance, we need to match the revenues earned with the appropriate amount of costs, payroll and expenses. There is no way to accomplish this without the use of accruals and deferrals. They make the show work, and they produce it in a spectacular fashion without even so much as a complaint or request for attention as long as YOU don't forget to include them.

If we try and run the financial system without the full complement of accruals and deferrals and play things without the guts of the team, we may look like we're on top of the situation. But, alas, only to learn that it is short-lived, and the lack of teamwork shows in the second, third and all subsequent periods of the game.

Accruals sometimes get a bad rap. When we forget to include them, they make their presence known, although you may not hear from them immediately. We try and round them all up every month and if we forget one or two there is likely hell to pay. That is why they get a bad rap because they point out the offending department and manager with the cry of a spoiled victory. You do not want to be the one who forgot their accruals! This simply means you let down your team.

Deferrals on the other hand seemingly can save the day. When it appears, the game is lost the quiet and unassuming linebacker delivers a one-two punch and brings much relief to the team's efforts. Deferring expenses to future periods with a legitimate match to the upcoming revenues is a sweet sound indeed.

Accruals and deferrals are on the same line – let's call it the adjustment line – but they play different positions. Accruals bring expenses into the current period and they are always promptly and completely reversed in the following period. In and out just like that. Here one month and gone the next. Deferrals have a longer more purpose-filled role. A deferral can play a full 12 months and contribute to each performance, unlike the accrual that always comes and goes.

You can look at an accrual like it is a substitution for a real player. We substitute the accrual when we do not yet have the real thing. Usually, it is the invoice that is missing. You can look at the deferral like it is being sliced up into bite-sized pieces so we can digest it smoothly. We know what it feels like if we consume too much.

Well, there you have it. Realizing these two play pivotal roles in our financial performance is key to a successful campaign. Always bring them both completely and fully to every game and show them the respect they deserve because without them you are not going to be successful.

As far as the other performers, I am not worried about them because they can speak for themselves.

At Hotel Financial Coach I help hotel leaders and teams with financial leadership coaching, webinars and workshops. Learning and applying the necessary financial leadership skills is the fast track to greater career success and increased personal prosperity. I significantly improve individual and team results with a proven return on investment.