

USING EXCEL TO TEACH HOSPITALITY FINANCIAL STATEMENT ANALYSIS

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Introduction

This presentation demonstrated the use of Excel to help individuals understand how to prepare and analyze lodging industry financial statements. It focused on an Excel-based interactive exercise that requires a user to prepare some key lodging industry statements, calculate ratios, and then analyze what the numbers mean. It is this last element that is the most important part of financial statement analysis – users must think about what a line account value or a ratio is telling them. It is from this focus on listening to what a number says about an operation that the exercise derives its name – **LIPS (Lodging Industry Practice Set)**.

LIPS Objectives

LIPS satisfies two sets of objectives. From the perspective of the user, the exercise helps the individual:

1. understand the structure and content of the Uniform System of Accounts for the Lodging Industry;
2. apply the concepts typically covered in financial statement analysis;
3. analyze the financial results of a simulated lodging property; and
4. build his/her Excel skills.

At the same time, from an instructional standpoint, **LIPS** provides:

1. each user with his or her own practice set;
2. a way to provide immediate feedback about the correctness of the user's answers;
3. an easy method for an instructor to grade dozens of different practice sets in a course; and
4. a tool that is portable across any environment or learning management system.

How LIPS Works

Using PKF Trends data, the Excel program randomly generates a set of general ledger balances for a full-service lodging property between 100 and 350 rooms in size. In fact, there are three randomizations: first, the number of rooms is randomly generated; second, a random number is used to modify revenue and expense values; and third a random value selects which of three scenarios the user will get.

Using the general ledger information, the user then completes a Rooms Department Schedule, a Food and Beverage Department Schedule, a Summary Operating Statement, a Statement of Income, and both the Assets and Liabilities and Equities sections of a Balance Sheet. Users enter dollar amounts on all of the schedules/statements and common-size values on all income related schedules/statements. There are also 20 ratios or values that must be calculated. As the user's answers are entered in the preformatted schedules or statements, the program indicates whether the answer is correct or incorrect.

The final, non-Excel, part of the exercise is a report for which the user is expected to play the role of the property's general manager explaining to the owner of the property the results of the property's operations over the past year. In the report, the user is expected to focus on explaining both the positive and negative aspects of the business – what the numbers mean or say about the property's operation and any steps the user would take to change the situation and correct the indicated problems.

LIPS Grading

When used in an academic course, the **LIPS** exercise typically counted 50 of the total points for the course grade. Part 1, the Excel portion, was graded as follows:

One point for each of the schedules/statements	6 points total
One point for each of the questions after the schedule/statement	<u>20</u> points total
	26 points total

The rubric for grading Part 2, the report, worth the remaining 24 points is based on the user's mastery of four criteria: analytical effort, problem identification, recommendations for action, and report presentation.

Issues Using LIPS

Several issues have occurred with the use of **LIPS**:

1. **LIPS** does not work on a Mac.
2. **LIPS** makes extensive use of macros, which must be enabled each time that the program is started. Failure to do so creates erratic behavior.
3. There is no way to restart **LIPS** using the same general ledger balances.
4. Users need to look up information in the tenth edition of the *Uniform System of Accounts for the Lodging Industry*, published by the Educational Institute, to complete the various schedules, statements, and ratios.

What's Next

The plan is to contact a publisher to determine interest in **LIPS**. If there is interest, both enhancements and extensions are under consideration. Enhancements include allowing the user to select the region of the country in which the lodging property is located instead of working with a property based on national statistics. Another enhancement would be the ability to do comparative analysis. As for extensions, **LIPS** is thought of as the first topic in a managerial accounting series. Similar exercises focused on cost-volume-profit analysis, budgeting, and variance analysis can be added to create a managerial accounting practice series.