

Uniformity in Club Accounting

By C. E. WINTERS, C. A.

PARTNER, GEORGE A. TOUCHE & Co., TORONTO, CANADA

Opinions as to the purpose of accounting and accounting records vary all the way from those which consider accounting in any form to be a necessary evil and an expense they would like to be without to those which regard it as one of the most important tools of management in controlling and planning operations.

Generally speaking, accounting records are expected to provide an historical record of financial transactions and information upon which the directors may plan future financial policy.

One of the important considerations in every day business is that such accounting work as is done should be done with a definite purpose and aimed at producing constructive results.

Two basic principles in business organizations are that the accounting and bookkeeping should be as simple as possible, in keeping with the requirements of management, and that the bookkeeping should produce figures at a sufficiently early date to make them useful to management.

In clubs the same considerations apply. Perhaps people are inclined to look upon a club as something other than a business organization. It is true that the general purpose for which it is formed is different, but the operation of a club for the members and the use of the members' funds in providing facilities and services become very much of a business and should be looked upon as such.

One of the difficulties frequently experienced in clubs is that, with changing directors and chairmen, no one person is in office long enough to get the feel of the situation. Therefore, pet ideas of individuals are pushed without proper regard to the over-all situation. Frequently

club managers and secretaries have to defer to decisions made by boards of directors which, while made in good faith, would not be considered sound if more experience in club affairs and finances existed with the individual members of the board.

I believe that the failure to look upon a club as a real business venture and to recognize the need for informed experience in dealings with its financial problems is frequently at the bottom of the difficulties in which clubs find themselves from time to time.

Advantages of Uniformity

Most clubs are doubtless preparing monthly statements comparing operations with prior periods and with current budgets.

One of the best means of checking the results of any business operation is by comparing it in dollars and percentages with a similar type of business. Various trade organizations in Canada and the United States have set up procedures for accumulating data necessary for comparisons and in many cases do so on a basis that does not disclose to any one participant the figures of his competitor.

Let us consider the annual reports of clubs prepared for distribution to the members. There appears to be little uniformity in the presentation of such reports, and I feel that directors are missing an opportunity in not being able to obtain the advantages of comparison of their club's results with those of similar clubs.

One criticism of some annual reports is that the members are not given all the information they are entitled to. Some degree of uniformity of presentation, adopted generally, would tend to overcome this criticism, provided the uniform treatment was in favor of adequate disclosure.

Condensed from an address delivered before the Canadian Club Managers' and Secretaries' Association at Toronto, Canada.

Let us look at some of the items which would be of interest in comparison of results with other clubs:

Average selling price per meal.

Average food cost per meal.

Relationship of supplies used to sales in the bar or dining room.

Relationship of wages to volume in dining-room, bar, etc.

Cost of upkeep per hole on golf course.

Relationship of departmental profits or losses to membership fees.

General overhead expenses.

Clubhouse expenses.

Administration costs.

Frequently it is argued that it is impossible to segregate or break down expenses of different departments in clubs, or at least it is too expensive. I submit that with proper planning such figures can be obtained and in nine cases out of ten would justify the cost of getting them.

Someone has said that you cannot satisfactorily compare clubs because various clubs have different standards to which they choose to adhere as regards service and luxuries. This presents a problem that is not insurmountable and is dealt with in the reconciliation of factors contributing to variations between clubs.

You can imagine the interest that a board of directors would show if they could see their club operating results lined up, department by department, alongside figures for a number of other clubs, particularly if their figures showed wide variations in certain departments. It would take very little persuasion to have them thoroughly investigate the differences and try to satisfy themselves that their own operation was as good as other clubs, having, of course, regard to any special circumstances.

In the United States the firm of hotel and club specialists, Horwath & Horwath, is producing an annual summary of club operations which present interesting comparisons. The names of the clubs contributing this information are not disclosed. Some of these comparisons are

IN APPRECIATION



Members of the Woodhill Country Club, in Wayzata, Minn., presented this plaque to their fellow-member Totton P. Heffelfinger during their annual meeting to memorialize his service to golf which culminated in the presidency of the USGA during the last two years.

shown as percentages of membership fees. (Note: The Horwath and Horwath report for 1952 appeared in condensed form on pages 12-13 of the November, 1953, issue of the USGA JOURNAL.)

Philosophy of Club Financing

In any business organization, if one is to discuss the methods of accounting, one must first ascertain the basic philosophy of that particular business in carrying on its operations.

In a manufacturing or trading concern, the philosophy may be simply stated as the carrying on of business with a view to making a satisfactory profit. Accounting is designed to highlight the points which are considered to be most important to the management to enable them to judge what progress is being made.

In a club there is a basic philosophy which must be agreed upon before the second point can be approached. I refer to the problem frequently raised which might be stated as a question: "Should a club be operated on a year-to-year basis,

paying as it goes but leaving new members in no better position than when the club started?" This is a troublesome question and cannot be answered lightly. In fact, I do not propose to try to answer it. I raise it, though, as a very important point, the answer to which has an important effect on club financing and club accounting. If we attempt to attain uniformity in club accounting, it is necessary to reconcile our thinking on this basic philosophy of club-financing policies. This in itself will resolve the more important of the accounting problems.

I would like to refer for a moment to the apparent absence of uniformity among clubs concerning the sale of capital stock, treatment of entrance fees, capital expenditures, major repairs and provisions for depreciation.

As you know, all clubs do not have capital stock as such, whereas most clubs do have entrance fees. Some clubs have adopted the philosophy of making capital expenditures only to the extent of funds available from entrance fees or sale of capital stock. I suspect that on occasion such a club finding itself in a very profitable situation towards the year-end might consider certain of its capital expenditures as of a repair and renewal nature and thus, by writing them off to operations, reduce what might otherwise be an embarrassing surplus for the year. Such action not only distorts the operation this year but throws out the comparison with next year.

Another situation might prevail where a club provides for moderate depreciation in profitable years and a lesser amount when operations are not so satisfactory.

I am afraid that too often the clubs' financial policy is related to expediency and quite possibly this philosophy may be unavoidable.

Another matter related to the philosophy of accounting in clubs concerns the valuation of fixed properties and related provisions for depreciation. In general, it is my belief that for most clubs the intrinsic value of the property has little or no significance other than for pur-

poses of insurance. Even the question of depreciation becomes somewhat obscure when one starts to resolve this matter.

As an illustration of this, I would mention that some clubs have seen fit to write down their properties to nominal values in order more clearly to bring out the relationship of cash position to the long-range financing. Under the conventional method too often you have a surplus account which is misleading to the members in that it gives the impression of wealth when in fact the club, on the basis of a cash budget, is in far from good shape financially.

Possibly a reasonable course for a club to follow would be to adopt a financing policy calling for a yearly cash budget coupled with a long-range plan of say five years which would make some provision for the future. If this is conscientiously carried out, many pitfalls would be avoided.

Earlier I referred to lack of informed experience frequently being the cause of financial difficulties in which a club might find itself. An example of this is the plight of clubs which have found it necessary to make special assessments to members, and I submit that this is proof of the short-term planning of most of these clubs. In a number of cases failure to adjust annual or entrance fees to realistic levels may have been the reason for such problems. Generally speaking, I feel that an assessment to members should only be necessary in the event of some form of disaster, such as fire or very heavy flood damages which could not be foreseen.

In closing I would like to state that uniformity in accounting for club transactions merits considerable study and that even if directors are not willing to adopt a uniform presentation in their annual accounts to members the advantages of having comparative monthly operating results themselves are worth consideration. I think that the adoption of some method of obtaining comparable operations of other clubs would be welcomed by most club managements and that they would find such information extremely helpful to them.