BHHM 10

VARDHMAN MAHAVEER OPEN UNIVERSITY, KOTA

Front Office Operations & Hotel Accountancy

Vardhaman Mahaveer Open University, Kota

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BHHM – 10 Front Office Operations & Hotel Accountancy

UNIT- 1

Computer Application in Front Office Operation

Structure

1.0 Objectives

After reading this unit, you will be able to understand the following:-

- Importance of information technology in Hospitality industry
- PMS(Property Management System) application in Front office
- Factors while selecting PMS in hotels
- Understand Fidelio & Amadeus

1.1 Introduction

Technology is a driving force of change that presents opportunities for greater efficiencies and integration for improved guest services. Technology has become a hospitality business activity in development of strategic resources and is considered as a tool to increase competitiveness. Effective use of information technology can make significant operational improvements. Advanced software and communication tools allow enlarging operational efficiency, for example, orders may be made better, faster and cheaper. In addition, decision-making through decision support tools, databases and modeling tools assist the manager's job. Information technology has revolutionized the way industries work the world over. The service industry also has been a beneficiary of this revolution. Computers have long been associated with this notion of work and organization, offering a way to organize data and perform business transactions. What is changing now is that computers are also being used for recreation and social contact. Hotel Industry is one place that has undergone a tremendous change in the past few years with the advent of computers.

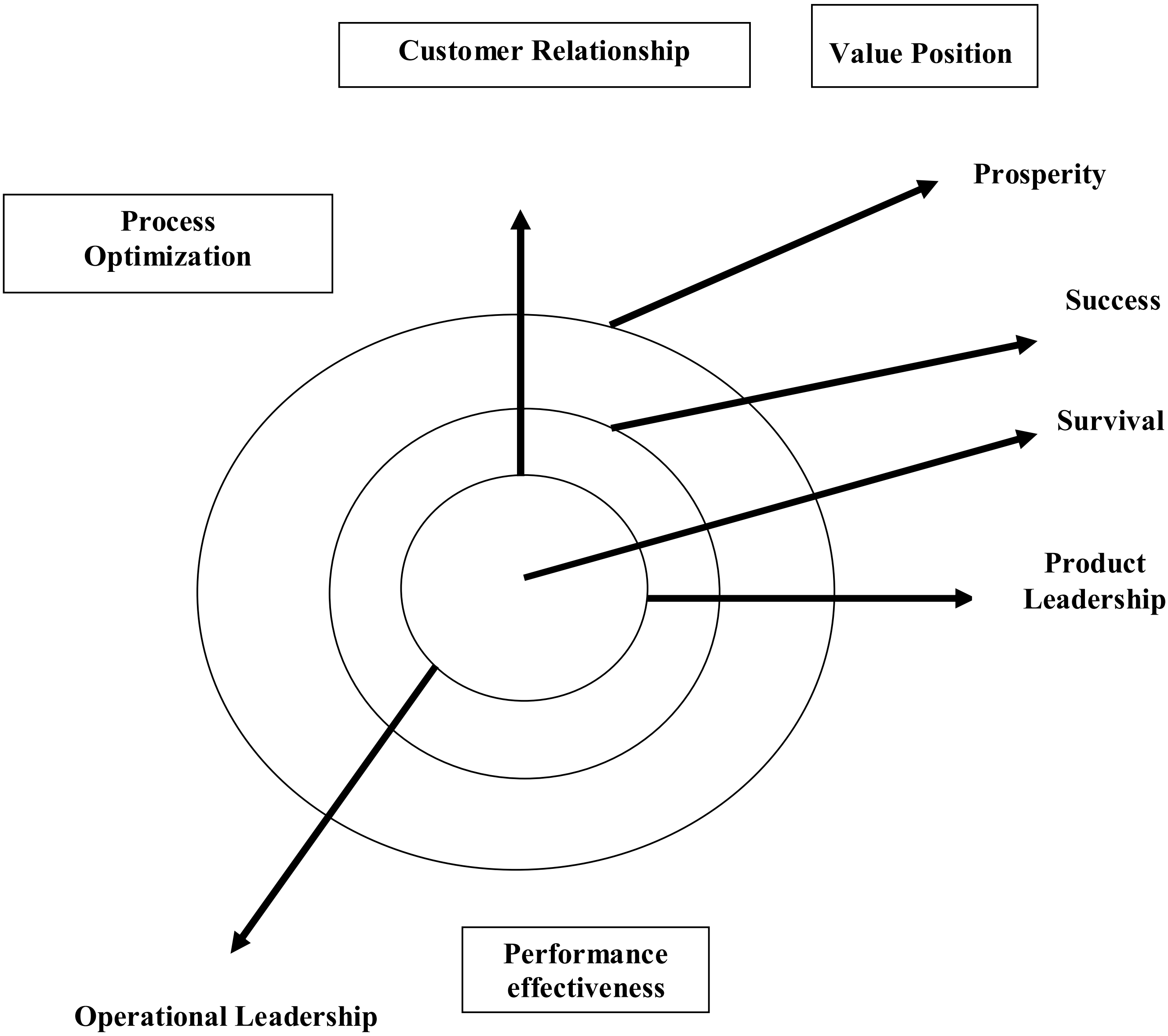
1.2 Role of Information Technology in Hospitality Indstry

Technology has affected society and its surroundings in many ways. In many countries, technology has helped develop more advanced in economies such as today's global economy and allowed the rise of a leisure class. As the technology grows day by day, we would probably admit it does give impact in our daily life. Moreover, information technology dramatically changes with new features and capabilities, moving away from the data processing era to strategic information systems era. Information systems form a fascinating and rapidly expanding field of study. Hospitality traditionally lags other sectors in adopting information technology.

Information is the key for decision making in many business, therefore getting the right information at the right place and faster makes lot of difference in any business and so especially in Hospitality Business where the decisions are taken instantly in some levels. In this context the age old phrase "Garbage In and Garbage Out" is valid even today as incorrect information may lead to problems. It is not uncommon that one may have good computer system yet may not be successfully getting right information for the business. It is a combination of the right people and right system that makes a business successful. Although lots of developments have taken place in terms of computers and its applications, making use of it completely rests with the person using it. Computer cannot replace men. Today, computers do magic for the front end staff enabling them to devote more time in attending guest requirements in a pleasing way without compromising the standard operating procedure (SOP). A good information technology system comprise of three components: Systems, Software & Hardware. Information technology refers to the application of computers to process, store, transmit and display information. The information may be data, text, graphics, voice, images or videos, and the computers may be supercomputers, mainframes, minicomputers, microcomputers, laptops or network computers. Their processing speed, size, storage capabilities, input-output devices and interconnectivity vary each installation. Many applications have been written for the hospitality sector. The most important is the property management system used in hotels to process guest, room, facilities and accounting information. Guest history files containing detailed information of frequent guests are an important component of the system. Chain hotels also operate central reservation system to store, process and communicate their room rates and availability for hotels in the chain. Numerous technology including electronic locking systems, digital phone systems, guest operated devised and energy management systems are used in the accommodation sector. Point-of-sale systems are used in foodservice outlets and retail stores to process transactions and inventory information.

1. Why do Hotels need IT?
2. How can IT affect the services offered by the hotel industry?
3. How can IT affect the market for hotel services and customer behavior?
4. How can IT impact the economics of hotel operations?

Information Technology and Dimensions of Competence



1.3 Factors for need of a PMS in the hotel

A Property Management System (PMS) is a software application that is designed and can be implemented to meet the varied requirements of any size hotel or hotel group. A PMS should provide all of the tools that hotel staff needs to do their day-to-day jobs - such as managing room inventory, handling reservations, checking guests in, assigning rooms, accommodating in-house guest needs, checking guest out, handling all billing and accounting requirements, reporting and marketing. The application should be configurable to each property's specific requirement and can be configured to operate either as a single-property or in a multi-property configuration, whereby all properties within a group share single database. Multi-Property functionality can help hotel chains dramatically reduce hardware and software investments, and labour expenses, by running multiple properties off of a single database / hardware platform. Centralized hardware and software can also make system support and upgrades easier as all hardware and software is contained to one central location. Hotels may also reduce labour costs by sharing common functions between properties such as reservations, accounting, sales and PBX. PMS's primary functions are to track which rooms are currently occupied or vacant, and to maintain the guest's folio by recording details of all sales and payment transactions, they also act as the information hub of all other ancillary system used to improve customer service, and interface with reservation system such as the CRS and Internet bookings engines to support the management of the distribution process. A PMS is now a necessity for most hotels as it would be difficult, if not impossible, to manage a hotel of 100 bedrooms or more without one. The front office is often described as the centre of all hotel activities. If not only acts as the main contact point between the hotel and the guest, but also provides information from, practically every other department. A PMS helps manage these interactions, and adds the power, speed, discipline and information processing capabilities of a computerized system to improve the efficiency of the process. Factors for need of a Property Management System (PMS) in the hotel:

STEP 1: Identification of Need

Firstly an analysis is done to determine whether there is a need of computerized system or not.

The following steps are followed in this process:

a. Selection of a team comprising the representation from all the departments at all levels from all the shifts to analyze the needs. .

b. Analyze the flow of guests through the visit to the hotel i.e. an analysis of the guest cycle.

c. Analyze the flow of information from other departments to the front office e.g. billing information, room status information etc.

d. Analyze the administrative paper work produced in other departments.

e. Evaluate the needs that have been identified in terms of importance.

f. Combine the needs to determine the desired applications.

STEP 2: Software Selection

a. Today, software is available in modules to cater to different areas in a hotel.

b. Based on requirement, as deduced from the needs analysis in step 1, a hotel may go in for the entire PMS or parts thereof.

c. proper software selection is very important, as it involves a ,heavy investment.

d. configured or customized as per the need of the hotel.

STEP 3: Hardware Selection

a. The hardware should be selected to run the needed software.

b. The basic factors to consider here are the Processor speed, Disc drives, I/O Port for connecting peripheral devices & for networking, Monitors/ touch screens, Keyboards, Printers, Modems and Supplies: paper, forms, ribbons, ink, toner, cartridge, floppies, DA T, CD-RW etc.

The other factors to be kept on mind while selecting the hardware are:

a. Positioning of hardware: based on the workflow analysis done during needs analysis.

b. How does it benefit the guest, who will operate it, who all will require access to the system at that position.

c. Climatic condition: whether air-conditioning required/not esp. in back-of-the-house areas.

d. Ergonomics: psychological & physiological effect of computers on people.

STEP 4: OTHER CONSIDERATIONS

a. Vendor Claims: Claims made by the supplier. One must inquire about the product from the current users of the same; whether they are satisfied using the system, problems faced by them in using the system.

b. Installation plans: Proper planning of installation is essential for maintaining guest services & employee morale. *One* must have a complete plan laid out for installation of hardware & cabling in different areas of the hotel; also, who shall be installing the hardware & who shall be installing cables.

c. Training: Classroom & on-the-job training provided by vendor or not. If yes, charged or inclusive. Whether training module has been provided or not documentation of procedures.

d. Back-up power sources: Provision of UPS.

e. Maintenance agreement: The cost of repair & replacement of hardware & software. Emergency services.

STEP 5: FINANCIAL CONSIDERATIONS

a. The decision regarding purchase or rental of a PMS since heavy investment can tie-up the cash flow of an organization.

b. Also, if cost benefits are not realistically projected, profits may be difficult to come by.

c. Analyse the savings in terms of overtime paid to the employees, losses due to late charges, cost of marketing database collection, wastage of energy.

d. Advantages of outright purchase, discount for full payment in cash, finance charges, depreciation.

e. Advantages of lease: continuance of cash flow, application of lease payments to purchase price, tax advantages of leasing etc.

The modules of an ideal PMS are as follows:

Reservations	**Registration**	**Posting**	**Call Accounting**
1. Guest data	1. Reservations	1. Point of sale	1. Guest information
2. Room inventory	2. Guest Data	2. Room	2. Employee information
3. Deposits	3. Room inventory	3. Tax	
4. Special requests	4. Room status	4. Transfer	3. Post charges
5. Blocking	5. Security	5. Adjustments	4. Messages
6. Arrivals	6. Reports	6. Paid out	5. Wake-up calls
7. Departures	7. Self check-in	7. Miscellaneous charges	6. Reports
8. VIP	**Room status**		**Checkout**
9. Projected occupancy	1. Room inventory	8. Phone	1. Folio
10. Travel agents	2. Availability	9. Display folio	2. Adjustments
11. Guest messages	3. Reports	10. Reports	3. Cashier
12. Reports	**Sales & Marketing**	**Maintenance**	4. Back office transfer
	1. Guest history	1.Review work order	5. Reports
Housekeeping	2. Word-processing	2. Status	6. Guest History
1. Room availability	3. Client file	3. Cost/ labour analysis	**Night Audit**
2. Personnel	4. Banquet files	4. Inventory	1. Guest charges

assignments 3. Analysis 4. Housekeeper's report 5. Equipment supplies inventory 6. Maintenance requests **Food and Beverage** 1. Point of sale 2. Posting 3. Cashier reports 4. Food/beverage inventory 5. Recipes 6. Sales control 7. Sales production analysis 8. Labour analysis	5. Desktop publishing 6. Reports 7. Travel agencies **Personnel** 1. Employee file 2. Job control list 3. Word processing 4. Analysis 5. Reports	5. Repair cost analysis 6. Energy usage analysis 7. Guest room power start **Security** 1. Keys 2. Fire alarm 3. Burglar alarm 4.Securitycode transactions	2. Department totals 3. City ledger 4. Cashier 5. Financial reports 6. Housekeeping **Inquiries Reports** 1. Reservations 2. Registrations 3. Checkouts 4. Housekeeping 5. Credit balances **Back Office** 1. Accounts payable 2. Accounts receivable 3. Payroll 4. Budgets 5. General ledger

The functions of a PMS may be broken into categories:

Registration: Upon arrival, a guest must check in and be allocated a vacant room. Where the reservation system and PMS are integrated, the guest's personal details are electronically transferred to speed up registration process and eliminate unnecessary re keying of data. The room is then marked as being occupied to prevent it being allocated in error to another incoming guest. While registration has traditionally occurred at the front desk, development in technology now mean that the process can be facilitated remotely by the staff using wirelessly connected handheld computers, by guest themselves at self check in using kiosks in the lobby of the hotel or even over the internet prior to arrival. In the latter case, the guest can go straight to their allocated room and use their frequency card to open the electronic door lock improving customer service for the guest and reducing pressure and cost at the front office. Irrespective of how the registration occurs, where the PMS is integrated with the other systems, the process of room allocation makes the auxiliary system aware that a new guest has arrived and instructs each system to provide its services to the newly occupied room. For example, the telephone system will then allow calls to be made from the room's telephone, the energy management system will issue a new magnetic key specifically for the new guest. A billing folio is also opened automatically for the guest so that charges can be posted to the room number. Similarly, on checkout, the processed is reserved and each of the auxiliary systems is informed that the room is no longer occupied and to not provide services to that location. All of this happens automatically and invisibly, greatly helping to enhance guest service.

Housekeeping: The housekeeping department is responsible cleaning both the guest rooms and the public areas of the hotel. It works needs to be closely coordinated with that of the front office. Good communication is essential as the front office needs accurate and up to date information on the status (vacant, occupied or dirty) of every room in order to operate effectively. Some systems facilitate this using an interface between the PMS and the telephone system. When the room attendant has finished serving a room, a code is typed into the telephone, which alerts the PMS that the room is ready for inspection. The room can then be checked by the supervisor, and another code entered to inform the PMS that is clean and ready for allocation to incoming guests. The PMS also assist the accommodation manager by automatically providing lists of which guests are departing or staying over. Some systems will even help to equally distribute the cleaning load between room attendants and produce assignment sheet automatically.

Guest Accounting: As has already been mentioned, a folio is automatically opened at registration to allow charges to be posted to the guest's account. This folio must always be kept accurate and up to date, ready to be produced for the guest on demand. Charges may be divided into two categories. Some charges, such as the room rate, are posted automatically by the system. This is important as today, because of the use of yield management systems, hotels normally have many room rates, which is working manually makes it easy to accidently post an incorrect rate, either losing revenue for the hotel or infuriating the guest. A PMS, however, should correctly identify the rate originally quoted to the guest uses the hotel various services. While sometimes these are posted manually from a paper docket system, more recently trend has been to use integrated Electronic Point of Sale (EPOS) system to electronically post charges directly and instantly onto guest account. This helps to reduce clerical errors and also prevents guests checking out without paying for services.

Night Audit: Each night, routine tasks such as automatically posting the room charges to each guest's account and cross checking the integrity of the accounting system must be performed. Traditionally carried out manually by a team of night auditors, these tasks are routine and repetitive. However, this males these them very suitable for computerization and the night audit module automates these procedures and uses the power of the computer to ensure accuracy and reliability. Because the computerized system works at electronic speeds, the audit is completed in minutes rather than in hours. Current trends in the PMS market include the development of ASP based systems, which are standardized across entire hotel chains. This allows consistent guest data to be collected and managed across the entire hotel chains. This allows consistent guest data to be collected and managed across an entire brand one of the essential requirements for the successful implementation of customer relationship management. The reporting module has various reporting formats which allow the management to retrieve operating or financial information at any point of time. With this module, the management can quickly access information such as the availability of rooms on a particular day, the number of guests arriving on a specific day, listing of guest folio balances, outstanding balance reports, etc. The access to reports can be customized through the use of filters. The back office module provides an integrated system for managing the hotel's financial and statistical information. It simplifies accounting processes such as posting of accounts payable, transfer of accounts payable, transfer of accounts receivables, compilation of the payroll, budget preparation, and the production of hotel's profit & loss statement and balance sheet. The financial information entered on a terminal in back office updates all accounting records. The back office module is also linked with the night audit module, which help in streamlining the accounting process.

Use of PMS in Hotels: In hotels PMS are used to cover some basic objectives such as coordinating the operational functions of front office, sales and planning etc and administrating reservations and managing hotel inventory, and to unify the front and back office management and also to improve general management functions such as accounting, budgeting, finance, marketing and research and planning and also forecasting and yield management, payroll, personnel and purchasing areas. Use of internet has reduced the capital and operational cost of hotel operations drastically. It cuts down the reservation costs. And costs involved in areas such as printing, stores, administration, brochures and other promotional material. Internet connectivity with GDS of the hotel such as THISCO (The Hotel Industry Switch Company) and WIZCOM systems have emerged to provide interface between the various systems and to enable a certain degree of transparency. This reduces the setup cost and reservation costs, both. While facilitating reservations through several distribution channels. Unfortunately small and medium sized, independent, seasonal and family run hotels don not get the benefits such as cost reduction and competitive enhancement because of lack of capital for the purchase of hardware and software, insufficient marketing prowess, inadequate technological training and understanding, small size with no economics of scale, and the unwillingness of the owner to lose control over their property. To overcome such problems destination based collaborations that encourage small firms to pool resources together, should be established to share development and operation costs to the benefit of all providing direct access to target markets at an affordable price.

1.4 Factors for Purchase of PMS by the hotel

The importance of a dependable and cost effective PMS (Property Management System) for the management of a hotel's front office is clear. Front office Manager must rely on the PMS to help them with every aspect of their room related decision making responsibilities. Therefore, the selection of the best PMS is critical. Whether selected by a hotel or dictated by a hotel's franchisor, the quality of a PMS can be evaluated by examining hotel-specific characteristics related to the system. Some of the important characteristics relate to the system operating hardware; other relate to software. Some FOMs believe that the best approach to use when selecting a PMS is to compare purchase prices of various systems; the lowest priced system then becomes the most attractive. Although cost is always a consideration in the purchase of any important hotel items, FOMs should evaluate a PMS based on many characteristics, including these:

(1) **Reliability:** The cost of a PMS is much less significant than is its reliability, which is the single most important concern. The PMS is a computer system and like any other computer system, it may become inoperable at times ("crash" or "go down"). PMS can fail because of hardware problems, software glitches, or power failures. A desirable PMS includes a battery or generator backup capable of operating the system if the hotel loses power due to a weather-related event or other circumstances beyond its control.

(2) **Cost of operation:** The hardware (computer, printers, and disc drives) used by the PMS should be replaceable at reasonable costs. Costs for operating supplies such as paper and print cartridges, special paper , or customer made replacement hardware parts that cannot be obtained economically, readily, and locally should be avoided. If such systems cannot be avoided, the true operating costs must be factored into the total cost of system.

(3) **Ease of Installation:** Hotels operate 24 hours a day, 7 days a week; so many disruptions in the continuous operation of its PMS can affect the hotel and its guests. Before selecting a new PMS, the FOM should thoroughly investigate the amount of downtime involved in the installation of the new system. In addition, recall that all of a hotel's existing historical data must be loaded into the new system will vary based on the complexity of the PMS and the size of the hotel. Installation time and its actual costs are, however, common considerations in the selection of a new PMS.

(4) **Ease of Use:** New front office employees must learn how to use the PMS. The ease with which they can learn the system in a factor in reducing training costs and increasing the pace at which new employees become comfortable operating the system. Potential buyers of a PMS should be able to test-drive the system through simulations. Then it is the job of the FOM to select a PMS that is intuitively logical and as a result, easy for employees to learn how to use.

(5) **Ease of Interface Integration:** Information needed by FOMs to professionally and profitably manage the front office comes from a variety of sources. For example, if a guest in a hotel room makes a long distance telephone call, the charges must be posted to the guest's folio. In any PMS the charges could be posted to the guest's folio. In any PMS the charges could be posted manually. In a large hotel, however, with thousands of phone calls made daily, manual posting of charges would be time-consuming, subject to data-entry error, and simply unnecessary in today's advanced technological age. By interfacing data from the hotel's call accounting system with PMS, phone charges can be easily established and posted to the proper folio immediately after guest completes the call.

(6) **Maintenance Requirements:** Like any other items of hotel equipment, the PMS must be properly maintained to operate efficiently. The cost of effective preventive maintenance programs for each PMS will vary. The FOM must determine and understand the time and money required to minimize downtime and to maximize system efficiencies by providing routine, ongoing cleaning & maintenance.

(7) **Ease & Frequency of upgrading & updating:** Technology related to front office management advances at a fast pace. Hardware & Software upgrades are routinely issued by manufacturers, and most of these significantly improve the operational effectiveness of a PMS. Difficulties can arise, however, when a system's hardware component is not adequate to effectively operate new software significant increases in demand for memory and speed.PMS software upgrades must be easy to install and should minimize system downtime. If a PMS manufacturer is keeping up with the hotel industry's changing demands for information, newer versions of the system's software will be issued on a regular and fairly frequent basis. Therefore, FOM should inquire about the frequency with which a specific PMS has upgrades its system in the past and about plans for future improvements or versions.

(8) **Quality & Availability of Support Services:** A PMS is a computerized system and, as such, is subject to the same hardware malfunctioning issues,

software glitches, and potentially damaging intrusive viruses as is any other computer linked to the outside environment by the internet. In addition, because many other computerized system interface with the PMS, difficulties may be caused by one or more of these interfaces. Support-services personnel available to FOMs must be easily accessed, reasonably priced, and above all, knowledge about what will need to be done at the property to resolve problems and to quickly get the system back into proper operation. Access to support services must be offered on 24/7 basis, including holidays.

The FOM must thoroughly understand the features and the limitations of the PMS in use. A well-designed and properly functioning PMS helps an FOM to excel.

1.5 Introduction to Fidelio & Amadeus

FIDELIO is one of the world's best selling front office systems, and it is the system of choice for Hilton International, Inter Continental, Mandarin Oriental, Forte, CIGA and many other chains and independents around the globe. Fidelio created the original electronic room rack. Complete, graphical plan illustrations of each floor allow your front office staff to monitor and control the occupancy of every room in the building. Using a system of twelve different colour codes, the status of each room is visible at a glance – either currently, or at some future date. Yellow indicates a room is "clean and vacant", blue is "dirty and arrival expected", and so on. Reservations data can also be shown in tabulated form to give an overall occupancy picture for any specified day. For group bookings, from the most complex convention to airline allotments, the group and block management functions handles it all. Master billing, split rates, staggered arrivals, package plans, group history, room type control, block forecasts and traces – they all help to optimize group business, without the time consuming paperwork. As well as handling room management, FIDELIO Front Office maintains all guests' accounts, and offers numerous other facilities such as mailing, word processing, and customized printout of confirmation letters. Fidelio is a highly user friendly software with pull down menus which help and assist the user at every step and only a short term training to staff is required. Fidelio software is one of the most advanced hotel management software. It is a Munich based software company. To save the Fidelio from any virus, Fidelio has its own special file and in case a virus gets into it, Fidelio catches it and leads into a non-usable file from a data base file and locks it. Additional software called 'Red Alert Software' from extra protection is used. Total hardware i.e. net server, vectra nodes and printer are provided by Hewlett and Packard servers are Pentium based. Fidelio is an eco friendly package as it makes the paper work redundant and eliminates filling and storage cost.

AMADEUS: Amadeus hotels provides accurate information on nearly 40,000 hotel properties worldwide covering hundred, of hotel chains, locations, last rooms availability, hotel features and rates all shown. Access to major hotel chains gives up to date, booking information so that agencies can check availability and receive immediate guaranteed confirmation. Amadeus also offers the facility to access and sell special or promotional rates, negotiated or special code rate is noted and the rate automatically confirmed by hotel along with the booking. Amadeus hotels are linked to the hotel switches THISCO & WIZCOM systems.

Check Your Progress

Q-1 what do you understand with Information Technology?

……………………………………………………………………………………

Q-2 Explain the PMS in short?

……………………………………………………………………………………

Q-3 Discuss the Fidelio?

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1.6 Summary

Computers are used for many purposes in hotels like billing, reservations etc. A property management system (PMS) is a computer based management system that is used to manage guest bookings, online reservations, point of sale, telephone, and other amenities. There are different modules of PMS to manage individual departments of a hotel, such as front office module, housekeeping module, etc. The PMS should be able to interface like call accounting system, energy management system, point of sales, electronic door locking system, etc. in order to be more useful to hotel operations. There are several companies that provide the PMS software to hotels, with their own unique features to suit the different requirement of various hotels.

1.7 Glossary

Property Management System (PMS): A computerized system used to manage guest bookings, online reservation, point of sale, telephone and other amenities.
Points of Sale: All outlets-including restaurants, bars, discotheques, night club, health centre, etc.-from where hotels sell their products and services other than accommodation.
Call accounting System: It is a stand-alone automated system, which tracks all outgoing and incoming calls. It features include identification of outward dialing, automatic route selection, and call rating programme.
Information technology: Broad term used to identify areas of management related to the design and administration of computer related hardware and software programs.
THISCO: (The Hotel Industry Switch Company**)** Now called Pegasus solutions, this organization is the most frequently used "Switch" to interface information from all hotel and airline system.

1.8 Check Your Progress –Answers

Ans- 1 Information technology system comprise of three components: Systems, Software & Hardware. Information technology refers to the application of computers to process, store, transmit and display information. The information may be data, text, graphics, voice, images or videos, and the computers may be supercomputers, mainframes, minicomputers, microcomputers, laptops or network computers. Their processing speed, size, storage capabilities, input-output devices and interconnectivity vary each installation. Many applications have been written for the hospitality sector. The most important is the property management system used in hotels to process guest, room, facilities and accounting information. Guest history files containing detailed information of frequent guests are an important component of the system.

Ans- 2 Property Management System (PMS) is a software application that is designed and can be implemented to meet the varied requirements of any size hotel or hotel group. A PMS should provide all of the tools that hotel staff needs to do their day-to-day jobs - such as managing room inventory, handling reservations, checking guests in, assigning rooms, accommodating in-house guest needs, checking guest out, handling all billing and accounting requirements, reporting and marketing. The application should be configurable to each property's specific requirement and can be configured to operate either as a single-property or in a multi-property configuration, whereby all properties within a group share single database.

Ans- 3 Fidelio software is one of the most advanced hotel management software. It is a Munich based software company. To save the Fidelio from any virus, Fidelio has its own special file and in case a virus gets into it, Fidelio catches it and leads into a non-usable file from a data base file and locks it. Additional software called 'Red Alert Software' from extra protection is used. Total hardware i.e. net server, vectra nodes and printer are provided by Hewlett and Packard servers are Pentium based. Fidelio is an ecofriendly package as it makes the paper work redundant and eliminates filling and storage cost**.**

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1.11 Terminal Questions

Short Answer type Questions

1. Explain the role of Computers in the Front office Operation?
2. Explain the Amadeus?

Long Answer type Questions

1. Write a note on Property Management System?
2. Explain the role of Information Technology in Hospitality Industry?
3. What factors you will be considered at the of Purchasing of PMS for your hotel.

Unit-2

Front office (Accounting)

Structure

2.0 Objectives

After reading this unit, you will be able to understand:-

- Front office accounting and its functions.
- Types of accounts maintained by the front desk-guest account & non-guest account
- Understand guest ledger & city ledger
- Able to understand fully automated, semi-automated and non-automated accounting system

2.1 Introduction

The aim of the hospitality business is to generate profit by providing services like accommodation, food & beverage, and the use of facilities such as fitness centre, sauna and steam, Jacuzzi , etc. on payment basis. The timely and accurate posting of a guest's financial transactions in the guest account is very important for the successful running of the hotel business- it enables the hotel to make an accurate bill and receive the payment from the guest. An efficient and error-free billing also leads to higher guest satisfaction. So it is of utmost importance that the hotel maintains its guest accounts properly and accurately, and keeps them up to date. Front office is the centre for the guest's financial activities with the hotel, and the accounting department analyzes the same, compiles figures and finally makes the financial statements showing the property's profitability. Front office accounting keeps track of financial data in folio for both guests and house accounts or city ledger. Folios provide support documentation and vouchers detail front office account postings. Computer Systems minimize need for vouchers as most have interface capabilities from revenue centers. The front office Ledger is part of accounts receivable and includes a set of accounts for registered guests (Guest Ledger) and a set of accounts for non guest and unsettled guest accounts (City Ledger). Accounting collects city Ledger and front office settles guest Ledger. Guests present accept able credit card or direct billing authorization at reservation or registration to establish charge privileges and line of credit. The night auditor identifies accounts near credit limits (high risk, high balance) and the credit manager intervenes and settles outstanding accounts of past guest.

2.2 Accounting Fundamentals

Accounting may be defined as the process of collecting, recording, summarizing, and analyzing financial transactions of a business. According to the American Institute of Certified Public Accountants (AICPA), '***Accounting is an art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions, and events which are, in part at least, of a financial character, and interpreting the results thereof.***' In hotels, the front desk cashier maintains the guests' accounts and ensures the settlement of the same.

An effective guest accounting system consists of tasks performed during each stage of the guest cycle. During the pre-arrival stage, a guest accounting system captures data related to the type of reservation guarantee and tracks prepayments and advance deposits. When the guest arrives at the hotel, a guest accounting system documents the application of room rate and tax registration. During occupancy, a guest accounting system ensures payment for goods and services when the guest checks out. The financial transactions of non-guests may also be processed within the parameters of front office accounting. By allowing authorized non-guest transactions a hotel can promote its services and facilities to local businesses or track transactions related to conference business. The area of non-guest accounts also includes the accounts of former guests which were not settled at check out. The responsibility for collecting on non-guest accounts shifts from the front office to the back office accounting division.

In brief, a front office accounting system:

- Creates and maintains an accurate accounting file for each guest or non-guest account
- Tracking financial transactions of guests throughout the guest cycle.
- Monitoring the credit limit of guests, and asking for a deposit from guest in case of high outstanding balance.
- Preparing a high balance report for collection and informing the management about the same.
- Providing an efficient management information system (MIS) to the management for departmental revenue generation.
- Maintaining effective control over cash and credit transaction.

BASIC PRINCIPLES OF ACCOUNTING:

• Any amount paid by the guest to the hotel is posted in the debit column. A debit (dr) therefore is moneys owed by the guest to the hotel

• Any money received from the guest is posted in the credit column. A credit therefore is any money paid by the guest towards settling his/her bill including advance deposits.

• The balance column reflects a progressive difference between debits and credits

- Calculated on basis of the formula " previous balance + debits – credits = net outstanding balance"

These principles are applicable to the guest folio/bill in which all cash and credit transactions are recorded for each resident guest which increase or decrease the balance of a single account. It is also called as "guest account card". In some hotels it is also called as Guest weekly bill. The debit transactions are recorded to the left of the folio while the credit transactions are recorded to the right. The outstanding balance is calculated by subtracting the right from the left. In the manual system the folios are maintained in hard copies in folio racks at the cashier's cabin or back office. In an automated system the folio remains in the computer and a hard copy is printed out only at the time of guest check out. Each entry into the folio is called a posting. Each posting is recorded sequentially in the folio in the order of transactions on a given date. When an account is created, it is assigned a folio with a starting balance of zero. A debit entry will increase the guest's outstanding balance while a credit entry will decrease the outstanding balance. At departure the outstanding balance has to be returned to zero by cash payment or by transfer to an approved credit card or to a direct billing account Guest folio format.

POINTS TO REMEMBER WITH REGARD TO A FOLIO:

1. A folio is raised as soon as the guest checks in.
2. The initial outstanding balance {when it is opened} of the folio is zero
3. Details on a folio: Guest name, Room Number, date of arrival, date of departure, room rate, address, billing instructions. Each folio has a serial no. which will help keep a control on folios for the purpose of audit.
4. The cashier is responsible for the guest folio till the guest departs.

A front office accounting system is uniquely tailored to each hotel establishment. Accounting system terminology and report formats often different from hotel to hotel or chain to chain. The following sections provide a bring review of some basic concepts of front office accounting.

Accounts: An account is a form on which financial data are accumulated and summarized. An account may be imagined as a bin or container that stores the results of various business transactions. The increases and decrease in account are calculated and resulting monetary amount is the accounting balance. All the financial transactions that occur in a hotel affect account. Front office accounts are recordkeeping devices to store information about guest and non-guest account financial transactions.

In its simplest written form, an account resembles the letter **T:**

Account Name

Charges	**Payments**

This form of recording is called a T-account. The use of computers business has diminished the popularity of T-accounts. However, accounts remain a useful tool for teaching bookkeeping principles. For front office account, charges are increases in the account balance and entered on the left side of the **T.** Payments are decreases in the account balance and are entered on the right side of the **T.** Payments are decreases in the account balance and are entered on the right side of T. The account balance is the difference between the totals of the entries on the left side and the right side of the T-account. Front office accounting documents typically use a journal form. In non-automated or semi-automated recordkeeping system, a journal for might look like this:

Description of Account	Charges	Payments	Balance

Similar to a T-account, increases in the account balance are entered under charges, while decreases in the account balance are entered under payments. In a fully automated system, charges and payments may be listed a single column with the amounts of payments placed within parentheses or noted with minus signs to indicate their effect (a decrease) on the account balance. In accounting terminology, the left side of an account is called the debit side (abbreviated **dr**) and the right side is called the credit side (abbreviated **cr**). Despite their prominence in other branches of hospitality accounting debit and credit play a relatively small role in front office accounting debits and credits do not imply anything good or bad about an account. The value of debits and credits results from the use of **double entry bookkeeping,** which is the basis for accounting in all modern business. In double entry bookkeeping, every transaction creates entries that affect at least two accounts. The sum of the debit entries created by a transaction must equal the sum of the credit entries created by the transaction. This fact forms the basis for a process called the night audit.

Folios: Front office transactions are typically charted on account statements called folios. A folio is a statement of all transactions (debits & credits) affecting the balance of a single account. When an account is created, it is assigned a folio with a balance of Zero. All transactions which increase (debits) or decrease (credits) the balances of the account are recorded on the folio. At settlement, a guest folio should be returned to a Zero balance by cash payment or by transfer to an approved credit card or direct billing account. The process of recording transactions on a folio is called posting. A transaction is posted when it has been recorded on the proper folio in the proper location, and a new balance has been determined. When posting transactions, the front office may rely on handwritten folios (if it is using a non-automated system), machine- posted folios (with a semi-automated system), or computer-based electronic folios (with a fully automated system). Regardless of the posting techniques used, the basic accounting information recorded on a folio remains the same. In a non-automated or semi-automated recordkeeping system, guest folios are maintained at the front desk. In a fully automated recordkeeping system, electronic folios are stored in the memory of a computer and can be retrieved, displayed or printed on request. There are basically four types of folios used in front office accounting. They are:

- Guest Folios: Accounts assigned to individual persons or guestrooms.
- Master Folios: Accounts assigned to more than one person pr guestroom, usually reserved for group accounts.
- Non-guest or semi-permanent Folios: Accounts assigned to non-guest business or agencies with hotel charge purchase privileges.

- Employee Folios: Accounts assigned to employees with charge purchase privileges.

Hotel XYZ **Guest Folio** Name of the Guest: ABC Date of Arrival: 10 April 2014 Date of Departure: 11 April 2014 Number of Pax: One Room No. 110 Rate: Rs 5,000/- Folio No: 22254				
Date	Item	Description	Debit	Credit
10/4/2014	1	Cash		6,500
10/4/2014	2	Room	5,000	
10/4/2014	3	Dinner	500	
10/4/2014	4	Rock Bar	800	
10/4/2014	5	Breakfast	300	
10/4/2014	6	Cash		100

Fig- 2.1Format of Guest Folio

Additional types of folios are frequently created by front office management to accommodate special circumstances or requests. For example, a business guest may request that his or her charges and payments be split between two personal folios: one to record expenses, paid by the business, and one to record personal expenses paid by the guest. In this situation, two folios may be created for one guest. Every folio should have a unique number. Folio numbers are needed for several reasons. First, they serve as serial numbers that help ensure that no folios are missed during an audit of front office transactions. Second, folio numbers may be used as a way to call or look up information in automated systems. Automated systems frequently create folio numbers when reservations are made. The numbers are then transferred to the front desk for use during registration. Finally, folio numbers provide a cross reference. In non-automated and semi-automated systems, folios have specific lengths and can hold only a limited number of postings. When a balance must be carried forward to a new folio, the old folio number should be shown as a reference of where the total came from.

Vouchers: A voucher details a transaction to be posted to a front office account. This document lists detailed transaction information gathered at the source of the transaction. The voucher is then sent to the front office. For example, hotel revenue outlets use vouchers to notify the front office of guest charges purchases which need postings. Several types of vouchers are used in front office accounting, including cash vouchers, charges vouchers, transfer vouchers, allowance vouchers and paid-out vouchers. Most computer systems requires few vouchers, since terminals interfaced with the front office computer are capable of electronically transmitting transaction information directly to front office accounts files.

<table>
<tr><td colspan="5" align="center">Hotel XYZ
Visitor’s Paid out Voucher
Date……………
Room No. ………
Name of the Guest……………… Room Account No……………….</td></tr>
<tr><td colspan="3" rowspan="2" align="center">Explanation</td><td colspan="2" align="center">Charge</td></tr>
<tr><td>Rs.</td><td>Paisa</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">Rupees (in words) Total</td></tr>
<tr><td colspan="5">Signature of Recipient Approved by Signature of Cashier</td></tr>
</table>

Fig- 2.2 Format of Visitor’s paid out Voucher

Differentiate between Voucher & Folio

	Voucher	Folio
1	It gives details of a single transaction to be posted at the Front Office. For Eg. A florist or a gift shop might not have provision of posting a particular transaction into a registered guest account. They can send use voucher to notify the FO of guest charge privileges that need posting.	Refers to the statement of all transactions (debits & credits) affecting the balance of a single account. This may include all non guest or guest accounts.
2	It gives all the information about the transaction gathered at the source of transaction.	This gives details of all the transactions under a particular account. All transactions that increase or decrease the balance.
3	It can be safely said that the voucher accounts for a single posting.	Whereas a folio lists out all the postings in an account.
4	Types of Vouchers are cash vouchers, charge vouchers, transfer vouchers, allowance vouchers & paid-out vouchers.	Some of the types of Folios are Guest folios, Master folios, Non-guest or Semi Permanent Folios, Employee Folios, Room folios & Incidental folios.

Point of Sale: The term point of sale describes the time and location at which goods or services are purchased. Any hotel department that collects revenues for its goods or services is considered a revenue centre- and thus, a point of sale. Large hotels typically support many point of sale, including restaurants, lounges, room service, laundry and valet service, parking garages, and telephone service. The front office accounting system must ensure that all charge purchases at these point of sale are posted to the proper guest or non-guest accounts. Some hotels offer guest operated devices which also function as points of sale. Similar to an actual revenue outlet, these devices result in charges that must be posted to guest folios. The volume of goods and services purchased at scattered points of sale requires a complex internal accounting system to ensure proper posting and documentation of sales activities. A computerized point-of-sale (POS) system may allow remote terminals at the points of sale to communicate directly with a front office computer system. Automated POS systems may significantly reduce the amount of time required to post charge purchases to guest folios, the number of times each piece of data must be handled, and the number of posting errors and after-departure (late) charges. Overall, automation helps front office personnel create a well-documented, legible statement with a minimum of errors.

Ledger: A ledger is a grouping of accounts. The front office ledger is a collection of front office account folios. The folios used in the front office form part of the front office accounts receivable ledger. An account receivable represents money owed to the hotel. Front office accounting commonly separates accounts receivable into two subsidiary groups: the guest ledger (foe guest receivables) and the city ledger (for non-guest receivables).

Guest Ledger The guest ledger is the set of guest accounts that correspond to registered hotel guests. Guests who makes appropriate credit arrangements at registration may be extended privileges to charge purchases to their individual account folios. Guests may also pay against their outstanding balance at any time during occupancy. Guests financial transactions are recorded onto guest ledger accounts to assist in tracking guest account balances. In some hotels, the guest ledger may also be called the transient ledger, front office ledger or room's ledger.

City Ledger The city ledger also called the non guest ledger is the collection of non guest accounts. If a guest account is not settled in fully by cash payment at check out, the folio balance is transferred from the guest ledger in the front office to the city ledger in the accounting division for collection. At the time of account transfer, the responsibility for account collection shifts from the front office to the accounting division.

Differentiate between Guest Ledger & City Ledger

	Guest Ledger	**City Ledger**
1	Refers to the set of guest accounts that correspond to registered guests or guests who have sent advance deposits.	Refers to the set of non guest accounts. For eg., if a guest account is not settled in full on check out the balance is transferred to the accounting division for collection.
2	Corresponds to registered or guests reserved for future	May or may not account to registered guests
3	Records all financial transactions of a guest.	Contains Credit card payment accounts, Company accounts, direct billing accounts, accounts of guests stayed earlier due for collection.
4	Also referred to transient ledger, front office ledger or rooms ledger.	It is also called Non guest ledger.
5	Maintained at front office	Maintained by accounting division (back office

2.3 Guest & Non-Guest Accounts

Guest Account: A guest account is the record of financial transactions between and a resident guest and the hotel. This account is created either during the registration of the guest (at the time of check-in) or during reservation, if the guest makes an advance payment. The front office creates an individual folio for each guest-for maintaining a record of all the financial transactions that takes place during the stay of the guest. On the basis of a guest folio, the final bill is prepared and presented to the guest for collection. Hotels generally extend credit facility to guests for the use of the services and products provided by them. They fix an upper limit to the credit facility, which is known as the house limit. When the credit balance of the guest exceeds the house limit, the front desk cashier may ask the guest to make a part or full payment of the outstanding balance.

Non-guest Account: A non-guest account is the record of the financial transactions that take place between a non-guest resident guest and the hotel. This is also known as a city account. The front desk cashier maintains records of financial transactions between the hotel and a local resident to whom the hotel has extended the credit facility for the use of hotel facilities and services. Beside local guests, the front desk cashier also maintains other types of non-guest accounts, which include:

- Guests who leave the hotel without the settlement of their accounts are known as skipper; their accounts are also treated as non-resident guest accounts. The account is transferred to the city ledger awaiting eventual payment, and after a stipulated wait time, the same is written off as a bad debt.
- The status of guests, whose accounts are not settled by them (in case of bills to company), changes from resident to non-resident guests when they leave the hotel. The front desk cashier transfers the balance to the city ledger and the payment is collected by the accounts department.
- When advance payment has been received for a guaranteed reservation and it is subsequently a no-show, the account is normally recorded in the city sales ledger.

Differentiate between Guest Account & Non guest Account

	Guest Account	Non Guest Account
1	Record of all financial transactions that occur between the guest and the hotel when they guarantee a reservation or they are registered at the Front Office	Refers to all in house charged privileges extended to local businesses or agencies for eg. Banquets & conferencing facilities. These are also created when a former guest fails to settled his bill at the time of departure & the onus to retrieving the balance amount shifts from Front Office to Accounts Dept.
2	These are compiled on a daily basis.	Billed on a monthly basis.
3	Front Office is responsible for its maintenance	Bank office or Accounts Dept takes toe responsibility of account settlement.

2.4 Accounting System

Front office accounting system:

The following are the main points for front office accounting:

- Creates and maintains an accurate accounting record for each guest or non-guest account
- Tracks financial transactions throughout the guest cycle
- Ensures internal control over cash and non-cash transactions
- Records settlement for all goods and services provided

Any accounting system flows through five phases:

1) Phase I – Transaction analysis or tracking transactions.
Cash transaction, account payable transaction, cash payable transaction / account advance transaction (VPO), account correction, account allowance.

2) Phase II- Support documentation:
Vouchers, folios, guest checks(bills).

3) Phase III- Accounting posting and maintenance:
Pre-occupancy, in-occupancy, post-occupancy.

4) Phase IV- Account auditing procedures and internal control:
Night audit.

5) Phase V- Settlement of account balances:
Cash payment in full, credit card transfer, bill to company/ direct billing

There are three ways of accounting system in hotels:

1. **Non-automated:** In this system four audit form-(i) Daily and supplemental transcripts (ii) Guest and non-guest folio (iii) Front office cash sheets, and (iv) Audit recapitulation sheet and transactional voucher produced by hotel's revenue centre are sent to front desk. The night auditor prepares daily and supplemental transcript by copying the day's activity from each guest and non-guest account folio to the appropriate line on one of the transcripts. The transcript columns are summarized to determine total charge transaction for each day. These two transcript information along with cost sheet data is transferred to a recapitulation sheet to provide a summary of daily front office activity. Manual auditing is cumbersome and error prone and should be used for small hotels only.

GUEST WEEKLY BILL:

Various documents are prepared in hotels, to record financial transactions of resident guest for their purchases, need posting of these charges from their vouchers to the respective guest folios. For long staying guest a weekly bill is prepared periodically which looks like:

Sr. No……

Name……………. Room No…………… Rate………………

Date of Arrival………Time………..Date of Departure ………..Time…………………

Plan…………….

Date															Total	
	Rs.	P	Rs.	P	Rs.	P	Rs.	P	Rs.	P	Rs.	P	Rs.	P	Rs.	P
Brought Forward Room Board Food Drinks Mineral Water Tobacco Miscellaneous Wine Sundry Telephone Cash Advance Sales Tax Service Tax																
Total																

Checked and found correct. Please forward bill to M/S ……………………..	Grand Total		
……………. Less payment Receipt No.			
Allowance			
Signature of the Guest	Net payable		
Bills are payable on Presentation.			

Fig- 2.3 Format of Guest Weekly Bill

Visitor's Tabular Ledger (VTL): An Accounting system usually used in small hotels. It is a loose large sheet in which the daily transactions of the hotel with guests are recorded. All the credit sales voucher which are made by the various departments of the hotel (when guests make transactions) are collected in bills department and the entries are made in the VTL against each guest account respectively. The entries in VTL must be kept updated so that at any moment an up to date guest bill may be made and presented to the checking out guest.

Generally a tabular ledger has set of columns with details of the room and its occupant, such as room number, rate, terms, number of sleepers etc. and second set of columns are charges of apartment and food. In addition to daily charges the tab sheet shows the daily sales under respective heads and include breakfast, lunch, afternoon tea, snacks, beverages, alcoholic beverages, service charges, telephone call charges, V.P.O., sundry charges and transfer and sales tax etc. which gives the daily total plus the previous balance brought over. This is followed by credit columns deposits, allowances, transfers and ledger balance to the next day.

Hotel XYZ Visitor Tabular Ledger				
Room No.	**201**	**202**	**203**	**Total**
Name				
No. of Persons				
GR No.				
Plan				
Room Rate				
Tea				
Breakfast				
Lunch				
Dinner				
Beverages				
Room Service				
Telephone				
Laundry				
Tobacco				
VPO				
others				
Beer				
Wine				
Miscellaneous				
Daily Total				
Cash Deposit				
Allowance				
Balance c/f d				
Total Dr. Cr.				

Fig- 2.4 Format of Visitor Tabular Ledger

2. **Semi-Automated:** Guest transactions appear sequentially on a machine posted folio. The information recorded for each transaction includes the date, department or reference number, amount of the transaction, and new balance of the account. The folio outstanding balance is the amount the guest owes the hotel, or the amount the hotel owes the guest in the event of a credit balance at settlement. The column labeled previous balance pickup provides an audit trail within the posting machine framework that helps prove the current outstanding balance is correct.

Semi- automated posting equipment does not retain folio balances. This means that the previous balance must be re-entered each time an account posting is made in order for the machine to record a new total of the folio.

3. **Fully Automated:** Transactions may be automatically posted to an electronic folio. When a printed copy of the folio is needed, debits (charges)and credits (payments) may appear in a single column with payments distinguished by parentheses or a minus sign. Printed folio copies may also be produced in traditional multiple column account format. It is unnecessary to pick up the previous balance in a fully automated system since such systems running totals on all folios.

Check Your Progress

Q- 1 Explain the fully automated accounting system?

……………………………………………………………………………………………

Q-2 Discuss POS (Point of Sale)?

……………………………………………………………………………………………

Q-3 Define the Guest Ledger?

……………………………………………………………………………………………

2.5 Summary

The timely and accurate posting of a guest's financial transactions in the guest account is very important for the successful running of the hotel business-it prevents the loss of revenue for the hotel and leads to higher guest satisfaction. To ensure an efficient and error –free billing, the front desk cashier should record the financial transactions property in different types of accounts, vouchers, folios, and ledgers.

2.6 Glossary

Account: Device used to show increase or decreases in the asset, liability, or owner's equity sections of the fundamental accounting equation. Because of the visual appearance of accounts, accountants refer to them as T accounts.

Accounting- The process of collecting, recording, summarizing, and analyzing financial transactions of a business.

City Ledger: Set of accounts used to record charges to and payments from a hotel's nonregistered guests. Examples include persons not staying in the hotel who purchase the hotel's meeting space, food or beverages.

Credit (accounting): Accounting transaction that records a change on the right side of a T account in an asset, liability, or owner's equity account.

Debit (accounting): Accounting transaction that records a change on the left side of a **T** account in an asset, liability, or owner's equity account.

Front Office Accounting System: Automated (or manual) system of data collection and reporting that summarizes and documents the financial activities of the front office.
Guest Account- The record of financial transactions that take place between a hotel and a resident guest.
Non-Guest Account- The record of the financial transactions between a hotel and a non-resident guest.

2.7 Check Your Progress – Answers

Ans-1 Transactions may be automatically posted to an electronic folio. When a printed copy of the folio is needed, debits (charges) and credits (payments) may appear in a single column with payments distinguished by parentheses or a minus sign. Printed folio copies may also be produced in traditional multiple column account format. It is unnecessary to pick up the previous balance in a fully automated system since such systems running totals on all folios.
Ans-2 The term point of sale describes the time and location at which goods or services are purchased. Any hotel department that collects revenues for its goods or services is considered a revenue centre- and thus, a point of sale. Large hotels typically support many point of sale, including restaurants, lounges, room service, laundry and valet service, parking garages, and telephone service. The front office accounting system must ensure that all charge purchases at these point of sale are posted to the proper guest or non-guest accounts. Some hotels offer guest operated devices which also function as points of sale. Similar to an actual revenue outlet, these devices result in charges that must be posted to guest folios.
Ans- 3 The guest ledger is the set of guest accounts that correspond to registered hotel guests. Guests who makes appropriate credit arrangements at registration may be extended privileges to charge purchases to their individual account folios. Guests may also pay against their outstanding balance at any time during occupancy. Guest's financial transactions are recorded onto guest ledger accounts to assist in tracking guest account balances. In some hotels, the guest ledger may also be called the transient ledger, front office ledger or room's ledger.

2.8 Further References

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2.9 Suggested Readings

- Tewari, Jatashankar (2009) Food & Beverage Service, Oxford University Press, New Delhi.

- Andrews, Sudhir(2008) Text book of Front office Management & operations, Tata McGraw Hill, New Delhi

2.10 Terminal Questions

Q-1 what is the front office accounting system?
Q-2 What is visitor tabular ledger?
Q-3 Discuss about fully automated accounting system in detail?
Q-4 Give the difference between Guest and non-guest account?

UNIT – 03,

CHECKS – OUT PROCEDURE

Structure

3.0 OBJECTIVES

After reading this unit you will be able to understand:

- Departure procedure in the hotels
- Mode of settlement of bills
- Check out option used in hotel property

3.1 INTRODUCTION

This unit will assist you in understanding the guest check-out procedure. This covers the departure stage of guest cycle by examining the Check-out procedure, modes of bill settlement like cash and credit, and about check-out options. This unit begins with departure procedure, covering the standard departure procedure and departure procedure in manual, semi-automated and fully automated system. The modes of settlement are discussed with illustrations. The later part of the unit discusses the various check-out options.

3.2 CHECK- OUT AND SETTLEMENT

The last contact of the guest with the hotel takes place during check-out activity. In fact, this is the last face to face interaction between the guest and hotel employee. This phase is very important as guest settles the financial transactions with the hotel. This is time when hotel can impart the long lasting impression on the guest. Generally the check-out activity are more during specific hours, may lead to a long queue. The check-out and settlement process accomplishes following important activity:

- Settlement of guest account balances
- Updating front office records
- Creating long lasting impression

The front desk cashier prepares the guest folio and records every credit transactions with supporting vouchers during their stay. On the basis of the same bill is prepared and presented to the guest. Guest settles the account by any agreed mode of payment.

The check-out and settlement activity results updating front office records like room status, in-house guest statistics, creation and updating guest history card.

The speed and accuracy in preparation and presentation of bill will lead to maximization of guest satisfaction. The error free bill and speedy processing of check-out request reflects the professional image of the property. An efficient handling of guest during this phase imparts lasting good impression on guest.

3.3 DEPARTURE PROCEDURE

Departure is a very critical time because it may add to guest's total satisfaction or it may ruin the entire effort of the hotel to make a pleasurable stay at hotel. Departure is the last phase of guest cycle. In this phase guest settles their accounts and proceed for their next destination. As the maxim goes "all well that's ends well" same is the case with the experience of stay at hotel, if departure is pleasant guest consider the memorable stay at hotel and to attain the same every hotel has its coordinated activity for check-out to impart the last good impression on guest.

Check Out request received from the guest

Front desk ↓

Bell desk ↓ Bell desk sends bell boy to

Send Departure Notification to all department and informs all point of sales to send the last credit transaction of guest

↓

Front desk cashier Up dates guest folios

↓

Front desk cashier prepares the guest bills

↓

Guest arrives at desk for settlements

↓

Bill is presented for review

↓

Guest settles the account

↓

Luggage out pass is made

↓

Departure information is send to all department

↓

Front office records are updated

carry guest luggage

↓

Bell boy reaches to guest room and enters the room with due permission of the guest

↓

Bell boy takes guest's luggage, has a brief look of the room, revives the room keys from the guest

↓

Reaches to front desk, deposit the room key, takes luggage out pass after settlement of guest accounts

↓

Lodes the guests luggage in the vehicle and sea offs the guest

Fig: 3.1 DEPARTURE PROCEDURE

The sequential steps involved in check-out are known as departure procedure. The steps may slightly vary according to the degree of automation of the organization. Normally following sequential steps are involved in departure procedure:

- Check out request
- Front desk sends bell boy to carry luggage down.
- Front desk sends Departure notification to all departments.
- Front desk informs all point of sales to rush last minute credit transitions.
- Front desk updates guest folio.
- Guest arrives a front desk for departure and room keys are collected from them.
- Guest's bill is prepared and presented for their review.
- Method of payment is determined.
- Payment is revived from the guest
- Luggage out pass is made.
- Marketing follow through.
- Communication about departure of the guest to housekeeping and all departments.
- Updating front office record.

Check Out Request

Check out request is received from the guest either at front desk or at bell desk. The intimation regarding the departure is communicated all the department and point of sales. While processing the check-out request front desk employee should proceed as under:

- Greet the guest
- Confirm guests details like name, room number etc.
- Check departure date; in case of early departure inform other departments.

Front Desk Sends Bell Boy to Carry Luggage Down

Front desk inform bell captain to sends bell boy to carry down the guest luggage. The bell boy will fill the departure errand card. The bell captain will make entry in bell captain control sheet. The bell boy move to the guest room and announces himself and knocks the room and enter in the guest room with due permission from guest. Apart from carrying the luggage of the guest the bell boy is also expected to following:

- Have a brief look of the room for any damage to property.
- Draw the curtains and lock the balcony and windows.
- Check for any guest belongings left by mistake.
- Collect room keys from guest.
- Check the mini-bar consumption or politely enquire from the guest about the same.
- Lock the room and hang "clean my room" tag on door knob so that housekeeping department can quickly clean the room for next occupancy.

<table>
<tr><td colspan="5">Hotel ALPHA</td></tr>
<tr><td>Reception</td><td>Cashier</td><td>Information</td><td>Departure Date & Time</td><td>Room No.</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="4">Bell Boy Name:</td><td>Call Time:</td></tr>
<tr><td colspan="4">Name of Guest:</td><td>Room No.</td></tr>
<tr><td colspan="5">Articles</td></tr>
<tr><td>Suitcase</td><td>Hand Bag</td><td>Package</td><td>Breifcase</td><td>Overcoat</td></tr>
<tr><td>Others</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Baggage brought down by

Signature</td><td colspan="3">Baggage Loaded by

Signature</td></tr>
</table>

Fig: 3.2 Departure Errand Card

Informing point of Sales to rush latest credit transitions

The front desk informs housekeeping and all point of sales to rush the latest credit transactions to the front desk so that the cashier can add them to the guest account and payment is received.

HOTEL ALPHA

Department …………………………………. Reception ……………………

This is to inform you that following guest are departing from the hotel kindly rush the credit charges to front desk.

Name of Guest ………………………………….. Room No. …………………

Date of Departure: …………………………………. Time …………………………..

Authorised Signatury

Fig: 3.3 Sample of Departure Notification Slip

Front Desk Updates Guest Folio

The front desk cashier updates the guest folio by:

- Adding latest credit transactions received from the point of sales
- Checking if any late check-out charge is applicable.
- Checking the current entries in the guest account

HOTEL DELTA

Name of the Guest: Mohd. Syed Khurshed Ahmad
Date of arrival : 10th August, 2014
Date of Departure : 11th August, 2014
Number of Pax : One
Room No. : 210
Rate : Rs. 5000
Folio No.: 21786

Date	**Item**	**Description**	**Debit**	**Credit**
10/08/2014	1	Cash		6500
10/08/2014	2	Room	5000	
10/08/2014	3	Dinner	500	
10/08/2014	4	Gazal Bar	800	
11/08/2014	5	Breakfast	300	
11/08/2014	6	Cash		100

Amount to be settled by the guest : Nil
Balance: Rs. 00.00

Fig: 3.4 A Sample Guest folio

Bill Preparation and presented

Guest bills are prepared on the basis of guest folio. While preparing the bill the front desk staff must ensure about late check-out charges, if applicable should be added in to the master bill. Check-out time is the time at which a departing guest is expected to vacate the room. Normally the check-out time is 12 noon. Late checkout charges are normally a Point of contention, to avoid such situation; guests are often asked about their expected departure time at the reservation stage. They are also informed about the addition of extra charge in case of late check-out at the time of registration.

Late charges are another problem for the front desk casher in preparation of guest bills. A late charge is the charge for the services or use of a facility by guest which reaches to front desk cashier when he has prepared the master bill of the guest. The common examples of the charges are:

- Laundry bill
- Local or long distance call
- Morning break fast
- Mini bar consumption
- Valet service

The late charges can be a potential loss for the hotel if they reach to front desk when guest has already settled the bill and possibly left the hotel. In order to reduce the losses due to late arrival of charges, cashier should confirm from point of sales about any charges left for the departing guest and should also enquire about the mini-bar consumption from the guest, before preparing the master bill.

In the case of manual operation the following procedure is normally used to prepare the guest's bill:

- Bills are prepared in duplicate.
- Check the room number
- Take out the guest folio
- Calculate the correct number of room night and establish whether a late check-out charge is to be added.
- Enter the guest's credit transitions in the bill in order of occurrence.
- Enter the method of the payment (Cash, Credit Card or bill to company).
- The bills along with supporting, prepared by the cashier is presented to the guest for his review. The guest verifies all the charges made in the bill.
- Give the top copy of the bill to the guest.
- File the second copy in the night auditor's file.

Determination of Mode of Payment

The method of settlement of the bill is generally established during registration or even before at reservation stage. The front desk is generally aware about the mode of settlement of the bill. This information will help the front desk cashier to make guest bill easily. He will be able to take necessary authorization from superiors in case bill is settled by personal Cheque (normally not entertained by most of the hotels). The methods of payment of bills are Cash in local and foreign currency notes, Cash equivalents like demand draft, traveler's Cheque, Debit Card, Credit payments like charge cards, Credit Card, Travel Agent Vouchers, Corporate billings.

Reviving Payment

The guest reviews the bill and makes the payments in pre-decides mode. The payment may be made through Currency Notes, Traveler's Cheque, Personal Cheque, Demand Draft, Debit Card, Credit Card, Charge Car, Travel Agents Vouchers, and Corporate billings. The front desk cashier follows the house policy in collecting the payments from guest.

Marketing Activity

Check-out is the last opportunity for face-to-face contact with the guest. The same can be utilized for marketing efforts in following way:

- The front desk employee can ask guest about their experience with the property.
- No problem occurred during stay can be noted and provision should be made for their rectification.
- The front desk employee can ask for future reservations:
  - In the same property for return trip
  - In the same chain at next destination of the guest.

Communication of Departure to All Departments

The front desk informs about the departure of in-house guest to all other department for smooth operation of the hotel. The point of sales will be aware that they should not offer credit facility to a guest who has already has settled their bills. The housekeeping department will do the following:

- Update the status of room from occupied to vacant
- Hasten the cleaning of room so that the room can be allotted to next guest.
- Block the room for special cleaning process like spring cleaning.
- Look for maintenance requirement in the room.
- Re-furnish the room for future sales.

Updating Front Office Record

Departure of guest from hotel results in:

- The room occupied by them becomes vacant.

- The guest does not remain an in-house guest.

Hence it is very important for the front desk employee to update front office records as soon as possible. The following records are updated:

- Records related to room status
- Guest history card

Records related to room status

As soon as guest checks out the rooms status changes from occupied to vacant and after cleaning by housekeeping department it is again ready for next guest. A front desk employee will update following records related to room status:

- Removal of guest name from room rack at information desk.
- Charge the room status from occupied to vacant/dirty.

Creating/Updating Guest history card

Generally most of the hotels prepare a record of existing guest having details like previous arrival and departure, type of room and rate charged, their likes and Dislikes, amount spend by them. This record is known as Guest History Card. The guest history card should be updated after the departure of the guest. Every hotel has its own policy to decide which guest should be to guest history records. The guest history record of corporate clients is also prepared. A guest history card plays following role:

- It provides current marketing data
- The demographical data like age, sex, income, occupation, marital status etc. helps to develop new marketing strategy.
- The guest's personal likes and dislikes will help the front desk to serve a guest in better possible way.
- The data from GHC revels about the frequency of visit by the guest, if guest is a frequent user of the hotel, his name may be entered in frequent users list and promotional offers may be offered to them.

Hotel Club Inn

Sr. No. 00786

Guest History Card

Name ……………………………………………….. Company ……………………………………………

Designation ……………………………………… Address ………………………………………………..

Credit ……………………………………………….. Date of Birth

……………………………………….. Marriage Anniversary ……………………………………………..							
SN.	**Arrived**	**Room**	**Rate**	**Departed**	**Amount**	**Special Instructions**	**Remarks**
1.							
2.							
3.							
4.							
5.							

Fig: 3.5 Sample Guest History Card

3.3.1. DEPARTURE PROCEDURE IN MANUAL SYSTEM

Following steps involved in departure procedure if hotel is running on manual system:

- Check out request received on front desk or at bell desk.
- Front desk sends bell boy to carry luggage down.
- Bell boy will fill the Departure errand card.
- Front desk will send the Departure Notification Slips to point of sales and other departments of the hotel (the number of DNS will be equal to the number of department to whom it will be send).
- Front desk informs all point of sales to rush recent credit transitions.
- Front desk cashier updates guest folio on the basis of recent charges is received from the point of sales.
- Guest reaches to the cashier's desk.
- Master bill is prepared manually with supporting vouchers/bills and presented or guest's review.
- Method of payment is determined and payment is revived from the guest.
- Luggage out pass is made.
- Front desk Communicate about departure of the guest to housekeeping and all department.
- Updating front office record.
    - Removal of name slip from room rack at information desk.
    - Updating the current room status.
    - Entries are made in guest history card.

- Entry is made on arrival/departure register.

HOTEL SAMPLE INN No. 0024500786 Name of Guest …………………………………….. Room No. …………………………………….. Date of Departure …………………………………….. Time ……………………………………………
Bill No. …………………………………….. **Billing Settlement** Complete Partial Corporate Settlement Other ……………. …………………………………..…………………………………..…………. ……………………………………
(____________________) (____________________) (Authorised Signatory) (Date)

Fig: 3.6 Luggages out Pass

3.3.2. DEPARTURE PROCEDURE IN SEMI-AUTOMATED SYSTEM

Following steps involved in departure procedure if hotel is running on semi-automated system:

- Check out request received on front desk or at bell desk.
- Front desk sends bell boy to carry luggage down.
- Front desk will inform point of sales and other departments of the hotel. Through telephone and send Departure Notification Slips.
- Front desk informs all point of sales to rush recent credit transitions to avoid late charges.
- Front desk cashier updates guest folio.
- Master bill is prepared using national cash register with supporting vouchers/bills and presented for guest's review.
- Payment is revived from the guest.
- Luggage out pass is made.

- Front desk Communicate about departure of the guest to housekeeping and all departments.
- Updating front office record.
- Removal of Name slip from room rack at information desk.
- Updating the current room status.
- Manually updating guest history card.
- Entry is made on arrival/departure register.

3.3.3. DEPARTURE PROCEDURE IN FULLY AUTOMATED SYSTEM

Following steps involved in departure procedure if hotel is running on Fully Automated System:

- Check out request received on front desk or at bell desk.
- Front desk will inform point of sales and other departments of the hotel through interlinked computer network.
- Since all the point of sales terminals are interlinked hence any credit transaction of guest will instantaneously added in the guest folio.
- Master bill is prepared by selecting the bill option of the cashier module. Master bill along with supporting vouchers is presented to guest for review.
- Payment is revived from the guest.
- Luggage out pass is made.
- Front desk Communicate about departure of the guest to housekeeping and all departments.
- Updating front office record.
- Auto removal of name of the departed guest from the in-house guest name list.
- Current room status is automatically updated from occupied to vacant/dirty.
- Guest History Card (GHC) is automatically updated.

3.4 MODE OF SETTLEMENT OF BILLS

Most of the hotels, at the time of registration or even at the time of reservation request determines about the mode of settling the accounts. This makes it very convenient for the front desk employee to prepare the guest accounts, when intimation about the check-out is received from the guest. There are following modes of account settlement:

- Cash settlement
- Credit Settlement

3.4.1 CASH SETTLEMENT

Cash payment option is one of the most preferred modes of settlement of guest account. This leads to the zeroing of the guest accounts. The cash settlement includes following modes of account settlement:

- Currency Notes
  - Local currency
  - Foreign currency
- Travelers Cheque
- Personal Cheque
- Demand Draft
- Debit Card

Currency notes

The guest can settle their account by paying the currency notes. This is one of the widely accepted modes of account settlement. While accepting currency notes the casher should check that the currency notes are genuine. Following procedure is generally adopted for accepting cash payments:

- Check the daily currency conversion rate if accepting foreign currency.
- Retain the amount outside the cash drawer till the transaction is completed.
- Count the value of currency in front of the guest.
- Make the currency encashment certificate if accepting foreign currency.
- Issue a receipt for the transaction.
- As per the government regulation, accept only foreign currency from foreigners and change; if any should be made in local currency.

Travelers Cheque

Travelers Cheque is also amount the widely accepted mode of account settlement. A traveler's cheque is issued by the bank. The guest purchases the traveler's cheque (TC) by paying the charges to the bank. The value of the TC is written on it. The purchaser of the Traveler's cheque put two signatures, one in front of the issuing authority and a second signature in front of encasing authority. The traveler's cheques are safe. The loss and theft of traveler's cheque should be reported to the issuing bank and local police. While accepting traveler's cheque from the guest for settlement of the bills the front desk cashier should proceed as follows"

- Ensure that the second signature is done in front of him.
- Check the guest's passport to establish identity.

- Note down the passport number at the back of the traveler's cheque.
- If traveler's cheque is in foreign currency calculate the correct exchange as per daily rate.
- All change must be given in local currency.

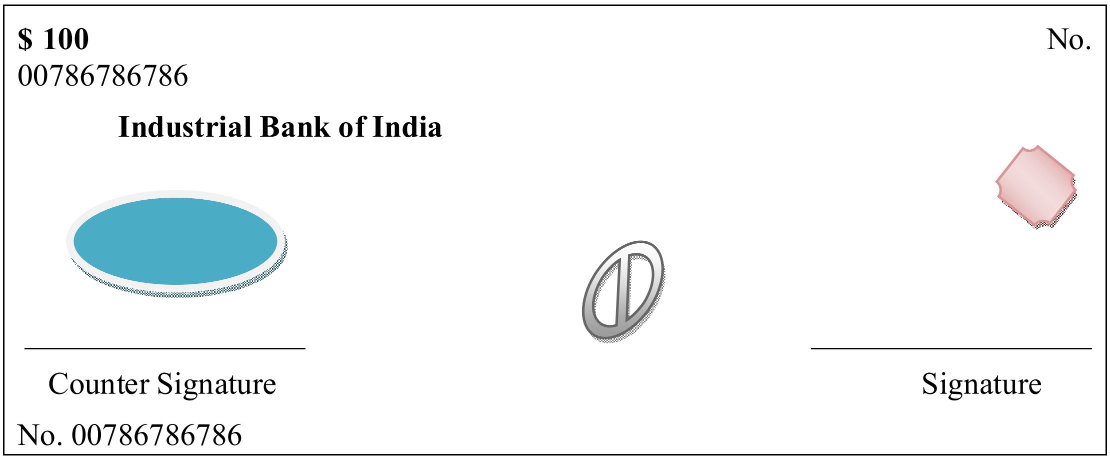

Fig: 3.7 Sample Travelers Cheque

Personal Cheque

Personal cheques are normally not accepted mode of account settlement. In case if a guest insists to settle their bills by personal cheque ask them to get authorization from the lobby manager. When authorization from lobby manager is received, give them the application for payment by personal cheques. Check the following details:

- Match the signatures (in application form and on cheque)
- Cheque is crossed by "A/c Payee only"
- Check the amount written in figures and words are matching
- Check the date on cheque; it should not be post dated.
- Accept only MICR (Magnetic Ink Character Reader) cheques
- Do not accept second or third party cheques.

Date ……………………………………..

Pay ………………………………..…………………………………...………………………………………..…………………………

Rs. …………………………………..………………………………...………………………………………….. of Bearer

……………………………………..…………………………………… Rs.

A/c No. 045888

Industrial Bank of India
H-Block, Red squire,
Lucknow

Dinesh Pratap Singh

Fig: 3.8 Sample of Personal Cheque

Demand Draft

Demand drafts are issued by the bank. The person who wishes to obtain a demand draft makes a request by filling the required form to bank for issuing a demand draft. The bank charges commission and issue demand draft. Demand draft is a negotiable instrument, used for making payments. It can be crossed; when it is crossed the payment will be made to payees account only. Demand draft is secured mode of payment.

Debit Card

A Debit Card is a plastic card issued by the bank. It can be used to make payment against purchases at merchant establishment. In many countries it also act as ATM Card (Automated Teller Machine) to withdraw money from ATM. Debit card is safer for account settlement as the amount is directly debited from the guest's bank account and instantly credited into the hotels account. When the card is swiped the EFTPOS (electronic fund transfer point of sale) terminal contacts the computer network of the bank to verify and authorize the transaction.

3.4.2 CREDIT SETTLEMENT

A credit settlement is settlement for which hotel does not receive any payment on the day of departure of the guest. It includes:

- Credit Card/Charge Card Payments
- Travel Agents Vouchers
- Corporate Billing

Credit Card/Charge Card Payments

Credit cards are among the most favored mode of account settlement. It is very convenient for the traveler to carry the credit card rather carrying the cash. Most of the hotels accept the major credit card. The credit card companies issues the list of lost and stolen credit cards. A credit card is issued and processed by bank e.g. Visa, Master. A charge card is issued and processed by privet credit card companies' e.g. American express, Diners club carte banquet etc. Credit Card and Charge card are widely accepted in merchant establishments. A charge card is a specific type of credit card. The balance in charge card account is payable in full when the statement is received and cannot be rolled over from one billing to the next.

While processing payment through credit card the front desk casher may follow these steps:

- Check the expiry date o credit card
- Check the credit limit of the card, if amount of bill exceeds the limit of the credit card request to pay the balance in cash.
- Swipe the card through the EFTPOS terminal for verification and authorization from the issuer of the credit card.
- Ask the guest to sign on transaction slip.
- Verify the guest signature on transaction slip from the signature panel at reverse of the credit card.
- Return the credit card and carbon copy of transaction slip to the guest.
- Follow the standard operation procedure to process he payment of the guest folio as per the house customs.

Travel Agents Vouchers

Most of the tour operators and travel agencies, selling package tour receives the payment for accommodation, food and beverage, and other services from the travelers at the time of selling the tour package. The travel agency makes the bookings on behalf of the traveler. They send a voucher containing the details about the billing instructions and services to be provided to the traveler. Apart from the travel agency and tour operator airlines (having contract with hotel) also send MAO (meals and Accommodation Order) or PSO (Passenger Service Order) to layover passenger or incase of delay of flights. In both the cases the hotel obtains the payments from Travel agency or Airlines.

While processing the travel agent vouchers or MAO/PSO front desk casher should proceed as follows:

- Read vouchers carefully.
- Refer to the list of approved Travel agencies.
- Check the billing instruction.
- In case of foreign travel agency voucher get authorization from the lobby manager.
- Check the expanses covered by the voucher.
- Collect the payment from the guest for the services utilized by them and not covered by the voucher.
- Attach all the vouchers duly signed by the guest with the master bill and ask guest to verify and sign the bill.
- Do not give the copies of signed bills to guest.
- Send the guest bill and voucher to accounts department for collection of the amount.

Corporate Billing

The companies whose executives are travelling on the expanse of the company normally make an agreement with the hotel regarding the stay and other facilities to be offered to their executives by the hotel. The company negotiates the rate for the types of room and meal plan to be offered. The terms and conditions of the payment are also pre-determined. The reservations are made by company on behalf of the traveling executives. The executives carry the letter from the company regarding their stay and services to be offered. The front desk casher proceeds as under:

- Establish the identity of the traveler
- Checks and verifies the company in the CVGR (Company Volume Guarantee Rate) list.
- Checks the services covered by the agreement of the company
- Any service or facility utilized by the guest not covered by the company should be charged separately from the guest.
- Cashers prepare the guest bill along with all supporting vouchers and ask the guest to verify and sign the bill.
- Do not give the bill to the guest.
- Send the duly signed bill to accounts department for collection from company.

Sometimes guest utilizes facilities and services like telephone, laundry and drinks; which are not covered by the Travel Agent Voucher or company agreement. In that case the guest should settle these sundry accounts by direct payment to the hotel either in cash or by credit card.

3.5 POTENTIAL CHECK-OUT PROBLEMS

Check-out is a very critical step of the guest cycle. A guest who leaves the hotel having last good impression will return and also advice their friends to patronize the same property. Though hotel takes all necessary steps to eliminate the problems during check-out, still one of the following problems may occur during check-out:

- Long queue at the cashier counter
- Improper posting of charges in the guest folio.

These can be rectified by using :

- Self check-out terminals
- Express checkout system
- Accurate guest accounting system

3.6 LATE CHECK-OUT

Most hotels have a stated check-out time at which departing guests must vacate their rooms. Late check-out means that the guest is not vacating his room on or before the check-out time on the date of departure. Late check-out may create a problem in efficient operation of the hotel as it may lead to make a long queue of the guest arrived in hotel having confirmed booking.

Minimizing late check-out

A hotel may take following preventive measures to minimize the late check-outs:

- Check-out time should be informed to the guest
- The information regarding the same should be printed on the key card and it should be displayed at the back of the room doors.
- Late check-out charges may be added in the guest bill. They must be informed about the same at the time of registration.
- Guests may be advised to vacate the room and their luggage may be kept in luggage room without any extra cost.
- In case of groups, hospitality rooms should be provided without any extra charges.
-

3.7 CHECK OUT OPTION

The standard check-out requires more time as it involves several sequential steps. The guest needs and technologies are changing at a fast pace. The guest wishes a queue free speedy check-out procedure. All these led hotels to develop alternatives to standard check-out and settlement procedure. The combination of technologies and guest requirement evolved the matching queue free and flawless check-out and settlement procedures. They are:

- Express check out
- Self check out

3.7.1. Express check out (ECO)

The front desk is flooded with check-out requests at peak check-out time generally in the morning hours. The preparation and settlement of bills are time consuming. This leads in creating a long queue at the front office cashier's desk. To avoid this situation some properties have developed a speedier check-out procedure known as express check-out. The express check-out service reduces the pressure at cashier's desk. The guest gets the benefit of avoiding long waiting time at cashier's desk during the peak check-out time.

The express check-out procedure involves the express check-out form and a pre-departure folio. The express check-out form is an authorization by guest to charge the outstanding balance through their credit card. By signing the express check-out form guest agrees to account finalized by front desk cashier after they have left the hotel. These forms are available at front desk or send to guest on the morning of date of departure. The ECO from is accompanied with a copy of guest's folio indicating the approximate total. By signing the ECO guest transfers their outstanding folio balance to credit card voucher that was created at the time of registration (some hotel have developed a policy to take imprint of the credit cards of the guest). The guests may also be informed about variance in the amount of approximate total due to use of any chargeable facilities after they have signed the ECO and actually departed from the hotel. The variance may also be there in case of any late charge received by the front desk cashier. After signing the ECO the guest can leave the hotel at their convenience without arriving at cashier's desk before check-out time.

The front desk cashier will finalize the account including any late charges a complete the imprinted credit card voucher. The signature on ECO form will send the signed ECO and the filled imprint of the credit card company for settlement of the accounts. The hotel may mail a copy of the guest's final bill at their mailing address so that they can check the monthly statement of their credit card.

3.7.2. Self check out terminal

Self check-out terminal is a combination of technology and need of speedy check-out. This facility is only possible in a fully automated hotel. The self-check-out terminals are interfaced with PMS (Property Management System) of the hotel. The self check-out terminals may be located in the lobby. The model and design of the self check-out terminal will depend up on the manufacturer of the same.

By using the Self check-out terminal the guest can access to their folio and can review the folio and settle their account through their valid credit card. The check-out completes when the guest's outstanding balance is posted to their credit card account. The terminal will dispense a printed statement of account settlement. Simultaneously the system will communicate and updated room status to front desk computer. The front office module of PMS will automatically update the room status and other records like guest history card.

The self –check-out terminals have following benefits:

- Minimize guest wait time
- Simplifies guest check-in and check-out
- In case of check-in, dispense room keys
- Integrated with existing hotels Property Management System
- Guest's verification by credit card o key card

- It is available in options like Check-out only, Check-in/Check-out, and cash acceptor.

Check your progress

Q.1. Cash payment is the best mode of bill settlement. Explain with reasons.

**……………………………………………………………………………………………
……………………………………………………………………………………………
………………**

Q.2. Explain the Departure procedure.

**……………………………………………………………………………………………
……………………………………………………………………………………………
………………**

3.8 SUMMARY

The check-out is the final stage of the guest cycle. This is a very crucial stage in the guest cycle because the guest will be departing from the hotel. The hotel should be able to collect all outstanding charges from the guest before they leave the premises, and at the same time it is a time for creating the long lasting impression on the guest. The departure procedure should be simple and less time consuming. The guests who are departing may be in hurry to catch the flight. The long queue at the front desk during peak check-out period (generally morning hours) should be avoided. The speedy check-out procedure, queue free front desk at departure time and efficient and error free billing are the key factors for imparting him last minute impression on guest.

The mode of billing is established at the time of registration. The front desk cashier should collect the payment in accordance. The front desk cashier should be efficient in making the guest bills. They should contact point of sales and minor revenue producing sections or latest credit transactions so that an accurate bill is prepared.

In order to assist the guest, hotel may offer the facility of express check-out. The guest is requested to fill the ECO form, which is an authorization to transfer the charge to their credit card account. The guests who fill the ECO forms may leave the hotel by handing over the filled form and room keys to bell boy or deposit in the drop box located in lobby.

3.9 Glossary

Check – out – The procedure of vacating the hotel room, settling bills, and leaving the hotel.

Guest folio - A statement showing the balance of the guest's financial obligation towards the hotel.

Personal cheque - A cheque drawn against fund deposited in an individual's personal bank account.

Check – out – A guest has registered at the Front desk and been allotted this room.
Departure errand card - A card filled by the bell boy, who brings the departing guest luggage from his room.
Early departure – The departure of a guest before his expected date of departure.

3.10 Check your progress - Answer

Ans.1. The cash payment option is one of the most preferred modes of settlement of guest account. At the time of settlement, the cashier zeroes balance in the guest account. If there is a credit balance in the guest folio, the hotel will pay back the balance amount to the guest to makes the balance zeroes.
Ans.2. The Departure procedure may vary from hotel to hotel according to the degree of automation of the organization. The following steps are involved in the departure procedure.

- The check out request is received at the front desk or bell desk.
- The bell boy fills the departure errand card.
- The front desk alerts all points of sale to rush last minute credit transaction to the front desk.

3.11 Further references

- Tewari, Jatashankar (2009) Front office operations, Oxford University Press, New Delhi.pp144-148
- Bhatnagar, Sunil(2002)Front Office Management, Franks Bros. & Co,New Delhi.pp194-198
- Andrews, Sudhir(2008) Text book of Front office Management & operations, Tata McGraw Hill, New Delhi.

3.12 Suggested Readings

- Tewari, Jatashankar (2009) Food & Beverage Service, Oxford University Press, New Delhi.
- Andrews, Sudhir(2008) Text book of Front office Management & operations, Tata McGraw Hill, New Delhi

3.13 Terminal Questions

Q-1 Explain the Express check out Procedure.
Q-2 Discuss the difference between Cash and credit settlement.
Q-3 Explain the advantages of express check – out facility offered to guest.

Unit-4

Control of Cash and Credit & Night Auditing

Structure

4.0 Objective

After reading this Unit, you will be able to understand the following:-

- Explain the role of night auditor.
- Main functions of night audit.
- Understand the cash & credit control necessity.
- Understand the Job of Night Auditor.

4.1 Introduction

The hotel during daytime is full of activities. Number of transactions takes place at various points in the hotel. It is during the nighttime that the day's transactions are tabulated and at the same time crosschecked since generally this is a quieter period for the front office staff with least amount of guest interaction. This task is performed at the front office by the night auditor. He is in fact a person who acts as an internal auditor for the whole day's financial transactions.

4.2 Control of Cash and Credit

The hotel industry is the only business where the guest enjoy the benefit of credit facility right from the time he comes to the hotel and where the business man whose primary objective is to collect revenue when the transaction is the over is deprived of that and gets benefits only on or after the departure of the guest and that too sometimes after a period of 30-40 days in normal course. This results in the blocking of money and hence creates a situation of greater risk and this demands higher investment and hence it is important that the hotel takes some definite and concrete steps to ensure that the guest accounts will be settled in full at the agreed time therefore protecting the hotel from bankruptcy due to bad debts. The hotel should control the credit of its guest to also insure a healthy cash flow. Cash flow means the money which moves in and out of the business. The term credit control refers to the various measures taken by the hotel to ensure that the guest settle their account in full either themselves as some one else on their behalf (which may be credit card, company, airline company, corporate office, a travel agent or person) within a specified period of time. Various steps are to be taken by different front office personnel at different stages of the guest cycle that will help in credit control. Credit control procedures used for different guest at the front desk during check-in:

Guest paying by credit card:

- Guest is required at the time of check-in to present his credit card
- Credit card is imprinted
- Name on the card is tallied with the name on registration card
- Check expiry date of the card
- Check the hotlist to check that it is not blacklisted
- Check that the hotel accepts the type of credit card presented by the guest

Guest paying by travel agent voucher:

- Guest presents travel agents voucher at the time of check in
- These are prepaid vouchers
- These are then tallied with the record copy the travel agent has sent the hotel in advance at the time of reservation.
- The receptionist will then attach this voucher to the guest registration card and then sends it to the cashier who will open the folio and mark the instruction as required on the folio.

Guest checking in with tour groups

- Groups are usually pre -arranged and pre -registered and the credit procedure is established between the tour operator and the hotel much prior to arrival.
- The cashier in such a case will open a master folio in case of group charges.
- The POS cashier are informed not to make any credit sales transactions to any group member for their personal incidentals/expenses and charge cash for the same

Guests from Airline:

There are tow types of guests sent by the airline:

Stayover guests: These guests are provided with PSO (passenger Service Order) or MAO (Meal and Accommodation Order) which detail the services and facilities that will be provided by the hotel to such guests and the airline will pay for the same. The folio in this case will be signed by the guest at check out and the bill is forwarded to the airline company for payment.

Crew: These guests have to sign their bills on checkout which are forwarded to the airline for payment. Services and facilities which are provided by the hotel and paid for by the airline are mentioned in the contract which the airline makes with the hotel.

Guests having all their charges billed:
- Look through the billing instructions given at the time of reservation to check what Charges are covered by guests and what charges are paid by the company.
- If the room charges are to be billed to company and other incidentals are paid by the guest himself such as laundry, food etc. confirm with the guest at the time of check in itself how he will pay his incidentals and the same instruction must be marked on the folio.
- Examples of such guests are member of FHRAI and TAAI. In such cases a split folio is used where charges are charges are distributes into two (between company/organization and individuals) one for rooms and the other for incidentals.

Guest with scanty baggage:

- These guests are not allowed to purchase anything on credit. All payments are to be settled in cash unless well known to the hotel.
- An advance/deposit is taken from them at the time of chek-in to be adjusted against room and incidental charges.
- The registration cards, folio and arrival notification slips will have APC (All payments cash).
- A credit limit is also fixed in case of well known with scanty baggage and the moment his outstanding balance reaches the limit the night auditor prepares a slip which tells the guest to deposit some cash before making any new credit transactions.

Walk -in/chance guests
- To avoid any possibility of a skipper and hence of revenue, the hotel will usually ask for an advance payment or deposit at the time of check-in
- The deposit should be enough to cover the room charges and incidental charges.

Credit facility for Companies/Corporations:- Hotels have to check the solvency status of the company first and also cross check with the company's banker before listing the company on the list of credit approved companies of the hotel. The account department maintains this list and is sent to the other departments of the hotel such as reservations, front desk bills, sales etc. Different limits are set for different companies, depending on the size of the company, volume of business provided and the reputation of the company. For example a company with reputation of prompt payment shall get a higher credit limit rather than a newer and smaller company.

Credit control during stay of a guest:- A credit limit is set for the guest depending on his credit profile and then in turn must be marked on his folios. The front office must monitor guest and non- guest accounts to ensure they remain within acceptable credit limits. Typically, a line of credit is set for guests who establish charge privileges during the reservations or registration process. Guests who present an acceptable credit card at registration may be extended a line of credit equal to the floor limit (Credit limit set by the issuing credit card company). Guest and non-guest accounts with other approved credit arrangement are subject to limitations established by the Front office. These internal credit restrictions are called house limits. Front office management may need to be notified when a front office account approaches the house limit. Such accounts are called high risk or high balance accounts. The front office auditor, or night auditor, is primarily responsible for identifying accounts which have reached or exceeded predetermined credit limits. Front office management may request the guest to make a partial payment to reduce the out standing account balance.

After Departure Activities:- If the guest settles his bill through credit card or airlines voucher or travel agents voucher or through a corporate company account his room account is zeroed out at the time of check out and the outstanding balance is transferred to the city ledger. At the end of a specified period the hotel accounting department sends the bills statement to the concerned company for making the payment and it is expected out of the companies that they will make the payment promptly. If they are late in doing so a follow up measure will be taken by the hotel requesting them to speed up the payment in case of further failure a strong reminder will be sent and if all these measures don't produce any produce any results a legal notice through a lawyer will be sent.

Hotels must ensure that the guests who are given credit facility from hotel are able to pay their bill in full within the scheduled period of time and only then the hotel should fix a house limit. Usually hotel's credit policy allows credit to:

1- Guaranteed payment reservation guests
2- Company guarantee payment guests
3- Credit card guarantee guests
4- Deposit/advance payment reservation guests

Problems in credit control may arise if:

1- Guests is not explained clearly as to which credit cards/foreign currencies are accepted by the hotel.
2- The guest is not informed that if his bill exceeds the house limit he will have to pay the balance in cash.
3- Communication gap between accounts department and cashier or night auditor and cashier.
4- Negligence by the staff to look at the black list.

Cash Control:

- All cash must be kept under lock and key and under the supervision of the cashier.
- The cash bank/float given to the cashier is also controlled and a check is kept on the same.
- The cashier should take proper precautions when dealing with foreign currency
- Whenever the guest pays in cash the cashier has to make a cash receipt and hand it over to the guest.
- The cash collected everyday should be sent to the bank for deposit.

Cash control is important from the point of view of hotel as credit sales are usually discouraged.

Protection on Hotel funds:

- Cashier should make frequent money drops to have minimum cash in hand.
- Cash drawers should be accessible to only one cashier at a time and should be kept closed when not in use.
- Alarm systems should be installed in all areas of the hotel where cash transactions

take place.
- A consistent system for handling bank deposits and money pickup should be developed and followed.
- Staff handling money like the cashier, security etc should be appointed only after strict scrutiny and cross checking with their previous employers. They should be rotated from time to time and a new combination of staff should be used.
- They must also be trained to react in emergency situations.

4.3 Night Auditing

It is called night auditing because it is performed at night. In olden days, manual system was followed and nighttime was the most appropriate for auditing due to very little business and movement. Process of verifying and proving the accuracy and completeness of guest and non-guest account with departmental activity reports. Night audit is actually the audit process of taking inventor of the day's work. It is the activity of checking and confirming that whatever transaction have been done during the day are correct and complete. Any mistakes made during the day of transaction posting and the guest accounts such as rooms, food & beverages, taxes, phones and others are corrected and each account is balanced. Since hotel business is a round-the-clock business, in hotels the auditing is done during the night and hence it is called night auditing. In hotels operating manually and mechanically the best-suited time for the process is midnight as the activities are minimum during this time. In hotels operating on computer i.e. fully automatic system, the audit and posting can be done without distributing the night auditing process and hence the work of auditing can be done at any time. This work in an automatic system is mainly creating and distribution of reports, called as ' Early Bird' or 'Flash' information about previous day. Audit is concerned with:-

a. Verification of posting.
b. Balancing of accounts.
c. Resolving room status discrepancies
d. Monitoring Credit Limitations.
e. Producing operational Reports

4.3.1 Functions of Night Auditor

The main functions of night auditor is the responsibility of overall operation of the hotel as per the policy and procedure laid down and closing and balancing of the front office and accounts recoverable. The main purpose of night auditing is mainly to inform the management about the total amount of revenue generated on a day, and how-much the hotel is owned by the guests both in-house and checked-out and producing operational and management reports. An effective night audit increases the probability of correct account settlement and avoids disputes with the checking-out guests. It verifies posted entries to non-guest accounts also, monitors guest credit limits, balances all front office accounts and sorts out any room status discrepancies.

The followings are the functions of Night Auditor:-

(i) Verifying posted entries to guest and non-guest accounts.
(ii) Balancing all front office accounts.
(iii) Resolving room status and rate discrepancies.

(iv) Maintaining guest Credit limits.
(v) Producing operational and managerial reports.
(vi) Checking accounting details, procedural controls and Guest Credit restrictions.
(vii) Nature of cash transactions.
(viii) Tracking room reservation and related statistics.
(ix) Daily summary of Cash and Credit activities at front desk.
(x) Reporting results of operation to the management.

4.3.2 Job Description of Night Auditor

A night auditor is the person who audits the hotels accounts daily at night or at a time when the business is relatively slow. The audit team generally comprises members of the accounts department. The number of people in the audit team depends upon the size, location, and products of the hotel. Since most of the activities of the night auditor are concentrated in the front office, the front office Manager may provide the necessary inputs for the night audit process. So the members of the night audit team generally report to the accounts department as well as the FOM. As a night auditor has to work in the night, the position doesn't find many takers, so most of the hotels do not have a permanent team of night auditors. A night auditor should be a skilled book keeper as he is required to track all the financial transactions between the hotel and its guests the day. A night auditor should also possess the skills of a receptionist, as in many small and medium hotels, he may be required to carry out the check-in/check-out function at night. Night auditors monitor the current status of guest accounts vis-à-vis the credit limits, and verify discounts, allowances, and promotional programmes that are offered to guests. They prepare reports about the front office operations for the management. Fully automated hotels may not require a team of night auditors as most of the function (known as system updates) that a night auditor performs are carried out automatically by the computerized system, but a person is still required to physically verify the accounts and vouchers.

Job Description of Night Auditor:- Responsible for the daily review of guest related financial transactions recorded by the front office staff. A night auditor performs the following duties and responsibilities:-

(i) Ensure the correct charges for room rentals and purchases at hotel outlets are charged to correct guest accounts.
(ii) Process Credit Card and guest charge vouchers.
(iii) Receives and records guest payments.
(iv) Maintains daily Count information on walk-in reservations.
(v) Records and makes wake-up calls.
(vi) Transfers authorized guest charges and deposits to group master accounts.
(vii) Verifies accuracy of all account postings and balances.
(viii) Monitors effectiveness of discounts and other advertising and promotion efforts.
(ix) Develops "today" and "to-date" reports of room revenues, occupancy rates and other statistics requested by the controller.
(x) Prepares a summary of revenue by types (cash, cheque, credit card)
(xi) May perform guest registration and check-out procedures.

(xii) Prepare high balance Credit reports.
(xiii) Prepare housekeeper's report showing status of check-outs, stays, and vacant and out-of-order rooms for the night Just ended.
(xiv)

4.4 Night Audit Procedure

The night audit is conducted in every hotel to maintain an accurate and efficient accounting system that keeps proper records of all the transactions. This prevents the loss of revenue as well as leads to higher levels of guest satisfaction (as guests are presented error free and up-to-date bills). The night audit is conducted on a daily basis as the creditors (hotel guests to whom the hotel extends Credit facility) are mostly unknown and if their accounts remain unsettled due to some error in book keeping, the hotel will lose that revenue. The daily authentication of accounts, by verifying support documents and posting of charges in the guest accounts, is necessary to prevent any possible loss of revenue.

The following steps of Night Audit:-
1- Complete Outstanding Postings:- one of the Primary functions of the night audit is to ensure that all transactions affecting guest and non-guest accounts are posted to appropriate folios before the end of the day. Charges posted to wrong date will confuse guest and severely complicate cross-referencing. Posting errors can also lead to discrepancies and delays at checkout. Through the transactions have to be posted to the proper account as soon as they are received, the night auditor must confirm that all the transactions received by the front office for posting will result in errors in account balancing and complicate summary reporting. In addition to completing posting functions, the night auditor verifies that all vouchers for revenue centre transactions are posted. It the hotel does not have interfaced computerized telephone call accounting system, outstanding telephone charges may require manual posting. In case of a point of sale or call accounting system interfaced with the front office accounting system, the previously posted totals should be verified to ensure that all outlet charges have been posted. This can be done by generating printed posting reports from the interfaced system and comparing them with the total reported by the front office account system. If the figures are identical, the systems are in balance. If they do not tally the auditor begins to compare transactions between the two systems to identify the transactions that have been omitted or improperly posted.

2- Reconcile Room Status Discrepancies:- Room status discrepancies must be resolved in a timely manner since imbalances can lead to lost business and cause confusion in the front office. Errors in room status can lead to lost and uncollectible room revenues and admissions in postings. The front office must maintain current and accurate room status information to effectively determine the number and types of room available for sale. For example, if a guest checks out but the front desk agent fails to properly complete the check out procedure, the guest's room may appear occupied when it is really vacant. This error in procedure could prevent the room from being rental until the error is discovered and corrected. In Manual and semi-automated hotels, before the end of the day, the night auditor reconciles discrepancies between the daily housekeeper's report and the front office room status system (the room rack and guest folios in manual and semi-automated hotels). To minimize errors, housekeeping departments typically require staff to record the perceived status all rooms serviced. The auditor must review front office and housekeeping department reports to reconcile and finalize the occupancy status of all rooms for a given night. In fully automated hotels, the night auditor compares the daily housekeeper's report with the room status report of the system and the bucket where the registration cards for in house guests are kept. If the housekeeping report indicates that a room is vacant, but the front office believes it is occupied, the auditor should search for an active room folio and registration card. If the folio exists and has a current outstanding balance, there are several possibilities:-

- A guest may have departed but forgotten to check out.
- A guest may be a skipper who left with no intention of checking out.
- A front desk agent or cashier may not have properly closed the folio at check out.

After verifying that the guest has left the hotel, the night auditor should process the check-out and set the folio aside for front office management review and follow-up. If the folio has been settled, the front office room status system should be corrected to show that room is vacant. The night auditor should verify the guest folio against the housekeeping and the room status reports to ensure that all three are consistent and in balance. In a computerized system the check-out process is normally linked to a rooms managements function that automatically monitors and updates the room's status. Few, if any, room status discrepancies should occur in a computerized front office system, but the night audit process is still necessary to ensure accuracy.

3- Balance All Departments:- The night audit process can become quite complicated when errors are discovered. It is generally considered more efficient to balance all departments first and then look for individual posting errors within an out-of-balance department. The night auditor typically balances all revenue center departments using source documents that originated in the revenue center. The night auditor seeks to balance all front office accounts against departmental transaction information. Vouchers received at the front desk and other documents are totaled and compared with revenue center summaries. Even fully automated front office accounting systems rely upon source documents to help resolve discrepancies as they arise. When the front office accounting system is out of balance, the correctness and thoroughness of account postings must be investigated. A detailed department audit (by shift or by cashier) may be conducted and individual postings reviewed until the front office accounting error is corrected. The process used to balance the revenue center departments is often called the trail balance before posting room and tax charges. Doing so can simplify the final night audit procedure. If the trail balance was correct and the final balance is wrong, the auditor can deduce that the error must relate to the room and tax posting it is important to note that a mathematical balance in guest and non-guest accounts against departmental totals does not necessarily mean that the proper accounts would still present an imbalance total. This type of error usually goes unnoticed until a guest has a problem with the validity of an entry on his or her statement. Exhibit presents a simple sequence of night audit procedures useful in departmental balancing.

4- Verify Room Rates:- The night auditor may need to complete room revenue and count report. This report provides a means for analyzing room revenues since it shows the rack rate (price) for each room, and the actual rate at which the room was sold. If a room's rack and actual rates do not match, the night auditor should consider several factors.

- ❖ If the room is occupied by a member of a group or by a corporate rate customer, is the discounted rate correct.
- ❖ If there is only one guest in a room and the actual rate is approximately half the rack rate, is the guest part of a shared reservation? If or she is, did the second guest register.
- ❖ If the room is complementary, is there appropriate supporting back up for the rate (for example, a complimentary room authorization form)

The proper use of room revenue and count information can form a solid basis for room revenue analysis. The night auditor may be required to produce a copy of this report for review by front office management. Some hotels today measure room revenue potential against actual room revenue. The actual room revenue posted is compared with the rack rate of the room occupied for the night. The comparison may be shown as a percentage. The night auditor may be responsible for calculating this number and reporting it as part of the night audit or it may be done automatically by the front office computer system.

5- **Verify No-Show Reservations:-** The night auditor may also be responsible for clearing the reservation rack of filing and posting charges to no-shown accounts. In posting no-show charges, the night auditor must be careful to verify that the reservation was guaranteed and the guest never registered with the hotel. Sometimes duplicate reservations may be made for a guest or the guest's name may be misspelled and another record accidentally created by the front office staff. If these are not identified by front office or reservation staff, the guest may actually arrive but appear to be a no-show under the second reservation.

No show billings must be handled with extreme care. A front desk agent who does not record cancellations properly may cause clients to be billed incorrectly. Incorrect billing may lead the credit card company to re-evaluate its legal agreement and relationship with the hotel. Incorrect billing may also cause the hotel to lose the guest's future business and (if applicable) the business of the travel agency that guaranteed the reservation. All front office staff must adhere to established no-show procedures when handling reservation cancellations or modifications.

6- Post Room Rates and Taxes:- Posting room rates and room taxes to all guest folios typically takes place at the end of day. Once room rates and taxes are posted, a room rate and tax report may be generated for front office management review. The ability to electronically post room rates and room taxes on demand is surely one of the most frequently cited advantages of an automated front office system over manual and semi-automated systems. Once the night auditor has verified the room rates to be posted, the computer can auto-post numerous room rate and room tax charges to the appropriate electronic folios in a matter of minutes. With manual or semi- automated system, the procedure to post room rate and room tax can be very tedious and time consuming. In addition, automatic charge posting are accurate, with no chance for pickup, tax calculation, or posting errors. This feature can be especially important to hotels located in municipalities that have bed or occupancy taxes in addition to a sales-tax. Some automated hotels may pre-set their computer systems to post daily recurring charges, such as valet parking or gratuities. Auto-posting these charges can save night audit time and improve accuracy.

7- Prepare Reports:- The night auditor typically prepares reports that indicate status of front office activities and operations. Among those prepared for management review are the final department detail and summary reports, the daily operations report, the high balance report, and other reports specific to the property. Final department detail and summary reports are produced and filed along the daily operations report summarizes the day's business and provides insight into revenues, receivables, operating statistics, and cash transactions related to the front office. This report is typically considered the most important outcome of the front office audit.

The high balance report, identifies guests whose charges are approaching an account credit limit designated by the hotel (the house limit). In a computerized front office system, the computer may be programmed to produce many management reports on demand. For example, the high balance report may be produced at any time during the day as a continuing check on guest transactions and account balances.

In addition, other reports are usually created at this time by the night audit. A report showing each group in the hotel, the number of rooms occupied by each group, the number of guests for each group, and the revenue generated by each group is common. This report helps the hotel sales department with the group history. The same type of report may be generated for guests on package plans or guests staying in the hotel due to a special promotion or advertising program. Other reports may list guests who stay frequently and guests who are VIPs. In automated hotels, this type of marketing information can be automatically tracked, sorted, and reported.

8- Deposit Cash:- The night auditor prepares a cash deposit voucher as part of the night audit process. The night auditor compares the postings of cash payments and paid-outs (net cash receipts) with actual cash on hand. A copy of the front office cashier's report may be included in the cash deposit envelope to support any overage, shortage, or due back balances. Since account and departmental balancing often involve cash transactions, accurate cash depositing may depend on an effective audit process.

9- Clear or Back up the System:- In manual and semi-automated front office operations, totals must be cleared from the system after the night audit is complete. Manual systems are cleared by simply moving the closing balance from the night audit report to the opening balance of the next day's report. In semi automated operations, the totals in the posting machine must be brought to zero balance. The night auditor controls this function so that the possibility of fraud is minimized. As each account is reduced to zero, a separate card (sometimes called a Z card) is used to verify the zero balance. A Z card is usually submitted with the night audit work to show that all accounts have been properly reset. In semi-automated systems, typically only the ending balance is maintained in the posting machine.

Since a computer system eliminates the need for a room rack, reservation cards, and a variety of other traditional front office forms and devices, front office accounting depends on the continuous functioning of the computer system. A system back-up in the night audit routine is unique to computerized front office systems. Back-up reports must be run and various media duplicate in a timely manner so that the front office can continue to run smoothly. A printed room status report enables front desk agent to identify vacant and ready rooms should the computer become inoperable. A guest ledger report can be generated which contains the opening and closing account balances for all registered guests. A front office activity report can also be generated. Such a report contains expected arrival, stayover, and departure information for several days.

In some front office system, the next day's registration cards are pre printed as part of the front office activity report. Due to requirements of the Americans with Disabilities Act, hotels must also keep track of guests with disabilities. One reason for this is to ensure that all disabled guests are accounted for in case of an emergency. This report is usually produced at this time and distributed to the various departments needing this information.

Computer-generated front office information should also be copied (backed up) onto magnetic tape or magnetic disk, depending on the system configuration. A system back-up should be conducted after each night audit and stored in a safe place. Many computer systems have two types of system back-up. A daily back-up simply creates a copy of front office electronic field on magnetic tape or magnetic disk. The second type system back-up is performed once or twice a weak. This back-up not only copies daily information, but eliminates account and transaction information deed to no longer be of value. For example, accounts that have been checked out for over three days and have had no activitytime can be deleted from active computer memory. Following this procedure will reduce the overall amount of computer storage required for back-up. If any account must be researched in the future, it can be found previously printed reports or the weekly back-up.

10- Distribute Reports:- Due to the sensitive and confidential nature of front office information, the night auditor must promptly deliver appropriate reports to authorized individuals. The distribution of night audit reports is the final step in the night audit routine, and is important to efficient front office operations. Informed managerial decisions can be made if all night audit reports are completed accurately and delivered on time.

4.4.1 Non-Automated

In this system four audit forms- (i) Daily and supplemental transcripts, (ii) Guest and non-guest folio, (iii) Front office cash sheets and (iv) Audit recapitulation sheet and transactional voucher produced by hotel's revenue centre are sent to front desk. The night auditor prepares daily and supplemental transcripts by copying the day's activity from each guest and non-guest account folio to the appropriate line on one of the transcripts. The transcript columns are summarized to determine total charge transaction for each day. These two transcript information along with cost sheet data is transferred to a recapitulation sheet to provide a summary of daily front office activity. Manual auditing is cumbersome and error prone and should be used for small hotels only.

4.4.2 Semi-Automated

Elero-mechanical posting machines and their improvements such as fully electronic posting machines are used for front office accounts postings. These machines are only capable of producing a limited number of departmental total; they don't interface with other POS systems and don't retain folio balances. Some new electronic systems are capable of all these. These systems retain folio balance to eliminate the need to enter the previous balance (pick up balance) and error associated with those entries. Many electronic posting machines can store previous account balances, which help eliminate 'pick up error'. In a semi-automatic system, simultaneous to the posting of account folio, the voucher used to indicate the posting is imprinted with same information posted to account folio, and also same information is printed on to a paper tape to save as a permanent journal record and as part of the hotel's internal audit trail (audit trail is an organized flow of source document detailing each event in the processing of a transaction). Also, amount of each posted charge is added to the running departmental for department originating the posting. Departmental totals are helpful in end of work shift end of the day reporting. Forms produced in a semi-automatic system are:- (i) front office cash report, and (ii) Night audit summary report (D-Card). This card shows the opening balance of the system, provides a running record of all charges and credits posting through the machine and shows a final balance.

4.4.3 Fully Automated

It is simple, quick and very accurate system in which automatic posting to guest and non-guest account folios can be done. It is very fast and various audit functions can be performed. A fully automated system can be interfaced with POS equipment, telephone switches and call accounting system for automatic posting from these devices directly to guest or non-guest folios. Monitoring account balances and verifying posting is done simply by comparing guest ledger and non-guest ledger audit data to front office daily report for balancing. An out-of balance situation usually indicates internal computer problem or an unusual data handling error. This system offers immediate reach to information and hence management can more effectively manage operations. Various reports can be generated as per the need. Many computer based front office systems can perform nearly continuous system audit routine and provide summary reports at a predetermined time providing greater flexibility in front office operations. A transaction can be one the following:-

(i) Cash payments:- Payments made by guest or non-resident guests. It decreases the payable balance of guest. A supporting cash voucher is made:

- for any cash purchase made by the guest (other then front office), no entry is made on account folio, and
- for such transaction, the account is created, settled and closed at the point of sales.

(ii) Charge Purchase:- A deferred payment transaction. In this case the guest receives services/goods but does not pay for it at the time of purchase. In such cases the point of sales must immediately communicated to front office for posting a charge voucher which is prepared at the point of sales.

(iii) Account Correction:- A posting error, rectified on the same day. A correction, voucher is made.

(iv) Account Allowance:- This involves two types of transactions. One type of allowance is for compensation for poor service/product and rebate or discount coupons are issued and second to correct posting error found after the close of the day. In this case also an allowance voucher is prepared which is authorized by the management.

(v) Account Transfer:- When one guest agrees to pay the account of some other guest. In this case the balance of original account is reduced and the balance of the destination bill is increased. In this case a transfer voucher is made.

(vi) Account Cash Advance:- Cash disbursed by hotel on behalf of guest. A visitor paid out voucher is made.

Night Auditor Report

<table>
<tr><td colspan="4">D- Night Auditor's Machine Balance No____________________ Date______________</td></tr>
<tr><td></td><td>Date</td><td>Symbols Net Total</td><td>Back Total</td></tr>
<tr><td>Room
Restaurant
Telephone
Long Distance
Laundry or Dry Cleaning
Miscellaneous
Paid Out
Total Debits
Miscellaneous
Paid
Total Credits
Net Difference
Opening Dr. Balance
Net Out Standing</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Total Machine Dr. Balance
Less Cr. Balance
Net Out Standing</td><td></td><td></td><td></td></tr>
<tr><td colspan="4">Detector Counter Reading   Date Charged
Auditor's Control   Central Total At Zero   Auditor
Master Tape Locked
Audit Control Locked</td></tr>
</table>

Fig- 4.1 Night Auditor Report

Guest High Balance Report

S. No._________ **Date________**

Night Auditor_________ **Received By_________**

S. No.	Guest Name/Agency Name	Amount	Action Taken	Remarks
	C. C. to___________			Signature ___________

Fig- 4.2 Guest High Balance Report

Front Office Cash Book

Cashier Name _______ Shift from:- ____To___ NO ____Date-________

Receipts				F. NATNL & N. Resident				Total Amount		Payment			
S. No.	Room No.	Name Bal B/F	Indian Residence	Received in F.C.	Recd in Full Rs. Under Excepted Cat.	Cash Sale	City Lodger	By Cash	By Cheque	Room No.	Name	Paid Out	Amount
											Balance Total		

Received Rs._______________ Sig. of Receiving Cashier

Fig- 4.3 Front Office Cash Book

Check Your Progress

Q-1 Explain the control of credit in Front Office?

……………………………………………………………………………………

Q- 2 Explain Night Auditing?

……………………………………………………………………………………

4.5 Summary

Cash control involves that all the transactions which the guest makes in cash with various sales sections of the hotel are recorded immediately and cash collected. Usually hotel have defined credit control policy and one of the aspect of the policy is that the hotel must ensure, before allowing credit facility, to guest that the guests who are given facility are able to pay their bill in full within the schedule period of times. Audit is the official authentication of records, especially financial ones. Since hotels remain operational round the clock, 365 days a years, continuous auditing is important to safeguard the loss of revenue. The daily audit is carried out in hotels at night, which is a lean period for guest activities like arrival and departure. The main purpose of night audit is to verify the accuracy and completeness of the financial transactions between the hotel and its guests so that total revenue for that day can be known. The night audit process involves, establishing the end of the day, completing outstanding postings and verifying transactions, reconciling transactions and updating the system at the end of the process.

4.6 Glossary

Cash Discount:- An allowance offered by a creditor or debtor to encourage prompt payment.
Cash Flow:- It is the time period between the goods or service sold to a customer to the period actual cash for that sale is received.
Cash Register:- A device used to record and maintain cash balances. The device may be mechanical, semi-automatic or automatic or electronic.
Cash Sheet:- A document in report form prepared by cashier, carrying all transaction against folio accounts, cash payments, and departmental cash sales. This document serves as a primary cross- reference document in the hotel's audit.
Credit:- An account tern which means that the transaction will reduce the accounts receivable.
Credit Authorization:- This is the maximum credit limit which a credit card company authorizes to its card holders and it varies from card to card. For example:- A silver card and gold card etc.
Credit Limit:- This is the limit of amount of money up to which the guest allowed credit facility. After the limit is reached the hotel requests the guest to clear his bill either partly or fully.
Direct bills:- These are bills of those guests who have checked out without setting their bills because the instructions about them is that their bill is to be forwarded to companies, etc.
Electronic Folio:- The making and maintenance of guest folio in computer memory. A soft copy record.
Electronic Fund Transfer:- The method of payment of goods or services in which the transfer of actual cash between two accounts is performed electronically.
Folio Header:- Upper portion of folio showing columns such as room number and personal details like date of arrival, date of departure, room tariff etc.
Guest Folio:- The bill sheet kept up to date by the front office cashier reading the details of charges for each individual guest of all events.
High balance Report:- A report prepared by the night auditor if a guest's account balance reaches or crosses the house limit.
Night Audit:- The daily audit that is carried out in hotels during the slack time, normally this time is between midnight and early morning.

4.7 Check your Progress –Answers

Ans-1 The term credit control refers to the various measures taken by the hotel to ensure that the guest settle their account in full either themselves as some one else on their behalf (which may be credit card, company, airline company, corporate office, a travel agent or person) within a specified period of time. Various steps are to be taken by different front office personnel at different stages of the guest cycle that will help in credit control.

Ans-2 Process of verifying and proving the accuracy and completeness of guest and non-guest account with departmental activity reports. Night audit is actually the audit process of taking inventor of the day's work. It is the activity of checking and confirming that whatever transaction have been done during the day are correct and complete. Any mistakes made during the day of transaction posting and the guest accounts such as rooms, food & beverages, taxes, phones and others are corrected and each account is balanced. Since hotel business is a round-the-clock business, in hotels the auditing is done during the night and hence it is called night auditing.

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4.9 Suggested Reading

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4.10 Terminal Questions

Q-1 What do you understand by the term night audit? Why is it known as 'night audit'.

Q-2 Explain the night audit Process in detail.

Q-3 Explain the Job description of Night Auditor?

UNIT-5,

FRONT OFFICE AND GUEST SAFETY & SECURITY

Structure

5.0 Objectives

After reading this unit, you should be able to:-

- Understand and differentiates between the terms “Safety and Security”.
- The Security of guest room - maintaining strict control on room key.
- Importance of Security systems.
- Handle to safe deposit lockers.

- Dealing with unusual events and emergency situations like Bomb threats, Thefts, Illness and Accidents.

5.1 Introduction

Safety and Security are concepts often used interchangeably and it should be understood that both are means of safeguarding human and physical assets. The Terms “Safety” is used with reference to such things as disasters emergencies, fire prevention and protection and conditions that provide for freedom from injury and prevent damage to property. The term “Security” is used with reference to freedom from fear, anxiety and doubts concerning humans as well as protection against terrorism and thefts of guest, employee or hotel property.

Guest room locking systems are taken care of by punched and magnetic card key systems. These systems include locks with flash memory and include productivity linked functions. The system can be directly interfaced with PMS. System that can alarm and record suspicious movement should be installed in such areas. Other various modern equipment such as CCTV with digital technology.

Guest room doors are titled with electronics eye interfaced with videophone and with two way communication.

5.2 Safety and Security Measures

Following are forms of the safety and security measures:-

1- Use of resident card.
2- Key control system should be employed. Bellboy errand card.
3- Maintain record of master key used by staff.
4- Housekeeper’s occupancy report to be made regularly proper procedure of checking keys in rack should be followed.
5- Double lock system, magic eye and a door chain system to be used.
6- Proper “left luggage system” to be followed.
7- Modern and efficient fire fighting systems should be used.
8- Smoke detectors to be installed.
9- Close circuit camera at parking and other strategic areas in the hotel.
10- Proper regular maintenance of equipment, appliances and building should be done.
11- Frequent patrolling by the security staff must be made.
12- Computer and data processing security (safeguarding of computer information, so that it does not reach the competitors and protection against virus in the programmed).

5.3 Importance of Security System

The guest who is coming to a hotel along with his luggage in the hotel during stay. Also at the same time it is also necessary and rather essential that the hotel staff and it's properly protected and secure in the hotel. Hence it is very important that the hotel should have a proper security system to protect the human beings which include the guests and the staff and the physical resources and assets such as equipment, appliances, buildings, and gardens etc. of the hotel and also the belonging of the guest which mainly is his luggage. Therefore it is important for the hotel management to select that system and agency or agencies which will provide hotel room all such threats which will create problem for the hotel.

The management must take care that the security and safety systems cover up areas as follows:

(a) Guest protection from crimes such as murder, rape, molestation, abduction and health hazards from outsiders, hotel staff, pests, and other such things like food poisoning etc. (use of pests control, barbed wire electronic and manual gadgets and system, card keys fire fighting systems and many other such things way be used).

(b) Protection of hotel staff like providing staff lockers, insurances, health schemes, provident funds etc. should be installed. Protective clothing, shoes, fire fighting drills, first and drills and first aid equipment. A small hospital or a dispensary may prove to be very useful. Supply of clean drinking water; use of aqua guards, sanitized of wash rooms etc. must be covered in systems.

(c) Guest luggage. Secure luggage store rooms and proper equipment such as luggage trolley and bell desk trolley etc. should be provided.

(d) Hotel equipments: Lifts, boilers, kitchen equipment furniture fitting and building etc. Must be protected and for these of security and safety should cover up fire safety equipment, bomb threaten security system, water floods security system earthquake etc. also many safety and security measures against accident such as bursting of boiler, bursting electrician, plumbers etc. play a very vital role in this.

5.4 Safe Deposit Locker

A key concern for guests is the safety of their belonging, especially cash, jewellery, and important documents. Hotels provide safe deposit lockers for the same. At the time of check-in-guests are advised to keep their valuables in the safe deposit lockers, depending on the front desk. Some hotels may also provide in room safe deposit lockers, depending on the room category. These safe deposit lockers have a single key. So only the guest can operate the locker.

Some hotels have lockers which open by the simultaneous use of two keys. One is issued to the guest and the other is with the front desk agent. This means that the locker can only be opened when both the keys are used whenever a guest wishes to cooperate the locker; the front desk agent and the guest used their respective keys to open the lock. The hotel may provide this facility for a nominal charged or no charged, depending upon the house policy. Guest who wishes to use this facility has to sign in the safe deposit locker register to get the keys of the safe deposit box.

5.4.1 PROCEDURE FOR USING SAFE DEPOSIT LOCKER:

Every hotel has its own operating procedure for the allotment of safe deposit lockers. The standard procedure has two stages:

1- Issue of locker
2- Surrender of locker

Hotel ABC

Safe Deposit Locker Register

S. No.	Date	Name of the Guest	Room No.	Locker No.	Key Issued	Guest Signature	Key Returned	Guest Signature	Remarks

Fig: 5.1

ISSUE OF LOCKER:

When a guest wishes to use the locker facility extended by the hotel, the following procedure is followed:

1. An empty safe deposit locker is allocated to the guest with the locker number.
2. A safe deposit box registration card is handed over to the guest and the guest is requested to fill the necessary information.
3. The locker is assigned and the locker key is handed over to the guest.
4. The guest keeps his valuables and documents in the locker, locks the box, and carries the key.
5. The guest can use the safe deposit box as and when required, he is required to make an entry in the safe deposit locker register for each use

5.4.2 SURRENDER OF LOCKER:

When the guest surrenders the safe deposit box, the following procedure is followed:

1. The guest in requested to withdraw the articles placed in the locker.
2. The guest is requested to sign and acknowledgement that he has received all the articles that had been placed in the safe deposit box.
3. The guest surrenders the locker key to the front office agent.

Using Safety Deposit Locker

Issuing safety deposit locker

↓ Allocate an empty safety deposit locker

↓ Ask the guest to fill the safe deposit box registration card

↓ Assign the locker and issued the keys to the guest

↓ The guest can keep his articles in the locker and operate it as and when he likes. He is required to make an entry in the safe deposit locker register at each use.

Surrendering safety deposit locker

↓ Ask the guest to withdraw the articles placed in the safe deposit box

↓ Collect the locker key from the guest

↓ Ask the guest to sign an acknowledgement that he has received all the articles kept in the safe deposit box.

Fig: 5.2 (Procedure for the allotment and surrender of safety deposit locker)

5.5 KEY CONTROL

The controls of guest room keys is one of the cornerstones of hotel security that gust have a right to expect under common law. Key control is the process of guest property theft and other security related incidents by carefully monitoring and tracking the use of keys in the hospitality operation. If there is no key card lock system, the following policies should be considered for key control.

5.5.1 CODING:

A few precautions to take while coding are as follows:

- Room keys must not have any form of tag that identifies the hotel.
- Keys must not have the any form of tag that identifies the hotel.
- Keys must not have the room number on them.
- Keys must be identified by a numeric or alphanumeric code. That code should not, in any way, dire3ctly correspond to the building or room numbers.

5.5.2 ISSUING KEYS:

Apart from the basic precautions for all keys, there is more stringent security for keys with higher access.

GUEST ROOM KEYS:

These are the keys with minimum access, unlocking just the one room. When keys are given to guests upon registration, the guest's room number must not be spoken aloud if there are others within hearing range. Room numbers should be shown to the guests in writing with a reminder that they should note it down if a guest check in pocket is not used. Explain to the guest that the coding system is for their protection.

MASTER AND SUB-MASTER KEYS:

All section master keys' room master keys, grand master each time they are taken and their return noted in a key control sheet. All the keys should be stamped do not duplicate.

CUSTODY OF KEYS:

These are the precautions to be taken while the key, in with a guest or employee after being issued as per the correct procedure.

- Employees should not be allowed to loan the keys assigned to them to one another.
- Employees should hand over keys whenever they leave the property, even for meat breaks.
- Individuals who have been issued master or sub-master keys should be spot-checked from time to time to ensure that they have them on their person.

CHANGING LOCKS AND KEYS:

Whenever a new key is made or a new lock is fitted, certain precautions are necessary are made. The general manager must review their record on a weekly basis, initialing and dating the key. Making log each time he or she the reviews it:

- If required as a result of their review, the general manager must instruct the maintenance staff either to re-key a lock or to exchange room locks around within a housekeeping section.
- If new room codes are to be used or locks are being switched, the code on the keys must be adjusted accordingly and over stamped until the old code is illegible and the new code should be stamped nearby if locks are swapped within a section. As a standard practice, it is recommended that some locks in a section be moved quarterly
- A log must be kept of all lock swaps and re-keying.

LOSS OF KEYS:

This is a time when particular vigilance must be exercised.

- If a section master key is lot under circumstances that may result in a guest being at risk, the entire section should be re-keyed. If a section is being re-keyed, also consider rekeying a new grand master and emergency key so that in effect, a phased re-keying of the entire hotel is accomplished if it has been some time since this was last done.

- If a master key or emergency key is lost under any circumstances, it must be reported to owner on the corporate office immediately by the general manager. After the circumstances are discussed, they can decide whether the entire hotel should be re-keyed.
- As an additional step, the general manager or somebody he or she delegates the responsibility to must cross. Index all incidents of theft, missing property, damage and so on as follows:
  (a) Room number or location watch out for lock that have been moved.
  (b) Names of potentially implicated employees (usually more than one). It may be discovered that room thefts never occur when so and so is off. Or that they occurred, regardless of the room number, when so-and-so was working in maintenance or housekeeping.

ELECTRONIC LOCKS:

These are a precaution in themselves. Since the introduction of the recordable electronic door lock in the late 1970's hotel security has been virtually transformed. The focus at the time of its invention was increased guest security. Now there are countries where hotels that do not feature electronic locking mechanisms in guest rooms will be unable to obtain insurance. Even the simplest of key-card locks have been found to reduce break-ins by up to 80 percent employee key-cards can even be coded to allow access only to. Their assigned units of responsibility and only during the hours of their shift.

5.5.3 KEY CONTROL REGISTER:

This is one of the most important registers maintained at the housekeeping control desk. Security system to be followed by the housekeeping department. Each employee who is handed over a key, and key, from the key cabinet is supposed to sign for it in a key control sheet in this register.

Key Control Sheet

Date …………………

Key Code	Name	Signature	`Time out	Issued by	Time in	Signature	Received

Fig: 5.3

5.6 Emergency Situations

5.6.1 ACCIDENTS:

According to Oxford advanced learner's dictionary, an accident is an unpleasant event that happens unexpectedly and cause injury or damage. Accidents may occur due to any one of the following reasons.

Excessive Haste

Excessive haste is among the prime causes of accidents because a person in haste may overlook the safety rules or obstacles in the way. Therefore, to avoid accidents, one must not be in a hurry or run while on the job for example, bill boys, when in a hurry to carry the luggage of a group, may overlook objects in blind corners and may meet with accidents.

Carelessness

Carelessness is also a common cause of accidents. The careless handling of goods and equipment may lead to accidents. For example, if a bell boy is careless with the luggage, he may trip and fall.

Anxiety:

Anxiety is a feeling of worry or fear about something. An anxious person will not be able to concentrate on the task at hand and this might lead to accidents.

Lack of Interest:

If a person lacks interest in what she is doing, she becomes careless and doesn't follow the correct procedure for carrying out a task, leading to accidents.

Lack of Concentration:

A person may not be able to concentrate on work due to personal problems, lack of interest, distractions etc. The lack of concentration may lead to problems and accidents.

Failure to Apply Safety Rules

Safety rules, if followed prevent accidents. Before operating any equipment, one should read and follow the operating instructions given in the product manual in order to eliminate the chances of accidents. The failure to apply safety rules may cause accidents.

Accidents in Hotels:

In hotels, accidents usually happen in one of the following areas:

- Stairways
- Balconies or landings
- Ramps
- Parking lots
- Bath tubs or showers

To minimize the number of accidents and to avoid workplace injuries, the hotel should take care of the common problems, some of which are as follows:

- Presence of handrails/guardrails
- Presence of a non-slip surface
- Adequacy of landing areas
- Adequacy of lighting

Accident Report:

In spite of all the precautions takes by hotels to prevent accidents, mishaps may still occur. If a staff member meets with an accident with the hotel premises, it must be reported to the management and a record of the accident must be entered in the accident book.

A proper reporting of accidents in important for the following reasons:

- The accident-prone areas may be identified so that appropriate signs may be placed there to avoid any future accidents.
- First aid may be given to the injured person.
- If the injury is serious, an ambulance may be summoned.
- The damage (loss due to the accident can be assessed.

HOTEL ABC

Accident Report

S.No.: 0123786

Name of the injured person : ……………………………..……………………….
Occupation: ………………………………… Supervisor: ……………………………..

Time of Accident	Date of Accident	Time of Report	Date of Report

Nature of injury or condition …………………………………………………………

Extent of injury (after medical attention): ……………………………………………...
…………………………………………………………………………………………

Place of accident or dangerous occurrence: …………………………………………..

Injured person's version of what happened (use separate sheet if required):
…………………………………………………………………………………………

Witness of evidence (I)	Witness of evidence (II)
Date: ………………………	Authorised Signatory

Fig: 5.4 Accident Report Form

5.6.2 SICKNESS AND DEATH: (ILLNESS)

On many occasions Front office Manager find a sick guest on their hands. If the guest in too ill to travel home or it is inconvenient for him or her to do so, as in the case of an overseas traveler, he or she should be seen by the doctor an call at the hotel or by a local doctor. If medical aid in on the way, the house keeper may have to administer first-aid to the ailing guest. Hotel guests who are ill should be regularly visited by the house keeping staff or bell boy. In case of a contagious illness, it is advisable that the local health authorities be informed by the general manager or the doctor.

5.6.3 THEFT:

There is always a possibility of robbery in hotels as the front desk cash and bills section and the points of sale usually have large sums of money. Also, the valuables in the possession of guests may invite burglars to discourage robbers, the guest should be asked to leave their valuables in the front office safety deposits locker or in the in-room locker. In the event of an armed robber, the hotel employees should follow the below-mentioned procedure:

- Comply with the robbers' demand.
- Do not make any sudden movement as it may provoke the robbers to use weapons or firearms.
- Remain quiet, unless directed to talk by the robbers.
- Do not attempt to disarm the robbers, as this may jeopardize many lives.
- The cashier ma switch on the record alarm that might be installed in the cash drawn, while also following the direction of robbers so that they do not get suspicious of hint.
- Observe the robbers carefully, noting the physical characteristics like height, build, eye, colour, hair colour, mannerisms complexion, clothing, scar marks, or anything that can be helpful in their identification.
- Note the direction of escape, and the type and registration number of the vehicles used by the robbers.
- Do not touch any object that might have been touched by the robbers and restrict the movement of people in the area in order to preserve finger prints and other possible evidence left by the robbers.
- Gather the details of the robbers from the people who have witnessed the event and record them in the crime report from, if available.

5.6.4 Fire:

Fire in among the major potential hazards associated with hotels. It could take place due to cigarette smoking in rooms, fault electrical wiring, or faulty equipment. Hotels must be equipped to safeguard guests and their property from fire by installing smoke detectors and by conducting routine checks to see that the wiring and equipments are not defective. All the employees must be aware of establishment and must be ready to comply with them at any time. There should be fire drills during low occupancy periods to check how the employees pest their knowledge of laid down procedures into practice generally, fire extinguishers are installed in hotels at strategic locations and fire exists are earmarked for use in the event of fire. Guests should be made aware of the home.

Components- Fuel (a combustible substance), oxygen (necessary as fire is an oxidation reaction and heat (ignition temperature)- results in the outbreaks of fire. If any one of them is absent, fire cannot break out, fire can be extinguished by starving, smothering and cooling.

STARVING:

Starving is the removal of fuel from the vicinity of fire so that it doesn't spread. In case fire breaks out in an area where wood is stored, it can be extinguished by removing all the wood (fuel) from the area. This way one of the major components of fire will be eliminated.

SMOTHERING:

Smothering is the removal of air. Fire can be extinguished by cutting off the supply of air (coregent), which is necessary for existence of ire. Throwing a blanket over fire smothers the air and extinguishes the fire.

CODING:

Heat is also essential for the existence of fire. Cooling by adding water brings down the temperature and puts out fire.

CLASSIFICATION OF FIRE:

Depending upon the combustible material that has caught fire, fire is classified in the following five groups:

Class A: Wood, paper, textile, grass, garbage, and materials composed of cellulose.

Class B: Oil, petroleum products, varnishes, paints, non-ionic solvents.

Class C: Electrical equipment involving electrical short-circuits.

Class D: Meats such as magnesium aluminum, zinc, potassium etc.

Class E: Gases such as liquefied petroleum gas (LPC), methane, compressed natural gases (CNG) etc.

PROCEDURE IN THE EVENT OF FIRE:

The guidelines for the front office staff in the event of fire are as follows:

- When fire in detected, inform the concerned people immediately.
- Do not panic.
- Warn other people in the vicinity and sound the fire alarm.
- Do not jeopardize your own safety or that of other.
- Follow the procedure laid down by your establishment.

5.6.5 BOMB THREATS:

The procedure for dealing with a bomb threat is outlined below.

Bomb threats may be delivered in writing or orally, in person or over the telephone. In case of a written threats in the form of a letter, notes, or Telegram, the message and the envelope should be handled carefully and hold only at the corners to preserve fingerprints and other evidence. Protect the document and the envelope, and hand it over to the general manager. Inform the police of the contents of the note.

If the letter is delivered by a messenger, detain the person for questioning by the police, if possible. If the messenger has left the premises, the employee accepting the note should immediately prepare a memorandum listing the circumstances, the time the message was received, any known witnesses and a detailed description of the messenger.

In case the bomb threat was made orally, as in any employee becoming aware of a bomb threat though a personal contact or by overhearing someone make such a threat, the person should immediately convey the information to the general manager in a discreet manner (so as not to alarm the guests). The police should be informed promptly. The person issuing the threat should be kept under observation, if possible, and the person's physical characteristics noted. There include the persons height, weight, build, colour of hair and eyes, a description of clothes and jewelry, and any other identification feature such as a bread, scar, or limp.

If this person leaves the hotel before he can she can be stopped the determine his or her identity record the mode of transportation and the direction of travel. This may included a bus number, car rental company, the automobile description including the model, license plate number and state, and the number of persons in the car. These facts should be furnished to the general manager immediately for communication to security personnel and the police.

The most usual way in which a bomb threat is received is over the telephone. They are usually received by the switch board operators from a public telephone. They are usually received by the switchboard operators from a public telephone number. The call is usually brief, so that there is no chance to trace the number. Therefore, switchboard operators should record the information accurately in order to provide the security and police personnel with as much documented information as possible.

Front office employees may also be a post of the search team looking for unclaimed, unidentified, or unusual foreign object that could contain a bomb. All front office employees should be awards of the evacuation plans explained in the safety manual of the property and help in evacuation if necessary. In case of an explosion, the employee should help out in the secure process and provide first aid as required.

CHECK YOUR PROGRESS

Q.1. What do you understand by accident? What cause accidents? Explain

Ans

……………………………………………………………………………………
……………………………………………………………………………………
………………---

Q.2. Explain the Type of Keys used in hotel industry.

Ans………………………………………………………………………………
……………………………………………………………………………………
………………---

5.7 Summary

It is the legal and moral responsibilities of a hotel to ensure the Safety and Security of its guests and employee. Hotel control the access to guest rooms by maintaining a strict control over room keys. In case of fire or accident, all the employees of the hotel should follow the standard procedure laid down by the authorities. Hotel should be equipped with smoke detector, fire extinguishers, and fire exit to deal with an outbreak of fire. It is mandatory for all hotels to have adequate first aid equipments, facilities and trained personnel to provide first aid to people injured in an accident. If the injury is serious proper medical assistance should be sought. The security personnel in hotels should be trained to handle situations like accidents, illness, and theft and bomb threat.

5.8 Glossary

Master Key: it opens all guest room locks, which are not double locked.
Grand Master Key: it opens all guest room locks, even if they are double locked.
Double lock: An internal safety locking device – if locked from inside the room. It cannot be opened from outside by its own key and master key.
Safety: The terms "Safety" is used with reference to such things as disasters, emergencies, fire prevention, and protection and for conditions that provide for freedom from injury and damage to property.
Key Card –A plastic card with magnetic strips that has the code to open a guest room in an electric locking system.
Left Luggage room - A room where the luggage of guest, who have checked out of their rooms and settled their bills, is stored.

5.9 Check Your Progress - Answer

Ans.1. an accident is "An unpleasant event that happens unexpectedly and causes injury or damage. "Accidents may occur due to any one of the following:

- Excessive haste
- Careless
- Lack of Concentration

Ans.2. The types of keys are as follows:

- **Grand Master Key:** Grand master key opens door locks of all guest rooms, even if they are double locked.
- **Master Key;** A master key opens all those guest room door locks that are not double locked.
- **Guest room key:** A guest room key opens the lock of an individual guest room.

5.10 Further References

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5.11 Suggested Readings

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5.12 Terminal Questions

1. Describe the various types of room keys you may find in a Hotel.
2. How will you deal with Bomb threat as a front desk employee?
3. Write a note on a Safe deposit locker.

Unit-6

Uniform System of Accounts for Hotels

Structure

6.0 Objectives

After reading this unit you will be able to understand the following

- ❖ Uniform system of accounts
- ❖ Income statement and Balance sheet
- ❖ Departmental income statement

6.1 Introduction

Accounting has rightly been termed as the language of business. It communicate the result of business operations to various parties who have some stake in the business, viz., proprietor, investor, government and other agencies. In India, Chanakiya in his Arthashastra has emphasized the existence and need of proper accounting and auditing. In the hotel industry accounting may be defined as an art of recording business transaction in a systematic manner so that the accurate result of business activities may be readily ascertain. Without proper books of accounts in a business it would be practically impossible to measure the profit or loss with any degree of accuracy. A much clear way of showing clear way of showing the calculation of profit is to summarize all the incomes and expenditure. The total income exceeds expenditure, there will be profit and the owner's capital will increase. In order to provide detailed information concerning the operating activities of a business, a separate income account for each class of income and a separate expenses account for each class of a expenditure are used.

6.2 Introduction to Uniform system of Accounts

Uniform system of Accounts in hotels is a manual the provides firstly uniform classification of income, expenditure, assets and liabilities for hotels and secondly standardized, uniform method of presenting financial results of operations. This manual was prepared in order to bring uniformity in accounts in hotels, whether they were large or small. The need of such classification was being felt by hotels long. In the later half of 1925 the Hotel Association of New York City appointed a Committee of hotel accountants to prepare a manual showing a simple formula for the classification of accounts. This committee prepared a common manual, both for large and small hotels, showing uniform classification of accounts and instructions for preparing of financial statements. This manual of instructions was called Uniform system of Accountant for hotels. The American Hotel Association recommended this system of accounting to all hotels of America. Since then this manual has been revised several times. To-day it has been adopted by hotels of several countries. In India also this uniform system has been adopted by many good hotels.

The main advantages of Uniform System of Accounts may be summed up as under-

1. This manual of classification has been designed in such a way so that all large and small hotels can adopt. Each hotel can select the head of account according to its requirement and eliminate such items as are not needed by it.
2. The hotels having branches can introduce this Uniform systems of Accounts in all the branches. By introduction of this they can easily compare each head of income and expenditure of one branch with other branch or branches.
3. A hotel, having branches, can prepare consolidated Profit & Loss Account and Balance Sheet of all branches.
4. An employee may not find any difficulty in maintaining the accounts, if he is transferred to some other branch of the hotel or seeks a change in a hotel where also the Uniform system of Accounts in practice.

   For introducing Uniform System of accounting the activities of a hotel are divided into two main departments. The first is operated or revenue earning departments and the second services or overhead departments. The operated departments are further divided into two parts-Major Revenue Producing Departments and Minor Revenue producing Departments. Under the head major revenue producing departments we can keep room and food and beverage departments, Telephone, Guest Laundry etc. can be kept under minor revenue producing departments. The Assets and Liabilities are also analysed in detail. For adoption of Uniform system it is necessary to standardize the terminology and collect all income of one nature under one head of account and all expenses of one nature under the same head of account.

6.3 Contents of the Income Statement

At the end of every accounting period the owner of the business would like to know about the result of operating business. To ascertain the net profit earned or net loss incurred, final account is prepared. Final account is a statement that results finally from the preparation of an account showing the profit earned or loss suffered by the firm and financial state of affairs of the firm. The statement showing the profit or loss is known as profit and loss account and the statement showing the financial state of affairs is called the balance sheet.

- Income Statement
- Balance Sheet

Income Statement

Income Statement can be divided into the following

- Trading account
- Profit and Loss account

Trading Account

The trading account is an account. Which shows result of the buying and selling of goods? It contains the summarized from all the transactions occurring during an accounting period, which have direct relation to the goods dealt in the business Finding out the gross profit and gross loss by preparing an account is called trading account. Gross profit is the excess of the selling price over the cost of goods sold. Cost of goods sold can be ascertained by adding net purchaser to the opening stock of goods in trade and detecting the stock of goods at the accounting of the accounting period from the total. It can be computed as follows with assumed data.

Opening stock (food inventory)	Rs. 5,000
Add Food purchase	Rs. 20,000
Goods available for sale	Rs. 25,000
Less: Closing stock	Rs. 3,000
Cost of goods used	Rs. 22,000
Less: Cost of employee meals	Rs. 800
Less: Cost of promotional meals	Rs. 500
Less: Transfer to beverage department	Rs. 700
Cost of food sold	**Rs. 20,000**

The gross profit can be calculated as follows:

Gross Profit	=	Net Sales – Cost of goods sold
Net Sales	=	Total Sales– Sales returns
Cost of goods sold	=	opening stock + Net Purchase + Direct expenses – Closing stock
Net Purchase	=	Total purchase – Purchase returns

Items of Trading Account
Posted to debit side

Opening Stock: Generally opening stock is written as the first item on debit side of trading accounting but if new business starts, there will be no opening stock. This is the value of goods in hand at the beginning of the accounting year for which trading account is prepared. Opening stock includes the stock of raw materials, work in progress and finished goods. The amount of opening stock is taken from trial balance.

Purchase: Purchase means goods purchased for resale. It includes both cash and credit purchase of goods. The net amount of purchases is written in trading account. So return and any discount on purchase should deduct from purchase in the inner column. Purchase of any assets like land, machinery is not included in purchase. If some goods are withdrawn by the businessman for his personal use, it should be deducted from the purchases.

Direct Expenses: All the expenses, which have been incurred before the goods become ready for sale are treated as direct expenses. The direct expenses are written on the debit side of trading account.

Wages: If the wages is paid on manufacturing goods, it should be debited to trading account. If nothing is mentioned in the question whether the wages is direct or indirect, it should be treated as direct expense. If any amount of wages is outstanding it should also include in wages account. If wages are clubbed with salaries and the trial balance includes single amount for wages and salaries, then the amount is shown in the trading account.

Carriage of Freight Inward: If these expenses are paid on the purchases of goods, they are shown on the debit side of the trading account. If these expenses are paid in connection with any asset like furniture, it should not be debited to the trading account. Outstanding freight and carriage should also add to these expenses. Outstanding freight and carriage appears as a liability in the balance sheet.

Power and Fuel: All the expenses regarding motive power, coal, gas and fuel are direct expenses and are shown on the debit side of trading account. Outstanding expenses of power and fuel should be added to these expenses.
Factory Lighting: The amount paid for electricity use for the lighting the factory premises will be treated as direct expenses and debited to the trading account.

Important Duty and Dock Charges: If goods are purchased from foreign country. The business has to pay import duty and dock charges. These expenses are treated as direct expenses and are shown on the debit side of trading account.

Factory Rent and Rates: All the expense of factory rent and rates are treated as direct expenses and are shown on the debit side of trading account.

Octroi: When goods are bought with in the municipal limits, ortroi duty has to paid. This is a direct expenses and shown on the debit side of trading account.

Royalties: It refers to the payment made for the use of copyright or a patent. If royalty is paid on the basis of production, it is debited to trading account.

Posted to Credit Side

Sales: Sales means selling of those goods which were purchased for resale purpose. It includes both cash and credit sales of goods and refers to the net amount of sales (Sales-
Sales-Return: If a fixed asset is sold it should not be included in sales. Sales of old newspaper etc. are excluded from sales.

Closing Stock: Closing stock means goods in hand at the end of accounting period. It may be of raw material, work in process and finished goods. Generally the amount of closing stock is given outside the trail balance. But sometimes when purchase is adjusted, closing stock has a debit balance in trail balance. If closing stock is given outside the trail balance in trail balance, it will be shown on the credit side of trading account and if it is given in the trail balance, it appears as an assets in the balance sheet. Closing stock is valued at cost or market price whichever is less.

Closing Entries for Trading Account: The journal entries necessary to transfer the opening stock, Purchases, sales and return account to the trading account are called closing entries as they serve to close these account.

For Opening Stock: Debit the trading account and credit the opening stock.
Trading Account Dr
To opening stock
(Being transfer of account stock to trading account)

For purchase: Debit the trading account and credit the purchase account
Trading Account Dr
To Purchase account
(Being transfer of purchase account to trading account)

For purchase return: Debit the Purchase return a/c or return outward a/c and credit the purchase account
To purchase account
(………………………)
For expenses: Debit the trading account and credit the expenses account and credit the expense account
Trading account Dr
To wages account
To octroi account
To fuel and gas account
(being transfer of various expenses account)

For sales: Debit the sales account and credit the trading account
Sales account Dr
To Trading account (Being transfer of sales a/c to trading account
For closing stock: Debit the closing stock and credit the account closing stock account)
Closing Stock account Dr
To Trading account
(Being transfer of account stock to trading account)

Trading Account of M/s…………………………..
For the year Ending……………………….

Particulars	Amount Rs.	P.	Particulars	Amount Rs.	P.
To opening account			By sales		

To purchase Less purchase returns Less drawing (goods) To wages To wages and salary To productive wages To carriage To carriage inward To carry and purchase To freight To octroi To dock charges inwards To custom duties on imported goods To motive power, coal, gas, water, oil grease etc. To factory expenses To factory rent and insurance To royalty based on production To gross profit transfer to P/L account			Less sakes return By closing stock By gross loss transfer to P/L account		

PROFIT AND LOSS ACCOUNT

After ascertaining the gross profit from trading account, the next step is to prepare the profit and loss account- to work out the net profit or net loss. The function of the profit and loss account is to show to business the profit or loss resulting from his transactions during a certain period. There are certain items of income and expenses of the business. These are indirect in nature. Net profit is the excess of gross profit and other incomes over the indirect expenses and loss. While preparing the profit and loss account, gross profit and other indirect income like commission, rent received, interest received etc. are transferred to the credit of the profit and loss account. All the indirect expenses are debited to the profit and loss account. Indirect expense may be administrative, selling and distribution, financial expenses to maintain the assets in to working order. Examples are salary, rent, postage, stationary, depreciation insurance etc. The difference of the two sides of this account is either net profit or net loss. If the total of the credit side is bigger then the total of the debit side, the difference is called net profit and if the debit side total exceeds the total of credit side the difference is called net loss. This account is prepared from nominal account and its balance is transferred to capital account.

IMPORTANT POINTS IN PROFIT AND LOSS ACCOUNT

Salaries: These include salaries paid to electrical staff and godown and warehouse staff and to managers. These salaries are indirect expenses and are shown in debit side of profit and loss account. Salaries to partners, or proprietor of the business must be debited separately.

Rent, Rates and Taxes: These include office and warehouse rent, municipal taxes and taxes. If it is a common item of indirect expenses debited to profit and loss account. It is necessary to see that rent for the full trading period is taken in to account, and if there is any out standing, the same should be duly provided for.

Insurance: Premium paid to insurance company for insurance of assets in to office building, furniture etc., should be treated as business expenses. It should be charged to profit and loss account. If interest is received on loan advance by the firm, on deposits, should be shown to credit side of profit and loss account.

Interest: Interest receivable and interest payable should be shown separate items. Interest paid on loan, overheads etc. is an indirect expenses and is taken to the debit side of profit and loss account. If interest is received on loan advance by the firm, on deposits, should be shown to credit side of profit and loss account.

Commission: Commission received and commission paid should be shown separately. Commission received should be credited to profit and loss account as a gain and commission paid should be debited to profit and loss account.

Repairs: All amount of repairs and renewals related to the existing assets such as plant and machinery, fixture and fitting etc. should be treated as expenses and debited to profit and loss account.

Stable Expenses: These are the expense for the fodder of the house and wages paid to person looking of the stable. It is indirect expense and should be debited to profit and loss account.

Trade Expenses: Trade expenses represent various small expenses, which incurred in a business. They are amalgamated under trade or general of petty expenses, Sundry expense or miscellaneous expenses. These are debited to profit and loss account.

Advertisement: All amount spent under this head and relating to the period under review must be written off to the profit and loss account, if a large amount is paid under a contract covering two or three years, proportionate part should be charged to profit and loss account and the balancing amount should be written in balance sheet as assets. **Samples:** The business firm to increase sales distributes samples of the goods free. Theses expenses are indirect expenses and therefore, should be debited to profit and loss account.

Apprentice Premium: It is an amount taken from the person who gets training in the business. It is indirect income and should be credited to profit and loss account.

Packing: Packing charges or cost of packing materials is a distribution expenses and so it should be debited to profit and loss account.

Legal Charges: If any amount is paid as legal expense in connection with the business during any accounting period, it should be debited to profit and loss account.

EXPENSES THAT ARE NOT SHOWN IN PROFIT AND LOSS ACCOUNT

Income Tax: Income tax is paid by the owner on his income and in such as way it is his private expenses and it should not be shown in profit and loss account. It should be added to drawings or directly deducted from capital.

Drawings: These expenses are not the expense of business firm, therefore these should not be written in profit and loss account. It should not be treated as personal expenses and added to drawings. Drawings are debited to the capital account.

Life insurance premium: If premium is paid on the life policy of proprietor, it should not be shown in profit and loss account.

PROFIT AND LOSS ACCOUNT
For the year Ending…………………..

Particulars	Amount Rs.	P.	Particulars	Amount Rs.	P.
To gross lost transfer from trading account			By gross profit transfer from trading account		
To Salaries			By rent from tenants		
To rent rates and salaries			By discount received		
To Stationary and printing			By commission received		
To postage and telegrams			By interest received		
To audit fees			By bed debt recovered		
To legal charges			By apprenticeship Premium		
To telephone expenses			By income from investment		
To insurance premium			By dividends on shares		
To entertainment expenses			By misc. revenue and gains		
To repair and renewal			By income from other sources		
To depreciation of assets			By net loss transfer to capital account		
To interest					
To sundry trade expenses					
To conveyance					
To charity					
To bank charges					
To office expenses					
To establishment expense					
To general expenses					
To stable expenses					
To licenses fee					
To brokerage					
To unkeep of cars and vans					
To office lighting					
To loss by fire theft					
To commission					
To advertisement					
To freight and carriage outwards					
To export duty					
To discount					
To packing expenses					
To bad debt or bed debt write off					
To travelling expenses					
To distributors expense					
To net profit transferred to capital account					

6.4 Practical Problems

Illustration -1

Prepare a trading account for the year ending 31st March, 2005 from the following particulars.

Opening stock	2,50,000
Purchases	4,00,000
Sales	9,00,000
Returns to suppliers	20,000
Returns to customers	10,000
Wages	5,000
Freight inwards	7,000
Goods withdrawn by owner for personal use	20,000
Closing Stock	5,00,000

Solution:-

Trading account of M/s……………………….
For the year ending March 31, 2005

Particulars		Amount Rs.	P.	Particular		Amount Rs.	P.
To opening account		2,50,000	00	By sales	90,000 00		
To purchase	4,00,000 00		00	Less sakes return	10,000 00	8,90,000	00
Less: Returns	20,000 00			By closing stock		8,00,000	00
Less drawing (goods)	20,000 00	3,60,000	00				
To wages		5,000	00				
To freight		7,000	00				
To gross profit transfer to P/L account		7,68,000	00				
		1,39000	**00**			**1,39000**	**00**

Illustration -2

From the following balance extracted on 31st March 2005 prepare profit and loss account.

Gross profit	50,000
Salaries	2,000
Rent	500
Fire Insurance premium	600
Bad debts	300
Commission (Cr.)	1,000
Interest (Cr.)	500
Legal charges	600
Telephone expenses	800
Repair expenses	700
Interest on capital	800
Income from investment	400
Sundry expenses	800
Discount (Cr.)	100
Discount (Dr.)	300

Printing & Stationery 800
Rates & Taxes 250

Profit and loss account
For the year ending…………

Particulars	Amount Rs.	P.	Particulars	Amount Rs.	P.
To Salaries	2,000	00	By gross profit transfer from trading account	50,000	00
To Rent	500	00	By commission received	1,000	00
To fire ins. Premium	600	00	By interest receive	500	00
To bed debt	300	00	By discount received	100	00
To legal charges	600	00	By income from invest	400	00
To telephone expenses	800	00			
To repair	700	00			
To interest on capital	800	00			
To sundry expenses	800	00			
To discount	300	00			
To printing & stationary	800	00			
To rates & tax	250	00			
To net profit transferred to capital account	43,550	00			
	52,000	**00**		**52,000**	**00**

6.5 Contents of Balance Sheet {Under Uniform System}

After ascertaining the net profit or net loss by preparing the trading and profit and loss account, the next step is to prepare the balance sheet. The purpose of balance sheet is to ascertain the financial position of a business i.e., to know what the business owes and what it owns on a certain date. Hence it shows all assets and liabilities of the business as at the end of the accounting year. A balance sheet is a statement prepared with a view to measure the exact financial position of a business on a specified date. This includes what the business owes all the assets the liabilities are recorded in the balance sheet in a classified form. All properties assets and other rights owned by the business are shown on the right hand side, the liabilities to outsider and amount invested by owners as capital on the left hand side. The excess of assets over liabilities represents the capital of the owner. The total of the both side of the balance sheet must tally because of the equation viz
Assets = Liabilities + Capital

CLASSIFICATION OF ASSETS AND LIABILITIES
Assets

Assets denote the economic resources and possession of a business. Land, machinery, furniture, building, books, debts, cash and bill receivables are some examples of assets. The classification of assets depends on their nature assets may be divided in to following class:

Fixed Assets

Those assets, which are acquired for, continued use in the business over a long period and are used for the purpose of earning profits. These are permanent in nature and with the help of these assets business is carried on. Land, building, machinery, furniture and fixtures are some example of these assets.

Current Assets

Assets, which kept temporary for subsequent conversion in to money, are called current assets. They are likely to be realized with in a period of one year or during the normal operating cycle. Current assets include-cash balance, bank balance, closing stock, debtors, bill receivable, short-term loan etc. they are also called floating or circulating assets.

Tangible Assets

These are definite assets, which can be seen, touched and have some volume such as building, furniture, machinery, stock etc.

Fictitious Assets

These assets are fictitious in nature i.e., they are not really assets. These are either the past accumulated losses or expenses which are incurred once in the life of a business and are capitalized for the time being, for example, profit and loss account (debit balance), loss by fire, discounted on issue of shares or debentures, preliminary expenses etc.

Intangible Assets

Those assets which cannot be seen or felt, or touched and have no volume but values are treated as intangible assets. For example, goodwill, patents and trade-marks etc. Intangible assets are not necessarily useless.

Wasting Assets

Wasting assets are those assets, which have a fixed, content, For example, mines, quarries etc. they become exhausted or reduce in value as they work.

Liquid Assets

Cash and other marketable securities, which can be converted in to cash quickly, are called liquid assets.

Liabilities

A Liability is an amount, which a business is legally bound to pay. It denotes the claim by an outsider on the property of the business. Liabilities may divided into following classes:

Fixed Liabilities:

Those liabilities which are payable by the business with in the next accounting period but will be payable only on the termination of the business are called fixed liabilities such as capital.

Long-term Liabilities:

Long-term liabilities are those liabilities which are not payable by the business within the next accounting periods but will be payable after a long period of time (five to ten years) For example, debentures, long term loans.

Current Liabilities:

Those liabilities, which have to be redeemed by the business with in next accounting year. For example, bills payables, short-term loans, sundry creditors, bank overdraft etc.

Contingent Liabilities:

These liabilities are not actual liabilities but their becoming actual liabilities.

In order of presence
Balance Sheet of ………………………
As On……………………

Liabilities	Amount Rs.	P.	Assets	Amount Rs.	P.
Fixed liabilities Capital **Long-term liabilities** Loan from bank Debentures **Current liabilities** Bills payable Sundry creditors Bank overdraft Outstanding expenses Short term loan			**Intangible assets** Good will Patents Copyright **Fictitious assets** Advertisement Misc. expenses Profit & loss a/c **Fixed assets** Machinery Building Furniture & fixtures Motor Car **Floating assets** Sundry debtor Investments Bill receivable Stock in trade Prepaid expenses **Liquid assets** Cash in hand Cash at bank		

In order to Liquidity
Balance Sheet of ………………
As On……………

Liabilities	Amount Rs.	P.	Assets	Amount Rs.	P.
Current Liabilities Bills Payable Creditors Bank overdraft			**Liquid assets** Cash in hand Cash at bank **Floating assets**		

Outstanding Expense Short term loan **Long-term Liabilities** Loan from bank Debentures **Fixed liabilities** Capital			Sunday debtors Investments Bill receivable Stock in trade Prepaid expenses **Fixed assets** Machinery Building Furniture & fixtures		
			Motor car **Fictitious assets** Advertisement Misc. expenses Profit & loss a/c **Intangible assets** Goodwill Patents Copyright		

DIFFERENCE BETWEEN TRADING A/C AND PROFIT & LOSS A/C

Trading Account	Profit & Loss Account
1- Trading account is the first part of Income statement.	Profit and loss account is the second part of income statement.
2. Trading account is prepared to ascertain the gross profit or gross loss of the business.	Profit and loss account is prepared to ascertain the net profit or net loss of the business.
3. All direct expenses are shown in trading account	Indirect expenses are shown in profit loss account, for example sales & distribution expenses, financial expenses, administrative expenses etc.
4. The balancing figure (gross profit) of trading account is transaction to profit and loss account	The balancing figure (Net profit) of profit & loss account is transferred to the capital account of the owner.

Difference between Trail Balance and Balance Sheet

Trading Account	Profit & Loss Account
1. It is prepared to check the arithmetical accuracy of the books of account.	It is prepared to measure the financial position of the business on a certain fixed date
2. It is not possible to get the information regarding profit from the trail balance	Balance sheet also shows the profit of the business.
3. Preparation of trail balance is desirable.	Preparation of balances sheet is essential.
4. The two sides of trial balance are headed as debit and credit	The Two sides of balance sheet are headed as liabilities and assets
5. All three accounts- personal, real, and nominal are written in trial balance.	Only personal and real accounts are written in balance sheet. Nominal accounts are not shown in balance sheet.
6. It can be prepared every month and whenever desired.	It is prepared only at the end of accounting year.
7. It is prepared without any	All adjustment entries are shown in shown in balance sheet.

6.6 Practical Problems

Illustration- 1

From the following trail balance, prepare a trading and profit and loss account for the year ending December 31, 2004, and balance sheet as on that date:

	Amount (debit)	**Amount (credit)**
Bank overdraft		5,900
Capital		10,000
Traveling expenses	1,300	
Opening stock	3,000	
Purchases	18,000	
Sales	52,000	
Wages	6,000	
Freight	3,000	
Salaries	5,000	
Rent	4,000	
Sales return		2,000
Discount received		500
Furniture	3,500	
Machinery	8,000	
Repair expenses	2,300	
Sundry expense	6,000	
Debtors	7,000	
Creditors		4,000
Cash in hand	1,300	
Cash in bank	1,000	
Octrio	1,000	

The closing stock was valued at Rs, 5,000 on Dec 31, 2004

Solution-

Trading and profit and loss account
Of M/s…………….
For the year Ending Dec 31, 2004

Particulars	**Amount Rs.**	**P.**	**Particulars**	**Amount Rs.**	**P.**
To opening stock	3,000	00	By sales	52,000	00
To purchase	18,000	00	Less: Sales return 2,000	50,000	00
To wages	6,000	00	By closing stock	5,000	00
To freight	3,000	00			
To Octroi	1,000	00			
To gross profit transfer to P/L account	24,000	00			
	55,000	**00**		**55,000**	**00**

Particulars	**Amount Rs.**	**P.**	**Particulars**	**Amount Rs.**	**P.**

To traveling expenses To salaries To rent rates To repairs To sundry expenses To net profit transferred to capital account	1,300 5,000 4,000 2,300 6,000 5,900	00 00 00 00 00 00	By gross profit transfer from trading account By discount	24,000 500	00 00
	24,500	**00**		**24,500**	**00**

Balance sheet of……….
As on………….

Liabilities	**Amount Rs.**	**P.**	**Assets**	**Amount Rs.**	**P.**
Capital 10,000 Add net profit 5,900	15,900	00	Machinery	8,000	00
Creditors	4,000	00	Furniture	3,500	00
Bank Overdraft	5,900	00	Debtors	7,000	00
			Closing stock	5,000	00
			Cash in hand	1,300	00
			Cash in bank	1,000	00
	25,800	**00**		**25,800**	**00**

Illustration – 2

From the following balances from the books of Raman on 31st March 2005 prepare trading and profit and loss account and balance sheet.

Debit		**Credit**	
Cash in hand	1,170	Sales	98,200
Cash in bank	2,000	Return outwards	100
Purchases	40,275	Capital	65,000
Return inwards	100	Creditors	3,300

Debit		**Credit**	
Fuel & power	5, 0000	Commission	9,000
Carriage on sales	4,200		
Wages	5,250		
Carriage on purchase	5,000		
Stock (1st April 2004)	5,760		
Machinery	20,000		
Building	7,500		
Land	25,000		
Salaries	10,000		
Patents	17,000		
Sundry expenses	4,000		
Rent	3,600		
Drawings	5,245		
Debtors	14,500		

Taking in to account the following adjustments prepare the trading and profit and loss and balance sheet as on 31st March 2005.

1. Stock was valued at Rs. 6,800 as on March 31, 2005
2. Machinery is to be depreciated at the rate of 10%
3. Building is to be deprecated at the rate of 20%
4. Outstanding salary is Rs. 1,000
5. Prepared rent Rs. 85

Solution:-

Trading and profit and loss account of M/s Raman
For the year Ending March 31, 2005

Particulars		Amount Rs.	P.	Particulars		Amount Rs.	P.
To opening stock		5,760	00	By sales	98, 200	98,100	00
To purchase		40,275	00	Less: sales return	100		
Less: Returns	100	40,175	00	By closing stock		6,800	00
To fuel & power		5,000	00				
To wages		5,250	00				
To carriage on purchases		5,000	00				
To gross profit transfer to P/L account		43,715	00				
		1,04,900	**00**			**1,04,900**	**00**
To carriage on sales		4,200	00	By gross profit transfer from trading account		43,715	00
To salaries	10,000			Trading account			
Add: Outstanding	1,500	11,500	00	By commission	9000.00		
To sundry expenses		4,000	00	Add: Accrued	1000.00	10,000	00
To rent	3,600						
Less: Prepaid	85	3,515	00				
To Dep. On machinery		2,000	00				
To Dep. On building		1,500	00				
To net profit transferred to capital account		27,000	00				
		53,715	**00**			**53,715**	**00**

Balance sheet of………
As on 31, March 2005

Liabilities	Amount Rs.	P.	Assets	Amount Rs.	P.

Capital 65,000 Less: Drawing 5,245 59,755 Add: Net Profit 27,000	86,755	00	Building 7,500 Less: Dep. 1,500 Machinery 20,000 Less: Dep. 2,000	6,000 18,000	00 00

Liabilities	Amount Rs.	P.	Assets	Amount Rs.	P.
Creditors	3,300	00	Patents	17,000	00
Outstanding salary	1,500	00	Land	25,000	00
			Debtors	14,500	00
			Closing Stock	6,800	00
			Cash in hand	1170	00
			Cash in bank	2,000	00
			Accrued Commission	1,000	00
			Repaid rent	85	00
	91,555	**00**		**91,555**	**00**

6. 7 Departmental Income Statements and Expense Statements

Adjustments

While preparing the trading and profit and loss account for a particular period, one point that must be kept in mind is that all expenses, losses incomes and gains relating to that particular period are to be considered. If an expense has been incurred but yet not paid during that particular period, liability for the unpaid amount should be created before calculating the profit or loss. All such expenses and incomes should properly be adjusted through entries. These entries are passed at the end of the accounting year. These entries are called adjusting entries.

SOME IMPORTANT ADJUSTMENTS

Closing Stock: The unsold goods lying in stock at the end of accounting year are referring to closing stock. Stock is to be valued at cost price or market price whichever is less. Closing stock is not included in trail balance. It is given in the form of additional information after the trail balance. The following entry will be passed for closing stock at the end of the year.

Closing Stock a/c Dr.

To Trading a/c

(_____________________)

1. It will be shown of the credit side of trading a/c as a separate item.
2. It will be shown on the asset side of balance sheet as a separate item under current assets.

TRADING ACCOUNT

Particulars	Amount Rs.	P.	Particulars	Amount Rs.	P.
			By Closing Stock		

BALANCE SHEET

Particulars	Amount Rs.	P.	Assets	Amount Rs.	P.
			Closing Stock		

Adjusted purchase and closing stock: If the closing stock is given in the trail balance, it means that both the opening and closing stock have been adjustable in the purchases. In such a case, there will be no opening stock in the trail balance. Adjusted purchase and closing stock will be shown on the debit side of the trading account. Closing stock will be shown on the asset side of the balance sheet.

Outstanding Expenses: Those expenses, which have been incurred during the accounting year and are due for payment. i.e., have not been paid as yet are called outstanding expenses. At the end of accounting year, all such expense must be considered otherwise the profit and loss account will not show the actual picture. The common examples of such expenses are: salary, rent for the last month of the year, which are paid in the first month of next year. In order to bring these expenses in to the book of accounting, the following adjusted entry will be passed.

Concerned exp. Account Dr.
To Outstanding expenses account
(__________________________)

The outstanding expenses will be treated in the final a/c as :-
1. It will be added to the concerned expenses in trading and profit and loss account.
2. It will be shown on the liabilities side of balance sheet as a separate item under current liability.

Balance Sheet

Particulars	Amount Rs.	P.	Particulars	Amount Rs.	P.
Outstanding expenses (-)					

Prepaid Expenses: Expenses, which have been paid in advance means whose benefit will be available in future, are called prepared expenses. Interest paid in advance, unexpired insurance etc. are some examples of prepaid expenses. In order to bring these expenses in to the book of accounting, the following adjusted entry will be passed

Prepaid expenses account Dr.

To concerned expenses account

(____________________)

The prepaid expenses will be treated in the final account as:

1. It will be subtracted from the concerned expenses in trading and profit and loss account.
2. It will be shown on the assets side of balance sheet as a separate item under current assets.

Balance Sheet

Particulars	Amount Rs.	P.	Assets	Amount Rs.	P.
			Prepaid expenses (-)		

Depreciation: Deprecation is the decrease in the value of fixed assets due to its use, wear and tear or obsolescence. Fixed assets are used for earning purpose, therefore, the reduction in their value should be considered as expenses or loss and must be charged to the profit and loss account. Depreciation is generally charged at the end of accounting year. In order to bring these expenses in to the book of accounting, the following adjusted entry will be passed.

Depreciation account Dr.

To Concerned assets account

(____________________)

The depreciation is treated in the final a/c as

1- It will be shown of the debit side of profit and loss account as a separate item giving details of depreciation.

2- It will be deducted from the value of concerned asset in the assets side of balance sheet.

Profit & Loss Account

Particulars	Amount Rs.	P.	Assets	Amount Rs.	P.
To Depreciation on (-) (concerned asset)					

Balance Sheet

Liabilities	Amount Rs.	P.	Assets	Amount Rs.	P.
			Concerned asset Less: Depreciation		

6.8 Practical Problems

Illustration- 1

From the following trail balance, prepare a trading and profit and loss account for the year ending December 31, 2004 and balance sheet as on that date:

Opening Stock	700	Cash in bank	3,375
Bill receivable	2,250	Commission paid	500
Purchases	19,300	Interest on capital	350
Wages	1,600	Stationary	100
Insurance	500	Sundry Expenses	125
Debtors	14,000	Returns inward	650
Carriage inwards	200	Rent & Rates	575
Commission	200	Carriage outward	750
Return outwards	250	Sales	25,000
Office fixture	400	Bills payable	1,500
Creditors	9,825	Capital	8,950
Cash in hand	350		

The closing stock was valued at Rs. 12,500

Trading And profit loss account of M/s ……..
For the year ending Dec 31, 2004

Particulars		Amount Rs.	P.	Particulars		Amount Rs.	P.
To opening stock		700	00	By Sales	25,000		
To purchase	19,300			Less: Sales return	- 650	24,350	00
Less: Purchase returns	- 250	19,050	00	By closing stock		12,500	00
To wages		1600	00				
To carriage inward		200	00				
To gross profit transfer to P/L account		15,300	00				
		36,850	**00**			**36,580**	**00**

Particulars	Amount Rs.	P.	Particulars	Amount Rs.	P.
To insurance	500	00	By gross profit transfer		
To commission	500	00	from trading account	15,300	00
To interest on capital	350	00	By commission	200	00
To stationary and printing	100	00			
To sundry expenses	125	00			
To rent rates	575	00			
To carriage outward	750	00			
To net profit transferred to capital account	**12,600**	**00**			
	15,500	**00**		**15,500**	**00**

Balance Sheet of …………………
As on Dec 31, 2004

Liabilities		Amount Rs.	P.	Assets	Amount Rs.	P.
Capital	8,950			Fixture	400	00
Add net profit	12,600	21,550	00	Sundry debtors	14,000	00
Sundry creditors		9,825	00	Bill receivable	2,250	00
Bills payable		1,500	00	Closing stock	12,500	00
				Cash in hand	350	00
				Cash in bank	3,375	00
		32,875	**00**		**32,875**	**00**

Check Your Progress

Q-1 Explain Uniform system of account?

……………………………………………………………………………………

Q-2 Explain trading account?

……………………………………………………………………………………

6.9 Summary

The timely and accurate posting of a guest's financial transaction in the guest account is very important for the successful running of the hotel business. Accounting is an art of recoding, classify and summarizing in a significant manner and in terms of money, transaction and events, which are, in part at least of financial character. At he end of every accounting period the owner of the business would like to know about the results of operating business. To ascertain the net profit earned and net loss incurred, final account is prepared. The statement showing the profit and loss is known has profit and loss account and the statement showing the financial state of affair is call the balance sheet.

6.10 Glossary

Income Statement:- A financial statement showing money earned from sales of goods & services, less expenses incurred to earn that income, for a period of time, sometimes referred to as the profit and loss statement.

Income Summary: An account that receives the sums of all sales revenue and expense accounts when they are closed to a zero balance. The final balance of the income summary account will represent net income or net loss which is will represent net income or net loss which is transferred to the capital account (s) or the retained earning account.

Depreciation:- A method of allocating the cost of a fixed asset over the anticipated life of the asset, showing a portion of the cost, for each accounting period of the life, as an expense on the income statement.

Balance Sheet: A statement showing that assets = liabilities + owner's equity. A balance sheet shows the financial position of a company at a point in time.

Revenue: Money earned from states and/or income received in exchange for goods or services.

6.11 Check Your Progress- Answers

Ans-1 Uniform system of Accounts in hotels is a manual the provides firstly uniform classification of income, expenditure, assets and liabilities for hotels and secondly standardized, uniform method of presenting financial results of operations. This manual was prepared in order to bring uniformity in accounts in hotels, whether they were large or small. The need of such classification was being felt by hotels long. In the later half of 1925 the Hotel Association of New York City appointed a Committee of hotel accountants to prepare a manual showing a simple formula for the classification of accounts. This committee prepared a common manual, both for large and small hotels, showing uniform classification of accounts and instructions for preparing of financial statements. This manual of instructions was called Uniform system of Accountant for hotels.

Ans-2 It contains the summarized from all the transactions occurring during an accounting period, which have direct relation to the goods dealt in the business Finding out the gross profit and gross loss by preparing an account is called trading account. Gross profit is the excess of the selling price over the cost of goods sold. Cost of goods sold can be ascertained by adding net purchaser to the opening stock of goods in trade and detecting the stock of goods at the accounting of the accounting period from the total

6.12 Further References

- Woods, H. Robert, Ninemeier, D. Jack, et al (2007), Professional Front office Management, Pearson Education. Noida pp 133-139
- Tewari, R. Jatashankar (2009), Hotel Front office Operations and Management, Oxford University Press, New Delhi pp 283-287
- Bhatnagar, K,S. (2002), Front office Management, Frank Bros. & Co. (Publishers) Ltd., New Delhi pp 310-321
- Negi, Jagmohan (2000), Financial and Cost Control Techniques in Hotel and Catering Industry, Metropolitan Book Co. Pvt. Ltd., New Delhi pp 13-23
- G.S. Rawat, J. Negi, N. Gupta (1972) Elements of Hotel Accountancy, Aman Publication, New Delhi pp 93-99

6.13 Suggested Reading

- Front office Management- First Edition- S K Bhatnagar- Frank Bros & Co. Pvt. Hotel Front office Operations and Management - First Edition- Jatashanker R
- Tiwari- Oxford University Press, New Delhi. Ltd., New Delhi.

6.14 Terminal Questions

Q-1 The following are the balances as at 31st Mar, 2009 extracted from the books of Anand Gupta. You are required to prepare the trading and profit and loss account and balance sheet.

Capital	18000	Return outwards	2300
Opening stock	2720	Machinery	5000
Bills Payable	2608	Building	10000
Creditors	10000	Commission (Cr.)	400
Debtors	5300	Insurance	132
B/R	3091	Rent	400

Sales	13439	Postages	300
Purchases	10692	Discount (Cr.)	617
Sales Return	2000	Salaries	1000
Purchase Return	1400	Freight	410
Depreciation	600		
Discount (Dr.)	19		

Closing stock was valued at Rs. 7929 as on 31st Mar, 2009.

Unit-7

Internal Control

Structure

7.0 Objectives

After reading this Unit, you will be able to understand the following:-

- Explain the meaning of internal control.
- Main characteristic of internal control.
- Implementation and review of internal control.

7.1 Introduction

The primary concern of Internal Control is to safe guard the assets and profits of a business against losses, which occur through error or fraud. The main method of internal control is to install systems where any release of resource or assumption of costs. This key element is known as 'Separation of functions,' which means allocating different stages in the cycle of a transaction to different personnel. Thus, in a front, if the front office Manager orders from a supplier, a stores person should physically check the goods into the business, and accounting personnel should check the invoice. Such a system normally needs to be supported by manuals, which clearly assign responsibilities and identify which managers have authority to make decisions and for what purposes. Larger companies may have an internal audit department, which verifies periodically that the procedures respected. External statutory auditors also have to evaluate the effectiveness of the system as part of reaching an opinion on the accuracy of the accounting records. A viable internal control system us essential to allow central management to rely on the figures they receive as being an accurate reflection of what actually has taken place. Many companies now stated in their annual report that they are satisfied with the adequacy of their internal control.

7.2 Definition & Objectives of Internal Control

Internal control has been defined in 1992 by the Committee of sponsoring organization of Treadway Commission (COSO)-USA in Internal Control-Integrated framework, as: "A process effected by an entity's board of directors, management and other personnel (people), designed to provide reasonable assurance regarding the achievement of objectives in the following categories:-

- ❖ Effectiveness and efficiency of operations; (basic operational objectives, performance goals and safe guarding resources)
- ❖ Reliability of financial reporting
- ❖ Compliance with applicable laws and regulations".

The Internal control is concerned with the control operative in every area of corporate activity. It is defined according to ICMA as "the whole system of controls, financial and otherwise, established by the management in order to carry on t he business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the financial records". Internal control is a management tool used to provide reasonable assurance that the organization's objectives are being achieved efficiently. Internal control covers the whole system of controls policies and procedures established by management to meet their targets and objectives. Management is responsible for internal controls. Walking through the five components of control explains why.

(i) Management has the most influence on the control environment for a department.

(ii) Management sets business objective; help employees understand the objectives, and can encourage employees to discuss the risks to achieving them.

(iii) Management establishes the activities needed to ensure everyone is carrying out its directives.

(iv) Management is responsible for facilitating communications and information flow within a department.

(v) Finally, management provide day-to day supervision.

Effective and efficient internal control policies and procedure apply to all facets of an establishment's operations, from purchases through sale. It includes control of and accountability for cash receipts, cash disbursements and the many other assets an organization has to conduct operations. A system of internal control compasses the following two broad requirements:

1- Methods and procedures for the employees in the various Job categories to follow. These procedures help achieve operational efficiency, the protect against waste, theft and fraud.
2- Reliable forms and reports that will measure employee efficiency and effectiveness and lead to problem identification. These reports provide usually accounting or financial information that will identify problem areas.

Objectives of Internal Control:-

The main objectives of Internal Control are as follows:-

1- The Internal control system is established by management.
2- The controls are designed to achieve four major objectives. These are:-
   (i) To enable management carry on the business in an orderly and efficient manner.
   (ii) To ensure that management policies are adhered to throughout the organization.
   (iii) To ensure that proper custody is maintained over the valuable assets of the enterprise.
   (iv) To ensure that all authorized information is recorded accurately and correctly.

7.3 Characteristics of Internal Control

The main characteristics of Internal controls are:-

1. **Establish Preventative Procedures:-** Internal control procedures need to be established so that they minimize or prevent theft.
2. **Establish Management Supervision:-** The implementation of a control system does not remove from management the necessity to observe the effectiveness of the system using supervision. A control system does not prevent fraud or theft, but may point out it is happening.
3. **Monitor Control Systems:**- Any system of control must also be monitored to ensure that it is continuing to provide the desired information. The system must therefore be flexible enough to be changed to suit different needs.
4. **Front Office Employee Selection and training System:**- Important aspects of effective internal control are employee competence, trustworthiness, and training. This means having a good system of screening Job applicants, selecting employees, and providing employee orientation, on-the-job training, and periodic evaluation.
5. **Establish Responsibilities:**- Once of the perquisites for good internal control is to is to clearly define the responsibilities for tasks. Once the designated person is established, that person must be given a list of procedures, preferably in writing, so if error or discrepancies arise, that person can be accountable.
6. **Prepare written Procedures:**- Written procedures are particularly important in the hospitality industry, where turnover of employees is relatively high and continuous employee training to support the system of internal control is necessary .
7. **Maintain adequate Records:-** without good records, employees will be less concerned about doing a good Job.
8. **Separate Record about keeping and Control of Assets:**- one of the most important characteristic of good internal control is to separate the functions of recording information about assets and the actual control of the assets. Cash receiving and recording on accounts should be instituted cheques or cash received in the mail in payment for city ledger accounts could be kept in the accounting office for direct deposit to the bank.

9. **Limit Access to Assets:-** The number of employees who have access to assets such as cash and inventory should be limited. The larger the number of employees with access, the greater is the potential for loss from theft or fraud.
10. **Conduct Surprise Check:** Surprise checks such as counting cash or taking Inventory should be. Carried out at first, the person conducting surprise check should always be independent of the department being checked. Second surprise checks should be carried out frequently enough that they become routine, but not scheduled ion a predictable pattern.
11. **Divide the responsibility for related transactions:-** Responsibility for related transactions should be separated so the work of one person is verified by the work of another. This procedure keeps one person from having too much control over assets and may prevent theft.
12. **Rotate Jobs:-** Employees who known they are not going to be doing the same job for a long time will be less likely to be dishonest. The possibilities of collusion are also reduced because the same two employees will not work together for a long time.
13. **Bond Employees:-** Consideration should be given to bonding employees. For example, fidelity bonds protect the operation for looses incurred by employee dishonesty because the establishment is reimbursed.
14. **Conduct External Audits:-** External audit conduct by an outside firm do not guarantee that fraud or theft has not occurred. However, they are more likely to be discovered by an outside firm of auditors.
15. **Control Documents:-** All documents such as sales checks, requisitions and purchase orders, Should be preprinted with sequential numbers. In this way, individual documents can be tracked and accounted for.
16. **Supervise the system and conduct Reviews:-** In small operations, the supervision and review of the internal control system is the responsibility of the general manger. In larger establishments, with accounting departments, the supervision and review responsibility is turned over to the employees in that department.

7.4 Implementation and Review of Internal Control

Management may decide on any type of suitable internal control (s) for the organization. According to the guidelines issued by the Institute of charted Accounts of England and wales (ICAEW) on internal control, the types of internal control are mnemonically put as 'PAPAMOSS'. The acronym is a list of some of the types of controls that may be found in many hotels. The meaning of the acronym 'PAPAMOSS' is highlighted below:

P- Physical Controls over assets
A- Arithmetical and Accounting Controls
P- Personnel Controls
A- Authorizations and Approvals
M- Management controls
O- Organizational Controls
S- Segregation of Duties
S- Supervisory Controls

(i) 'P' Physical Controls over assets: -These are those procedures and measures set up to secure proper custody over valuable corporate assets. They prevent unauthorized access to these assets. All assets of an organization should be safeguarded at all times especially the valuable and portable assets such as cash, stock and motor vehicle. Security of assets should be designed to ensure that access to assets limited to authorized persons and no assets is stolen without notice.

(ii) 'A' Arithmetical and Accounting Controls:- These controls, which are predominant in the recording function, ensure that all transaction occurring during the period have been authorized, and that they have all been correctly and accurately recorded and Processed. There should be a system of checks on the arithmetic accuracy of the accounts kept in respect of transactions e. g. extraction of balances to check the accuracy of all postings during a given period, establishments of control accounts of creditors and debtors and the preparation of Bank reconciliation statement etc. This example also includes checking the arithmetical and accuracy of calculations and maintaining and checking control totals.

(iii) 'P' Personal Controls:- No matter how well a system is designed, its efficient and effective functioning will depend on the operators. Controls are therefore necessary to ensure that personnel have capabilities commensurate with their responsibilities. These controls, known as personnel controls, provide a framework for ensuring an efficient selection and training procedure for staff. There should be qualification system to ensure that a capable staff is allocated to a particular duty is sufficiently motivated to ensure effective and efficient performance of his duty with complete integrity.

(iv) 'A' Authorizations and Approvals:- These are those controls, which specify the persons responsible for authorizing and approving transactions and the limits of such authority. All transactions should be authorized and approved by responsible officials before the organization is financially committed. Such authority should be clearly specified in writing and the limit of authority or responsibility clearly defined.

(v) 'M' Management Controls:- These are those controls characteristically executed by top management on a periodic basis as against a daily basis. Conceivably, they include periodic reviews of management accounts and comparison thereof with budgets and other special reviews. Some also call management controls overriding controls. It is the responsibility of management to establish control for day-to-day operations of the affairs of the organization and this will include supervisor controls, internal audit functions, review of management accounts and comparison of actual result with budget and other review procedures.

(vi) 'O' Organizational Controls:- These are those controls, rules, regulations and procedures which:-

- ❖ Specify the organizational plan (Structure)
- ❖ Define roles and allocated responsibilities; and
- ❖ Identifying lines of reporting for all aspects of the enterprises' operations.

Responsibilities should be allocated to staff according to experience and proficiency and the line of reporting should be clearly indicated. It is of the importance that an organization has an organizational chart showing all lines of reporting.
(vii) 'S' Segregation of Duties:- They are those controls, which ensure that separate individuals or groups of individuals carry out the main functions of an organization of authorization, executive custody and recording. It is believed that the separation of these critical duties will minimize the inherent risk of fraud or errors and increase the element of checking within the system. This is to ensure that no one person is responsible for all aspects of a transaction. In other words, the job should be arranged in such a way that the work of one person is complementary to that of another or independently checked by another person so that fraud and error may be minimized or early detection maximized. Involvement of more individuals reduces the risk of accidental error and deliberate fraud.

(viii) 'S' Supervisory Controls:- These are controls over day-to-day activities of the organization, which ensure that the work of less experienced staff are reviewed and controlled by independent, more senior and experienced staff. This is part of the internal check. The checker should have a through knowledge of the job. The overall all success of internal control is dependent on how effectively the elements of internal control implemented:-

1) Fostering a Favorable Control Environment
2) Conducting Risk assessment
3) Designing and implementing control activities in the form of policies, and procedures
4) Providing for effective communication through the organization.
5) Conduction ongoing monitoring of the effectiveness of control related policies and procedures.

(1) Control Environment:- The concept of the control environment can be difficult to understand, because the control environment is not something you can see or touch. You won't find the control environment embedded in a general ledger, or in any group of transactions or in any financial report. However, when the control environment is good (or poor), every employee will know it. Additional factors that influence an entity's control environment are: management's philosophy and operating style, the way in which management assigns authority and responsibility, the way management organizes and develops employees, and the attention and direction provided by the governing board. The control environment sets the tone of the organization, influencing the control consciousness of all its employees.

(2) Risk Assessment:- The design of internal controls to fit an organization's needs begins with a risk assessment process. Risk assessment is the identification of factors or conditions that threaten the achievements of an organization's objectives and goals. It involves identifying risks to be effectiveness and efficiency of financial and service operations, to the reliability of financial reporting, and to compliance with laws and regulations. Before that assessment begins, managers need to understand and consider several qualitative factors that can affect their assessment.

Inherent Risk: - The nature and characteristics of certain activities and assets puts them at greater risk for fraud or material error. This condition is referred to as inherent risk. Some characteristics that generally increase inherent risk are:-

- ❖ **Opportunity: -** The more liquid or mobile an asset is, or the more decentralized an operation is, the greater the potential for fraudulent activity. For example, inherently risky assets include laptop, computers and other portable electronic equipment and cash (especially undeposited cash). Inherently risk operations include the collection of cash in almost any venue, loaning and storage of electronic equipment, and credit card and cell phone usage.
- ❖ **Unfamiliarity: -** The newer the activity or program, the greater the possibility that its operation and risks may not be well understood and its objectives and goals may not be realized. New services may require internal control policies and procedures, or may require modification of existing internal controls. For example, when a new recreational facility is opened, procedures for collection and deposit of fees may not be in place or be well understood by employees. On the operational slide, liability insurance may not be adequate to indemnify the organization against claims that may occur because of citizen or spectator injuries.
- ❖ **Complexity:-** The more complex an activity is, the greater the possibility of errors occurring. For example, legal and grant requirements governing aid programs may increase the likelihood that significant non compliance and eligibility concerns may occur. When planning a large capital project, management may not be sufficiently familiar with the oversight, financial, legal and insurance requirements of construction projects, leading to unexpected costs and delays in completing the project. Management needs to identify and analyze inherently risky assets and operations early and frequently in the risk assessment process.
- ❖ **Change:-** Another factor impacting the risk assessment process is the element of change. Because conditions impacting operations will change continuously, your risk assessment needs to identify and analyze risk associated with such changes. Some examples of change that you should consider are:-

Change in operating Environment:- Both internal change and external change impacts the environment in which employee work and may affect the entity's ability to achieve its objective. Externally, new or revised regulations that affect a major program or an aid category can present both financial and service delivery risks. Internally, new or updated financial management software can create increased risk of accounting error and untimely financial reports. Changes in information technology, both internal and external, can be particularly challenging because of the specialized expertise that may be required to design, implement and monitor information system controls.

Change in personnel:- Staff turnover can impact the achievement of the entity's objectives because it takes time for new employees to achieve the proficiency of the employees they are replacing. Frequent staff turnover, especially in the same positions, may be indicative of other symptoms that are worthy of risk assessment as well. Changes in personnel may compromise the functioning of specific internal controls or in the case of certain management positions, the functioning of the entire control policies and procedures and understand their specific responsibilities. Managers need to anticipate significant changes within the organization and in their areas of responsibility as early as possible, analyze how risks will be affected by these changes and determine whether the design of existing controls will be adequate.

Rapid Growth:- Rapid increases in the number of resident living in an area living in an area or school district, retail expansion or other forms of economic stimulus can mean greater demands for public services. Such demands can impact the ability of a department, local government or school district to provide adequate levels of service in a cost effective manner. The increase in demand may even necessitate re-evaluating the entity's objectives. Any time there is increased demand for public services, the adequacy of existing efficiency controls should also be examined.
The purpose of risk assessment is to identify those events, conditions or risks that could significantly affect the achievement of the organization's objectives, including the protection of assets and the efficient operation of financial operations and other services. Risk assessment should begin at the top of the organization and reach down in an organized fashion to the departmental level and to particulars activities and process within departments. Remember to focus your efforts an those risks that are significant to the achievement of the organization's financial and service objectives, and that have a reasonable likelihood of occurrence.

3. Control Activities:- Control activities are the policies and procedures designed by management to help ensure that the organization's objectives and goals are not negatively impacted by internal or external risks. Some common and important control procedures are bank reconciliations and the review of those reconciliations by supervisory personnel; segregation of duties so that no one person controls all phases of a transaction cycle; daily deposit of cash receipts; frequent password changes; and limiting access to check stock, signature plates and write transfer software control procedures can also be used to keep costs as low as possible. A common procurement control procedure is to require oral or written quotes for purchase not subject to competitive bidding. This procedure is used to lower the risk that cost conscious purchases will not be made.

4- Information and Communication:- Information and communication is essential for internal control framework. Like the control environment, information and communication has a global, interconnecting effect on the internal control framework. In order for risks to be controlled, it is imperative that there be a sound communication process that captures information and then provides information to all who have need of it. Since controlling risk is the responsibility of all managers and department heads, information about identified risks and the means of controlling those risks needs to be communicated to all who are responsible for mitigating those risks. Information about the policies and procedures to be followed by employees should flow down through the organization. It is also important that the communication system allows for information to flow in all directions throughout the organization to lessen the chance of misunder-standings. Information about daily activities may flow across the organization from employees who develop the information to those who need the information. Problems may be identified at the lower levels of the organization (by rank-and-file employees); if the information is not allowed to flow back up to those who are responsible for making corrections, managers will not receive needed information on time. The executive summary to COSO states, “Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports containing operational financial and compliance-related information that make it possible to run and control the business.” COSO also states that information must flow throughout the organization so that individuals understand their own roles in the internal control system and how their work relates to the work of others. As part of the information and communication system, it is important to inform all employees that control responsibilities are to be taken seriously. Each employee should understand his or her role in the internal control system, as well as how their individual activities relate to the work of others. Employees also need to know that they have a responsibility to communicate problems they notice in the performance of their duties

5. Monitoring:- The fifth integrated internal control framework is monitoring. Monitoring determines whether or not policies and procedures designed and implemented by management are being conducted effectively by employees. Monitoring also helps ensure that significant control deficiencies are identified timely and rectified. Over time, new risks may arise or internal or external changes may impact the risk exposure of local governments and school districts. Monitoring helps to identify these new risks and the need for new control procedures. For example, upgrading to a new financial management application may expose an organization to new risks related to the accuracy of accounting records, or may increase opportunities for fraud or abuse to occur and remain undetected. The responsibility for overseeing the monitoring function generally falls to the CEO and the chief fiscal officer or, in schools, to the business officials. The CEO should communicate to all managers that monitoring is an essential element to the internal control framework and is necessary to ensure that identified risks are controlled, Since most local governments do not have internal auditors, the monitoring of internal controls will generally be conducted by managers and supervisors with responsibilities for financial operations and other services. These managers and supervisors will need to understand the risks and exist in their areas of responsibility and the controls that have been put in place to mitigate this risk. For example, a health insurance administrator may have instituted a control to verify retirees’ health insurance coverage. Once the control is put in place, the administrator should periodically review the results of inquiries or searches conducted to verify that retirees (or their dependants) are still eligible for health benefits. Paying for health insurance for deceased retirees is a hidden cost, not always detected, unless there is control procedure in place to verify eligible and need periodically. The monitoring function ensures that this type of control is applied at least annually, and that reasonable assurance is obtained that unnecessary costs are not being incurred.

Five basis types of Controls:-

(i) **Preventative Controls:-** To limit the possibility of an undesirable out come being realized. The more important it is that an undesirable outcome should not arise, the more important it becomes to implement appropriate preventive controls. Examples are when no one person has authority to act without the consent of another, or limitation of action to authorized persons (such only those suitably trained and authorized being permitted to handle media enquiries).

(ii) **Corrective Controls:-** To correct undesirable outcomes "that have been realized. Examples are the design of contract terms to allow recovery of overpayment, or contingency planning for business continuity/recovery after events which the business could not avoid.

(iii) **Directive Controls:-** To ensure that a particular outcome is achieved or an undesirable event is avoided. Examples are a requirement that protective clothing be worm, or that staff be trained with required skills before working unsupervised.

(iv) **Detective Controls:-** To identify undesirable outcomes "after the event". Examples are stock or asset checks which detect unauthorized removals, or post-implementation reviews to learn lessons.

(v) **Performance Controls:-** To orientate and motivate the organization's people to focus on the achievement of targets that are appropriate for the achievement of objectives Examples are dispatching all orders on day of receipt of order, or allowing that less than 2% of production should fail quality control checks.

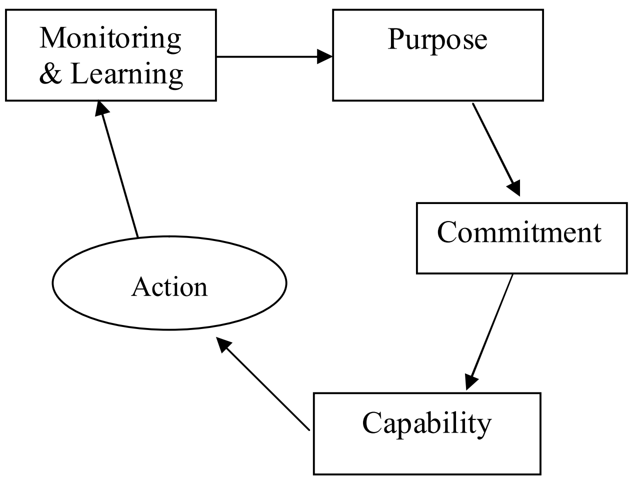

Fig 7.1 Criteria of Control

Five Specific Control Methods:-

(1) **Organizational Control:-** Organizational control establishes control establishes the framework within which the hotel conduct its various activities. The five types are as follows:

- ❖ Purpose, authority and Responsibility
- ❖ Organizational Structure
- ❖ Decision Authority
- ❖ Job description
- ❖ Segregation of Duties

(2) **Operational Controls:-** Operational controls dictate the manner in which the organization performs its various activities and conducts its affairs. The seven types are as follows.

- ❖ Planning
- ❖ Budgeting
- ❖ Accounting and Information Systems
- ❖ Documentation
- ❖ Authorization
- ❖ Policies and procedures
- ❖ Orderliness

(3) **Personnel Controls:-** Personnel controls help ensure suitable employee. The three types are as follows:

- ❖ Recruiting and selection of suitable personnel
- ❖ Orientation, training, and Development
- ❖ Supervision

(4) **Periodic Review:-** Periodic Review help organizations assess the progress and performance of their employees, operations, and programs. The three types are as follows:-

- ❖ Reviews of individual Employees
- ❖ Internal Review of Operations and Programs
- ❖ External Reviews.

(5) **Facilities & Equipments:-**

- ❖ Suitable facilities help build effective & efficient operations while protecting the organization's assets.
- ❖ Unsuitable facilities and equipment Jeopardize both the operations and the assets.

In the hotel industry, the main purpose of internal control is to track transaction documentation, verify account entries and account balances, and to identify vulnerabilities in the accounting system. The keyword to internal control is auditing, which is the process of verifying front office accounting records for accuracy and completeness. Below are some forms that are of extreme importance to internally control, one of the most vital assets in the hotel (i. e. cash):

1- **Front Office Cash Sheet:**

The front office cash sheet lists each cash receipt or disbursement in order to reconcile cash on hand at the end of a cashier's shift with the documented transaction that occurred during the same shift.

2- Cash, House banks or Petty cash:

- Petty cash is the amount of cash assigned to a cashier so that he/she can handle the various transaction that occur in a particular work shift.
- At the beginning of each shift, all cashier must sign their cash banks and at the end of the shift, shall deposit all cash, cheques, and other negotiable instruments in the general cashier's safe deposit box. Moreover, at the end of each shift, cashier should watch out for cash discrepancies (i.e. any difference between front office cash sheet and the actual amounts in their cash drawers). Cash discrepancies might have the form of cash overages, shortages, or due backs.
- Lastly, cashier might come up with the net receipt, which is:

Amount of all cash, cheques, and other negotiable instruments in cashier's drawer -amount of the initial cash bank+ all paid outs.

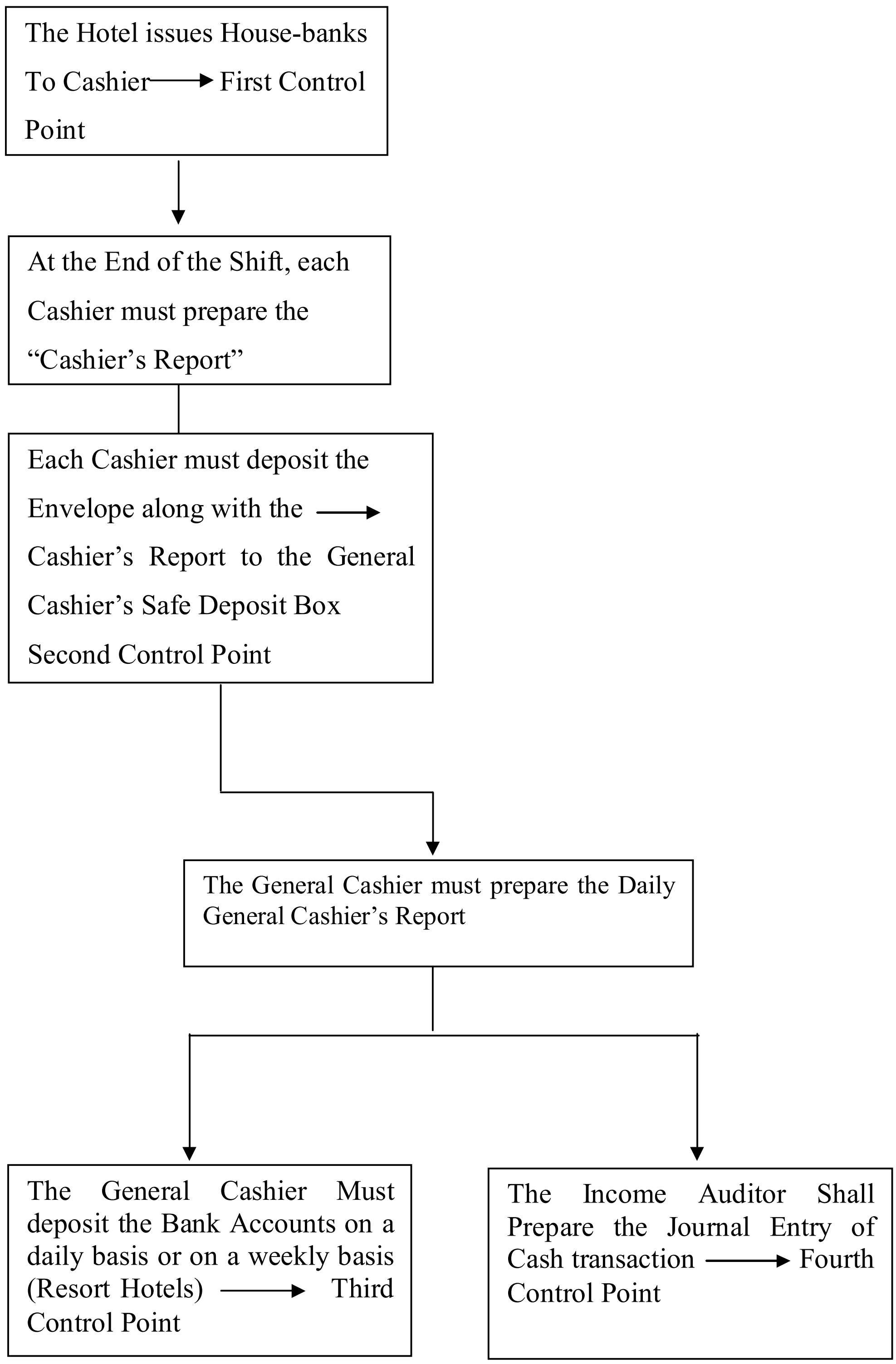

Fig 7.2 Internal Control in Front Office

Check Your Progress

Q-1 Define the term Internal Control?

……………………………………………………………………………………………

Q-2 Explain the main objectives of Internal Control?

……………………………………………………………………………………………

7.5 Summary

It "comprises the whole system of the controls, financial and otherwise, established by the management in the conduct of the business." It includes internal check, internal audit, and various other forms of control. It is a broad term with a wide coverage. The fundamental objective of internal control is to safeguard the assets of the company against losses, and to avoid fraud, errors, wastes and inefficiency. It helps the management in measuring all implementation of business polices as well as ensuring maximum accuracy of all data and statements.

7.6 Glossary

Credit Limit:- This is the limit of amount of money up to which the guest is allowed credit facility. After the limit is reached the hotel requests the guest to clear his bill either party or fully.

Controllable Cost or Expense:- A cost that is controllable by an individual (such as a department head) in a company.

Controller:- Individual (or Department) in a hotel responsible for maintaining the back office accounting system.

Centralized Accounting System:- Financial Management system that collects accounting data from one or more hotel and combines and analysis the data at a different (Central) site.

7.7 Check Your Progress -Answers

Ans-1 A process effected by an entity's board of directors, management and other personnel (people), designed to provide reasonable assurance regarding the achievement of objectives in the following categories:-

- ❖ Effectiveness and efficiency of operations; (basic operational objectives, performance goals and safe guarding resources)
- ❖ Reliability of financial reporting
- ❖ Compliance with applicable laws and regulations.

Ans-2 The main objectives of Internal Control are as follows:-

(i) To enable management carry on the business in an orderly and efficient manner.

(ii) To ensure that management policies are adhered to throughout the organization.

(iii) To ensure that proper custody is maintained over the valuable assets of the enterprise.

(iv) To ensure that all authorized information is recorded accurately and correctly.

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8.10 Terminal Questions

Q-1 Define the term “Internal Control?

Q-2 Itemized the objectives of putting in place a good internal control system.

Q-3 Highlight the importance of internal control system.

Unit-8

Internal Audit and Statutory Audit

Structure

8.0 Objectives

After reading this Unit, you will be able to understand the following:-

- ❖ Explain the meaning of internal audit & statutory audit.
- ❖ Difference between the function of internal and statuary audit.
- ❖ Implementation of internal audit.

8.1 Introduction

Audit is the examination of the financial statements of an organization, with reference to the underlying accounting records and other evidence, by an independent party (the auditor) in order to express an opinion on the adequacy of those financial statements. In the case of external auditing, what counts as adequacy is generally laid down by law or by a regulatory agency. Financial statements give a **'true and fair view'** is interpreted some what differently in different states. On the basis of the audit, the auditor writes a statement of opinion. The form and wording of such statements of opinion. The form and wording of such statements of opinion usually follows standards issued by the auditor's professional body in the light of legal requirements. Typically the auditor's opinion states either that the financial statements satisfy the criterion of adequacy without reservation (a clean opinion), or that they do so subject to certain specified matters or with the exception of the treatment of one or more specified items (a qualified opinion), or that the auditor is unable to express an opinion (a disclaimer). The independent party who carries out an external audit must be an accountant who holds a legally recognized qualification as an auditor. The scope of an auditor's work is based on testing the proper functioning of the organization's accounting system using sampling techniques. This includes obtaining independent verification of bank balances and of a sample of debtor and creditor balances, and physical verification of a sample of inventories and fixed assets.

8.2 An Introduction of Internal & Statutory Audit

The main object of an audit is to make such an investigation into the books of accounting and the information from which they have been written up as will enable the auditor to report to his client upon the accuracy or otherwise of the balance sheet or the other statement(s) prepared from such books. The main object can be enumerated as given below:

<u>Objects of audit</u>

Main objects	**Subsidiary objects**	**Other objects**
1. Verification of accuracy of a Financial statement.	1. Detection of Errors 2. Deduction of Frauds	1. Obeyance of legal provision 2. Making the account book more reliable
2. Verification of completeness of a financial statement. 3. Verification of legal consistency	3. Prevention of Errors & Frauds	3. Creating a healthy and moral atmosphere in business world.

The term 'Audit Originated from the Latin Word' audire' means to hear. In earlier days, the accounts were verified and certified by the auditors after hearing from the accounting parties. This manner of conducting audit has been changed over the period of time. No person or organization can effectively carry on its activities without the help of proper records and accounts. The effect of all the transaction has to be recorded and analysed to see the results as regard the business as a whole. Financial statement are often the basis for decision making by the management. The management takes so many decisions on the basis of financial statements therefore the authenticity of accounts can be assured with the help of an independent audit. Audit is performed to ascertain the validity and reliability of information. Examination of books of accounts with supporting vouchers and documents in order to detect and prevent error and fraud is the main function of auditing. The goal of an audit is to express an opinion on the financial or non-financial areas. Audit safeguards the financial interest of persons not associated with the management like partners or shareholders, acts as a moral check on the employees and prevents from committing fraud. Traditionally, audits were mainly associated with gaining information about financial systems and the financial records of a company or a business. However, recently auditing has begun to include non-financial subject areas, such as safety, security, information systems performance, and environmental concerns. With non-profit organizations and government agencies, there has been an increasing need for performance audit, examining their success in satisfying mission objectives of business.

Definition of Audit:-

"An audit is an examination of such records to establish their reliability and reliability of the statement drawn for them."- **A. W. Hanson**

"An audit is an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transaction to which they relate. In some instances it may be necessary to ascertain whether the transaction are supported by authority"- **L. R. Dicksee:-**

"Audit may be said to the verification of the accuracy and correctness of the books of accounts by an independent person qualified for the Job and not in any way connected with the preparation of such accounts."- **R. B. Bose**

"Audit is defined as a systematic and independent examination of data, statements, records, operations and performances (financial or otherwise) of an enterprise for a stated purpose. In any auditing situation, the auditor perceives and recognizes the propositions before him for examination, collects evidence, evaluates the same and on this basis formulates his judgment which is communicated through his audit report."-**ICAI**

Internal Audit

Internal Audit is an evaluation and analysis of the business operation conducted by the internal audit staff. It is the part of overall system of Internal Control established in an organization. Internal audit is the independent appraisal activity within an organization for the review of accounting, financial and other business practices as protective and constructive arms of management. It is a type of control which functions by measuring and evaluating the effectiveness of other type of controls.

According to professor **Walter B. Meigs:-** "Internal Auditing consist of a continuous critical review of financial and operating activities by a staff of auditors functioning as full time salaried employees." In large organization, an internal audit is carried out by the team professionals in the organization. The internal audit is not mandatory but organization gets the internal audit done with a view to evaluate the effectiveness of internal control, the soundness of financial system, effectiveness of business processes etc. This provides management an assurance about the control process in the organization and it aids in early detection of inefficiencies/fraud etc. It helps the statutory auditors too in getting the statutory audit done effectively. As per company audit report order, 2003, statutory auditor also requires to comment whether the company is having sound internal audit system or not.

Objectives of Internal Audit

The following the objectives of Internal audit:

(i) Proper Control:- The purpose of Internal audit is to keep proper control over business activities. When there is proper control there is maximum efficiency. The internal control can determine the degree of control over work.

(ii) Accounting System:- The purpose of internal audit is to evaluate the accounting system. It is concerned with checking proper authority for transactions like purchase, retirement and disposal of fixed assets. The vouchers can be compared with entries in order to determine that figures and facts.

(iii) Help Management:- The purpose of internal audit is to help the management. Internal auditor can point out the weakness. The internal audit can be used as a tool to correct the situation. The management functions can be performed properly.

(iv) Working Review:-_ The purpose of internal audit is to review the working of business. The working of current year can be reviewed in detail. There is a need to locate the week points. The corrective measures can be taken for proper working.

(v) Assets Protection:- The Purpose of internal audit is to protect the assets. The proper record of assets must be there. Internal auditor can examine the valuation, verification and possession. The purchase and sale of assets must be made under proper authority.

(vi) Internal Check:- The purpose of internal audit is to evaluate the internal check system. There is division of duties among the employees. When all staff member are working properly it means there is effective internal check system. The work of an auditor is reduced. He can apply test checks to complete audit duty.

(vii) Fair statements:- The Purpose of internal audit is to detect the error in the accounting records. The work of internal audit can help the management to see that accounting record is in order.

(viii) Check Error:- The purpose of internal audit is to detect the errors in the accounting records. If the work of internal auditor goes side by side therefore there are minimum chances of errors. The accounting staff can rectify mistake to prepare accounts at he end of year in order to help the external auditor.

(ix) Detect Fraud:- The purpose of internal audit is to detect frauds in the books of accounting. When the of accounting staff is over the internal audit is started. Accounting staff remains alert because there is no time gap between recording and checking. Thus detection of fraud is possible with it.

(x) Determine Liability:- The purpose of internal audit is to determine liabilities of employees. The duties are divided among the staff. It is easy to note the negligence on the part of employees. The internal audit can pin point the person responsibilities for carelessness.

(xi) Help in Independent Audit:- The Purpose of internal audit is to help an independent audit. The external auditor can rely on internal auditor and there is no need of cent percent checking. In this way there is saving of time and money due to internal audit.

(xii) Performance Appraisal:- The purpose of internal audit is to check the performance appraisal. The management must achieve the target fixed in budgets and plans. The internal audit is a tool of evaluate the working of each management function.

(xiii) Provide Suggestions:- The purpose of internal audit is to provide suggestions for improvement of business activities. The internal audit staff can suggest the ways and means to remove the difficulties. Anyhow the internal auditor can not compel the management to implement suggestions.

(xiv) New Ideas:- The purpose of internal audit is to seek new ideas relating to procedures, marketing, financing the other business matters. The internal audit staff can provide new ideas about various business matters. The viable ideas can be put in to practice for the benefit of business.

(xv) Use of Resources:- The purpose of internal audit is to determine the proper use of resources. The misuse of resources can increase the cost of doing the business. The proper use of resources means there is efficiency on the part of Management.

(xvi) Accounting Policies:- The purpose of internal audit is to examine the accounting policies. The understanding of accounting system and procedure is helpful to device the effective audit plans and procedures. The internal auditor may find any weakness in the internal control. He can comment on the accounting policies.

(xvii) Special Investigation:- The purpose of internal audit may be to conduct special investigation about any business matter. Internal audit can be used as a tool to note the effectiveness of management function.

Benefits of Internal Audit

The following are the benefits of internal audit:

(i) Proper Accounting System:- The benefits of internal audit is that proper accounting system is introduced. Accounting system is a chain of activities in an entity by which transactions are processed for maintaining financial record. There is a need of orderly devices to achieve desirable results.

(ii) Better Management:- The benefits of internal audit is that there is better management of business concern. The auditor can point out the weak areas of management. The goals of business can be achieved if there is proper internal control, internal check and internal audit. It should be noted that management could rely on internal audit for best results.

(iii) Progressive Review:- The internal audit is beneficial to review progress of a business concern. The figures of previous years are compared with this year. Moreover the performance result of similar companies can be compared to determine the progress made by the entity. The management can review progress through internal audit.

(iv) Effective Control:- The internal audit is helpful to have effective control over business activities. Control is a management function, which is related to supervision and direction on ongoing activities. The Manager concerned can remove the difficulties for smooth working of business.

(v) Assets Protection:- The assets protection is possible through internal audit. The management can use the assets for the benefit of business only. The assets can not be used for private purpose. The embezzlement of cash, misappropriation of stock and misuse of other assets is not possible as the internal auditor keeps close watch over assets.

(vi) Division of work:- The internal audit is helpful to apply division of labour. The division of labour is necessary to watch the activities of all employees including management. The auditor can suggest the way and means to improve the performance of business.

(vii) No error and fraud:- The internal audit is used to protect accounting records from errors and fraud. The accounting and auditing go side by side when accounting work is over the audit will start. In such situation errors and fraud committed by accounting staff will easily be detected and rectified.

(viii) Fixing Responsibility:- Internal audit is used to fix the responsibility of people having poor performance. The management establishes the performance standards. The internal auditor can evaluate the result of all persons. The people can be held responsible for below standard work and action can be taken against them.

(ix) Helps External Auditing:- The work performed by internal auditor can help external auditor in carrying out the audit. The audit procedure of internal and external audit is almost the same. The auditor can go through the internal audit report at the time of starting audit work. Anyhow external auditor is responsible for external audit.

(x) Performance Improves:- Internal auditor is helpful to improve the performance of the organization. The achievements of previous year are the basis of preparing budget for the next years. The projected income statement and balance sheet are down up. An attempt is made to get the positive result. Thus internal audit improves performance of business and employees.

(xi) Proper Use of Resources:- Internal audit is used to check the proper use of resources. The misuse of resources can increase the cost of organization. The optimum use of resources can be determined to control the cost of output. In this way internal audit is a tool to use the resources in the best interest of the business.

(xii) Investigation:- Internal audit is of help to investigate in to the business matters. In case of doubt internal auditor can be asked to examine the facts and figures to confirm or clear any doubt. The internal auditor can investigate the matter in any manner. Such investigation can be made at the request of management or owners.

Limitations of Internal Audit

The following are the limitations of internal audit:

(i) Staff Shortage:- The limitation of internal audit is staff shortage. There may be need of reasonable audit staff to examine the record. The shortage is a hurdle to get benefit of internal audit.

(ii) Time Lag:- The limitation of internal audit is that is starts when accounting ends. Thus there is a time lag between recording and checking of entries.

(iii) Error:- The limitation of internal audit is that there may remain undetected errors in the book of accounts as it depends upon the expertise of internal audit staff to detect such errors. If audit staff is competent there is less chance of error being undetected. In case of poor audit staff there is no guarantee that audited accounts are free from errors.

(iv) Responsibility:- The limitation of internal audit is that management may not feel their responsibility in completing the audit formalities. The audit staff may give suggestion for proper working of business. The top-level management may not pay attention to suggestions. In this way the audit work can not help the business.

(v) Duties:- If the duties of audit staff are not properly divided then the purpose of internal audit may be defeated.

Statutory Audit

A legally required review of the accuracy of a company's or government's financial records. The purpose of statutory audit is the same as a purpose of any audit to determine whether an organization is providing a fair and accurate representation of its financial positions by examining information such as bank balances, bookkeeping records and financial transactions.

Objective of Statutory Audit

The followings are the main objectives of statutory audit

1. To give an independent audit opinion that proper accounting records have been kept.
2. The account agree with the accounting records.
3. All explanations and information have been received as auditor thinks necessary and have had access at all times to the company's books, account vouchers.

Advantages of Statutory Audit

The followings are the advantages of Statutory Audit

1. It is to ensure that the accounts have been prepared in accordance with the relevant legislations.
2. That the balance sheet shows a true and fair view of the company's affaires at the end of the period.
3. Proper records have been kept and proper returns adequate for the audit received.
4. Consistency of the information with the account published.
5. Right to access the books of account.
6. Recommendation being made.

Statutory Audit are conducted for each fiscal year (April 1 to March 31) and not the calendar year. The two most common types of Statutory Audits in India are:-

Tax Audits:- Tax audits are required under section 44 AB of India's Income Tax Act 1961. This section mandates that every person. Whose business turnover exceeds INR 1 Crore and every person working in a profession with gross receipt exceeding INR 25 Lakh must have their accounts audited by an independent charted accountant. It should be noted that the provision of tax audits are applicable to everyone, be it an individual, a partnership firm, a company or any other entity. The tax audit report is to be obtained by September 30 after the end of the previous fiscal year. Non-compliance with the tax audit provisions may attract penalty of 0.5 percent of turnover or INR 1 Lakh, whichever is lower. There are no specific rules regarding the appointment or removal of tax auditor.

Company Audits:- The provisions for a company audit are contained in the company's act 1956. Every company, irrespective of its nature of business or turnover, must have its annual accounts audited each financial year. For this purpose, the company and its directors have to first appoint an auditor at the outset. Thereafter, at each annual general meeting (AGM), an auditor is appointed by the shareholder of the company who will hold the positions from one AGM to the conclusion of the next AGM. The new Companies Bill 2012 provides that an auditor shall be appointed for a term of five consecutive AGMs. Individuals and partnership firms, auditors cannot be appointed for more than one or two terms, respectively. After the completion of the term, the auditor must be changed. Only an independent charted accountant or a partnership firm of charted accountants can be appointed as a auditor of a company. The following person are specifically disqualified from being and auditor as per the companies Act.

- A body corporate.
- An office or employee of the company.
- A person who is partner with an employee of the company.
- Any person who is indebted to a company for a sum exceeding INR 1,000 or who have guaranteed to the company on behalf of another person a sum exceeding INR 1,000 or.
- A person who has held any securities in the company after one year from the date of commencement of the companies (Amendment) Act, 2000.

The auditor is required the prepare the audit report in accordance with the company Auditor's Report Order (CARO) 2003. CARO requires an auditor to report on various aspects of the company, such as fixed assets, inventories, internal audit standards, internal control, and statutory dues, among others. The audit report must be obtained before holding the AGM, which itself should be held within Six (6) months from the end of the financial year.

8.3 Distinction between Internal Audit and Statutory Audit

The following are the main differences between internal and statutory audit:

(i) Scope:- The scope of the internal Audit function is determined by management. Whereas the scope of the external (statutory) auditors work is determined under the statute in which he was appointed.

(ii) Approach:- The approach adopted by the external (statutory) auditor is dictated by his statutory objective of forming an opinion and reporting on the financial statement whether they present a true and fair new. The internal auditor approach however is designed to ensure the effectiveness and efficiency of operation of the organization.

(iii) Responsibility:- The internal auditors are responsible to management to whom they report, whereas the statutory auditor is primarily responsible to the shareholders to whom he reports.

(iv) Appointment and Qualification:- The internal auditors are appointed by management, whereas the external auditor is appointed by the shareholders usually at the Annual General Meeting. In addition, internal auditors need not possess any professional qualification. The external auditor on the other hand must be professionally qualified with a certificate permitting him to practice in India or any other country. Not withstanding these, the statutory (external) auditor may rely to a large extent on the internal auditor in determining the strength of the internal control and assessing the

(v) Status:- The internal auditor is the employee of the company. He acts as an adviser. He does not enjoy independent status. The independent auditor is the independent of management.

(vi) Procedure: The internal auditor carries his work continuously and does detailed checking and examination of all the accounts books and the other related records and general reliability of the accounting records. documents. The independent auditor carries his work periodically-near the financial year. He does not devote his time on the detailed checking but adheres to test checking.

8.4 Implementation and Review of Internal Audit

The following are the major implementation and review of internal audit.

- The implementation of audit consists of investigation and analysis.
- The opening meeting would introduced the audit team, confirm the audit criteria, review the audit scope, explain the audit procedure, clarity and relevant details, and confirm the timetable including the time or date and attendees for the closing meeting.
- The investigation process for gathering objective evidence will involve asking questions, observing activities, examining, facilities and examining records. The auditor will be examining the conformity of the activities with the quality system.
- The auditor will use management system documents as reference (quality manual, system procedures, test methods, work instructions, records etc.) and compare what is actually happening with what these quality system documents state should happen.
- At all times during the audit, the auditor will be seeking objective evidence that the management system requirements are being fulfilled. Evidence should be collected as efficiently and effectively as possible and without prejudice or upset to the auditees.
- Non- conformities should be noted if they seem significant even where they are not covered by checklists and should be investigated further to identify the underline problem.
- All audit observation should be recorded. After all activities have been audited, the audit team should carefully review and analyse all of their observations to determine which are to be reported as non-conformities and which can be included as recommendation for improvements.
- The audit team should prepare a clear concise report supported by objective evidence of non-conformities and recommendation for improvement. The non-conformities should be identified in terms of specific requirements of quality manual and related documents against which the audit has been conducted.

- ❖ The audit team should hole a closing meeting with the top management of the institution and those possible for the functions concerned. The main purpose of this meeting is to present audit findings and report to top management in such a manner so as to ensure that they clearly understand the results of the audit.
- ❖ The manager should present observations, taking into account their perceived significance (both positive and negative aspects), conclusions regarding the management's compliance with the audit criteria. The non-conformities identified during the audit should be noted and the appropriate corrective action and time limit for actions should be agreed upon.

Check Your Progress

Q- 1 What do understand term "Internal Audit"?

…………………………………………………………………………………………

Q-2 Explain the Statutory Audit?

…………………………………………………………………………………………

Q-3 Different between internal audit and statutory audit?

…………………………………………………………………………………………

8.5 Summary

It implies a continuous review of the operation and records of a business by special staff called internal auditors. The scope and object of internal audit may vary from one hotel to another and may, particularity in large hotel, extend to many matters which are not directly of an accounting nature. It is conducted to assure management that the system of internal checks is effective in design and operations. Internal auditors act as an advisors act as an adviser. He has simply to advise the management and has not authority to direct any one as to what to do or not to do. His duty is to promote the efficiency of the accounts department and not to report against the shortcoming of the accountant Internal auditor is an integral part of internal control.

8.6 Glossary

Statutory:- Relating to or created by statutes; "statutory matters"; "statutory law" status means a law enacted by a government.

Internal Audit:- Internal audit is an evaluation and analysis of the business operation conducted by the internal audit staff. It is the part of overall system of internal control established in an organization.

Audit:- An audit an independent examination of financial or non-financial information of any entity; when such an examination is conducted with a view to express an opinion thereon.

Errors: Mistakes committed innocently and unknowingly while making entries in the books of accounts.

Frauds: Fictitious entries made in the books of accounts with certain motives.

Investigation: Examination of accounts for special purpose.

8.7 Check Your Progress-1 Answers

Ans-1 Internal Audit is an evaluation and analysis of the business operation conducted by the internal audit staff. It is the part of overall system of Internal Control established in an organization. Internal audit is the independent appraisal activity within an organization for the review of accounting, financial and other business practices as protective and constructive arms of management. It is a type of control which functions by measuring and evaluating the effectiveness of other type of controls. The internal audit is not mandatory but organization gets the internal audit done with a view to evaluate the effectiveness of internal control, the soundness of financial system, effectiveness of business processes etc. This provides management an assurance about the control process in the organization and it aids in early detection of inefficiencies/fraud etc.

Ans-2 A legally required review of the accuracy of a company's or government's financial records. The purpose of statutory audit is the same as a purpose of any audit to determine whether an organization is providing a fair and accurate representation of its financial positions by examining information such as bank balances, bookkeeping records and financial transactions

Ans-3 The scope of the internal Audit function is determined by management. Whereas the scope of the external (statutory) auditors work is determined under the statute in which he was appointed. The approach adopted by the external (statutory) auditor is dictated by his statutory objective of forming an opinion and reporting on the financial statement whether they present a true and fair new. The internal auditor approach however is designed to ensure the effectiveness and efficiency of operation of the organization. The internal auditors are responsible to management to whom they report, whereas the statutory auditor is primarily responsible to the shareholders to whom he reports. The internal auditors are appointed by management, whereas the external auditor is appointed by the shareholders usually at the Annual General Meeting. In addition, internal auditors need not possess any professional qualification. The external auditor on the other hand must be professionally qualified with a certificate permitting him to practice in India or any other country.

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8.10 Terminal Questions

Q-1 What do you understand the term “Audit”?
Q-2 What is Internal Audit?
Q-3 What are the differences between Statutory Audit & Internal Audit?
Q-4 Explain the implementation of Internal Audit?

Unit-9

Departmental Accounting

Structure

9.0 Objectives

After reading this Unit, you will be able to understand the following:-

- Explain the meaning of Departmental Accounting.
- Advantages of allocation of expenses.
- Draw-backs of allocation.
- Apportionment of expense.

9.1 Introduction

The hotel business may have no of departments each dealing in a different types of goods. For example, one department may be dealing in chemicals, the other may be in textiles, some another may be dealing in provisions, etc. In order to a certain the profit and loss made by each department, it will be advisable to prepare separately a trading and profit and loss account of each department at the end of each financial year. Preparation of such departmental account is helpful to the business.

9.2 An Introduction to Departmental Accounting

Expense is an income statement account representing the cost of items consumed in the process of generating revenue (ex. Cost of Goods Sold) or that expires due to the passage of time (ex. Depreciation Expense). Expense cannot be mixed with expenditure. For, Expenditure represents the purchase amount (whether paid in cash or credited with the Accounts Payable) of a certain asset. To illustrate, suppose on January 1st 2013, XYZ

Company paid Rs. 10,000 cash in order to purchase some equipment this is called expenditure and is journalized as follows:

	Cash	Rs. 10,000
	Equipment	Rs. 10,000

However, on December 31st, 2013, XYZ shall allocate a certain value of the initial investment of equipment to be placed as an expense to show that a certain portion of the equipment has been already used to contribute to Company's revenue. Suppose that this amount was determined to be Rs. 650. This very amount is called an expense and is journalized as follows:

Depreciation Expense-Equipment	Rs. 650
Accumulated Depreciation-Equipment	Rs. 650

According to the matching principle, all expenses must be recorded in the same accounting period as the revenue that they helped to generate. In the hotel industry, expenses a divided in to two main categories:-

- **Direct Expenses:** These are the expenses that vary with the level of production. For example, in the food and Beverage department, the Cost of Food Sales is a direct expense. For, the more dishes we serve, the more cost of Food Sales the Hotel incurs. Moreover, in the Telephone Department, the Cost of Calls is a direct expense. For the more we connect guests to whatever wanted, the more cost of calls the hotel incurs.

At this very stage a bracket would be opened explain that there is a primordial difference between revenue generator departments. In fact, revenue generator departments are classified into two: Service Type departments versus merchandising departments. Service type departments are revenue generators making money from solely providing services (Ex. Rooms Division Department). On the other hand, merchandising departments ensure revenue by getting use of certain raw material, processing it, and than sell the final product (Ex. F&B department, Telephone department…). Therefore, only merchandising departments have a direct expense called Cost of Sales.

- **Indirect Expenses:** These are the expenses that do not vary with the level of production, or variable costs that can not be feasibly distributed to various Financial Reporting Centers. In the hotel industry, Indirect expenses are, hence, divided into two different categories:

1. **Fixed Charges:** Examples might include rent, insurance, property taxes, and interest expense. For, these very expense are incurred for the benefit of the hotel as a whole not for the benefit of each single department. To illustrate, if a hotel insures itself against fire, theft and burglary, and one day some valuable equipment has been stolen, from any department whatsoever, the insurance company will indemnify the hotel.

2. **Undistributed Expenses:** Examples might include electricity, energy, and water expenses. For, usually the hotel receives a total energy bill to be paid. In the old days, some hotels went for allocating this amount according to certain factors (ex. Surface, Department Usage…).However, this practice proved to be

misleading, since it might under-allocate energy expenses for some departments and over-allocate if for others. Nowadays, most of the hotels decide not to allocate such expenses any more. Rather, hotels report such expenses in separate schedules.

At this stage, departments of a typical hotel would be listed along with their various related direct expense. Later, examples of fixed charges and undistributed expenses would be discussed. Last, a bracket would be opened to discuss one of the most important Direct Expenses in any hotel, which is payroll and Related Expenses. For, hotels being described as labour intensive companies devote a big percentage of their financial resources to such an expense.
I- Typical Hotel Departments

1. Rooms Division Department: It is the place where guests receive several kinds of services ranging from reservation, registration, to checkout and settlement of their accounts. This department typically compromise a Rooms Division manager, an assistant manager (s). registration clerks, cashiers, mail and information clerk, and uniform service personnel.

The Various types of Rooms Division department direct expenses include:

- **Commission's expenses:** This account includes payments by the hotel to authorized agents that bring room business to the hotel. Usually at the end of each month, hotels sit with these agents in order reconcile their monthly sales figures and authorize commission payment (usually in the form of a percentage of room revenue)
- **Reservation expenses:** This expense account represents any payments to various agents contracting to bring potential room revenue business to the hotel. These agents might have the form of Central Reservation Offices (whether affiliate or non-affiliate), Intersell agencies.

- **Contract cleaning expenses:** This expense account represents payment to contracting outside cleaning agencies. Some hotels (especially small and middle size hotels) might opt for contract cleaning because of its attractive financial implications. If this is the case, these hotels might not be forced to have a housekeeping department, or might keep housekeeping staff to minimum. Such expenses should be determined in light of the contract signed between both parties (i.e. the hotel from one side and the cleaning company from the other.)

- **Laundry and dry cleaning expenses:** This cost applies to outside laundry and dry cleaning costs for the rooms division department. In most of the cases, such contracts are signed to benefits more than one revenue generator. In this case, the Rooms Division department shall report the laundry and dry cleaning expenses related only to the Rooms Division department.

- Guest transportation expenses: These expenses include the cost of transporting guests from and to the hotel via various means of transportation (ex: Mini-buses, limousines…). If the guest transportation volume business, staff, and costs are significantly high, then a separate department might be established.

- **Linen expenses:** This specific expense account includes the allocation of a portion of linen expenditure for a specific period of time. This practice goes along with one of the accounting principles: the matching principle. Some sub-accounts of linen expense might be: Towels expense, Facecloth Expenses, Blankets expenses, Sheets expenses, Pillow expenses.

- **Guest supplies expenses:** This account includes the various guest supplies provided free of charge to guests in their rooms. Some sub-accounts of guests supplies expenses might include: Newspaper expenses, Guest Stationary expenses, Shoe cloth expenses, Coffee expenses, Writing supplies expenses, Toilet requisites expenses, Flowers expenses, Hangers expenses, Matches expenses, Ice expenses, Candy expenses.

- **Cleaning supplies expenses:** Such an account includes the cost of Rooms Division's cleaning supplies. Some sub-accounts of guest supplies expenses might include: Brooms expenses, Soaps and polishes expenses, Cleaning cloths expenses, Mops expenses, Cleaning chemical expenses, Dusters expenses, Brushes expenses, Insecticides expenses, Dustpans expenses, Pail expenses, Disinfectants expenses, cleaning accessories expenses.

- **Printing and stationary expenses:** This expenses account includes printed formats (ex: virgin registration records, reservation records, guest folios…), office supplies (ex: pens, pencils, rubbers, erasers…), printed manual and guidelines for the use of the Rooms Division employees. Some sub-accounts of printing and stationary might include: Binders expenses, Floor plans expenses, Pencils and Pens expenses, Vouchers expenses, Rack card expenses, Reports Expenses, Desk pad expenses, Envelopes expenses, Ink expenses, Folio Expenses.

- **Uniform expenses:** This expense account includes the allocation of a protion of uniforms asset (if the hotel purchases uniforms) for a certain period of time along with the expense of repairing, and cleaning them. If the hotel rents uniforms rather than purchasing them, then the uniform expense shall include the renting cost, usually predetermined in light of the contract linking the hotel and the uniform renting company.

2- **Food & Beverage Department:** This department is responsible for the preparation and service of food and beverage to guests. It compromise the kitchen, restaurant, bars, and any premise in which Food and Beverage is served.

3. **Telephone Department:** This department is responsible to handle guest communication. This might be insured through connecting guests to desired locations, whether in-house, local or long distance calls. Moreover, this department is usually composed of a chief operator, supervisors, operators and messengers. Last, with the automation revolution affecting right now most hotels, it became possible to separate calls of guests and communication handled by hotel employees therefore, making it possible to have the telephone department as a minor revenue generating department. For, prior to automation, the separation of cost of calls was not possible and hence the telephone department might show frequently a loss since telephone direct costs are overstated.

4. **Administrative & General Department:** Actually looking at any hotel organization chart, administrative and General Department does not exist. It is however a financial reporting centers including executives of the Hotel (ex: General Manager, Assistant General Manager…) and other employees involved with executive and financial activities (ex: Accounting personnel, resident Manager, Accounts Receivable clerks, Night Auditors…). Moreover, if there is staff in the hotel not included in departments due to low business volume not justifying the establishment of a department, they might be included under the A & G department (ex. Data Processing Staff. Transportation Staff, and Personnel Staff…

5. **Marketing department:** This department is composed a marketing manager, marketing assistant managers responsible for sales, convention, public relations, and advertising functions, along with marketing personnel. This department is a cost center that indirectly supports revenue generators in their sole aim of generating hotel revenue. This can be insured, for example, through large group reservations, hence maximizing room revenue, or buffet, conference, and catering opportunities brought by this very department hence maximizing room revenue, F&B revenue, and the hotel revenue as a whole.

6. **Property, Operating and Maintenance:** Concerned with the appearance and physical condition of the building, the repair and maintenance of equipment, and rubbish removal. Some positions of this department might include POM manager, POM assistant manager (s), electricians, plumbers, gardeners, painters, and interior design specialists.

7. **Data Processing Department:** This special department might be established in hotels operating under the fully automated system. Moreover, such hotels should have significant investment in computer equipment and staff to justify the establishment of a single department. If these conditions do not exist, than the Data Processing's functions would be financially grouped under Administrative & General Department.

8. **Human Resources Department:** Similar to Data Processing Department, if the Amount and Staff incurred for employees hiring, screening, interviewing, selecting, recruiting, and Training is significant, than a Human Resources Department may be established. Otherwise, Human Resources functions would be financially grouped under Administrative & General Department.

9. **Guest Transportation Department:** If the Amount and Number of Staff employed in the transportation of Guest is significant, a separate Department might be established. Otherwise, guest transportation staff would be grouped under Rooms Division Department.

II-Financial Reporting Centers:

A Financial Reporting Center is an area of responsibility for which separate cost information must be collected. Might be classified as Revenue Centers, Support Centers, and other financial Reporting Centers.

1. **Revenue Centers:** Generate Revenue through sales of products and/or services to Guests:-

- Rooms
- Food and Beverage
- Telephone
- Gift Shops
- Garage and Parking
- Other Operated Departments
- Rentals and other Income

2- Support Centers: Those departments that have minimal Guest Contract and do not produce Sales. Yet, they do provide services to Revenue Centers, which, in turn, provide Services to Guests.

- Administrative & General
- Marketing
- Property Operation and Maintenance
- Data Processing
- Human Resources

3. Other Financial Reporting Centers:- Include Energy Costs and fixed charges (Rent Expense, Property Taxes, Insurance Expenses, Interest Expenses and Depreciation) Each Financial Reporting Center should be assigned an Identification Number. To Illustrate, consider the following Example:

Financial Reporting Center	Identification Number
Rooms	11
Food and Beverage	15
Telephone	17

Administrative & General	31
Marketing	36
Property Operation and Maintenance	38
Energy Costs	41
Fixed Charges	51

- Furthermore, each Account should be assigned an Identification Number. Hotels commonly opt for either the Five-Digit or Eight –Digit Account Numbering systems.

III- Responsibility Accounting:

Aim→ Provides Financial Information useful in evaluating the effectiveness of Mangers and Department Heads. That's why only Direct Expenses should be charges to specific Departments

1. Expenses→ Include the day-to-day costs or operating the Business, the Expired Costs of Assets through Depreciation and Amortization, and the "write off" of pre-paid items. Expenses are classified as direct expense (Cost of Sales and Operating Expenses). Indirect Expenses (Fixed Charges and Undistributed Expenses) and Income Taxes

a) Direct Expenses → they are Costs incurred solely for the benefits of a particular Department

- Cost of Sales
- Payroll Expenses
- Payroll-related Expenses
- Operating Supplies
- China, Glassware, Silver, and Linen
- Laundry and Dry Cleaning

b) Indirect Expenses→ They are incurred for the benefits of the Hotel as a whole, and cannot be identified with any particular Department.

- Property Insurance
- Interest Expenses
- Property Taxes
- Rent Expenses
- Depreciation and Amortization

Fixed Charges

- Marketing Expense
- Administrative & General Expense
- Property Operations and Maintenance
- Energy Costs

Undistributed Expenses

c) Income Taxes → It is neither a Direct Expense, nor an Indirect Expense. It should appear as s separate Line Item on a Hotel's Summary Income Statement.

2- Departmental Expense Accounting:

Separate Expenses versus one Lump-sum Amount of Expenses

IV- Payroll and Payroll-related Expenses:

1. Salaries and wages (Payroll Expenses) → Includes Salaries, Wages, Overtime Pay, and any Employee Bonuses and Commissions
2. Employee Benefits → Include Vacation and Holiday pay
3. Payroll Taxes → Includes Social Security Taxes (Employer's Portion)
4. Employee Meals → Includes the Cost of Food furnished to Employees as a Convenience to the Employer
5. Worker's Compensation Insurance → Includes the Expense of Worker's Compensation Insurance
6. Employee Group Plans → Includes Life and Health Insurance, and other Forms of Employees Group-plan Fringe Benefits

9.3 Allocation and Apportionment of Expenses

Expenses have to recorded under suitable accounting heads before they can be charged to different products. As the expenses costs are not associated directly with products, it is difficult to measure, precisely how much overhead should be charged to a given product. Charging of overhead cost to products is essential to find out the total cost of the product. This requires the allocation and apportionment of expenses between production and service departments.

Allocation

Allocation implies identification of the expenses with particular cost centre or production and service department to which they relate. It involves charging to a cost centre or department the overhead expense which arise solely from the existence of that cost centre or department; such items include expense like indirect materials, indirect labour, depreciation, repairs and maintenance etc. Estimate of these expenses can be prepared for each department separately with accuracy. In addition to the above, there are other expenses which will have to be distributed among the various departments.

Apportionment

Apportionment refers to the distribution of overheads among department or cost centres in an equitable basis. It envolves charging share of the overhead expenses to a number of departments or cost centres. The sharing of aggregate overheads of each department among the cost units of that department is also a kind of apportionment.

There is no hard and fast rule as regards the basis to be applied for apportioning overhead costs between department and cost centres. There is no single basis for apportioning all the times. As a guideline the basis of apportionment of various expenses are shown in figure.

Typical Basis of Apportionment of Expenses

Expenses		Basis of Apportionment	
	Rent, insurance, depreciation repairs of premises, and taxes thereon		Floor space occupied by each department
2.	Heating & Lighting	2.	Number of Light points of heating outlets or floor space occupied
3.	Electric Power	3.	Machine hours, horse-power hours machine capacity, meter readings
4.	Depreciation and Insurance of machinery	4.	Value of machinery
5.	Salary of works manager	5.	The time he devotes to various departments
6.	Supervision	6.	Number of workmen, value of materials I. Cost of material purchased, number of order placed II. Cost of Material used, number of requisitions. III. Number of persons employed labour hours, worked IV. Machine-hours Labour-hours V. Space occupied VI. Number of employees
7.	Service department expenses I. Purchasing II. Store keeping III. Personnel department IV. Machine shop V. Maintenance of building VI. Welfare department		-------------

The distinction between direct and indirect costs flows from the traceability of costs to a unit of output or a department (room, food, liquor etc). A cost may be in relation to a department but indirect in a relation to a unit of output. Food cost is a direct cost from the point of view of a department as well as a unit of output kitchen labour costs in a direct cost as it is clear in which department it originates, but it is an indirect cost in relation to a unit of output as of any individual item produced in the kitchen. A member of kitchen crew/bridge may perform variety of tasks in a day and it will be difficult to apportion his time between the various of tasks in a day and it will be difficult to apportion his time between the various items of food he has helped to produce.
For example, fowl and turkey, which constitute one of the units of food control, go into many dishes and are handled by many persons in the kitchen, the assistant cook in looking after the boiling and cooks making salad, chicken a la king, kitchen patties, croquettes, hash etc, would perhaps be possible, but the cost of calculation would i. e. disproportionate to the advantage gained.

In connection with the indirect or overheads there are basically two approaches to the problem of costing:

Absorption Costing/Full Costing/Total Costing

It includes all cost in calculating product cost. Overheads are apportioned between products on some arbitrary basis and a portion is added in the total cost of each product.

Basis of Apportionment

Majority of the overheads have to be apportioned on an estimated basis. The total overheads include certain variable or direct cost. For example, laundry and cleaning account from between 5.15% of room sales. Therefore, out of the total expenses of laundry and cleaning 90% could be applicable to rooms and the balance will be apportioned. The following table shows basis of apportionment of various overheads between rooms, food and beverages:-

Basis of Apportionment of overheads

Expenses	Basis of Apportionment Among Rooms, Food and Beverage
1. Employees Remuneration & Benefits	Actual or estimated
2. Rent of Rates	Area/space occupied
3. Insurance	Estimated
4. Advertising	Estimated
5. Heat. Power and Light	Meters
6. Cleaning	Estimated
7. Laundry	Estimated
8. Repairs/Renewals	Estimated
9.Depreciation	Capital values
10. Administration	Estimated

As already explained majority of the overheads are apportioned on the basis of estimation, as such a variety of results would be available. By making allocation of general overheads expenses, the net department result is available showing the net profit or loss from the operation of the department after allocation of all direct and equitable share of all indirect expenses. So far, fixed pattern and opinion regarding allocation of theses overhead expenses, no definite formulas have been particularly agreed to. However, these overheads can be dealt with has per the policy of the management.

Rent, Rates, Taxes & Insurance

Rent, rates and real estate taxes can be allocated on the basis of squarer foot or cubic foot of the area. In the event that certain space occupied by stores etc. was considered to have a greater value than other space of premises, the allocation may be weighted so that the more valuable space would have a higher ratio of allocation per square foot square foot of cubic area. Other municipal taxes could be allocated to the department on the basis of the personal property applicable to each department using the services.

Insurance of building may be allocated on the basis of the insurance property applicable to the respective departments.

Advertising Publicity and Sales Promotion

The most popular basis of allocation of these expenses is on the basis of sales. In case of any portion of advertising and sales promotion expenses is directed to a particular activity of the hotel, the same may be charged to the department operating that activity.

Heat, Light, Power & Fuel

The allocation of the these expenses can be made on the basis of square foot or cubic foot of area.

Repairs and Maintenance

The repairs and maintenance charges may be allocated individually to the respective department evolved or on the basis of the estimates by the chief engineer or other experts. Some expense can also be allocated on the basis of square foot or cubic foot area.

Administrative and General Expenses

These may be allocated either on sales basis of a particular department to total sales or on the ratio of the payroll of the operated department to total payroll.

Employees Remuneration and Benefits

These should be pro-rated to all departments on the basis of the payroll applicable to each department.

Depreciation

The allocation of depreciation of leasehold may be on the basis of the property value applicable to each department and the allocation of the cost of leasehold on the basis of square foot or cubic foot as are similar to the distribution of rent.

Interest

The allocation of this, if required may be decided on the basis of the pro-rata share of the assets covered by the obligation applicable to a particular department. There are various methods of allocating these overheads Basically, all methods require the allocation of these costs to various cost centres and finally allocated to the different units of production. The costs centre may be a department i. e. room, food, liquor, etc. The overheads are then collected and observed into the cost of the various products on some rational basis. For example:-

1. A direct charge to a department-meter installed to determine the heating and lighting for each department.
2. In proportion to the capital value of machinery and equipment installed in each department:- depreciation.
3. Based on floor space cubic capacity :- rent, rates etc.

Once the overheads have been allocated to the various departments, the total overhead of each department has to the absorbed by the product/service made in the department. Most hotels operate some department accounting. Their approach is to charge against department revenue, the costs that are direct or controllable at the department level and calculate the department profit. To get the departmental net profit, the proportionate indirect cost of management-salaries, rent, general manager's salary, can be apportioned on the basis of space occupied. As there is no scientific or accurate method by which such cost could be apportioned to department, the net profit so calculated from each department accounting do not calculate the net profit figures of the revenue producing departments.

9.4 Advantages of Allocation

The followings are the advantages of allocation:

1. It enables the business to compare the performance of one department with another.
2. It helps the business in formulating proper policies relating to the expansion of the business. New profitable lines of production or trading which are giving a loss can be closed down or correct the drawbacks of the department.
3. It helps in appropriate rewarding or penalizing the department employees on the basis of result shown by them.

9.5 Draw- Backs of Allocation

The Draw-backs of allocation relating to departmental accounts can be put in the following categories:

1. Draw-back to departmentalization of expenses.
2. Draw-back relating to compotation of departmental costs.
3. Draw-back relating to inter departmental transfers:
    a. When such transfers are at cost.
    b. When such transfers are at a price higher than the cost.

9.6 Basis of allocation

There are many ways to allocated costs. For a given situation, there may be more than one responsible way. Use the following principles to decide on the best approach for you hotel:-ss

- ❖ The basis for allocating expenses should be reasonable: there should be a clear relationship between the cost of an item, the activities it relates to, and the basis of allocation. For example, it would generally not be reasonable to allocate office heating costs on the basis of staff salaries, since there is simply no relationship between the two.
- ❖ The amounts allocated should be reasonable in relation to the other costs and value of activities to the charity, For example, it one activity has Rs. 5,000 of direct costs and another has Rs. 5,00,000 of direct costs, it is probably nor reasonable to divide the indirect costs equally between the two activities.
- ❖ The allocation method should be applied consistently over time. The approach used one year should continue to be used the next, unless circumstances change significantly and in a way that specifically supports a change in how costs are allocated.
- ❖ Allocation methods should be consistent for similar item. For example, it is probably not reasonable to allocate rent on the basis of square footage used in each program while, allocating property taxes on the basis of the number of staff engaged in each activity.
- ❖ The basis of allocation should be as simple as possible. Greater complexity should be justified by the improvement in the quality and accuracy of the information. For example, you could allocate costs based simply on the primary

function of each staff member or based on details of the actual amount of time each staff member spends on each function each week.

Departmental accounts are those accounts which disclose not only the profits of the whole business but also profits of the various departments in the hotel such as rooms, restaurant, banquets, bar etc. While preparing departmental accounts, the expenses and incomes are to be allocated to various departments on a particular basis.

Expenses and their Basis of allocation

	Expenses	**Basis of Allocation**
1-	Expenses incurred specially for a particular department.	Charged to the department concerned
2-	Expenses on purchases (import duty, octroi, freight etc).	Net purchases (excluding inter departmental purchases)
3-	Expenses on sales (selling commission, bad debts, discount allowed, reserve for discount of debtors, sales tax, carriage outward, advertisement)	Net sales (excluding inter departmental sales)
4-	Expenses on building (rent and rates, repairs and insurance)	Floor space occupied
5-	Lighting and heating	Meter reading/light points/ space occupied.
6-	Power	Meter reading /floor space occupied
7-	Expenses on machines (depreciation, repairs)	Value of machines/occupied
8-	Insurance Premium	Value of the subject matter insured
9-	Labour welfare expenses (recreation expenses, canteen expenses, etc)	Number of workers in each dept.
10-	Worker's Compensation insurance	Ratio of wages in each dept.
11-	<u>Other Expenses:-</u> Interest on capital, interest on debentures, GM's salary, audit fees, legal charges.	Basis of sales/costs of sales, quantity of goods sold/equally

Allocation:-

- ❖ Allocation means the allotment of whole items of cost to cost centers or cost units.
- ❖ It deals with the whole items of cost.
- ❖ Cost is directly allocated to any cost center or cost units.
- ❖ Cost is allocated when the cost centre uses whole of the benefits of the expenses.

Apportionment:-

- ❖ Apportionment means allotment of proportion of items of cost to cost centers or cost units.
- ❖ It deals with only proportion of items of cost.
- ❖ It needs a suitable basis for subdivision of cost by cost centers or cost units. Thus it is indirect process of allotment.

- ❖ Cost is apportioned when cost centres use only a proportion of the benefits of the whole expenses.

9.7 Practical Problem

Q- 1 Set out below is the profit and Loss Account of the XYZ Hotel Ltd., New Delhi

Profit & Loss Account

For the year ending 31st Dec, 2010

(rupees in .000)

Department	Sales	Cost of Sale	Departmental Payrolls	Departmental Expenses	Departmental Profit
Rooms	990		240	35	715
Food	330	140	155	15	20
Beverage	100	40	20	5	35
Sundries	80	-	-	60	20
	1,500	**180**	**415**	**115**	**790**
Less: Undistributed Operating Expenses :-					
Administrative Expenses				150	
Insurance and Local Taxes				100	
Management Salaries				90	
Repairs and Maintenance				50	470
Depreciation				55	
Marketing				25	
Net Profit					320

You are required to:-

I. apportion the undistributed operating expenses first on the basis of rooms 60% and food 25%, beverage 10%, and sundries 5% , and next, on the basis of departmental sales volume.

II. Comment on the figures of departmental net profit.

Solution-

The XYZ Hotel Ltd. New Delhi

Profit and Loss Account for the year ending 31st Dec. 2010 (rupees in .000)

Department	Sales	Total Departmental Cost	Departmental Profit	Indirect Cost	Departmental Net Profit
Rooms	990	275	715	282	433
Food	330	310	20	118	(98)
Beverage	100	65	35	47	(12)
Sundries	80	60	20	23	(3)
	1,500	**710**	**790**	**470**	**320**

(B)

Department	Sales	Total Departmental Cost	Departmental Profit	Indirect Cost	Departmental Net Profit
Rooms	990	275	715	310	405
Food	330	310	20	104	84
Beverage	100	65	35	31	4
Sundries	80	60	20	25	5
	1,500	**710**	**790**	**470**	**320**

Q-2 The ABC Hotels , Pauri has all its bed rooms on the first floor, restaurants and a

Madira Bar and Public room on the ground floor. Following additional is available:-

	Ground Floor	**First Floor**	**Second Floor**
Restaurants :-			
Indian			
Chinese	3,200 Sqm.		
Continental			
Kitchen	2,400 Sqm.		
Madira bar-Wine Cellar	1,200 Sqm.		
Lounge	1,800 Sqm.		
Reception			
Office Corridors area	1,600 Sqm.		
Bed Rooms		8,800 Sqm.	8,000 Sqm.
Corridors Service Areas	1,400 Sqm.	1,400 Sqm.	1,000 Sqm.
Total	**11,600 Sqm.**	**10,200 Sqm.**	**9,000 Sqm.**

The total amount of wages and other expenses, for the month of June have been allocated to respective restaurants bar, and bed rooms as far possible. There are some costs which relate to the hotel and needs to be apportioned on a floor area basis. The amount of these expenses are given as under:-

Direct Expenses:-

Wages:			
Restaurants	Rs.	84,000	
Bars		8,000	
Rooms		12,000	Rs. 1,04,000
Overheads:			
Restaurants		13,000	
Bars		2,000	
Rooms		4,000	19,000
General Wages			26, 000
General Overheads			91,000
Total			**Rs. 2,40,000**

You are required to find out the total wages and total overheads chargeable to each department of the hotel.

Solution

Calculation of Wages & Overheads Chargeable to each Department of the Hotel

	Restaurants	**Bars**	**Rooms**
i) Direct Wages	Rs. 84,000	Rs. 8,000	Rs. 12,000
ii) General Wages:			
a) Restaurant = $26,000 \times \frac{5,600}{26,000}$	5,600		
		1,200	
b) Bar = $26,000 \times \frac{1,200}{26,000}$			19,200
c) Rooms = $26,000 \times \frac{19,200}{26,000}$	**89,600**	**9,200**	**31,200**
	13,000	2,000	4,000
Total Wages	19,600		
iii) Direct Expenses (overheads)		4,200	

iv) General overheads a) Restaurant = 91,000 x $\frac{5,600}{26,000}$ b) Bar = 91,000 x $\frac{1,200}{26,000}$ c) Rooms = 91,000 x $\frac{19,200}{26,000}$	32,600	6,200	67,200 71,200
Total Expenses Direct + General			

Working Notes: The method of apportionment of expenses is based on floor areas which is calculated on follows:-

	Restaurant	Bar	Rooms	Total
Restaurant (G. F.)	3,200			3,200 Sqm.
Kitchen	2,400			2,400 Sqm.
Bar & Cellar		1,200 Sqm.		1,200 Sqm.
First Floor : Bedrooms			8,800 Sqm.	8,800 Sqm.
Second Floor : Bedrooms			8,000 Sqm.	8,000 Sqm.
First Floor: Corridor + and Service Area			14,000 Sqm.	1,4000 Sqm.
Second Floor : Corridor + and Service Area			1,000 Sqm.	1,000 Sqm.
Total	**5,600**	**1,200 Sqm.**	**19,200 Sqm.**	**26,000 Sqm.**

Check Your Progress

Q- 1 What is allocation?

………………………………………………………………………………………

Q-2 What is apportionment?

………………………………………………………………………………………

9.8 Summary

Most hotels operate departmental accounting. Their approach is to charge against department revenue, the cost that is direct or controllable at the departmental level and calculate the departmental profit. To get the departmental net profit, the proportionate indirect cost of management-salaries, rent, general manager's salary, can be apportioned on the basis of space occupied. As there is no scientific or accurate method by which such cost could be apportioned to department, the net profit so calculated from each department accounting do not calculate the net profit figures of the revenue producing departments.

9.9 Glossary

Accounting: Process of summarizing and reporting financial transactions
Cost center: Also called as non-revenue departments of hotel and refers to all those operating departments of hotels which are non-revenue producing. These departments simply incur cost and have very little or no contact with the guest.
Controller: Individual (or department) in a hotel responsible for maintaining the back office accounting system.
Expense: Goods or services consumed or used in operating a business.

9.10 Check Your Progress-Answers

Ans- 1 Allocation implies identification of the expenses with particular cost centre or production and service department to which they relate. It involves charging to a cost centre or department the overhead expense which arise solely from the existence of that cost centre or department; such items include expense like indirect materials, indirect labour, depreciation, repairs and maintenance etc. Estimate of these expenses can be prepared for each department separately with accuracy. In addition to the above, there are other expenses which will have to be distributed among the various departments.
Ans-2 Apportionment refers to the distribution of overheads among department or cost centres in an equitable basis. It evolves charging share of the overhead expenses to a number of departments or cost centres. The sharing of aggregate overheads of each department among the cost units of that department is also a kind of apportionment. There is no hard and fast rule as regards the basis to be applied for apportioning overhead costs between department and cost centres. There is no single basis for apportioning all the times.

9.11 Further References

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9.13 Terminal Questions

Q-1 What is the difference between allocation and apportionment.

Q-2 Explain the main advantages of allocation.

Q-3 What the major basis of allocation.

Unit- 10

Planning & Evaluating Front office operations

Structure

10.0 Objectives

After reading this unit, you will be able to understand:-

- Different room rates & forecasting techniques.
- Percentage of walking, overstaying & understay.
- Factors of evaluating front office operations.

10.1 Introduction

The term 'Forecasting' means planning for the future but it is used colloquially in the hospitality business to mean short term planning. It is a less formula process than budgeting (planning for a full financial year ahead), being operational in approach and predicting the coming days, weeks and perhaps months. Budgets tend to become outdated quickly due to changes in economic conditions, weather, market activities and so on, and hence a more immediate short term estimate of anticipated volume is required. This then allows the operation to adapt their selling strategies and to plan staffing levels, purchasing, stock movements and cash flows. It is especially important where departments and/ or business inter relate such as the impact of tour business on flights and holiday accommodation or conference guests on rooms occupied, and leisure revenues and costs. In these cases small shortfalls in volume can have a significant effect on Profits if not carefully managed. Forecasting and flexible budgeting techniques can also be used to assess the impact of changes in volume, sales mix, prices and costs on the profits of an organization. A 'rolling forecast' may be prepared each month for the subsequent month and quarter.

Benefits of forecasting:-

In the hotel industry, reservation forecasting is very useful in the following ways:-

- It helps the front office Manager to project future volume of business and the revenue that would be generated by the hotel.
- The volume of reservations will help the front office Manager and the management of the hotel to plan the following:
- Staff requirement in each department for the smooth functioning of the hotel.
- Minimum inventory of items required by each department to carry out their tasks efficiently.
- Allocations of resources to serve the guests in the best possible way.
- Maintenance and replacement requirements of the furniture, fixture and ultimately the property, as the wear and the tear of these depends on the number of people using it.
- Special arrangements to be made for the arrival of groups, commercially important person (CIP) and very Important persons (VIP)
- The reservation forecast will provide the necessary date to the reservation Manager to practice yield Management.
- The front office Management will be able to take selective overbooking, based on the reservation forecast.
- The forecast data provides information about the lean days when the occupancy will be low; the sales department may take the necessary actions to attract the business for those durations.
- The forecast data will also reveal the sold out dates, which will ensure that reservation agent does not accept reservations for those days.

  Forecasting is a technique estimate, based on historical figures, expectations, trends, and/or experience, a certain value of an uncontrollable variable for a certain future period of time. Moreover, forecasting cannot be as simple as coming up with a figure, solely by considering only historical data, without adjusting to other variables like competition, image and risk of the country, interest rates, inflation, exchange rates, and other economical factor. Therefore, a person who forecasts shall adjust the forecasted figure to the realities and expectations for the upcoming period in question.

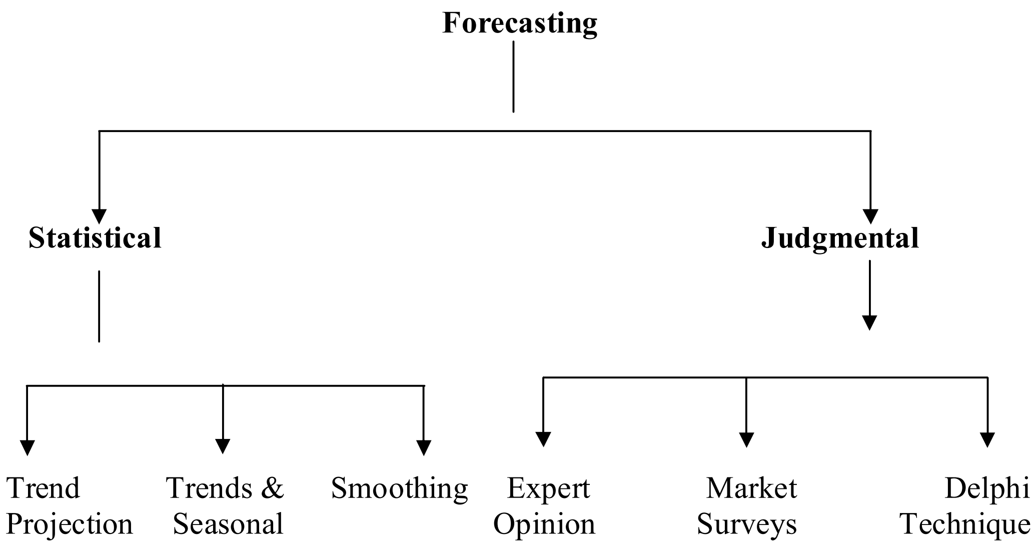

Fig. 10.1 Types of Forecasting

10.2 Setting Room Rates (details/calculation thereof)

Room rates calculation is important in the context of hotel.

10.2.1 Hubbart Formula

The Hubbart formula is a scientific way of determining the room rent, was developed by Roy Hubbart in America in the 1940s. The following steps are involved in calculating the room rent according to the Hubbart formula:-

1. Calculate the total investment including the owner's capital and loans, both secured and unsecured. Once the total investment has been calculated, calculate the fair rate of **return on Investment** (ROI). ROI is the amount that would have been generated if the money invested in the hotel business had been invested in the open market.
2. Calculate the total expenses- like operating expenses, overheads, depreciation of fixed assets, interest paid, heating and lighting, etc-. that will be incurred during hotel operations.
3. Combine steps 1 and 2 to find out the gross operating income that is necessary to cover the operating cost, investment, and return on investment.
4. Calculate the income generated from other sources of income, like food and beverage sales, laundry, rent and lease of the hotel area, fitness centre, etc. Subtract the same from the amount calculated in step 3 to find out how much profit is expected from the room sales. This will be the total revenue generation by the room sales.

5. Calculate the total number of the guest rooms available for sale by multiplying the total number of rooms with the number of days in the year. Make the provision for expected average vacancy that is expected during the year. This step will provide the total number of rooms available for sale.
6. Divide the revenue generation (result from step 4) by the total number of rooms (results from step 5); the result obtained will be the average daily rate, which will cover the cost of operations and fair return on investment.

Now let's calculate the room rent for a hotel with the following details:

1. Hotel Deep has 300 rooms with an average occupancy of 75 percent.
2. The owner's capital is Rs. 15,00,00,000 and the total loan raised is Rs 10,00,00,000. Thus, the total investment is Rs 25,00,00,000.
3. Let the fair market return be 12 percent.
4. The expenses are as under:

a- Operating expenses (in rupees)

Rooms Division	45,000.00
Telephone expense	75,000.00
Administrative expenses	25,00,000.00
Payroll and other expenses	35,00,000.00
Advertisement and promotion1	5,00,000.00
Power and fuel	1,85,000.00
Repair and maintenance	70,000.00
Total operating expenses	**12, 3,30,000.00**

b- Taxes and insurance

Real estate and property tax	45,000.00
Management fee	75,000.00
Corporate taxes	12,50,000.00
Insurance of building and other assets	8,00,000.00
Total taxes and insurance paid	**21,70,000.00**

C- Interest paid on loans

To financial institution	1,45,000.00
To others	75,000.00
Total interest paid	**2,20,000.00**

d- Depreciation at book value

Building	1,85,000.00
Furniture, fixtures and equipments	95,000.00
Total Depreciation	**2,80,000.00**

5- Income generated from other sources is:

From food and beverage outlets	2,45,000.00
From lease of premises	75,000.00
Income from ancillary service (laundry)	65,000.00
Confectionary shop, beauty saloon, florist etc.)	
Operated by hotel	
Total Income generated from other sources	**3,85,000.00**

6- The total area of the hotel that is covered that is covered by guest rooms is 85,000 sq. ft.
7- The area of a single room is 250 sq. ft. and the area of a double room is 300 sq. ft. There are 100 single and 200 double rooms in the hotel.

Now calculate the room rent for the hotel, according to the Hubbart Formula**.**

Step- 1

Calculation of total investment

Total investment = Owner's capital + Loans
= Rs. 15,00,00,000.00 + Rs. 10,00,00,000.00
= Rs. 25,00,00,000.00

Calculation of return on investment

The return on investment is the percentage of return that would have been generated had the amount been invested in the open market. In this case it is 12 percent. Thus, fair return investment will be:

Return on Investment = Total investment x Return percentage
= Rs. 25,00,00,000.00 x 12/100
= Rs. 3,00,00,000

Step- 2

Calculation of total expenses

Total expenses = Operating expenses + Taxes and insurance + Interest paid on loans + Deprecation on book value
= Rs. 1,23,30,000.00 + Rs. 21,70,000.00 + Rs. 2,20,000.00 Rs. 2,80,000.00
= Rs. 1,50,00,000.00

Step -3

Calculation of gross operating revenue

Gross operating revenue = Total expenses + ROI (Return on Investment)
= Rs. 1,50,00,000.00 + Rs. 3,00,00,000.00
= Rs. 45,00,00,000.00

Step- 4

Find revenue generation from room sales only by subtracting revenue generated by all sources other than rooms from the gross operating revenue.

Revenue to be generated by room sales to cover cost and fair ROI	=	Gross operating revenue – revenue generated from other sources
	=	Rs. 4,50,00,000.00 – Rs. 3,85,000.00
	=	Rs. 4,46,15,000.00

Step-5

Calculation of the total number of rooms available during the year

Total number of rooms available during the year	=	Total number of rooms in the hotel x Number of days in the year
	=	300 x 365
	=	1,09,500 rooms

The average occupancy is 75 percent in this case; hence allowance for average vacancy of rooms in the year will be 25 percent of total available rooms. Thus, total number of rooms after making provision for average vacancy will be:

Total number of rooms available after making the provision for vacancy	=	Total number of rooms in the year x Occupancy percentage
	=	1,09,500 x 75
	=	82,125 rooms

Step-6

Calculation of Average Daily Rate

Average Daily Rate	=	Revenue to be generated by rooms sales to cover cost and fair ROI/Total number of rooms available after making the provision for vacancy.
	=	Rs 4,46,15,000.00 / 82,125 rooms
	=	Rs 543.26 per room

Thus, the average daily rate of Hotel Deep in the above example is Rs. 530.00. This is the average of the two room types available in the hotel- single and double. Further determination of room rent can be made by taking area of the room as one measure. The rent square foot can be made by taking area of the room as one measure. The rent per square foot can be calculated by dividing the amount found in step 4 by the total area (in square feet) covered by the room (adjusting the average vacancy). In the above example, it will be:

Total area under the room	=	85,000 Sq. ft
Less adjustment (25%)	=	85,000 Sq. Ft- 21,250 ft.
	=	63,750 sq. ft
Rate per square foot (for a year)	=	Revenue to be generated by room sales to cover cost and fair ROI total area covered by rooms
	=	Rs. 4,46,15,000.00/ 63,750 sq. ft
	=	Rs. 699.84 per sq. ft
Rate per square foot (per day)	=	Rate per square foot (for a year) / Number of the days in a year
	=	Rs. 699.84 /365
	=	Rs. 1.92 per sq. ft. per day

Thus, the room rent for single room will be:

Rate for single room	=	Area of single room x Rate per sq. ft per day
	=	250 x Rs. 1.92
	=	Rs. 480

And the rate for double room will be:

Rate for double room	=	Area of double room x Rate pre Sq. ft per Day.
	=	300 x Rs. 1.82
	=	Rs. 576

10.2.2 Market Condition Approach & Thumb Rule

Market Condition Approach

The market condition method uses a forecasted market breakdown (i.e., commercial, meeting and group, or leisure) for the subject property as a basis for calculating a weighted average room rate. This method involves multiplying the average room rate per market segment by the anticipated number of occupied room nights for each respective market segment that produces revenue for the hotel. The overall average room rate is then calculated by dividing the total rooms revenue by the total number of occupied rooms. The result is a weighted average room rate that reflects the price sensitivity of each segment of lodging demand. Most hotel market studies and appraisals use the competitive positioning or market segmentation methods for estimating average room rates. Each method works well for all types of existing and proposed lodging facilities. However neither of the methods are purely objectives; they both rely heavily on the experience and judgment of the appraiser who conducts them.

Thumb Rule

The rule of thumb method relies on the time-honored theory that every Rupee of average room rate should support approximately 1,000 of total hotel value (i.e., land, Improvements, and FF&E) on a per room basis. Example illustrates this theory.

Rule of Thumb Calculations	**Rs.**
Total Hotel property value	2,67,80,000.00
Number of Available Rooms	-300
Value Per Room	89,267.00
Required Average Room Rate	89.27
	or
Estimated Average Room Rate (market)	89.27
Value Per Room	89,267.00
Number of Available Rooms	x 300
Total Property Value	2,67,80,000.00

These calculations show that the rule of thumb method can be used in two directions. The first calculation starts with the local property value and determines the average room rate necessary to justify this amount of investment. This procedure and its conclusion are similar to the bottom-up method in that the average room rate is not market-justified but rather illustrates economic feasibility. The second calculation starts with the average room rate, which is derived from the market, and calculates the maximum amount of total Property value this room rate would be able to support. The rule of thumb method relies on a number of assumptions, including the subject's occupancy, ratio of food and beverage revenue to rooms revenue, operating costs, fixed expenses, and capital costs. Properties that do not fit the national norms for these assumptions are apt to require more or less than Rs. 1.00 of average rate of justify Rs. 1,000 of per room value. For example, assume that this rule of thumb works for hotel with an assumed occupancy level of 72 percent. If the subject property was projected to achieve only a 68% (percent) stabilized occupancy the it would take more than Rs. 1000 of average room rate to equate to 1,000 of per room value.

The advantages of the rule of thumb method are:

- It is simple to calculate and easy to use.
- It may be used to determine either an average rate based on total value, or the total value based on an achievable average rate.

The disadvantage of the role of thumb method is that it that it relies upon a number of inherent assumptions that are not explicitly accounted for. For this reason, it should only be used to establish broad parameters for room rates and project value.

10.2.3 Types of discounted rates-corporate, rack rate etc.

A hotel generally designates a standard rate for each category of rooms offered a guest. Hotels may have various room tariffs as follows.

Seasonal Rate Depending on the desirability of a location at a particular time of the year, designations may have high, low, and shoulder seasons. Destinations like hill stations, beaches, etc. receive heavy tourist traffic during particular periods of the year, the rest of the year is a lean period in terms of tourism. During peak season, hotels, do not offer any discounts; rather they may charge a higher room rate, known as the seasonal rate.

Week Day Rate Some hotels observe a fluctuation in their occupancy levels with regard to the date of the week. The demand for rooms in a hotel may be more or certain days in a week. Hotels analyse their demand levels over a period of time and fix a higher rate during high demand periods and lower room rate during low demand periods.

Day and Half Day Rate The day rate, charge from guest not staying overnight at a hotel, is lower than the rack rate. For instance, if a guest check in at 10 a. m. and checks outs the same evening at a round 4 p. m., he may be charged the day rate.

Educational Rate Educational rate are special rates offered by hotels to students and educationists who have a limited travel budget. They are a significant source of business because of their large numbers and frequency of visit.

Complimentary Rate When a hotel a does not charge the room rent from a guest. It is known as complimentary rate. Hotels generally offer complimentary rates to the tour/ group leader. They may also offer complementary rooms to tour operators, travel agencies, and local dignitaries who are vital to the public relations programme of the hotel. Hotels also provide complimentary rooms along with marriage package and bulk bookings.

Crib Rate This is the rate charged for children above five years and below of age 12 years who are accompanying their parents. The hotel providers a crib bed in the room for infants.

Package Rate A package offered by the hotel of a combination of one or more hotel product or services. Also called as Bundling. A Bundling entails pricing the package below the cost of purchasing the items separately. A package rate may include room rent, meals, special arrangements (like marriage set-ups, banquet halls, meetings room etc.), and may also include products and services offered by other services provider like transportation, sightseeing, and so on. A package rate is more economical than the individual purchase of the products and services. It is a marketing strategy to sell the slow moving items along with the hot-selling products. Also, when products and services are sold in a bunch, the cost of individual advertisements is cut down. The money thus saved by the hotels is passed to the guest in the form of lower prices. Hotels may offer the following packages – **Meeting packages**- A complete meeting package include the residential arrangement of the delegates, meeting room, food and beverage requirements, along with transportation facility, audio visual equipment like projectors etc. to the meeting delegates. **Meal Package-** A meal package is the combination of room rent and meals, which may be all meals or a combination of breakfast and lunch/ dinner. The hotel may offer meal packages based on the requirement of guest and the suitability of the hotel's operations. **Marriage Package-** A marriage includes all the necessary arrangements for marriage, like mandap, priest, party lawn, accommodation for the marriage party, buffet, and event complimentary room for newly married couple.

Holidays Package- A holiday package may include transportation, accommodation, meals, guide and sightseeing at the destination. This package include non-hotel products from the other service providers.

Airlines Rate- It is a special discounted rate for the crew of one or more airline that offer certain volume of business throughout the year on a consistent and continuous basis.

Travel Agent Rate- Travel agent sell travel products like hotel rooms, airlines, booking, etc on a commission basis to the guests. They provide a substantial volume of business to hotels, hence hotel offers them special discounts and commission.

Corporate Rate- This programme covers corporate offices and usually 10 to 20 % discount (on the rack rate) can be given to the officers coming from corporates. The corporate rate is widely accepted at the transient target rate for most hotels. This is simply an average rate goal a hotel fixes achieve for a certain day or market segment.

Rack Rate- Rack rate is a term which refers to the normal room rate of the hotel. This is the rate of a room which is published in the room tariff card. This is also the rate which is written on the Shannon slip which is slipped in the room rack of those hotels which operate on whitney system. This rate is usually negotiable and many types of discounts can be given to various categories of guests such as travel agents, tour operators, corporate companies.

10. 3Forecasting Techniques

Forecasting gives an estimate of the revenue that should be generated by hotel in near future. Forecasting, which is a difficult skill to develop, can be acquired through the effective and efficient tracking of records, by using accurate mathematical calculations, and through experience. The front office managers, by virtue of their experience, have found that the following information is necessary for making an accurate forecasting:

- Through Product Knowledge.
- Good judgment about what could happen in the future.
- Thorough knowledge about their area of operation in the hotel.
- The profile of the target market to which the hotel is catering.
- The events that are scheduled in the area during the forecasted period.
- Percentage of no-shows.
- Over stay percentage.
- Under stay percentage.
- Turn-down statistics.
- Future plan for renovation or addition of more rooms in the property.
- Future plans regarding the opening of any new property in the vicinity of the hotel.
- A precise knowledge about the room status in the competitor's property.
- Knowledge about competitor's plan with respect to activities which will reduce the supply of rooms in their property.
- Cancellation statistics.

10.4 Forecasting Rooms Availability

The hotel's reservations department is charged with two primary tasks: setting rates and selling rooms. Before successfully accomplishing either of these tasks, the reservations department needs an accurate count of the number of rooms available for sale. Knowing how many rooms are available for sale on a given data is a logical first step for the task of selling rooms. After all, how can any reservation department sell rooms if they don't first know how many are left available? Less clear, however, is the relationship between the number of rooms available for sale and the setting of rates for a given period. This second relationship the number available for sale impacts the rate for which the remaining rooms sell forms the basis for the key objective of any hotel; to maximize revenues through yield management. The ultimate goal of every hotel is to achieve the "Perfect Fill", defined as a paid guest in every hotel room. To reach this benchmark, however, the hotel needs to make some difficult (and often risky) decisions. One of the first steps in decision making process is to understand which types of reservations. Some hotels refuse non-guaranteed reservations altogether, here is a quick look at the three classic types of reservations:-

- ❖ **Advance-Deposit Reservations:-** Advance deposit reservations are another form of guaranteed reservation. However, rather than guaranteeing the room to a credit card or corporate account, an advance deposit reservation requires the guest to send payment in advance. Payment may come in the form of a cashier's check, personal check, money order, or even authorized credit card payment. In any case, hotels which require advance deposit reservations often establish more rigid cancellation policies (longer lead time for cancellation) in order for the guest to receive full refund.

- ❖ **Guaranteed Reservations:-** Reservations guaranteed against a guest's credit card or corporate account higher credibility than non-guaranteed reservations. That is because the guest has something to lose if he/she no shows a guaranteed reservation. Depending on the hotel's cancellation policy, failing to arrive for a guaranteed reservation usually costs the guest or the corporate account a night's room and tax.

- ❖ **Non-Guaranteed Reservations**:- Non-Guaranteed reservations (something called 6 P.M. hold reservations) have no monetary promise associated with the reservation. Should the non-guaranteed reservation. Should the non-guaranteed reservation fail to materialize, the hotel has no recourse against the guest. As such, non-guaranteed reservations are risky and uncertain. Many hotels refuse to accept non- guaranteed reservations. Because there is a very high no show factor associated with non-guaranteed reservations, accepting such reservations impacts the hotel's ability to reach perfect fill. It is important to understand how the actual occupancy forecast is computed. Let's consider the 300-room Hotel XYZ shows the detailed method used by a PMS (property Management system) to compute one day's actual occupancy forecast. Let's review how the forecast is developed line by line.

  Line 1: Identify the number of rooms in the hotel (300)
  Line 2: Subtracting out-of-order rooms (0)
  Line 3: Determining net room availability (300)
  Line 4: Subtracting stay over rooms (40)
  Line 5: Subtracting rooms for which a current reservation exists (150)
  Line 6: Determine the number of rooms sold of reserved (190)
  Line 7: Adjusting the forecast for anticipated reservation no-shows (15)
  Line 8: Adjusting the forecast for anticipated early departure (5)
  Line 9: Adjusting the forecast for overstays (10)
  Line 10: Determining the number of rooms forecast to be sold or reserved after adjustments (180)

Line 11: Dividing the total number of rooms forecasted to be sold or reserved after adjustments (line 10) by net availability (line 3) to yield the occupancy forecast (60 percent)
Line 12: Calculating net rooms availability (120)
Line 13: Dividing net rooms availability (line 12) by net availability (line 3) to yield net availability percentage (40 Percent)
Date: Oct, 1
Day: Tuesday

Total Room available	300 Line 1
(-) Out-of-order rooms	0 Line 2
Net Availability	300 Line 3
(-) Stayovers	40 Line 4
(-) Reservations (Arrivals)	150 Line 5
Rooms sold or reserved	190 Line 6
Forecasted adjustments:-	
(-) Reservation no-shows	15 Line 7
(-) Early Departures	5 Line 8
(+) Oversyas	10 Line 9
Total forecasted sold or reserved after adjustment	180 Line 10
Occupancy forecast	60% Line 11
Net rooms availability	120 Line 12
Net availability	40% Line 13

No Shows:- Every hotel experiences some no-show guests. For many reasons, guests change with plans and fail to contact the hotel for a cancellation number. Estimates about no-shows are important when forecasting, because each no-shows represents a room that appears to a guest but will not be occupied by the guest Determination of precisely how to best track no-show data for a specific hotel depends on the hotel unique characteristics. To generalize that the best way to forecast no-shows in all hotel's is to use the average no-show number for the last two weeks (or other time period) trivializes the distinctive insight that an FOM can bring to the process of estimating no-shows. Instead, an accurate estimate of no-shows requires an front office Manger's talent, intuition, and experience, along with accurate data from the PMS (Property Management System). For example, if historical PMS data show that, on average, 1 of 50 confirmed room reservations will be a no-show, then the FOM might estimate 10 no-shows on a day when the hotel has 500 confirmed reservations (500 rooms- 50 rooms = 10 no-show rooms).
Early Departures (Under stay): PMS data related to early departures are also important in tracking and fare casting room demand. When estimating the number of early departures, FOMs can access many historical records; they are limited only by the limits of their PMS. Early departures are affected by a variety of factors, ranging from changes in travel plans (e.g., a meeting ending earlier than expected or a change in an airline schedule) to difficulties with the hotel. The estimated number of early departures can only be properly evaluated in conjunction with total occupancy (Stayovers).

10.5 Useful Forecasting Data

The process of forecasting room availability generally relies on historical occupancy data as well as business already committed. Historical data is used to take some of the guesswork out of forecasting. To facilitate forecasting, the following daily occupancy data should be collected.

- Number of expected room arrivals: based on existing reservations and historical trends for new reservations and on cancellations prior to the arrival date.
- Number of excepted room walk-ins: based on historical records.
- Number of excepted room stayovers (rooms occupied on previous nights that will continue to be occupied for the night in questions): based on existing reservations.
- Number of expected room no-shows: based on historical records.
- Number of expected room understays (check-outs occurring before expected departure date): based on historical data.
- Number of expected room overstays (check-outs occurring after the originally reserved departure date): based on historical records.

Some hotels with a high double occupancy percentage may be as concerned with guests counts as room counts. For example, an all0inclusive resort with a large amount of business from vacationing couples may want to forecast guest as well as room count activity. Convention hotels may often have the same concerns.
Chances are good that much of this information is available in reports, documents, and other data sources at the property. The hotel's daily reports will likely be invaluable in this research. These reports should be summarized and stored in a way that is easily accessible.

Occupancy History of the ABC Hotel

Occupancy History
First Week of March

Day	Date	Guests	Room Arrivals	Room Walk-Ins	Room Reservations	Room No-Shows
Mon	3/1	118	70	13	63	6
Tues	3/2	145	55	15	48	8
Wed	3/3	176	68	16	56	4
Thurs	3/4	117	53	22	48	17
Fri	3/5	75	35	8	35	8
Sat	3/6	86	28	6	26	4
Sun	3/7	49	17	10	12	5
Total		766	326	90	288	52

Occupied Rooms	Overstay Rooms	Understay Rooms	Room Check-outs
90	6	0	30
115	10	3	30
120	12	6	63

95	**3**	**18**	**78**
50	**7**	**0**	**80**
58	**6**	**3**	**20**
30	**3**	**3**	**45**
558	**47**	**33**	**346**

Overall, these data are important to room availability forecasting, since they are used in calculating various daily operating rations that help determine the number of available rooms for sale. Rations are a mathematical expression of relationship between two numbers that is determined by dividing one by the other. Most statistical ratios that apply to front office operations are expressed as percentages. The rations examined in the following sections are percentages of no-shows, walk-ins, overstays, and understays. Occupancy history data from the fictitious property shown in exhibit 7 (the Holly Hotel) are used to illustrate the calculation of each front office ratio. Managers should look for consistency in rations. Consistency may be roughly the same ratio every day of identifiable patterns. Without consistency, forecasting rations and projecting performance may be very difficult.

Percentage of No-shows: The percentage of no-shows indicates the proportion of reserved rooms that the expected guests did not arrive to occupy (and did not cancel) on the expected arrival date. This ratio helps the front office manager decide when (and if) to sell already-committed rooms to walk-in guests.

The percentage of no-shows is calculated by divided the number of room no-shows for a specific period of time (day, week, month or year) by the total number of room reservations for the same period. Using figures from Exhibit 7, the percentage of no-shows for the Holly during the first week of March can be calculated as follows.

$$\text{Percentage of No-shows} = \frac{\text{Number of Room No-shows}}{\text{Number of Room Reservations}}$$

$$= \frac{52}{288}$$

$$= 1806 \text{ or } 18.06\% \text{ of Reserved Rooms}$$

Some properties track no-shows statistics in relation to guaranteed and non-guaranteed reservations. Non-guaranteed reservations typically have a higher no-show percentage than guaranteed reservations, since the potential guest has no obligation to pay for the accommodations if or she does not registered at the property. Properly incorporating no-show allowances into room availability forecasts also depends on the hotel's mix of business; for example, corporate groups generally have a much lower no-show percentage than do other types of groups or individual guests. A hotel that works with a large corporate group business, such as a hotel located in a suburban area alongside an interstate highway, is likely to have a mush higher percentage of no-shows reservations since guests desire flexibility in their travel plans. Hotels and resorts strive to control no-shows through a number of policies and procedures, such as requiring a cash or credit card deposit in advance of the stay and/or contacting the guest before arrival to confirm travel and room arrangements.

10.5.1Percentage of walking

The percentage of walk-in is calculated by dividing the number of rooms occupied by walk-ins for a period by the total number of room arrivals for the same period. Using figures from the percentage of walk-ins for the Holly during the first week of March can be calculated as follows:

$$\text{Percentage of Walk-Ins} = \frac{\text{Number of Room Walk-Ins}}{\text{Number of Room Arrivals}}$$

$$= \frac{90}{326}$$

$$= 2761 \text{ or } 27.61\% \text{ of Rooms Arrivals}$$

Walk-in guests occupy available rooms that are not held for guests with reservations. Often hotels can sell rooms to walk-in guests at a higher rate, since these guests may have less opportunity to consider alternate properties. Front desk agents are sometimes asked to show a guestroom to a walk-in guest which tends to be much more effective than trying to sell rooms over the telephone or through a website. Walk-in guest sales help improve both occupancy and room revenues. However, from a planning perspective, it is generally better to have reservations in advance than to count on walk-in traffic. Note that other rations can dramatically affect the walk-in ration. For example, if a hotel has ten no-shows beyond forecast, it may accept more walk-ins than usual to make up for the lost business. When this information is tracked for historical purpose, it is essential that the other rations also be tracked to show how they affect one another. Once effective way to predict walk-ins to know what is going on in the marketable. There will be a better opportunity for walk-ins (and a higher rate) if nearby hotels are experiencing high demand.

10.5.2Percentage of Overstaying

Overstays represent rooms occupied by guests who stay beyond their originally scheduled departure dates. Overstay guests may have arrived with guaranteed or no-guaranteed reservations or as walk-ins. Overstay should not be confused with stayovers. Stayover rooms are rooms occupied by guests who arrived to occupy a room the day in question and whose scheduled departure date is not until after the day is question. Using historical data, the percentage of overstays is calculated by dividing the actual number of overstay rooms for a day or a period by the total number of expected room check-outs for the same day or period. The number of expected room check-outs is the number of rooms shown by the front office system or the manual count of occupied rooms as due for departure. Stated another way, the number of actual departures on the books minus under stays plus overstay. Note that in this case, the term under stays refer to people checking out early on the day in question, not to those were originally scheduled to leave the day in question but who chose to check out one or more days early. For purposes of this equation, those latter guests would be considered understays on the day they checked out. Overstay and understays can be determined for periods beyond one day by summing the actual overstay and understay counts calculated separately for each day within for each day within the longer period. Using figures from, the percentage of overstays for the Holly Hotel during the first week of March can be calculated as follows:

Percentage of Overstays = Number of Overstay Rooms / Number of Expected Check-Outs

= 47 / 346-33+47

= 1306 or 13.06% of Expected Check-outs

To help regulate room overstay, front office agents are trained to verify an arriving guest's departure date at check-in. Such verification can be critical, especially when the hotel is at or near full occupancy and there are no provisions for overstay guests. This is especially important for suites or other rooms that may have special importance to an incoming guest.

10.5.3 Percentage of Understays

Understays represent rooms occupied by guests who check out before their originally scheduled departure dates. Understay guests may have arrived at the hotel with guaranteed or non-guaranteed reservations or as walk-ins. The percentage of understays is calculated by dividing the number of understay rooms for a day or period by the total number of expected room check-outs for the same day or period. Using the same approach as that just described for determining the percentage of overstays, the understays are counted as understays only on the day of their early check-out, and understay counts should be determined separately and summed for each day in a multi-day period. Using figures from Exhibit.7, the percentage of understays for the Holly during the first week of March can be calculated as follows:

Percentage of Understays = Number of Understays Rooms / Number of Expected Check-Outs

= 33 / 346-33+47

= 0917 or 9.17% of Expected Check-outs

Guests leaving before their stated departure date create empty rooms that typically are difficult to fill. Thus, understay rooms may represent permanently lost room revenue. Overstays, on the other hand, are guests staying at full capacity, overstays result in additional, unexpected room revenues. In an attempt to regulate understay and overstay rooms, front office staff should:

- Confirm or reconfirm each guest's departure date at registration. Some guests may already know of a change in plans, or a mistake may have been made in the original processing of the reservation. The sooner erroneous data are corrected, the greater the chance for improved planning.
- Present an alternate guestroom reservation form to a registration guest, explaining that an arriving guest holds as reservation for his or her assigned room. A note card may be placed in the guest's room the day before or the morning of the scheduled day of the registered guest's departure
- Review group history. Many groups, especially associations, hold large closing events for the entire group on the last day of the meeting. Guests may take reservations to include attending the final event, however, changes in plans or other priorities may require guests to leave early. While it is difficult for the hotel to hold guests to the number of nights they reserved, managers may be better able to plan for early departures, based on the group's departure history. Some hotels

that have a lot of association business or a history or transient guests departing before their scheduled date may apply the reservation deposit to the last night of the stay, not the first night.

- Contact potential overstay guests about their scheduled departure date to confirm their intention to check out. Room occupancy data should be examined each day; rooms with guests expected to check out should be flagged. Guests who have not left by check-out time should be contacted and asked about their departure. This procedure an early revised count of overstays and allows sufficient time to modify previous front office planning. If necessary.

10.6 Forecast formula

Once relevant occupancy statistics have been gathered, The number of rooms available for sale on any given date can be determined by the following formula:

- Total Number of Guestrooms
- Number of Out-of-Order Rooms
- Number of Room stoyovers
- Number of Room Reservation
- Number of Room reservation # Percentage of No-shows
- Number of Room Understays
- Number of Room Overstays
- Number of Room Available for sale

Note that this formula does not include walk-ins. They are not included because the number of walk-ins a hotel can accept is determined by the number of rooms that remain available for sale. If a hotel is full due to existing reservations, stayvoers, and others factors, it cannot accept walk-ins.

As an example, consider the Holly House, a 120-room where on April 1 there are 3 out-of-order rooms and 55 stayvoers. On the day, there are 42 guests with reservations scheduled to arrive to Since the percentage of no-shows has been recently calculated at 18:06 percent, the front office manager calculates that as many as 8 guests with reservations may not arrive(42 *.1806 = 7.59, rounded to 8).

Based on historical data, 6 understays and 15 overstays are also expected. The number of room projected to be available for sale on April 1 can be determined as follows:

	Total Number of Guestroom	120
-	Number of Out-of-Order Rooms	-3
-	Number of Room stayovers	-55
-	Number of Room Reservations	-42
+	Number of Room Reservation x No-Show percentage	+8
+	Number of Room Understays	+6
-	Number of Room Overstays	-15

Therefore, the Holly House is considered to have 19 rooms available for sale on April. 1 Once this figure is determined, front office management can decide whether to accept more reservations and can determine its level of staffing. Front office planning decisions must remain flexible; they are subject to change as the front office learns of reservation cancellations and modifications. Note also that room availability forecasts are based on assumptions whose validity may very on any given day.

10.7 Types of forecast

The front office may prepare several different forecasts, depending on its needs, occupancy forecasts are typically developed on a monthly basis and reviewed by food and beverage and rooms division management to forecast revenues, project expenses, and develop labor schedules. A ten-day forecast, for example, may be used to update labor scheduling and cost projections and may later be supplemented by a more current three-day forecast. Together, these forecasts help many hotel departments maintain appropriate staff levels for expected business volumes and thereby help contain costs.

Ten-Day Forecasts. At most lodging properties, the ten-day forecast is developed jointly by the front office manger and the reservations manager, possibly in conjunction with a forecast committee. Many properties develop their ten-day forecasts usually consists of:

- Daily forecasts occupancy figures, including room arrivals, room departures, rooms sold, and number of guests.
- The number of group commitments, with a listing of each group's name, arrival and departure dates, number of rooms reserved, number of guests, and perhaps quoted room rates.
- A comparison of the previous period's forecasted and actual room counts and occupancy percentages

A special ten-day forecasts may also be prepared for and beverage, banquet, and catering operations. This forecasts usually includes the expected number of guests, which if often referred to as the house count. Sometimes the house count is divided into group and non-group categories so that the hotel's dining room managers can better understand the nature of their business and their staffing needs. To help various hotel departments plan their staffing and payroll levels for the upcoming period, the ten day forecasts should be completed and distributed to all department offices by mid-week for the coming period. This forecasts can be especially helpful to the housekeeping department. A ten-day forecast form as shown in exhibit 8, is typically developed from data collected through several front office sources. (The occupancy multiplier mentioned in section 10 of the exhibit is discussed later in the chapter. First, the current number of occupied rooms is reviewed. The estimated numbers of overstays and expected departures are noted. Next, relevant reservation information is evaluated for each room (and guest) by date of arrival, length of stay, and date of departure. These counts are then reconciled with reservation control data. Then, the actual counts are adjusted to reflect the projected percentage of no-shows, anticipated understays, and expected walk-ins. These projections are based on the hotel's recent history, the seasonality of its business, and the known history of specific groups scheduled to arrive. Finally periods of heavy, or light, check-ins, check-ins and check-outs. The number of rooms assigned each day to each group may also be noted on the sheet.

Refining forecast

A yearly forecast provides an excellent starting point for developing shorter term, more accurate forecasts, Managers can better assess business by reviewing current reservations and booking pace. The closer the forecast is, the more accurate it will be.

Here is a checklist for revising forecasts:

- List all group bookings and transient reservations on the books.
- Examine arrivals, departures, and group information for the given period.
- Determine it demand for this particular period of time is high or low.
- Chart the peaks and valleys on a graph to better identify high/low demand.

Most automated systems provide a summary of recorded data in a report format for the front office manager to use. However, only revenue management ststems are programmed to "forecast" business programing hotel property management systems to successfully analyz historical trends and market conditions has been attemped in the past with little success. Revenue management system are much more sophisticated, with special trend analysis programming built in. Even with revenue management system forecasting. It is the front office manager's knowledge and skill that ultimetely determine the accuracy of the forecasts. Exhibit 9 presents a chec list that some revenue managers use when revising forecasts.

Three-Day Forecasts: A three-day forecasts is an updated report that relects a more current estimate of room availability. It details any significant changes from the ten-day forecasts. The three-day forecasts is intended to guide mangemnet in fine-tuning labor schedules and adjusting room availability inforamtion to focus on occupancy and rate changes for the next few days. The results of this meeting are often included in the three-day forecasts.

Room Count Considerations: Control books, charts, software applications, projections, ratios, and formualas, can be essentail in short-and long-range room count planning. Each day, the front office performs several physical counts of rooms occupied, vacant, reserved, and due to check out, to complete the occupancy statistics for that day. An automated system may reduce the need for most final counts, since the system can be programmed to continually update room availibilty informations. It is important for front desk agents to know exactly now many rooms are available, especially if the hotel expects to operate at nearly 100 percent occupancy. Once procedures for gathering room count information are established, palnning procedures can be extended to longer periods of time to form a more reliable basis for revenue, expenses, and labor forecasting.

10.8 Sample forecast form

Room Revenue forecasting worksheet

Market Segment	Week	Period					
		Mon	Tues	Wed	Thus	Fri	Sat
Transient Revenue							
Room Sold							
Average Rate							
Total Transaction Revenue							
Group Revenue							
Rooms Sold							
Average Rate							
Total Group Revenue							
Total Revenue							
Total Rooms Sold							
Occupancy Percentage							
Average Rate							
Total Room Revenue							

Fig. 10.2 Forecast Form

10.9 Factors for evaluating front office operations

Accurate and useful forecasts are important to all hotels. The hotel business is, however, often unpredictable, as a result, forecasts that are 100 percent accurate are rare. Even in properties with consistent sales volume, with an excellent PMS that provides accurate historical and current data, and with an FOM who effectively monitors trends, forecasts are likely to be off to some degree. Forecasts that are consistently or significantly in error, however, will ultimately yield financial or operational difficulties or both. Forecasts that are unrealistically high:-

- Cause out-of-reach expectations for hotel owners.
- Increase feelings of frustrations in staff when forecasted levels are not attained.
- Produce budgeting and spending errors by overstating anticipated revenues.

- ❖ Lead to lack of recognition of excellence in other aspects of the FOM's managerial decision making because of a focus on forecast shortfalls.
- ❖ Result in impractical and overly aggressive determinations of room rates (rates are set too high)
- ❖ Alternatively, demand forecasts that are consistently and unrealistically to low can:
- ❖ Lead Managers to believe they are performing at levels that are higher than actual performance levels.
- ❖ Undermine the credibility of the forecaster because of suspicion that actual variations in forecasts are due to lowballing of forecasts.
- ❖ Result in impractical and under aggressive determinations of room rates (rates are set too low).

Experienced FOMs can produce room demand forecasts that will be within 1% to 5% of actual sales of hotel rooms achieved by the property. To increase accuracy, many hotels produce an extended forecast of one year (or more), but then alter those forecast monthly as new data become available. Although forecasts that are many months away may be modified only slightly accurate. Experienced FOMs use the latest historical data, the most recent current PMS data, and the most up-to-data future data to fine-tune near term forecasts. Accurate demand forecasts enable front office Manager to better establish room raters.

Check Your Progress

Q-1 Explain Hubbart Formula in short?

…………………………………………………………………………………

Q-2 Describe rack rate?

…………………………………………………………………………………

Q-3 **W**hat do you understand by thumb rule?

…………………………………………………………………………………

10.10 Summary

The rooms of a hotel generated the maximum revenue, so an accurate and competitive room rent is one of the prerequisites for running a successful hospitality business. The rate of a hotel room is based on the competition, the standard of services and amenities offered by the hotel, the guest's profile, and the location of the hotel and the room. Once the room tariff has been decided, every hotel has to decide about the criteria for establishing the end of the day to post the rooms charges into guest accounts. A hotel generally designates a standard rate for each category of rooms offered to guests. Apart from the standard rates, hotels also offer discounted rates to attract additional business multiple market segments, e.g., advance purchase rate, volume guarantee rate, package rate. The room tariff of a hotel may be based on the choice of meal plans offered to guests. Planning is very important in the context of revenue generation. In todays competition world forecasting is a effective tool for revenue generation.

10.11 Glossary

Forecasting- The process of predicting events and trends in business, typical forecasting for the room division includes room availability and occupancy.
Hubbart Formula- A Scientific method of determine the room rent. It is based on the principle of covering all the cost that is incurred in providing the accommodation plus a reasonable return on investment.
Overstay- Guests who stay after their stated departure date.
Stayover- A room status term indicating that the guest is not checking out today and will remain at least one more night, a guest continues to occupy a room the time of arrival to the stated day of departure.
Understays- Guest who check out before their stated departure day.

10.12 Check Your Progress – Answers

Ans-1 The Hubbart formula is a scientific way of determining the room rent, was developed by Roy Hubbart in America in the 1940s. Calculate the total investment including the owner's capital and loans, both secured and unsecured. Once the total investment has been calculated, calculate the fair rate of **return on Investment** (ROI). ROI is the amount that would have been generated if the money invested in the hotel business had been invested in the open market.
Ans-2 Rack rate is a term which refers to the normal room rate of the hotel. This is the rate of a room which is published in the room tariff card. This is also the rate which is written on the Shannon slip which is slipped in the room rack of those hotels which operate on whitney system. This rate is usually negotiable and many types of discounts can be given to various categories of guests such as travel agents, tour operators, corporate companies.

Ans- 3 The rule of thumb method relies on the time-honored theory that every Rupee of average room rate should support of total hotel value (i.e., land, Improvements, and FF&E) on a per room basis.

10.13 Further References

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- Bhatnagar, Sunil(2002)Front Office Management, Franks Bros. & Co,New Delhi.pp 483-487

10.14 Suggested Readings

- Tewari, Jatashankar (2009) Food & Beverage Service, Oxford University Press, New Delhi.
- Andrews, Sudhir(2008) Text book of Front office Management & operations, Tata McGraw Hill, New Delhi

10.15 Terminal Questions

Q-1 What are the different bases of charging the room rent?
Q-2 Explain market condition approach and thumb rule in short?
Q-3 Explain Hubbart Formula?
Q-4 What do you understand with the term rack rate?
Q-5 What are the measure benefits of forecasting?
Q-6 What is meant by forecasting of room availability? What points should one keep in mind while forecasting?

UNIT 11

BUDGETING

Structure

11.0 Objectives:

In this unit we have discussed the importance and advantages of budget, the various types of budgets and the essential of a good budgetary system. The steps in preparation of a budget is also outlined.

After going through this unit, you should be able to:

- Understand the meaning and importance of budget
- Know the objective of maintaining a budgetary control
- State the types of budgets and the advantage of budgets
- Elaborate on the steps in preparation of a budget

11.1 Introduction

Business activities are directed to achieve the objectives set by the top management of the business organization. These objectives are the goals set by the management for entire organization as a whole as well as for its sub-divisions, departments, branches and so on, to be achieved within a specific period in future. The objectives need to be properly identified, clearly defined and set as a goal to be achieved during a specific period in future, so that those pursuing the objectives also set themselves on a proper course of action in pursuit of the objectives. Objectives of a business may differ from organization to organization. However, following are the objectives of business among business organizations:

1) To earn adequate returns on investments and maintain continuity in earning maximum returns.
2) To utilize the available resources such as men, money, material, time, equipment, marketing resources and technology more effectively.
3) To enhance managerial ability and efficiency by development of skills, talents and methods of work.
4) To expand, diversify and modernizes Business
5) To expand the quality and area of business operation.
6) To periodical by review existing management process and adopt new improved methods, techniques and use of modern technology more productively. .
7) To plan in advance the future course of action towards achievement of the goal set by the management.
8) To determine sectional or objectives for each section of the department.
9) To devise methods, systems and procedures of work and to lay down policies for each functional sub-department to ensure harmonious working among all sub-sections..
10) To devise communication systems to convey to all those concerned with implementation of the budget as to what is expected from them and how they could contribute to management's efforts.
11) To motivate employees and create confidence in employees towards integrating their personal interest with that of the organization "interest.
12) To establish standards as devised for measuring performances and to provide basis for comparison of actual performances with that of budgeted performances.
13) To facilitate monitoring periodic activities and evaluating the performances on the basis of plans to find deviations, if any, from planned performances, so as to take corrective measures.

11.1 .1 Budget

Budget: A budget is a financial plan to accomplish to business objectives, covering all phases of operations for a definite period in future and is expressed in terms of money. It is also referred to as a financial plan. It is a formal expression of the objectives in terms of finance, specifying the manner in which the course of action is to be followed to achieve it. The budget is then used as a guide or blue print to guide those concerned with implementing the plans and to know what is expected of them. It is just like an architect's plan for a construction of a building, which guides the architect as well as the building contractor to know the manner in which they are expected to proceed with their work of constructing the building ,so that the building when ready, is exactly of the dimensions as shown in the architect's plan.. Budgets are details of estimated revenue arid expenditure for a specific period in future in pursuit of achieving objectives. It is the budget, which provides the direction and causes activities to be performed in a certain manner in order to achieve the goals.

The return on investment, i.e. profit is one of the main or basic objectives of any economic activity, achievement of which will enable achieving various other objectives, and therefore, it has to be determined or estimated on careful consideration of various factors such as the following:

1. Normal or average returns earned by similar organizations or industry in a specific location will be a guiding factor in fixing the expected return on investment so as not to earn below such normal returns.
2. Remuneration and benefits provide to the human resources of the organization engaged in planning, organizing, directing and controlling the activities in a business.
3. Rate of return 'available on investment on market securities. More the market returns more should be the expected return on investment investing in a business
4. Risk element-more the risk involved in investing, more should be the expected return on investment.

Considering the above, the management will determine will determine appropriate and fair returns on investment as the profit target for the future period. The existing organization has past financial records as guide in formulating future budget. However, for a new organization, it will be necessary to work out the quantum of investment necessary to establish an organisation. To arrive at the total investment necessary to establish a business organization, an estimate of essential expenditure for acquiring fixed assets of capital nature, and working capital to meet the revenue expenditures of routine operational nature, will have to be worked out.

11.2 Budgetary Control

Budgetary control is the management and control exercised over the activities of organization with the purpose of achieving the targets or estimated results as laid down in the budget. The main objective of budgetary control is to help achieve the objectives of the business in accordance with the formulated policies. Most of the hotels are highly departmentalized and all revenue as well as non-revenue earning departments work in co-ordination with one another towards achieving their common objectives. The functions of budgetary control, is therefore, to break down the organizational objectives into departmental objectives and set norms for each department to achieve their respective objectives, and in the process, the organization achieves its overall objectives. The objectives can only be achieved if the available resources are used effectively.

11.3 Advantages of Budgetary Control

The following are the advantages of budgetary control:

1) It inculcates in the management, a habit of planning, which is an indicator of sound business management.
2) It enables maintaining proper records and statistics of business operations for more realistic forecasting required for formulation of budget.
3) The coordination and better understanding among various departments and employees assure efficient and harmonious flow of work, free form obstruction and frictions thereby there by making the job of the managers easy to achieve objectives.

4) Budgetary planning motivates and activates employees and habituates them to wok efficiently in accordance with the plans and policies towards achieving of business objectives.
5) By employee participation in budgetary in budgetary preparation and communication of objectives to them, proper direction is established and conveyed to all those concerned in the organisation, to focus not only on their personal objectives but also on the management's objectives.
6) Departmental of budgetary goals motivates all employees and activates them to contribute to maximum towards achievement of their departmental objectives.
7) Budgetary control enables each department to plan their activities in advance thereby enhancing, efficiency in their work.
8) It helps in reducing wastage, fraud and cost, and thereby increases profits.
9) It helps periodic evaluation of performance. Comparison of actual performance with planned performance to know the deviation and two decide corrective measures to improve the performance. It thus helps to exercise control over all operations of the organization.
10) All employees especially the managerial and supervisory staff get opportunity to learn and get used to the planning and control process and work according to plan.

11.4 Essentials of Good Budgetary System

The following are the essentials of a good budgetary system:

1) Management support: The budget process must have total commitment and support of all the top executives of the organization in successfully implements the same to achieve the predetermined objectives.
2) Organizational goals: Lone-term and short-term organizational goals and departmental goals must be clearly stated, responsibilities and authority must be properly defined and delegated in order to reap maximum benefit as per the digest. Departmental goals must not conflict with either the management's goals or with goals of lonely other department.
3) Proper accounting system: A proper accounting system supported by prompt and periodic reports to enable monitoring and control of all activities is necessary so that actual performance and comparison of with the budgeted performances can be. Effectively done.
4) Policies: Budgetary planning must also be supported by well defined policy statements to pursue to pursue budgetary goals with our any chaos, confusion and complication.
5) Participation: All concerned with and entrusted with and entrusted with implementing the budget must be involved in formulation of budgetary proposals in order to ensure in order to ensure and complications.
6) Continuous monitoring: The budgetary implementation and performance must be continuously monitored, periodically reviewed, if found necessary, whenever unexpected and undesirable trends are observed, in order to take timely measures to correct the situation.

7) Flexibility: Budgetary preparation is based on forecasting of future events. and us such, there is always possibility of unforeseen circumstances arising, causing concern in the implementation of the budget/at some stage or the other. Therefore the budget must be flexible to provide for periodic review and adjustment, to overcome obstacles in achieving the objectives.

11.5 Types of Budgets

Budgets can be classified on the basis of the following:
1) On the Basis of time
2) On the Basis of Functions.
3) On the Basis of Flexibility.

1) On the basis of Time: The budgets classified the Basis of time arte as follows

a) Long term budgets: These budgets are concerned with planning the operation of the business over A Perspective of Five to Ten Years. They Are Usually Prepared In Terms Of Physical Quantities.

b) Short-term budgets: These budgets cover a period of year or two and arc in the nature of production plans in monetary terms. They are prepared on the basis of current routine administration. Covers a short period of a month or more but lesser than 12 months depending upon the current conditions and circumstances to enable required adjustments t to overcome problems arising on account thereof.

2) On the basis of functions: These are normally departmental budgets based on the functions of each department such as:

a) Sales budget: It is prepared with the objective of achieving sales targets for sale of each product amt service on the basis of sales forecast.

b) Selling & distribution budget; It is prepared to estimate the cost of selling and distribution of goods and services.

c) Marketing & market research budget: It is prepared to estimate cost of exploring the potential market for products and services and to sustain the market demands.

d) Production budget: lf is prepared to cover the estimated cost of production on the basis of and so on sales. It covers all the production cost relating to machinery & equipments, raw material requirements, overhead cost, labour cost of production and so on.

e) Purchase budget: It is prepared to cover all the cost of purchases including the purchase of raw material (ingredients) as well as indirect material such as gas. fuel, water, oil etc.

f) Experimental kitchen budget: It is prepared to cover cost of research functions, cost of experimentation with new recipes, overheads, payrolls of research personnel and soon.

g) Administrative budget: It is prepared to cover cost of recruiting, training, induction and maintaining the employees, (heir payroll and other expenses.

h) Cash budgets: This budget is prepared to cover estimated sources of cash receipts and cash payments. It takes into consideration receipts of cash against safes and services as against the anticipated payments for a specific period.

i) Capital expenditure budget: It involves planning long-term investment for long-term benefits and will comprise of the cost of acquiring long-term assets such as land, building, plant and machinery equipments and appliances, furniture and fixtures, air-conditioning plant and exhaust systems and so on and cost of installing such assets and putting them in operating or usable conditions. It also includes Other expenses incurred in relation to acquisition of assets, formation of the business organisation prior to commencement of trading or manufacturing activity of the business, including expenses in the nature of working capital to meet the routine expenses during the initial period of operation till the organization starts generating revenue on sale of goods and services.

j) Operating budget: It relates to anticipated revenue against rooms sales, food sales, beverages sales and other sales during a specific period, and the expenses in respect of the same during that period. Operating budgets cover sales budgets together with cost of sales. These are concerned with income and expenditure of the business. They arc prepared for various revenue and non-revenue generating departments, showing the estimated revenue of each revenue earning department, the estimated cost of operating and the estimated profit or loss of each such department, and the limit of operating expenses of each non-revenue generating department. The operating budgets of all departments of the organisation when combined into one will form a consolidated budget of the entire organisation.

Integration of all the above mentioned functional budgets and sectional budgets of the entire organisation into a consolidated budget of the entire organisation revealing the income and expenditure of the entire organisation and is referred to as a Master Budget.

3) On the Basis of flexibility: On the basis of flexibility, budgets are classified as follows:

a) Fixed budgets: Budgets wherein the objectives tire fixed and are rigid or static in the nature, as they are based on more accurate forecast of events and are usually prepared for a short-term of say 3 to 6 months are known as fixed budgets. Therefore, the period being short, lesser or no possibility of changes is anticipated to require flexibility, fixed budgets are prepared for one level of output at a more profitable rate.

b) Flexible budgets: When budgets are prepared on the basis of forecast for a longer period, accuracy of predicted results cannot be guaranteed and there can be greater possibilities of unforeseen circumstances and conditions arising during the long budgeted period, in order to be able to effect required changes in the budgeted estimates necessitated by unexpected or unforeseen circumstances to adapt to changed conditions, flexibility is maintained in the budget whereby figures can be changed and major discrepancies avoided. Thus, flexible budgets are advantageous, over rigid or fixed budgets when it is difficult to forecast future sales, cost and expenses with greater accuracy and certainty. Flexible budget is desired to change with the level of activity actually attained.

Key factor in budgeting: Every organization directs efforts in maximum utilisation of available resources but sometimes non availability of the required resources are limiting factors which defy management controls and pose problems as they exert influence on the volume of output at a given time. The key factor in hotels comprise of number of rooms, number of covers, seating capacity of the restaurants, occupancy percentage of rooms, quality management, raw material, consumer demand for rooms and food, trained personnel and so on. it is, therefore, necessary to ascertain the influence and the effects of such key factors on the output, sales revenue and profits of the organization. Key factors are the constraints on managerial actions and limits output. When the limiting or key factor is in operation and if the decision to ensure profitability is to be taken, contribution of each product and service is divided by the key factor to select the most profitable alternative. The management will, thus, select that product or service which will reveal more contribution per unit of key factor.

Approaches to budgeting : Approaches to budgeting are methods used to prepare budgets in organizations having various departments or units. There are basically two approaches to budgeting. They are :

a) Top-Down Budgeting: As per the top-down budgeting approach, the organizational or the corporate budget is prepared first. This budget is then passed down to the lower levels with each department or unit preparing its own budget in order to be in line with the corporate budget. Thus, the departments or sections or units prepare their own budgets to achieve the targets set out or defined in the organizational budget.

b) Bottom-Up Budgeting: This is the most common method used for budgeting. Under this approach, the departmental or sectional or units budgets are prepared first and later integrated to form the organizational or rporate budget. This kind of a budgeting approach has a better acceptance due to the participation of the lower level management in the budgetary process.

11.6 Steps for Preparation of a Budget

The following are the preliminary steps involved in the preparation of a budget:

1) Specification of oranizational goals: Broad objectives of the business must be stated, expressing the mission, vision and ethical tone of the organisation to serve as a guide to the managers to take correct an- independent decisions within this frame work.

2) Creation of budget centres: The organization must be divided into different sections or divisions known as budget centres, specifying independent objectives for each such budget centre, which are clearly defined for the purpose of control. Budget for each budget centre is referred to as a departmental budget.

3) Preparation of organization chart: An organization chart defines the functional responsibility of each member of the management. Each member is aware of his position in the organization and his relation with" other members of the organization. It is a diagrammatic representation of the management structure revealing the vertical hierarchy as well as horizontal relationship of one another in the organizational set up, for effective management and control.

4) Establishing budget committee: In big organizations budget committees are formed for the purpose of formulating budgets. In small organizations, preparation of the budget may be entrusted to the Accountant under the control of the management. A budget committee usually consists of senior executives and departmental heads under the chairmanship of either the Chairman or the Managing Director of the organization. The functions of the budget committee are preparation of the budget which is best suited to the organization for submission to the board of Directors, monitor the performance of each section of the organization on the basis of the budget and periodically review the system and procedures to make them more effective for efficient utilisation of the available resources. Preparation of a budget committee ensures greater participation in the budgetary process.

5) Preparation of budget manual : Budget manual is a document setting out responsibilities of those engaged in budgetary control. It may contain standardised forms for routine inputs and procedural compliance of budgetary control. It usually contains a description of the budget and its objectives, procedures and measures to be adopted in operating the system, duties and responsibilities of the concerned persons and reports and statements required for periodic reviews.

6) Determining key factors: It is necessary to assess the influence of key factors to ensure that budgets are reasonable and capable of fulfillment. They are also referred to as limiting factors. These governing factors and are of prime importance. Often room sales, good sales and other sales are considered as- key factors but there are numerous other factors, which exert influence on the budgetary outputs and performances.

7) Determination of budget period : One of the precondition in formulation of budget is the determination of length of period of its operation. Normally the financial year is taken as budgetary period unless otherwise specified. Budgets for shorter period are more accurate than those for longer periods since accurate forecasting for longer future period is difficult

8) Level of activity: It is essential to determine the level of normal activity which the organisation can reasonably be expected to achieve. This is decided after considering the prospects of improving the net probability of a product. The budgetary preparation must

start- with the expected activity level, capable of attainment by efficient working under existing conditions.

9) Patronage from top management: True success of budgetary activities, impetus and direction depends upon the involvement and patronage of the top management, without which, it will be difficult for the budget executives to bring around stubborn managers in their line of thinking. All activities, right from the start must reveal the involvement of top executives in. the budgetary process to give impetus to successful implementation of the budgetary proposals.

11.7 Summary

In this unit, we:

- Understood the meaning and importance of budget
- Studied the objective of maintaining a budgetary control
- Stated the types of budgets and the advantage of budgets
- Elaborated on the steps in preparation of a budget

11.8 Further References

- Holden, Andrew (2005) Tourism studies and the social sciences, Routledge Publisher, Oxon pp 25-26
- Geoldnes, R. Charles, Ritchie, Brent J.R.(2006) Tourism Principles, Practices, Philosophies(10th edition), Wiley India,New Delhi pp 53-57
- Tewari, Jatashankar (2009) Front office operations, oxford University press, new Delhi.pp 369-371
- Bhatnagar, Sunil(2002)Front Office Management, Franks Bros. & Co,New Delhi.pp 483-487

11.9 Suggested Readings

- Tewari, Jatashankar (2009) Food & Beverage Service, oxford University press, new Delhi.
- Andrews, Sudhir(2008) Text book of Front office Management & operations, Tata McGraw Hill, New Delhi

11.10 Terminal Questions

Q-1 What are the different types of Budges?
Q-2 Why is budgeting Important?
Q-3 Briefly discuss various steps involved in Budgeting?
Q-4 What are the essentials of budgets?