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Page 2 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

Table of Contents

Acknowledgement.....	2
Table of Contents.....	3
Acronyms.....	4
Introduction.....	5
Unit one: Understand basic accounting.....	6
1.1.2 Importance of accounting.....	7
1.1.3 Users of Accounting Information.....	12
1.1.4 A T- Account.....	13
1.2 Understand Concepts and principle of bookkeeping.....	14
1.3 Collect financial information efficiently and effectively.....	18
1.3.1 characteristic of accounting information.....	19
1.3.2 Hotel financial statements.....	19
1.3.3 importance of hotel financial statements.....	19
1.3.4 Types of hotel financial statements.....	20
1.4 Classifying organizational accounts.....	29
1.5. steps to analyzes an effective financial statement.....	29
1.5.1 night audit.....	32
1.5.2 Night audit process.....	33
1.6 Checking errors accurately on documents and journals.....	33
1.6.1 debits and credits in accounting context.....	32
1.6.2 the purpose of a journal entry.....	34
1.6.3 types of journal entries.....	35
Self-check#1.....	38
Unit two: Maintain daily financial records.....	38
2.1 Maintain financial records.....	41
2.1.1 Types of record keeping.....	41
2.2 Manage discrepancies and correct errors in document.....	42
2.2.1 Understanding and Management Discrepancies.....	42
2.2.2. How can accounting Errors affect the business.....	43
2.3 Communicate transactions with concerned persons.....	46
2.4 put credit and debit transactions accurately in journals debit.....	50
2.5 Sort credit card and direct debit.....	51
Unit three: Monitor cash control	55
3.1 Ensuring cash flow.....	56
3.1.1 Methods to improve your cash flow management.....	58
3.2 Receiving payments.....	58

3.2.1 Benefits of Payment Processing.....	59
3.3 Collecting and follow outstand accounts.....	60
3.3.1 Outstanding Reservation Accounts.....	60
3.3.2 The difference between outstanding invoices and overdue invoices.....	62
3.4 Checking payment document to dispatch creditors.....	63
3.5 Reconciling expenditure and revenue.....	64
3.5.1 Importance of Expenditures.....	66
3.5.2 Approaches of Expenditures.....	66
3.5.3 challenging of expenses reconciling	67
3.5.4 Purpose of a bank reconciliation statement.....	67
3.5.5 steps to do a bank reconciliation.....	68
Reference.....	72

Acronyms

GAAP-General Accepted Accounting Principle

DR- debit card

CR-credit card

AP- account payable

CPAs- Certified public accountants

KPIs- key performance indicators

VAT - Value added tax

VPOs- Visitor Paid Outs

COGS- Cost of goods sold

TPS- transaction processing system

MCO- Miscellaneous Charge Order

ARC- Airlines Reporting Corporation

VTL -Visitors' Tabular Ledger

A- asset

E- equity

L- liability

CL- current liability

LTL- long term liability

TA-total asset

TCA-total current asset

CA- current asset

FA- fixed asset

CL- current liability

TL- total liability

TLL- total long term liability

TCL- total current liability.

TTLM- Teaching, Training and Learning Material

Page 5 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
--------------	---	----------------------------------	---

Page 6 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

Introduction

Define accounting, collect financial information efficiently and effectively, understand concepts and principle of bookkeeping, classify organizational accounts, analyze business transaction, check errors accurately in documents and journals to transpose, maintain financial records, identify discrepancies and correct errors in document, communicate transactions with concerned persons, put credit and debit transactions accurately in journals, sort credit card and direct debit, ensured cash flow and receive payments.

Module units

- Understand basic accounting
- Maintain daily financial records
- Monitor cash control

Learning objectives of the Module

At the end of this session, the students will able to:

- Defining accounting
- Collecting financial information efficiently and effectively
- Understanding Concepts and principle of bookkeeping.
- Classifying organizational accounts.
- Analyzing business transaction.
- Checking errors accurately in documents and journals to transpose.

Module Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks

Page 7 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

Unit one: Understand basic accounting

This learning unit is developed to provide the trainees the necessary information regarding the following content coverage and topics:

- Defining accounting
- Understanding Concepts and principle of bookkeeping
- Collecting financial information efficiently and effectively.
- Classifying organizational accounts.
- Analysing business transaction.
- Checking errors accurately on documents and journals.

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Define accounting
- Understand Concepts and principle of bookkeeping
- Collect financial information efficiently and effectively.
- Classify organizational accounts.
- Analyze business transaction.
- Check errors accurately on documents and journals.

1.1 Define and understand basic accounting

Accounting is defined as an information system concerned with collection, analysis and communication of financial information useful for decision-making. Used to exchange information among interested parties concerning the financial performance, financial position and related issues of an organization, it is also commonly known as the “*language of business*”.

1.1.1 Importance of accounting:

Accounting is a business language that aids in making business decisions. It plays a crucial function in aiding all economic activities in various industries. Without accounting, business owners and managers would not know which items were successful or which judgments were correct. They'd receive a notion of how much to pay in taxes, how much money they need for the future initiatives, whether to lease or buy an asset and an accountant's help and also aids investors in determining the effectiveness of their money or economic resources. It is an important part of the total information system of an organization.

Hotel accounting is important because by recording and monitoring cash flows both in and out, you can better forecast for the future, have a more realistic idea of your hotel's projected costs, and ensure that yearly budgets are maintained. Hotel accounting allows you to track cash flows, budget more adequately, manage payroll, and be sure your hotel is complying with local tax laws. It's perhaps one of the most important areas of the hotel in order to ensure profitability and to make data-driven decisions. It is fundamental to the proper running of a hotel because it carries out key roles like financial reporting, budget management, payroll processing, expense tracking and financial auditing. These areas must be closely monitored in order to ensure the correct running of a hotel. The following below are main importance of accounting:

1. Purpose of Analysis/ Decision making -all business and financial decisions are based on a thorough examination of financial statements, a product of the accounting information system. Profitability, liquidity, efficiency, and other metrics are derived from the accounting information system's data.

2. Record Keeping- If records are not properly kept and acted upon, no economy will thrive. Accounting is one of the most used methods for keeping records. Data is received from diverse sources, collated, processed, analyzed, interpreted, and conveyed to end-users to make informed

Page 9 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
--------------	---	----------------------------------	---

economic decisions that will provide positive results in the long run. Countries can organize their economic activity in part because of the important data obtained through various accounting types (using statistical tools). Governments make fiscal and monetary policy decisions based on company records.

3. The Prevention and Detection Of Fraud- fraud can only be detected and prevented in an environment with effective internal controls. accounting information systems are the only effective and efficient ways to keep track of this.

4. Funding and Loan Application- can't appropriately describe your financial situation, you won't be able to receive a loan from a financial institution. As a communication medium, accounting has widely accepted formats that financial institutions and banks utilize as a foundation for assessing a company's risk.

5. Building Credit and Reputation- Building a strong accounting information system in a firm can improve reputation and corporate credit scores. Any organization that has an accounting system in place, it is believed, will be efficient in all other elements of corporate operations.

6. Providing Forecast Insights - when analyzed, accounting information, which is a direct product of accountancy, provides significant business insights that can mean the difference between a successful and a failing company. These insights are then used to develop smart forecasts for the company's advantage.

7. Calculating Profit and Loss- the primary goal of any firm is to earn profit. It aids in the appropriate maintenance and determine the profit and loss of a business over a given period. It can determine the causes of an increase or decrease in profit or loss and it allows him to judge whether or not his company is operating efficiently.

8. Display of Financial Situation- desire to know a company's financial situation at the end of each year. The balance sheet can be used to determine the actual economic status of a hotel on a specific date. it summarizes the hotels assets and liabilities at the end of the year

10. Cost Control- maintaining cost accounts is critical for controlling product costs. The importance of costing for cost determination and control cannot be overestimated.

Page 10 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	-------------------------------	---

11. Tax-Finding- the income tax is calculated depending on the company's earnings Payment of income tax is a requirement for all businesses. Hotel should create accurate income statements using the scientific approach of transaction recording. The corporation can set the income tax rate for a specific period.

12. VAT Fixation- The worldwide VAT system has now been implemented in several nations. Hotels need to hold an account for a specific period to determine the amount of sales tax paid.

13. Preventing Fraud- with proper accounting, business man can avoid fraud. Maintaining accounts has a beneficial impact on employee morale, which reduces the risk of fraud and forgeries.

14. Making Decisions- for planning and decision-making, management requires many forms of data. Accounting provides them with the data they need to plan and make decisions. Accounting delivers exact data about a corporate organization. Financial accounting records are used to guide decision-making at all company levels. It may be as easy as finding out which provider is the cheapest.

15. Cost Trumps Control- the most effective method to grow a business is to cut costs. Business people can know the daily costs of their business by using an accurate accounting system. It aids in identifying access expenditures under specified headings, allowing appropriate controls to be implemented.

16. Taking on Debt- the corporation will frequently take out loans from banks or other financial organizations to conduct business. Before approving a loan, lending institutions want to examine a company's financial statement to ensure that the loan will be repaid on time.

17. Business Management - it provides additional information to help management run the company more efficiently in various ways.

18. Financial Performance- financial reports that quantify and measure a company's success and failure. Business can determine how much profit or loss their business has generated over time. Different aspects of business success can be measured using key performance indicators (KPIs).

Page 11 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	----------------------------------	---

19. Financial Situation- Owners, shareholders, investors, and creditors are all interested in a company's financial position. Financial accounting reports reveal a company's actual financial situation. These reports show the employer or investor the amount, assets and liabilities, profit and loss, and cash flow invested in the company. It also makes correct financial information about a company available to the government, tax agencies, and other regulatory bodies.

20. Liquidity- Poor financial management will disrupt many SMEs. It also tells you how much money you owe to others and how much money they owe you. when you're digging into the day-to-day operations of your business. The chance of bankruptcy or financial catastrophe is reduced when you use this knowledge to manage your obligations.

21. Financing- a company must show accurate financial records and estimates when approaching lenders or investors. it uses a data to assess the health of a company and determine whether lending money is worth the risk. Investors can also assess whether or not it is worthwhile to invest and how well their investment is performing. By delivering precise and dependable financial accounting reports, a company conveys its financial health and establishes credibility.

22. Keeping Track of Transactions- a business's transactions documents that to built on this day-to-day recording process at the basic level. It a patterns by comparing current data to historical data

23. Planning and Budgeting- to fund their operations, most small firms have a limited number of resources. Planning and budgeting are required to **anticipate** the business's resources accurately. Budgeting and planning are backed by financial transaction records that can use to anticipate and anticipate future trends. Financial accounting aids management in planning and allocating resources correctly for the short and long term.

24. Lenders and banks- able to exhibit your financial situation in good order to obtain any loan from a financial institution. Business needs a competent accounting system that can display different records such as income, assets, liabilities, taxes paid, etc. Before deciding to grant a loan, financial institutions will thoroughly examine them.

Page 12 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	-------------------------------	---

25. Profits Reporting- Profitability is the primary goal of any firm, small or large, every firm must maintain an accounting system to know how much money they are making on their transactions. It also allows interested parties to decide about the business productivity's advancement.

26. Cash Flow Management and Monitoring- Proper accounting systems will cover working capital and any other cash requirements within the corporate organization.

27. Accounting for Legal Purposes- In forensic accounting, investigations and audits are combined into one discipline. Governments and companies are the most common employers of accountants. Forensic accounting is not commonly used in households.

28. Accounting Auditing- auditing entails tracking and analyzing an organization's finances in great detail. Detailed audit, meticulous recording and analysis of your accounts can help you identify trouble areas in your household's finances.

29. Accounting in the Public Interest- Certified public accountants (CPAs) are individuals or firms who perform various accounting services for clients. Tax preparation, audits, tax counseling, and consultancy services are part of public accounting.

30. Accounting for the Government- the type of accounting that the average person is least likely to use is government accounting. It entails a collection of policies, rules, and procedures that assist governments in meeting the requirements of their constituents. Because government accounting is closely tied to government institutions, it is subjected to a high level of scrutiny.

31. Reconciliation- ensures that all of your charges are correct using reconciliation.

1.1.2 Users of Accounting Information

Accounting seeks to satisfy the needs of a wide range of users. In relation to a particular business, there may be various groups of users which are likely to have an interest in financial aspects of it. The major users of financial information are commonly grouped as *internal* and *external* users.

Page 13 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	-------------------------------	---

A. Internal users: are mainly management personnel of an organization who have direct involvement and control over and who are responsible for the day-to-day affairs of the organization. They need and use the financial information to make decisions and plans for the business activities including finance, human resource, production and marketing, and exercise control to try to ensure that plans come to fruition. Management people use accounting information to:

- Formulate long-, medium- and short-term plans
- Control and evaluate operation and performance, and
- Make other major decisions related to financing and investment, product costing and pricing, selecting product mix and allocating scarce resources.

B. External users: on the other hand, refer to users outside an organization who are not directly involved in the day-to-day affairs of the organization but have some interest in the financial and related affairs of the organization include:

Existing and potential owners/investors- who want to assess how effectively managers are running the business and to make judgments about the likely levels of risk and return associated with investment in the business and decide to invest or de-invest.

Existing and potential suppliers and creditors- who need to assess the ability of the business to pay for goods and services supplied or to be supplied to it and to meet its obligations when due.

Potential employees (non-managers) and labor unions - that need to assess the ability of the business to continue providing them with employment opportunities and better reward for services they rendered or may render to the organization.

Government agencies- who need to assess how much tax the business should pay, whether it complies with approved pricing policies, protect the public from excessive price charges by monopolies, and so on.

Existing and potential customers - who want to assess the ability of the entity to continue in business to supply them with the necessary goods and services and to know their outstanding balances.

Investment analysts and consultants- who want to assess the likely risks and returns associated with investment in an organization in order to determine investment potentials and advise their clients accordingly.

Page 14 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

Community representatives- who need to assess the ability of the entity to continue providing employment opportunities for the community, use community resources, to support environmental improvements and so on.

Competitors- who need to assess the threat posed by the business to their market share and profitability, and need for a benchmark by which to compare efficiency and performance.

1.1.4 A T- Account

A T account (or general ledger account) is a graphical representation of a general ledger account. The general ledger is an accounting report that sorts and records a business' financial transactions, by account.

A T account is identified as a T account, simply because it visually resembles the letter T.

T-accounts get their name from their shape. A T-account looks like the letter “t.” Each T-account has a heading at the top identifying what account it belongs to. The body of a T-account is split into two columns. The left side is the debit column and the right side is the credit column. Each T-account is totaled at the bottom. Transactions are posted to each T-account just like writing a journal entry and as displayed below:

Account Name	
Debit Entry	Credit Entry

1.2 Understand Concepts and principle of bookkeeping.

Bookkeeping refers to the art of recording, in a prescribed and systematic way, the economic activities of an organization. It is routine and clerical in nature. Accounting, on the other hand, goes beyond bookkeeping and is concerned with

- **Designing** accounting and reporting systems
- **Recording** economic activities

- **Preparing** reports and statements
- **Interpreting** reported information and
- **Reviewing** records and reports for their accuracy.

Bookkeeping Should Know below:

Cash:- The account where all business transactions pass. This is an important account that often bookkeepers use two journals, cash receipts and cash disbursements, to track the activity.

Accounts Receivable:- If your business sells products or services and you don't collect money immediately, then you have receivables. This account tracks the money due from customers. This needs to be kept up-to-date so you can send accurately and timely invoices.

Inventory:- The account where your account for all of the products you have in stock. The numbers you have in your books should be tested by doing physical counts of inventory on hand.

Accounts Payable:- The account that allows you to see what money is leaving or has left the business - and when. This account gives you a clear view of everything you need to pay and makes sure that you don't pay anyone twice.

Loans Payable:- The accounts which tracks and breaks down everything that you still owe and when payments are due for anything that you've borrowed.

Sales:- The account where you track all of your incoming revenue from sales transactions. This is another important account, as recording sales accurately and in a timely manner helps to know where your business stands.

Purchases:- The accounts where you track any materials or goods that you have bought for your business. This is a key component of calculating Costs of Goods Sold which you subtract from Sales to find your business' gross profit.

Payroll Expenses:- The account where you track salaries and wages paid to your employees. This is often the biggest cost of all for many businesses. Keeping this accurate is essential for meeting tax and other reporting requirements.

Retained Earnings:- This account tracks any of your company's profits that are reinvested in the business and aren't paid out to the owners. The earnings here are cumulative, so they appear as a running total of money that's been retained since the company started. It's a good way of tracking how well your business has done over time.

Balance Sheet:- A report which breaks down your business' financial situation. It includes the assets, liabilities and the capital of the business. Its purpose is to help show what your business owes and owns.

Page 16 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

Chart of Accounts: - A full list of accounts used in your business to categorize financial transactions. This can include assets, liabilities, equity, income and more.

Expense: - This is the fixed, variable, accrued or day-to-day costs that a business may incur through its operations.

Trial Balance: - A business document where all ledgers are compiled into debit and credit columns. This is to make sure a company's bookkeeping system is mathematically correct.

Profit and Loss: - A financial report which shows the revenue and expenses over a period of time.

Ledger accounts or Manual billing system

Ledger: -It's posting, balancing and closing of accounts practice on posting entries.

The main accounts of the hotel, administered by the accountant will include:

- A Sales Ledger (recording amounts owed and paid by each of the hotel's credit customers or debtors).
- A Purchases Ledger (recording amounts owed and paid to each of the hotel's suppliers or creditors).
- A Main or General Ledger (recording all the various income and expenditure, assets and liabilities of the hotel).

Types of ledger in 'accounts receivable' that heading of owe the hotel:

1. The **Guest Ledger:** - recording all debit and credit transactions made by registered guests of the hotel, that is, charges incurred and payments made.

2. **The City Ledger-** a functions organizer may put down a deposit on a banquet. A local company may keep an open account at the hotel for entertaining / accommodating visiting clients. A business traveler may have her bill paid for by her company, which has a credit account with the hotel. A tourist may have prepaid a travel agent, who will be invoiced later by the hotel for the amount. All these transactions are examples of amounts owing by credit customers who are not themselves registered guests with the hotel.

City Ledger recording all amounts 'receivable' from or owed by-non-registered guests who use the services of the hotel on credit terms.

3. **The tabular (guest) ledger-** in a tabular guest ledger, there is a page for each day, with a number of 'tabs' or labeled columns, identifying where transactions will be entered.

Page 17 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

4. Horizontal tabular ledger, the tabs/columns list the various types of charges across the page:

Debit: are charges and **Credit:** is payment

Debit charges to the guest's account (amounts the guest owes) are grouped on the left hand side. It include columns for the room charge, breakfast, lunch and dinner (split into separate amounts for accounting purposes, even if the rate reflects inclusive room-plus-meals terms), bar charges, telephone, mini-bar, newspapers, sundries and Visitor Paid Outs (VPOs) - plus a column for the total of all these debit charges.

Credit charges - to the guest's account (that is, amounts the guest has paid) are grouped on right-hand side. This would typically include columns for:

Cash or payments, under which are entered any deposits, pre-payments or part payments made on the day. 'Cash' is a shorthand term for 'bankable' forms of payment such as cash, cheques, traveler's cheques or credit cards. If the hotel wishes, the cash/payments column can be subdivided accordingly.

Credits or allowances, under which are entered any refunds made by the hotel, or credits made to cancel out wrongly posted charges or over-charges.

Ledger, which covers arrangements by which the hotel has claimed or will claim back an amount from someone else after the guest's departure: e.g... a group organizer, company or travel/booking agent, and some credit card companies, such as American Express and Diners Club, which require the hotel to send a statement to the card company to obtain payment. The ledger column may be subdivided into Ledger Received (for payments already obtained by this means) and Transfer to Ledger (for payments which need to be transferred to the City Ledger for future payment).

A balance carried forward to the **next day** where relevant. If the debit charges are equaled by the credit charges on a given day, there will be a zero balance to carry forward - and this should be the case for a guest who has paid his final bill! If the debit charges do not equal the credit charges, the balance will be inserted as the starting balance for the following day's sheet.



Sleepers: _____ Date: <u>1 August 2007</u>							
ROOM NR.	112	114	118	121	123		
NAME	Jones	Smith	McDonald	Scott	Holmes		
	H. Mr	S. Mrs	P. Mr.	B. Mr.	A. Mrs		
RATE	EP	CP	CP	CP	EP		
	£80 (2)	£90 (1)	£90 (1)	£90 (2)	£70 (1)		DAILY TOTAL
Brought forward	120-	90-	150-				360-
Accommodation	80-	80-	80-	80-	70-		390-
Breakfast		10-	10-	10-			30-
Luncheons					5-		5-
Dinners	20-	15-	12-	15-	12-		74-
Beverages					7-		7
Alcoholic Beverages	10-						10
Other Beverages		5-		5-			10
Telephones	3-		2-				5
V.P.O.					10-		10
Newspapers	1 50						1 50
Laundry							
TOTAL	234 50	200-	254-	110-	104-		902 50
Cash	100-						100-
Allowances	Paper 1 50						1 50
Ledger							-
BALANCE c/f							801-

In a vertical tabular ledger, the columns represent the room numbers - and the rows represent the different categories of charges: debit charges at the top, and credit charges at the bottom: This format may be used to prepare the guest bill at the same time as the tab, by having billing stationery in the same format, and using carbon paper (or no-carbon-required document sets), so that as entries are written onto the tab, they are duplicated on the bill.

1.3 Collect financial information efficiently and effectively

1.3.1 How to collect financial information in hotel effectively

As a hotel operator, staying on top of your finances is essential to the long-term profitability of your business. With the right financial information at your fingertips, you can make sound decisions for your hotel, fine-tune your business strategies, deal with any red flags before they become bigger problems and drive sustainable growth. As an information system, process of collecting, analyzing and communicating information, it involves the following steps:

Identifying - tracing and collecting recordable economic activities. Accounting does not record and report all economic activities of an organization. Rather, it records and reports only those economic activities of the organization which can be expressed in terms of money.

Analyzing and Measuring - This involves determining whether the economic activities bring changes (increase/decrease) assets, liabilities, capital, revenues, and/or expenses (these terms will be defined in subsequent sections) of an organization and expressing the changes in monetary terms.

1. **Recording** - make, in a systematic way, a record of the effects of economic activities on assets, liabilities, capital, revenues and expenses.

2. **Classifying** - grouping recorded effects of economic activities into meaningful classes.

3. **Summarizing** - gathering and arranging data needed for preparation of reports and statements.

4. **Reporting** - preparing statements and reports in a manner that suits the need of users so as to communicate information useful for decision making.

5. **Interpreting** - provide explanation on reported information so that users can understand and use the information as a basis for decision making.

Page 20 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	-------------------------------	---

1.3.2 Characteristic of Accounting Information

Accounting information is mainly quantitative expressed in monetary terms. To be useful for decision making, accounting information should be

- **Reliable** - represent facts, neutral, free of material errors and bias.
- **Relevant** - highly related to and make a difference in decision.
- **Understandable** - users with a reasonable knowledge of accounting and economic activities should be able to easily understand and interpret the information.

Reliability, relevancy and understandability are commonly called the qualitative characteristic or attribute that make accounting information useful for decision-making.

1.3.2 Hotel financial statements:

There are various types of hotel financial statements, and each one is designed to provide insights into a specific aspect of your business.

This guide walks through everything you need to know about financial statements for hotels: what they include, why they're important, common types of financial statements and what key insights they can provide. Information about the financial activities of your hotel as we'll cover in more detail below.

Generally speaking, though, financial statements cover information about the incomings and outgoings of your business. This can give you a clear picture of your past, current and predicted future performance.

1.3.3 Importance of hotel financial statements

Financial statements are a critical component of running a profitable and sustainable hotel. They can tell you things like:

- Whether you're making enough hotel revenue
- Whether that revenue is translating into hotel profits
- How much you're spending on operational expenses and overheads
- Whether you have enough cash on hand to pay the bills.

Page 21 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

Financial statements can help

Operations: - Financial statements can be used to review the efficiency of your hotel operations and make necessary adjustments to processes, staffing, etc.

Investments: - You use financial statements to figure out if you have the appropriate funds and financial standing to invest in new areas for your hotel.

Credit and loans: - Lenders will ask for financial statements to determine if your hotel is financially stable enough to receive a loan.

Marketing & pricing: - Analyzing financial statements can indicate whether your hotel's marketing and pricing strategies are bringing in enough revenue, and whether you need to adjust your approach.

1.3.4 Types of hotel financial statements

There are several different hotel financial statements you can use to look at different aspects of your business. Here are some of the most common types to be aware of.

A. Hotel income statement

A hotel income statement, also known as a profit and loss statement, P&L statement, statement of operations or statement of earnings, tells you how much money (revenue) your business brought in and how much of a profit you earned from that revenue over a particular period.

Simply put, a hotel income statement shows you how much money your hotel is making, and how much you're losing. You can use an income statement to analyze your profits and losses over any time period you like, but they're most commonly created for a month, quarter or year.

Hotel income statement used for:

A hotel income statement gives you a general overview of how your business is performing financially over a specific period. This can be helpful for:

- Setting prices for your rooms or services (to maintain a healthy profit margin)
- Looking at how your expenses are affecting your net profitability
- Understanding whether you're bringing in enough of a profit
- Fine-tuning your sales and marketing strategy

Elements of a hotel income statement

There are three main elements of a hotel income statement:

1. Revenue

Page 22 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

Revenue, also called sales or income, covers any money received from operating your hotel. This includes income from:

- Rooms
- Food & beverage
- Entertainment
- Guests services such as massages and spa treatments

2. Expenses

Expenses include all your outgoings, such as:

- Cost of goods sold (COGS)
- Rent or mortgage
- Staff wages
- Utilities
- Franchise fees, if applicable
- Property taxes and insurance
- Debts
- Marketing and advertising expenses

3. **Net profit** - is calculated by subtracting all your expenses from your revenue.

Hotel income statement example

Here's an example of a simple, hotel income statement:

PROFIT & LOSS STATEMENT			
HOTEL NAME	START DATE	END DATE	
ABC Hotel	01/07/2014 E.C	03/07/2015 E.C	
INCOME			
REFERENCE ID.	DESCRIPTION	AMOUNT	
A1	Guest reservations	65000	} +
A2	Food purchase	9000	
A3	Event	17000	
A4	Others	7300	
INCOME TOTAL=98300			
LESS SALES RETURNS / ALLOWANCES		7562,	(Means allowance & related account or -v)
(enter “-” negative amount)			
TOTAL REVENUE		90738,	(Means 98300-7562=90738)
EXPENSES			
REFERENCE ID.	DESCRIPTION	AMOUNT	

R1	Utility	2100	}	+
R2	Maintenance	1760		
R3	Depreciation	2950		
R4	Staff wages	25400		
R4444-5349	Insurance	1650		
R4444-5350	Legal Fees	780		
R4444-5351	Advertising	1850		
R4444-5352	Supplies	475		
Profit and loss statement				
R4444-5353	Other	850		
EXPENSE TOTAL		=37815		
NET INCOME BEFORE TAXES		60485,	(Means- 98300-37815=60485)	
TAX RATE (enter %)		10.00%		
INCOME TAX EXPENSE		6049,	(Means - 60485÷10 = 4049)	
NET INCOME		54437,	(Means- 60485-6049=54437)	

B. Balance sheet for hotels

A balance sheet, also called a statement of financial position, summarizes all of your hotel's business assets (what you own) and liabilities (what you owe).

In a nutshell, a balance sheet shows you how much money you would have left over if you sold all your assets and paid off all your debts at a particular point in time. This is known as your equity.

The formula for calculating your equity is as follows:

Equity = Assets – Liabilities

What is a hotel balance sheet used for?

Like an income statement, a balance sheet provides a picture of the financial health of your hotel. By **analyzing** a **balance** sheet, you can **assess** whether you have **borrowed** too much money, whether your assets can be converted into cash quickly if needed (i.e. if they're liquid) and whether you have enough cash on hand to cover expenses.

Balance sheets are also used to secure business loans and funding from private investors.

Elements of a hotel balance sheet

The three main elements of a hotel balance sheet are as follows:

1. **Assets**- cover everything you totally own, which **includes** **tangible** and **intangible** items such as:

- Property
- Equipment

- Furniture
- Food & beverage inventory
- Other inventory
- Cash
- Vehicles
- Intellectual property
- Trademarks and patents

2. **Liabilities**- cover everything you owe, which includes items such as:

- Short-term and long-term loans
- Accrued bills such as mortgage/rent and utilities
- Staff wages owed
- Taxes owed

3. **Equity**- is the **combined** value of all your hotel's assets after deducting your liabilities.

Hotel balance sheet

Examples of hotel balance sheet:

Balance sheet for ABC Hotel

	Date	
	2014 E.C	2015 E.C
Current assets		
Cash	21506	20000
Petty cash	200	200
Account receivable	5013 +	5000 +
Inventory	20887	21000
Prepaid expense	1098	1100
Total	= 48704	= 47300
Fixed assets		
Property and land	150,000	150,000
Renovations/improvements	20,000	12,000
Furniture and fit-out	28,777 +	30,777 +
Vehicles	32,513	32,513
Equipment/tools	21000	18000
Total	= 252,290	= 243,290
TOTAL ASSETS	= 300,994	= 290,590

Current/short-term liabilities

Credit card payable	7,523	6,000
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Account payable	18,237		18,000
interest payable	450	+	380
Accrued wages			
Income tax	10,087		9,870
Total	= 36,297		= 34,250
Long-term liabilities			
Loans	148,222	}	146,231
Equipment finance	48,000		46,500
Total	196,222		192,731
TOTAL LIABILITIES (TCL + TLL=36297 + 196222=232519)	232,519		226,981
NET ASSETS (NET EQUITY) (TA-TL=300994-232519=68475)	68,475		63,609
WORKING CAPITAL	12,407		13,050

Accounting Equations:

Description:- E- equity A- asset L- liability CA- current asset FA- fixed asset
 CL- current liability LTL- long term liability TA-total asset TCA-total current asset
 TFA- total fixed asset TL- total liability TLL- total long term liability TCL- total current liability.

C. Cash flow statement for hotels

A cash flow statement shows how much cash is going in and out of your hotel over a specific period. This is known as your cash flow.

Having enough cash on hand to pay the bills and buy goods and assets is an essential part of hotel management. A cash flow statement can tell you whether you're likely to run into any issues in this area.

Cash flows statement - is summarizes how a company's cash and cash equivalents have changed during the same period of time as the company's income statement.

The statement has three sections in which to report the change in cash:

1. Cash flows from operating activities
2. Cash flows from investing activities
3. Cash flows from financing activities

Some of the details for the three sections of the statement of cash flows include:

1. Cash flows from operating activities- begin with the net income reported on the income statement and then add back the amount of depreciation expense. The reason is that depreciation expense had reduced the net income but the depreciation entry did not reduce the company's cash.

There are also adjustments for losses and gains as well as the changes in accounts receivable, inventory, accounts payable and other current assets and current liabilities.

2. Cash flows from investing activities-This section list the amounts spent on capital expenditures (property, plant and equipment), long-term investments, and other noncurrent assets. It also lists the cash received from the sale of long-term investments, property, plant and equipment, and other noncurrent assets.

3. Cash flows from financing activities- This section lists the amounts received from issuing debt and stock as well as the amounts spent to retire debt, buy back shares of the company's stock and the amount paid in dividends.

Hotel cash flow statement used for:

A cash flow forecast tells you how much cash you have coming into and going out of your business. With this information, you can make necessary adjustments to improve your cash position, such as cutting expenses, finding new hotel revenue streams or changing your pricing and marketing strategies.

At the other end of the spectrum, if you have a cash surplus, you can consider investing back into your hotel through upgrades and renovations, hiring staff or expanding your operations.

Elements of a hotel cash flow statement

The two core elements of a hotel cash flow statement are as follows:

1. Cash incoming

This covers all the main cash-generating activities of your business, such as room bookings, food and beverage sales and other sales.

2. Cash outgoing

This includes all the expenses related to running your hotel, including loans, wages, fees, interest and other costs.

Your cash balance is calculated by subtracting the total of your cash outgoing from your cash incoming.

A cash flow statement can be used to you:

Page 27 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

- Have enough cash to cover expenses
- Need to make adjustments to your pricing or marketing strategies
- Can afford to upgrade or renovate
- Can hire new staff (or need to reduce headcount)
- Should consider borrowing some money

Cash flow for ABC Hotel

	July	August	September
Opening balance	\$85,000	\$88,450	\$105,099
Cash incoming			
Sale	67000	64399	66500
Asset sale	1200	0	0
Debtors receipts	2500	2800	1300
Loans	1400	1500	1300
Total incoming	72100	68699	69100
Cash outgoing			
Purchases (stock etc)	10000	5700	8500
Accountant fees	800	0	500
Advertising and marketing	2000	0	2000
Bank fees and charges	100	150	120
Interest paid	100	150	120
Utilities (electricity, gas, water)	6700	3000	2500
Telephone	500	600	500
Rent & rates	10000	10000	10000
Motor vehicle expenses	2000	2000	2000
Repairs and maintenance	6000	0	0
Licensing	250	250	300
Insurance	1200	1200	1200
Income tax	5000	5000	5000
Wages (including PAYG)	24000	24000	24000
Total outgoing	68650	52050	56740
Monthly cash balance	3450	16649	12360
CLOSING BALANCE	88450	105099	117459

1.4 Classifying organizational accounts

Page 28 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

There are different classes of accounting which are Financial Accounting, Cost Accounting, and Management Accounting. All they have their own characteristics and use. Further, they have different results as well as recording and maintenance. Let us understand elaborately the classification of accounting. These can include asset, expense, income, liability and equity accounts **but**

Hotels accounts are classified according to the hotel size, location, target markets, levels of service, facilities provided, number of rooms, ownership and affiliation etc. Besides these classifications hotels are often classified with the Star, Diamond or Crown system, depending on geographic location.

A. Financial accounting:- is a process of recording, summarizing, and reporting various transactions that occur over a period of time during the course of business.

It gather and convert all the daily transactions into financial statements, balance sheet, income statements, and cash flow statements. Financial accounting uses a bunch of accounting principles and contains different rules and assumption set out for the preparation of financial statements.

B. Cost accounting- is a process of recording, summarizing, analyzing, and allocating the cost over the process of manufacturing a product or providing services.

It helps management to determine the cost involved in manufacturing a product or services by use of different cost accounting method. Cost accounting is acts as a controlling tool.

Elements of cost accounting like:-

- Material
- Labor
- Other expenses

Different Types of Cost

1. Fixed Cost
2. Variable Cost
3. Semi-variable Cost
4. Opportunity Cost
5. Sunk Cost

1. **Fixed cost**- means cost does not vary with the quantity of production, like Salary or fixed wage.
2. **Variable cost**- varies with a change in the quantity of production like material cost and labor cost will increase with the increased level of production.
3. **Semi-Variable Cost**- contains two elements of costs one is fixed and another one is variable. In this type of cost fixed part remains the same up to a certain level of production but changes after crossing that certain level and variable varies with the changed level of production.
4. **Opportunity cost**- is the cost of not earning profit from the opportunity of manufacturing a new product and sale due to limited resources. Or we can say with the limited resources an organization has to forgo profit of the other product in addition to the existing.
5. **Sunk cost**- is the cost with cannot be recovered once occurred like for producing certain product machinery is required and purchased. Now, we cannot recover the cost of machinery whether we carry out production or not.

C. Management Accounting:- is helps managers to make and implement business policies for better results. They use financial accounting information for this purpose. Management accounting is a different analysis tool for analyzing accounting information and to draw out best for the organization. Segregation of these tool under four heads according to their nature for the better understanding:

1. Based on Financial Accounting Information
2. Based on Cost Accounting Information
3. Based on Mathematics:
4. Based on Future data information

1.5 Analyzing business transaction.

Analysing is a process in which detailed line items in a financial transaction or statement are carefully examined for a given account, often by a trained auditor or accountant. An account analysis can help identify trends or give an indication of how a particular account is performing.

Page 30 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

Steps to Analyzes an effective financial statement

Step1. Identify the industry economic characteristics.

First, determine a value chain analysis for the industry—the chain of activities involved in the creation, manufacture and distribution of the firm’s products and/or services. Techniques such as Porter’s Five Forces or analysis of economic attributes are typically used in this step.

Step2. Identify company strategies.

Next, look at the nature of the product/service being offered by the firm, including the uniqueness of product, level of profit margins, and creation of brand loyalty and control of costs. Additionally, factors such as supply chain integration, geographic diversification and industry diversification should be considered.

Step3. Assess the quality of the firm’s financial statements.

Review the key financial statements within the context of the relevant accounting standards. In examining balance sheet accounts, issues such as recognition, valuation and classification are keys to proper evaluation. The main question should be whether this balance sheet is a complete representation of the firm’s economic position. When evaluating the income statement, the main point is to properly assess the quality of earnings as a complete representation of the firm’s economic performance. Evaluation of the statement of cash flows helps in understanding the impact of the firm’s liquidity position from its operations, investments and financial activities over the period—in essence, where funds came from, where they went, and how the overall liquidity of the firm was affected.

Step4. Analyze current profitability and risk.

This is the step where financial professionals can really add value in the evaluation of the firm and its financial statements. The most common analysis tools are key financial statement ratios relating to liquidity, asset management, profitability, and debt management/coverage and risk/market valuation. With respect to profitability, there are two broad questions to be asked: how profitable are the operations of the firm relative to its assets—independent of how the firm finances those assets—and how profitable is the firm from the perspective of the equity shareholders. It is also important to learn how to disaggregate return measures into primary impact factors. Lastly, it is critical to analyze any financial statement ratios in a comparative manner, looking at the current ratios in relation to those from earlier periods or relative to other firms or industry averages.

Page 31 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

Step5. Prepare forecasted financial statements.

Although often challenging, financial professionals must make reasonable assumptions about the future of the firm (and its industry) and determine how these assumptions will impact both the cash flows and the funding. This often takes the form of pro-forma financial statements, based on techniques such as the percent of sales approach.

Step6. Value the firm.

While there are many valuation approaches, the most common is a type of discounted cash flow methodology. These cash flows could be in the form of projected dividends, or more detailed techniques such as free cash flows to either the equity holders or on enterprise basis. Other approaches may include using relative valuation or accounting-based measures such as economic value added.

Night Audit

Since hotels operate 24 hours a day, seven days a week, the front office must regularly review and verify the accuracy and completeness of its accounting records. An audit process performed in the night is intended to fulfill this need.

The audit is a daily review of guest account transactions against revenue center transactions, which helps guarantee the accuracy and thoroughness of front office accounting. The audit also includes active non-guest accounts. A successful audit will result in balanced guest and non-guest accounting, and timely reports to management.

Functions of the night audit:

The chief purpose of the night audit is to verify the accuracy and completeness of guest and non-guest accounts against departmental transaction reports. Specifically, the night audit is concerned with the following functions:

- Verifying posted entries to guest and non-guest accounts.
- Balancing all front office accounts.
- Resolving room status discrepancies
- Monitoring guest credit limitations
- Producing operational and managerial reports

Night audit process:

Page 32 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	-------------------------------	---

The audit process points out errors and corrections on daily basis. Although this process traditionally is done during night yet in a computer based organization the auditing is done every minute.

The night auditing involves following steps in sequence.

1. Complete outstanding posting.
2. Recognize room status discrepancies.
3. Balance all departments
4. Verify room racks
5. Verify no show reservations
6. Post room rates and taxes
7. Prepare reports
8. Deposit cash
9. Backup system
10. Distribute reports

1.6 Checking errors accurately on documents and journals.

A journal is a book of raw business transactions recorded in chronological order by date. It is the first place a transaction is recorded. The amounts are then posted to the appropriate accounts such as accounts receivables, cash accounts or asset accounts.

A Journal consists or Entry:

Each journal entry contains the data significant to a single business transaction, including the date, the amount to be credited and debited, a brief description of the transaction and the accounts affected. Depending on the hotel, it may list affected subsidiaries, tax details and other information.

It's crucial to accurately enter complete journal data so that the general ledger and financial reports based on this information are also accurate and complete. With modern accounting software, recurring journal entries may be templated and automatically executed, minimizing the potential for **error**.

Page 33 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	----------------------------------	---

Journal entries are made in chronological order and follow the double-entry accounting system, meaning each will have both a credit and a debit column. Even when debits and credits are linked to multiple accounts, the amounts in both columns must be equal.

For example, say a company spends \$277.50 catering lunch for employees. The expenses account increases by that amount, while the cash account, which is an asset, decreases by \$277.50 because that money is now spent.

1.6.1 Debits and Credits in accounting context

Debits add to expense and asset accounts and subtract from liability, revenue and equity balances, while **credits** subtract from expense and asset balances and add to liability, revenue and equity accounts.

In accounting, the basic principle is the same: An adjusting journal entry to account for the accruing interest on a bank loan will debit the Interest Expense account and credit the ***Accrued Interest Payable account***.

1.6.2 The Purpose of a Journal Entry:

The purpose of a journal entry is to physically or digitally record every business transaction properly and accurately. If a transaction affects multiple accounts, the journal entry will detail that information as well.

For example, say our catering purchase incurs both state and local taxes. That compound journal entry might look like this:

Journal Entry contains multiple data points but generally included:

- A header, which is a descriptor of the entry type, and the date entered in the journal;
- A unique numerical identifier or reference number;
- One or more accounts and amounts that will be **debited** by the transaction and the date(s) these debits are made;
- One or more accounts and amounts the transaction will **credit** and the date(s) these credits are made; and
- A brief description of the transaction.

Page 34 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

1.6.3 Types of Journal Entries:

1. Opening entries

These entries carry over the ending balance from the previous accounting period as the beginning balance for the current accounting period. For example: The ending balance of the Cash account on the balance sheet from the previous accounting period was \$11,000 after all liabilities were paid for the period. That balance of \$11,000 is now the opening entry for the current accounting period.

2. Transfer entries

Transfer entries move, or allocate, an expense or income from one account to another. For example, MyToys Manufacturing transfers cash from its main account to a subsidiary. A transfer journal entry accounts for the transfer of the money from one account to another. No third party is involved in these entries, and transfers must always net zero.

3. Closing entries

These entries mark the end of an accounting period at a balance that can then be transferred from a temporary account to a permanent one, or from one accounting period to the next. In the case of temporary accounts, the closing entry zeros out the account, and any balance above that is transferred to another, more permanent account. The temporary account is then closed.

Examples of temporary accounts include expense and loss accounts; revenue, income and gain accounts; income summary accounts; and dividend or withdrawal accounts. In the case of accounting periods, the closing entry reflects the ending balance for that account at the end of that accounting period. That value is then transferred as the opening entry for the next accounting period. In that case, it is the accounting period for that account, which is closed.

Page 35 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

4. Adjusting entries

Adjusting entries are entries that record changes to accounts that are not otherwise accounted for in the journal, in compliance with the accrual method of accounting. These entries are entered in the general ledger at the end of an accounting period as per matching and revenue recognition principles. Common examples are accruals, deferrals and estimates.

An **expense accrual** refers to an expense reported in an accounting period before it is actually paid. An example is electricity used by a plant in the month before the utility issues a bill for the company to pay.

A **revenue accrual** relates to work that has been performed or products that have been delivered but for which the customer has not been invoiced.

An **expense deferral** occurs when a payment is made in an accounting period prior to when the expense is actually incurred. An example is a payment made now for insurance that covers the following six-month period. **Deferred revenue** applies when a company receives payments in advance for services or products that are to be delivered in the future.

5. Compound entries

These entries record more than one account to be debited or more than one account to be credited. The rule of journal entry requires the total of debits and credits to be equal, but the number of credits and debits do not have to be equal. For example, there may be one debit but two or more credits, or one credit and two or more debits, or even two or more credits and debits. For example, Payroll may entail a large number of journal entries, which can be simplified into compounded form as a summary.

6. Reversing entries

Reversing entries are made at the beginning of a new accounting period and serve to reverse, or undo, an adjusting entry made at the end of the previous accounting period.

Page 36 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

This option provides a significant reduction in accounting errors due to double-counting expenses or income and increases efficiency in processing actual invoices in the new accounting period. In other words, they are used to simplify bookkeeping. For example, an accrued expense reported in the previous accounting period can be reversed so the expense can be accounted for in the accounting period in which it was paid, without worrying about reporting the expense twice.

Page 37 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

Self-check#1

I. say true or false:

1. Asset Accounts normally have a credit balance? false
2. Expense Accounts normally have a debit balance? true
3. Profit is the amount that a business's expenses exceed revenues? false
4. The only users of financial information are the owners of a business? false
5. Cash, inventory, supplies, and buildings are examples of liabilities? False

II. Choice the best answer for the following question:

1. Which financial statement displays the revenues and expenses of a company for a period of time?
 - a. balance sheet
 - c. income statement**
 - b. cash flow statement
 - d. statement of stock holder equity
2. Which of these is not included as a separate item in the basic accounting equation?
 - a. revenue**
 - c. liability
 - b. asset
 - d. stock holders equity
3. Which of these is not included as a separate item in the basic accounting equation?
 - a. revenue**
 - c. asset
 - b. liability
 - d. stock holder or equity
4. The account format that displays debits, credits, balances, and headings?
 - a. ledger
 - c. general Journals
 - b. T-account**
 - d. general ledgers
5. Asset accounts have what type of balance?
 - a. debit**
 - c. contract
 - b. credit
 - d. all of the above
6. Which account is not a liability account?
 - a. account payable
 - c. accrued expense
 - b. cash**
 - d. notes payable
7. Which account increases equity?
 - a. expense
 - d. treasury stock
 - b. revenue**
 - c. withdrawal

8. Which of the following is part of the recording process?

- a. Analyzing transactions
- b. Entering Transactions in a journal
- c. Posting journal entries
- d. All of the above

9. Debits

- a. increase both assets and liabilities.
- b. decrease both assets and liabilities.
- c. increase assets and decrease liabilities.
- d. decrease assets and increase liabilities.

10. Accounting provides data or information on

- a. Income and cost for the managers
- b. Financial conditions of the institutions
- c. Company's tax liability for a particular year
- d. All the above

III. Give answer for the following questions:

1. Define the word accounting?

2. Explain the night audit process?

3. List Elements of a hotel balance sheet?

4. What is balance carried forward to the next day?

5. Classify the major users of financial information and explain them in high lightly?

Unit two: Maintain daily financial records

This learning unit is developed to provide the trainees the necessary information regarding the following content coverage and topics:

- Maintaining financial records.
- Managing discrepancies and correct errors in document.
- Communicating transactions with concerned persons.
- Putting credit and debit transactions accurately in journals
- Sorting credit card and direct debit

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Maintain financial records.
- Manage discrepancies and correct errors in document.
- Communicate transactions with concerned persons.
- Put credit and debit transactions accurately in journals
- Sort credit card and direct debit

2.1 Maintain financial records.

Financial records keeping are how you log, store and dispose of important financial information for your hotels. Keeping accurate and up-to-date records is vital to the success of your hotel. Good records help you to minimize losses, manage cash, meet any legal, regulatory and taxation authority requirements and improve financial analytics.

Records are:

- source documents, both physical and electronic, that show transaction dates and amounts
- contracts and other legal documents
- Private customer and business details.

Benefits of good financial record keeping:

- protect your business
- measure your performance
- maximize profits
- plan and work more efficiently
- generate meaningful reports
- meet legal and tax requirements
- protect your rights
- Manage potential risks.

2.1.1 Types of record keeping

A. Electronic record keeping - An electronic record-keeping system, such as accounting software, makes it easier to capture information, generate reports, and meet tax and legal reporting requirements.

B. Manual record keeping- use a simple, paper-based record-keeping system.

How long to keep records- keep your records for a certain period. The length of time will depend on the type of record and your business type or industry.

Keeping your records secure and private- new technologies make it easier to access, transmit and misuse personal information. pay particular attention to securing online and electronic records also develop a privacy policy and train staff to implement it.

Page 41 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	-------------------------------	---

Legal information- you collect and keep customer records, you'll need to protect and respect your customers' privacy.

2.2 Manage discrepancies and correct errors in document.

2.2.1 Understanding and Management Discrepancies

Discrepancy management is the process that systematically addresses discrepancies generated within a business activity. Correcting and managing discrepancies ensures that the data is complete, accurate, and compliant with the business activity protocol. The integrity of the information in your accounting system is only as good as the data you enter and this means including an item in the appropriate account, applying the correct description or code for the item, and entering the correct amount. Unfortunately, accounting errors can result from simple mistakes or misunderstanding accounting rules.

Common hotel accounting:

Errors Data entry errors- Data entry errors are mistakes that are made where and how items are entered (or not) in your accounting system. Some common data entry blunders include:

- Entering items in the wrong account.
- Transposing numbers.
- Leaving out or adding a digit or a decimal place.
- Omitting or duplicating an entry.
- Treating expenses as income or vice versa.

Error of omission- is simply a failure to record an item. It's not intentional; it's just overlooked. For example, an invoice is paid but you fail to note receipt. Or you purchase a tablet but don't record this in your accounting system. Also happen easily if you misplace documentation—a receipt or invoice—so that it never gets recorded.

Page 42 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	-------------------------------	---

Error of transposition- is recording the incorrect amount of an item by reversing numbers. It can cause overstating or understating the amount of an item, which is the result of transposing a number.

Error of duplication- This occurs when you enter the same item of income or expense more than once. For example, such an error can happen when more than one person has access to the accounting system and each makes the same entry.

2.2.2. How can accounting Errors affect the business

Accounting errors may be minor or substantial. Either way, they can have serious consequences:

- **Incorrect income reporting.** Incorrect expense reporting can distort a company's computed operating profit margins or could result in over-reporting of income.
- **Incorrect cash flow information.** If items are not reported correctly, it can overstate or understand the amount of cash on hand to pay bills.
- **Incorrect expense reporting.** Misclassification or failure to include business expenses may result in the failure to report a deductible expense. It can result in overpaying taxes.
- **Increased labor costs.** Correcting classification mistakes on the back end is time-consuming for employees already busy with year-end reporting.
- **Late payment fees.** When misclassification errors are discovered later in the accounting cycle, invoices may be past due and result in additional fees and interest.
- **Improper matching of income and expenses.** Misclassified expenses may cause incorrect reporting for companies using accrual accounting. Expenses should be properly matched with the income they generate. If expenses are classified in the wrong month or year, this will not happen as it should.
- **Detecting fraud.** It's unfortunate that employee fraud, including embezzlement, can occur at any business. When items don't match up, it can indicate that something is wrong and more investigation is required.

Prevent accounting errors- Being careful with your financial information is the first line of **defense** in ensuring that items are properly classified and entered correctly on your books. Here are some steps you can take to facilitate sound accounting entries.

1. Train staff on data entry accuracy:- make sure employees who are entering expenses into your accounting system understand your accounts and descriptions and explain fully system. Offer software training for employee and set company policy on documentation procedures so entries can be made properly and accurately. Make sure there's someone knowledgeable in accounting entries who can answer questions when they arise.

2. Don't overload your employees- overloaded with work can more easily make simple entry errors than if they were given adequate time to handle this activity. Your accounting stays current and that you don't fall behind and consider ways in which to simplify and improve data entry and avoid errors, such as the use of expense report software to easily import data into your accounting system.

3. Utilize the newest accounting software- Use the latest version of your accounting system. Software and cloud versions are continually being improved to simplify the entire accounting process.

4. Implement internal controls - Put practices in place that can help to detect and correct accounting errors. Conduct bank reconciliations every month so you can catch a problem and the error doesn't leave on your books. The same goes for credit card statements. Review them monthly to ensure charges have been entered correctly in your accounting system.

5. Check for differences between the budget and actual expenses - Use your accounting system to keep you on the right financial track. budget show a certain amount of money is to be spent on a particular item or activity, but the entry doesn't match up. Comparing your actual expenses to the amount you budgeted can help you discover a misclassification (or at least an explanation for the differences).

6. Conduct a periodic professional review of accounts- to review periodically your accounts to make sure that they appropriately reflect the expenses you incur and comply with general accounting acceptance principles (GAAP).

7. Adopt best accounting practices and standards- Don't delay your staff and Set deadlines for data entry and reconciliation so that errors are found quickly and can easily be corrected. Understand and incorporated into your accounting system.

Page 44 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

2.3 Communicate transactions with concerned persons.

Hotel Transactions- A transaction processing system is a computerized system that performs and records the daily routine transactions necessary to conduct business. Processing or system might include basic business operations such as hotel bookings, purchase orders, receipts, time cards, invoices, and payroll checks in a hotel. Sales order entry, hotel reservation systems, employee record keeping, and shipping. A transaction processing system (TPS) is a type of information system that collects, stores modifies and retrieves the data transactions of an enterprise.

Guest Bill Communication Methods

Speed and accuracy in preparing and maintaining of guest account is very important so as to avoid any late charges. This is possible only when there is very effective communication system between the billing section and sales outlet. Depending upon the type of hotel the communication methods can be:

1. **Manual;** in small hotels, a bell boy or a waiter or a person from the department where sale has taken place rushes to the billing counter for entry into the guest folio.
2. **Mechanical;** Some medium or large sized hotels have pneumatic tubes (pressure suction tubes) for sending signed vouchers of the guest from the department or outlet selling the service or commodity to the billing counter.
3. **Fully automated system:** from the point of sale terminal (POS) the entry is made to the centralized computer server where the guest folio is updated and stored. This method is very efficient and convenient and is widely used today in almost all the medium sized and large hotels.

Financial transactions are generally of three types:

1. **Accounts Receivable:** When a guest goes to the bar or restaurant (and consumes drinks or food) or avails laundry facilities, or makes telephone calls, etc., and does not pay cash but signs a voucher (an undertaking that he agrees to the specified amount and shall pay later) and also the room charges etc. are all examples of financial transaction where amount is to be received by the hotel from the guest (guest has to pay) and these are

Page 45 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	-------------------------------	---

called 'accounts receivable for the hotel. Any 'returned checks and charge backs' (may be his previous skipper account) etc. are also examples of the same.

2. **Accounts Payable** These are those transactions where the guest pays to the hotel against his outstanding; for example, he pays against his bill amount in part or full. Also this type of transaction would include any allowances or discount given by the hotel to guest and a transfer amount, etc. Such transactions are not very common usually. Such financial transactions will reduce the outstanding balance to be paid by the guest.
3. **Cash Transaction:** Cash Transaction means that the guest pays cash to the hotel. For example, when a guest goes to a bar or restaurant and is served with drinks or food and then presented a check for the same, he pays cash for that check. Such transactions neither increase nor decrease the guest's outstanding balance.

Types of vouchers and payments to guarantee

- This system also protects the guest because the hotel agrees to ensure that a room will be kept for the guest, even if that guest arrives later than expected.
1. **Prepayment:** requires that a payment in full be received prior to the guest's arrival. I.e. the guest sends full payment for the room in advance. From the perspective of the front office; this is the most desirable form of guaranteed reservation.
 2. **Credit card:** the credit card number of the guest is recorded and if the guest fails to turn up, the hotel will bill the cardholder in the normal way. This is most common form of guaranteed reservation. The credits can be decrease the outstanding balance b/se credits are payments.
 3. **Advance deposit (partial prepayment):** the guest sends a specified amount of money in advance (normally to cover one night's accommodation). This form of deposit is usually required for group booking or long-stay guests. If the guest fails to show or cancels their booking on the actual day of arrival, the hotel may retain the deposit as compensation.
 4. **Contractual agreement:** this is normally involves a corporation where the company has agreed with the hotel to pay for an agreed number of rooms regardless of whether or not they are used.
 5. **Travel Agent:** under a travel agent guaranteed reservation, travelers pay the travel agent in advance for their transportation and room charges and the travel agent guarantees the client

Page 46 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

`s reservation. In the case of no- show, the hotel generally bill the travel agency for payment and the travel agent must then collect from the guest. These have become less common since both travel agents and hotels prefer the protection provided by credit card or advance deposit guarantees whenever possible. Hotel to day generally accept travel agent guaranteed reservation from only the largest and most financial responsible agencies.

6. **Voucher or Miscellaneous Charge Order (MCO):** another type of travel agent guarantee is the travel agency voucher or Miscellaneous Charge Order (MCO). The MCO is a voucher issued by the Airlines Reporting Corporation (ARC) and is controlled by many of the same travel agency regulations that control airline tickets. Many resorts prefer MCOs if they must accept vouchers because ARC guarantees Payment if the travel agency default on the payment. With travel agency vouchers and MCOs, the guest has prepaid the amount of the deposit to the travel agent. The agent forwards a voucher or MCO to the hotel as proof of payment and a guarantee the prepaid amount will be sent to the hotel when the voucher is returned to the travel agency for payment. Usually With vouchers and MCOs, the travel agency deducts its Commission before sending payment to the hotel.

Preparing of Documents

Documents are those where the financial transactions of the guests are recorded, as it is humanly not possible to always remember all the transactions made by all the guests. Various documents are generated during the process of guest accounting.

The types of documents generated also depend upon the system used, but some documents will always be there no matter whatever system is followed.

1. Vouchers:- are also called checks. A document to detail transactions at point of sales and meant to transmit transactional information to front office of guest charges which need posting. When a guest consumes some services / facilities / goods of the hotel from any of its departments or sections, the concerned department prepares the voucher. This is a support document of the financial transaction. When the guest signs the voucher / check for the amount of goods / services consumed by him the voucher is sent to the front office bill clerk to be posted to the guest account card / guest folio.

Commonly used vouchers in hotels are cash voucher, charge voucher, transfer voucher, allowance voucher, check out voucher, credit card vouchers, paid out vouchers, etc.

Page 47 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

2. Folios:- is a document which is initiated at the time of arrival of the guest normally and all guest transactions are recorded on it, which increase or decrease the balance of account. This is also called as 'guest accounts card' and is prepared for every guest and room. In some hotels, it is also called guest weekly bill. All accounts receivable, payable and paid out transactions are entered in this document. The information about the value, time and date and the place of financial transaction is communicated by the concerned section / department through signed voucher /check). Following are the different types of folios that are used by the hotels.

Individual guest account card or folio:

Maintained to record transaction made by individual or independent guest with the hotel is also called as guest folio.

Group folio: One folio for the whole group and this folio is required for recording all the transactions made by the group (which are part of the package of the group). This is also called as 'Master Folio'.

Semi-permanent or Non-guest folio: In this folio the credit financial transaction made by nonresident guests with the hotel are recorded.

Also known as 'city account card' or 'non-resident guest account card'.

Employee folio:- As the name suggests the financial transactions (if any) made by the employees are recorded in this folio. These folios help in calculating incentives to the employees.

Permanent / Companies / Airlines / Agents folio: Separate folios are maintained for all the companies, agencies and organizations with which the hotel has permanent billing arrangements.

3. Postings:- is the process of recording transaction on the folio. Posting will result in a new balance of account. The posting may be done by handwriting method (manually) by machine such as NCR (semi-automatic system) or through computers (fully automatic system).

4. VTL (Visitors' Tabular Ledger) is also called the 'tab' by some hotels. It is another document used in small hotels. It shows debits and credits activities of the guest account.

5. Account Aging Report: A document telling and supervising the receivable account from the guest which has aged over a specific period of time. Account aging refers to the method(s) of tracking past due accounts based on the dates the charges were incurred. To illustrate, credit card payment accounts usually have ages of maximum one month. However, some other non-guest accounts (eg. late charges, disputed bills, and bad cheques and skippers accounts) might have ages measured in months, and even years.

Page 48 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

Below, is the terminology associated with each account age:

- Less than 30 days Current Accounts.
 - 30 to 90 days Overdue Accounts.
 - Older than 90 days Delinquent Accounts.
- 6. Sales Journals:** A document which records cash sales of a department
- 7. Cash Receipts:** A document issued by the cashier to the guest when the cashier receives payment from the guest and then entered in cash register receipt ledger.

2.4 Put credit and debit transactions accurately in journals Debit

A debit (DR) is an entry made on the left side of an account. It either increases an asset or expense account or decreases equity, liability, or revenue accounts

Credit

On the other hand, a credit (CR) is an entry made on the right side of an account. It either increases equity, liability, or revenue accounts or decreases an asset or expense account. Credit and debit accounts

Record accounting debits and credits for each business transaction. When you record debits and credits, make two or more entries for every transaction. This is considered double-entry bookkeeping.

When recording transactions in your books, you use different accounts depending on the type of transaction. The main accounts in accounting include:

- **Assets:** Physical or non-physical types of property that add value to your business (e.g., land, equipment, and cash).
- **Expenses:** Costs that occur during business operations (e.g., wages and supplies).
- **Liabilities:** Amounts your business owes (e.g., accounts payable).
- **Equity:** Your assets minus your liabilities.
- **Revenue/Income:** Money your business earns.
- Accounting credits and debits affect each account differently.

A debit- is an entry in the accounting system that denotes a reduction in liabilities and an increase in assets. Talking about fundamental accounting, the entries are classified into two different segments, debits and credits. Debits are always balanced by credit entries. Debit is known as an entry in accountings. It is basically an entry that records an amount that is recorded on the left-hand side of the accounts. Debit in an account shows an addition to the account of assets or expenses. In other words, debit denotes a reduction in a liability account. In an accounting system, debit is denoted by the abbreviation, "dr" . All the debits in a double entry system, such as bookkeeping, all the entries of debit are balanced by the credit.

Check out our chart below to see how each account is affected:

Account	Increased by	Decreased by
Asset	Debit	Credit
Expense	Debit	Credit
Liability	Credit	Debit
Equity	Credit	Debit
Revenue	Credit	Debit

2.5 Sort credit card and direct debit

Credit card: - A credit card is a financial instrument issued by banks with a pre-set credit limit, helping you make cashless transactions. Credit cards are a great way to build credit and can provide expanded buying power. The card issuer determines the credit limit based on your credit score, credit history and your income.

Credit cards let you borrow money from a bank under the agreement that you'll repay it by your bill's due date or incur interest charges.

The ability to buy now and pay later outmatches other forms of payment, such as debit cards or cash, which both require you to have the money available for payment at the time of purchase.

Common credit card terms

Credit cards come with dozens of terms that determine what fees you can incur from using your card. Here are the most common terms:

- **Annual fee-** the fee cardholders are charged every year for holding a credit card.

Page 50 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	----------------------------------	---

- **Balance transfer APR-** the interest rate for balance transfers, which may be equal to or greater than the purchase APR.
- **Balance transfer fee-**transferring debt from one card to another may cost you 3% to 5% per transfer.
- **Cash advance APR-** the interest rate you incur if you take out a cash advance, which is often one of the highest APRs you can be charged.
- **Cash advance fee-** the fee you're charged for each cash advance, usually 5%.
- **Foreign transaction fee:** Purchases made outside the U.S. may incur a fee per transaction, usually 3%.
- **Late payment fee:** When you pay your credit card bill late, you may incur a fee up to \$40.
- **Minimum payment:** The smallest amount of money you have to pay each month to keep your account current. (Learn how making only minimum payments on credit card debt could cost you thousands and take over a decade to repay.)
- **Purchase APR:** The interest rate you incur for new purchases that aren't paid in full every billing cycle.

Direct Debit- is an instruction from you to your bank, authorizing someone to collect payments **from your account** when they are due. You give this authorization by completing a Direct Debit Mandate form – this can be a paper form or a web page that you complete online. Once authorized, the organization can automatically take payments from you (provided that they comply with the scheme rules). it can also be used for one-off payments.

Direct Debit:- payments be used for most payments but below are some examples of where it's used most often:

1. Regular bills for variable amounts - With Direct Debit you know all your important bills will be paid on time each month.
2. Fixed subscriptions or memberships - Direct Debit is the safest and easiest way to make recurring payments like magazine subscriptions or gym memberships.
3. Paying on account – Some organizations will provide Direct Debit as an option for spreading your costs or paying on account.

Importance of Direct Debit method rules:

- Advance notice - You must be told the amount and date of each payment in advance.
- Direct Debit guarantee - You are entitled to an immediate refund for any payments that shouldn't have been taken.

Benefits to making payments using Direct Debit:

- **Convenience** - Payments are automatic, so bills are never forgotten, lost or delayed.
- **Cost** - Businesses may offer incentives for paying by Direct Debit.
- **Customer Protection** – Direct Debit is the safest payment method.

Reasons to start using Direct Debit today:-

1. No more late payments:- Direct Debit you're in control – once authorized you can collect payments whenever they're due without needing your customer to do anything else. So no more follow customers for payments - they'll be on time every time.
2. Direct Debit reduces your admin time:- Once a Direct Debit has been set up the whole process can be automated. Payments can be automatically taken and tracked each month which significantly reduces the time needed to manage them.
3. It lets you set and forget:- If you're collecting fixed amounts at regular intervals, you can set up Direct Debit payments then forget about them as they'll automatically be taken each time they're due without you or your customer needing to do anything more.
4. Direct Debit is more cost effective than card payments:- Using the card networks usually costs around 3-5% per transaction. Direct Debit is typically much cheaper. Go Cardless only charges 1% per payment +20p, up to a maximum of £4 for domestic transactions.
5. It reduces payment failures:- roughly 3-5% of card payments fail each month due to card expiry or cancellation. Direct Debit payments use a customer's bank details, which rarely expire or change so failure rates are less than 1%.
6. Direct Debit is flexible:- Direct Debit, you can change the amount and frequency of payments without needing your customer to re-authorize. This means you can take variable amounts or increase prices whenever you need to without administrative aggravate.

Page 52 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	---	----------------------------------	---

7. It improves cash-flow:- late payments impact your cash flow as you won't know when to expect payments and therefore when you can pay your own bills or buy new stock. With Direct Debit, you'll always know when payments will be arriving so you can plan accordingly.
8. Direct Debit is great for recurring, variable and one off payments:- While Direct Debit is usually associated with regular and recurring payments, it can also be a great option for one-off payments (as long as you don't need the money immediately).
9. It's environmentally friendly:-using paperless Direct Debit is not only great for the environment (no more paper, printing or postage) but it also saves you time and money helping you to streamline your business.
10. Direct Debit is easy to set up and get started:- Direct Debit is often seen as just for big businesses or expensive and difficult to set up but with Direct Debit providers like GoCardless you can use Direct Debit no matter the size of your business or your income. In fact - with GoCardless you can get set up instantly and for free.

Page 53 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

Self-check #2

I. Give the answer for the following question as **true** or **false**:

1. Postings is the process of recording transaction on the folio.
2. Assets is physical or non-physical types of property that add value to your business.
3. Equity means your assets minus your liabilities.
4. A document telling and supervising the receivable account from the guest which has aged over a specific period of time is known as debit.
5. Maintained to record transaction made by individual or independent guest with the hotel is also called as guest folio.

II. **Choice** the correct answer for the following questions:

1. Which of the terms given below will be regarded as the book of original entry?
 - a. The trial balances
 - b. The general journal
 - c. The general ledger**
 - d. The payment and receipt account
2. Which of the following statements concerning journal entries are not correct?
 - a. The journal entries show the effect of transactions
 - b. The debited account titles are listed first in the journal
 - c. The account balance is a provided by the journal entries**
 - d. Each journal entry should start with the date
3. The journal transactions are recorded in which order?
 - a. The alphabetical order
 - b. The chronological order**
 - c. The increasing order
 - d. The decreasing order

III. Give **short answer** for the following questions:

1. explain advance deposit or partial prepayment?

-
2. List types of vouchers in hotel?
-

3. List Common credit card terms and explain them properly?

4. Define financial transactions and write it with explanations?

Page 54 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

Unit three. Monitor cash control

This learning unit is developed to provide the trainees the necessary information regarding the following content coverage and topics:

- Ensuring cash flow.
- Receiving payments.
- Collecting and follow outstand accounts.
- Checking payment document to dispatch creditors.
- Reconciling expenditure and revenue.

This unit will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Ensure cash flow.
- Receive payments.
- Collect and follow outstand accounts.
- Check payment document to dispatch creditors.
- Reconcile expenditure and revenue.

3.1 Ensuring cash flow

3.1.1 Definition of cash flow

Cash flow is the total amount of money that comes in and out of a particular period of time. It is a key indicator of the financial health of your business. A consistent, positive cash flow can help you pay expenses, invest in new opportunities, and grow your business. When you have negative cash flow, you can't afford to make those payments. The concept of having “enough money to meet your financial obligations” is also known as working capital.

Effectively cash flow management can use the following strategies to consider

1. Pay bills strategically:

Extend payables as long as possible and spread your payments. Don't pay all your business bills at the same time. This can drain your cash and potentially jeopardize your relationships with suppliers if you are unable to pay. Instead, review bills, sort according to priority, and stagger payment dates so the most important bills — such as rent and payroll — are paid first. Payments that are less important and more flexible can be made later. However, be sure to pay on time to avoid late charges. Also, check if you can receive discounts for paying any bills early, and then prioritize the ones that qualify.

2. Choose the right payroll cycle.

Structure your payroll to interconnect with your revenue stream and comply with wage and hour laws. Businesses that generate daily revenue, such as **restaurants** and retail, can more easily cover the cash needed for weekly payroll. But this can be a challenge for businesses with slower revenue streams, such as manufacturers or wholesalers, because cash doesn't come in as frequently. There may be a benefit to holding the cash to be paid less frequently than weekly, e.g. biweekly or monthly, provided applicable wage and hour law permits you to do so. Check with your state Department of Labor on any requirements for payroll frequency.

3. Negotiate your payments with suppliers.

Using suppliers with low prices may seem like the best way to improve cash flow, but flexible payment options can be more important than bottom-shelf pricing. Ask your suppliers about their payment terms and you be able to time your payments with your cash inflows.

Page 56 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

4. Collect receivables quickly.

Improve your cash flow by encouraging quick payment of receivables. These techniques can help you collect receivables faster:

- Request deposits from your customers when taking orders.
- Offer discounted prices strategically to move outdated inventory.
- Offer discounts to customers who pay quickly.
- Consider online invoices, as well as provide online payment options.

5. Manage your credit policies carefully.

Offer credit to customers, stand firm on your credit policies to make sure you get the cash you need. Attempts the following strategies:

- Send invoices promptly, verify they've been received, and follow up right away on late payments.
- Require a credit check for all new customers before extending credit.
- Monitor your accounts to identify late-paying customers and implement a cash-on-delivery policy for chronic offenders.

6. Use a business credit card.

Consider using a business credit card to pay for everyday expenses to free up cash. Then keep track of those expenses with online banking and your monthly statements. Also, take advantage of any rewards programs that can reduce your expenses, such as a certain percentage cash back on some purchases.

7. Consider a line of credit.

Having a line of credit provides quick access to funds when needed and can help maintain a balanced cash flow cycle. A line of credit can be used to bridge gaps between payables and receivables, buy equipment, cover seasonal or unexpected expenses, or to take advantage of growth opportunities.

8. Use technology to make and accept payments.

Accept online payments to collect receivables faster and use electronic fund transfers to automatically pay bills on the last day they're due. Positive cash flow is critical to your short- and long-term financial success. Make the most of your cash by monitoring expenses, collecting payments quickly, and using resources that can make your cash flow management more convenient.

Page 57 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

3.1.2 Methods to improve your cash flow management

1. **Stay on top of bookkeeping:-** bookkeeping matters is the single best way to understand all the financial transactions in your business, and you can't do the rest of the steps without it.
2. **Generate cash flow statements:-** you have an accountant, they can do this for you and use calculate your account by using software spreadsheets. You can analysis with cash flow projections to see how your decisions are impacting your future financial health.
3. **Analyze your cash flow:-** take the info from your cash flow statements and use it to understand how money is moving through your business.
4. **Figure out whether you need to increase cash flow:-** relying your credit card to make ends meet. These are signs you need to free up more cash flow.
5. **Cut spending where you need to:-** overspending can result from either covering unnecessary expenses or paying for expenses at unstrategic times. Cut overspending to increase cash flow.
6. **Speed up your accounts receivable:-** whether you're waiting on invoice payments from clients or deposits from payment processors, the faster you get money in your pocket, the more cash flow you'll have.
7. **Rinse and repeat:-** make analyzing your statements a regular part of your back office routine. The more you do it, the better you'll get at spotting opportunities to increase cash flow—and nip shortages in the bud.

3.2 Receiving payments

When customers make payments against invoices, you record the payments in the Receive Payments window. You can record the payments against one or more of the customer's outstanding invoices. If you don't want to create an invoice for a customer, you can enter the customer payment in the Receive Money window. You can also record payments from your customers in the Bank Register window. If you have several customer payments and don't want to record detailed information (such as payment methods and discounts) for each payment, the Bank Register window can save you time. Note that when you use the Bank Register window for customer payments, the entire payment is automatically allocated to the oldest invoices first.

Page 58 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

The amount used for payments and the available balance (amount in excess) in the **Total** section:

Amount Received: Total amount received from the customer.

Amount used for payments: Amount applied on the invoices.

Amount in excess: Any excess payment by the customer, i.e. the amount that is not applied on the invoices.

Add notes and attach files: for the payment. You can also send a thank you note to the customer for the payment.

Payment processing:- is a company that facilitates electronic payments (credit card, digital wallets, ACH) between a business and the bank. Essentially payment processors handle all of the backend logistics between merchants, banks, and credit card companies that enable businesses to accept payment.

3.2.1 Benefits of Payment Processing

Some advantages of the payment processing software will bring to your business

- 1. Convenience:** - is one of the main factors that influence conversion rate. The more steps a customer has to take to make a payment, the more likely they are to abandon their purchase and go elsewhere.
- 2. Speed:** - Payment processors can transfer most payments between shoppers and sellers instantly. On the other hand, transfers to and from bank accounts can sometimes take 24 hours or more.
- 3. Trust:** - Many payment processors are brands that are globally recognized. If a customer already uses payment software, they're more likely to trust your payment system.
- 4. Security:** - Payment processing companies add an extra layer of protection to online transactions. You can set limits, flags for activity on your account, and sometimes even a time frame to recall payments.
- 5. Record-Keeping:** - With payment processors, you'll have access to your account online and can manage your contacts, recurring payments, and other account activity via desktop or mobile.

3.3 Collecting and follow outstand accounts

Outstanding Accounts: - the meaning of Outstanding Balance Report in the hospitality industry. It contains all the listings of a guest's folios that are unpaid or due to be paid by a guest. This sheet is used to record the total charges and amount that needs to be paid by the guest on departure.

3.3.1 Outstanding Reservation Accounts

Balance outstanding accounts for Departed or Cancelled Reservations in RMS.

The Debtors Ledger is an interactive Financial Report that provides a comprehensive summary of all accounts with an outstanding balance.

Users can review this ledger to identify Reservation Accounts with an outstanding debit or credit balance.

The Debtors Ledger can be filtered to review Reservations with a status of 'Departed' or 'Cancelled' with an outstanding credit or debit account balance to be actioned.

Cancelled Reservations may appear on the ledger due to an outstanding deposit or accommodation charges remaining on the account.

Departed Reservations may appear on the ledger due to pending account queries, amendments to stay dates resulting in additional charges or a credit balance, an outstanding balance not transferred to Accounts Receivable or additional outstanding Sundry Charges.

Users can review the Debtors Ledger to identify outstanding accounts and perform additional accounting actions to balance as required.

Solution:- Cancelled Reservation with an Outstanding Credit Balance

Departed Reservation with an Outstanding Debit Balance

Right Ways to Collecting Outstanding accounts:- a hotel develop a proactive approach to collecting accounts so that you know which steps to take in the predictable event that a customer fails to pay a debt on time. Being knowledgeable and well prepared for the occurrence saves time and frustration and might be instrumental in preserving customer relations. Stick to a checklist to ease the process and complete all the necessary and legal steps.

1. Only Accept Cash or Credit Cards

To diffuse a potentially bad situation before it even occurs, make it so that customers can only pay in either cash or with a credit card. With both you get immediate payment and instantly know you've been paid in full. With a check, there's a chance it could bounce and do so a few days after the customer has already "paid for" your product or service.

2. Offer Discounts for Early Payments:

Another preventative measure you can take to settle accounts is to offer discounts for customers who pay in 10 days instead of 30 or more. Let customers know that late payments will result in penalties such as late fees and interest charges. Before you enact this policy, you'll first want to consult a reputable and experienced attorney to make sure your policy falls well within state and federal laws. You might also want to touch base with the attorney every year in case laws change from year to year.

3. Have a Process in Place

It's also best that you create an internal process for how you'll collect outstanding customer debts. Specifically, you'll need to decide when to take action and the type of action to take. This is another time when it's a good idea to ensure your policy is legal and in compliance with the law.

4. Include All Necessary Information in Contracts and Agreements

One reason a customer may fail to pay his or her debt on time is because your agreements and/or contracts don't contain the necessary details. Look over your contracts and agreements to see that they mention you're allowed to charge interest on overdue accounts and that you're able to recover attorney's fees and collection costs in the event accounts aren't paid on time. While there's a very good chance the customer won't read every single word of an agreement, he or she can't say the information wasn't available at the time of purchase.

Page 61 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
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5. Send Reminders

Some people are simply absentminded, and they may simply forget they owe you money. Send gentle letters reminding a customer of an overdue or upcoming payment. Such notes are usually the best option for small debts and times when talking with the person is unlikely to resolve the issue. Send a reminder a week or two before the payment is due so the person can start gathering the money.

6. Turn to a Collection Agency:

A last resort, you may have no choice but to turn the unpaid debt over to a collection agency. Know that this is a service you'll have to pay for. You can also look into small claims court or filing a lawsuit if the amount owed is a substantial one.

Having a process and strategy in place is always a good idea when collecting outstanding debts. Give your customers the chance to work with you, but make it clear that more extreme measures aren't something you'll rule out.

Accounts receivable collection tips to increase cash flow:

Accounts receivable software makes collections a less mundane and tedious activity. In fact, it enables you to make the right decisions around whom to talk to first, how to talk, and what to talk in collections calls.

Here're some new-age tactics that help in collecting accounts receivables faster.

Use data effectively

Information is the biggest asset in the digital age. Having all information about customers, their payment statuses and trends, and financial health is important to ensure successful payment collection. Having accurate customer data at your fingertips ensures successful client conversation devoid of any confusion or misleading info. Accounts receivable automation software helps you store all customer information in one place as a single source of truth. You can search the records for individual customers and filter by payment status, purchase details, etc. when contacting them for payment collections.

Be flexible in your payment terms

Many customers fail to pay because of cash woes at their end – sales might be bad or it might be a dull season. Check if restructuring their payment plan (e.g. making it Net45 instead of Net30) will help them. Or ask if they'd be able to make part payments or split payments. Your goal should be to get your due amount without affecting customer relationships. Putting too much

Page 62 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

pressure on a financially stressed customer to pay the whole amount immediately may even lead them to become delinquent, which is not in your best interests.

3.3.2 The difference between outstanding invoices and overdue invoices

The terms outstanding and overdue are often used interchangeably when describing the payment status of an invoice. But the two words are not synonyms and the difference is more than a semantic issue.

1. When an invoice is *outstanding* it means your client has not paid for a service but they are **yet to cross the deadline** to do so.
2. When an invoice is *overdue* it means your client has not respected his payments terms and paid for a service. The deadline to do so has now passed. This is also known as a past due invoice.

An outstanding invoice doesn't seem like a problem at first. After all, your client may still pay before the invoice due date and it's chasing an overdue invoice that costs you time and money.

To receive your money if you create a payment strategy targeting clients while invoices are still outstanding, rather than wait for late invoices.

3.4 Checking payment document to dispatch creditors.

Payment Document:- means the paper or electronic document that a state business's submits to the Comptroller's office for the purpose of requesting the Comptroller's office to make a payment on business's behalf. The term includes, but is not limited to, a document that uses the appropriated or other funds of a state agency to make a payment to another state business's.

Account Documentation means, with respect to any Account, any and all documentation relating to that Account, including all Credit Card Applications, Credit Card Agreements, Credit Cards, Program Privacy Notices, Billing Statements, checks or other forms of payment, electronic payment authorization agreements, credit bureau reports, adverse action notices, change in terms notices, other notices, correspondence, memoranda, documents, stubs, instruments, certificates, agreements, magnetic tapes, disks, hard copy formats or other computer-readable data transmissions, microfilm, electronic or other copy of any of the foregoing, and any other written, records materials of whatever form or nature, including information relating or pertaining to any

Page 63 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

of the foregoing to the extent related to the Program; invoices, sales or shipping slips, delivery and other receipts.

Check the following point:

1. **Principal-** i.e. amount of loan disbursed or credit facility drawn down from date of commencement of the loan/facility to the date of the bankruptcy order.
2. **Interest-** amount claimed from date of commencement of loan/facility to the date of the bankruptcy order.
3. **Miscellaneous charges-** (e.g. late payment fees, administration fees etc.) claimed from date of commencement of loan/facility to date of the bankruptcy order.

3.5 Reconciling expenditure and revenue.

Reconciliation

Financial reconciliation involves checking and verifying that two sets of records match. The goal is to make sure that your records are accurate, that income and spending *in your accounts* are the same as in your books, and to spot any mistakes, fraud, or wrongdoing.

The most obvious example is balancing cash outflow statements against income statements: **does your closing bank balance equal income minus spending** or A bank reconciliation statement is a document prepared by a company that shows its recorded bank account balance matches the balance the bank lists. This statement includes all transactions, such as deposits and withdrawals, from a given timeframe.

Many companies produce bank reconciliation statements regularly to ensure they've recorded all their banking transactions properly and that their ending balance matches the amount the bank says they have.

Payment reconciliation typically occurs at the end of the month. Finance teams also face the famous end-of-year financial closing process annually, which can be strenuous and long to complete. We'll look at some key ways to improve both monthly and yearly closing shortly.

An expenditure:- is defined as the purchase of **goods** or services that are expected to have an economic benefit during a specified period. These expenditures may include buying office

Page 64 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
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supplies, renting equipment, hiring employees, paying for consulting services, and leasing space. **An expense**- refers to a situation in which money is spent, but where there is no return of value. Whereas expenditures refer to spending money and receiving some sort of direct or indirect value for this spending.

Types of Expenditures:

The three types of expenditures are Capital Expenditure, Revenue Expenditure, and Deferred Revenue Expenditure.

1. Capital Expenditure

- Capital Expenditures are expenses that are expected to provide returns over a long period.
- Capital Expenditures can be intangible or something that exists in physical forms, like equipment, machinery, or other assets.

2. Revenue Expenditure

- Revenue Expenditures are expenditures that are expected to be recovered within one year as they relate to the sale of goods or services.
- Examples of Revenue Expenditures are advertising costs, food for catered events, etc.

3. Deferred Revenue Expenditure

- Deferred Revenue Expenditures are costs that have been paid for by customers, but that will be expensed later because the revenue from this payment has not been earned.
- For example, if an organization decides to lease or buy office space, they may choose to leave the furniture in the space for more than one year.

3.5.1 Importance of Expenditures

Expenditures are important to an organization because they help managers make decisions about their company's financial statements and operations. Expenditure information helps you answer questions such as whether your business is making enough revenue to cover its costs, whether your business is spending or investing in enough capital, and whether the organization is making wise use of money.

3.5.2 Approaches of Expenditures

When calculating expenditures, you must include both current and deferred expenditures, as well as capitalized expenditures. There are three ways to calculate Expenditures: Expenditure Approach, Matching Approach, and Cost-Benefit Approach.

Page 65 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1 April, 2022
---------------	--	----------------------------------	---

1. Expenditure Approach

- In the Expenditure approach method, all expenses that have been incurred for a certain period are totaled together in one category.
- Examples of these expense categories might include salaries, rent, machine maintenance fees, legal services, etc.

2. Matching Approach

- This approach is exactly what the name suggests: Expenditures are recorded when they match revenue or expenses during a specific period.
- For example, if a company provides food for an event that takes place in January, but the revenue from this event won't be received until February, then expenses should only occur when the revenues are realized.

3. Cost-Benefit Approach

- The Expenditures in the Cost-Benefit approach are calculated by adding up all Expenditures for assets, less the value of assets sold during the period under review.
- Expenditures that are not fully consumed within one year should also be included in this category.

Reasons to reconciliations:

Expense reconciliation uses this same process of record checks to ensure that a company's expenses in practice match what was recorded in its general ledger. Accountants and financial controllers compare receipts, invoices, and other primary documents against expense claims and transaction histories.

In a one-person company, it's relatively easy to know that your accounts are well taken care of. You make all the purchases, and you know how much money is coming in.

But in a larger company with employees spending on behalf of the business, it's more important to verify that everything is above board.

The reconciliation process lets companies check that every payment was approved, confirmed, and that receipts have been supplied. Otherwise, you're never quite sure where the company cash is going.

3.5.3 Why reconciling expenses is challenging

Page 66 of 71	Author/Copyright Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

Reconciling payments is often a grueling and often thankless task. Even if it should be relatively routine. It's not the work per se that's an issue. As we'll see, the problems come from other steps in the process.

3.5.4 Purpose of a bank reconciliation statement

Bank reconciliation statements can help **identify** accounting **errors, discrepancies** and **fraud**. For instance, if the company's records indicate a payment was collected and deposited, yet the bank statement does not show such a deposit, there may have been a mistake or fraud.

Making sure a company's and its bank's listed balances align is also a way to ensure the account has sufficient funds to cover company expenditures. The process enables the company to record any interest payments the account has earned or fees the bank has charged.

The reconciliation process allows a business to understand its cash flow and manage its accounts payable and receivable.

3.5.5 Steps to do bank reconciliation:

Before sitting down to reconcile your business and bank records, gather your company ledger and the current and previous bank statements.

Step 1: Find the starting balance

If you're doing reconciliation every month, your starting balance will be the final balance from the previous month.

Step 2: Review the deposits and withdrawals

Check your ledger's recorded deposits, withdrawals and cleared checks against those listed on the bank statement. Ensure the entire amounts match up, and investigate any discrepancies. Everything listed on the bank statement should be included in your records and vice versa.

Step 3: Adjust the cash balance

Starting with your bank statement balance, add any deposits you've made that have not yet cleared. Likewise, deduct any checks that have yet to clear. Your result is the adjusted cash balance. Adjusting the cash balance ensures your ledger's balance and the bank statement balance will match.

Step 4: Account for interest and fees

Search the bank statement for any interest your account earned during the month, then add it to your reconciliation statement. Also, deduct any penalties or fees the bank assessed that your ledger doesn't list.

Step 5: Compare end balances

After reviewing all deposits and withdrawals, adjusting the cash balance and accounting for interest and fees, your ledger's ending balance should match the bank statement balance. If the two balances differ, you'll need to look through everything to find any discrepancies. These could be your errors or the bank's.

Page 68 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

Self-check #3

I. Give the answer for the following question sat **true** or **false**:

- 1. A bank reconciliation statement can help to make accounting errors, discrepancies and fraud.**
2. Adjust the cash balance is one of the bank reconciliation system.
3. When calculating expenditures, you must include both current and deferred expenditures, as well as capitalized expenditures.
4. An outstanding invoice doesn't seem like a problem at first.
5. Trust means payment processors are brands that are globally recognized.

II. Give **short answer** for the following questions:

1. what is reconciliation?
2. list each steps to do a bank reconciliation?
3. Define Payment Document briefly?
4. Illustrate the difference between outstanding invoices and overdue invoices?

Page 69 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

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Page 70 of 71	<u>Author/Copyright</u> Ministry of Labor and Skills	Maintaining financial records	Training module Version -1
			April, 2022

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