2nd SEM BTTM

CALICUT UNIVERSITY

INTRODUCTION TO ACCOUNTANCY AND BUSINESS LAW 1

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Module - II

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Module 1

INTRODUCTION TO ACCOUNTING

Meaning and Definition of Accounting

Accounting has rightly been termed as the language of the business. It records, classifies, analyses and communicates all the business transactions that have taken place during a particular period. It is a system of recording and reporting business transactions in financial terms, to interested parties.

According to American Institute of Certified Public Accounts **"Accounting is the art of recording, classifying and summarizing in a significant manner in terms of money, transactions and events which are , in part at least, of a financial character and interpreting the results there of"**. Thus accounting is the art of recording, classifying, summarizing, analyzing and interpreting the financial transactions and communicating the results thereof to the interested person.

Features or characteristics or nature of Accounting

Following are the features of accounting:-

(1) Accounting is an art.

(2) Accounting is a science.

(3) Recording of business transactions.

(4) Classifying business transactions.

(5) Summarizing the classified data

(6) Analysis and interpret the summarized data

(7) Communicating information to the interested parties.

(8) Records transaction and events which are financial character.

Objectives of Accounting or functions of accounting

The following are the main objectives:

1. To keep systematic records.
2. To ascertain the operational profit or loss.
3. To ascertain the financial position of the business.
4. To make information available to various users.
5. To protect business properties.
6. To facilitate rational decision making.
7. To ascertain the cost of production and selling price.
8. To control expenditure of business.
9. To satisfy the requirements of law.
10. To calculate the amount due to and due from others.

Importance of accounting (Uses or advantages)

Accounting brings the following advantages:

1. It serves as a historical record.
2. It facilitates the preparation of financial statements.
3. It supplies information to interested persons
4. It helps the management in taking important business decisions.
5. It facilitates comparative study of the performance of business over different periods.
6. It provides evidence in case of disputes.
7. It helps to forecast the future.
8. It provides information for judging the efficiency of business
9. It is useful in getting loans.
10. It helps in valuation of good will.
11. It helps in controlling expenses.
12. It helps in controlling employees.
13. It helps in prevention and detection of errors and frauds.

Scope of Financial accounting

Following activities are included within the framework of financial accounting:

(1) Book-keeping

(2) Financial Statements

(3) Analysis and interpretation of financial statements.

(4) Financial reporting

(5) Accounting principles

(6) Accounting standards.

Limitations of Accounting

Accounting suffers from the following limitations:

1. It is historical in nature.
2. Transactions of non-monetary nature will not be recorded in accounting.
3. Information recorded in accounts is influenced by the personal judgment of the accountant.
4. In accounting valueless assets are also shown.
5. In accounting price changes are not considered.
6. It is not an exact science.
7. Use of different accounting methods reduces the reliability of accounts.
8. Account records show only actual cost figures.

Accounting Concepts or principles

Accounting concepts are those assumptions, principles or conditions on which the accounting system is based. Principles are set of rules to be followed in accounting. The following are important accounting concepts or principles:

1.. **Business Entity Concepts**: According to these concepts, a business is treated as separate Entity distinct from its owner. This means that in accounting the business and owner must be treated separately. Thus, when one person invests amount in to the business, it will be deemed to the liability of the business. The concept of separate entity is applicable to all form of business.

2. **Going concern concepts: A**ccording to this, it is assumed that business will exist for a long time. There is no intention to liquidate the business in the immediate future.

3. Money measurement concepts: Accounting records only those transactions which are expressed in monetary terms. Transactions which cannot be expressed in money do not find place in the books of accounts.

4. Cost Concepts: According to this concept, all transactions are recorded in the books of accounts at actual price involved.

5. Dual aspect Concepts: according to this concept, every transaction has two aspects. These two aspects are receiving aspect and giving aspect. These two aspects have to be recorded. The basis of this principle is that for every debit, there is an equal and corresponding credit.

6. Realization Concept: According to this principle revenue is said to be realized when goods or services are sold to be a customer. It emphasizes the fact that the mere receipt of an order for goods or services cannot be taken for the realization of revenue. So advanced payment received from a customer cannot be considered as revenue earned.

7. Matching Concept: According to this concept, cost of a business of a particular period is compared with the revenue of that period in order to ascertain net profit or net loss.

8. Accounting period Concept: According to this assumption, the life of a business is divided in to different periods for preparing financial statements. Generally business concern adopt twelve months period for measuring the income of the concern. This time interval is known as accounting period.

Accounting conventions

Accounting conventions are the customs and traditions which guide the accountant while preparing accounting statements. Some of the accounting conventions are:-

(1) **Convention of consistency**: - This convention follows that the basis followed in several accounting periods should be consistent. This means the methods adopted in one accounting year should not be changed in another year. Then only comparison of results is possible.

(2) **Convention of conservatism**: - This is a convention of playing safe, which is followed while preparing the financial statements. The idea of this convention is to consider all possible losses and to ignore all probable profits.

(3) **Convention of Materiality**: - Materiality means relevance or importance or significance. It is generally accepted in the accounting circle that the accounting statements and records must reveal all material facts.

(4) **Convention of full disclosure**: - The accounting convention of full disclosure implies that accounts must be honestly prepared and all material information must be disclosed therein.

Accounting standards

Accounting standards are considered as a guide for maintaining and preparing accounts. They are the rules that ensure uniformity of preparation, presentation and reporting of accounting information.

Accounting standards may be defined as the accounting principles and rules which are to be followed for various accounting treatments while preparing financial statements on uniform basis and which will reveal the same meaning to all the interested groups.

Need for accounting standards (Objects of Accounting standards):

The need for accounting standards arises from limitations of financial statements. The need for accounting standards arises due to the following reasons.

1. To communicate uniform results to external users as well as internal users for decision making.
2. To serve as a tools for information systems catering the needs of management, owners , creditors , Government etc.
3. To facilitate inter firm, intra firm comparison.
4. To make the financial statement more reliable comparable and understandable.

Accounting standard Board of India (ASB)

The institute of Chartered Accountant of India, set up, Accounting Standard Board. The primary duty of ASB is to formulate the accounting standard for India. During the formulation of accounting standards, the ASB considered the applicable laws, usage, customs and the business environment existing in our country.

The following are the objectives and functions of the ASB:

(1) To suggest areas in which accounting standards need to be developed.
(2) To formulate accounting standards.
(3) To review the accounting standards at periodical intervals.
(4) To provide guidance on accounting standards.
(5) To carry out other functions relating to accounting standards.

INTERNATIONAL FINANCIAL REPORTS STANDARDS

IFRS are principles and standards interpretation and the framework adopts by the IASB.

IFRS ADOPTION

IFRS adoption means adoption of international reporting standards. It involves the accounting standards of a country converged with the IFRS.

NEED FOR IFRS CONVERGENCE

The need for IFRS has arise due to the following developments.

1. Financial globalisation lead to the IFRS convergence

2. The growth of MNCS

3. Accounting profession

4. The involvement of the government and revenue authorities

CAPITAL EXPENDITURE

It means an expenditure, which has been incurred for the purpose of obtaining a long term advantage. It consists of expenditure the benefit of which is not fully consumed in one accounting period, but spreads over several accounting periods. It is nonrecurring in nature. In short expenditure incurred for increasing earning capacity of a business is known as capital expenditure. duty freight, installation charges etc.It is shown on the asset side of the balance sheet. Capital expenditure includes the following:

- ❖ Any expenditure incurred for the purpose of acquiring fixedasset.(plant and machinery)
- ❖ Any expenditure incurred for the purpose of acquiring a intangible asset(patent ,goodwill
- ❖ Any expenditure which increases the earning capacity directly orindirectly will be treated as capital expenditure.
- ❖ Any expenditure incurred for extension or improvement to of anexisting asset.

REVENUE EXPENDITURE

An expenditure that arises and in the course of regular business transactions of a concern is termed as revenue expenditure. It includes the money spend on day to day operations of business for current and immediate use. It is repetitive in nature. Its benefit will be realized in thecurrent year itself. Wages, legal expenses, transport charges, freight andcarriage etc are some of the revenue expenses. it is charged to the trading and profit and loss account.

Revenue expenditure includes:

- ❖ Expenses of routine nature which help in day to day operations ofthe business
- ❖ Expenditure incurred for the selling and administrative expenses
- ❖ Cost of maintaining the asset.
- ❖ Expenditure incurred for increasing the earning capacity of thebusiness

DEFFERED REVENUE EXPENDITURE

It is that class of revenue expenditure which is incurred during a particular year but benefit of which may extend to a number of years. The whole amount of such expenditure cannot be treated as the expenditure of the year in which it is incurred. Therefore a portion of such expenditure is charged every year to profit and loss account and remaining portion is shown on the asset side of the balance sheet.

Examples of deferred expenditure

- ❖ Research and development cost
- ❖ Advertisement cost
- ❖ Cost of issue of shares and debentures.
- ❖ Formation of expenses.

CAPITAL RECEIPTS

It consists of payments made by the shareholders or proprietor of thebusiness or receipts from the sale of fixed assets. Sale of machinery or furniture is capital receipt.

FEATURES

- ❖ Non recurring in nature.
- ❖ It shown on the side of the balancesheet
- ❖ These are not frequent course of business actions.
- ❖ The capital receipts cannot exit the firm can survive

REVENUE RECEIPTS

All incomes or receipts that are received by a business in the ordinary conduct of activities are called revenue receipts. Sale of goods,interest and rent received etc are examples.

FEATURES

- It arise from the day to day operations of the business
- It is recurring in nature
- It shown on the profit and loss
- If revenue receipts not in the business the firm cannot survive.

FINAL ACCOUNTS OF A SOLE TRADER

The final accounts of a sole trader includes Trading and profit and loss account and the balancesheet

TRADING ACCOUNT

Trading means buying and selling of goods. Trading account is prepared to know the trading result during account period. The result of the trading account is prepared gross profit and gross loss.

An income statement prepared to ascertain the trading result of the business is called trading account.

If the difference between the sale and cost of goods sold. If it is sale exceed the cost of goods sold the difference is called gross profit.

If it is cost of goods sold is exceed sale this is called gross loss.

Need of trading account

- To ascertain the gross profit and gross loss
- To enable the management to make the comparison of gross profit and loss of the current year and the previous year.
- To fixation price
- To ascertain the different ratios .

Trading account for the year ended………..

To opening stock		xxx	By Sales	xxxx	
To purchases	xxxx		Less returns	xx	
Less returns	xxx			--------	xxxx
	-------------	xxxx	By closing stock		xxx
To Direct expenses:			By gross loss (if loss)		xxx
Carriage inward		xxx			
Freight		xxx			
Octroi		xxx			
Dock dues		xxx			
Excise duty		xxx			
Royalty		xxx			
Motive power		xx			
Coal, gas, water		xxx			
Factory expenses		xxx			
To Gross Profit (if profit)		xxx			
		xxxxx			xxxxx

PROFIT AND LOSS ACCOUNT

After ascertaining the gross profit the business man will be interested to know the net result of business at the accounting period, for this purpose the profit and loss account is prepared. All the indirect expenses and indirect income which are relating to the business are shown in the profit and loss account.

The result of the profit and loss account net profit and loss

Need and importance of the profit and loss account

- To ascertain the net profit and loss account
- To compare the actual performance with the desired performance
- To determine the future line of action
- To calculate the different ratios.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To opening stock	....	By sales	
To purchases		less: returns	....
less: returns	....	By closing stock	....
To carriage inward	....		
To wages	....		
To gross profit c/d (in case of gross profit)	....	By gross loss c/d (in case of gross loss)	....
	....		....
To gross loss b/d (in case of gross loss)	....	By gross profit b/d (in case of gross profit)	....
To salaries	....	By interest earned	....
To carriage outward	....	By dividend earned	....
To rates and taxes	....	By rent earned	....
To insurance	....	By discount received	....
To depreciation	....	By profit on sale of fixed assets	....
To bad debts	....	By profit on sale of investments	....
To advertising	....		
To interest paid	....		
To travelling expenses	....		
To discount allowed	....		
To loss on sale of fixed assets	....		
To loss on sale of investments	....		
To loss by fire	....		
To net profit transferred to B/S (in case of net profit)	....	By net loss transferred to B/S (in case of net loss)	....
	....		....

BALANCESHEET

The balance sheet is a statement of showing the assets and liabilities of a business on particular date.it is prepared to know the financial position of the firm or business. Hence it is a positional statement. This statement is known as the balance sheet because it is asheet containing the balance of remaining after preparing the profit and loss account.

Features

- It indicates the financial position of the company
- It provides the information relating to the assets and labilities ofthe firm
- It helps us know the solvency of the business

Balance Sheet of ....

As at..............

Liabilities	₹	***Assets***	₹
Current Liabilities:		**Current Assets:**	
Bank Overdraft		*Cash-in hand*	
Bills Payable		*Cash at Bank*	
Sundry Creditors		*Bills Receivable*	
Outstanding Expenses		*Short Term Investment*	
Income received-in-advance		*Sundry Debtors*	
Long-term Liabilities:		*Prepaid Expenses*	
Long term loan		*Accrued Income*	
Reserve and Surplus		*Closing Stock*	
Capital		**Investment: (long term)**	
Add : Interest on Capital		**Fixed Assets:**	
Add : Net Profit		*Furniture an Fixture*	
Less : Drawings		*Plant & Machinery*	
Less : Interest on Drawings		*Building*	
Less : Income Tax		*Land*	
Less : Life Insurance Premium		*Goodwill*	
Less : Net Loss			

TREATMENT OF CERTAIN ITEMS (FINAL ACCOUNTS WITH ADJUSTMENT)

1. CLOSING STOCK

If it is given in the adjustment it is shown on the credit side of the trading account and also shown on the assets side of the balance sheet. If it is given in the trial balance, It should be shown only in the balance sheet.

2. OUTSTANDING EXPENSES:

These are those expenses which remains unpaid at the end of the accounting period. If it is given in the adjustment, it should be added to the concerned expenses on the debit side of the trading account or profit or loss account and it should also be shown in the balance sheet as liability. If it is given in the trial balance, it should be shown in the balance sheet as liabilities.

3. PREPAID EXPENSES

Prepaid expenses are payments made in the current year but related to the next accounting year. Prepaid expenses are also known as expenses paid in advance or unexpired expenses. If it is given in the adjustment, it should deducted from the concerned expenses on the debit side of trading accounting or profit and loss account and it should also be shown on the asset side of balance sheet. If it is given in the trial balance, it should be taken only in the balance sheet as asset

4. ACCRUED INCOME

This is the income earned but not received by the end of the accounting year. This is also known as outstanding incomes. If it is given in the adjustment, it should be added to the concerned income on the credit side of the profit and loss account and it should also be shown on the asset side of balance sheet .If it is given in the trial balance, it should be shown only in the balance sheet on the asset side

5. INCOME RECEIVED IN ADVANCE

It means income which has been received by business before it been earned by the business. It relate to the next accounting period. It is also known as unearned income or income received in advance. If it is given in the adjustment it's should be deducted from the concerned income on the credit side of the profit and loss account and it should also be shown on the liability side of balancesheet. If it is given in the trial balance it should be shown only in the balance sheet on the liability side.

6. DEPRECIATION

If it is given in the adjustment, it should be shown on the debit side of the profit and loss account and deducted from concerned asset on the balance sheet. If it is given in trial balance, depreciation should be taken only on the debit side of profit and loss account.

7. BAD DEBTS

When an amount due from debtors is found irrecoverable it is called bad debt .it is a loss the business. If it is given in the adjustment it should be taken on the debit side of the profit and loss account by adding to the bad debt already given in the trial balance and it should also be deducted from debtors on the asset side.

8. FURTHER BAD DEBT

The further bad debt are given in the trail balance it is already adjusted with the sundry debtors it is not be adjusted with the sundry debtors and the further bad debt is added with the current bad debt.

If old provision is existed it should be deduct from the current bad debt.

9. PROVISION FOR BAD AND DOUBTFUL DEBT

The provision for bad and doubtful debt generally which is calculated on the fixed percentage of the sundry debtors . and the amount should be added to the current bad debt and it is deducted from the sundry debtors

10. INTEREST ON CAPITAL

It should be noted that the interest of the capital is calculated on the opening balance of the capital if it is additional capital introduced and the date is given interest should be calculated on such capital.

The amount of the interest on capital is shown on the debit side of the profit and loss account. And it should be added capital side on the balance sheet.

11.INTEREST ON DRAWINGS

It should be noted that the interest of the drawings is calculated on the opening balance of the drawings

The amount of the interest on drawings is shown on the credit side of the profit and loss account. And it should be deducted from the capital from the liability side of the balancesheet.

12.PROVISION FOR DISCOUNT ON DEBTORS

A provision is made on the anticipated discount to be paid to the debtors on the subsequent year is called provision for discount on debtors

The amount should be debited to the profit and loss account and it is deducted from the total debtors in the balancesheet.

13.PROVISION FOR DISCOUNT ON CREDITORS

A provision is made on the anticipated discount to be paid to the creditors on the subsequent year is called provision for discount on creditors

The amount should be credited to the profit and loss account and it is deducted from the total creditors in the balancesheet.

MODULE 2

FINAL ACCOUNTS OF A LIMITED LIABILITY COMPANIES

The final accounts of the companies includes the statement ofprofit and loss account and balance sheet

The profit and loss **account** of the **company** can be defined as **final account**, which summarize income and gain earned and expenses incurred during the financial year and the result thereof. Therefore, the profit and loss **account** is prepared to ascertain the operating results ofa **company** in term of net profit or loss.

The balancesheet shown the financial position of the limited liability companies.

COMPANY NAME

STATEMENT OF PROFIT AND LOSS FOR THE PERIOD ENDED 31.03.2015

Particulars	Note No	As at 31 March, 2015	As at 31 March, 2014
		Rs.	Rs.
(A) REVENUE			
I. Revenue from operations	18		
II. Other Income	19		
Total Revenue		**0**	**0**
(B) Expenses:			
Cost of materials consumed	20		
Purchase of Stock-in-Trade	-		
Changes in inventories of finished goods, work-in-progress and Stock-in-Trade	21		
Employee benefit expense	22		
Financial costs	23		
Depreciation and amortization expense	24		
Other expenses	25		
Total Expenses		**0**	**0**
(C) Profit before exceptional and extraordinary items and tax		0	0
(D) Exceptional Items			-
(E) Profit before extraordinary items and tax		0	0
(F) Extraordinary Items			-
(G) Profit before tax		**0**	**0**
(F) Tax expense:			
(I) Current tax			
(II) Deferred tax			
(III) MAT credit			
(H) PROFIT AFTER TAX			
(I) Earning per equity share:			
(I) Basic			
(II) Diluted			

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Name of the Company
Balance Sheet as at 31 March, 20X2

	Particulars	Note No.	As at 31 March, 20X2	As at 31 March, 20X1
A	**EQUITY AND LIABILITIES**			
1	**Shareholders' funds**			
	(a) Share capital	1		
	(b) Reserves and surplus	2		
	(c) Money received against share warrants			
3	**Non-current liabilities**			
	(a) Long-term borrowings	3		
	(b) Deferred tax liabilities (net)			
	(c) Other long-term liabilities			
	(d) Long-term provisions	4		
4	**Current liabilities**			
	(a) Short-term borrowings			
	(b) Trade payables	5		
	(c) Other current liabilities	6		
	(d) Short-term provisions	7		
	TOTAL			
B	**ASSETS**			
1	**Non-current assets**			
	(a) Fixed assets			
	(i) Tangible assets	8		
	(ii) Intangible assets	9		
	(b) Non-current investments	10		
	(d) Long-term loans and advances			
	(e) Other non-current assets			
2	**Current assets**			
	(a) Current investments			
	(b) Inventories	11		
	(c) Trade receivables	12		
	(d) Cash and cash equivalents	13		
	(e) Short-term loans and advances	14		
	(f) Other current assets	15		
	TOTAL			
	See accompanying notes			

MODULE 3

DEPARTMENTAL ACCOUNTS

Departmental accounts are accounts relating to different department of a business and are prepared to ascertain the trading results of each department separately. Such accounts disclose not only the profits of each of the department but also the profits of the whole business.

OBJECTIVES OF DEPARTMENTAL ACCOUNTS

The main objectives of departmental accounts are:

(1) To know the trading result of the various departments.

(2) To compare the trading result of one department with those of other departments.

(3) To reward the departmental managers on the basis of the trading results.

(4) To help the management to formulate the business policies for the various departments.

(5) To help the business in formulating proper policies relating to the expansion of the business.

Advantages of Department Accounts

The main advantages of Departmental accounting are as follows:

(1) It provides an idea about the affairs of each department.

(2) It helps to evaluate the performance of each department.

(3) It helps to reward the Departmental mangers and staff on the basis of performance.

(4) It facilitates control over the working of each department.

(5) It helps to compare the result of one department with those of other departments.

(6) It helps the management to formulate the right business policies for the various departments.

(7) It will help in the preparation of departmental budgets.

(8) It helps to calculate stock turnover ratio of each department.

ACCOUNTING PROCEDURE

A departmental organization can record its transactions in two ways:

(1) **Unitary method**: - Under this method, the accounts of each department are kept separately. The results of the various departments are finally combined together in one general P & L account.

(2) **Tabular or columnar method**:- Under this method, the accounts of each department are kept in columnar form with a separate column for each department and also with a separate column for the total. The tabular method is more popular and is adopted by almost all the departmental undertaking.

In trading account, opening stock, purchases, direct expenses and Gross profit are debited and sales and closing stock credited. Indirect expenses have to be apportioned between the departments and debited to the P&L account.

ALLOCATION OF EXPENSE:-

Expenses incurred for a particular department should be directly charged to that department. But common expenses should be apportioned to the different department on suitable basis. Following basis for apportionment may be adopted:

(1) **Expenses on purchase**:- Such as freight, carriage in wards, discount received, import duty, octopi etc should be apportioned in the ratio of net purchases (excluding inter departmental purchases) of each department.

(2) **Expenses on sales**:- Such as selling commission, bad debts, discount allowed, reserve for bad debts , reserve for discount on debtors, sales tax, carriage outwards, advertisement etc, he subject should be apportioned in the ratio of net sales (excluding interdepartmental sales) of each department.

(3) **Expenses on building**:- These should be apportioned on the basis of area or floor spaceoccupied by each of the departments.

(4) **Expenses on machines**:- Such as depreciation, repairs etc should be apportioned on the basis of the value of machines used in each department. In the absence of information, these expenses should be apportioned on the basis space occupied by machines in each department.

(5) **Lighting and heating**- These expenses should be apportioned on the basis of meter readings of the various departments. In the absence of meter readings, they should be apportioned on the basis of light points of each department. In the absence of light points, these expenses should be apportioned on the basis of the space occupied by each department.

(6) **Insurance premium**:- It should be apportioned on the basis of the value of the subject matter insured. For example, insurance premium on stocks insured should be apportioned on the basis of stocks held by each department.

(7) **Labour welfare expenses**: - Such as recreation expenses, canteen expenses etc should be apportioned on the basis of the number of workers working in each department.

(8) **Workmen's compensation insurance**:- This expenses should be apportioned in the ratio of wages of each department.

(9) **Other expenses**:- Such as interest on capital, interest on debentures, general manger's salary, audit fee, directors' fee, bank charges, legal charges, sundry office expenses etc can be allocated on any appropriate basis, say, on the basis of sales or cost of sales or quantity of goods sold or equally. Alternatively, these expenses need not be allocated.

They can be charged to General Profit and Loss account the following.

ALLOCATION OF INCOMES

Common incomes should be allocated among different departments on the following basis:

(1) **Discount received and reserve for discount on creditors**:- They should be allocated on the Basis of net purchases of each department.

(2) **Commission earned on sales**:- It should be allocated on the basis of net sales of each department.

(3) **Other incomes: -** Such as dividend received, transfer fees etc can be allocated equally.

Alternatively, they can be credited to General P & L account.

INTER DEPARTMENTAL TRANSFERS

Transfer of goods or services by one department to another department are called inter departmental transfers.

When one department transfers goods to another department, the transaction should be considered as a sale for the supplying department and a purchase for the receiving department.

TRATEMENT OF INTERDEPARTMENTALTRANSFERS

As such cases, the supplying department should be credited and the receiving department should be debited with the value of goods supplied. Similarly, when one department renders service to another department, the department rendering the service should be credited and the department receiving the service should be debited with the value of service rendered.

Types of interdepartmental transfers

Goods may be transferred either at cost price or at selling price. If goods are transferred at selling price by the transferor department and such goods are unsold at the end of the accounting year by the transferee department, then profit charged on such unsold goods by the transferor department is treated as unrealized profit and it should be debited to the general profit and loss account as stock reserve. In the balance sheet stock reserve should be deducted from closing stock.

PROVISION FOR UNREALISED PROFIT

Some times goods are transferred from one department to another department at selling price, at the end of the accounting period such goods are included in the unsold stock, a reserve should be created in respect of unrealised profit on unsold stock so such reserve is known provision for unrealised profit.

Provision for unrealised profit = interdepartmental stock (closing stock of receiving department) x G/P ratio of giving department

Interdepartmental stock = $\frac{closing\ stock\ of\ receiving\ department\ x\ tranfer\ of\ googs}{purchase\ of\ goods+tranfer\ of\ goods}$

Gross profit ratio (giving department) = $\frac{gross\ profit}{sales+tranfer\ of\ goods}$x100

Module 4

BRANCH ACCOUNTS

A branch is a segment of a business. It is a chain of shops functioning in different localities under the control of the head office. The system of operating business at several places through one's own establishment s is called branch organization. Branch accounts are accounts relating to different branches and are used to ascertain the trading result of each branch separately.

Need or objectives of branch account

The various objects of maintaining branch account are:-

(1) To ascertain profit or loss of each branch.

(2) To ascertain the financial position of each branch.

(3) To help in controlling branches.

(4) To assess the progress and performance of each branch.

(5) To ascertain the requirements of stock and cash for each branch.

(6) To ascertain whether the branch should be expanded or closed.

TYPES OF BRANCHES

1. Dependent branch

Dependent branches are branches, which don't maintain its own set of books. All records have to be maintained by the head office. The following are the features of such a branch:

1) These branches sells only such goods, which are supplied by the head office

2) The head pays all branch expenses

3) The branch manager out of petty cash book pays some petty expenses.

4) Such banks are instructed to deposit daily cash proceeds in to bank account opened in the
name of head office

5) Sales are generally made on cash basis but some branches are authorized to make credit sales also.

6) Branches keep only some memorandum records

INDEPENDENT BRANCHES

Independent branch means a branch which maintains its own set of books. In this system, branches are treated as separate independent units.

Features

1) They keep a full system of accounting and trial balance can be extracted from the ledger

2) In the branch books, there will be a head of accounts and in the books of head office there will be a branch account

3) The branch does not confine its trading to the goods sent by the head office

4) There is no need for the branch to remit all cash. It can retain the cash out of which it can make the payment.

METHODS OF MAINTAINING ACCOUNTS SYSTEM

1. Stock and debtors system
2. Final accounts system
3. Whole sale system
4. Debtors system

STOCK AND DEBTORS' SYSTEM

In case of this system, the head office maintenance a number of accounts for branch transactions in place of in branch account. The various accounts are:

1) Branch stock account

2) Branch debtors account

3) Branch expenses account

4) Branch adjustment account

5) Branch profit and loss account

6) Branch cash account

7) Branch fixed asset account

8) Goods sent to branch account

Accounting entries are as follows:

1) When goods sent to branch at invoice price

Branch stock a/c Dr

To goods sent to branch a/c

2) For cash sales

Cash a/c Dr

To branch stock a/c

3) For credit sales

Branch debtors a/c Dr

To branch stock

4) For bad debts and allowances allowed to debtors

Cash a/c Dr

To branch debtors

5) Cash paid by branch debtors and remitted to head office

Cash a/c Dr

To branch debtors

6)For removing loading on goods sent

Goods sent to branch a/c

To branch adjustment a/c

7) For removing loading on closing stock

Branch adjustment a/c Dr

To stock reserve a/c

8) Expenses paid by head office

Branch expenses a/c Dr

To cash a/c

9) Transfer branch expenses

Branch adjustment a/c Dr

To branch expenses a/c

10) For net profit disclosed by branch adjustment

Branch adjustment a/c Dr

To general profit and loss a/c

DIFFERENCES BETWEEN BRANCH ACCOUNTS AND DEPARTMENT ACCOUNTS

Branch accounts	Departmental accounts
1. Branches are units that are physically separate from the H.O	**1.**department functions along with the main office.
2. Branches are situated in different places.	**2.**departments are situated in the same premises
3. The functions of branches are more or less same	**3.**departments have different functions . the function departments are different from others.
4. The branch business there will be the need for reconciling the H.O Books and branch books	**4.**There is no need for reconciling the books of accounts
5. The main purpose of branches is to boost up sales by catering the	**5.** The main purpose of departments is to increase the efficiency of the business

needs of people in different places.	

Module 4

Meaning and Definition of Hotels

A hotel simply refers to an establishment that provides rooms and meals. A hotel may be defined as a place that offers accommodation, food, and beverages at a cost that enables it to make a profit. Hotels provide accommodation, meals and refreshments, for irregular periods of time for those who may reserve their accommodation either in advance or on the premises. In broad terms, hotels provide facilities to meet the needs of the modern traveller.

In short, hotel is an establishment that provides lodging usually on a short-term basis. Today hotels provide much more than just accommodation and meals. It often provides a number of services such as restaurant, swimming pool, or child care; some hotels have conference and meeting rooms. Services are provided to guests based on their needs. Now the hotel industry is referred to as 'hospitality industry'.

Features of Hotel Business

The chief features of hotel business are as follows:

1. Hotels provide accommodation and food items to guests.

2. Some hotels maintain bars. They offer drinks to customers.

3. Some hotels may have on their premises a beauty parlour, a hair dressing saloon, a jewellers shop, a book stall, a newspaper stand etc.

4. There are some hotels that provide various professional and technical services.

5. Most hotels provide credit facility to customers. No guest is required to pay room rent in advance or to pay for the other services and facilities at the time when the services are rendered to him. Sometimes an advance is required to be paid. At the time of departure the balance is paid

Departments of a Hotel

All departments of a hotel may be classified into two-revenue departments and non-revenue departments.

Revenue Earning Departments

Revenue earning departments are operational departments that sell services or products to guests. A hotel has two major revenue earning departments. They are: (i) Accommodations, and (ii) food and beverage.

Accommodations

Accommodation department is responsible for the sale of rooms.. These departments are responsible for maintaining and selling the rooms in a hotel. In most hotels, these are the departments that directly or indirectly generate more revenue than any other department. This is because the sale of rooms constitutes a minimum of 50 per cent of the total revenue of a hotel. The various departments that support the room divisions department are:

Front office department: It is an operational department. It is the office when the guest is received, provided information, his luggage is handled, his accounts are settled on departure, and his complaints, problems and suggestions are looked after. It is responsible for welcoming and registering guests, allotting those rooms, and helping guests checking out.

Housekeeping department: This department is responsible for the cleanliness, maintenance and the aesthetic standard of the hotel. Housekeeping includes the servicing of guest rooms. This includes cleaning bedrooms, staircases, public areas and floral arrangements, first aid to guests etc.

Maintenance department: This department is responsible for all kinds of maintenance, repair and engineering work on equipment, machines, fixtures and fittings. It undertakes the supply of air conditioning, lighting, mechanical, electrical, carpentry and civil works of the hotel. Maintenance department is also known as engineering department.

Laundry: This is a critical department that launders the large volume of bed lines, restaurant lines, staff uniforms and guest garments. Large hotels may have an in-house laundry to control the movement of linen and uniform which are considered to be the precious assets of the hotel. Smaller hotels may outsource this activity to local laundries. The laundry is headed by laundry manager.

Food and Beverage (F & B) Department

The food and beverage department is another major revenue producing department. It is the key to the success of a hotel. The F & B department includes the restaurants, bars, coffee shops, banquets, room service, kitchen and bakery.. The various departments that come under the F & B may be discussed below in brief. :

Restaurant : A restaurant is a commercial establishment committed to the sale of food and beverage. A restaurant may be a licensed part of a hotel operation, whereby the sales of the restaurant contributes to the sales performance of the hotel, or a franchised operation, when the hotel leases space. In this case the hotel has no share in the profits of the restaurant operations. Restaurants are equipped with tables, chairs, crockery, cutlery, linen and decor. In addition to the basic purpose, restaurants may provide other facilities such as bar, entertainment, children party facilities, home delivery services, take-away services, outdoor catering etc.

Room Service: Room service is a food service operation. It provides food and beverage to guests staying in the hotel rooms. The room service is located in the kitchen and has an order-taker's desk. Guests may order their food and beverage directly from their rooms to the room service order-taker who will pass on the order to the service team. The service team co-ordinates with the kitchen or bar for the preparation of the item.

Bars : The bar dispenses wines, liquor, spirits, juices, cigars and cigarettes. Restaurant food service professionals will co-ordinate with the bar for a guest's beverage orders.

Banquets : The banquets department is a major revenue area within food and beverage department. It is headed by a banquet manager. He organizes and looks after large parties like dinners for hundreds of guests, conventions, marriage receptions and other functions.

Kitchens : A kitchen is the place where food is prepared. Large hotels have independent sections to deal with various aspects of food preparation due to the large volume of activity. Kitchen personnel co-ordinate closely with restaurants, room service, bars and banquets for the supply of food orders. Chef-de-cuisine is the head of the kitchen. He is responsible for planning, organizing and controlling the kitchen operations.

Kitchen stewarding : This department is primarily concerned with the storage, maintenance, cleanliness, and issue of cutlery, crockery, hollowware, chinaware and glassware to the restaurants and kitchens. It is responsible for the cleanliness of kitchens and the washing of pots and pans.

Minor Revenue Earning Departments

There are certain departments which earn smaller revenue. Such departments are as follows:

Health club and recreation: People are getting increasingly health and physical fitness conscious. Hence some hotels maintain gymnasiums for men and women and swimming pool. Similarly, some hotels provide tennis courts, squash courts, and many other recreation facilities.

Delicatessen : This department sells in-house butchery products.

Patisseries. : It sells bakery products.

Beauty Salon : This provides hair dressing service and beauty care.

Flower Shop : This is the retail outlet of the flowers and ferns from the gardens of the hotel.

Health food counter : This is usually found at the health club. The counter provides health foodsand diet foods that support a health regimen created by a dietician.

Non-Revenue Departments (Staff Departments)

Non-revenue departments or staff departments are those that support the revenue departments in their efforts. In fact, non-revenue departments are supporting departments. They help to generate revenue indirectly by playing a supporting role to revenue earning departments. These departments may be discussed as below :

Finance and accounts department : This department comprises of two sections - finance and accounts. The finance section is responsible for raising funds and generating profits through innovative investments and funding. This is headed by financial controller. He is assisted by financial analysts. The accounts section monitors the revenues and expenditures of the hotel. The functions of accounting section include hotel, etc.

Sales and marketing department : This department is concerned with finding customers. It advertises in various media such as television, newspapers, trade magazines. etc. It organizes promotions to attract guests in different seasons and festivals. A team of sales personnel go out into the market and sell the property to corporate houses, travel agent, tour operators and airlines for more business. This department is headed by the sales and marketing manager.

Purchase department : This department is led by the purchase manager. The main responsibilities of the purchase department is to procure all the departmental inventories. In most hotels, the central stores is part of the purchase department.

Security department : The security department is responsible for safeguarding the assets and employees of the hotel. It is also responsible for establishing a safe environment for guests. It is concerned with implementing safety programmers

Revenues and Expenditures of a Hotel

Now let us examine the major heads of revenues and expenses of a hotel.

Revenues of a Hotel : The major heads of revenue (primary or principal sources of revenue) of a hotel may be outlined as below:

1. Revenue earned from selling rooms (i-e room rent). The income head is "Accommodation" or "Rentals".

2. Revenue earned from selling foods and beverages including wines, liquors etc. The income head is "Income from meals and Refreshments".

3. Income from letting out banquet hall for marriage parties etc. , and conference rooms for holding meetings, seminars, conferences etc.

4. Income from other sources (minor sources) such as laundry, telephone services, health club facilities, swimming pool, variety shows etc.

Expenditures of a Hotel: A hotel incurs the following expenditures (major heads of expenditures):

1. Purchase of provisions, stores and wine.
2. Kitchen and bar expenses.
3. Remunerations to staff (or employee remuneration and welfare expense)
4. Electricity, fuel and water.
4. Entertainment expenses.
5. Advertisement and publicity expenses.
6. Repairs, renewals and replacements.
7. Administrative and general expenses.
8. Room occupying expenses, etc.

Working Papers

Working papers consists of collections of data, computations, memoranda, preliminary drafts of financial statements and other useful papers used by accountants. With the help of the data collected from the various departments of a hotel, computations, memoranda, preliminary drafts of financial statements etc., the final financial statements can be easily prepared. In short, working papers are sheets of paper containing accounting data, calculations etc. which assist the accountants in the preparation of financial statements.

Working papers are not part of the formal accounting records. The accountant prepares them for his use. He keeps them with himself. These are not meant for use by the owners or managers. A type of working paper commonly used by accountants is the work sheet. A worksheet is a columnar sheet of paper used to summaries information needed to prepare financial statements and to record adjusting and closing entries. It is also an informal device for assembling the required information in one place.

Advantages of Working Papers

1. Working papers assist accountants in organizing the information required for the formal financial statements, so that no important information is omitted.
2. Working papers provide evidence of supporting computation and are useful in explaining to auditors the basis of the figures appearing in the financial statements.
3. Working paper is an information device for assembling the required information at one place. This helps to prepare financial statements somewhat easily.
4. Working papers help to assure the accountant that potential errors will be discovered.
5. Working papers are particularly useful in hotels and restaurants where there are numerous accounts and adjusting entries.

Room Rate

Room rate simply refers to room rent. It is the charge fixed by the hotel for accommodation provided to the guests. It is the rate at which the guests are charged for the rooms let out to them. A hotel earns maximum amount of revenue from the room rent. Hence, the room rate must be fixed judiciously. While determining the room rate, certain factors need to be considered. Some of them are: (a) availability of rooms in the hotel, (b) location of the hotel, (c) location of the particular room, (d) availability of various facilities, (e) occupancy rate, (f) type of building (g) estimated cost of operation, (h) expected rate of return on investment, etc.

Bases of Charging Room Rates

There are different bases of charging room rates. There are three main methods of charging room rates. They are: (a) 24 hours stay system, (b) night stay system and (c) check-out system.

(a) 24 hours stay system: Under this system, a guest is charged a fixed amount for a stay of every 24 hours or part thereof from the time of his occupying the room in the hotel. This means he has to pay this fixed amount even if he stays only for a few hours.

(b) Night stay system : Under this system, the guest has to pay the room rent for every night spent in the hotel. Normally he should vacate the room before dinner of the next day. In case he fails, he has to pay charges for another night. Similarly, the guest has to pay room rent for one night even if he does not stay even a single night.

(c) Check-out System: Under this system, a check-out time is fixed by the hotel authorities by taking into consideration the timings of buses, trains or flights.

Generally, 12 noon is taken as check-out time. One full days charge is levied from one check-in time to the following check-out time. Naturally, if any guest occupies more than the check-out time, he has to pay another day's room rent. Generally, the check-in time and check-out time are the same. This system is widely adopted by hotels in India.

Operating Ratios

Generally hotels compute some operating ratios for measuring the efficiency in operation. These are physical ratios and not monetary ratios. Some of the important ratios may be discussed below :

1. Room occupancy rate : It is the ratio of the number of rooms occupied by the guests to the total number of lettable rooms available. It is usually expressed as a percentage. It is calculated as below :

Room occupancy rate = $\frac{No\ of\ rooms\ occupied}{No\ of\ lettable\ rooms\ available}$x100

Thus, the room occupancy rate shows the percentage of lettable rooms which are generating revenue for the hotel. The higher the rate, the better it is for the hotel and vice versa.

2. Bed occupancy rate : In most of the hotels, there are single-bedded rooms, double bedded rooms and family rooms. Hence, total number of beds are more than the total number of lettable rooms. In this case, bed occupancy rate is more important than room occupancy rate. The bed occupancy rate refers to the ratio of beds occupied by the guests in a hotel to the total number of beds available in the hotel. It is expressed as a percentage. It is calculated as below :

Bed occupancy rate = $\frac{No\ of\ beds\ occupied}{No\ of\ total\ beds\ avilable}$ x 100

3. Double occupancy rate : This is the ratio of double rooms occupied by the guests to the total rooms occupied by the guests. It is calculated by using the following formula :

Double occupancy rate = $\frac{Total\ no\ of\ guests - No\ of\ rooms\ occupied}{no\ of\ rooms\ occupied}$x100

When we deduct number of rooms occupied from the total number of guests, we get the number of double rooms occupied. Thus this ratio shows the proportion of double rooms occupied by the guests out of the total rooms occupied.