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VI. INTERNAL CONTROL THROUGH THE ACCOUNTING

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In part fulfilment of my degree this study carries considerable weight in the final judgement of my performance. If this study should prove to be inadequate, in spite of the help and cooperation I received during the past few months, it reflects only on the writer.

In writing this essay I was fortunate to have the continual and most efficient guidance of Mr. Lee Meng Hye, my supervisor. I express him my deepest thanks.

This study was undertaken not with a view of improvising but with a view of improving the existing system. To Mr. Ho Yue Hong, the Managing Director of Merlin, and Mr. Tan Gark Chong, the Secretary-Accountant, I am thankful for their cooperation and kind assistance. I am also indebted to Mr. Ong Boon Bah for the "Internal Control Questionnaire". This may not be suitable for the type of business being handled. Giving due consideration to the nature of the business we will try to improve the system under the given circumstances.

This being merely a study has no intention to surface actual frauds, malpractices and inefficiency. The study will merely try to show the possible areas where these undesirable elements of operation may occur. Only the important aspects of hotel management and hotel accounting will be tackled as the scope of the essay does not justify probing into areas of relatively little materiality. The basic objective of the study would be an appraisal of an existing system of internal control and recommendations will be made whenever applicable.

CHAPTER I

INTRODUCTION

Objectives of Study

A hotel, basically a service organization, is quite different in terms of control procedures from a standard manufacturing firm. As such a system of Internal control found satisfactory in a manufacturing organization may not be suitable here. However, a good system of internal control tailored to its needs will still be necessary to ensure profitability, efficiency and continued business life.

This study was undertaken not with a view of improvising a system of control for a large international hotel but rather to look into the effectiveness and possible weaknesses of an existing system. No system is fool-proof. The problem on hand is to compare the existing system with the basic characteristics of a good system. In the first instance the existing system may not be suitable for the type of business being handled. Giving due consideration to the nature of the business we will try to improve the system under the given circumstances.

This being merely a study has no intention to surface actual frauds, malpractices and inefficiency. The study will merely try to show the possible areas where these undesirable elements of operation may occur. Only the important aspects of hotel management and hotel accounting will be tackled as the scope of the essay does not justify probing into areas of relatively little materiality. The basic objective of the study would be an appraisal of an existing system of internal control and recommendations will be made whenever applicable.

However, chapter six will deal mainly with financial controls as exercised by the accounting department. To analyse

Chapter Organization

To achieve the ultimate objective of an appraisal it will be necessary to develop the study along systematic lines. Considering the organization structure and for the sake of convenience the essay would be divided into seven chapters each dealing with a specific area of the hotel's operation. A certain amount of cross-reference may be necessary to avoid duplication and redundancy.

The nature of the hotel's business would be described briefly in chapter two. This would include the related services provided by the hotel either directly or indirectly. With a clear picture of the nature of the business we would be able to go into the organization structure of the hotel proper in chapter three. In this chapter we would ignore the parent company-subsidaries relationship and treat the hotel as an entity. Organization structure is of great importance to any system of internal control. The effectiveness of the system would to a very large extent depend on the plan of organization. The study will try to evaluate whether the organization structure is sound and conducive to the implementation of a good system of internal control.

Notwithstanding the treatment of the hotel as an integrated organization we will deal with the hotel services in the fourth chapter and the catering services in the fifth. Although these two services are complementary the distinction was found necessary mainly because of the classification of accounts and the treatment of revenue from these two sources. In these two chapters no distinction will be made of financial and administrative control. In most instances these two types of control are inter-related.

However, chapter six will deal mainly with financial controls as exercised by the accounting department. To analyse

various items under this section references would be made to the Internal Control Questionnaire. This chapter would be divided into seven sub-sections dealing with areas as covered by the I.C.Q. The study will culminate in a final appraisal of the system of internal control in chapter seven. Suitable recommendations would be made with regards to the major areas of weakness. It would be inconvenient to save all the criticism for the last chapter. As such certain minor suggestions would be made within the earlier chapter where it would be convenient to do so.

Methodology

A study on internal control requires its definition. There are numerous definitions available but the most comprehensive is that of the American Institute of Certified Public Accountants - Committee of Auditing Procedure published in 1948.

"Internal Control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies."¹

Internal control goes beyond the accounting and financial functions into the fields of budgeting, cost accounting, periodic operating report, statistical analysis, personnel, and "an internal audit staff to provide additional assurance to management as to the adequacy of its outlined procedures and the extent to which they are being effectively carried out."²

¹ AICPA Committee of Auditing Procedures, "Internal Control". AICPA (N.Y. 1948) pp. 11

² Ibid.

The cardinal principles of internal control as listed by the AICPA report include:

- (1) A plan of organization which provides appropriate segregation of functional responsibilities.
- (2) A system of authorization and record procedure adequate to provide reasonable accounting control over assets, liabilities, revenue and expenses.
- (3) Sound practices to be followed in performance of duties and functions of each of the organizational departments.
- (4) A degree of quality of personnel commensurate with responsibilities.³

These principles will provide the basic guide-lines in the analysis of the system of internal control. These general principles need no further elaboration as their application will be brought out when specific areas are discussed. These areas will be tested to see if there is adequate control and if not how can the situation be improved.

A system of internal check and control may be considered satisfactory if it:

- (1) Provides for systematic and complementary verification of all transactions involving current assets.
- (2) Includes systematic and complementary steps for the responsible, written approval of invoices, bills, disbursements, formal vouchers, etc. before these transactions are recorded on the books.

³AICPA, op. cit., pp. 6.

(3) Requires periodic examinations (and reconciliations) of cash, receivables, and inventories.

(4) Fixes responsibility for duties at each level of authority.⁴

The methodology applied consists of four steps:

(1) The Exploratory survey: where the writer acquainted himself with the general background of the business.

(2) The Procedures survey: through which the writer acquires the necessary information about the forms, operations, and equipment utilized in the existing system.

(3) Chart Preparation: to organize the information that has been gathered in an effective form for study and review.

(4) Development and presentation of recommendations: which the writer thinks are suitable and capable of improving the existing system.

In the procedure survey an Internal Control Questionnaire⁵ was used. As not all the sections of the I.C.Q. were applicable only selected sections will be listed in the appendix. Area not covered by the I.C.Q. was recorded on a format "Notes on Accounting Procedure". Subsequently, on the spot observations were made to verify answers to the I.C.Q. and at times the answers were found to be inconsistent with actual practices. Adjustments have been made wherever possible to reflect the true situation.

⁴Johnson, A.W. "Auditing", Rinehart (N.Y. 1959) pp. 51

⁵The I.C.Q. was a standard set supplied by Hanafiah Raslan, Ong & Mohammed, Chartered Accountant and Certified Public Accountant (Malaysia).

Although a standard I.C.Q. was meant for audit work it was found useful in this study. To further explain procedures and practices flow charts will be used whenever possible. Attempts will be made to avoid detail description of procedures if other simpler and easily understandable methods may be employed.

Limitations

The main problem encountered during the course of the study was the great degree of reliance on trust. This leads to the general belief, even among the top management that the system is almost fool-proof and that no major fraud or malpractice has taken place. It should be noted that the absence of discovery of frauds does not automatically rule out the possibility of the same. The possibility will be greater if the system of control is weak and consequently frauds and other malpractices will remain undetected for long periods of time. The paradox is that a weak system will encourage frauds and at the same time these frauds will remain undetected and thus the tendency to believe that the system is sound.

There is also the inability to appreciate or the ignorance of the advantages of a good system of internal control except for a few members of the top level management group. This may be due to the fact that the company was started as a Chinese company with rather conservative business attitudes. When the company turned public there was not the accompanying improvement in the system of accounting. Additions were made every now and then with no thorough review of the entire system. Besides, there was the natural resistance to change among the more senior members of the staff who have been with the company since its establishment.

CHAPTER II

NATURE OF BUSINESS

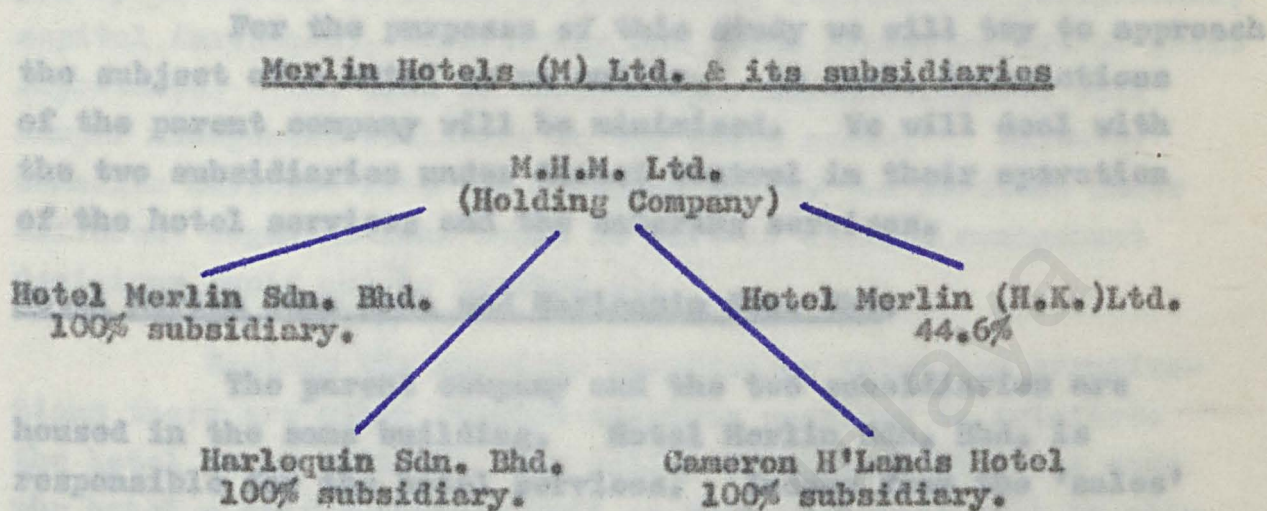


FIG. 1

The hotel was established in 1958 under the Lim Foo Yong Co. Ltd. In 1963 it turned public and the interest was bought over by the newly incorporated Merlin Hotels Malaysia Ltd. with an authorized capital of \$20 million of which \$10.5 million have been issued and paid up. Profit before tax for the year ending 30th June 1967 was \$1.2 million contributed by the various subsidiaries and from its own investment. The income for the parent company comes mainly in the form of dividends and interest as it is not actively engaged in the running of the hotel. The parent company controls the four subsidiaries with interest as listed in the diagram. There is practically no active control over the day to day operation of the Hong Kong hotel. In the case of Cameron Highlands Hotel the control is more apparent than real. The entire running of that hotel is done by a separate management team and so is the accounting. Monthly reports are sent mainly for tax purposes.

down to keep the head office informed as to its activities. Hotel Merlin Sdn. Bhd. and Harlequin Sdn. Bhd. are subject to the direct control of the parent company.

For the purposes of this study we will try to approach the subject of a hotel as an entity. As such, transactions of the parent company will be minimised. We will deal with the two subsidiaries under direct control in their operation of the hotel services and the catering services.

Hotel Merlin Sdn. Bhd. and Harlequin Sdn. Bhd.

The parent company and the two subsidiaries are housed in the same building. Hotel Merlin Sdn. Bhd. is responsible for the hotel services. Income from the 'sales' of rooms forms the bulk of the income of the hotel as compared with income from the catering services. Harlequin is responsible for the night-club and the catering services of the hotel. However, a customer of one is usually a customer of the other. This division of the two major services provided by a hotel is most artificial. In fact the line of division is very vague. As such the computation of profit for each of the organization will be unrealistic and the course of management decisions will be affected. These two functions are so inter-related and overlapping that performance reports could not be prepared singly with any great accuracy. A great amount of the arbitrary allocation of cost and revenue will have to be employed in the determination of periodic income.*

Treating the hotel and catering services as provided by an entity has the advantage of projecting a clearer picture of the performance and profitability of the business. It may be argued that whatever cost and revenue accruing to these two subsidiaries will eventually accrue to the parent company

* The writer was informed that this separation was mainly for tax purposes.

and therefore it is unimportant as to where it is charged. However, it will be a fallacy to think that cost and revenue are the only two variables in management decisions. Major policy decisions on areas of personnel, standard of performance, capital investment, advertising and sales promotion are of great importance. The lack of accurate performance reports will hamper management decisions on the above areas. Whatever benefits derieved from the grouping of the two services under different organizations would be lost if correct management decisions could not be arrived at.

Besides the services provided by these two organizations there are other related services provided to reinforce the hotel as an entity. The policy of management is to make the hotel a self contained unit so that residents will be able to obtain all their necessities within the same building.

Other services

Among the other services provided include a bowling centre, laundry, baby-sitting facilities, temporary custody of valuables, transportation to and from the airport and conference facilities.

Services provided indirectly are the shopping arcade, tourist information, airline offices and other services considered necessary for the convenience of a tourist. Rental income is received from these enterprises.

The hotel and its related services may be depicted on a diagram with the hotel services in the focus and the related services circling it to make the hotel a self-contained unit.

Because of the varying needs of the customers the hotel operates residents accounts and city accounts. The former is a charge account for all "residents" which will be settled at the termination of their stay at the hotel. City

* Bank and Swimming Pool are under construction at the time of study.

accounts are for non-residents who consumes the other services provided by the hotel other than the rental of rooms. It must not be misunderstood that residents account affects only the operation of Hotel Merlin Sdn. Bhd. All charges for services consumed by the residents may be charged to this account including services provided by Harlequin.

The income of the hotel may be summarized as;

1. Rental of rooms and apartments.
2. Restaurant, night-club and catering services.
3. Recreation facilities e.g. bowling.
4. Rental of office space.
5. Miscellaneous income e.g. dry cleaning and pressing.

SHOPPING ARCADE
including florist,
camera & photography,
curios, handicrafts,
etc.

AIRLINE OFFICES
including BOAC

BANK*

GUIDED TOURS
and other tourist
information

HANDLING
AGENTS

HOTEL SERVICES
rental of rooms, etc.

CATERING SERVICES
including night-club,
restaurant, parties,
ban, etc.

BOWLING CENTRE

SWIMMING
POOL*

CONFERENCES

OTHER MISC.
SERVICES

FIG. 2

* Bank and Swimming Pool are under construction at the time of study.

CHAPTER III

ORGANIZATION STRUCTURE

A plan of organization is the fundamental of any good system of internal control. It provides a proper flow of authority, responsibility and accountability. It gives an employee confidence as to the limits of his authority and those of others, and provides him with a place in the entire machinery to ensure its smooth running and continued efficiency. Division of labour will enhance specialization leading to higher productivity. Moreover, inherent in a plan of organization should be the division of the functions of operation, custody of assets and recording. This division of responsibilities related to the conduct of any business transaction among two or more persons necessitate the existence of collusion in any attempt to defraud the company. Similarly there should be adequate organizational independence as between operating, custodian and accounting departments.

"An accounting department, independent of operations and with no direct interest in production other than the accurate recording of the cost data with its attendance checks on authorizations and adherence to controls, can present to management such reports and analyses as are required for control of operations. The planned organizational independence among departments thus serves to establish the reliability and integrity of the information."¹

Integrated Organization Structure of Hotel Merlin Sdn. Bhd. and Harlequin Sdn. Bhd.

It had been expected that an organization of this size would have an operative organization structure. Further, a chart should be available for quick and easy reference.

¹AICPA, op. cit., pp. 8.

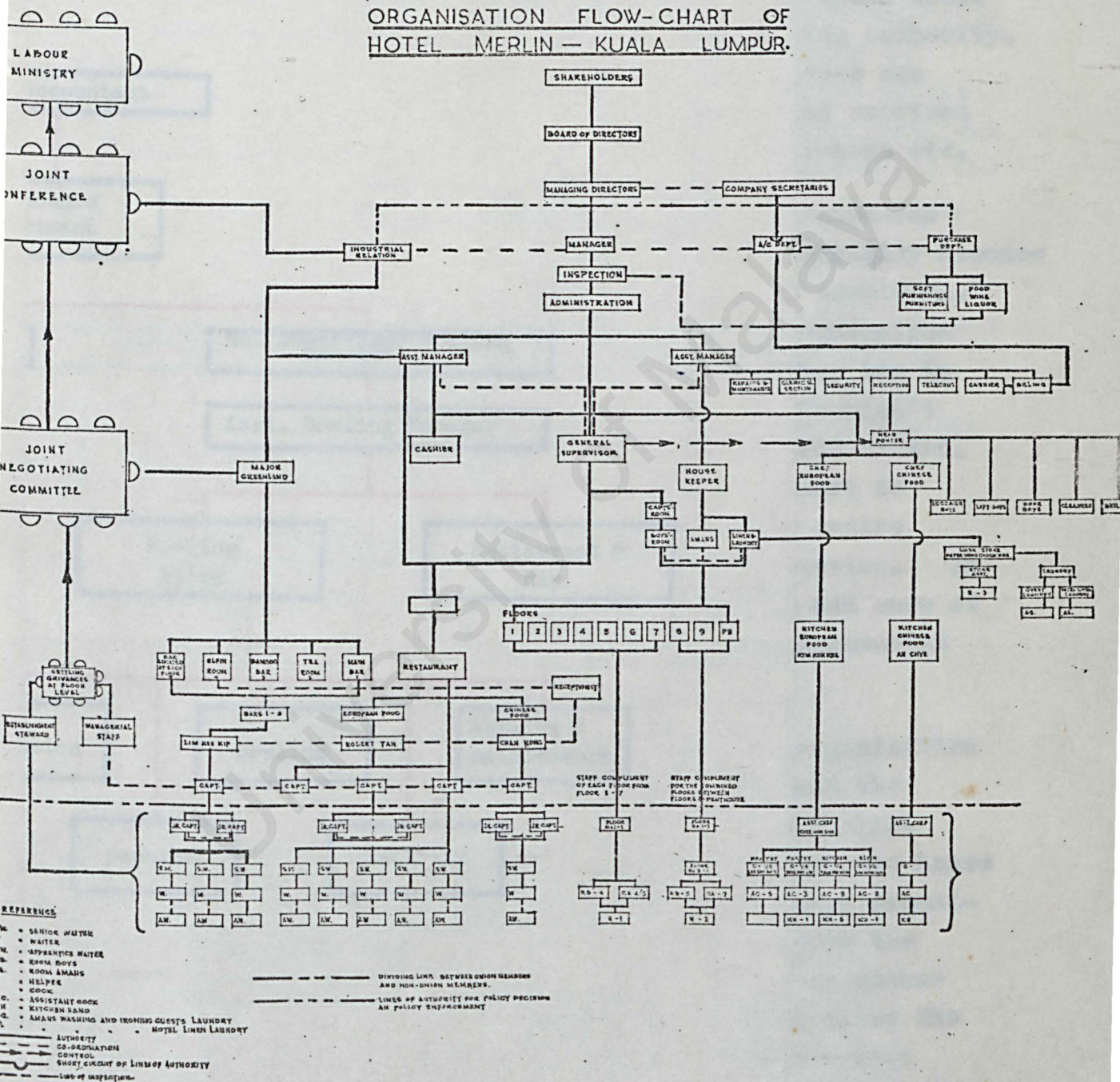
True to expectation a chart was available. However, the chart which was attached to the staff record book (now no longer in use) was drawn about five years ago when the hotel was reorganized as a public corporation. Although rapid changes and development took place no review of the organization has been undertaken. Thus for all purposes and intent the chart may be deemed to be out of date. Further, it was rather surprising to know that such a complicated chart was meant for the understanding of the general members of the staff. It is not the intention of the writer to criticize the chart which was very professionally drawn. However, for purposes it was intended, the chart may be said to be inadequate in communicating to the lower level of the hierarchy their duties, responsibilities and authority.

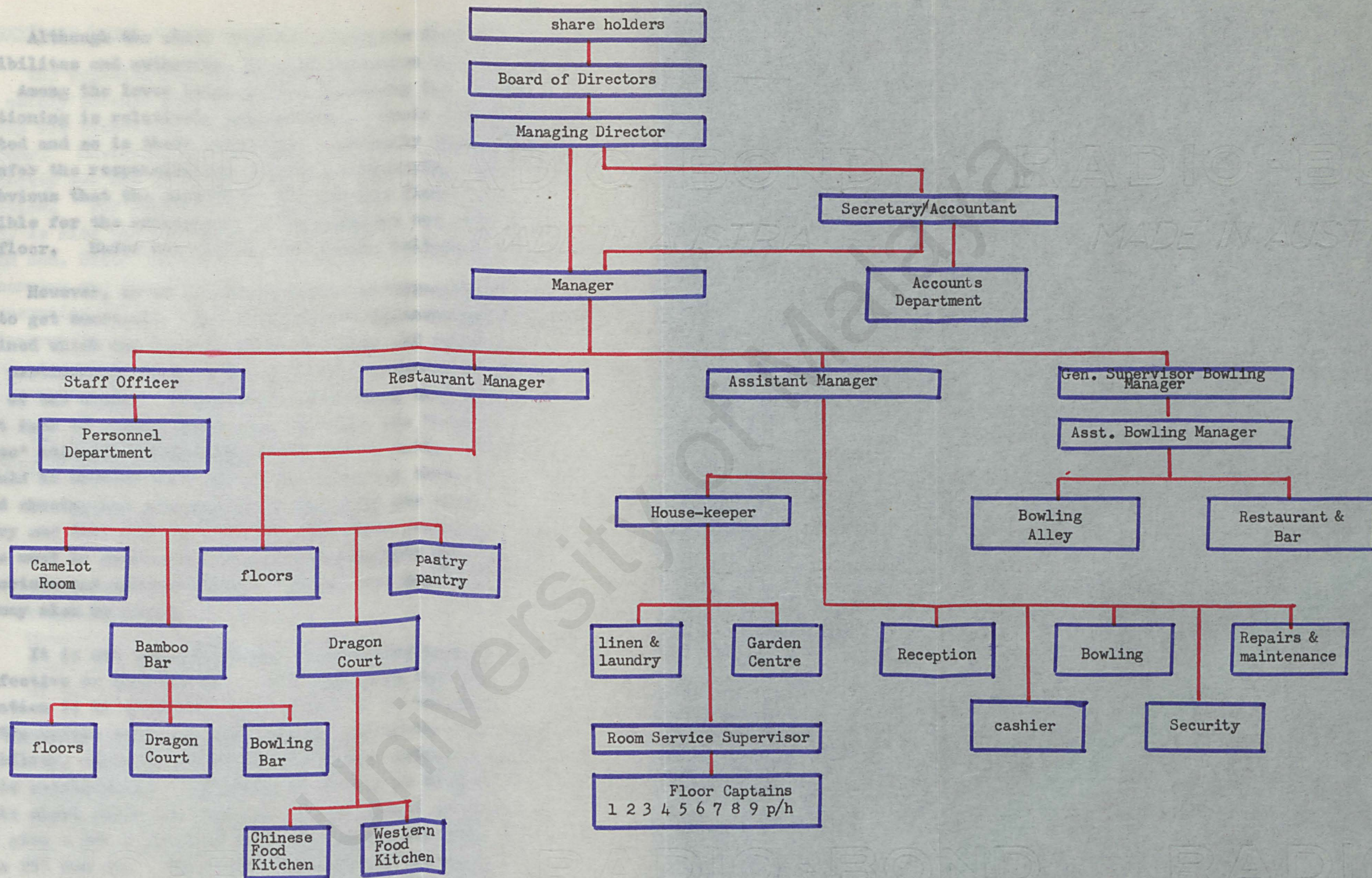
To facilitate discussion a chart was drawn to reflect the present conditions as was known to the writer. In some ways chart 2 is a simplification of chart 1 although the arrangement and pattern are different. The chart was drawn purely for the convenience of discussion and the element of uncertainty must always be considered. Allowance should be made as the organization structure is not very well defined.

From chart 2 it can be seen that the hotel is treated as a single organization with only one Board of Directors. Though untrue this does not affect the organization as the boards of both subsidiaries are comprised of the same members. In the case of Merlin Hotels (M) Ltd. there is only one difference.² For the sake of convenience the organization is headed by a single Board of Directors. Another point of convenience is that the shareholders of the parent company appear at the top of the chart insofar as they are the owners of the parent company which controls these two subsidiaries.

²Mr. R.C.F. Macgregor sits on the board of the parent company while his alternate Mr. J.J. Darby sits on the boards of the two subsidiaries.

Chart 1 : extracted from Staff Record Book.





Although the chart depicts a definite flow of responsibilities and authority, in many instances this may not be so. Among the lower level of the hierarchy the problem of positioning is relatively unimportant. Their responsibility is limited and so is their authority. Normally their title will confer the responsibility and the accompanying authority. It is obvious that the captain of the various floors are responsible for the maintenance of cleanliness and services on his floor. Under him will be the amahs, bell-hops etc.

However, as we proceed upwards the organization begins to get confused. The division of responsibility becomes ill-defined which may lead to petty jealousy and suspicion. This is particularly true in the case of the non-unionised members of the staff. Without any protection they are in constant fear of losing their jobs and thus the "couldn't care less" attitude though they could put in better effort. This could be avoided if a proper organization chart is prepared showing how each employee fits into the entire machinery and this must be put into effective practice. An employee must be confident of his responsibility and sure of his superiors and subordinates. To this end departmental charts may also be drawn.

It is not contented that the existing organization is ineffective or inefficient. The very fact that the organization is in operation proves that it is workable. Rather the writer believes that greater efficiency, and hence profitability, could be attained if a better defined organization is established. It would be better to draw the desirable chart first and then fit the personnel in rather than to give a man a post and then see how we can alter the chart to fit him in. The chart presented by the writer may not be what the management has in mind. As such management should formulate its policies, construct a chart according to the prescribed policies and reshuffle the personnel accordingly.

Top Supervisory Level (refer to chart 3)

The organization structure at the top is rather complex mainly because many of the members of the top management group are exercising functions on behalf of more than one company. Moreover, in many instances the responsibility and authority are not in keeping with the privileges or remuneration. For example, the Secretary of Merlin Hotels

(M) Bhd. is also the Secretary of Hotel Merlin Sdn. Bhd. and Harlequin Sdn. Bhd. In addition he is the registrar for the parent company and the Accountant for the group. However, his remuneration is far below that of the Hotel Manager or the Restaurant Manager. In accordance with our treatment of the hotel as an entity we will try to avoid the complications arising from this overlapping of functions.

The functions and duties of the members of the top supervisory group are summarized below:

(i) Managing Director - Hotel Merlin Sdn. Bhd. & Harlequin Sdn. Bhd.

His functions are to implement the policies of the Boards of Directors of the companies, usually through the Secretary. However, he is directly responsible to the respective boards for the efficient running of the hotel which includes both companies.

(ii) Secretary of the Merlin Group.

His actual title should be Secretary/Accountant/Registrar. With respect to the two functional companies he is the Secretary and the Accountant. His duties include:

- (a) Being responsible to the Managing Director for the efficient running of the Accounts Department and to see to it that periodic

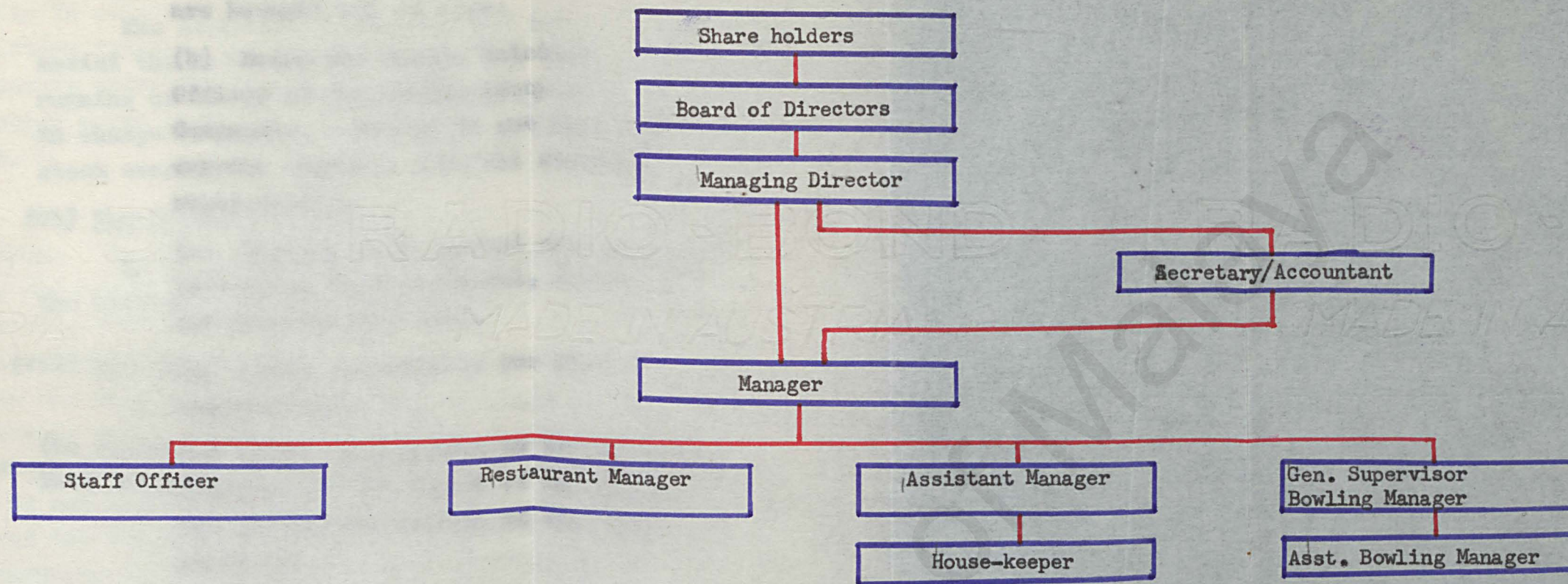


Chart 3: TOP SUPERVISORY LEVEL

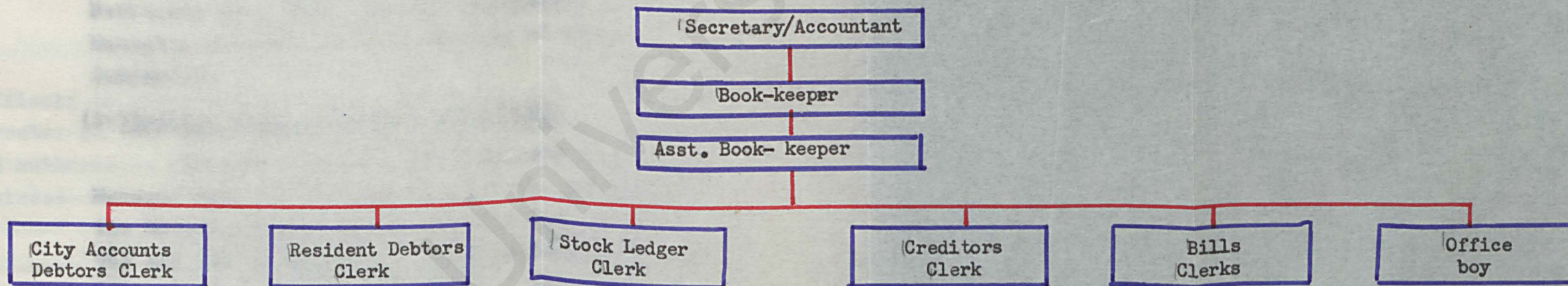


Chart 4: ACCOUNTS DEPARTMENT

(v) The reports and financial statements are brought out on time.

(b) Being the Public Relation Officer of the Merlin Group of Companies. He has to see that the company complies with all statutory requirements.

(vi) The (c) Dealing with general correspondence pertaining to Secretarial, Accounting and Registration work.

(vii) The (d) Being responsible for Share registration.

(e) Being responsible to the Managing Director and the Board of Directors for the implementation of the boards' policies.

(iii) Manager of Hotel Merlin and Harlequin

The Manager is in charge of the day to day running of Hotel Merlin Sdn. Bhd. and Harlequin Sdn. Bhd. He is responsible to the Managing Director for the running of these companies.

(iv) Bowling Manager/General Supervisor.

Together with the Bowling Assistant Manager they are responsible for the running of the Bowling Centre which includes the alley and the bar and restaurant. His position as General Supervisor is rather ambiguous. This will be discussed later in the chapter. As for the Bowling Centre his duties include the keeping of the accounts pertaining to his department; those of the centre's debtors.

However, (v) The Assistant Manager

The Assistant Manager of the hotel assist the Hotel Manager in the day to day running of the hotel. Specifically he is in charge of making the monthly physical stock count.

(vi) The Restaurant Manager

He is responsible for the running of the various food and drink centres.

(vii) The Staff Officer

All matters pertaining to staff are the responsibilities of the Staff Officer.

This includes:

- (a) Keeping of employment records.
- (b) Compilation of payroll and the payout of wages and salaries.
- (c) Sits with the Hotel Manager at the negotiating table when facing the Union.

The Accounts Department (refer to chart 4)

A point to note is that the writer found it rather difficult to place the private secretary to the Managing Director on the organization chart. Her responsibilities and authorities are so vast yet so ill-defined. Her duties include:

- (a) Being responsible for daily banking.
- (b) Writing up payment vouchers.
- (c) Control and preparing cheques for payments.
- (d) Ordering replacement stock.

Another point of ambiguity is the post of the General Supervisor. By adding this title to that of Bowling Centre Manager his authority extends to cover the entire hotel.

However, his duties and responsibilities are not defined especially in relation to the other top personnel, for example, the assistant manager, the house-keeper and the staff officer. The writer is under the impression that this post is redundant as the other areas of hotel management are under responsible officers.

(4) Writing up the General Ledger.

The post of Staff Officer is also plagued with uncertainty. Placing him on the same level as the assistant manager, the restaurant manager and the bowling manager may not be in keeping with his actual authority although his responsibilities justify the placing. During the course of the interview the writer discovered that he is not confident of his authority and he is not sure whether certain officers are his subordinates or superiors. Added to this is the fact that he is not accorded certain privileges enjoyed by the other members of the top management group, for example, free meals and refreshment in the hotel's restaurant and tea room. This post and its accompanying authority and responsibilities should be reviewed especially as the hotel is in a process of expansion and the employees may be doubled or trebled over the present number of four hundred.

The Accounts Department (refer to chart 4)

This department deserves special discussion as its role in relation to the study of internal control is of special significance. It is this department that exercises most of the financial controls. Nearly all the transactions are recorded here. At the head of this department is the Secretary/Accountant who is responsible to the Managing Director and the boards for the accounts and the secretarial work. The other members of the Accounts Department are:

(i) Book-keeper

He supervises the accounting staff and is directly responsible to the Secretary/Accountant. He is in charge of writing up the

books of Hotel Merlin Sdn. Bhd. and Harlequin Sdn. Bhd. and also supervises the Assistant Book-keeper who writes up the books of the parent company.

His duties include:

- (a) Writing up the General Ledger.
- (b) Posting from subsidiary books to the General Ledger.
- (c) Writing up the Cash summary book.
- (d) Writing up the Hong Kong debtors and shop debtors ledger.
- (iv) (e) Preparing the monthly bank reconciliation statements.
- (f) Preparing and finalising monthly accounts and reports.

(ii) Assistant Book-keeper

His principal duty is to write up the books of the parent company and assist the Book-keeper in his duties. His duties include:

- (a) Preparing the daily reports.
- (b) Writing up the daily Sales Summary books.

(iii) Creditors Clerk

He is responsible for the keeping of creditors records. His duties include:

- (a) Entering invoices in purchase day books.
- (b) Writing up the Cash Payments books.
- (c) Posting to individual creditors accounts.

- (d) Writing up the Cash purchases books.
 - (v) (e) Checking monthly creditors statements of accounts to individual creditors ledger accounts, and to advise the Secretary to the Managing Director on payments to be made.
 - (f) Billing of electricity charges to shop renters.
 - (g) Balancing individual creditors ledger with control accounts.
- (iv) Stock Ledger Clerk

(vi) He is responsible for writing up the stock ledger. His duties include:

- (a) Entering details of all incoming stock in the stock ledger.
- (b) Entering all details of requisitions in the stock ledger.
- (c) Checking the stock summary sheet prepared by the Store-keeper to the financial stock ledger.
- (d) All differences are investigated and corrected by him.
- (d) Holding the key to the 'new' store room in which soft furnishings, crockery, linen and chit books are kept.
- (e) Preparing Dragon Court Chinese food section Daily Sales Summary reports.

(vii) (f) Preparing Bowling Centre Daily Sales Summary reports.

(v) Resident Debtors Clerk (bills). Their duties include:

Her duties include:

- (a) Entering from duplicate bills to the individual ledger account.
- (b) Posting to the individual ledger accounts from the Cash Receipts book.
- (c) Balancing the individual residents debtors with the control account.
- (d) Preparing the monthly statements of accounts for despatching to customers.

(vi) City Accounts Debtors Clerk (a) City

Her duties include: (b) Residents

- (a) Entering the details of chits from food and drink departments (in respect of City Accounts) in the Daily Sales book(Journal).
- (b) Posting from (a) Daily Sales book and (b) Cash Receipts book to City Accounts debtors.
- (c) Balancing individual city accounts debtors ledger with the control account.
- (d) Preparing the monthly statements of accounts for despatching to customers.
- (e) Entering chits from the Bowling Centre to the coupons journal and posting to individual accounts.

(vii) Bills Clerks

Their responsibility is the collection and analysis of the chits (bills). Their duties include:

- (a) Collecting of chits from all departments except Dragon Court Chinese Section at 8.30 a.m. every morning.
- (b) Sorting out all the chits from each department in serial numbers.
- (c) Checking sequence of chit numbers.
- (d) Analysing the chits into cash and credit sales and analysis of credit sales into (a) City accounts and (b) Residents accounts.
- (e) Preparing the Daily Sales Summary reports and presenting them to the Book-keeper.

The Reception Counter

The various duties of the Reception Counter are:

- (i) Booking of Rooms
- (ii) Registration
- (iii) Preparation of residents' bills
- (iv) The Cashier
- (v) Custody of room keys and post.

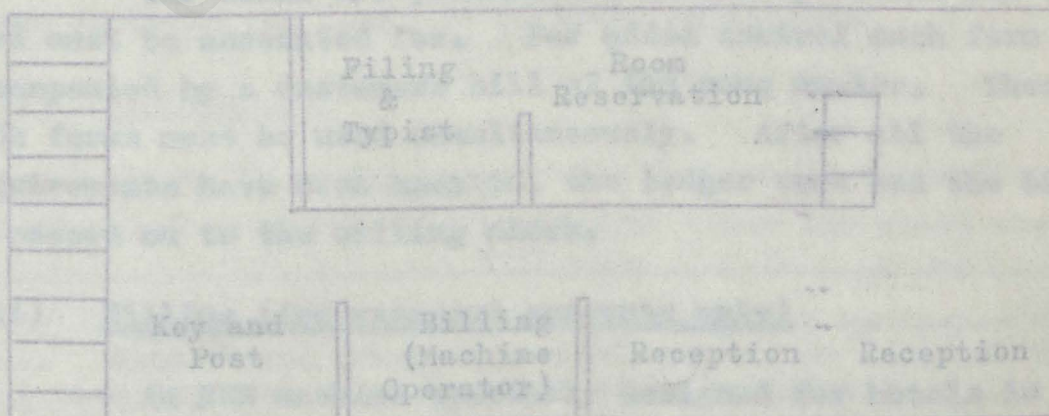


FIG. 3
RECEPTION COUNTER

CHAPTER IV

If by phone, HOTEL SERVICES INTERNAL CONTROL Confirmation Slip as shown in (Appendix 4, 1). The particulars are

When discussing the system of internal control of the hotel services we will limit it to those sections under the Assistant Manager and House-keeper. The internal control involved is mainly administrative in nature except in the case of billing and the work of the cashier where certain financial aspects will come in. The first point that needs to be highlighted is that these services operate 24 hours a day and as such a shift system is involved. Secondly the cashier is not secluded from other employees but housed in the same enclosure as can be seen on the lay-out. This is to facilitate serving of customers. Thus we have a centralised service centre attending to all the needs of the customer when checking in and out.

The Reception Counter

The various functions performed at the Reception Counter are:

- (i) Booking of Rooms
- (ii) Registration
- (iii) Preparation of residents' bills
- (iv) The Cashier
- (v) Custody of room keys and post.

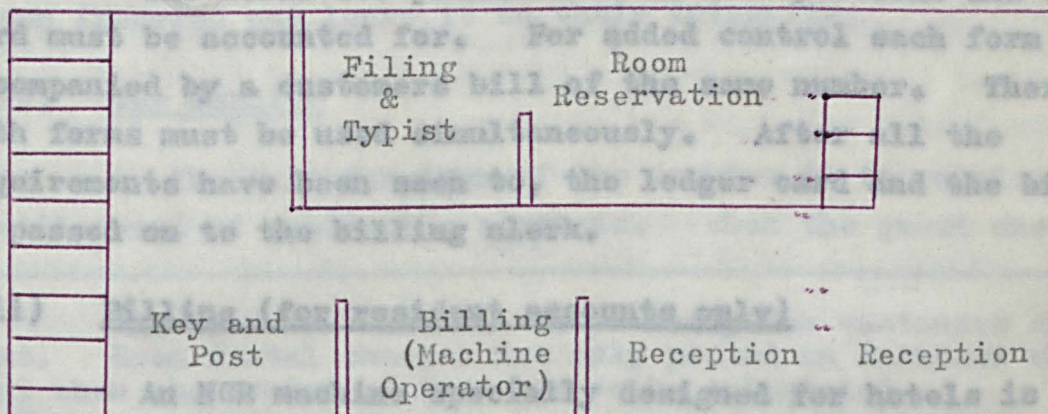


FIG. 3
RECEPTION COUNTER

(i) Booking of Rooms

Bookings can be done either by phone or by letter. If by phone, the particulars are recorded on a Booking Confirmation Slip as shown in (Appendix 4. 1). The particulars are then entered into a diary according to the date of expected arrival and the slips filed away for cross reference. Bookings are accepted only if vacancies are available, which can be easily determined from the chart (Appendix 4. 2). Bookings are then plotted on the chart to bring it up to date. Two days prior to the day of expected arrival the information is typed on a card and filed in a folder for that particular day. As such there are two folders, one for the current day and one for the next day.

(ii) Registration

On arrival the guests are required to fill in a sort of registration forms (Appendix 4. 3). The top half of the form serves as a ledger card and the lower portion is for police purposes and also for the hotel references. Particulars recorded in the lower portion are transferred to a police record book. The cards are then filed away alphabetically. In the case of regular customers they are only required to sign both portions of the form as their particulars have already been recorded.

The forms are prenumbered in both portions and every card must be accounted for. For added control each form is accompanied by a customers bill of the same number. Therefore, both forms must be used simultaneously. After all the requirements have been seen to, the ledger card and the bill are passed on to the billing clerk.

(iii) Billing (for resident accounts only)

An NCR machine specially designed for hotels is used for this purpose. There is a keyboard to record numerals for

the amount to be charged, another for recording of the particulars e.g. Dragon Court, Bamboo Bar, telegram, telephone etc. and one for printing the room number (for the first card of the bill) or card number (for subsequent cards). A slot is built in to accommodate the customers permanent bill, the ledger card and the customers copy of the sales chit for which the expenditure has been incurred. All the three documents are inserted into the machine and posting is done simultaneously. The new balance will appear on both the ledger card and the permanent bill and the amount charged will be printed on the sales chit.*

All posted copies of the sales chit are stored in the individual slots for each room. And if the guest so desire these chits are attached to the permanent bill on settlement.

All the postings are recorded on a machine tape, which will be used for adjustments in the daily machine trial balance (a sales summary report) after which the tape is sent down to the Accounts Department.

This department operates 24 hours a day with shifts of 8 hours each. There is always the possibility that expenses incurred just prior to checking out are not passed on to the billing clerk for posting. Normally the billing clerk will ask the guests if any unrecorded expenditure has been incurred and leave it to their integrity.

(iv) The Cashier

The main function of the cashier is to receive settlements of resident's accounts. When the guest checks

* As such the bill is always ready for customers checking out. Room rental charges are only posted on customer checking out when the number of days has to be calculated.

out the billing clerk hands the final bill to the cashier. Settlement can either be in cash, cheques, foreign currency or charged to account. If the bill is to be charged the guest is made to sign and this will then be compared with the reservation slip. These bills will be stored separately and treated as outstanding. To follow up the bill a cover letter is prepared by the billing department and posted by the accounting department. Subsequent settlements are handed to the billing department and the cash will go to the cashier.

Cash loans may be extended to the guests. This may arise when the guest has a cash shortage. For his cash dealings the cashier has a float of \$10,000.00. Most of the cash receipts come from settlement of residents accounts and from the various service centres. The daily collections from these centres e.g. Dragon Court, Camelot Room and Bamboo Bar are handed to the cashier and a receipt from the Harlequin Receipt Book will be issued. For collections from the bowling alley a separate book will be used. The cashier also keep cash as a safe keeping facilities extended to guests. If the guest so desires his account may be credited and an official receipt issued. One of the great weaknesses in the cashier's department may be his function as a money changer not only for foreign currency but also for cheques. Advances respectively. The deductions will then be sent up to reimburse the cashier. It can be seen that the cashier's function is a very important one.

Because of the fluctuating exchange rates there are bound to be gains on exchange and there is the inherent danger that the cashier may perform this function as a profit-making enterprise. It must be remembered that the money changing function is only a service extended to the customers. Moreover, no records are kept for this function. According to the cashier himself the gains are usually used to offset cash shortages due to errors in collection or exchange but this is never reported. This dealing in foreign currency must be effectively controlled.

Cash disbursement is also handled by the same cashier and may be in various forms. If the guest incurred

expenses with the bowling alley or the key and post department the cashier will pay cash in exchange for the sale of chits. These expenses will then be charged to the guests' accounts. The reason for the change in standard procedures of the other service centres could not be explained. In addition goods ordered by the guests to be delivered to the hotel and to be charged to his account will be paid for by the cashier. A chit will be written out of the Miscellaneous Charges Book and will be posted to the guest's account. Cash loans may be extended to the guests. This may arise when the guests' cheques have not arrived. These loans must be approved by the manager and the guest is required to sign a voucher.

In addition to his dealings with the guests the cashier may be required to disburse cash in the form of salary advances and cash advances to employees of the hotel. A voucher must be prepared by the employee, approved by the manager, signed by the employer and initialled by the cashier. Cash is then paid and the voucher retained. This will then be handed down to the staff officer who will make the necessary deductions from the salary or the tips for salary advances and cash advances respectively. The deductions will then be sent up to reimburse the cashier. It can be seen that the cashier has both receipts and disbursement functions. On top of that the cashier also acts as money changer. This multiplicity of functions coupled by the lack of control at a higher level leaves room for improvement in the control procedures.

(v) Key and Post

Situated at the Reception Counter is the Key and Post Department which operates 24 hours a day with three shifts of 8 hours each. Its main functions are the safe custody of room keys, the guests' mail, the posting of letters of the guests and the sale of stamps. Stamps are

sold for cash or charged to account. When a guest requests that his articles be posted, and the expenses charged to an account, the man on duty performs the necessary services and then presents a voucher to the billing clerk to be posted to the guests' account. This service is non-profit making. Before going off duty the man on duty will make a count of the stamps, the cash and the vouchers and record them in a rough day book. The last shift will reconcile the day's transactions before going off duty, which may appear:

May 2nd	Stamps	-	\$219.00
	Cash	-	62.00
	Vouchers	-	12.00
(iii) Other services	Aziz (short)	-	1.45
	Kama (short)	-	3.00
	Lingam	-	-
	Total	=	<u>\$300.00</u>

The vouchers are tabulated and the cash claimed from the cashier the next morning. As such the float is always maintained at \$300/-. Shortage will be the responsibility of the man on duty.

Room Services

The maintenance of a high standard of room services is the direct responsibility of the House-keeper. Every floor has two boys, two amahs and a floor captain to see to the needs of the guests. Besides providing the services which are covered by the rental of rooms other facilities may be charged to the guests' account. Room services cover all the facilities extended to the customers by the staff of that particular floor.

(i) Meals and refreshments

Morning tea and toast is provided free of charge. Other requirements that may be provided by the floor kitchen is recorded on the floor captain's sales chit book, for

example, coffee, and toast. Meals and hard drinks are provided by the Dragon Court and The Bamboo Bar respectively. The floor boys will take the order but the delivery and the charging will be done by the respective service centres.

(ii) Linen and Laundry

Guests' personal effects are washed free of charge except in the case of pressing and dry cleaning. Service requisition slips are sent down with the articles and subsequently charged to the guests' account.

(iii) Other services

These include baby-sitting, temporary safe keeping of luggage and telephones, telegrams and other miscellaneous services.

Furniture and fixture

The House-keeper keeps a list of the furniture and fixtures in each room. Any subsequent changes are also recorded. However, repairs and maintenance carried out by the hotel carpentry department are not recorded. The carpentry department itself does not keep any books as to the amount of work done. The entire cost of running that department is lumped together and reflected as capital expenditure. It is recommended that proper allocation of cost be established so as to ensure a better matching of cost and revenue besides the internal control advantages.

Bowling Centre

The income of the Bowling Centre is comprised of the following:

- a. Bowling
- b. Shoe rental
- c. Bar sales

- d. Restaurant sales
- e. Cigarette sales

The procedure governing the last three items are standardized and will be discussed in the next chapter. The only exception is that all sales are treated as cash sales by the department cashier and as such also by the accounting department. This is not strictly correct. Sales are both cash and credit. They may be classified as:

- (i) Cash sales
- (ii) Sales to city accounts and Arthur's Cave Club members
- (iii) Sale to resident accounts
- (iv) Sales charged to companies accounts
- (v) Sale to Hotel's own staff.

The other feature of the Bowling Centre which are to be considered are:

- (vi) Sponsors of Bowling competitions
- (vii) Telescore
- (viii) Bar, Restaurant and cigarette sales

(i) Cash sales

The corner butt of the prenumbered score sheet is used to record the time, lane number, number of games and shore rental. All the particulars are machine posted. The cash register holds a float of \$700.00. For control purposes only the manager and the assistant manager keep the key which operates the machine total. Therefore, the cashier does not know the total collection at any point of time.

The corner butts of the score sheets are retained to verify the machine total. Strict control is exercised over the score sheets which is serially prenumbered and every number must be accounted for.

(ii) Sales to City Accounts and Arthur's Cave Club members (refer to chart 5 and 6)

City accounts customers and Arthur's Cave Club

CHART 5

BOWLING CENTRE PURCHASE OF COUPONS BY CITY A/C ARTHUR'S CAVE MEMBERS

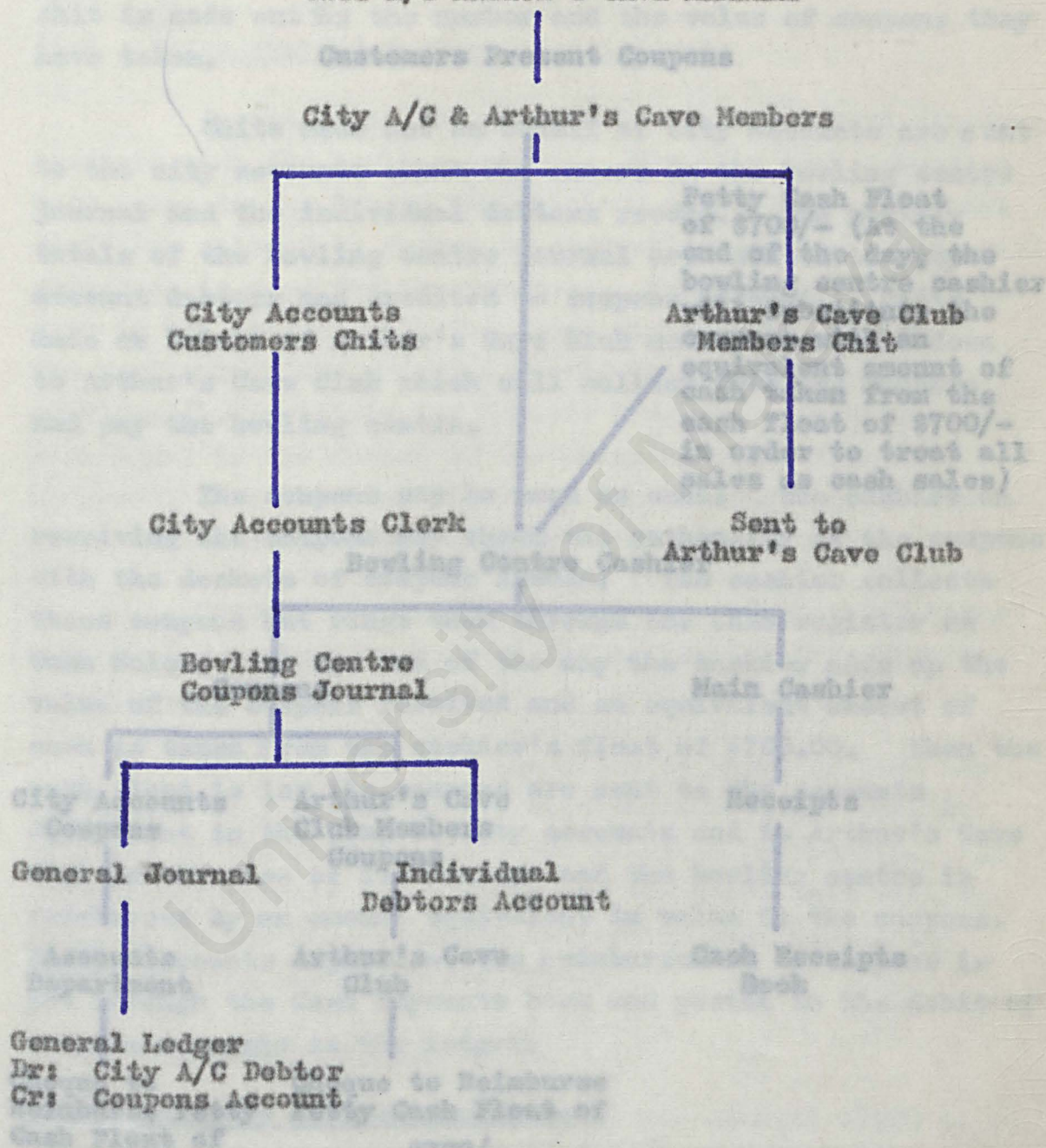


CHART 6

BOWLING CENTRE USE OF COUPONS

Customers Present Coupons

Petty Cash Float of \$700/- (At the end of the day, the bowling centre cashier will substitute the coupons with an equivalent amount of cash taken from the cash float of \$700/- in order to treat all sales as cash sales)

Bowling Centre Cashier

Coupons

Main Cashier

City Accounts
Coupons

Arthur's Cave
Club Members
Coupons

Receipts

Accounts
Department

Arthur's Cave
Club

Cash Receipts
Book

Cheque to
Reimburse Petty
Cash Float of
\$700/-

Cheque to Reimburse
Petty Cash Float of
\$700/-

Cash Payments
Book

General Ledger
Dr. Coupons Account

members may purchase coupons from the manager of the Bowling centre. These coupons are stamped and bear the signature of the bowling manager on the back. Each coupon is valued at \$1.50 and are bound into books of ten coupons each. A chit is made out for the number and the value of coupons they have taken.

Chits made out on behalf of city accounts are sent to the city accounts clerk who enters in the bowling centre journal and the individual debtors record. The monthly totals of the bowling centre journal are debited to city account debtors and credited to coupons account. Chits made on behalf of Arthur's Cave Club members are sent down to Arthur's Cave Club which will collect from its members and pay the bowling centre.

The coupons may be used as cash. The cashier on receiving the coupons may check the authenticity of the coupons with the dockets of coupons issued. The cashier collects these coupons but rings them through the Cash register as Cash Sales. At the end of the day the cashier adds up the value of the coupons received and an equivalent amount of cash is taken from the cashier's float of \$700.00. When the cash float is low the coupons are sent to the Accounts department in the case of city accounts and to Arthur's Cave Club in the case of its members and the bowling centre is reimbursed by an amount equivalent in value to the coupons. In the accounts department the reimbursement of coupons is put through the Cash Payments book and posted to the debit of coupons accounts in the ledger.

(iii) Sales to Resident Accounts

In the case of charges to Residents Accounts a separate chit book is issued. Particulars and amount are recorded on the three copies of the chit and the customer's copy is immediately sent to the billing clerk. Cash will be

paid out by the Chief Cashier to reimburse the bowling centre and a Miscellaneous Charges chit will be made out for the equivalent amount. The bowling centre will treat this as ordinary cash sales. If sponsors prefer the bowling centre to obtain the trophies their standing account will be credited

(iv) Sales charged to Companies Accounts

Credit sales are granted to companies with standing accounts with the bowling centre. Normally such companies have teams in the league competitions or certain managerial staff are allowed to charge to company's account. A special chit book is used for the purpose. The customer's chit is sent to the manager with the score sheets butts attached. The particulars are recorded in the Sales Journal and subsequently posted to the Debtors Ledgers. An amount of cash equal to the amount of the chits is taken from the manager's cash float of \$6,000 by the bowling manager and given to the cashier who will treat it as cash sales.

Monthly statements are extracted from the Debtors Ledgers. (a memorandum ledger) for collection from debtors to reimburse the cash float.

In the event that the float is short of cash the chits will be recorded in a credit sales book and will be paid for by the manager where the float is reimbursed. In this case the score sheet butts and the sales chit will be retained by the manager until settled by that particular debtor or from the manager's float.

(v) Sales to hotel own staff

Staff members of the hotel are charged \$1.20 a game (a concession of 30 cts.). This must be approved either by the manager or the assistant manager who will stamp and sign the back of the score sheet butt "Hotel Staff". No credit facility is extended to members of the staff.

(vi) Sponsors of Bowling competition

Sponsors are required to contribute prizes, which may be in any form. If sponsors prefer the bowling centre to obtain the trophies their standing account will be credited with the amount agreed upon. The benefits to the sponsor will be the advantage of advertisement and the entrance fee charged. The centre benefits from an increase in games played for which the normal charge of \$1.50 a game will be levied.

(vii) Telescore

In league games an electronic device, 'telescore', is used instead of the ordinary score sheets. This facility may also be extended to customers. If it were cash sale the score sheets would be entered, posted, and destroyed and the butts retained. For credit sales the normal credit sales chit will be written out and handed to the manager. It is his responsibility to destroy the number of score charts required and to see to it that they are not reissued.

(viii) Bar, Restaurant and Cigarette Sales

The same credit facilities are extended to City Accounts, Resident Accounts, Arthur's Cave Club members and company accounts as in the case of bowling.

CHAPTER V

CATERING SERVICES - INTERNAL CONTROL

Included for discussion in this chapter will be the Dragon Court, the Camelot Room, the Bamboo Bar and the Bowling Centre bar and restaurant. The Camelot Room caters only for light refreshment and snacks, the Bamboo Bar is essentially a bar and the Dragon Court is both a night-club and a restaurant. The procedure for the taking of orders, serving and issuing of bills (chits), collection of cash and charging to accounts are standardized for all the service centres. For convenience only the sales procedure will be discussed here and the accounting aspect of sales will be dealt with in the next chapter.

Sales (refer to chart 7)

The waiter takes the order on prenumbered forms. The first copy is given to the kitchen or the bar as a requisition order to be served. The second copy goes to the department cashier who will make out the sales chits or bills. These will be presented to the customer for payment or for his signature with respect to cash and credit sales respectively. Cash collected from the cash sales are deposited with the chief cashier at the end of the day for which a receipt is obtained. Chits signed by residents will be handed to the billing clerk for posting to the resident's ledger card. City Accounts and staff chits are handed down to the Accounts Department. All sales both cash and credit are recorded on a Daily sales summary sheet. However, authorised staff consumption is free of charge. These items consumed by these staff members are not entered into the summary sheet because it is considered undesirable to inflate the sales figure unnecessarily. The duplicate copy of all sales chits, the receipt from the chief cashier

and the summary will be collected by the two chit clerks from the Accounts Department the next morning for posting and analysis.

Management should establish a way by which credit customers In catering for large parties the normal sales procedure is dispensed with. Orders are prearranged and normally a written or verbal arrangement will be entered into with regards the food, the number of people attending and the charges. Subsequently, the total amount will be debited to a debtor's account in Harlequin's books.

Bar and Kitchen Stock Control
For night-club services a "cover charge" may be levied on the customers. This is to defray part of the cost of the floor-show. At times the show may be sponsored by some commercial organizations. In this case the "cover charge" will go to the organization.

Inter-departmental Sales

This aspect arises from the specialized nature of the Camelot Room and the Bamboo Bar. When a customer orders something not available in that department the waiter in charge will acquire it from the other. The acquiring department will pay the amount out of its own cash float and subsequently include it in the customer's chit.

Problem of Identification

When a customer requests that his chits be charged to his account he is required to sign and to give his account number or room number for a City Accounts and Resident Accounts respectively. The problem of identification arises when the waiter or the cashier is not able to recognize the customer. There is no way to determine the authenticity of the signature or the number without causing some embarrassment. There are times when regular customers leave the chits unsigned but merely request that they be charged to their accounts. Subsequently when the chits were presented for payment they

disown any incurrence of the expenditure. The absence of their signature will absolve them from any liabilities.

Management should establish a way by which credit customers may be identified. For example a credit card may be issued which should be small enough to be conveniently carried around. However, employees should only ask for identification if they have any doubt as to the authenticity of the signature or the account member.

Bar and Kitchen Stock Control

No food may be issued from the kitchen unless an order slip is received with the necessary authorization, for example, the signature of the waiter who took the order. The kitchen clerk is responsible for the recording of all food issue and at the end of the day a reconciliation is made with the amount of stock used.

Similarly all sales of drinks must be substantiated by an order slip. The amount of liquor issued are recorded on a chart and totalled up at the end of the day. These totals are compared with those of the orders accounted for. Even drink issued to members of the top level management group must be accompanied by an order slip. Each morning the bar chief of the Bamboo Bar who is in charge of all the bars in the hotel makes a round of the bars and check the stock to determine the amount of liquor used up during the previous day.

Before going into the discussion proper it must be brought out that Hotel Marlin Sdn. Berhad is responsible for the collection of the debtors of Marlequin Sdn. Berhad and the payment of the debts of Marlequin. In other words the debtors and creditors of Marlequin Sdn. Berhad are in Hotel Marlin's books. This is made possible through inter-company clearing accounts in the books of both companies.

The Books kept are as follows:

1. General Ledger

INTERNAL CONTROL THROUGH THE ACCOUNTING SYSTEM

The last two chapters dealt mainly with the services provided by the hotel. Control procedures in those areas are basically of an administrative nature which helps in the efficient running of the hotel and maintaining it on an international standard. This chapter will lay greater emphasis on the accounting controls as are being practised by the hotel.

This chapter should be read in conjunction with the Internal Control Questionnaire in Appendix I. When analysing the Questionnaire it is important to note that only certain sections of the standard format have been used. When the answer to the first of a series of questions is negative the rest of the questions would not be included as they would have become non-applicable. In this chapter attempts are made to avoid duplicating questions answered in the Internal Control Questionnaire.

Discussion on the internal control through the accounting system includes such things as budgeting, cost analysis, performance reporting, functional division of responsibilities and the proper recording of transactions.

Before going into the discussion proper it must be brought out that Hotel Merlin Sdn. Berhad is responsible for the collection of the debtors of Harlequin Sdn. Berhad and the payment of the debts of Harlequin. In other words the debtors and creditors of Harlequin Sdn. Berhad are in Hotel Merlin's books. This is made possible through inter-company clearing accounts in the books of both companies.

The Books kept are as follows:

1. General Ledger

2. Creditors Ledger
3. Debtors Ledger - Residents Account
City Account

Subsidiary Books

1. Stores Ledger Account
2. Shop Debtors
3. Shops Rental
4. Purchase Day Book
5. Purchases Returns Book
6. Sales Journal
7. Cash Book
8. General Journal
9. Book Payments
10. Cash Receipts (a) City Account
(b) Residents Account
& Sundry

I. Purchases and Trade Creditors

Purchases may be divided into: possible, for cash

- (i) Fresh food purchases
- (ii) Provisions
- (iii) Other purchases

Each of the above classes of purchases are handled by different people and they do not follow a standard procedure. Order forms are very seldom sent to the supplier as most of the ordering is done by telephone.

(i) Fresh Food Purchases

The purchaser purchases fresh food from the market daily. He is informed by the chief cooks of the Chinese and European kitchens as to the requirements for the day. Purchases are both by cash and on credit.

Credit purchases are mainly from regular suppliers e.g. Hock Lee while the cash purchases are mainly from the market. The purchaser is allowed the discretion to buy from the cheapest supplier and there is no

further check from a senior officer. When the fresh food arrives they are checked by the Kitchen clerk against invoices and cash bills for credit and cash purchases respectively. After checking, the fresh food is separated and sent to the Chinese and European Kitchens accordingly.

For credit purchases for the European Kitchen the invoices are initialled by the Kitchen clerk and approved by the Manager. In the case of the Chinese Kitchen the invoices are initialled by the Kitchen clerk and approved by the Chief Cook.

The purchaser pays in advance for all cash purchases. He then makes out bills, supported by invoices whenever possible, for these cash purchases. The Kitchen clerk then initials the bills to indicate approval. The purchaser is reimbursed by means of a cheque every ten days in the case of the Chinese restaurant purchases and every fifteen days in the case of the European restaurant purchases. He will be paid by the Secretary to the Managing-Director who controls the cheque books. The cheque butts, supported by cash bills are used to write up a cash purchase book which is similar to a petty cash book. The additions and calculations are checked by a clerk in the Accounts Department.

(ii) Purchases of Provisions

The store keeper makes out a Store Order Form (Fig. 4) as to the required items and presents it to the Manager for approval. On the order form will be stated the supplier and the unit price of each item. On receiving

the approved order the store-keeper orders the goods by phone. The invoices accompany the delivery of the goods and the store-keeper checks as to invoice and order form (note that the order form is only for internal use). The items are then entered into the goods received day book and the individual bin cards. (Appendix 4. 4) All invoices have to be authorised by the Manager before they are handed to the creditors ledger clerk. The store-keeper is always kept informed by the suppliers as to the most current prices.

HOTEL MERLIN STORE ORDER FORM				No.
				Date
Quantity Required	Description of Goods required	Supplier	Price	Remarks
<p>On receiving the consignment the particulars are entered into a consignment day book and subsequently into the individual consignment form. Bin cards are also maintained for goods on consignment.</p> <p>At the end of every month the consignor will check the stock with the Store-Keeper or chef de cuisine and thus determine the amount consumed. An value of the stock consumed</p> <p>..... Manager's Signature</p>				

FIG. 4
STORE ORDER FORM

Some goods may be taken on consignment, for example, liquor and alcoholic drinks from Calbeck Macgregor & Co. Ltd. Specific consignment forms are used for each consignor. (Fig. 5)

CALBECK MACGREGOR & CO. LTD.

copy to indicate that the goods have been returned.

To: Hotel Merlin

Kuala Lumpur

There are two courses open to the
Sherry Stock Goods Total Goods Balance Cost Value of
on Taken Stock Con- Stock per Goods
hand in the case consumed bottle Consumed

in which case no discounting will be involved.

Alternatively they may give a credit note.

The store-keeper checks the credit note and

then enters it on the bin card. In the

Accounts Department the creditors ledger

clerk writes the credit notes in the

Purchases Returned Stock and post them to the

General Ledger and the individual creditors

accounts.

On receiving the consignment the

particulars are entered into a consignment

day book and subsequently into the individual

consignment form. Bin cards are also

maintained for goods on consignment.

At the end of every month the consignor

will check the stock with the store-keeper

and thus determine the amount consumed. An

invoice for the value of the stock consumed

will be sent to the manager for approval and

then to the store ledger clerk.

(iii) Goods Returned

Goods e.g. wine, liquor or spoilt items

when returned to the suppliers will be

accompanied by a Goods Returned Advice (Fig.6)

issued by the store-keeper. These advices

are in duplicate. The first copy is given

to the supplier when he collects the returned

goods and he is required to sign the second copy to indicate that the goods have been returned.

There are two courses open to the suppliers. They may replace the goods, (in the case of defective or spoilt goods) in which case no discounting will be involved. Alternatively they may give a credit note. The store-keeper checks the credit note and then enters it on the bin card. In the Accounts Department the creditors ledger clerk writes the credit notes in the Purchases Returned Book and post them to the General Ledger and the individual creditors accounts. For soft drinks and beer the store-keeper does not issue any Goods Returned Advice. Those goods to be returned are kept at the store. When the salesman comes, he will issue a credit note on the spot. The credit note is entered in the Purchases Returned Book by the creditors ledger clerk as above.

HOTEL MERLIN

M/S No.

Dear Sirs,

We return to you the following goods

Quantity	Size	Items	Amount
----------	------	-------	--------

Please pass credit or forward us a replacement to our company, on your credit note please quote the above document number.

..... Store-keeper

FIG. 6 GOODS RETURNED ADVICE

(iv) Other Credit Purchases

Other credit purchases include

1. Bowling Centre equipment and sundries
2. Electrical fittings, Printing & Stationery, toilet, laundry, advertising and other miscellaneous items.
3. Capital purchases.

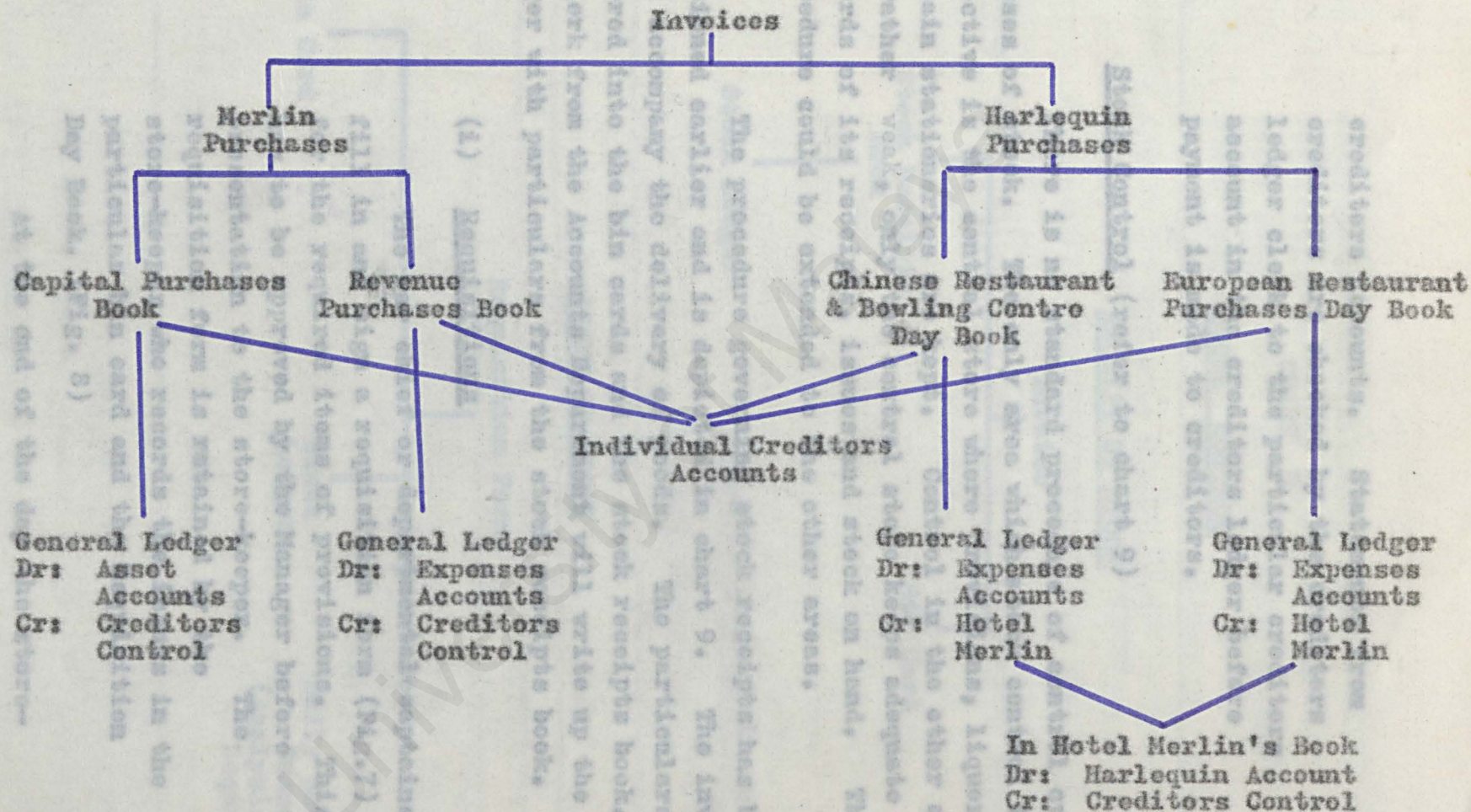
Most of these purchases are handled by the Secretary to the Managing-Director. No order forms are used. However, in the case of capital purchases official correspondence may provide the necessary controls. She orders the goods whenever the stock is low or when that particular item is required.

(v) Trade Creditors (Refer to chart 8)

All incoming invoices have to be authorised by the Manager before they are handed to the creditors ledger clerk. All purchases in respect of food, liquor and bowling centre are Harlequin expenses whilst all purchases in respect of hotel maintenance, and services to customers are Hotel Merlin's expenses. Hotel Merlin has two purchases day books (Purchases Journals) one for capital purchases and one for revenue purchases. Harlequin also has two purchases day books one for Chinese food and bowling centre and the other for European food section.

The creditors ledger clerk enters the details of each invoice in the respective purchases day book from which it is posted to the General ledger and the individual

TRADE CREDITORS



creditors accounts. Statements from creditors are checked by the creditors ledger clerk to the particular creditors account in the creditors ledger before payment is made to creditors.

II. Stock Control (refer to chart 9)

There is no standard procedure of control over all classes of stock. The only area which stock control is effective is the central store where provisions, liquor and certain stationeries are kept. Control in the other areas is rather weak, only the central store keeps adequate records of its receipts, issues and stock on hand. This procedure could be extended to the other areas.

The procedure governing stock receipts has been mentioned earlier and is depicted in chart 9. The invoices will accompany the delivery of goods. The particulars are entered into the bin cards and the stock receipts book. A clerk from the Accounts Department will write up the stock ledger with particulars from the stock receipts book.

(i) Requisitions

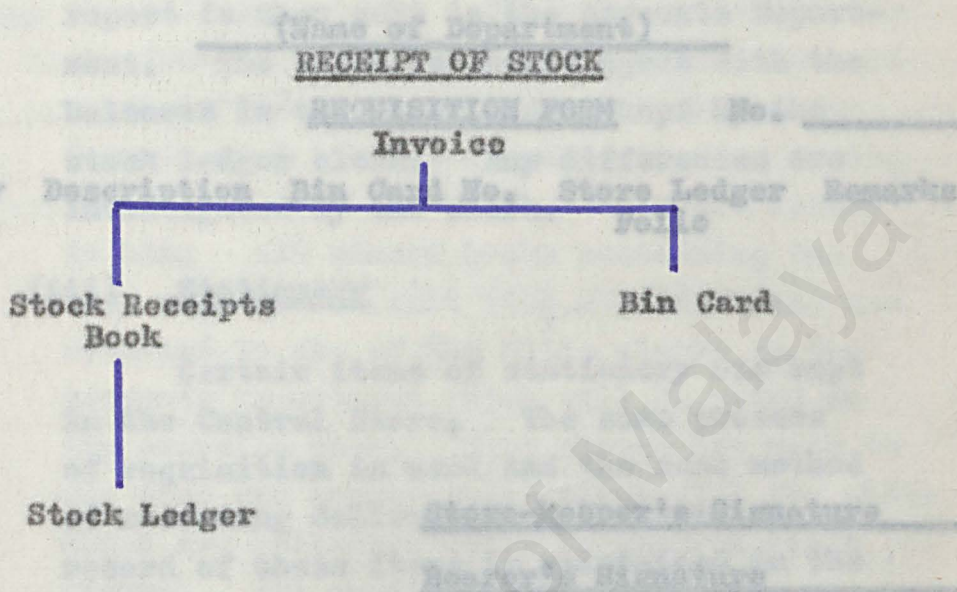
The bar chief or departmental captains fill in and sign a requisition form (Fig.7) for the required items of provisions. This has to be approved by the Manager before presentation to the store-keeper. The requisition form is retained by the store-keeper who records the issues in the particular bin card and the Requisition Day Book. (Fig. 8)

At the end of the day the store-keeper submits a summary report (Appendix 4. 5) to the Book-keeper of the Accounts Department. The report summarises the daily

departmental requisitions. The requisition forms are handed to the stock ledger clerk who will write up the stock ledger.

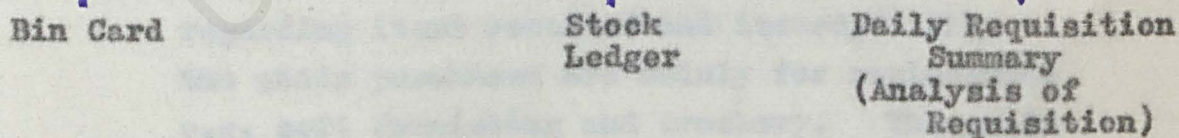
CHART 9

STOCK CONTROL



ISSUE OF STOCK

Requisition Forms



(14) Stock Count

At the end of every month a physical

departmental requisitions. The requisition forms are handed to the stock ledger clerk who will write up the stock ledger.

(Name of Department)
REQUISITION FORM No. _____

Quantity	Description	Bin Card No.	Store Ledger Folio	Remarks
----------	-------------	--------------	--------------------	---------

(iii) Stationery

Certain items of stationery are kept in the Central Store. The same process of requisition is used and the same method of recording delivery.

Store-keeper's Signature

Bearer's Signature

FIG. 7

(iv) New Store Book

REQUISITION DAY BOOK

Date	Bowling Alley	Dragon Court	Arthur's Cave	Bamboo Bar	Floors Thai Restau-	Total Kitchen
------	---------------	--------------	---------------	------------	---------------------	---------------

stock control. A record book is maintained regarding items received and issued. All the goods purchased are mainly for replacement e.g. soft furnishing and crockery. The goods kept in this store represent the unused stock for replacement. This stock as far as the accounts are concerned has no book value, as all purchases are charged straight to revenue.

FIG. 8

(ii) Stock Count

(vi) At the end of every month a physical

check of all stock is conducted by the Assistant Manager and the store-keeper. A closing stock summary sheet is prepared. (Appendix 4. 6). All bin card balances should agree with the physical count. The report is then sent to the Accounts Department. The balances should agree with the balances in the stock ledger kept by the stock ledger clerk. Any differences are investigated by the clerk.

(iii) Stationery

Certain items of stationery are kept in the Central Store. The same process of requisition is used and the same method of recording deliveries. However, no record of these items is maintained in the Accounts Department.

(iv) New Store Room

This store is for keeping the chit books, soft furnishing, cutlery and crockery etc. There is no store keeper and the store ledger clerk is in charge. There is no stock control. A record book is maintained regarding items received and issued. All the goods purchased are mainly for replacement e.g. soft furnishing and crockery. The goods kept in this store represent the unused stock for replacement. This stock as far as the accounts are concerned has no book value, as all purchases are charged straight to revenue accounts.

(vi) Control of Chit Books

Chit books should be strictly controlled.

However, in the case of Hotel Merlin there is no stock record of chit books. The Secretary to the Managing Director makes the order when-ever stock is low upon a physical check of the existing stock. The only control is in the form of an exercise book which notes all receipts and issuance of chit books. The departmental head is required to sign on the exercise book whenever the books are issued to him. All unused books containing the last copy of the chit (the counterfoils) are returned to one of the Bills clerks in the Accounts Department which will be noted in the exercise book. Test checks are made to see that the counterfoils agree with the chits which are collected daily by the two Bills clerks. All opening chit numbers are checked by referring to previous day's summary sheets from the various departments. This is to ensure that the chit numbers are in running order.

It should be noted that materials used by the Reception Counter are kept by that department and stock control is lacking except where certain forms are prenumbered and must be used in running order.

III. Sales and Trade Debtors

The Sales procedure have been described in the preceding chapters. In this section we will discuss the accounting aspects of sales. In the case of cash sales the procedure is quite straight forward. It is the credit sales with respect to city accounts and residents accounts that have to be analysed.

From previous discussion it was seen that the departmental cashier makes out a daily sales summary sheet analysing the daily sales into cash and credit sales. This summary together with the first and second copy of the chits (for city accounts, cash sales and resident accounts only the second copy) are collected from the departments by the two bill clerks from the Accounts Department every morning. The only exception is with respect to Dragon Court Chinese Section. The chits from this department are sent straight to the Assistant Book-keeper.

(i) City Accounts (refer to chart 10)

After collecting the chits and the daily sales summary sheet the two bills clerks perform the following functions:

1. Set out all the chits from each department in serial numbers.
2. Check all chits to the daily sales summary sheet.
3. Analyse the chits into cash and credit sales.
4. Credit sales are further analysed into:
 - (a) City Accounts and
 - (b) Residents Accounts.
5. A daily sales summary report is prepared and handed to the Book-keeper. The daily sales summary report (Appendix 4. 7) shows departmental credit and cash sales. Credit sales are analysed into City Accounts and Resident Accounts.
6. The Book-keeper enters the details of the daily sales summary report to the daily sales summary book (which is in effect the Harlequin Sales Journal). It is totalled at the end of the month and posted to the Harlequin's General Ledger.

(ii) Resident CHART 10 (refer to chart 11)

From TRADE DEBTORS it was seen that all original chits (first copy) are sent to the Billing Department for entry into the respective City Accounts Ledger cards.

The second copy is attached to the daily Chits (From all food and Drink Depts.) in the Accounts Department.

Daily Sales Summary Sheet
(Prepared by Depts.)

Subsidiary Records
Daily Sales Book
(Journal)

Daily Sales Summary Report
(Prepared by Bill Clerks)

City Accounts Debtors
Individual Account

Daily Sales Summary Book (Journal)
(The Book-keeper enters the details of the Daily Sales Summary Report into the Daily Sales Summary Book)

and after making the necessary adjustments and corrections the daily final report is

Harlequin General Ledger

Dr: Hotel Merlin A/C (In respect of City Accounts),

Dr: Hotel Merlin Resident Control

(In Respect of Resident Accounts)

Cr: Sales service charges, and miscellaneous charges.

The daily final report is sent to the Accounts Department for entry into the Hotel Machine

In Hotel Merlin's Books

Using General Journal

Dr: City Account Debtors

(In respect of City Accounts)

Cr: Harlequin

are posted to the Merlin General Ledger.

(iii) Extensions of Credit Facilities

Application for credit facilities must

(ii) Residents Accounts (refer to chart 11)

From previous discussion it was seen that all original chits (first copy) are sent to the Billing Department for entry into the respective Resident Debtors Ledger cards. The second copy is attached to the daily sales summary sheet sent to the Bills Clerks in the Accounts Department.

The Billing Department prepares the residents' bills by entering details from:

- (a) Room rental records (for accommodation)
- (b) Chits (for food etc.)
- (c) Telephone, dry cleaning and pressing, records (for services rendered).
- (d) Miscellaneous charges records (for postages, payment on behalf of resident)

A machine trial balance is prepared and after making the necessary adjustments and corrections a daily final report is prepared which shows the total daily income from residents analysed into room rentals, income from food and drinks departments and service charges, and miscellaneous charges. The daily final report is sent to the Accounts Department for entry into the Hotel Machine daily recording book (which is the Hotel Merlin Sales Journal), which is added up at the end of each month and the columnar totals are posted to the Merlin General Ledger.

(iii) Extensions of Credit Facilities

Application for credit facilities must

CHART 11

TRADE DEBTORS

Resident Accounts

Room Rental
(Records)

Chits

Telephone
Dry Cleaning
etc. (Records)

IV. Cash and Bank

Bill to Customer
(Duplicate sent to Resident
Accounts Clerk - Accounts Dept.)

(1) Cash Receipts (refer to Chart 12)

Subsidiary Records

Cash and cheques received comprise of:

1. Cash from food and Individual Resident
departments. Accounts

2. Cheques received in the mail.

Daily Final Report From
Hotel Posting Machine

Hotel Machine Daily
Recording Book

Hotel Merlin General Ledger
Dr: Total Column to Debtors
Cr: All Income from Apartment
Rentals - Income Account
Cr: All Income from food and
drink - Resident Accounts
Harlequin

be made on the prescribed form (Appendix 4. 8) or by official letter. A guarantor is deemed to be necessary specially in cases of personal accounts and for firms that are not so reputable.

Application must be approved by the Manager and the Secretary and if necessary by the Managing Director. On approval the applicant is given an account number.

IV. Cash and Bank

In this section will be discussed cash receipts, cash payments, petty cash and postage.

(1) Cash Receipts (refer to chart 12)

Cash and cheques received comprise of:

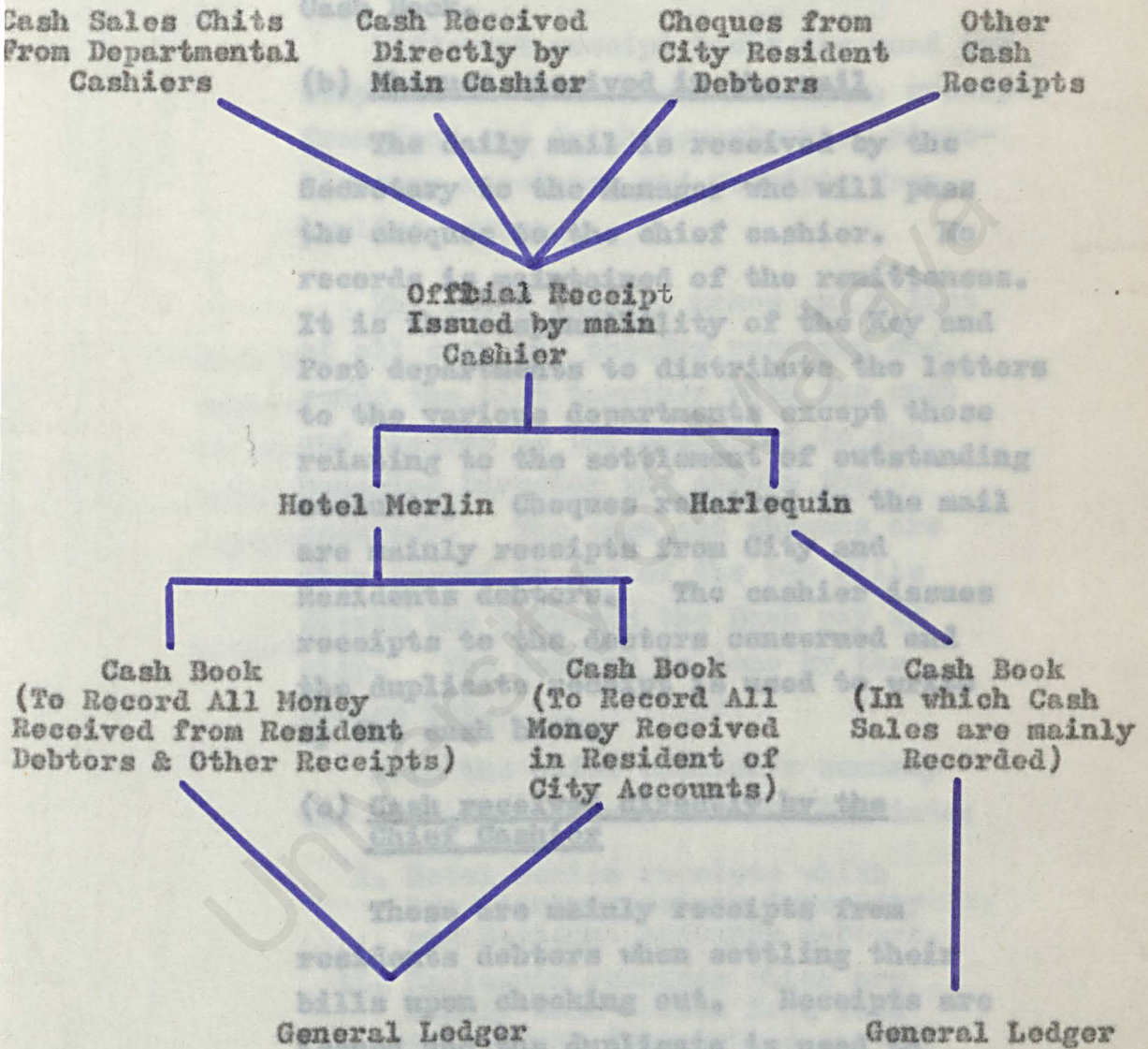
1. Cash from food and drink departments.
2. Cheques received in the mail.
3. Cash received directly by the cashier in settlement of Residents Accounts.
4. Other receipts.

(a) Cash from food and drink Department

Chits are made out for all cash sales. At the end of the day the department cashier hands the total cash collection to the chief cashier the cash sales chits for the day and a summary of the cash received are then handed to the two Bills Clerks of the Accounts Department. The two clerks then check to see that the total of the cash sale slips agrees

CHART 12

CASH RECEIPTS



with the original receipt from the main cashier and the summary list submitted by the departmental cashier. The main cashier uses the duplicate of the receipts issued to write up the Cash Book.

(b) Cheques received in the mail

The daily mail is received by the Secretary to the Manager who will pass the cheques to the chief cashier. No records is maintained of the remittances. It is the responsibility of the Key and Post departments to distribute the letters to the various departments except those relating to the settlement of outstanding accounts. Cheques received in the mail are mainly receipts from City and Residents debtors. The cashier issues receipts to the debtors concerned and the duplicate receipt is used to write up the cash book.

(c) Cash received directly by the Chief Cashier

These are mainly receipts from residents debtors when settling their bills upon checking out. Receipts are issued and the duplicate is used to write up the cash book.

(d) Other receipts

Miscellaneous receipts are treated with the same procedure. For example extra tips may be given by the guest

to be entered into the central pool. Receipts will be issued and the amount entered into a record book. - Tips given to individual employees are the property of that particular department.

(11) Different receipt books are used for City Accounts, Resident Accounts, receipts from food and drink departments, miscellaneous receipts, and receipts from bowling centre.

All The chief cashier makes out a list of all cash and cheques received and sends the list together with the cash and cheques to the Secretary to the Managing Director who checks the accuracy. The cash and cheques are then passed to one of the two Bills Clerks who prepares the Bank pay in slip. The banking is done by the office boy.

From the chief cashier's summary the cash and cheques are divided into:

- i. Hotel Merlin receipts which are mainly receipts from City and Resident Accounts debtors.
- ii. Harlequin receipts which are mainly cash sales from food and drinks departments.

Hotel Merlin has two cash receipts books. One for recording all money received in respect of Resident accounts and other receipts. There is a column in the cash book for Bangkok Bank Banking. The second cash book is used to record all money received in respect of city

accounts only. There is no bank column. Harlequin has only one cash receipts book with one bank - United Malayan Banking Corporation.

(ii) Cash payments (refer to chart 13)

Payment comprises of:-

1. Payment to creditors
2. Wages
3. Other payments.

All these are payments by cheques and does not include payments made by the chief cashier e.g. salary advance, cash advances to staff members and customers, payment on behalf of customers and payments to other departments.

For payments by cheques a payment voucher must be prepared.

(a) Payments to Creditors

All statements and invoices from the creditors are checked by the creditors ledger clerk as to calculation and extension and to order copies, bills or invoices if available. After checking he initials the statements and passes it to the Secretary to the Managing Director who makes out the payment voucher and prepares the cheques. All cheque books are controlled by this secretary.

(b) Wages

The Staff Officer prepares the

CASH PAYMENTS

Statements from
Creditors

Wages
Sheets

Other Bills
(Cash Purchases)
(Floor Show Artists)
(Telephone etc.)

Payment Vouchers

Hotel Merlin
(All payments are mainly
to Creditors, wages and
Other bills)

Harlequin Sdn. Bhd.
(very few entries;
Payments mainly for floor
Show expenses, cash purchases
and bank expenses)

Cash Payment Book
(U.M.B.C. Ltd.)

Cash Payment Book
(Bangkok Bank)

Cash Payment Book
(U.M.B.C. Ltd.)

General Ledger

General Ledger

the wage sheets and presented them to the Manager for approval. The Secretary to the Managing Director then makes out the payment voucher and prepare the cheque.

However, these vouchers are not destroyed or cancelled in any way.

(c) Other payments

Payment voucher based on bills are made out after which the cheque is prepared. These payments are mainly for cash purchases, floor show artists and telephone charges.

(iii) Control of cheques

All cheques must be signed by the two signatories viz. the Manager and the Manager Director. The amount on the cheque is embossed by a mechanical cheque writer. The cheque number of all spoilt cheques are cut out and attached to the cheque butt.

Payments are divided into Hotel Merlin payments and Harlequin payments. Hotel Merlin has two cash payments books for United Malayan Banking Corporation and Bangkok Bank Ltd. while Harlequin has only one cash payments book, that of United Malayan Banking Corporation.

the custody of employment records, payment of wages and salaries and the payment of service.

(iv) Petty Cash

(1) An imprest petty cash of \$500/- is maintained by the petty cashier (who is actually an employee of Ban Guan Co. Ltd., an associated company). All petty cash vouchers must be approved by the Manager or the Managing Director. When the float is low the petty cashier presents

the vouchers for reimbursement. A cheque is prepared by the Secretary to the Managing Director and passed on for approval and signature of the Managing Director and the Manager. However, these vouchers are not destroyed or cancelled in any way but returned to the petty cashier for safe-keeping.

This may be said to be a major weakness in the control of the petty cash. All used vouchers must be cancelled to prevent their representation for reimbursement.

(v) Postage

No postage stamp is used as the hotel uses an approved posting machine. All outgoing letters are recorded in an exercise book by the office boy as to the addressee and the postage used. Receipt stamps are handled by the chief cashier.

V. Wages and Salaries

The Staff Officer and his assistant are housed in a cubicle quite removed from the rest of the administrative staff. These two officers are in charge of all matters pertaining to personnel. That includes the custody of employment records, payment of wages and salaries and the payment of service charges.

(i) Employment Records

The two officers keep the staff records of all members of the staff paid by cash. The relevant details are entered in the cards, and the staff officer signs the cards. As

such he :

- (a) makes out the cards and record the particulars.
- (b) checks and signs it.
- (c) exercise custodian over the cards.
- (d) records all future changes with regard to increment, bonuses etc.

(ii) Overtime

Employees are paid a fixed rate for overtime work, whehter on their own will or requested to by their superiors.

(Refer to Appendix III). All overtime must be authorised by the departmental heads on the approved forms (Appendix 4, 9). These forms are then sent to the Staff Officer.

(iii) Salary Advances and Cash Advances

Salary and cash advances are allowed which are to be deducted from the pay packets and service charges payments respectively. Applications for such advances must be approved by the manager on the prescribed vouchers. Payment is made by the chief cashier who will be reimbursed from deduction made by the Staff Officer.

(iv) Compilation of Payroll and Payment
(refer to chart 14)

The Staff Officer prepares the wages sheets from the salary records, the overtime records and the salary advances vouchers. The hotel uses the Kalamazoo Copy Writer System which provides for an original

CHART 14

master pay sheet, receipt sheets and an individual pay slip. The pay slip is **PAYMENT OF SALARIES AND WAGES** indicating

to the employee how the amount was arrived at.

The Manager initials the sheets to indicate

approval, after which the cheque is cashed by the Staff Officer and the cash placed in individual envelope with the employee's name written on it.

The employees then collect their wages from the Staff Officer with the exception

of the **Salary Sheet (Less EPF Deductions)** which the Staff Officer gives to the Managing Director.

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Overtime
Records

Salary Records

Salary Advances
Records

Salary Sheet
(Less EPF Deductions)
Kalamazoo Copy Writer System

Approved by Manager

Cheque issued by
Secretary to Managing Director
(After Approval by M/D)

Pay Packets

Deductions
For Salary Advances

Chief Cashier

master pay sheet, personal receipt sheets and an individual pay slip. The pay slip is to be included in the pay packet indicating to the employee how the amount was arrived at. The Manager initials the sheets to indicate approval, after which a cheque is made out by the Secretary to the Managing Director. The cheque is cashed by the Staff Officer and the cash placed in individual envelope with the employee's name written on it. The employees then collect their wages from the Staff Officer (with the exception of the Bowling centre employees. The Staff Officer give the cash to the Bowling Centre Manager who pays the employees.) All employees are known to the Staff Officer and they acknowledge receipt of wages by signing on their personal receipt sheets.

Although the labour turn-over is high there is no reconciliation made for month to month pay sheets.

(v) Payment of Service Charges
(refer to chart 15)

Service charges payments are made on a different day from the wages payments. A summary is made by the Bills Clerk of the total amount of all chits (both cash and credit sales) and this is passed on for approval by the Manager. A cheque will be issued for the amount and handed to the Staff Officer who will cash it. The amount will be divided by the total number of points of all the employees entitled to service charges to arrive at payment per point. The amount for the number of points

accruing to the CHART 15 will be put in an envelope in accordance with the service charge PAYMENT OF SERVICE CHARGES Staff Officer. Deductions are made for cash advances on the strength of signed vouchers.

Chits
(vi) 12 (10% Service Charge Added)

The hotel does not have a uniform increment system. All increments must be authorized by the Manager or the Managing Director at the discretion. A memo will be sent to the Staff Officer regarding the increment, and adjustments will be made in the staff record card.

Service Charge
Summary

Approved by
Manager

Cheque issued

Service Charges
Payment
On point system

Deduction for
Cash Advances

Chief Cashier

accruing to the employees will be put in an envelope in accordance with the service charges pay sheet prepared by the Staff Officer. Deductions are made for cash advances on the strength of signed vouchers.

(vi) Increment

(11) The hotel does not have a uniform increment system. All increments must be authorised by the Manager or the Managing Director at their discretion. A memo will be sent to the Staff Officer regarding the increment, and adjustments will be made in the staff record card.

VI. Fixed Assets

VII. All capital expenditure of substantial amounts must be approved by the Board of Directors and are recorded in the minutes. Expenditures exceeding approved amounts require further authorization from the board. Expenditure on major maintenance or repairs must be authorized by the Manager or the Managing Director.

(i) Fixed Assets Record

For capital items details are recorded in individual cards for each item. This forms the Fixed Asset ledger which establishes accountability over the actual assets which are in the custody of the various departments of the hotel, and this accountability is confirmed through the results of a physical inventory. The fixed asset ledger is in turn controlled through general ledger controlling accounts. Major improvements are capitalised. The

decision as to whether an item is a capital expenditure or a revenue expenditure lies with the Managing Director. Detail records are also kept of the fixture and furnishing of each room. However, most replacement items for example soft furnishing are charged off to revenue accounts.

(ii) Depreciation

Depreciation charges are made yearly on a fixed scale (actual scale not made available to the writer) and the Accumulated depreciation is recorded in the individual fixed assets cards. Sales and disposal of assets of a fixed nature must be authorized by the Board of Directors.

VII. Nominal and Private Ledgers and Financial Statements

The existing books of account appear to be adequate for the business and reasonably well managed. However, a private ledger with regards to the remuneration of the higher officers is not maintained. As there is a great discrepancy between remuneration and responsibility a private ledger to this effect would be advisable. This private ledger should be kept by the Managing Director and should not be made accessible to the staff of the Accounts Department. For example, the salary of the Secretary/Accountant should not be made known to the other members of the staff. It is because of his relatively low remuneration, (as compared with his position in the company) that certain members of the staff does not hold much respect for his position.

Monthly profit and loss statements are prepared

by the Book-keeper. These statements should be ready two weeks after the end of the previous month. These statements are then handed to the Secretary/Accountant for his examination.

WEAKNESS IN THE SYSTEM OF INTERNAL CONTROL AND RECOMMENDATIONS FOR IMPROVEMENT

It is the responsibility of management to devise, install and enforce a system of internal control adequate to:

1. Safeguard the assets of an organization
2. Check the accuracy and reliability of accounting data
3. Promote operational efficiency
4. encourage adherence to prescribed managerial policies

and for these purposes, to provide an appropriate plan of procedures; sound practices and, lastly personnel of appropriate number and capabilities.¹

The responsibility of management does not end with the installation of control procedures initially deemed necessary. A system of internal control must be under constant surveillance to determine

1. that prescribed policies are being interpreted properly and are being carried out
2. that changes in operating conditions have not made the procedures cumbersome, obsolete or inadequate and
3. that where breakdown in the system appear, effective corrective measures are taken promptly²

The main short-coming of the system under study is that too much reliance is placed on trust. Though confidence in the integrity of one's own employees is good a properly planned system of internal checks and controls

¹AICPA, op. cit. p. 17

²Ibid., op. cit. p. 18

CHAPTER VII

WEAKNESS IN THE SYSTEM OF INTERNAL CONTROL AND RECOMMENDATIONS FOR IMPROVEMENT

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¹AICPA, op. cit. p. 17

²Ibid., op. cit. p. 18

will cut down the element of uncertainty. Management should not depend too heavily on the public accountants to surface all frauds, malpractices or inefficiency. The auditors merely conducts test-checks and a hundred per cent audit is never carried out. With a sound system of internal control these undesirable practices would become difficult and even if possible would not remain undetected. As such a sound system of internal control becomes of major importance.

The broad design, considerations of detail, and the integration of the whole system of internal control demand careful planning. The AICPA Committee on Auditing Procedures is of the opinion that such planning may be "best accomplished by laying out the plan of internal control on paper in much the same manner as physical construction projects are conceived, designed and tested architecturally before they are approved."³

1. Plan of Organization

The various departments are functioning effectively and rather independently. Though departmental independence is good for control there seem to be a lack of co-operation and general co-ordination. This may be due to the poor system of communication within the organization. Members of the organization are seldom kept informed of any changes in personnel or in the organization. Circulars should be issued frequently to all levels of the organization with respect to non-confidential matters. There should be a greater degree of co-operation between the operating departments and the other departments, for example, between the Billing (machine) department and the Accounts department and between the food and drink departments with the store.

³ Ibid., op. cit., p. 17

Moore, P.A. & Stettler, H.F. "Accounting Systems For Management Control". Irwin (Ill. 1967) pp. 43.

The departments that are operating are sufficient to handle the existing volume of business. However, it is recommended that an internal audit department be set up. This department should be independent of the Accounts department and should be directly responsible to the Managing Director.

"An internal audit staff may be used not only as a check on the accuracy of the accounting data and the safeguarding of the company's assets, but also as an instrument of management in determining adherence to prescribed policies. Thus, the audit activities should be widespread, covering all departments."⁴ "Internal auditing is an independent appraisal activity within an organization for the review of accounting, financial, and other operations as a basis for service to management. It is a managerial control, which functions by measuring and evaluating the effectiveness of other controls."⁵

To be of any use to management, the internal auditor must be free from all departmental influence so that his reports on the operating departments may be unbiased. His reports should be presented directly to the Managing Director and free of interference from the Accountant.

The Accounts Department should also be expanded to include a costing and budgeting section. This will improve controls and establish reasonable performance standards for each department. Moreover, the hotel will be able to present a more realistic pricing system which may prove to be an edge over its competitors. This could be achieved by the proper matching of cost and revenue to determine the profit margin, the collection of cost data relating to each cost centre and the determination of its performance. Therefore, the computation of the percentage return on each

⁴AICPA, op. cit. p. 8

⁵Moore, F.A. & Stettler, H.F. "Accounting Systems For Management Control", Irwin (Ill. 1967) pp. 43.

class of food and drink, the investigation of the profit trend of each service centre individually and the hotel as a whole and through the feed back determine the causes for the trend and possible managerial actions. To the hotel the customer is of the greatest importance and as long as one section of the hotel proves to be unsatisfactory the entire hotel is affected. As such managerial policies must be consumer oriented.

At the same time the responsibilities and authority entrusted upon him. This should include:-

These two recommendations are made with the expansion of the hotel in mind. Moreover, the two departments need not be very large. The Internal Audit department may be staffed by two or three employees and the costing and budgeting section may be staffed by two additions to the Accounts Department. These moves are likely to reap in greater benefits than the cost involved.

This will enable the person to see how he fits into the entire machinery.

If management policies is to economise on staff remuneration then the benefits of more accurate accounting data and information and better control may have to be foreseen. It is also impossible to add the burden of doing budgeting work to the existing accounting staff as they are already working at full capacity. The problem here is to balance the cost with the benefits. In the opinion of the writer this investment would not be wasted (considering the profits of the company) especially in the long run.

These are the two major recommendations to the organization structures and should be incorporated in the organization chart. It is recommended that the organization should be charted according to functional responsibilities as this would allow better coordination and control. The past "policy" of the hotel in fitting the organization to the man should be abandoned. A chart should be tailored to the specific requirements of the company. Further, the following recommendations will help to strengthen the organization and put management on a better footing.

(i) Job Description

"Formalizing the allocation of responsibility through organization charts and written job descriptions is in itself a major step in internal control."⁶

Each post in the organization must be described in sufficient detail to allow the person concerned (or the applicant) an insight into the responsibilities and authority entrusted upon him. This should include:-

- a. qualification required
- b. duties and responsibilities
- c. remuneration and job prospect
- d. privileges and fringe benefits
- e. immediate superiors and subordinates

This will enable the person to see how he fits into the entire machinery. Two examples may be brought out here, that of the post of staff officer and the Secretary to the Managing Director. These two cases have been discussed in chapter three. A properly drawn organization chart will help to clear up any uncertainty as to their responsibilities and their authorities. An important (and heavily depended upon) member of the organization reflected that "too many people in the organization feel too important." From the ensuing interview it was made known to the writer that he is not very satisfied with his job although he is relatively well-paid. The other aspects of employment come into focus. The sense of belonging and the satisfaction of the job is sadly lacking. This attitude will lead to routine and mediocre work and the initiative to improve is lost. This view was later reinforced by two other officers interviewed.

⁶ Moore, F.P. & Stettler, H.P., op. cit., pp. 37

Management should instill the sense of belonging into each and every one of the staff and the attitude of the staff could be improved by better terms of employment (not necessarily higher pay) for example, recreational facilities, rest rooms, facilities, annual increment, and medical benefits (including hospitalisation). Management should not wait for union action before implementing these policies. These should be part of the development plan of the hotel.

(ii) Flow of Responsibility, Authority and Accountability

For the smooth functioning of the organization it is important to establish a proper flow of responsibility and authority downwards and flow of accountability upwards. This flow should cover all levels of the hierarchy. Consideration should be given to the reasonable span of control and the division of responsibilities. No one employee should be responsible to more than one superior and no one responsible officer should control employees outside his span of control.⁷ In accordance with this principle it is recommended that the post of General Supervisor be scrapped. This post is a redundancy and generates a great deal of latent discontent.

(iii) Division of Responsibilities

One of the cardinal principles of internal control is that the responsibilities related to handling any business transaction should always be divided among two or more persons. "No one person should control all phases of a transaction without the intervention of some other person or persons who afford a crosscheck."⁸

Instances of inadequate control in this aspect are given below. The Kitchen Clerk makes out the order for

⁷The span of control includes delegated responsibilities by functional authority.

⁸AICPA, op. cit. pp. 8.

frozen food purchases contacts the supplier as well as checks the purchases and invoices when they arrive. Another example is that the staff officer keeps all personnel records, prepares wages sheets and pays the wages. It is suggested that duties be divided so that collusion is necessary for fraud to be perpetuated. If division of duties is not practicable there should be closer supervision by a responsible officer of the company. then the cashier must be discouraged from engaging in money changing functions.

Certain division of duties would not incur further expenditure. By merely reshuffling the duties of some of the members of the staff a greater degree of control could be attained. For example, the staff officer may perform all his existing functions except the actual pay-out which could be done by any one of the staff in the Accounts Department, preferably the typist. There should be specific duties for the Staff Officer and his assistant. At present there is no division at all. Further control could be added by having the payroll compilation functions rotated at regular intervals. Supervision could be established by having a responsible officer (who is in no way connected with personnel) witnessing wages pay out on a surprise basis. Moreover, the staff record cards after being prepared by the Staff Officer should be countersigned by another responsible officer.

Another problematic situation is that of the Chief Cashier who handles both cash receipts and cash disbursement. It will be uneconomical to have two cashiers, one for receipts and the other for disbursement. However, part of the problem can be solved by limiting his functions to those of dealing with customers and receipts from other departments. Payments to the hotel's own employee for salary advances and cash advances should be handled by the Petty Cashier.

The writer was further informed that substantial profits have been made from the money changing function but for which no record has been maintained. Though a top

officer contented that the chief cashier is extremely honest and has handed his profit to the hotel this is still undesirable. The amount handed in may not be the actual profit. In fact the chief cashier admitted that part of the profit is kept in his till to make good any shortages, in other words to cover up his mistakes and inefficiency. This problem may be solved by the setting up of a bank⁹ in the hotel premises. Even then the cashier must be discouraged from engaging in money changing functions.

To supplement the above recommendations, standing instructions or a procedure manual should be drawn up. This will eliminate any uncertainty that may remain.

2. Centralised Purchasing (refer to chart 16)

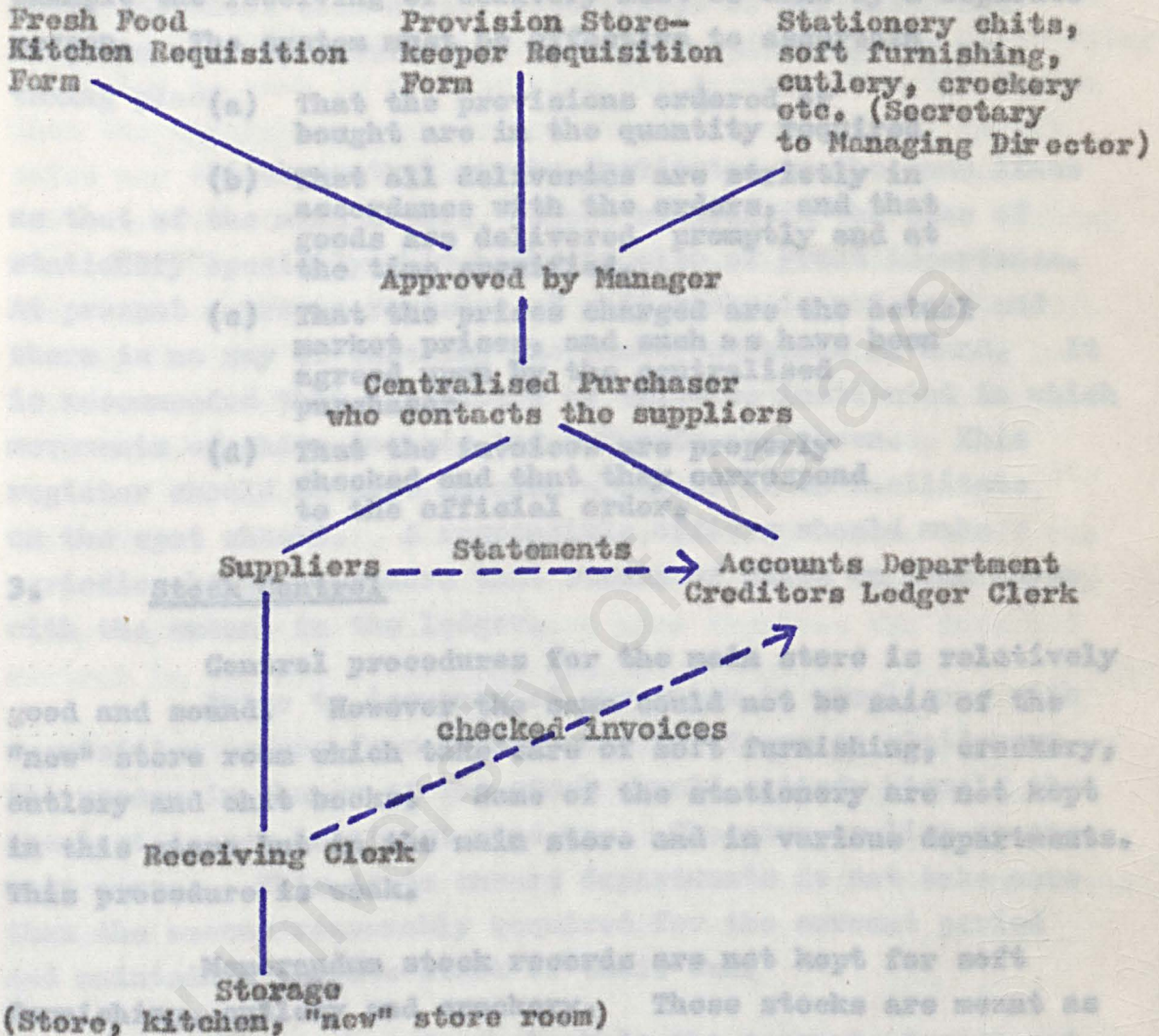
The present system of having three different persons taking charge of different purchases makes control difficult. It would be better to have a centralised purchasing function taking care of all purchases. The procedure is depicted on the chart. The present purchaser should only take care of the ordering function upon receiving approved requisition orders from the various departments. After placing the orders, a copy of the original requisition orders should be sent to the Accounts Department Creditors ledger clerk. All goods should be delivered to the Receiving Department possibly manned by one of the existing staff. After which the goods will be stored in their respective centres and the invoices passed on to the Creditors ledger clerk for comparison with the orders.

If the above procedure is not possible under existing circumstances, then there should be greater supervision on the purchasing function. All three persons involved

⁹ At the time of the study the bank, a branch of a leading local bank was still under construction. It is sited diagonally opposite the Reception Counter.

CHART 16

CENTRALISED PURCHASING



in purchasing exercise all the functions from making out the orders to checking the invoice. A break in this chain of functions must be made if control is to be established. For example the receiving of delivery must be done by a separate person. The system must be effective to ascertain

(a) That the provisions ordered or bought are in the quantity required

(b) That all deliveries are strictly in accordance with the orders, and that goods are delivered promptly and at the time specified.

(c) That the prices charged are the actual market prices, and such as have been agreed upon by the centralised purchaser

(d) That the invoices are properly checked and that they correspond to the official order.

3. Stock Control

Control procedures for the main store is relatively good and sound. However the same could not be said of the "new" store room which take care of soft furnishing, crockery, cutlery and chit books. Some of the stationery are not kept in this store but in the main store and in various departments. This procedure is weak.

Memorandum stock records are not kept for soft furnishing, cutlery and crockery. These stocks are meant as replacement stock and are charged direct to the revenue accounts. However, the value of the above items is significant enough to warrant stock records.

It is recommended that a memorandum stock ledger be instituted to keep an account record of all soft furnishing, cutlery and crockery on hand.

There are also no memorandum stock records in respect of carpetry stock. A considerable amount of carpetry

material is being purchased for capital renovations but no record is maintained of stock on hand. If it is felt that the company cannot afford to institute stock records in the above instances then closer supervision of purchases and usage be made to ensure that wastage or pilferage is not taking place.

Stock control may be instituted on the same lines as that of the main store. Stock records in the case of stationery specially chit books is also of great importance. At present a proper register of chit books is not kept and there is no way of checking the number of books on hand. It is recommended that a register of chits be instituted in which movements of chits inwards and outwards are shown. This register should be kept in such a manner as to facilitate on the spot checks. A responsible officer should make periodic checks to ensure that stocks of chits on hand agree with the amount in the ledger.

Prior to issuance of any stock in compliance with requisition orders from departments for forms or stationery the person in charge of the stock should satisfy himself that the last issues is almost used up. The same applies to the main store. This is to ensure departments do not take more than the amount reasonably required for the current period and maintain a private stock of their own.

The stock ledger clerk in the Accounts Department is at present writing up the stock ledger from the stock receipts book prepared by the store keeper in respect of incoming stock. The stock ledger clerk should not obtain information for incoming stock from the stock receipts book. Any comparison of the ledger and the receipts book will obviously agree. He should enter the details direct from invoices. This will ensure that there is a cross-check on the invoices and the goods received.

4. at Bowling Centre The Secretary to the Manager merely hands the cheques to the cashier. It will be advisable for

The present system of recording sales at the bowling centre is not correct. All sales are recorded as cash sales though sales are both cash and credit. If the idea of treating all sales as cash is to determine the revenue from the centre then the figure may even be incorrect. Some of the credit sales may turn up to be bad debts. At present even bad debts are treated as cash sales. As such part of the Bowling Manager's float may never be recovered from the debtors and has to be reimburse by the Accounts Department. The \$6,000/- Bowling Manager's float should be withdrawn. All chits in respect of credit sales should be sent to the Accounts Department where one of the two clerks who look after city and resident debtors can keep a bowling centre debtors ledger. This should also help to release the bowling centre staff who at present write up the bowling centre debtors ledger to help other departments. This measure also improves the internal control in respect of bowling centre debtors.

Similarly, there is no reason why expenses incurred by resident accounts debtors should be paid out by the chief cashier first to reimburse the bowling centre. The existing procedure for other departments in respect of resident accounts should also be followed in the bowling centre.

5. Debtors The reasons should be investigated as it indicates inefficiency or malpractice at the source from which the entry originated. The follow up procedure regarding debtors should be standardized and centralised. The present system of allowing the Billing (Machine) department and the Bowling centre to follow up on their debtors separately is uncoordinated with the follow up procedure in the Accounts Department. All accounts receivable must be handled by the Accounts Department.

6. Remittances To overcome this deficiency a record should be maintained of all chits posted by the machine or any correction or

A register of all cheques received through the mail

is at present not kept. The Secretary to the Manager merely hands the cheques to the cashier. It will be advisable for the Secretary to make a list of all cheques received and a copy should be sent to the Accounts Department for cross-reference to debtors accounts, and the daily banking.

7. Dragon Court Chits

The two Bill clerks from the Accounts Department collect chits every morning from all catering departments except the Chinese section of the Dragon Court. The chits from this section is sent straight to the Assistant Bookkeeper. There does not appear to be any specific reason for this exception. As such the standard procedure applicable to all catering departments should also be instituted in this section.

8. Machine Trial Balance

The daily final report from the hotel posting machine which is an analysis of the daily total income from resident debtors is at present being altered in ink. The alterations are supported by vouchers which are not authorised by any responsible officer of the Company. This practice should be stopped. All alterations must be supported by vouchers authorised by a senior officer of the Company. The reasons for the alterations should be investigated as it indicates inefficiency or malpractice at the source from which the entry originated.

The Hotel Merlin Sdn. Bhd., resident control account in the Harlequin Sdn. Bhd.'s books does not agree with the Harlequin residents accounts in the Hotel Merlin's book. This is due to the lack of communication between the Billing (Machine) department and the Accounts Department. To overcome this deficiency a record should be maintained of all chits not posted by the machine or any correction or

amendments made by the machine department to the final daily report. A copy of the record made should be sent to the Accounts department.

9. Other Sound Practices

(a) The staff should be encouraged to take advantage of the annual leave. For people handling cash or where the possibility of fraud is high, compulsory leave should be instituted. This will prevent them from concealing a fraud for any long period of time.

(b) Cash functions should be rotated periodically so as to prevent a fraud from being perpetuated and also to prepare another employee to fill in when the regular person in charge goes on leave.

(c) The company should avoid placing relatives in complementary positions, for example, the Chief Cashier's wife is in charge of resident accounts in the Account Department. This is an internal control weakness and must be corrected.

(d) The monthly reports should be issued at the most two weeks after the end of the month. If reports are allowed to be delayed its effectiveness and usefulness would be lost.

(e) As the labour turn-over is fairly high it would be advisable to prepare monthly payroll reconciliation. This not only keeps track of the increases and decreases in payroll but it also provide internal control on the Staff Officer and

personnel department.

10. Possibility of Mechanization

The city account debtors and the resident account debtors records are at present being hand-written by two clerks in the Accounts Department. These two clerks are working at full capacity and will not be able to cope with the future expansion of the hotel. As such it will be advisable to install accounting machines which will present the following benefits:-

1. It facilitates speedy and accurate preparation of debtors records
2. It dispenses with the necessity of voluminous ledgers as machine posting entails the use of cards which are neat and easy to store.
3. The two clerks will be able to substitute one another when the other goes on leave.
4. It provides for future expansion and increase in volume of business.

11. General

The hotel is in a state of rapid development. The writer would suggest that in view of the expansion of its activities it would be advisable to adopt more progressive management policies. This does not necessarily entails complicated structure and sophisticated procedures. Rather it is the outlook of management that is of prime importance. Management must realise their obligation to the employees as well as to the customers and should not in trying to please one be unfair to the other. If the company adopts more progressive policies, but at the same time instituted greater control the profits will definitely go up.

SECTION I - PURCHASES AND TRADE CREDITORS

INTRODUCTION

1. At which stage is the accounting control over the purchase of goods and services first exercised?

- Record of Invoices - fresh food
- Record of Order Forms - provisions
- Record of Invoices - other purchases

(Accounting control over the purchase of goods and services may begin with control over purchase orders; with a record of the receipt of goods or services; or with a record of invoices received. The control system will be governed by the method of doing business and the volume of transactions.)

APPENDIX I

INTERNAL CONTROL QUESTIONNAIRE

COMPLETED ON 26TH APRIL, 1968.

BUYING

2. Who are authorized to issue requisitions to the buying department for supplies or services required?

Position	Type of Goods or
Chief Cook	Fresh food.
Store-keeper	provision.

..... denotes internal control weakness.

3. (a) Are official orders issued showing suppliers' names, quantities ordered and prices? Yes.
 (b) Are copies retained? Yes.
 (c) If goods are supplied or services rendered without the issue of an official order, what controls are there to ensure that all purchases are duly authorized?

Control procedure not definite.

SECTION I - PURCHASES AND TRADE CREDITORS

INTRODUCTION

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Record of Invoices - other purchases

(Accounting control over the purchase of goods and services may begin with control over purchase orders; with a record of the receipt of goods or services; or with a record of invoices received. The controls applied will be governed by the method of doing business and the volume of transactions. The absence of certain of the controls detailed in this section may not, in the particular circumstances of the client, necessarily indicate weakness.)

BUYING

2. Who are authorised to issue requisitions to the buying department for supplies or services required?

Position	Type of Goods or Services
Chief Cooks	fresh food.
Store-keeper	provision.

3. (a) Are official orders issued showing suppliers' names, quantities ordered and prices? Yes.

(b) Are copies retained? Yes.

(c) If goods are supplied or services rendered without the issue of an official order, what controls are there to ensure that all purchases are duly authorised?

Control procedure not definite.

X

4. Who authorises orders and what are their authority limits?

Position	Authority Limit.
	No Limit.

Provision and Fresh food - Manager
other purchases - Secretary to
Managing Director.

5. Are such persons independent of those who issue requisitions? Yes

(Proper ordering procedures are necessary to ensure that purchases are only made on terms and conditions acceptable to the client; that they are in respect of goods and services that are necessary for the business; and that they are from suppliers approved by the client.)

6. What record is kept of orders placed but not yet fulfilled and how is the record compiled?

No records.

(The record may be compiled by numbering purchase orders and recording on the copies details of deliveries of goods, or other information relating to the execution of the orders. Such a record enables outstanding commitments to be determined and their terms and delivery periods reviewed. Control of this nature helps to prevent over-ordering and, in some industries, is of particular importance in determining any liabilities or losses arising out of contracts placed for future delivery, e.g. in the case of the commodity trade)

GOODS INWARD.

7. How many goods receiving centres are there?

Fresh Food	One
------------	-----

Provision One
Others One

8. Are supplies examined on arrival as to quantity and quality? Yes.

9. How is the examination evidenced?

Sign by checker.

10. How is the receipt of supplies recorded at each centre (e.g. by means of goods inwards notes)?

Receipt record book.

11. Are these records prepared by a person independent of those responsible for:-

- (a) ordering functionings; No.
(b) the processing and recording of invoices? Yes.

12. How are goods inwards records controlled to ensure that invoices are obtained for all goods received and to enable the liability for unbilled goods to be determined (e.g. by pre-numbering the records and accounting for all numbers)?

Invoices are received with goods. for fresh foods and provisions

13. (a) Are goods inwards records regularly reviewed for items for which no invoices have been received? Yes

(b) Are any such items investigated? Yes

14. Are these records reviewed by a person independent of those responsible for the receipt and control of goods?

No.

(Efficient internal control over purchases requires that uncleared goods received records be regularly investigated, since such items may indicate unrecorded liabilities or the payment of invoices which have not been properly processed.)

GOODS RETURNED

15. What records or documents are prepared:-

- (a) When goods are returned to suppliers?

Goods return slip.

- (b) When claims are made in respect of short deliveries or incorrect prices?

Such items unusual.

16. Are these records prepared by a person independent of those responsible for:-

- (a) ordering functions No
(b) the processing and recording of invoices? No

17. How are goods returned records controlled to ensure that credit notes are obtained for all returns and claims (e.g. by pre-numbering the records and accounting for all numbers)?

pre-numbered.

19. Are these records reviewed by a person independent of those responsible for the receipt and control of goods?

No.

(Delay in recording or clearing returns and other claims on suppliers may result in overpayments or overstatement of liabilities.)

RECONCILIATION OF PURCHASES

20. In respect of raw materials and supplies, are reconciliations made of quantities and/or values received, as shown by purchase invoices, with receipts into stock records? No.

X

Note: The procedures for:-

- (a) recording purchases in stock records;
- (b) recording in total, purchases and production with consumption, turnover and stocks;

and dealt with under Section VIII - Stock and Work in Progress.

PURCHASE INVOICES

21. Are all copies of invoices received, except the original, stamped to indicate that they are duplicates? No.

X

22. Are invoices received:-

- (a) compared with copy orders; No.
- (b) compared with goods inwards records; No.
- (c) checked for prices (where not quoted on order); Yes.
- (d) checked for extensions and additions? Yes.

X

X

Goods Inward record are recorded from invoice.

(Certain purchases of goods and services, such as rent, royalties, electricity and other services, do not require the preparation of formal purchase orders or goods received records. In cases where these documents are absent the system should provide for charges to be substantiated by reference to other underlying records (e.g. leases, records of meter readings), or by signature of a responsible official. There may also

be cases where the checking of purchase invoices in the manner envisaged above is not appropriate, e.g. goods inwards notes received at a branch or depot may be checked with the copy order kept at the branch and then sent to head office for checking with invoices. Any such procedures should be described or a cross reference given to the appropriate I.C.Q. paragraph.)

23. Are these functions carried out by a person independent of those responsible for:-

- (a) ordering functions; Yes.
- (b) the receipt and control of goods? Yes.

24. Are credit notes received:-

- (a) compared with goods returned records or other substantiating evidence; Yes.
- (b) checked for extensions and additions? Yes.

25. Are these functions carried out by a person independent of those responsible for:-

- (a) ordering functions; Yes.
- (b) the receipt and control of goods? Yes.

26. What action is taken to investigate differences disclosed by the comparisons in 22 and 24 above?

Memo to supplier.

- 26. (a) Is the matter reported to a responsible official? Yes.
- (b) If so, to whom?

Secretary to Managing Director.

27. Are invoices and credit notes signed

or initialled as evidence that the work in 22, 24 and 26 above has been carried out? (a) Is the purchase ledger:- Yes.

(1) handwritten; Yes.

(If an impressed stamp is used to record this work, give a specimen).

28. Are invoices and credit notes finally approved for payment? Yes.

29. Who gives this approval?

35. Position Authority Limit

Managing Director

30. Is he independent of those responsible for:-

(a) ordering functions; Yes.

(b) the receipt and control of goods; Yes.

(c) the processing and recording of invoices? Yes.

31. How is the approval evidenced?

Signed by Managing Director.

32. How does the system ensure that all invoices and credit notes received are duly processed?

39. How does the system ensure that all transactions, are recorded in the purchase ledger? Signature checked before posting.

33. Is this function carried out by a person independent of those responsible for the processing and recording of invoices? Yes.

(Control may be exercised by accounting for invoices and credit notes which are numbered on receipt or recorded in an invoice register, and by investigating outstanding items).

PURCHASE LEDGER AND CONTROL ACCOUNTS

34. (a) Is the purchase ledger:-

- | | |
|------------------|------|
| (i) handwritten; | Yes. |
| (ii) mechanised? | No. |

(b) If mechanised, state the system.

(Where ledgers are replaced by use of the slip system, the following questions should be interpreted as appropriate.)

35. How many purchase ledgers are there?

One.

36. How are they divided?

columns.

37. Approximately how many suppliers' accounts are there?

over 100

38. Are the purchase ledger personnel independent of those responsible for:-

- | | |
|--|-----|
| (a) passing invoices and credit notes; | Yes |
| (b) cheque payments functions? | Yes |

39. How does the system ensure that all authorised transactions, and only those transactions, are recorded in the purchase ledger (e.g. by pre-listing the authorised invoices and credit notes and determining a total for posting to an independent control account before they are processed by the ledger/cheque payments personnel)?

No definite control procedure

40. How often is the purchase ledger balanced against a control account?

Monthly,

41. Is the person who maintains the control account and effects reconciliations independent of the purchase ledger personnel? Yes.

If necessary, the separate centres (i.e., stocks, stores or stores) at which stocks of stores, materials, work-in-progress and finished goods are held by the company and against each separate centre Note:-

- (a) the type of stocks held;
- (b) the approximate proportion (in value) of the company's total stocks;
- (c) whether or not there is a continuous stocktaking and, if so, how often during the year each item of stock is counted;
- (d) at what intervals periodical stocktakings are made;
- (e) any stocks which are not covered by continuous or a periodical stocktaking at least once a year. If such stocks are estimated, state the basis.

Only one centralised store
Mainly food stuff, liquor and tobacco etc.
Monthly and Annual Reports - supervised by the Assistant Manager.

2. Are all stocks or bins visibly marked with all relevant information as to size, grade, origin and job for which required or similar details for identification? Yes.

3. Are the various types of stock well arranged and conveniently stacked or binned at all times, or are special arrangements made prior to stock-counts? Yes.

SECTION II - STOCK CONTROL

GENERAL

1. List, on a separate schedule if necessary, the separate centres (i.e. works, warehouses or stores) at which stocks of stores, materials, work-in-progress and finished goods are held by the company and against each separate centre Note:-

- (a) the type of stocks held;
- (b) the approximate proportion (in value) of the company's total stocks;
- (c) whether or not there is a continuous stocktaking and, if so, how often during the year each item of stock is counted;
- (d) at what intervals periodical stocktakings are made;
- (e) any stocks which are not covered by continuous or a periodical stocktaking at least once a year. If such stocks are estimated, state the basis.

Only one centralised store
Mainly food stuff, liquor and tobacco etc.

Monthly and Annual Reports - supervised by the Assistant Manager.

2. Are all stocks or bins visibly marked with all relevant information as to size, grade, origin and job for which required or similar details for identification? Yes.

3. Are the various types of stock well arranged and conveniently stacked or binned at all times, or are specially arrangements made prior to stock-counts? Yes.

4. Is stock adequately covered by insurance against loss from:-

- | | |
|----------------------------|-----|
| (a) fire; | No. |
| (b) burglary; | No. |
| (c) storm and other risks? | No. |

5. Is the storage accommodation adequate to provide protection against:-

- | | |
|-------------------------------------|------|
| (a) deterioration ; | Yes. |
| (b) access by unauthorised persons? | Yes. |

RECORDS

RECEIPTS AND ISSUES

Note: The documentation relating to receipts of stores and materials from suppliers, and despatches to customers, are dealt with under Section I--Purchases and Trade Creditors and Section III - Sales and Trade Debtors.

6. What are the major materials purchased and consumed in production?

Mainly food stuff etc.

7. Are all materials purchased delivered to the stores or are any items delivered direct to production departments or to sites?

All dry foods are delivered to the store.

All fresh food delivered direct to kitchen.

8. Are issues from the stores made only on properly authorised requisitions?

Yes.

9. Who are authorised to sign requisitions?

Position
Heads of department

10. What documentation is prepared when materials are returned to stores?

Returns are unusual.

11. Are bin cards or similar records maintained at stores locations? Yes.

12. From what sources are the entries on these records made?

Invoices and Delivery order.

STOCK RECORDS AND CONTROL ACCOUNTS

13. (a) Are continuous stock records maintained for:-

- (i) raw materials; No.
- (ii) bought out parts and components; No.
- (iii) consumable stores and supplies; Yes.
- (iv) finished goods; Yes.
- (v) returnable containers received and delivered; Yes.
- (vi) stocks in hands of third parties such as agents, outside warehouses or stores; Yes.
- (vii) stocks held on behalf of third parties? Yes.

(b) Are these records maintained:-

- (i) in quantity only; Yes.
- (ii) in value only; No.
- (iii) in quantity and value? No.

14. (a) Are these records :-

- (i) handwritten; Monthly Yes.
- (ii) mechanised? No.

(b) If mechanised, state the system.

(c) How many ledgers are there and

on what basis are they divided?

15. Are the stock records maintained by a person independent of:-

- (a) the storekeepers; No.
(b) those responsible for physically counting or checking stocks? Yes.

16. What information is recorded in the records (e.g. description of stock; location; unit prices; maximum and minimum stock levels)?

Description.

17. From what sources are the following entries on the records made:-

- (a) receipts; Invoices.
(b) issues? Requisition order.

18. How does the system ensure that all authorised transactions and only those transactions are recorded in the stock records (e.g. by pre-listing authorised requisitions and stores documentation for control accounts before they are passed to the ledger personnel, or by accounting for serially numbered documents)?

checker responsible for checking goods delivered and invoices.

19. (a) Are control accounts maintained for each category of stock set out in 13(a) above? Yes.

(b) How often are the records balanced against a control account? Monthly.

20. Is the person who maintains the control account and effects reconciliations independent of those who keep the stock records? Yes.

COUNT

Note: In answering the questions in this section it may be necessary to deal separately with the procedures under continuous stocktakings and periodical stocktakings.

PRELIMINARY ORGANISATION

21. Who is responsible for general over-all control of continuous or periodical stocktakings?

Position

Book-keeper.

22. Who is responsible for control of stocktaking at each centre?

Position

Centre

27. Are specially Only one centre.

23.(a) Are general instructions in writing issued on the occasion of each stocktaking:-

(i) to all centres; No.

(ii) to each team of stock-counters? No.

(b) Who is responsible for issuing such instructions?

Position

(General control and supervision of stocktakings and the issuing of instructions should be the duty of a responsible official not connected with the custody and control of stocks or with their recording.)

STOCK COUNTING

24. How many teams of stock-counters are normally used at each centre?

(b) check quantities already inserted. One.

25. What is the normal composition of each team?

(a) Are the stock-taking teams concerned? Three

26. Are the stock-counters independent of:-

(a) the storekeepers; Yes.

(b) those who maintain the

(b) continuous stock records? Yes.

indicated on the stock sheets or cards:-

(If the persons in (a) and (b) above take part in stock counting, there should be a separate check by an independent person.)

27. Are specially printed or ruled stock sheets or cards issued to stock-counting teams? Yes.

immediately responsible for

28. What control is there on their issue and return (e.g. by pre-numbering and accounting for all numbers)?

centralised after the stock-count and how are Name of item and number.

29. Is stock counted twice by different members of the stocktaking team?

35. Are stock sheets independent? Yes.

checked in detail with the rough stock

30. (a) Are descriptions of types of stock entered on the stock sheets or cards before the count? Yes.

36. If not, are the stock-taking teams qualified to identify and describe the stock? Yes.

(b) If not, are the stock-taking teams qualified to identify and describe the stock? Yes.

Issues are covered.

31. Do the stock-counters:-
- (a) record the quantities on the stock sheets or cards; Yes.
 - (b) check quantities already inserted from continuous stock records? Yes.
 - (c) the physical stock?
32. (a) Are the stock-taking teams concerned:-
- (i) with the condition of the stocks, or Yes.
 - (ii) whether they are obsolete or slow-moving? Yes.
- (b) If so, how is this information indicated on the stock sheets or cards?
33. (a) Verbal order to store-keeper.
33. Are the stock sheets or cards:-
- (a) signed by all members of the stock-counting team, No.
 - (b) countersigned by the persons immediately responsible for the stock-counting? Yes.
34. Where are the stock sheets or cards centralised after the stock-count and how are they controlled?
- Kept by Book-keeper.
35. Are stock sheets independently checked in detail with the rough stock sheets or continuous stock records as appropriate? Yes.
36. If there are movements of stock during the progress of the stock-counting, how are they controlled?
- Issues are ceased.

AGREEMENT WITH RECORDS

37. (a) Are stock sheets or cards compared with bin cards? Yes.
 (b) Are the bin cards adjusted to the quantities counted? Yes.
 (c) Is the fact of the physical check noted on the bin cards? Yes.

38. What action is taken to enquire into differences between bin cards and the quantity shown by the stock sheets or cards?

Investigated by Book-keeper.

39. (a) Are the stock sheets or cards compared with the main stock records in quantity and in value? Yes.
 (b) Are the stock records adjusted to the quantities counted? Yes.
 (c) Is the total stock difference evaluated? Yes.
 (d) Is the fact of the physical check noted in the stock records? Yes.

40. (a) Does a senior official give final approval of the adjustment of stock differences? Yes.

(b) If so, who?

Position

Assistant Manager.

RECONCILIATION OF STOCKS, PURCHASES, PRODUCTION AND TURNOVER

41. Are reconciliations in quantity made of receipts and issues and opening and closing stocks for:-

Yes.

41. At what intervals are these reconciliations prepared?

Monthly.

42. What are the sources of the information used in the preparation of these reconciliations?

List of Invoices and Issue.

43. Who is the final responsible official to whom these reconciliations are passed?

Position

Book-keeper/Accountant

VALUATION

44. On what basis are stocks on hand valued in respect of:-

- (a) raw materials;
 - (b) bought out components;
 - (c) consumable stores;
 - (d) work in progress;
 - (e) finished goods;
 - (f) by-products?
- At cost.

The valuation should normally be either (a) the lower of cost and net realisable value or (b) the lowest of cost, net realisable value and replacement price. Cost should be defined, e.g. L.I.F.O., F.I.F.O., average, standard, and in the case of work in progress and finished goods, the categories of costs included should be indicated, e.g. materials, direct labour, direct charges, works overheads. Net realisable value should also be defined, i.e. the deductions which are made from selling price in respect of expenditure still to be incurred.

STOCK SHEETS III - SALES AND TRADE DEBITORS

45. Is the pricing of the stocks independently checked?

1. At what stage is the accounting control over sales standard prices?

46. (a) From what records is this checking carried out?

(Accounting contr Price list with control of sales records)

(b) Are the pricing records kept up to date?

Yes.

47. Are the calculations, extensions and additions of the stock sheets independently checked? Yes.

48. How is this checking evidenced?

Acceptance of the Invoices.
2. What are the invoices received, including those received other than by post?

received on the spot - in prenumbered books.

3. Are customers' credit limits checked before orders are accepted? No.

INVOICES AND CREDIT NOTES

4. How are the sales prices of the various goods?

(a) ascertained; fixed

(b) authorized

5. Are invoices prepared by a person independent of those responsible for?

(a) accepting orders; Yes.

(b) cash receipt functions? No.

SECTION III - SALES AND TRADE DEBTORS

INTRODUCTION

1. At what stage is the accounting control over sales first exercised?

Room rental - Resident ledger cards
Restaurant etc. - order book chits

(Accounting control may begin with control of sales orders; with a record of despatches or completions; or with a record of invoices. The controls applied will be governed by the method of doing business and the volume of transactions. The absence of certain of the controls detailed in this section may not, in the particular circumstances of the client, necessarily indicate weaknesses.)

SALES ORDERS

2. What record is kept of sales orders received, including those received other than by post?

received on the spot - in prenumbered books.

3. Are customers' credit limits checked before orders are accepted?

No.

INVOICES AND CREDIT NOTES

4. How are the sales prices of the various goods:-

(a) ascertained; fixed

(b) authorised

5. Are invoices prepared by a person independent of those responsible for:-

(a) accepting orders; Yes.

(b) cash receipt functions? No.

6. (a) How many copies of sales invoices are prepared? 3.

(b) How are they distributed?

customer, Account department,
sales centre.

7. How does the system ensure that duplicate sales invoices are not used for original sales (e.g. by the use of different coloured documents as copies)?

prenumbered folding type.

8. How are cancelled, altered and "no charge" invoices authorised?

Signed by department head

(Special controls are normally required to ensure that the exceptional circumstances affecting these invoices are brought to the attention of a responsible official.)

SALES LEDGER AND CONTROL ACCOUNTS

9. (a) Is the sales ledger:-

- | | |
|------------------|------|
| (i) handwritten; | Yes. |
| (ii) mechanised? | No. |

(b) If mechanised, state the system.

(Where ledgers are replaced by use of the slip system, the following questions should be interpreted as appropriate.)

10. How many sales ledgers are there?

One.

11. How are they divided?

columns.

12. Approximately how many customers' accounts are there?

500 including Resident Account
over 1,000.

13. (a) Is a record kept of customers' credit standing? No.

(b) Are credit limits fixed for all customers and recorded on the ledger accounts? Yes.

Companies Account - no limit

Personal Account - 350/= per bill

14. Are the sales ledger personnel independent of cash receipt functions?

Yes.

(Such independence facilitates the disclosure of irregularities which might otherwise remain undetected.)

15. How does the system ensure that all authorised transactions, and only those transactions, are properly recorded in the sales ledger (e.g. by pre-listing the authorised transactions and determining a total for posting to an independent control account before they are processed by the ledger personnel)?

no definite control procedure

16. How often is the sales ledger balanced against a control account?

1. Monthly.

17. Is the person who maintains the control account and effects the reconciliations independent of the sales ledger personnel? Yes.

18. (a) How often are statements sent to all customers? Monthly.

(b) Does this include customers with credit balances? Yes.

(Statements provide opportunities for customers to report differences. If it is not the practice to send statements regularly to all customers, this objective may be partially achieved by, for example, sending statements only to customers with overdue balances.)

19. Are statements checked before despatch? Yes.

20. Is the person responsible for this function independent of:-

(a) the sales ledger personnel; No.

(b) cash receipt functions? Yes.

21. Are statements controlled until despatch by a person independent of:-

(a) the sales ledger personnel; No.

(b) cash receipt functions? Yes.

Sales ledger personnel prepares the statement.

22. Are copies of statements retained or do statements have a tear-off portion for return by the debtor with his remittance, so as to assist in identifying remittances received?

1. Yes.

2. No.

23. How often are ledger balances reviewed for items outstanding for longer than the normal credit period?

(a) the sales ledger personnel Monthly.

24. Is any particular attention directed to accounts on which payments on account are being made? Yes.

25. Is this function carried out by a person independent of:-

(a) the sales ledger personnel; Yes.

(b) cash receipt functions? Yes.

26. What is the procedure for following up outstanding debts?

Secretary will write.

27. Is there a separate department responsible for this function? No.

28. Are differences reported by customers and correspondence relating to disputed items dealt with by a person independent of:-

(a) the sales ledger personnel; Yes.

(b) cash receipt functions? Yes.

BAD DEBTS

29. Is the approval of a responsible official required for:-

(a) instituting court action for recovery of debts; Yes.

(b) writing off bad debts; Yes.

(c) payment of customers' credit balances? Yes.

30. If so, who gives such approval?

Position

Managing Director

31. Is he independent of:-

(a) the sales ledger personnel Yes.

(b) cash receipt functions? Yes.

32. What evidence is produced to the official to justify writing off bad debts?

signed chits.

33. How is the approval evidenced?

Managing Director signs.

34. Is this function carried out by a person independent of cash receipt functions?

Yes.

35. Are the records periodically reviewed by an independent responsible official?

Yes.

36. If so, by whom is this review made?

Position

Secretary.

(Control may be retained over bad debts written off by transferring them to a memorandum ledger.)

37. How is the bad debt provision calculated?

Actual.

SECTION IV - CASH AND BANK

POST AND RECEIPTS

REMITTANCES RECEIVED BY POST

1. Do remittances received by post consist of:-
 - (a) cheques and postal orders; Yes.
 - (b) cash? No.

2. Are open cheques and postal orders received crossed " Account payee only - not negotiable? Yes.

3. (a) Is a record made at the time the post is opened of:- No.
 - (i) cheques and postal orders; No.
 - (ii) cash? No.
- (b) As an alternative to (a)(i) are all cheques and postal orders crossed to the company's bankers when the post is opened? No.

4. Is the post opened, and the record of remittances prepared, by a person independent of:-
 - (a) the receiving cashier; Yes.
 - (b) the sales ledger personnel? Yes.

(A record of remittances may be in the form of a rough cash book, adding machine tapes or copies of remittance advices. It provides control over the entries in the cash book and amounts paid into the bank. The independent listing envisaged minimises the possibility of omissions and the opportunity for fraud. It is important that the cashier and the sales ledger personnel should not have access to the receipts before this record is made.)

5. Is the opening of the post supervised by a responsible official? No.

Open by Secretary to the Manager.

6. Is the post date-stamped? Yes.

(The date-stamping of the post evidences the date remittances are received and helps to disclose teeming and lading.)

7. (a) Are postdated cheques included in the record of remittances? No.

Postdated cheques are unusual.
No record is kept of remittances.

(b) If not, state how and by whom such are controlled until they are banked?

Kept by cashier until day of banking.

(The inclusion of postdated cheques in the original record of remittances establishes control over their subsequent disposition. However, control may be effected by segregating such items under the control of a person independent of cash receipt or sales ledger functions.)

8. (a) Is a record kept of receipts and disposals of registered letters? Yes.

(b) If so, how and by whom is disposal evidenced?

Record book kept in Manager's office.

(There should be adequate control over the receipt and disposal of registered letters where these contain cash and postal orders and are not dealt with at the normal opening of the post.)

9. Who endorses cheques when necessary?

Position

Managing Director.

10. (a) If a record of remittances is prepared, is it used:-

(i) to prepare the paying-in slips;

No..

(ii) to write up the cash book?

No..

(b) If, not, state how these records are compiled.

From receipt books.

11. (a) Is the record of remittances, compared, either in total or item by item, with:- in total

(i) the cash book;

No..

(ii) the paying-in slips?

No..

(b) If record of remittances is not prepared, are the bank paying-in slips compared, either in total or item by item, with the cash book?

Yes.

(These comparisons may be carried out by the client's staff as part of the bank reconciliation procedures. If a comparison of totals only is made, the additions of the record of remittances and of the paying-in slips should be checked so as to disclose omissions.)

12. Is this function carried out by a person independent of:-

(a) the receiving cashier

Yes.

(b) the sales ledger personnel?

Yes..

13. How often is the comparison made?

Monthly.

14. How is it evidenced?
Suppliers' statements.

CASH SALES

15. Are cash sales recorded by means of:-

- (a) cash registers; Yes.
- (b) cash sales notes; Yes.
- (c) other means (describe)?

16. If cash sales notes are used:-

- (a) are they pre-numbered; Yes.
- (b) is a register maintained of their issue; Yes.
- (c) are copies retained? Yes.

17. Is the cash:-

- (a) reconciled daily with till and cash sales note totals; Yes.
- (b) recorded daily in the cash book? Yes.

18. Is the reconciliation carried out by a person independent of those responsible for receiving or accounting for cash sales? Yes.

19. Are the totals of till or cash sales notes compared with:-

- (a) the cash book; Yes.
- (b) the paying-in slips? Yes.

20. Are these functions carried out by a person independent of:-

- (a) cash receipt functions; Yes.
- (b) those responsible for receiving or accounting for cash sales? Yes.

21. Are cash receipts (including receipts at branches or depots) recorded promptly in the cash book? Yes.

21. How is the issue and usage of cash sales notes controlled (e.g. by accounting for all numbers)?

By accounting for all numbers.

22. Is this function carried out by a person independent of those responsible for receiving, or accounting for, cash sales? Yes.

23. By whom are cancelled and altered cash sales notes authorised?

Position

Manager.

(Authorisation of cancelled notes may not necessarily be required where all copies of cash sales are properly controlled as envisaged by 21 above.)

24. Is he independent of those responsible for receiving or accounting for cash? Yes.

25. How is the authorisation evidenced?
retain and signed by manager.

OTHER RECEIPTS

26. Describe the control for other items of receipts not dealt with above or in Section III - Sales (e.g. sales of sales of scrap, petrol sales).

Rent receipts - collected monthly.

Paid to the cashier and Receipt

issue immediately to all about

twenty shops.

ALL RECEIPTS

27. Are each day's receipts (including receipts at branches or depots) recorded promptly in the cash book? Yes.

28. (a) Are all receipts paid into the bank intact daily? Yes.

(b) If not, how are they controlled prior to banking?

29. Are the following functions carried out by a person independent of the sales ledger personnel:-

(a) Preparation of the paying-in slips; Yes.

(b) payment into the bank? Yes.

30. (a) Who is responsible for the analysis for posting to the ledgers?

Position

Cashier.

(b) On what basis or from what records is this analysis made?

Vouchers and Bills.

31. Who is responsible for checking discounts deducted by customers from remittances?

Position

Manager.

32. (a) Are cheques returned by the bank investigated? Yes.

(b) If so, by whom?

Position

Cashier.

33. Are original paying-in slips obtained from the bank and checked against the cash book and copy paying-in slips?

Yes.

34. Is this function carried out by a person independent of:-

- (a) cash receipt functions; Yes.
 (b) the sales ledger personnel? Yes.

(This procedure helps to disclose teeming and lading. It may be a desirable check in certain circumstances, for example, where collections are made by travellers and salesmen and banked by them, but it may not be appropriate or necessary in cases when internal control over receipts is otherwise adequate.)

ISSUE OF RECEIPTS

35. Are counterfoil or carbon copies retained? Yes.

36. How is the issue of receipt books or forms controlled (e.g. by numbering prior to issue, recording issues in a register and accounting for all numbers)?

37. Is this function carried out by a person independent of cash receipt functions? Yes.

38. Are cancelled and altered receipt forms properly authorised? Yes.

39. Is this function carried out by a person independent of cash receipt functions? Yes.

40. How is the authorisation evidenced?

Manager's Signature.

41. Are counterfoils or carbon of receipt forms checked against:-

- (a) record of remittances received; No.
 (b) cash book; Yes.
 (c) paying-in slips? Yes.

42. Is this function carried out by a person independent of cash receipt functions? *Machine operators* Yes.

43. How is the checking evidenced?

e.g. Bank statement checked and signed.

GENERAL

44. Is there an adequate separation of duties so that the receiving cashier has no responsibility for or control over:-

- | | |
|--|------|
| (a) sales ledger; | Yes. |
| (b) purchase ledger; | Yes. |
| (c) nominal ledger; | Yes. |
| (d) raising or approving any document on which cash is received or paid (e.g. sales and purchase invoices and credit notes)? | Yes. |

45. Is there an adequate separation of duties so that persons handling cash sales and receiving collections have no responsibilities for, or control over:-

- | | |
|------------------------------|------|
| (a) cash book; | Yes. |
| (b) sales ledger; | Yes. |
| (c) nominal ledger; | Yes. |
| (d) other negotiable assets? | Yes. |

(This separation of duties may not be necessary if the independent checks in questions 17 - 20 above are in force.)

46. Is the cash office secure, or is access available to persons other than cash office staff?

Cashier is located in enclosure together with other reception staff.

47. Who carries out the duties of the cashier whilst he is at lunch or on holiday?

53. (a) Is a mechanical cheque-signer used? Position

(b) If only certain duties.
Mechine operators only certain duties.

48. (a) Is there fidelity insurance to cover loss of cash? Yes.

(b) If so, describe who is covered and to what extent.

Cashier to \$50,000/=

CHEQUE PAYMENTS

CHEQUE

50. State the names and appointments of cheque signatories together with the limits to which they are authorised to sign.

Position

Authority
Limit.

Manager and Managing
Director

no limit.

51. (a) Are all cheques payable "to order" and crossed "Account payee only - not negotiable"? Yes.

(b) If not, describe the manner in which cheques are crossed.
(Cheques should not normally be crossed other than as set out in (a) above, unless there are particular reasons why it is inconvenient for the payees to receive cheques crossed in this manner, e.g. payments to pensioners.)

52. (a) With the exception of cheques for wages, petty cash and similar funds, are bearer cheques ever used? No.

(b) If so, for what purposes.

53. (a) Is a mechanical cheque-signer used? No.

(b) If so, what controls are exercised over the custody of the signature die and the use of the cheque-signer?

(The person authorised to use the signature die should be responsible for custody when not in use. Control over the mechanical cheque-signer may be exercised by the physical presence of the custodian when the die is in use; by control over cheques issued at the operator; by use of a numbering device on the machine.)

54. Do any cheques carry pre-printed signatures? No.

55. Are cheques signed "in blank"? No.

56. Is the issue and usage of cheques controlled by a person independent of those who:-

(a) approve vouchers for payment; Yes.

(b) prepare cheques and record payments? Yes.

57. How are spoilt cheques dealt with?

Cheque No. is cut out and stuck to the cheque butt.

(Control of cheques may be exercised by recording cheque numbers in the cash book and accounting for cheques issued and used. This procedure helps to ensure that cheques are only used in respect of authorised transactions and that all payments are recorded in the cash book. A control of this nature is essential when a mechanical cheque-signer is used, or when cheques carry pre-printed signatures.

The accounting for cheque numbers issued may be carried out by the client's staff as part of the bank reconciliation procedures.)

CHEQUE PAYMENTS

58. Who prepares cheques and records payments?

Position

Secretary to Managing Director.

59. Is there an adequate separation of duties so that the cashier has no responsibility for, or control over:—

- (a) purchase ledger; Yes.
- (b) sales ledger; Yes.
- (c) Nominal ledger; Yes.
- (d) raising or approving any document on which cash is received or paid (e.g. sales and purchase invoices and credit notes); Yes.
- (e) signing cheques. Yes.

(This independence is normally necessary to ensure that cheques are only issued in respect of properly approved transaction.)

60. (a) Does the system of obtaining signatures on cheques provide for the production of supporting documents which have been properly checked and approved?

Yes.

(b) What does this supporting evidence consist of?

Suppliers' statements, invoices, payroll sheet etc.

(Efficient internal control requires that payments should only be made in respect of transactions which have been properly

checked and approved. The evidence supporting cheques may be the actual supporting invoices, payrolls and petty cash books or may consist of cheque requisitions, suppliers' statements, remittance advices and payroll summaries.)

61. If the evidence in 60 above consists of cheque requisitions, suppliers' statements, remittance advices or other substitute documents, are these checked with invoices, payrolls and other original documents before presentation? Yes.

62. Who carries out this checking?

Position
Ledger clerk.

63. Is he independent of those who:-

69. (a) approve vouchers for payment; Yes.
(b) prepare cheques? Yes.

64. How is this checking evidenced (e.g. by signing or initialling the statements or substitute documents presented with the cheques)?

65. Where payment is made by traders credits:-

- (a) are duplicate lists of payments stamped on every page and returned by the bank; No.
(b) is the evidence supporting the payments produced to the cheque signatory with the traders credit lists? Yes.

66. In addition to the checking in 61 above, are suppliers' statements compared with purchase ledger accounts?

Yes.

67. Is this function carried out by a person independent of:-

(a) those who approve vouchers for payment;

Yes.

(b) the cashier?

Yes.

68. What steps are taken to ensure that full advantage of discounts allowed?

Price discount unusual.

Discount normally given prior to invoice and invoice return is less discount.

69. How does the system ensure that payments on account or in advance of delivery are properly controlled and accounted for?

Statements compared with Ledger A/C.

70. Are invoices, statements, remittance advices and other supporting documents cancelled to prevent their use in support of further payments?

No.

71. If cheques require two or more signatories, is the evidence supporting the cheques produced to each signatory?

Yes.

Manager and Managing Director.

(if the second or further signatories do not examine supporting evidence but sign on reliance on the first signature, the requirement for two or more signatories may offer little, if any, protection beyond that afforded by one signature.)

72. If cheques are not despatched immediately, what is the reason for the delay and who controls cheques until despatch?

Cheques are always despatched immediately.

73. Is this person the cheque signatory or some other person not responsible for the preparation of cheques? Yes.

74. Who is responsible for the analysis of payments for posting to the ledgers?

Position

Ledger clerk.

75. From what sources are payments recorded in the cash book?

Creditor Account

Salaries

Reimbursement of Petty Cash

Sundries

GENERAL

76. Is there a fixed date in each month for the main pay-out? No.

77. On whose authority can bank accounts be opened?

Position

Board of Directors.

78. On whose authority can bank loans or overdrafts be arranged?

Position

Board of Directors.

BANK RECONCILIATION

79. How often is a bank reconciliation prepared?

Monthly.

80. (a) Is the person responsible for this function independent of the receipts and payments functions?
Yes.

(b) Alternatively, is the reconciliation independently checked?
Yes.

81. Where the reconciliation is prepared by a person independent of receipts and payments functions, does he obtain statements from the bank and retain them until the reconciliation is effected? Yes.

82. Does the independent preparation or checking of a bank reconciliation include:-

(a) a comparison of the debts and credits shown on the bank statements with the cash book; Yes.

(b) a comparison of paid cheques with the cash book as to names, dates and amounts, Yes.

(c) a test of the detailed paying-in slips with the cash book; Yes.

(d) an enquiry into any contra items? Yes.

(The test under (c) above may be carried out by the client's staff as part of the checks on cash receipts.)

PETTY CASH AND POSTAGE

PETTY CASH

83. List all petty cash floats and other funds (e.g. for national insurance stamps) showing the following information:-

Custodian	Amount of Float	Purpose	Method of reimbursement. (e.g. Imprest)
-----------	-----------------	---------	--

83. Is there a maximum amount for individual payments and, if so, how much?
or Round-Sum)

Petty cashier \$500

Imprest.

Secretary to Managing Director controls petty cash book.

N.B.

Secretary to Managing Director also issues cheques for amount to purchaser of fresh food.

84. (a) Does the petty cashier have control over any other funds, including cash receipts or cash sales? No.

(b) If so, which?

85. Has anybody else access to the petty cash, and if so who? No.

Position

86. Are vouchers or petty cash slips a pre-requisite for making a payment in cash? Yes.

86. (a) Are vouchers authorised by a person other than the petty cashier? Yes.

(b) If so, by whom?

Position

Authority
Limit.

Manager

Managing Director no limit.

87. How are vouchers cancelled to prevent their re-representation?

Not cancelled. Vouchers are returned to Petty Cashier. Rely on memory of Secretary to Managing Director.

88. Is there a maximum amount fixed for individual payments and, if so, how much?

No.

(This tends to discourage the by-passing of regular procedures for purchasing materials and supplies.)

89. Are loans and advances (e.g. for wages):-

(a) recorded in the books; No.

(b) treated as part of the petty cash balance? No.

Salaries handled by staff officer and paid by the chief cashier.

90. (a) Are employees allowed to cash cheques through the petty cash? No.

(b) If so, what limits are imposed?

91. Is the float at a reasonable level having regard to the level of expenditure? Yes.

92. Is the petty cash book periodically examined and the balance verified by an independent person? No.

93. Who carries out this function and how often?

Only the auditors.

94. If the petty cashier has control of other funds (see question 84) are these funds verified at the same time as the check in 92 above? Yes.

95. Does the system of reimbursement of the float include the production of the petty cash book and vouchers? Yes.

96. Who approves the reimbursement of the float?

Position

Manager and Managing Director

97. How is this approval evidenced?

Sign on payment voucher.

98. Who is responsible for the analysis of petty cash for posting to the ledgers?

Secretary to Managing Director.

POSTAGE

99. Who has custody of postage stamps?

No postagesstamp. Use of machine.

100. Are details of stamps, or franking impressions, recorded to provide a record of usage? Yes.

(b) If so, what is the basis of rotation?

(Internal control is improved if duties are rotated so that no one clerk or section is responsible consistently for all the functions in the preparation of payrolls in respect of a particular department or group of employees.)

6. Obtain a specimen wages sheet or list the headings of each column on the wages sheet.

Noted.

Kalamaroo Copy Writer system.

ENGAGEMENT OF EMPLOYEES AND HISTORY RE- CORDS.

7. Are history records kept for each employee showing particulars of:-

(a) engagement;

Yes.

SECTION V - WAGES AND SALARIES

GENERAL

1. Is the wages department a separate entity dealing only with wages;

Wages entirely handled by the Staff department.

2. Who is in charge of the department?

Staff Officer

3. How many staff are employed in the department? 2.

4. Prepare a schedule showing the way in which the wages staff spread their duties.

No clear separation of duties.

Duties interchangeable.

5. (a) Are the duties of the wages staff periodically rotated? No.

(b) If so, what is the basis of rotation?

(Internal control is improved if duties are rotated so that no one clerk or section is responsible consistently for all the functions in the preparation of payrolls in respect of a particular department or group of employees.)

6. Obtain a specimen wages sheet or list the headings of each column on the wages sheet.

Noted.

Kalamazoo Copy Writer system.

ENGAGEMENT OF EMPLOYEES AND HISTORY RECORDS.

7. Are history records kept for each employee showing particulars of:-

(a) engagement; Yes.

- | | |
|------------------------------------|------|
| (b) retirement or dismissal; | Yes. |
| (c) rates of pay; | Yes. |
| (d) holiday pay entitlement; | Yes. |
| (e) deductions from wages/salaries | No. |
| (f) specimen signatures; | Yes. |
| (g) salaries? | Yes. |

8. Are these records kept independently of the wages department? No.

Section IV.

9. Are these records countersigned by a responsible official independent of the payroll preparation? No.

Section IV.

10. Are there written authorities for each of the following:-

- | | |
|--|------|
| (a) engagement; | Yes. |
| (b) discharges/dismissals; | Yes. |
| (c) general increase in pay; | Yes. |
| (d) individual increases in pay | Yes. |
| (e) deductions from wages (other than national insurance, graduated pension scheme contributions and P.A.Y.E.) | Yes. |
| (f) advances of wages?/salaries | Yes. |
| (g) alterations in rates of pay? | Yes. |

11. Who is responsible for authorising the above information?

Position

Manager.

For Advances - Voucher signed by manager paid by cashier.

12. Is he independent of the wages department? Yes.

Section IV.

13. How are the details notified to those responsible for preparing the payroll?

20. Written, vouchers, letters, etc.

TIME ATTENDANCE AND JOB RECORDING

14. (a) What are the normal working hours?

8 hrs. on shift basis except for administrative staff.

(b) On what basis is overtime paid?

\$1.00 per hr.

\$1.50 per hr.

(Refer to staff record book extracts in appendix 3)

15. Who authorises overtime?

Position	Authority Limit
----------	-----------------

Manager authorises but prepared by No.1 of Dept. Sect. IV. Then entered into wage sheet.

16. Is he independent of the wages department? Yes.

Section IV used, state the system?

17. How is the authorisation evidenced?

Signed Staff Officer.

18. What regulations are there regarding absentees?

Medical Leave - No.

Others - Warning possible deduction of pay - strong union.

19. If time clocks are used, where are they installed?

No.

Formerly used.

20. Obtain details of holiday entitlements and describe how holiday pay or holiday credits are calculated and recorded.

10 days annual leave after 1 year of service.

21. Who is responsible for authorising holiday pay or holiday credits?

Position

Approved by Manager.

COMPILATION OF PAYROLL

22. Are wages paid in the basis of:-

(a) time,

No.

(b) piecework?

No.

23. Obtain brief details of rates of pay of pay and bonus schemes, including details of any trade union agreements?

Bonus - app. 8% of annual pay but subject to agreement with Union.

24. (a) Is the payroll:-

(i) Handwritten;

Yes.

(ii) mechanised.

No.

(b) If mechanised, state the system?

25. Who prepares the salaries/records.

Staff Officer.

26. Are the following deductions from wages properly recorded in control accounts:-

(a) P.A.Y.E.

N.A.

(b) graduated pension scheme contributions;

N.A.

- (c) graduated pension scheme contributions; N.A.
 (d) national savings; N.A.
 (e) pension fund; N.A.
 (f) hospital approval evidenced? N.A.
 (g) other deductions? E.P.F. Yes.

(In small business it may be possible to pay over deductions immediately. Normally however, it is necessary to record deductions on control accounts and to pay them over periodically.)

27. Does the system provide for the periodic checking or testing with authorised history records of:-

- (a) names on the payroll; No.
 (b) rates of pay, deductions and other standard information used in the preparation of the payroll? No.

28. Does the system provide for the independent checking of all calculations and additions in the preparation of the payroll? No.

29. Are the wages sheets signed or initialled by the persons responsible for:-

- (a) their preparation; Yes.
 (b) the checking set out in 27 above; No.
 (c) the checking set out in 28 above? No.

30. Is the payroll completed in ink or other permanent form and finally approved for payment before the cheque is drawn? Yes.

31. Who gives this approval?

Position
 Manager signs - obtain cheque from

the Secretary to Managing Director.

32. Is he independent of those who prepare and check the payroll? Yes.

33. How is the approval evidenced?

Signature on P/S. (Pay sheet)

34. Is there any independent control in gross salaries (e.g. by reconciliation with the gross salaries of the previous pay period)? No.

MAKE-UP AND PAYMENT

35. (a) On what day or date is payment made?

1st of every month - if holiday on the day before.

(b) On which day are they paid?

36. If deductions from wages are drawn in cash, how are such funds recorded and controlled?

Only cash advances are deducted.

Amount taken out of pay packet

in front of employee and I.O.U. in return.

37. Does the person responsible for this function have control of any other cash funds? Yes.

Payment of salaries.

38. Are the wages funds periodically counted and agreed with the records by an independent official? No.

39. Is payment made by:-

- | | |
|-------------------|------|
| (a) cash; | Yes. |
| (b) cheque; | No. |
| (c) bank transfer | No. |

Where payment is made by cash, in

the salaries cheque drawn for the gross or net amount of salaries. Net after E.P.F. deductions.

40. How is cash physically controlled from the time it is drawn until it is:-

- (a) sorted;
- (b) made up; independent of the payroll
- (c) paid out?

All functions performed by the staff officer.

41. What is the procedure laid down for the make-up of wages?

Previous list used as basis-add new employees, less discharged. Overtime listed from O/T records.

42. (a) Does the system provide for the make-up of wages to be checked?

No.

(b) Alternatively, is the cash for particular sections of the payroll denominated so that it is consumed exactly when envelopes or containers are filled? No.

43. If the net pay is shown on the wages envelopes or containers, are the envelopes or containers totalled and agreed with the net amount of the payroll?

No.

44. Is the make-up of the wages supervised by a responsible official?

No.

45. (a) Does the system provide for particulars of wages to be notified to employees before the pay-out?

No.

(b) If so, how?

- (c) Alternatively, are employees notified by means of slips instered in envelops or containers? Yes.

Kalamazoo system.

46. Are the persons responsible for the pay-out of wages independent of the payroll preparation? No.

47. Do persons paying the wages check the amounts paid, or the envelops or containers, against the wages sheets at the time of payment? Yes.

48. (a) Are receipts obtained from employees? No.
(b) If not, how are they identified?

Signature on P/S.

(In large organisations or in cases where internal control in respect of wages is weak, it may be desirable for receipts obtained from employees to be checked against the payroll for dates, names and amounts, and for names for which no receipts are obtained to be accounted for. This check should be carried out by a person independent of payroll functions. If any such check is carried out, the procedures should be described.)

49. Is an authority required for an employee to collect wages on behalf of another? Yes.

Letter of authority or prior information.

50. (a) Are suprise attendances periodically made at pay-outs by a responsible official independent of the wages department? No.

(b) If so, at what intervals are these attendances made?

51. What arrangements are there in the event of an employee disagreeing with the contents of the envelope or container?

No arrangement provided for .
All salaried staff.

52. What is the procedure for paying wages to persons leaving at short notice before the regular pay day?

Staff Officer signs voucher to account relation to days worked and pay collected from cashier.

53. Are the wages sheets signed or initialled by the person responsible for the make-up and payment of wages? No.

UNCLAIMED WAGES

54. What records are maintained for unclaimed wages?

Unusual.

5. How is the authorisation evidenced?

Limited

(Capital expenditure should be authorised by board minute or, if the amounts involved do not require a board minute, by a senior official of the company.)

6. What records are maintained of capital work done by the company's own employees?

Control procedure here poor.

SECTION VI - FIXED ASSETS

ADDITIONS AND DISPOSALS

1. (a) Are annual capital expenditure budgets or proposals prepared? Yes.
- (b) If so, who is responsible for their preparation?

Position

Accountant-Secretary - Registrar.

2. (a) Are formal applications required for authority to incur capital expenditure? Yes.

(b) If so, what form do they take?

Submit to Board of Directors.

3. Do such applications include:-

- (a) the reasons for the expenditure; Yes.
- (b) estimated cost; Yes.
- (c) details of plant displaced by the application (if any)? Yes.

4. State the names and positions of those who authorise capital expenditure, together with their authority limits.

Position	Authority Limit
The Board	

The Board

5. How is the authorisation evidenced?

Minuted

(Capital expenditure should be authorised by board minute or, if the amounts involved do not require a board minute, by a senior official of the company.)

6. What records are maintained of capital work done by the company's own employees?

Control procedure here poor.

X

7. Is the expenditure incurred in this way subject to the same authorisation and controls as purchases from third parties?

No.

8. What record is kept of authorised capital expenditure not yet incurred?

10. No records other than the minutes.

9. Is there a procedure for the comparison of actual capital expenditure with authorisation?

Yes.

10. Who carries out this function?

Position

Secretary

11. What is the procedure when actual expenditure exceeds the original authority limit?

Further authorisation from the Board.

12. State the names and positions of those who authorise expenditure on major maintenance or repairs, together with their authority limits.

Position

Authority Limit

Managing Director and
Hotel Manager.

13. State the names and positions of those who authorise sales or scrappings of fixed assets, together with their authority limits.

Position

Authority Limit

Managing Director

14. How is the authorisation evidenced?

Minuted.

15. Are there any inter-company or inter-branch purchases and sales of fixed assets?

No.

16. Are there any fixed assets which are surplus to requirements? No.

17. Who authorises depreciation rates?

Fixed according to scale.

18. (a) Is any provision made in the accounts for increased cost of replacement of plant and machinery? No.

(b) If so, what is the basis of calculation?

RECORDS

19. (a) Is a register kept of the following fixed assets, including fully depreciated items:-

- (i) Land and buildings; Yes.
- (ii) plant and machinery; Yes.
- (iii) motor vehicles; Yes
- (iv) fixtures and fittings; No.
- (v) other fixed assets (describe)? only 1. X

(b) Is the register regularly written up throughout the year? Yes.

(c) Is the register reconciled with the financial accounts? Yes.

(d) If so, at what intervals is the reconciliation prepared? Annual.

20. How are fixed assets identified with the register (e.g. by means of numbers or other identifying marks)?

Specialised equipment by description.

21. Is the following information given in the register:-

- (a) supplier; Yes.
- (b) date of purchase; Yes.

- | | | |
|---|------|--|
| (c) cost; | Yes. | |
| (d) location and identification numbers or marks; | No. | |
| (e) depreciation rate; | No. | |
| (f) accumulated depreciation; | No. | |
| (g) taxation annual allowance rate; | No. | |
| (h) written down tax value? | No. | |

✓
✓
✓
✓
✓
✓

22. Is a record maintained of equipment and facilities used by the client but owned by others?

All owned by client.

(Where equipment belonging to third parties is used, it is important that adequate records should be maintained so as to ensure that the items can be identified and distinguished from the client's own assets. This identification can be assisted by marking assets owned, e.g. with distinctive numbers.)

VERIFICATION

23. Where are the title deeds of freehold and leasehold properties kept?

Registered Office by Secretary.

24. Who are the officials who have access to the title deeds?

Position

Secretary.

(Title deeds should be under the joint control of a few responsible officials and should preferably be kept by the company's bankers in safe custody)

25. Who has the custody of motor vehicle registration books?

Position

Manager

26. Are the following documents periodically inspected by persons other than those responsible for their custody and control:-

- (a) title deeds; No
(1) handwritten except for auditors.
(b) motor vehicle registration books? No.
(b) if mechanised only 1 vehicle.

27. How often is a physical check made of fixed assets against the register of fixed assets?

3. Annually.

28. By whom is this done?

Position

Bookkeeper.

29. Is the date of the check recorded in the register? Yes.

30. Does the check include a review of the operation and condition of the assets? No.

(It is desirable for a check of the existence of the fixed assets to be made not less than once every five years. The condition of the assets should be examined at the time of such check in order to ensure that they are properly maintained and serviced. Where assets cannot be readily or completely identified by means of a physical check (e.g. complex processing installations such as refinery), it may be necessary to use engineering records or blue-prints to assist in the identification.)

Position

Bookkeeper

7. Are all postings to the ledgers required to be supported by entries

SECTION VII - NOMINAL AND PRIVATE LEDGERS AND FINANCIAL STATEMENTS

NOMINAL AND PRIVATE LEDGERS

1. (a) Are the nominal and private ledgers:-
- (i) handwritten; Yes.
- (ii) mechanised? No.
- (b) If mechanised, state the system.

2. How many ledgers are there?

Refer to Working Papers.

3. How are they divided?
- Refer to Working Papers.

4. What control accounts are maintained in these ledgers (e.g. purchases and sales ledgers; bank and cash accounts; deductions from wages and salaries)?

Refer to Working Papers.

5. How often are the nominal and private ledgers balanced?

Monthly.

6. (a) Are the ledgers kept, under the direct control of a responsible official, by persons who are not concerned with other aspects of the accounting procedures? No.

- (b) If so, by whom. Authority Limit

Managing Director

- (c) If not, state under whose control they are kept. Yes.

Position

Bookkeeper

7. Are all postings to the ledgers required to be supported by entries

in books of prime entry or by journal vouchers? Yes.

8. (a) Are journal authorised by a responsible official not concerned in their preparation? Yes.

(b) Who gives this authorisation?

Position

Managing Director

9. Are ledger entries clearly referenced to indicate their source? Yes.

10. Where regular entries are made (e.g. monthly allocations of charges; accruals; prepayments) are the journal entries or journal vouchers standardised for content and identification? Yes.

(Such standardisation helps to ensure that entries are processed promptly and that none are omitted.)

PERSONAL ACCOUNTS FOR TRAVELLING EXPENSES

11. Are personal accounts maintained for management and staff travelling expenses? No.

12. (a) Are the travelling expense sheets duly authorised prior to being recorded in the ledger? Yes.

(b) If so, who is responsible for this function?

Position

Authority Limit

Managing Director

(c) Is he independent of those responsible for cash functions? Yes.

13. Does the system provide for the regular review of the personal accounts by a responsible official in order that balance do not remain outstanding for

for long periods? No.

ACCRUALS AND PREPAYMENTS

14. How does the company account for expense accruals and prepayments? Yes.

as below

(Where appropriate, detailed memorandum records of expense accruals, prepayments and allocations may be maintained supporting the nominal ledger accounts e.g. insurance registers, details of rent, rates, light, heat and power.)

15. Where detailed memorandum records are maintained, how often are they reconciled with the nominal ledger control accounts.

Yearly.

16. Are the detailed memorandum records periodically reviewed to ensure:-

- (a) that they are comprehensive; Yes.
- (b) that the periodic write-offs are realistic; Yes.
- (c) that the balances outstanding which are carried forward to future accounting periods are reasonable? Yes.

17. Is this function carried out by a person independent of:-

- (a) those who maintain the detailed records; Yes.
- (b) cash functions? Yes.

OTHER REVENUE

18. Does the company derive revenue, other than that dealt with through normal sales, from:-

- (a) rents; Yes.
- (b) royalties; No.
- (c) other sources (describe)?

19. What detailed records are maintained of such revenue (e.g. rent rolls; royalty returns)?

Rent Rolls.

20. Are budgets prepared for expected revenue of this nature? No.

INTERIM ACCOUNTS

21. Are interim profit and loss accounts and balance sheets produced to the management showing the state of the company's affairs? Yes monthly.

22. How long after the end of the period are they produced?

2 weeks.

23. Are they accurate? Yes.

24. Do they include a comparison of:-

- (a) actual with estimates or budgets; No.
- (b) period with previous period; Yes.
- (c) cumulative period to date with comparable period of previous year? Yes.

FINANCIAL STATEMENTS

25. Who is the final authority before the board to whom the financial accounts are passed for approval?

Position

Secretary

26. Who authorises any necessary action on matters arising from these accounts?

Position

Secretary

Managing Director

27. Who deals with the client's taxation affairs?

Auditors
Secretary

28. Where the cost accounts are reconciled with the financial accounts (Section VIII 4, questions 23 and 24), what action is taken to enquire into material differences between these accounts?

No.

CURRENT ASSETS

Loan to Malacca Hongkong Land Development Sdn. Berhad
Amount due from Lim Foo Yong Sdn. Berhad (controlled by a Director)
Other Debtors

Bank Balances:-
Fixed Deposit
Current Account

\$ 1,000,000

Deduct

CURRENT LIABILITIES

Trade Creditors	\$ 37,885
Other Creditors and Accruals (1966 \$32,644 secured)	240,433
Current Taxation	224,596
Unclaimed Dividends	7,000
2nd Interim Dividend payable on 30.10.67	315,000

NET CURRENT ASSETS

Deduct

DEFERRED LIABILITY

Installments under Hire Purchase Agreement payable after one year (see)

REPRESENTING

SHARE CAPITAL

Ordinary Shares of \$10 each
Ordinary Stock Units of \$10 each

RESERVES AND SURPLUS

Unappropriated Profit

RESERVE FOR FUTURE TAXATION — 1968

1966
53,493
14,800

FIXED ASSETS (Note 1)

INVESTMENTS (Note 2)

SUBSIDIARY COMPANIES

14,088	Shares at Cost	\$ 2,114,088	
—	Less: Pre-acquisition profit written off	70,482	\$ 2,043,606
—	Add: Amounts due from Subsidiary Companies		967,151
98,802			3,010,757
15,286	Less: Amounts due to Subsidiary Companies		1,980,100

\$ 7,157,565

535,812

1,030,657

CURRENT ASSETS

12,397	Loan to Malaysia Hongkong Land Development Sdn. Berhad	\$ 2,285,197	
72,177	Amount due from Lim Foo Yong Sdn. Berhad (controlled by a director)	—	
—	Other Debtors	41,742	
—	Bank Balances:—		
25,191	Fixed Deposit	\$ 1,000,000	
09,765	Current Account	9,513	1,009,513
			3,336,452

Deduct

CURRENT LIABILITIES

40,108	Trade Creditors	\$ 37,805	
51,070	Other Creditors and Accruals (1966 \$32,644 secured)	240,423	
18,147	Current Taxation	224,596	
5,000	Unclaimed Dividends	7,002	
4,325	2nd Interim Dividend payable on 30.10.67	315,000	

824,826

NET CURRENT ASSETS

2,511,626

11,235,660

Deduct

DEFERRED LIABILITY

Instalments under Hire Purchase Agreement payable after one year (secured)

144,674

\$ 11,090,986

REPRESENTING

SHARE CAPITAL

	Authorised	Issued
Ordinary Shares of \$1/- each	\$ 9,500,000	\$ —
Ordinary Stock Units of \$1/- each	10,500,000	10,500,000
	\$ 20,000,000	10,500,000

RESERVES AND SURPLUSES

Unappropriated Profit	60,986
RESERVE FOR FUTURE TAXATION — 1968	530,000
	\$ 11,090,986

in Hotels Malaysia Berhad

IT & LOSS ACCOUNT FOR YEAR ENDED 30th. JUNE 1967.

1966

54,266 TRADING PROFIT BEFORE TAXATION

\$ 1,202,105

AFTER CHARGING:—

24,500	Directors' remuneration (Note 4)	\$ 27,000
52,390	Depreciation of fixed assets	316,938
2,000	Auditors' remuneration	5,000
71,400	Rent of leasehold property	371,400

AND CREDITING (Gross)

52,282	Interest on loans and fixed deposits received and receivable	\$ 253,387
10,000	Dividends from subsidiary companies	750,950

Less

MALAYSIAN TAXATION ON PROFITS FOR THE YEAR

6,147	Income tax	\$ 500,000
0,000	Development tax	30,000

6,147		530,000
8,119	TRADING PROFIT AFTER TAXATION	572,105

Less

EXCEPTIONAL ITEM

0,000	Preliminary expenses written off	—
8,119		672,105

Less

—	Income tax adjustment—prior years	100,000
		572,105
8,744	Unappropriated profit brought forward	31,863
6,863		603,968

Less

—	Pre-acquisition profit in a subsidiary company written off	70,482
		533,486

Less

5,000	Dividends, less tax	
	1st interim of 2½% paid on 28-2-67	\$ 157,500
	2nd interim of 5% payable on 30-10-67	315,000
		472,500

8,863 UNAPPROPRIATED PROFIT

\$ 60,986

APPENDIX III

EXTRACTS FROM THE STAFF RECORD BOOK

The Staff Record Book is no longer in use.

However, the writer feels that certain extracts from the book will throw some light on the adequacy of the system of internal control, especially with regards to personnel relation.

If the Disciplinary Code as listed in the book has been currently in force then a greater degree of control could have been attained. This clearly shows that procedures may be laid down, rules may be set but unless properly enforced and put in practice all the initial work would be wasted.

(a) To protect the property from loss or wilful damage.

(c) To regulate the delegation of authority in matters pertaining to Personnel Relations.

(f) Generally to do all things for the maintenance of discipline necessary for good orderly and efficient management of the Hotel.

3. For purposes of the Code a "Personality" imposed under the Code shall not be construed as an attempt on the part of the Management to invade or obstruct its employees' right to organize for purposes aimed at regulating its actions over matters relating to their terms of employment, but, more as aforementioned, as a management prerogative to institute such disciplinary measures as it deems necessary in the interest of orderly management and industrial-

DISCIPLINARY CODE

SECTION I

1. These rules shall be known as "The Hotel Merlin Disciplinary Code" (hereinafter referred to as the "Code").

2. The objects for which the Code is established are:-

(a) To secure courteous and efficient service through good proficient and orderly conduct and behaviour on the part of employees.

(b) To promote and maintain harmonious and respectful relationship between employees and

(i) guests

(ii) managerial staff

(iii) and between one employee and another

(c) To maintain honest and efficient service practices and standards.

(d) To protect the Hotel property from loss or wilful damage.

(e) To regularise the delegation of authority in matters pertaining to Personnel Relations.

(f) Generally to do all things for the maintenance of discipline necessary for good orderly and efficient management of the Hotel.

3. For purposes of the Code a "Penalty" imposed under the Code shall not be construed as an attempt on the part of the Management to impede or obstruct its employees' right to organise for purposes aimed at regulating its actions over matters relating to their terms of employment, but, save as aforementioned, means management-prerogative to institute such disciplinary measures as it deems necessary in the interest of orderly management and industrial-

efficiency which includes the right to hire, dismiss, and suspend from duty any staff who in its opinion is guilty of conduct prejudicial to good order and discipline; the right to determine the nature of the misdemeanour and the right to institute such measures for its appropriate correction provided always that:-

(i) Employees so penalised have been previously warned in writing.

(ii) They shall have the right to appeal to the Board of Management through the proper channel; penalties so instituted under this Code shall not constitute or be deemed grievances leading up to industrial disputes between management and union or unions.

4. (a) For the purpose of ensuring punctuality among staff reporting for and going off duty, the Management shall maintain a duty roster outlining, chronologically, the duty-hours of each shift for each week.
- (b) It is the duty of every member of the Staff to inspect and to take note of his duty-days and shift-hours for the week as stipulated in the duty roster and he shall adhere strictly to the time so set out in the Duty Roster.
- (c) When reporting for duty all staff shall use the rear entrance of the Hotel building for access into the premises.
- (d) All staff cars and other vehicles must be parked in the compounds of the two rest houses provided for the staff. No staff cars or other vehicles shall be parked in the hotel car parks or parking bays reserved for patrons and guests.
- (e) All staff reporting for duty shall clock-in with the Jaga and lodge their duty docket in the rack provided and thereafter proceed to sign the attendance book upstairs.

(f) For orderly and harmonious change-over of duties all staff reporting for duty shall clock-in five minutes before their stipulated duty time. Those reporting after time as set in the time recorder shall be regarded as being late. The Jaga shall record the duty docket numbers of all those who clock-in late together with the time they clock-in.

(g) All staff who have been recorded late three times over the period of a year shall be dealt with according to the provisions laid down in this Code.

5. All staff going off duty shall collect their duty-dockets from the rack in the presence of the Jaga and clock-out immediately. There shall be no loitering in the premises. All staff must depart in an orderly and peaceful manner. The Security Guards and Jaga on duty shall ensure this. Any staff found infringing this rule shall, upon request of the Jaga or Security Guard on duty, produce his duty docket and shall be dealt with according to the provisions laid down in this Code.

6. In their dealings with guests and patrons of the Hotel, all staff are not only expected to be proficient in their duties but they are also expected to be of unquestionable honesty and probity befitting the trust placed upon them by the Management, guest and patrons alike.

7. Strict adherence to the following House Rules is expected from all staff on duty:-

(1) All staff shall strictly observe and perform the instructions and directions detailed or given to them by their superiors.

(ii) They shall at all times promptly execute and observe the instructions and directions given to them by their superiors. Any complaint by any member of the staff to the Management must be made through the proper channels, provided that, the complainant shall have executed or observed such

instructions and directions as he may be required, before such complaint is made.

(iii) No fighting or quarrelling among the staff while on duty shall be tolerated. While on duty they shall at all times be attentive and ready to attend to the wants and needs of guests and patrons who shall be served cheerfully politely and ungrudgingly, remembering always, that the customer is always right. No staff shall under any circumstances argue, quarrel or show his temper with or to any guest or patron. A complaint against any staff by any guest or patron shall be treated as a serious matter by the Management.

(iv) No member of the staff shall in any circumstances threaten, coerce, intimidate or put any other member of the staff in fear or force any member of the staff to do or forbear to do anything against the wish or desire of such member.

Any member of the staff so threatened, coerced or intimidated shall immediately report to the Management who shall investigate into such complaints and deal with same as the Management may think fit.

Failure to report under this rule shall constitute a breach of conduct prejudicial to the good order and discipline of the Establishment.

(v) Except for the purpose of carrying out his duties, no staff shall leave his post without the permission of his immediate superior provided always that such permission shall not be unreasonably withheld.

(vi) No staff shall entertain any calls of any kind from friends or relative during working hours, unless in the case of an emergency such as serious illness, accident or death requiring his personal attention.

(vii) No theft, pilfering, misappropriation of dishonesty in whatever form shall be tolerated.

The Management reserves the right to conduct surprise searches in cases of loss of hotel or guests' or patrons' properties. Searches so made are not intended to and shall not be construed as affronts to the individual subjected to the search.

(viii) All staff on duty shall be neat, clean and smartly dressed. This includes neat hair-cuts properly combed, clean shaven faces, clean uniforms, properly starched and ironed; well shined or blanched shoes; polished buttons and properly buttoned jackets.

(ix) Any article left behind on tables in the Dining room, Bar or in the rooms by patrons or departing guests shall be immediately handed over to the Management at the reception desk. Any staff found retaining such items shall be liable to instant dismissal.

8. WORKING HOURS:

The normal working hours of the establishment shall be in shifts of eight working hours per day, provided always that the Management may in consultation with the Establishment stewards of the Union alter these times if it deems expedient to do but so that the total working hours per shift per week are not less than 48 hours.

9. TRANSFERS OF STAFF:

All staff shall be freely transferable from one department, division, section or sub-section of the Establishment to any other department, division, section or sub-section of the Establishment at the absolute discretion of the Management. Any staff may at the absolute discretion of the Management be also transferred from the Main Establishment to any branch of the Establishment elsewhere and vice-versa.

10. SPECIAL FUNCTIONS.

The Management reserves the right to require any staff on duty to work overtime to meet reservations from guests or patrons calling for special functions such as

Anniversary Parties, National Ceremonies, Wedding Receptions, Farewell parties, Conventions, etc. provided always, that staff so required to work overtime shall be notified twenty-four hours in advance excepting, emergency cases arising from immediate bookings or requirements as occasion warrants. Any staff so notified shall not refuse to work the overtime required of him except for reasons satisfactory to the Management. Refusal to work when called up to do so under this rule shall constitute a breach of conduct prejudicial to the good order and discipline of the Establishment.

11. OVERTIME:

For overtime worked, staff shall receive overtime pay as scaled below:-

(1) At Dollar One and cents fifty only (\$1.50) per hour for the following categories of staff:-

(i) Kitchen Staff - Commencing from the fourth Cook and above.

(ii) Bar and Dining Room Staff - From Jr. Captain and above.

(iii) Room Staff - From Room No.1 and above.

(iv) Office Staff - All clerical workers posted in the General Administrative and Management Department.

(v) The heads of the Linen Store, the Laundry and the Chief Telephone Operator.

(2) At Dollar One only (\$1.00) per hour for all staff other than the categories stated above.

12. EX-GRATIA PAYMENTS:

The Management may at its absolute discretion make such ex-gratia payments to members of the staff from moneys received in respect of service charges on food and drinks as the Management may consider fit.

13. PENALTIES:

The conduct of all staff of the Establishment shall be regulated by the provisions of this Code. Infringement of any one of them shall constitute a misconduct and the staff involved shall be dealt with accordingly to procedures laid down hereunder:-

MISCONDUCT:

- (a) First Offence - Warning (verbal) and offence recorded in staff personal record file.
- (b) Second Offence - Warning (written) and offence recorded.
- (c) Third Offence - Offence recorded and taken into consideration in determining amount of ex-gratia or other payments (if any) which the Management may make to the staff.
- (d) Fourth Offence - Offence recorded - Final warning and offence taken into consideration in determining amount of ex-gratia or other payments (if any) which the Management may make to the staff.
- (e) Fifth Offence - Dismissal. Unless good and sufficient cause is shown why he should not be dismissed.
- (f) Sixth Offence - Summary dismissal.

THEFT, FIGHTS, GAMBLING, THREAT, COERCION, INTIMIDATION AND OTHER SERIOUS MISCONDUCT.

In cases of fights, thefts, gambling, threats, coercions, intimidations, dishonesty, disrespect and other serious cases of misconduct, the staff involved shall immediately be suspended from duty and complaints against them investigated into. If charges against them were proved they shall be dismissed instantly.

SECTION II

For the purpose of efficient administration and management of the Establishment, the Establishment is organised into Four Departments namely:-

- (1) The General Management and Administration Department.
- (2) The Purchasing Department.
- (3) The Accounts Department.
- (4) The Industrial Relations Department.

Each with its own departmental divisions, sections and sub-sections as shown on the Organisation Flow-Chart and the table set out below:-

1. THE GENERAL MANAGEMENT AND ADMINISTRATION DEPARTMENT under the overall charge and supervision of the Hotel Manager is comprised of the following Divisions, sections, and sub-sections.

(a) The Administration Division comprising:-

- (i) The Clerical Section,
- (ii) The Telecommunications Section,
- (iii) The Maintenance Section,
- (iv) The Security Section,
- (v) The Billing Section and
- (vi) The Reception Section. The Head Porter who is in charge of all bell-hops, lift attendants, luggage boys, door boys and cleaners shall form a sub-section coming under the charge of the Reception Section.

(b) The Hotel Division comprising:-

- (1) The Room and Floor Bar Service Section and

- (ii) The House-keeping Section which controls the Linen, Laundry and Laundry store sub-sections.

(c) The Restaurant Division comprising:-

- (i) The European Food Section with such sub-sections as may be established
- (ii) The Chinese Food Section with such sub-sections as may be established.

(d) The Bar and Liquor Division comprising:-

- (i) The Harlequin (Main) Bar Section,
- (ii) The Bamboo Bar Section,
- (iii) The Tea Room Section,
- (iv) The Elfin Room Bar Section and
- (v) The Combined Floor Bars Section.

(e) The Kitchen Division comprising:-

- (i) The European Kitchen Section with the following Sub-sections:-

- (a) The Pantry Sub-section,
- (b) The Pastry Sub-section,
- (c) The Kitchen Sub-section and
- (d) The Elfin Room Kitchen Sub-section.

- (ii) The Chinese Kitchen Section.

The Administration and Hotel Divisions shall be under the charge of an Assistant Manager. The General Supervisor shall assist the Assistant Manager in the supervision of the Hotel Division. The Restaurant, Bar and Liquor, and Kitchen Division may be under the charge of another Assistant Manager who shall be assisted by the General Supervisor. The

General Supervisor shall apart from his supervisory duties be responsible for harmonious co-ordination between the Hotel, Restaurant, Bar, Liquor and Kitchen Divisions.

2. The Purchasing Department under the charge of the Purchasing Officer is comprised of two Divisions namely:-

- (a) The Furniture and Soft Furnishing Division and
- (b) The Food and Wine and Liquor Division.

Each of these divisions shall be under the charge of an officer directly responsible to the Purchasing Officer.

3. The Accounts Department under the charge of the Chief Accountant and bookkeeper may be made up of such divisions and sections as may from time to time seem expedient.

4. The Industrial Relations Department under the charge of the Industrial Relations Officer is comprised of the following Divisions:-

- (a) The Labour Relations Management Division and
- (b) The Employee Relations Management Division and such other sections or sub-sections as may from time to time be formed.

All staff in each sub-section, division or department shall be directly responsible to their respective sub-sectional, sectional, divisional or departmental heads and all departmental heads shall be directly responsible to the Managing Director. Each sub-sectional, sectional, divisional and departmental head shall be responsible for the proper and efficient working and the discipline of their respective sub-sections, sections, divisions or departments and the staff attached to each sub-section, section, division or department shall carry out and observe all the orders instructions and directions given to them by their respective heads.

Appendix 4.1

All staff shall, in addition, be subject to the control, orders and directions of their superior officers within their department and shall carry out such orders and directions as may be given to them by their superior officers.

To:

Any complaints by any members of the staff against another member of the staff must be made to their respective sub-sectional, divisional or departmental heads who shall deal with such complaints whenever made and try to arrive at an amicable solution or settlement of the complaint. Any complaints by any member of the staff against their superior officers shall be made to their respective Establishment Stewards who shall deal with such complaints and try to arrive at an amicable solution or settlement of the complaints at establishment level, failing which such complaints shall be referred to the Joint Negotiating Committee.

From _____ To _____

Arriving by _____

Leaving for _____

Own Account or Firm's Account _____

Address _____

Telephone No. _____

Type of Room _____

Date _____

Signature _____

Culture Press Ltd. K. L. 6135

To:



HOTEL MERLIN BERHAD

BOOKINGS CONFIRMATION

Please book accommodation for:—

Surname

Christian Names

From..... To.....

Arriving by

Leaving for

Own Account or Firm's Account.....

Address

.....

..... Telephone No.....

Type of Room.....

Date.....

Signature.....

Culture Press Ltd. K. L. 6135

Hotel Merlin

Name..... Month of

No. 1234

Room No.

Rate

SINGLE 1 2 3 4 5 30 31.

First Floor

101

.

.

.

.

117

Second Floor

201

.

.

.

.

Third Floor

.

.

.

.

Fourth Floor

.

.

.

.

Fifth Floor

.

.

.

.

Sixth Floor

601

.

.

633

Hotel Merlin

No. 1234

Profession.....

Name in full.....

I.C./Passport No.....

Place and date of issue.....

Nationality.....

Country and date of birth.....

Date of arrival.....

From..... By.....

House or firm's address.....

.....

.....

Signature.....

.....

Room No.

Daily rate Clerk's initial....

THE ABOVE INFORMATION FOR GOVERNMENT PURPOSES ONLY

* Three sheets : 1 for single rooms,
1 for double rooms,
1 for family suites, V.I.P. suites,
pent-house and conference rooms.

Appendix 4.3(a) ; Customer's Ledger Card.

Hotel Merlin

Name.....

No.1234

Room No.....

Rate.....

Arrival Date

Time

Departure Date

Time

Room No.	Date	Explanation	Dr.	Cr.	Balance	Old bal.	Room No.
1							
2							
3							
4							
.							
.							
.							
24							

Guest Signature.....

Charge to

Hotel Merlin

Registration Card

No.1234

Name in full..... Profession.....

I.C./Passport No..... Place and date of issue.....

Nationality Country and date of birth.....

Date of arrival From By.....

House or Firm's address.....

Time.....

Signature.....

Room No. Daily rate Clerk's initial....

THE ABOVE INFORMATION FOR GOVERNMENT
PURPOSES ONLY

Appendix 4.3(b) ; Customer's statement of account.
Appendix 4.4

Hotel Merlin

HOTEL MERLIN LIMITED No.1234

Name Date of arrival.....

Room No. No. of persons..... Rate

Details	Date	Reference	Debit	Credit	Balance
1					
2					
3					
4					
5					
.					
.					
.					
.					
.					
24					

We hope you have enjoyed your stay and look forward to serving you again.

Guest's Signature.....

Charge to

Have you left your key?

HOTEL MERLIN LIMITED

BIN CARD

No.....

Size.....

Maximum Qty.....

Minimum Qty.....

Price

Articles

[illegible]

HOTEL MERLIN LIMITED

BARS ISSUED DAILY SUMMARY REPORT BY STORE DEPARTMENT

Date.....

Particulars	Bowling Alley		Dragon Court		Arthur's Caves		Bamboo Bar		Floors		Chiengmai Room						Total	
Liqueurs & Wines																		
Beers Stouts																		
Minerals & Cordials																		
Cigs. & Cigars																		
Food Stuff																		
TOTAL																		

.....
Storekeeper's Signature

Stock Closing As At.....

<u>Cost</u>	<u>Articles</u>	<u>B/C No</u>	<u>Stock</u>	<u>Total</u>
21.09	Black Label Whisky	-275		
16.28	Red Label Whisky	-254		
16.28	John Haig G/L Whisky	86		
20.05	John Haig Dimple	87		
17.35	Grant's Glenfildich Whisky	721		
15.80	Grants Standard Whisky	91		
16.28	White Label Whiksy	83		
16.28	Vat 69	85		
15.90	Black & White Whisky	84		
13.17	Duncan's Blend Whisky	691		
15.90	White Horse Whisky	303		
15.84	Old Smuggler	90		
19.50	Ancestor Whisky	82		
20.84	Chivas Regal Scotch Whisky	443		
16.67	Highland Queen Whisky	82-4		
13.96	Queen Anne Whisky	483		
18.00	Old Parr Whisky	501		
	Old Rarity Scotch Whisky	538		
5.90	Cluncy Whisky	730		
6.40	John Jameson Whisky	- 374		
5.00	Dublin Whisky	700		
7.05	Canadian Club Whisky	301		
6.55	Seagram V.O. Whisky	307		
4.42	Long John Whiksy	599		
4.28	Teachers Whisky	610		
4.50	Four Season Whisky	697		
4.56	Old Taylor Whisky	231		
4.93	Old Grandad	232		
4.30	Bourbon Ten-half Whisky	679		
4.60	Jack D'Encil Green Label	713		
4.20	Old Forester	714		
4.60	Sake	661		
4.40	Sake	662		

HARLEQUIN LIMITED

SALES SUMMARY DAILY REPORT

Date.....

		Dragon Court	Tea Room	Floors		Bamboo Bar	Cash Sub Total	Credit Sub Total	Combined Total
RESTAURANT	Cash								
	Credit								
BAR	Cash								
	Credit								
CIGARETTES	Cash								
	Credit								
TOTAL									
SERVICE CHARGE	Cash								
	Credit								
GRAND TOTAL									

Culture Press Ltd. K. L. 6005

CREDIT SALES

ACCOUNTS	Dragon Court	Tea Room	Floors		Bamboo Bar	Total
CITY ACCOUNTS						
RESIDENTS ACCOUNTS						
TOTAL						

Prepared By

Appendix 4.8

CONFIDENTIAL

NAME..... A/c No.....
(In Block Letters—Personal or Firm)

Date.....

MERLIN LIMITED
Kuala Lumpur.

Dear Sir,

I would request that you authorise my signature as acceptable when obtaining service in the Merlin Ltd. and agree to settle such signed liabilities by the 7th of each month following that during which I may have signed for such service.

Yours faithfully,

Specimen of Signature.....

Office Address.....

..... Tel. No.....

Occupation/Position.....

Employer/Agent.....

Home Address.....

..... Tel. No.....

**EMPLOYER'S OR AGENT'S GUARANTEE TO COVER IN EVENT OF DEFAULT
IMPORTANT**

I agree to cover any default in payment of Mr.....
..... up to a limit of \$.....
(Dollars.....)

Only fully completed applications will be considered.

Signed.....

C.S.C.K.L.4125-65

Appendix 4.9

HOTEL MERLIN OVERTIME RECORDS.

NAME BADGE NO.....

DEPT/FLOOR POSITION

Date	Time	Hours	Amount	Remarks
Total				

.....
Signature of Dept. No. 1