



Case Study 11

Bookkeeping For Travel And Tourism

RUSHABH SHAH

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Meru Accounting helping a Travel And Tourism, To manage their receivables and payables to ensure the cash management within organization is done in best manner.

Today, accounting is recognized as an information system and is designed to communicate the right information to the internal as well as external users. Accounting involves recording, classification and summarizing the accounting information directed toward the determination of financial strength and weakness of a travel agency.

To easily manage up a travel agency/tour operator profitably demands accurate recording and preparation of financial statements. These are essential in determining the true and fair status of the business and for making strategic plans and decisions.

Accounting System

The basic objective of accounting is to ascertain the profitability and financial position of a travel agency operation. To achieve this, every travel agency prepares the following journals and statements:

- Sales Journal
- Cash Receipt
- Account Receivable
- Cash Disbursement
- IATA ledger
- Pay Roll
- General Ledger
- Profit and Loss Account
- Balance Sheet

Sale Journal

In this journal, all credit sales are recorded. Sometimes, a travel agency provides extends credit facilities to its clients i.e., leisure and commercial clients. It, in fact, makes a cash loan to its clients. However, it has been noticed that only large-scale travel agencies can afford to extend credit to corporate customers, but even then, a thorough credit check is required before a credit amount is opened.

To maintain all the records with the up-to-date of all credit sale, travel company prepare a sales journal.

Cash Receipt Journal

It is used to record all revenues received by the travel agency during the period. In other words, transactions concerning cash, credit cards, cheques are recorded in this journal. For example sale of the tour package, the commission received from the hotel, airlines and other vendors are recorded in it.

Account Receivable

When a travel agency purchases tourism products, services from the supplier on credit, the amount owed to producers/suppliers/sellers are referred to as an account receivable.

Cash Disbursement

Cash outflows are recorded in cash disbursement journal. Cash outflow means the operating expenses of the travel agency like rent, salaries, telephone expenses, administrative expense, financial and legal expenses, selling and distribution expenses etc.

These are mostly paid by cheque or through bank drafts. Cash disbursement journal is also called Cost Journal. Thus, cost journal is used to record the payments made by a travel company to its employees and others.

IATA Ledger

The IATA ledger is known as 'Chief Book of Accounts' and is the destination point of entries made in the journals or sub-journals. It is used to balance the accounts of the travel agency. In accounting, 'Balance Account' means continuous and consistent check and verification of the accuracy of a travel agency's accounting system.

PayRoll Journal

In this journal, a travel agency maintains the record of salaries and other benefits (financial) given to its employees like the number of employees on the payroll, total salaries, insurance premiums, compensations, housing facilities, medical facilities and other benefits to the employees.

Practically, the total from each journal is compiled monthly and posted to the general ledger. In this ledger, all types of account are

maintained/transferred from the various individual journals to provide ready information for the preparation of the financial statements.

ASTA Accounting System

In 1979, Touche Ross and Co., developed the ASTA Travel Agency Accounting System to facilitate travel agent and tour operators specifically for ARC and IATA reporting. All items in the balance sheet and income statement are numbered from 100 to 699. Each three-digit number convert the information for the users.

Basically, an accounting system is designed to record the agency's assets, liabilities, capital, revenue/income/gains, and expenses or losses etc. A brief discussion of these follows:

Assets

Assets are economic resources which are owned and used by the travel agency and are expected to benefits in future operations. Hence, assets can be expected eventually to increase the cash inflow of the travel agency. Assets are two types:

- Current assets
- Fixed assets

Liabilities

These are the claims against travel agency assets. Practically, liabilities are future sacrifices of economic benefits arising agency's debts to transfer assets or provide services to others as a result of past business transactions. These are of two kinds

- Current or short period liabilities
- Long-term liabilities

Capital

Capitals represent the amount of paid or contributed by owners, shareholders to the agency. More precisely

- $\text{Capital} = \text{Assets} - \text{Liabilities}$

It is equal to the difference between the values of what is owned by the agency and the value of what is owed by the travel agency. Capital represents the net worth of the agency to owners.

Income/Gains

It is the monetary value of goods and services sold by the travel agency such as the sale of the tour, airlines commission and interest received etc. Revenues are cash inflows of the agency for the services rendered to the clients during a specific period.

Expenses

Expenses of the company represent the cost of doing travel agency business. Basically, these are cash outflows and are paid by the

agency to obtain or purchases goods and services from the providers. Other expenses are included in it like as salary, administrative expenses, financial and legal expenses etc.

Financial Statements

Financial statements are the formal output of any accounting system and are prepared to provide accurate, timely understandable, objective and comparable accounting information to the users. Today, these statements are considered as a base for making rational decisions concerning the future of the travel agency.

Users of Financial Statements

Financial statements are the mirrors which reflect the financial position and operating strength or weakness of a travel agency. These statements are useful to owners, creditors, suppliers, management, government, and other outside parties. Users of the financial statements are as follows:

1# Owner

The owner is also much more mainly concerned with the help of highly managing the investment and long-run success of the travel agency.

They are also interacted to know whether their money is used for

those purposes for which they have invested it. The income and position statements tend to be the primary source of information to the

owner.

2# Creditors

They represent persons, banking and financial institutions which have loaned funds to the travel agency. They are interested in knowing entity's debt-paying ability for a short or a long term.

3# Suppliers

Suppliers in the travel business are not similar to the creditors. They are the producers/principals such as airlines, hotels, tour operators, transport operators, cruise liners for whom the travel agency collects revenues or collects product lines to formulate tourism product or tour package.

These suppliers are interested in knowing the agency's debt-paying ability. Even some suppliers demand bank verification and audited financial statements etc.

4# Management

Management uses accounting information as an input to make rational decisions and to achieve profitability objective. Apart from financial statements, management needs some other reports too like the – booking commission report, employees and suppliers reports.

Ironically, management is interested only in knowing the existing profits, EPS, chances of survival, a possibility of growth and diversification, relative performance, so that it can chalk out suitable

strategies for its travel agency/operator.

5# Employees

Basically, employees are concerned with job satisfaction, job security, promotion, welfare schemes and other financial incentives given by the travel agency. So they want information on the profitability and the future prospects of a travel agency.

CONTACT US TODAY • Meru Accounting

IN: +91 95584 80423 | US: +1 347-618-6478

UK: +44 20 3868 2211 | AU: +61 283180414

hello@meruaccounting.com