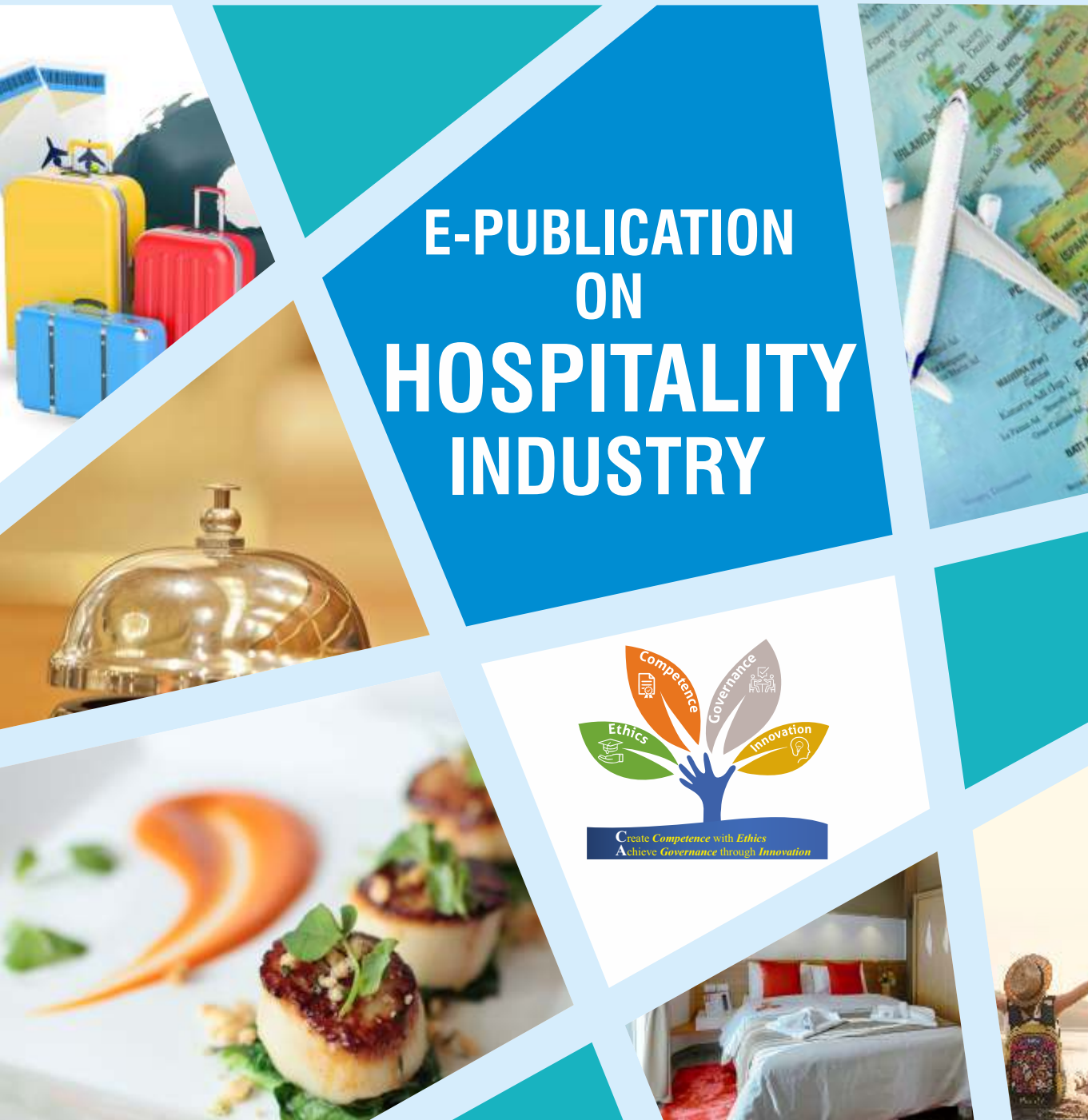




Western India Regional Council of The Institute of Chartered Accountants of India

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E-PUBLICATION ON HOSPITALITY INDUSTRY



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Foreword

Post liberalization, India's middle class saw substantial growth in income. The growing economy created a culture of travel thus leading to a boom in the country's hospitality industry which now contributes ~7% to the GDP of India. One of the key drivers of growth in the service sector, the hospitality sector is expected to touch \$460 billion by 2028.

India has also witnessed considerable growth in foreign visitors since the 2000s, thus enabling our country to become the seventh-largest tourism economy in the world. During 2019, travel & tourism contributed 6.8% to GDP comprising ~Rs.13,68,100 crores (US\$ 194.30 billion).

India has also moved up the ranks in the World Economic Forum's travel and tourism competitiveness index, from 65th rank in 2013 to 34th position in 2019.

In terms of the hospitality industry, while most people have a basic idea of the types of businesses that come under the hospitality umbrella, a far smaller number are able to provide a coherent and satisfactory explanation of what the industry is, and what it is not.

While the industry is cyclical, its growth is constant and WIRC understands that this is the best time to highlight the opportunities the sector offers our members through this e-publication.

The book will provide our readers the foundation they need to understand today's hospitality industry, covering everything from costing structure, Information Systems, Laws & Regulations, Accounting features, Models covered Ownership models, Distribution models, finance to operational issues.

I am pleased to state that through this book the contributors have presented the industry in depth, addressing the general as well as specific subjects of professional interest to Chartered Accountants and the many possible career paths that await them.

I thank CA Anand R. Jakhotiya, Treasurer WIRC & RCM CA Umesh Sharma, Publication Team Leader CA Shripad Kulkarni and his team of contributors comprising CA Dinesh Mundada, CA Jayesh Dudhedia, CA Anil Saboo, CA Nishant Mundada, CA Ruta Chitale, CA Vivek Baj, CA Uday Odak, CA Dilip Gupta, CA Aditya Kanetkar and CA. Karan Chandwani for their detailed inputs and through whose efforts this publication will open new avenues of professional interest to our members and students.

Besides the esteemed contributors, I would also like to recognize the contributions made by the Bhavnagar, Vasai, Satara, Goa and other Branches of WIRC, whose research made it possible to compile and release this publication amidst tight deadlines.

CA Lalit Bajaj
Chairman, WIRC



Preface

Respected Readers,

Season's Greetings !!!

It gives us immense pleasure to launch the first sector specific e-publication on Hospitality as conceptualised by our Chairman CA Lalit Bajaj.

This publication is possible only because of the hardworking team of contributors. It is rightly said "When Team works...Dreams work".

I am highly grateful for the untiring efforts of my colleagues RCM CA Umesh Sharma and Publication Team Leader CA Shripad Kulkarni well supported by contributors CA Dinesh Mundada, CA Jayesh Dudhedia, CA Anil Saboo, CA Nishant Mundada, CA Ruta Chitale, CA Vivek Baj, CA Uday Odak. This Team has covered all crucial aspects impacting The Sector and have given us a holistic view in a crisp manner.

Wishing everyone Happy Learning and a Healthy Life !!!

CA Anand R. Jakhotiya

Treasurer WIRC



Preface

Hospitality Industry is one of the backbone of the service sector of Indian economy. Many aspects like Hotel, Foods, Beverages, Travels, etc are involved in it. This publication is the one the best publication available on Hospitality Industry, which is prepared by eminent CA contributors. WIRC is committed to provide quality publication to all readers. I really feel proud to be part of this series of e-publication by WIRC on different industries.

Readers will enjoy it with detailed knowledge of Industry, Taxation, Accounting, Auditing, etc in this book related to Hospitality Industry. Hope this publication will be useful for you all readers. I am thankful to all contributors for their hard work and dedication to contribute in this book in spite of their busy schedule.

With Regards

CA Umesh Sharma
RCM



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1. INTRODUCTION

1.1 GLOBAL SCENARIO

Hospitality Industry is an integral part of Travel and Tourism sector across the globe and also has strong relevance to the Business Community as one of their Customer segments, in addition to Travelers - International or Domestic.

Globally, this Industry is a significant contributor to the country's Economy from various dimensions and India is no exception to this phenomenon.

Be it Business, Leisure, Wellness, Medical, Cultural, Heritage, Sports, Adventure, Spirituality aspects, different countries have different attractions for travelers depending upon the geography, topography, demography, traditions, customs, history, cuisine and even business offerings. While Social, Political and Economic scenario plays an important role in the development of this sector, Nature too determines the significance of this sector in the Economics, partly or wholly.

Looking at the opportunity this sector has to offer, with increase in spending in emerging economies, good number of business houses have built their brands with their chains of hotels and resorts across the globe while some have even carved out a space for themselves with their chains of restaurants, health clubs.

1.2 INDIA SCENARIO

Ministry of Tourism promotes and governs the Tourism and Hospitality Industry. Apart from Leisure, Wellness, Medical, Cultural, Heritage, Sports, Adventure, Spirituality aspects, Indian Government has also been encouraging Eco Tourism and Rural Tourism in order to have the last mile reach.

Over the years, India has seen a steady growth in International and Domestic tourists with better spending capabilities coupled with better infrastructure in the form of more Airports, Roadways, Waterways and Railways connectivity as well as maintenance and upkeep of heritage sites and couple of key Forts warranting more and variety of Accommodation, F&B outlets and activity options, to cater to different classes of tourists.

Technology has also played a dominant role in the form of reservations/bookings, tour aggregators for tour bookings and travel plans, thereby bringing in convenience and competitive advantage. Additionally, Technology also brought in ease of capturing and maintaining flow of different types of transactions that Hospitality Industry units generally enter into.

India's geographical and cultural diversity, rich heritage, historical forts and monuments, beautiful landscape, long coastline, forest cover, snow-capped mountains, ancient temples, places of pilgrimage, mix of urban and rural flavor,

growing economy, are conducive factors that have boosted Tourism both inbound as well as outbound. It hosts a range of Hotels, Resorts, Wellness retreats, Convention Centers, Amusement Parks, Local and Multinational chains of restaurants, cafes, fine dining outlets, service apartments, budget hotels, tour operators as well as aggregators to cater to the ever increasing demand. Robust infrastructure which is being enhanced, to further give boost to economic and social development, will prove to be an advantage to Tourism and Hospitality in the years to come.

Central and State government machinery go hand in hand to ensure a balanced economic growth.

2. SCOPE

Hospitality Industry, with its unique features, warrants separate attention of CA professionals. This industry includes multiple businesses that can be either stand alone or can also be clubbed as a package, demanding due consideration of different statutes that govern different types of transactions and their cognizance and treatment in the financial statements. Hospitality is both Capital intensive (mainly land and building) and labor intensive. This industry includes domestic as well as international players. Role of professionals could be right from project financial planning till liquidation.

There are different ways in which Hospitality units are run. They could be owned and operated by the same entity or could be leased to another for operations or there could be management contract for managing the operations or they could be run on franchise model.

Depending upon the businesses a unit is into, there would be key sources of revenue peculiar to Hospitality Industry and key expenses relevant to those businesses.

This Paper would be covering the Accounting, Taxation, Audit and Compliances related to Hospitality Industry

Nature of Businesses that would be covered are:-

1. Hotels and Resorts
2. Restaurants and Fine dining outlets
3. Service apartments and Home stays
4. Banquets and Convention Centers (MICE offerings)
5. Clubs

It would be important to note here that though there could be some areas common to all the above, there are and there could be differences in the range and type of offerings in each of these categories. For example Hotels and Resorts would have accommodation facilities as a common feature whereas the difference could be in the other services and activities that would be offered to guests availing them. Hotels would have more offerings to business needs of guests whereas Resorts would cater more to Leisure requirements. Similarly Restaurants and Fine Dining would have Foods and Beverages as a common feature however type and range of cuisines would differ as would be the different tastes of different class of guests/customers availing them.

Service apartments are a relatively recent concept where typically they would have long staying guests and the apartments would be equipped with most of the gadgets and services that are required by guests on a daily basis with an additional flavor of DIY (Do It Yourself). Home stays are again budget facilities created in areas where tourists prefer to spend more time in Nature or move around to see nearby attractions with only a basic requirement of Lodging and either a basic breakfast or dinner.

Banquets and Convention centers cater to MICE (Meetings, Incentives, Conferences and Exhibitions) and could differ in the scale and nature of guests availing these services. While Banquets would cater to family, social and small corporate functions, Convention centers could house big corporate events or seminars. Similarly Clubs would have common feature of memberships however the offerings could differ from club to club.

A new concept of Airbnb has brought in a different way of letting out vacant properties for travelers by small property owners which fills the demand supply gap in an economical way.

3. STATISTICS

3.1 Few facts and statistics

- ❖ With a consistently growing middle class and increasing disposable income, the tourism and hospitality sector was witnessing a healthy growth; accounting for 9.2% of country's GDP in 2018.
- ❖ India was ranked 34th in the Travel & Tourism Competitiveness Report 2019 published by the World Economic Forum.
- ❖ As of 2019, 4.2 crore jobs were created in the tourism sector in India which was 8.1% of total Employment in the country.
- ❖ According to WTTC, India ranked 3rd among 185 countries in terms of travel & tourism's total contribution to GDP in 2018.

- ❖ In 2019, arrivals through e-tourist visa increased by 23.6% year-on-year to 2.9 million. As of December 2019, E-visa facility was offered to 169 countries.
- ❖ During 2019, foreign tourist arrivals (FTAs) in India stood at 10.89 million, achieving a Year-on-Year growth rate of 3.20%. During 2019, foreign exchange earnings (FEEs) from tourism increased 4.8% year-on-year to Rs 1,94,881 crore (US\$ 29.96 billion).
- ❖ International Tourists arrival is expected to reach 30.5 billion by 2028.
- ❖ India is also the third largest globally in terms of investment in travel & tourism with an investment of US\$ 45.7 billion in 2018, accounting for 5.9% of national investment
- ❖ Hotel & Tourism sector has received cumulative FDI inflows of US\$ 13.210 billion between April 2000 and September 2019.

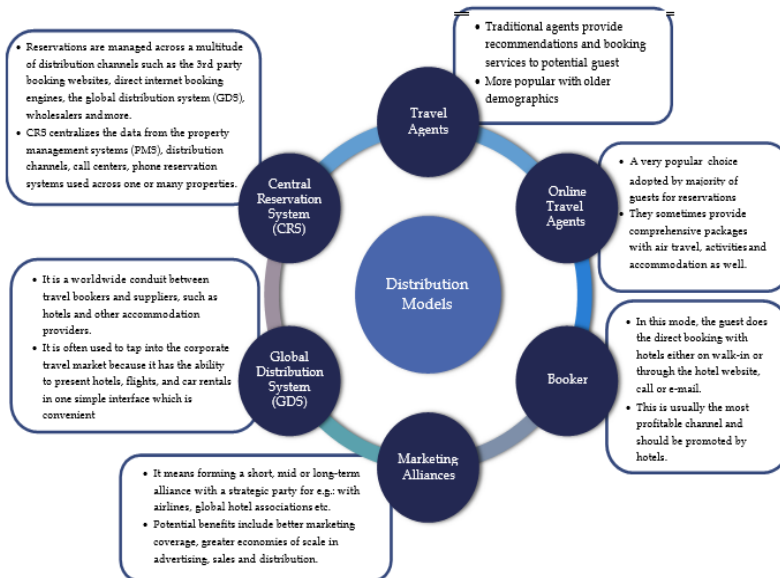
3.2 Top players in the segment



4. KEY ASPECTS

4.1 Operation Models

❖ Operating models can be divided into two parts:



4.2 Broad classification of Hotels



4.3 Hotel business overview



4.4 Key concepts & terminologies

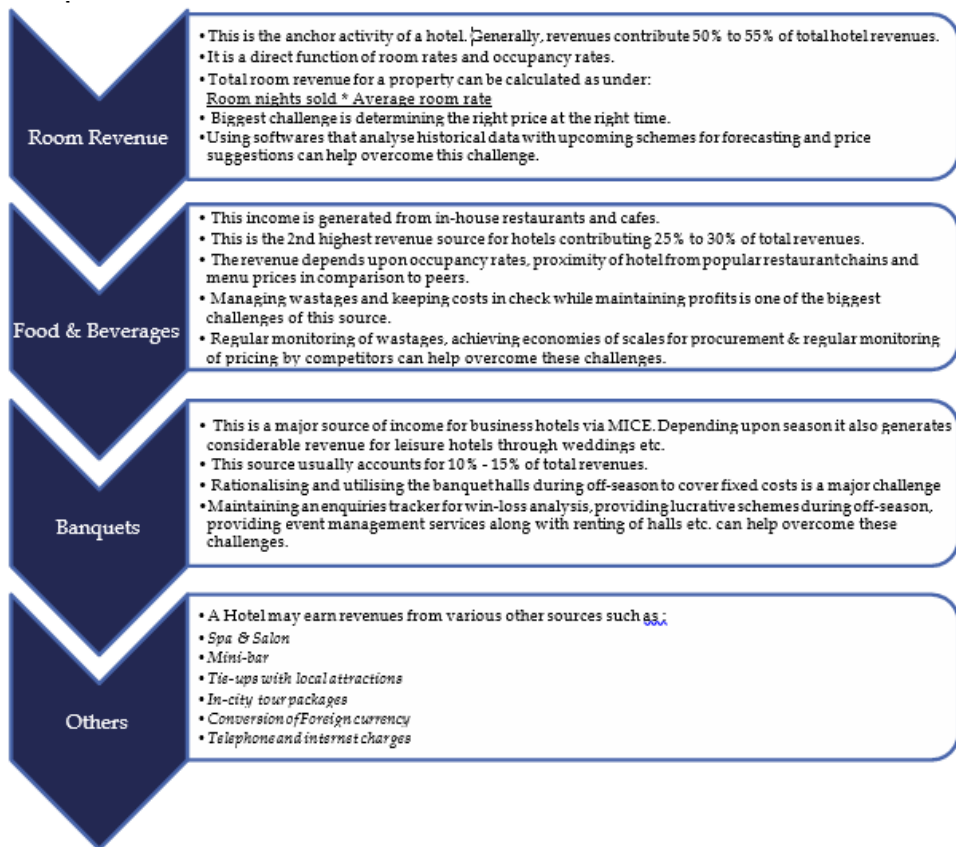
- ❖ **BAR:** It stands for Best Available Rate which is the lowest rate of the day / season available for the guests to book. It is a derivation of the prices on the basis of the forecasted demands to ensure there is no loss of opportunistic revenue.
 - ❖ **Rack rate:** In the hotel industry, the rack rate is the maximum amount the hotel usually charges for a room, usually when demand for rooms in the area is highest. The rack rate is akin to the asking price of a house or car, and hotels expect that guests will request and use discounts.
 - ❖ **Average Length of stay (ALOS):** The demand for hotel rooms in business destinations is usually concentrated around weekdays, i.e., the occupancy rates (ORs) are generally lower on weekends. The ALOS for business hotels is usually in the range of 2-2.5 nights with low levels of double occupancy. While the hotels in leisure destinations the ORs are higher during the weekends and have ALOS of around 3-5 nights. The occurrence of double occupancy is also typically higher in leisure destinations.
 - ❖ **Flash Sales:** Flash Sales are highly discounted and limited-period sale promotions. Hotels usually use this method of discounted sales to clear unsold inventory. Selling these 'hot deals' is an opportunity for underperforming hotels to generate growth.
 - ❖ **Day use:** Room booking for limited hours and not completing the check-in check-out Cycle period.
 - ❖ **No Show:** In the Hospitality Industry, a person who does not arrive where and when they should at a hotel or motel, and makes no explanatory contact has been made, it is called a No- Show.
 - ❖ **Overbooking:** It is a mechanism to protect the hotel from loss of revenue due to no shows, cancellations, errors in bookings etc. This may lead to declining which should be controlled as it has a negative impact on the image of the hotel.
- All Inclusive (AI) plan:** All -inclusive plans differ from hotel to hotel, but the basic "inclusive" plan traditionally covers all meals, beverages, most services.
- ❖ **American Plan (AP):** Includes three meals per day at the hotel, i.e. breakfast, lunch and dinner. Plans typically do not include wines and cocktails.
 - ❖ **Continental Plan (CP):** The quoted rate includes a continental breakfast. A continental breakfast normally consists of coffee or tea, juice, and bread.

The Continental Plan breakfast usually does not include cooked foods; such as pancakes or eggs.

- ❖ **European Plan (EP):** Does not include any meals. The advantage of the European Plan is that guests have more options to try a variety of restaurant experiences, and can often save money by eating out at restaurants that charge less than the hotel dining room.
- ❖ **Modified American Plan (MAP):** The quoted rate includes two meals a day, including breakfast and either lunch or dinner. Meals plans typically do not include wine or cocktails.

4.5 Revenue Structure

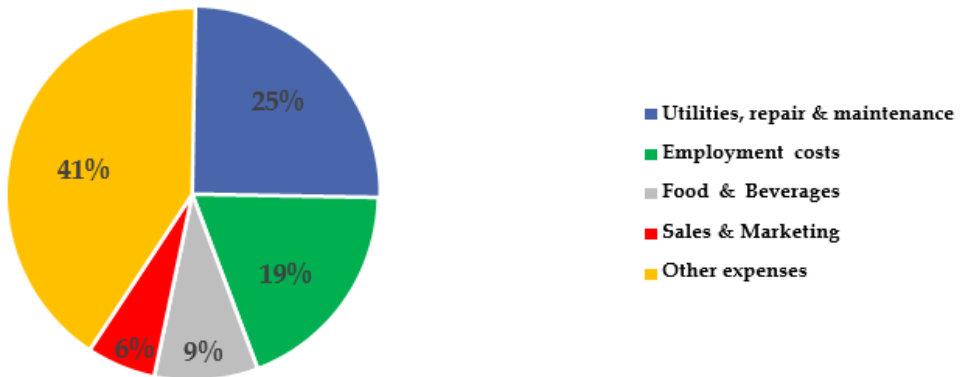
Broadly, a Hotel has four sources of revenue



4.6 Costing Structure

For a self-owned hotel, the major share of expenses is on account of utilities, repairs & maintenance followed by employment costs and Food & beverages.

Cost structure composition



In case of a leased hotel, the cost of rent / lease for property usually accounts for 25% to 30% of the total costs.

4.7 Information systems function

Due to the complexity and diverse requirements of various functions of a hotel, a property may have an in-house ERP specifically programmed for their hotel or may adopt popular ERPs available in the market

Every Hotel will typically have the following software packages inter-linked with the main accounting software package:



It is important to ensure that all the entries, from the different packages, are auto-captured in the accounting software.

Accuracy can be ensured by programming certain criterion for verification of the entries before execution. A spool data for rejected entries can be verified at day end to rectify the exceptions with appropriate approvals.

Periodic reconciliation of software data will also ensure system errors are identified and rectified in a timely manner.

4.8 Laws and regulations applicable to Hospitality sector:



4.9 Stakeholders

Generally, a CA needs to bear in mind the various stakeholders that are relevant to Hospitality Industry. Different transactions, approvals, permits, compliances, registrations would revolve around these stakeholders that would prompt a professional to go through Agreements, Contracts, MoUs, Invoices, receipts, payments and submissions of returns, financials from time to time to ensure the Business has adequate legitimacy and a mechanism in place to honor, execute and give visibility to the transactions and contracts entered into with all of them.

Following are the stakeholders, their relationship with the Business Unit and nature of transactions:-

Stakeholder	Relationship / Nature of Transactions
Shareholders	Owners, Capital infusion, dividends, buyback
Board of Directors	Overall governance, sitting fees, remuneration
Key Management Personnel	CEO/HODs, Policies, Procedures, Compensation
Customers	Individuals, Groups, Corporates, Sales/Revenues
Vendors	Procurement (capex/opex), services, Assets, expenses
Banks/Lenders/Investors	Receipts, Payments, Borrowings, Interest, Dividends
Statutory Authorities	Approvals, Licenses, Permits, NOCs, Compliances, Payments>Returns, Direct/Indirect Taxes, Labor
Laws	Corporate Laws
Lessees, Mgmt Contracts	Agreements, Rents, Management fees
Employees	Services, Salaries
Contractors	Outsourcing of services, contractual payments
Tenants	Shops, Boutiques on lease, rent, profit/turnover share
Professionals/Consultants	Architects, Interiors, Legal, Finance, Consulting fees
Insurance Companies	Insurance (General, Property, Medical), Premiums
Associations	Membership, Approvals, Subscription
RBI	FDIs, Forex earnings, payments
Auditors	Internal, External, Certifications, Audit fees
Franchisees	Royalty, Franchisee fees
Customs/DGFT	Imports, Incentives, subsidies
Business Partners	Tour Operators, Aggregators, Commission, fees

A good understanding of the above coupled with the study of Organizational Structure, roles responsibilities of various departments, Standard Operating Procedures and Policies guiding the activities of the Unit along with a proper study of the Systems implemented can give a good idea of the accounting, finance, taxation and Management Information System to know if the same are True and Fair OR True and Correct, as the case may be.

4.10 Recent Developments

Since the outbreak of Covid -19 pandemic globally, Hospitality Industry is the worst hit across the globe. This has resulted into grim economic scenario as travel and social get together has been almost banned for months together. With no revenues, the debts are piling up and has rendered unemployment in overall Tourism, Hotel and Travel sector. There are recommendations from different lobbies to ease the burden and extension of relief to various categories of businesses in this segment.

The pandemic has also had a psychological impact on the customer segment of this sector and only time will tell when things would start looking up.

New projects had to be stalled and other major expenses on renovations and refurbishments also had to be postponed. As it is, Hospitality Industry is marred with the limitations of its offerings, out of which an unoccupied room is an outright loss of revenue as rooms cannot have any alternative use of earning revenues. Add to it the increasing competition which had compelled older properties in different categories that had to scale down their prices and thereby their margins, as often new properties are preferred either due to novelty or a change that customers generally like to experience in this sector.

Wide range of technology players acting as aggregators as well as digital marketing agencies have on the one hand brought in convenience and more transparency (with their 'reviews' section) and on the other hand increased competition and relatively poor 'loyalty' which otherwise was a norm earlier.

Seasonality, time sharing concept, service apartments, home stays, Airbnb type facilities have further compelled the players to make more attractive offerings to gain footfalls and retain loyalties thereby keeping the owners and management on their toes.

In the given scenario, it makes it all the more pertinent to look into the financials and compliances carefully, before an auditor gives an opinion or consultants share their outlook to help the Management take judicious decisions and owners align their expectations with the new reality.

Reputation coupled with social responsibility, risk assessment, cost control, finance management and exploring new ways of doing business have gained more importance than before, and this compels even CA professionals to wear the right hat for the right services

Let us now look into technical details of Accounting, Statutory and Internal audits, Direct and Indirect Taxation including various compliances relevant and peculiar to Hospitality Industry.

5. ACCOUNTING FEATURES

Peculiar Accounting Issues

- Property Management System

Increasingly many hotels are integrating their PMS along with web portal to facilitate end to end process navigation and avoid reconciliation issues. In such scenarios the expenditure incurred on development of corporate portal needs to be closely evaluated as per the provisions of Accounting Standard as applicable distinctly for Fixed Assets and Intangible Assets.

Where the software is not an integral part of the related hardware, computer software would need to be separately accounted for as an intangible asset.¹

- Capital Investment Subsidy Scheme

Certain State Governments encourage establishments of hotels for development of backward areas. Government may grant subsidy towards land, buildings, electric installation, etc. The accounting treatment of such capital subsidy should be as recommended in Para 4 of the Guidance Note of Accounting for Capital Based Grants. Where the grant or subsidy is with reference to the total investment on an undertaking or by way of contribution towards the capital outlay of the characteristics similar to those of promoters' contribution, it may be treated as capital receipt. Consequently, amount received under such Capital Investment Subsidy Scheme may be treated as a capital reserve which should not be regarded as distributable as dividend.

- Cost of refurbishments

Ongoing repairs and refurbishments is one of the major areas where expenditure is incurred as part of the hospitality industry. Care needs to be taken while determining if the expenditure qualifies to be regarded as capital vs revenue if the expenditure assists in enhancing the originally assessed useful of the asset.

¹ Refer Query No. 29 relating to "Accounting for expenditure incurred on development of corporate portal" as published in the Compendium of Opinions Vol XXVIII of Expert Advisory Committee .

5.1 Special Features of Hospitality Industry

This section is divided into three parts; namely

1. Hotels
2. Chain of Restaurants
3. Fine Dining

Hospitality is one of the exciting and rewarding industries. It has many branches like hotels, restaurants, fine dining, club, bar, eateries, app-based food services, food service aggregators. Each of these branches has certain peculiarities, which leads to its consequent complexity in related accounting. In this section, we will go through the accounting and financial aspect of the hospitality industry. We will also see some of the important ethical responsibilities to be assumed when applying managerial account principles to the hospitality business.

5.2 Hotels

A. Capital Expenditure

Cost of an item of property, plant and Equipment should be recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably. Capex is majorly in the form of Property, Plant and Equipment. Hospitality industry is capital intensive industry as bulk of the investment is towards cost of property and furnishings which is then recovered through room rentals over a period of time. Besides property, list of Capital Expenditure associated with hospitality industry are

1. Furnishing of Beds
2. Tables
3. Bathroom fittings
4. Carpets
5. Initial Painting
6. Interiors
7. Guitars
8. Other Musical instruments
9. Art-works used within the premises at various places (except those, which are replaced within less than 1 year)

10. Vehicles (for guest pick/ drop)
11. Furnitures and Fixtures

Depreciation is to be charged over the useful life of the assets assessed by the management subject to the minimum rates of depreciation prescribed as per the legal structure of the body corporate. Schedule III under Companies Act, 2013 specifies the minimum depreciation rates for Companies.

Inventories

1. Guest supplies
2. Crockery
3. Cutlery

Revenue Expenses

1. Staff Salary
2. Provident Fund
3. Staff Welfare
4. Premise Rent
5. Guest Transportation Charges
6. Housekeeping
7. Linen and Room Supplies
8. Catering Supplies
9. Fuel, Power & Light
10. Repairs to Buildings
11. Repairs to Machinery
12. Linen and Uniform Washing and Laundry Expenses
13. Security Charges
14. Payment to Contractors

Some Recurring expenses

1. Digital platform usage charges by online portals (Billdesk, PayTM etc.)
2. Commission to aggregators
3. Tour operators

The technical and operational aspects of a hotel industry is discussed in broad/major heads as below:

The various operations relating to rooms normally are Reservations including revenue management, Front Office including Concierge, Housekeeping.

B. Revenue Management

Pricing of Rooms

Room rent generally makes a major contribution to the overall profitability of the hotel and, therefore, performance statistics of rooms are considered as indicators of the success of the entire hotel business. Keeping in view the importance of the room rent to the overall profitability of a hotel, pricing of the rooms is required to be done in a manner that overall revenue can be maximized by optimizing average room rate and average occupancy.

Average room rent (ARR) and average occupancy are two of the key indicators for measuring the performance of the rooms department.

Rooms are categorised and priced according to the type of bed, number of occupants, number of bed, decor, specific furnishings or features and nowadays special even the special theme available in the room.

Average room rent could be arrived at by dividing the total room revenue for a given period by the number of room nights actually sold during that period. It is also sometimes referred to as Average Daily Rate (ADR). Average occupancy is determined by dividing the total room nights occupied during a given period by the room nights available during that period.

Further, each hotel has several category/ types of rooms available

#	Room Type	What is generally understood by this room type
1	Single	A room assigned to one person. May have one or more beds.
2	Double	A room assigned to two people. May have one or more beds.

#	Room Type	What is generally understood by this room type
3	Triple	A room that can accommodate three persons and has been fitted with three twin beds, one double bed and one twin bed or two double beds.
4	Quad	A room assigned to four people. May have two or more beds.
5	Queen	A room with a queen-sized bed. May be occupied by one or more people.
6	King	A room with a king-sized bed. May be occupied by one or more people.
7	Twin	A room with two twin beds. May be occupied by one or more people.
8	Hollywood Twin Room	A room that can accommodate two persons with two twin beds joined together by a common headboard. Most of the budget hotels tend to provide many of these room settings which cater both couples and parties in two.
9	Double-double	A Room with two double (or perhaps queen) beds. And can accommodate two to four persons with two twin, double or queen-size beds.
10	Studio	A room with a studio bed- a couch which can be converted into a bed. May also have an additional bed.
11	Suite / Executive Suite	A parlour or living room connected with to one or more bedrooms. (A room with one or more bedrooms and a separate living space.)
12	Mini Suite or Junior Suite	A single room with a bed and sitting area. Sometimes the sleeping area is in a bedroom separate from the parlour or living room.
13	President Suite Presidential Suite	The most expensive room provided by a hotel. Usually, only one president suite is available in one single hotel property. Similar to the normal suites, a president suite always has one or more bedrooms and a living space with a strong emphasis on grand in-room decoration, high-quality amenities and supplies, and tailor-made services (e.g. personal butler during the stay).

#	Room Type	What is generally understood by this room type
14	Apartments / Room for Extended Stay	This room type can be found in service apartments and hotels which target for long stay guests. Open kitchens, cooking equipment, dryer, washer etc. are usually available in the room. Housekeeping services are only provided once in a week or two times in a week.
15	Connecting rooms	Rooms with individual entrance doors from the outside and a connecting door between. Guests can move between rooms without going through the hallway.
16	Murphy Room	A room that is fitted with a sofa bed or a Murphy bed (i.e. a bed that folds out of a wall or closet) which can be transformed from a bedroom in the night time to a living room in daytime.
17	Accessible Room / Disabled Room	This room type is mainly designed for disabled guests and it is required by law that hotels must provide a certain number of accessible rooms to avoid discrimination.
18	Cabana	This type of room is always adjoining to the swimming pool or have a private pool attached to the room.
19	Adjoining rooms	Rooms with a common wall but no connecting door.
20	Adjacent rooms	Rooms close to each other, perhaps across the hall.
21	Villa	A special form of accommodation which can be found in some resort hotels. It is a kind of stand-alone house which gives extra privacy and space to hotel guests. A fully equipped villa contains not only bedrooms and a living room but a private swimming pool, Jacuzzi and balcony. It is suitable for couples, families and large groups.
22	Executive Floor/ Floored Room	A room located on the 'executive floor' which enables convenient access to the executive lounge. Besides, some hotels also provide 'female executive floors' with their rooms assigned to female guests only due to safety and security reasons.
23	Smoking / Non-Smoking Room	Many hotels provide both smoking and non-smoking rooms for their guests. In order to minimize the effects of secondhand smoke exposure on non-smoking guests.
<p>Note: Room size for each Room Type is generally depends on location where this facility is situated and based on overall structure of the hotel building. Generally, each hotel/ facility has this categorisation well documented.</p>		

For better analysis; Average room rent could be arrived at **for each category of Room Type** for room nights actually occupied during that period.

Revenue Per Available Room (RevPar) is being used of late to compare the revenue between hotels. RevPar is computed by dividing Room revenue by number of rooms available for sale. RevPar is nothing but ADR multiplied by occupancy percentage.

Care is exercised while offering discounts on the standard room rate since there are chances that it might create a precedent that may bind the hotel to lower rates in future. While pricing the rooms, rates offered by the competitors are also required to be considered so that misperception about the segment in which hotel is operating may be avoided.

Barter Arrangements

Hotels are often presented with offers for goods and services on a barter arrangement. These include "rooms for airline tickets", "Beverages for the attendant publicity", "event sponsorship for free invitations" and so on. Whilst many barter arrangements appear extremely attractive and in the hotel's interest, they have implications from the standpoint of legality, GST, income tax, accounting disclosure and the Company's stated accounting policies. Barter arrangements are also difficult to monitor and keep track of.

Normally, hotels are expected to get arrangements approved by corporate (where it is a corporate run hotel) for monetary and taxation impact. Ideal accounting system is to account both given and taken services to be valued and accounted and taxes like GST and VAT if any payable must be paid. It may be noted that barter arrangement is as good as normal sale except that consideration is received in kind.

Reservations

Normally, in most hotels revenue management and reservations are under same person or in some hotels reservations is an exclusive department either under front office or under Sales department.

Sources of reservations may be direct inquiries from the guests or through other diverse sources such as online portal, aggregators, travel agents, reservation networks (in the case of an enterprise operating a chain of hotels), Global distribution systems (GDS), etc. in this virtual era reservations into the hotel happens with guest details including positive identity proof. This has become a security requirement to ensure that undesirable elements are identified and appropriately dealt with.

Normally, the reservation department is expected to manage rates as well which are offered in PMS through occupancy maintenance. Various categories of rates that are used are national / global contracted rates, territory sales contracted rates, Airline crew rate, layover rate (use for airline passenger, provided by Airline), best available rate (BAR), etc. Sources of these rates can be decided by various levels of decision-making process in an organisation.

Importantly, in this era many online portals buy number of nights during peak period and they offer rates to customers lesser than standard rates of the hotel. One must consider wholesale discount into account while accounting the same along with having agreements into place. Same needs to cross verify that actual occupancy through them during that agreement period is same or more than that in order to recognise the revenue and ensuring no revenue leakage to the hotel.

Billing monitoring

It is well accepted practice that Agents / Tour operators/ Corporates buyout nights for the period. It is pertinent to check whether agreement exists for each of such cases. Each agreement/ contract might have separate set of terms and conditions. Care needs to be taken as regards un-used nights are being billed as it becomes due. Proper monitoring in this area is important to avoid revenue leakage. Internal Auditor plays key role in this area.

Front Office Operations

Filling of Registration Card

For each guest, a registration card is made at the front office normally printed out from PMS. The registration card generally records the name, contact and address of the guest, the nationality, passport number (in case of a foreign national), rate to be charged, billing instruction, the arrival date and time, as also the expected departure date and time. The registration card is required to be signed by the guest and either by duty manager or even Front Office Manager of the hotel (based on company practice). The arrival of customer is also recorded through check-in in the guest folio in PMS.

Many hotels have their registration completely online and one has to simply check whether all the details are in place.

Unauthorized Occupancy of Room

Biggest risk in any hotel is letting room without showing check in into the PMS. Unauthorised occupancy can be detected through two checks, namely room discrepancy report and key checks.

- **Housekeeper's Occupancy Report (HOR):** The reports on the rooms occupied are based on guest counts carried out by the housekeeping staff. Normally, such counts are carried out twice a day; once in the morning while cleaning the room and once in the evening, while making the bed (evening turn down service). HOR is generated at least once a day. In addition to occupancy status, this report will also include number of guests (Single/Double etc.), rooms with scanty Baggage. This report is to ensure that:
 - there is no unauthorized letting out of a room by the Front Office; and
 - the guest has not checked out without settling the bill (for the purpose, due cognizance is taken of the Scanty Baggage Report).
- The housekeeping report, so prepared, is sent to the Front Office where discrepancies, if any, are reconciled. FO ensures that the HOR is cross-checked with front office occupancy data (as per PMS), and a Room Discrepancy Report (RDR) prepared. (This can be done in PMS itself). All discrepancies per the RDR are verified by the Duty Manager, and follow-up action taken to resolve such differences and documented. Hotel's night/day audit procedure verifies that RDR has been prepared, differences resolved, action recorded, and reports signed off by the Duty Manager.
- **Key checks** - Key counting at night by authorized person other than FO personnel for keys in front office for all unoccupied rooms has to be done. Where it is an electronically controlled card (like Ving card) if card making is not integrated with PMS then a dump of keys made as per card system is to be compared with occupancy as per PMS and differences to be investigated and acted upon. Alternatively, authorized person opens unoccupied rooms as per PMS to see whether the room is actually vacant.

Complimentary Rooms / House Use Rooms

In the course of conducting its business, hotels often have to give out guest rooms on a complimentary / house use basis. House use rooms are defined as those rooms which are given on a no-charge basis to hotel / company executives when on official tour, as well as no-charge rooms used from time to time by the hotel / company's business associates visiting on the Hotel's official business. Even manager on duty (MOD) is provided with a room for overnight stay as he is officiating at night as Head of the hotel. One has to check internal house use basis policy defined by the hotel management. If the policy is not in place then immediately should be brought to management knowledge to have that in place to avoid mis-use of the same by ground staff.

All these have appropriate authorisation as per the corporate policy. What all needs to be given as complimentary is also normally fixed like room, food, soft beverage, usage of swimming pool, local calls, official long distance calls, gym and laundry. Normally, liquor, smokes, long distance calls, spa / beauty club usage are not permitted.

Complimentary rooms can be classified as under which are normally approved as per corporate policy:

- Given to tour leaders for group and conference bookings as per the terms of the written agreements entered into by the various Sales & Marketing offices directly by FO as per terms.
- Others, including FAM (familiarization) tours, visits by travel writers, business partners, etc.

Normally, in some States (like Tamilnadu, Andhra Pradesh, etc.) Luxury tax is payable on complimentary rooms. Hence, there is additional cost while offering complimentary rooms in those States.

Upgrades

Normally, rooms are allotted based on category of room for which room is booked. However, higher category of room can be allotted due to various reasons like requested room category not available, guest patronage, profile of the guest, etc. Whenever upgrade is given, it must be authorised by appropriate person as per the corporate policy.

Luxury Tax has to be applied in cases of room upgrades. In States where Luxury Tax is applicable on published tariff and not on room rates actually charged, the differential of Luxury Tax is normally billed to the guest. However, in case the upgrade takes place because a room of the booked category was not available, and not at the instance of the guest, then such cost has to be borne by the hotel.

Early check in / Late check out

In most of the hotels, the check-out time is on or before 12.00 noon and a day is assumed to be complete for charging room rent at 12.00 noon irrespective of the arrival time. In view of this, guests arriving in the hotel in the evening and checking out on the next day morning are charged full day's room rent. Concessions are, however, made for guests checking out after 12.00 noon; usually no extra charge is levied for the first couple of hours based on the corporate policy. Otherwise a fixed percentage of daily rate is charged. Similar concessions are also granted to guests checking in before noon, which is called

as early check in. Normally, all late checkout or early check in charges waivers are authorised by appropriate person to ensure that there is no revenue leakage.

Check out process

When a guest checks out, i.e., settles the bill, the guest folio is closed and the room is declared vacant in PMS. Immediately, after closing the guest folio, a message is sent to housekeeping department indicating that the room is vacant. This intimation enables the housekeeping department to take charge of the room, clean and rearrange the room and keep it ready for the next guest. The guest usually settles the bill by making immediate payment and credit is granted, normally, only to the guests having a contractual arrangement with the hotel.

Day use

When a guest checks in for few hours' use and not staying overnight, such room occupancy is called day use. It is important to keep tab over day use rooms as rate to be charged is much less than rack rate or even BAR. Also, as check out happens before day end (at night time when date change), room rent needs to be manually posted, else day use room may become unbilled.

Allowances

When a guest complains about any service or claims that some charges were made to him by mistake, the Hotel may grant certain waivers to the customer for unsatisfactory services or eliminates the charges in question for the satisfaction of the customer. Credits made to guests' account on account of these aspects are called allowances. Most allowances granted to guests are on account of disputed telephone charges, adjustments for overcharges, compensation for damage to clothes given to laundry, and adjustments for unsatisfactory service. These are normally approved through appropriate processes. Billing corrections (for incorrect rate applied) are normally done through adjustments / negative postings as it is not a waiver.

Bills on Hold

When a guest leaves the hotel without settling the bills, either in part or in full, front office has no option but to keep the Bills on hold. These amounts are required to be transferred immediately from guest ledger to the City Ledger, i.e., Debtors ledger so as to facilitate prompt follow-up action. This situation could arise due to any of the following two reasons:

- **Late Charges:** These are the charges for which details have been received at the Front Office after the relevant guest has departed after settling his

other dues. Such charges are not posted to the guest folio, but are posted directly to the City Ledger, if it can be included in the original bills for recovery.

- **Skip:** Such a situation takes place when a guest, not enjoying credit facilities, has departed without settling his bill. 'Skipping' is invariably a pre-determined act on the part of a guest. Such cases should be transferred immediately from the guest ledger to the City Ledger and handed over to the legal department of the hotel for initiating necessary action for recovery. To avoid such a situation, most of the hotels collect an advance from walk-in guests at the time of reservation.

Concierge (otherwise called as bell desk)

The bell-desk is managed by a bell captain supported by bell-boys, porters and elevator operators and doormen. The bell-boys escort the newly arrived guests to their rooms, carry their baggage, deliver mail, and messages, and perform such other services for guests which are not specifically assigned to other employees.

Scanty Baggage Report

The Scanty Baggage Report, as the name suggests, is a report meant to keep track of guests having very small baggage. The purpose of this report is to reduce possibility of their checking out without settling the bill. The tendency of checking out without settling the bill and leaving their baggage has been found in the case of walk-in guests, who come to the hotel for the first time. The realizable value of baggage left behind by such guests, who are known as skippers, is generally very less. The report is prepared on daily basis by the bell desk based on noting made whilst handling guest baggage. The report is forwarded to the Front Office, which may make relaxations for regular and known guests carrying scanty baggage.

Night Audit

The practice of night audit is very widely prevalent in the hotel industry and is normally considered as a major tool in prevention of leakage of revenue. Functions of Night auditors include

- Checking guests' accounts and usually taking charge from the front office billing clerk around midnight.
- Compare vouchers with sales summaries to ensure completeness and tally the same before income accounting.

- Sometimes posting vouchers in guest folios.
- Checking the cash receipts and the allowance credits.
- Making sure that if there has been change in the room of an existing guest, the same has been recorded on the guest folio and that the folio has been transferred in the file to the new room number.
- Checking whether room rent has been charged correctly

However, need for such activities have been reduced due to integrated computerisation. Most of the hotels have dispensed with night audit and at night time date change in PMS is done by the front office personnel themselves. Charges are normally posted to the guest folio immediately at the point of sale and from POS to PMS. The night auditor is, consequently, relieved from the burden of manual posting. Nevertheless, the role of night audit has become that of day audit as a revenue assurance exercise. A detailed checklist which can be adopted for revenue assurance is given in **Appendix 1**.

C. Cash Float

Each cashier, wherever located, generally holds a minimum cash balance, which is normally referred to as cash float or house bank. The largest amount of the float is usually held by the general cashier in the accounts department whereas the next largest amount is usually held by the front office cashier. The front office cashier uses his float for purchasing foreign currencies, including travelers cheques from foreign guests and for making payments on behalf of guests. The front office cashier hands over all cash (as well as cheques and foreign currencies) collections eventually to the general cashier, who in turn deposits the same in the bank.

Paid-Outs

Paid-outs refer to the payments made by the Front Office on behalf of guests. Guests, who, for example, may not be carrying ready cash with them, may request the Front Office to make payments on their behalf, such as hire charges of a taxi. Further, the guest may also request for buying certain items from market for which payment would be made by the Front Office. Any such payments made on behalf of a guest is charged immediately to the guest folio so that the risk of late charges might be avoided.

Meal plan apportionment

Hotels fix the rates to be charged from resident guests either as per American Plan (AP) or as per European Plan. Under the AP, a composite price, comprising room rent for the day and price of three meals is charged, whereas under the

European Plan a separate charge is made for room rent and food. Some other hotels fix their charges on the basis of Modified American Plan which is a variant of the American Plan. Under this plan, hotels charge a composite price for room rent, breakfast and dinner for the day.

In case the hotel is following the American Plan or the Modified American Plan (MAP) for fixation of charges, it is required to apportion the composite amount charged, into room rent and charges for food, on equitable and reasonable basis applied consistently. The amount identified as room rent would be treated as income of Rooms Department whereas the amount received for food supplied to the guest would be treated as revenue of food and Beverages Department.

Most of the hotels follow the practice of issuing food coupons to the guests registered under the AP and the MAP. The guests are expected to present these coupons at the restaurant against which they are served their meals. The coupons presented at the restaurant are handed over to the front office, which identifies the coupons that have expired unutilized. The value of unutilized coupons should be credited to a separate account. However, now days, plan details are entered as package element in PMS that flows into POS as well. In computerised environment, package element can be automated which distributes the income between rooms & F&B.

There are States like Goa where Luxury Tax (LT) is payable on actual basis and hence, they split F&B and room as per package offered and pay GST/VAT and LT accordingly. However, in States like Tamil Nadu, Delhi, Andhra Pradesh, etc., where LT is payable on Rack Rate, it is difficult to segregate F&B component and pay GST/VAT separately as LT itself is on higher side due to the inability of hotel to sell at rack rate. Hence, in these States many companies do not apportion meal plan. However, in MIS reporting such hotels do account apportioned income.

Arcade Revenue

As it is controlled by the front office, normally, arcade revenue is a fixed monthly rental. However, at times it is also linked to revenue billed by such shops. In such cases, the hotel should ensure that adequate control exists to keep track of the shop income.

Food and Beverages (Restaurants owned by Hotel)

Food and Beverages (F&B) are generally considered as the second largest source of revenue for a hotel and generally contributes 30% – 32% of the gross revenue. The F&B department typically comprises the following sections:

- Kitchen

- Banqueting
- Restaurant(s)
- Bar(s)
- Room service
- Stewarding, and
- Stores

The profitability of the F&B department depends on the combination of two factors, i.e., gross margin (selling price minus cost) and volume. On the one hand, volumes are never fully within the control of the hotel and on the other hand, selling prices are normally fixed in a manner so as to be competitive with the other hotels in the same segment operating in the vicinity. Therefore, profitability of F&B department can be increased mainly by controlling F&B costs. The various technical aspects relating to the F&B department are discussed hereinafter.

Kitchen

Kitchen is the heart of the F&B operation because food is prepared in entirety in the kitchen and supplied to the various outlets. With the increasing emphasis on the control of food costs, it would not be an exaggeration to state that the success or failure of the F&B department is dependent on the kitchen. A hotel may have more than one kitchen, depending on the size of the hotel and number of outlets. The kitchen is under the charge of the head chef, who reports to the F&B Manager. In a large hotel having speciality outlets, the head chef is usually supported by sous chefs, who are the second in command after the head chef and / or are in charge of the kitchen of their respective outlets.

Components of Food Preparation

The raw material used for food preparation can be categorized under the following two broad heads:

- i) Perishables, and
- ii) Provisions

Perishables are those items that do not have any shelf life for example, vegetables, fruits, milk, fish and meat. Consequently, such items are required to be purchased on a daily basis. **Provisions**, on the other hand, have a shelf-life, and can, therefore, be stocked and procured at periodic intervals.

Control over Raw Material Cost

As already mentioned, the profitability of the F&B department, to a great extent, depends on the control of the raw material costs, since it is the only major variable cost. Labour cost, which is the next major head of expenditure in the kitchen, is a fixed cost. Perishables constitute a major component of the raw material cost, not only by virtue of the sheer physical composition of the total quantity required, but also because of the tendency for wastage. The key to controlling food costs, therefore, lies in exercising control over the purchase of perishables. The various methods usually employed by hotels to control the raw material costs are discussed hereinafter.

Purchase of Raw Materials – Annual Rate Contracts

Annual rate contracts are a typical feature of hotel purchases. Such contracts generally cover all perishable goods and some provisions. Under such arrangements, the supplier agrees to supply raw materials to the hotel at a fixed price. Therefore, the annual rate contracts have the impact of fixing the price at which various items of raw material can be purchased. The annual rate contracts are generally finalized by a Purchase Committee comprising the representatives of the purchase department, accounts department and administration department. The contracts may either specify the rate and the overall quantity of a particular item to be purchased during the year, or, alternatively, specify only the rate. In most of the cases, more than one supplier is identified for each item to ensure regular supply of the item. Further, the contracts generally contain a provision to the effect that in the event of any short supply, purchases would be made in the open market and the incremental costs, if any, would be charged to the supplier's account.

Ordering for Perishables and Provisions

The perishables (Vegetables, fruits, Meat, Fish & Poultry (MFP) items, Dairy products) are ordered on the previous day of its intended usage. As they are stored in the deep freezers, MFP items at times are procured twice or thrice a week. Orders for provisions, on the other hand, are placed on a periodical basis.

Basis of Ordering

The Purchasing Department places the order for perishables/provisions on the basis of requisition received from the head chef. Where a hotel has more than one kitchen, requisitions are sent by the sous chefs to the head chef, who consolidates the requisitions and sends a copy of the same to the Purchase Department. The chef generally relies on his past experience and trend while preparing the requisition slip. Many chefs also take into account other factors such as popularity charts, be it for different days of the week,

or for particular times of the year while preparing the requisition. Banquet functions and conferences, with their pre-decided menus, generally provide a degree of accuracy to the ordering process. While preparing the requisition, it is recognized that the ordering of perishables could affect the cost to a great extent due to the fact that their shelf life is very limited.

Receipt, Storage and Issue of Raw Materials

All perishables received are normally sent directly to the kitchen without routing them through the stores department. The various items of perishables received are inspected by the head chef, or in his absence, by the sous chef. Rejections, if any, are usually made immediately. After checking, the perishables are sent straightaway to the kitchens requiring them. All perishables purchased on a particular day are normally charged to consumption for that day, whereas provisions are taken into stores and are treated as consumed on the day these are issued for use in the kitchen. All receipts, whether perishables or provisions, are normally recorded in a Daily Receipts Register which becomes the basis for recording of receipt of provisions at the stores and for payment of suppliers' bills.

Food Preparation and Serving of Food

The various aspects involved in the preparation and serving of food are discussed hereinafter.

Menu engineering: Is an interdisciplinary field of study devoted to the deliberate and strategic construction of menus. It is also commonly referred to as Menu Psychology. In general, the term menu engineering is used within the hotel industry. Typically, the goal of menu engineering is to maximize a firm's profitability by subconsciously encouraging customers to buy what you want them to buy, and discouraging purchase of items you don't want them to buy.

Fields of study which contribute most to menu engineering include:

- Psychology (perception, attention, emotion / effect)
- Managerial Accounting (contribution margin and unit cost analysis)
- Marketing & Strategy (pricing, promotion)

Standard Recipes: Standardisation of recipes is the integral part of menu costing and involves balancing of two delicate and crucial aspects – the taste and the cost. Once the balance has been achieved, it becomes a powerful tool for controlling food costs and even plays a very important part in the determination of the quantity of raw materials to be ordered. The hotels

generally maintain an elaborate database on popularity charts of various dishes which is often used to estimate the expected business for the next day. The standard recipe, therefore, helps in making better estimate of the raw material requirements on the basis of the expected business.

Portion Control: The process of determining the standard quantity to be served per dish is known as Portion Control. Such a practice facilitates in optimizing the number of dishes that can be served out of a given quantity of an item and ensuring customer satisfaction. Any arbitrary increase/decrease in the quantity of dish would result in a loss in revenue to the hotel/dissatisfaction to the customer. While determining the standard quantity per dish, due consideration should be given on striking a balance between the price of the dish and the minimum standard quantity that must be served.

Menu Costing: Menu costing involves determination of the cost of the standard recipes based on current prices. Such costing would also be helpful in ensuring that selling prices of various recipes are arrived at only after including the gross profit at a certain rate.

Wastage Report: At the end of each day, left-over food, which would not be useful for the next day, is thrown away and known as wastage. The cost of the wastage is determined and included in the Wastage Report. The Wastage Report is usually considered as an indicator of the efficiency of the kitchen in terms of food preparation.

Banqueting

Many corporates, networking organisations (like BNI, Saturdays club etc.) social organisations (like Lions Club, Rotary club etc.) starting using banquet for their meetings. These meetings can be regular and/or occasionally. Revenue from the banqueting activities constitutes significant component of the total F&B revenue. Banqueting activities include hosting of weddings, parties, seminars, conferences and such other functions. The size of a banquet could vary from as low as 25 people to more than 2000 people. Large hotels generally have a range of banquet halls/rooms that can cater to crowds of varying sizes. The services provided by the banquet departments may include foods, sound system, audio visual equipment, decoration, hall, etc., one has to look into GST aspect carefully while recording the same into accounting. Depending on the requirements of the customer. Outdoor catering and letting out of a part of the hotel premises for film shooting has also become a part of the banqueting activity. Generally, the hotel itself supplies food and beverages to the banquet functions whereas, for other services, it may tie-up with the outside parties with a view to reduce fixed overheads. In the banquet function, the major source of revenue is considered to be sale of food and beverages. There are certain

typical features of the banqueting activities, which are discussed below. Banquet functions are contracted through a document called Function Prospectus which details the services to be provided along with menu for the function. Banquet is one activity which normally attract both VAT and GST. Liquor is served in banquets normally by the hotel itself and billed. However, if guest is permitted to bring in liquor, "corkage", which is a service charge for serving liquor brought by the guest, is charged at nominal rates. Corkage is accounted as income.

Health Club

Revenue from in-house health club also needs to be recorded and monitored separately. Many hotels provide Health club facilities to guests on periodical basis. The periodicity could be Annual Membership, Semi-Annual Membership, Quarterly and/or Monthly basis.

Further, Health club could also include with F&B and usage of other facilities too. In such cases where membership is provided with multiple amenities then revenue requires to be allocated on proportionate basis in Management Accounting.

Membership

There are two types Facilities;

- Hotels/ Resorts/ Clubs which can be used by guest as per convenience booking and also have periodic membership program
- Resorts/ clubs which can be used only by active member

Occupation based revenue to be recognized in case of convenience booking. In case of Periodic membership program, revenue to be recognized based on period. Some facilities extend the membership based on their usage/ non-usage, therefore appropriate analysis needs to be carried out while recognizing revenue and deferring some revenue to the subsequent period.

There are several types of membership is being offered by the facilities. Like life-time membership, Diamond Membership, Gold Membership. The members opting for the payment of life membership fee are not required to pay periodic subscription. The amount of life membership fee is initially credited to a special fund account. Each year an amount equal to annual subscription is credited to income and expenditure account till the amount in special fund is fully exhausted. If a member who has paid life membership fee dies before the whole amount paid by him has been transferred to income and expenditure account. An alternative approach is to transfer the entire amount of life membership to the capital fund account in the year in which it is received from the member.

Loyalty Program

In last few years, this became as important aspect in the Hotel Industry. Almost all major hotel chains own a worthwhile loyalty program that allow guests to earn points and redeem them for discounted or free stays. Many guest join this program since it is easier to become user in this digital era. It saves decent amount of money for the guest who frequently travels. Recently, being this is getting mis-used; many high-end luxury hotel chains are reluctant to the loyalty program, therefore not many of them offer/ have Loyalty Program one.

Accounting of Loyalty Program requires to be appropriately recorded in the books of account. The following two are key sections of the Loyalty program

1. Customer options for additional services (loyalty/point programs, contract renewal options and other customer incentives or discounts)
2. Unexercised rights of customers (such as gift cards)

Few examples of Loyalty Program

Example 1 - GOLDEN CIRCLE BY SHANGRI-LA

Golden Circle is the complimentary loyalty program of Hong Kong-based Shangri-La, regarded as one of the world's finest hotel brands. Owing and/or managing over 100 hotels and resorts throughout Asia Pacific, North America, the Middle East and Europe, the Shangri-La group has a room inventory of over 40,000. Golden Circle is a program that allows their members to earn and redeem points at all Shangri-La hotels (including restaurants & spas) across the globe.

Example 2 - HILTON HONORS

When someone become a Hilton Honors member, they earn Honors points for staying at one of their 4,600+ hotels and resorts worldwide within the Hilton portfolio. You also earn Honors points whenever you travel, shop, dine or spend with Hilton's partners, which includes airlines, car rentals, credit cards and wine clubs amongst others. Rewards include free nights with no blackout dates, but you can also redeem Honors points with the program's travel, shopping, dining and entertainment partners.

How Loyalty Programs Are Impacted

Imagine a loyalty program member earns a qualifying point, or credit, toward a free or discounted service. For accounting purposes, this creates a separate "performance obligation" — essentially a contract. This simple fact becomes complex when you consider the way that revenue from this "contract" is recognized.

The timing of revenue recognition varies based on the type of accounting practice followed by the industries. Loyalty program accounting practices based on generally accepted accounting principles (GAAP) either follow an (i) incremental cost accrual model or (ii) a multiple-element revenue model.

- (i) Incremental cost models typically recognize revenue at the time of the initial sale. An accrual is then made for the expected costs incurred when the points or credits are redeemed in a future transaction.
- (ii) Multiple-element revenue models result in the transaction price being allocated to the products or services sold and to the point credits, with revenue recognized as each element is delivered.

Loyalty programs are accounted for as multiple-element entities:

- Some revenue, based on the fair value of the point credits, is deferred and recognized when they are redeemed or expire. Estimating Rewards Program Liability.



- Revenue is allocated between the service sold and the point credits, based on the fair value of the credits to the member.
- The assessment of fair value includes consideration of the discounts available to other customers who aren't eligible for the points and breakage.

Guaranteed PAX (persons) and Expected PAX (Persons)

Hotels make charge for the food consumed at a banquet function on the basis of number of plates used. It is a common practice in hotels to require the customer to specify the number of plates expected to be consumed, based on which the customer is also required to guarantee minimum number of plates to be consumed in the function. Such a practice provides basis to the kitchen for food preparation and ensures minimum level of revenue for the hotel, even if the actual plates used are lower than the guaranteed number of plates.

Plate Count

As stated earlier, the food cost is charged to a banquet function on the basis of number of plates used and therefore, plate count constitutes a very important aspect of the billing process. The plate count, in some cases, may become a

subject matter of dispute, particularly in large functions such as weddings. Hotels have recognized the plate count as a critical control risk area from the point of view of possible revenue leakage, since the possibility of understatement of the number of plates used by the banqueting department in connivance with the customer cannot be ruled out. To avoid such a situation, some hotels have instituted a system wherein, if the guaranteed plate level is beyond a specified threshold, representative(s) from the accounts department and/or the F&B Controller's office are required to be present during the function to vouch for the plate count.

Outdoor catering

Hotels also serve food for functions to be held outside the hotel. Food is prepared and transported to the location. Billing controls like plate count as indicated in banquets are applicable.

Restaurant

Restaurant in a hotel is meant for resident guests (i.e. guests staying in the hotel) as well as for non-resident guests. Large hotels generally also maintain a coffee shop, which is open for 24 hours, as well as speciality restaurants that offer specific types of food; for example, Italian, Japanese, Chinese, Continental, Mediterranean, Thai, Moghlai, etc. The typical procedure in any restaurant is that the guest arrives, places the order, consumes the food and settles the bill. The technicalities involved in the various procedures of the restaurant are discussed hereinafter.

Pricing of Off-Menu Items (Open food)

The regular guests, sometimes, may order a dish that is not listed on the menu card. In order not to disappoint such guests, the requests are usually entertained. In such situations, the restaurant manager, in consultation with the head chef or the sous chef of the restaurant, as the case may be, fixes the price to be charged. A similar problem also arises at the bar, where wine, which is normally sold by the bottle, has been requested in the glass or where a particular cocktail drink, which is not normally served at the bar, has been ordered. The manager of the bar fixes the selling price in such situations. It may have to be kept in mind that an item which is in menu can also be billed as open food and billed at rates other than that at which it should be billed.

Cancellation of Bills (void bills)

Cancellation of bills usually takes place either on account of error in the billing due to the order having been wrongly taken down, or because the customer, on the grounds of quality, rejects the dish. The cancellation of bills represents

a control risk in terms of unauthorized or fraudulent cancellation of bills after cash has been collected. To avoid such a situation, the hotels follow a procedure according to which cancellation of bills is required to be approved by the restaurant manager. After cancellation, bills are duly defaced on the bill book and are considered in the serial control of bills. It is also ensured that if food is prepared and then order is cancelled, then chef at the outlet should also approve.

Reprints of Bills

At times in POS, reprints become necessary due to bill stationery getting smudged or printer error. It is also possible that credit customers may ask for bill copies at the time of settlement which might be months after the actual bill date. The reprints of cash settled bills are prone to be misused and hence in case of every reprint of checks, copies of the original as well as the reprinted check should be preserved and reasons recorded by the Restaurant in charge.

Bar

A bar is an exclusive section of the hotel where wines, spirits, beers and smokes (Cigars) are sold. While wines and beers are generally sold only in bottles, spirits are also sold in pegs. A small peg measures 30 ml and a large peg measures 60 ml. The bar is managed by a barman who is responsible not only for issuing bottles of wine and beer, pouring alcoholic drinks and mixing cocktails, but also for maintaining proper stocks thereof.

The technicalities involved in the operations relating to the bar, are discussed below.

Maintenance of Excise Records for Alcoholic Beverages

The bar stores are required to maintain proper excise records in respect of imported as well as Indian Made Foreign Liquor (IMFL) in order to ensure that only duty paid liquor is sold. An excise officer as nominated by the company should be present at the liquor stores of the hotel at all times and should record receipt and issue of liquor immediately in the stock register maintained at the store. In the stock register, a separate account should be maintained for each brand of liquor. The excise records may also serve as a cross-check for ascertaining the sales tax liability on sale of liquor.

As a critical liquor control, a hotel normally has a process of reconciliation sales as per POS and consumption arrived as per books. (Opening stock + receipts from stores to outlet – closing physical stock should tally with sales as per POS).

Mixing of Drinks for Cocktails

Cocktail refers to the combination of one or more of alcoholic and non-alcoholic beverages in specified measures. The preparation of cocktail involves a great deal of expertise on the part of the person preparing the drinks. Cocktails also give the bartender an opportunity of manipulating the composition of the cocktail by pouring in less quantity of the more expensive drinks and more quantity of the less expensive drinks. The resultant surplus of expensive drinks is called 'overage' and is a benefit to the hotel. However, in such a case, the possibility of the bartender selling surplus liquor, without raising bills and pocketing the cash, cannot be ruled out.

Physical Verification at the Bar

Physical Verification at the bar represents one of the prime control mechanisms on bar inventory. Inventory of bar is generally taken by the bartenders at the end of each shift and at the beginning of the morning shift. The hotels usually follow a policy of recovering shortages, if any, from the bartender without giving him credit for any excesses.

Happy hour billing and Discounts

The concept of "Happy hours" is that the hotel identifies few hours of a day during which the drinks are sold at a discounted rate. There can be variations to this concept such as some hotels may have "one for one" offer where in for every bottle sold, there is a complimentary bottle offered. This offer would normally be valid only for consumption of beers.

The rate master has to be updated with happy hour rate and POS must be configured in such a manner that the happy hour rates are picked only during the designated happy hours. Also in case of "one for one" offer, there needs to be reconciliation between actual bottles sold and offered complimentary so that there is no leakage of revenue.

Also the hotel may decide to give discounts to a particular class of customers such as "crew" at a fixed percentage. All discounts have to be authorised by the outlet manager and the reasons for the same has to be indicated on the face of the bill and it has to be ensured that such discounts are given only to customers belonging to that category.

Also, there is a normal practice in bar to provide complimentary soda or snack items. Such complementary items have to be tracked and the cost of it has to be monitored so that there is no pilferage.

Room Service

Unlike restaurants and bars within a hotel that cater to resident guests as well as the non-resident guests, room service caters exclusively to the needs of the resident guests. As the name suggests, the department/section is responsible for serving food and beverages to the guests in the room. In large hotels, room service usually remains operative for 24 hours without any break. All room service bills are debited to the folio of the guest after obtaining guest signatures on the same.

Minibar income

Minibar consists of miniature liquor, beer, soft drinks, juices, snacks, etc., kept in room for consumption of guest. A list along with prices of those items placed in minibar is kept in room. Guests are expected to indicate items consumed to facilitate billing. Also, minibar attendant will visit every room daily to replenish the stocks through which billing is done. At times sale posted is disputed by guest at the time of check out. Most hotels practice waiver if guest disputes any minibar charge.

Stewarding

The stewarding department of the hotel is responsible for maintaining stocks of cutlery and crockery of the various outlets and for banquets. Depending on the size of the hotel, the stewarding department could either be common to all outlets or could be dedicated to an outlet or a group of outlets.

The stock of cutlery and crockery is maintained at the stewarding department on imprest system. Under the system the quantity under circulation is determined and issues are made from the main stores to stewarding department. In this regard, it is important to note that crockery and cutlery are usually accounted for as consumed at the time of their issue from the main stores, notwithstanding the fact that these items may be in use for long durations (particularly in the case of cutlery, including silverware). Proper stock registers are required to be maintained for various items of cutlery and crockery on account of the constant movement of these items between the stewarding department and the various outlets. Periodic physical verification of the stewarding stocks is carried out and comparison of physical count is made with the records so as to calculate shortages, if any. Shortages generally arise on account of breakage, pilferage and due to crockery and cutlery ending-up in the garbage bin. However, first time purchase of Crockery & Cutlery in a new hotel is capitalised and amortised over the estimated life.

In circulation inventory -Inventory of Housekeeping Department

Linen normally constitutes a major portion of the housekeeping inventory. Many hotels follow a system known as par stocks system for maintaining the inventory of linen. Under this system, four sets of each item of linen are maintained for each room, i.e., one in the room, second at laundry, third in housekeeping store and fourth in main stores. In the normal course, the inventory circulates between room, laundry and housekeeping stores. The items in main stores are being maintained to take care of any possible exigency. The system is considered helpful in monitoring and controlling consumption/use of linen. The accounting treatment is similar to cutlery and crockery stock.

Guest Amenities

In guest rooms, amenities like toiletries, guest stationary, water, complimentary beverages like tea, coffee, etc., are placed in the room. Mostly, these are handled through the Housekeeping department. Consumption is accounted once these items are issued from stores to the Housekeeping pantry. There are in-circulation inventory kept in guest amenities these are however not valued as value of inventory in room will not be material enough to impact inventory value. Many of the hotels also have the practice of placing fruit baskets/ chocolates or wine (For VVIP guests and normally called as "gratis" bar) in the room on complimentary basis. These are issued from the kitchen/stores to the room service/ housekeeping department and accounted as consumption except that liquor and wine are accounted only on consumption in Gratis bar. However, in the case of Gratis bar, if the guest does not consume the wine / liquor, then it is taken to the main bar for usage. The treatment in excise register has to be carefully seen so that there is not mis-statement in respect of this.

Foreign Exchange Compliance

Hotels are generally authorized to deal in foreign exchange as a 'restricted money-changer' especially for accepting foreign currency/ traveller's cheques. The authorization is subject to conditions laid down in this regard and remains valid for a limited period only and the hotel gets renewed after that period. The hotel is required to issue encashment certificates to the travellers in respect of foreign currency/traveller's cheques purchased and submit a report to the Authorised Dealers regarding encashment of foreign currency on a monthly basis.

Sales Department

The sales department of a hotel is responsible for selling the hotel services and building its brand image, by the use of innovative strategies. These strategies may include, amongst others, devising off-season packages, holding

food festivals, booking of conferences and sponsoring social events. The hotel industry is a seasonal industry in which highs and lows in business volumes during specified periods of the year can be predicted. It is the responsibility of the marketing department to sell the hotel services in a manner that the maximum occupancy is achieved during the off season also to beat the trend. Each hotel usually has its own sales department, but in a hotel chain, the sales departments of various properties complement each other in procuring business. With the constant pressure to perform and achieve targets, the marketing department may, for example, out of desperation, book conferences at ridiculously low rate, that do not yield any profits to the hotel or recommend credits that may eventually become doubtful of recovery.

5.3 Chain of Restaurants

With the growing loyalty of customers towards brand, quality, hygiene, Chain of Restaurant as a business model is observed to be flourishing even within Hospitality sector. McDonald, KFC, etc are some examples. A chain restaurant denotes to have retail outlet in several locations share a brand, central management, and standardized business practices. Generally, Chain is created to influence the retail and dining markets, and many service categories, in many parts of the world. A franchise retail establishment is one form of chain store.

Quick Service Restaurants (QSR) and casual dining chains are the two most popular F&B formats in India that form 45% and 32% of the overall market respectively. The key drivers to this growth are – changing demographic of the country, rise in disposable income, steady growth of retail chains, and urbanisation. A number of international QSR chains have flocked to India, with specific cuisines and product offerings, fuelling the market's growth.

As with restaurant business model in general, the proposed menu is an area of focus in particular for Chain of Restaurant. Menu choices may be the focus of a restaurant's value proposition to ensure consistency in customer experience if the restaurant intends to offer ethnic or speciality cuisine that is not available at any other restaurant in the area.

Knowing your customer and testing their taste, preference and aspiration is critical. Testing the target customer base market is very important before a company launches and before a new product or service is offered on a grand scale. That's why many restaurant chains like McDonald's and Burger King test new offerings in a select area before rolling them out on a national scale. If the product proves to be successful, it's worthy enough to be put into other locations. If not, the financial impact is very minimal, and the business can put the brakes on the launch.

Unique aspects of Chain of Restaurants from accounting perspective:

- Franchise Fees
- maintenance of records in line with main businesses
- Discounts Records
- Coupon Code Maintenance (KFC, McDonald, Dominos). Customers are generally given coupons and that is to be accounted as discounts as per Accounting Standards

Besides, from operational aspects perspective, there are certain other unique operating processes in place:

- Recipe Maintenance
- Procurement of raw material
 - a) Perishable Goods
 - b) Non-perishable Goods
 - c) Purchases as per policy by chain restaurant

One of the challenges in Chain of Restaurants is that they are capially intensive because they need to open a lot of outlets and have to eke out small margins over a large volume of business. With the evolution of Chain of Restaurants, Cloud Kitchens have also surfaced as the saviour to meet the related challenges.

5.4 Cloud Kitchens

Cloud kitchens are centralized licensed commercial food production facilities where anywhere from one or two to dozens of restaurants rent space to prepare delivery-optimized menu items. Because you're cutting costs on front-of-house activities and concentrating on your food. With the availability of third-party services and the growing comfort of mobile ordering, this model seems just right to experiment with.

There are more benefits involved like:

- Lower real estate costs

Since you're removing table servicing out of the equation and offering a delivery-only service, you'll save a huge amount on real estate costs.

Cloud kitchens release you from the obligation of having space in a high-visibility area. Rather than paying for accessibility, better-developed

complexes, or even a large parking space, you can concentrate on having enough kitchen space in a decent area near to your target market.

- Better expansion opportunities

The best thing about cloud kitchens is that you don't need heavy investments to begin. You can start small but expand fast. Once you build a brand and get loyal customers, expanding to new localities and even new menu variety gets easier. Let's take the example of Faasos, today it runs 160+ kitchens and 4 brands including Faasos, Behrouz Biryani, Oven Story and Firangi Bake.

- Saving on overhead costs

With a cloud kitchen, you save so much on overhead costs. You don't need client-facing staff, decoration or space entrance, parking area etc. Even if you have lower-priced menu items, your profit margins are likely to be better.

5.5 Fine Dining

Many companies spend a lot of time studying and identifying their potential customer base. It's not enough to say they'll cater to everyone — they must be able to narrow down key demographics like age, income, lifestyle, and other key factors of that will connect customers with the business. Not doing so can cost the restaurant a lot of time and, more importantly, a lot of money.

Fine Dining is the value proposition offered for niche customers and defines the low volume and high contribution revenue model within the hospitality industry.

Restaurant's menu has a significant impact on its ability to attract customers. The selection and pricing of menu items is an essential element in a restaurant's financial projections regarding anticipated costs, revenues, and profitability.

Appendix 1

Revenue Assurance Checklist

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
1. Room Revenue		
1.1	Room charge not charged but rooms let out	<p>Check whether room revenue has been charged for all rooms occupied during the day. This check is to be carried out by checking the spool report "Journal for the day" from PMS. The check should specifically cover the following:</p> <ul style="list-style-type: none"> All the Guest In House at the time of night audit All the guests who have checked out during the day
1.2	Room charge not charged but rooms let out – special cases	<p>Wherever the room revenue has not been charged for occupied rooms, check whether they fall in the following category</p> <ul style="list-style-type: none"> Complimentary House Guest Late Check-out Early Check-In Day use guest <p>In the case of complimentary and house guest rooms check whether necessary approvals in accordance with Corporate circular exist and they appear in the Complimentary report printed and circulated to GM / FOM.</p> <p>In the case of Late checkouts</p> <ul style="list-style-type: none"> Whether half day / full day charge levied is in accordance with the late check-out policy of the Hotel Whether the waiver of half day / full day charges is in accordance with the late check-out policy of the Hotel

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
		<ul style="list-style-type: none"> • If it is not in accordance with the policy, check whether the same has been duly documented and approved in accordance with corporate Circular. <p>In the case of early check-ins (after the night audit and before noon)</p> <ul style="list-style-type: none"> • Whether half day / full day charge levied is in accordance with the policy of the Hotel. • Whether the waiver of half day / full day charge is in accordance with the early check-in policy of the Hotel. • If it is not in accordance with the policy, check whether the same has been duly documented and approved. <p>In the case of Day use guest</p> <ul style="list-style-type: none"> • Check whether room revenue has been charged for all day use guests • Whether the waiver of half day / full day charges has been duly documented and approved.
1.3	Check-in without registration card or Improper registration card – control over unauthorised use of rooms.	<ul style="list-style-type: none"> • Review Registration cards for their completeness • Check whether Room Discrepancy Report has been prepared and documentation for resolving the discrepancies. • Check whether Key checks have been carried out by the authorised person and documented.
1.4	Incorrect rates Charged leading to loss of revenue	<ul style="list-style-type: none"> • Rate Variance Report – Approvals in accordance with Corporate circulars for adhoc rates • Check the rates charged, especially adhoc rates / rates based on BAR with appropriate approvals. • Upgrade report – Approvals in accordance with Corporate circulars.
1.5	Check outs not billed and not settled	<p>For all check-outs during the day, check whether bills have been raised and duly settled in PMS either as</p> <ul style="list-style-type: none"> • Credit card settlement • City Ledger settlement • Cash settlement

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
1.6	Credit card settlement not properly done	<p>Credit card settlements</p> <ul style="list-style-type: none"> • For all bills settled by Credit card as per PMS, availability of credit card charge slips should be verified. • For all bills settled by Credit card as per POS Chance sheet, availability of credit card charge slips should be verified. • Credit card charge slips should also be matched with the EDC summary sheet for the day
1.7	City ledger settlement Without billing instruction.	<p>City Ledger settlements</p> <ul style="list-style-type: none"> • Check whether for all bill settlement to city ledger, there is billing instruction or the party is a credit listed party • Check for guest signature in the case of Credit customers. • Ensure that all City ledger settlements have been duly posted to CITY LEDGER and the control totals matched.
1.8	Cash Settlement Not accounted in cash book or paid outs not charged	<ul style="list-style-type: none"> • Tally the cash settlements with the cash summary and the cash book / scroll • Check all Paid Outs as per PMS report with the Paid out slips and check for guest acknowledgement and Duty Manager approval.
1.9	Forex Settlements – wrong rates applied for charging / settlement	<ul style="list-style-type: none"> • Check whether correct foreign exchange rates have been updated in the system and check whether TT rates are applied for billing and TC / CN rates are applied for settlement. • Verify all Foreign exchange encashment certificates. Ensure serial continuity, filling up of all relevant details and signature of the guest and authorised signatory.

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
1.10	Checkouts without settlement of bills but keeping bills open	<ul style="list-style-type: none"> • Ensure that all the bills received from Front desk are final bills and not Information bills • Review payment masters (PM) with reasons, ensure that they are properly approved by Front office Management and are not kept pending. • Review bills on hold and ensure that they are transferred as per corporate policy to city ledger • Check bills are periodically (not later than a fortnight) raised for long stayers • Review Guest In House balances and High Balances Report. Specifically look for abnormal balances and amounts pending in PM accounts.
1.11	Charges being unauthorized allowed	<ul style="list-style-type: none"> • Check Front office allowances are as per PMS report with its base documents, reasons and the approval of the same. • In case of Diplomats where taxes are not charged, check with the relevant supporting documents applicable to the respective state laws. • Review and confirm the correctness of Manual Postings in PMS. • Review Lost postings account and take corrective action to identify the correct guest name.
1.12	User using software options to not charging or billing the guest.	<p>Review User logs to identify exceptional and unusual events logged by the system. Special emphasis to be given to the usage of the following options:</p> <ul style="list-style-type: none"> • Deletions, • Transfers, • Moves, • Modifications and • Splits

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
1.13	Overall revenue control and tally	<ul style="list-style-type: none"> Review PMS Trial Balance and ensure it tallies Review and ensure the correctness of Daily Business Report
1.14	Room Rate Master Maintenance – Rate codes wrongly updated	<p>Master Maintenance audit</p> <ul style="list-style-type: none"> Check all rate code amendments in the rate master. Check creation of new department codes in PMS, necessary approvals for such creation and the correctness of the flow of data from the new department code in PMS to ARCL.
2. Front Office Cash		
2.1	IOUs controls – Not approved / not settled	<ul style="list-style-type: none"> Check IOU's with vouchers and approval by FOM / DM. Ideally IOUs should be discouraged.
2.2	Cash Turn not Received	<ul style="list-style-type: none"> Check cash turn in procedure and tally cash receipts from all the outlets with cash settlement reports from POS, PMS and Front Office cashbook, Check all cash Receipts with PMS and Manual cash book. Check for serial continuity of receipts. Cancelled receipts should have the reason for cancellation and approval by FOM / DM.
2.3	Physical cash not Verified	<ul style="list-style-type: none"> Physically verify cash and tally with book balance and document denominations and fact of verification done. Physically verify Foreign Exchange with Forex encashment certificates and TC/Cash with PMS and manual / PMS cashbook. Check whether there is process of physical verification of cash / forex at the time of shift change and denominations are recorded in the cash book / shift handover book.

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
3. Other Revenue Controls		
3.1	Non-charging / non-billing services provided.	<ul style="list-style-type: none"> • Check all the bills with the sales summaries received from the outlets (Pastry shops, Beauty Parlour, Laundry, Business Centre, Boat Income, etc.) • Check all settlement modes and cross check with respective controls Viz., <ul style="list-style-type: none"> o Batch slip for EDC machine in case of credit card, o Billing instruction for city ledger and o Cash summary for cash sales. • In the case of Manual bills ensure serial number continuity of bills and ensure it is duly posted in PMS. • Check telephone charges as per telephone system matches with the charge in PMS
4. F&B Revenue		
4.1	POS controls – Serial continuity of the bills settled.	<ul style="list-style-type: none"> • Check whether sales as per Chance Sheet from Point Of Sales tallies with entries posted in PMS. • Check whether all bills have been received from all the outlets for the sales made during the day. • Check the void bills report and ensure that the original void bills are physically available and the same have been approved by the Restaurant Manager / F&B Manager and counter Chef. • Check the Reprint bills report and ensure that the original bill and the reprinted bill are physically available and the same has been approved by the Restaurant Manager / F&B Manager • Check whether there are any open bills, if yes, approval and the reasons for the same.

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
4.2	POS controls – non-billing of food and beverage served or short billing.	<ul style="list-style-type: none"> • Check whether duly approved entertainment slips as per corporate policy are available for the complimentaries / entertainments • Check whether all EDM bills have been appropriately approved. • Check whether Gift vouchers / shareholders coupon attached to the food bills are duly defaced • Check F&B discounts and its authorisation. Check whether discount coupons are defaced
4.3	Wrong appropriation of income between F&B / room revenue	<ul style="list-style-type: none"> • Check whether Meal plan credits and taxes have been correctly given in all cases as per corporate circular.
4.4	Rate master wrong updation	<ul style="list-style-type: none"> • Check restaurant rate code amendments with menu card and edit list from system.
5. Banquet Revenue		
5.1	Rates – unauthorised discounts / terms	<ul style="list-style-type: none"> • Check whether banquet contract as envisaged in Corporate Circular is entered into. • Check whether the rates fixed are as per Corporate Circular on optimising revenue and necessary approvals have been taken with regard to discounts. • Check whether the contract terms on advances, credit extensions have been adhered. • Check whether the PAN number has been obtained for all bills over Rs.25000 if settlement is going to be in cash.
5.2	Billing for quantity less than what has been guaranteed	<ul style="list-style-type: none"> • Cross check the Function Prospectus (FP) with the Banquet challans and check the correctness of billing. • Check whether all corrections / modifications in the FP / Banquet challans have been duly approved by the Banquet supervisor and the guest.

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
		<ul style="list-style-type: none"> Any changes in Guaranteed Pax (covers) have been duly approved by Banquet Sales Manager and F&B Manager.
5.3	Incomplete billing	<ul style="list-style-type: none"> Check whether bills have been raised for all the banquets for the day and they are supported by Banquet challans duly signed by the guests.

6. Peculiar Issues in the Audit of Hotel Industry

Profit & Loss Account

Audit Considerations in the audit of Profit & Loss Account of the Hotel Industry:

- Revenue Leakage
- Non booking of Revenue
- Contribution factor on revenue from rooms
- Perishability of Hotel Services
- Higher Fixed Cost
- Higher Capital Investment
- Increased repairs & Maintenance cost
- Employee Turnover/Shortage of Skilled, trained Staff
- Pilferage
- Applicable Laws / Statutes

Revenue Recognition

Revenue from Room Rent

The major portion of the Revenue is from Room Rent. The billing is done through front end software, it automatically captures/books Revenue in the Accounting Software (most of the Hotels are using PMS software).

Room rent is charged on the basis of fixed tariff according to the category of the room. Discounts may be offered to customers; this depends on various factors like season, holidays and other things. Special discount is also offered to

delegates, corporate customers, VIP customers, etc. Complementary rooms are provided by Hotels for some special guests and Hotel staff.

Therefore, an Auditor needs to examine more carefully.

Audit Focus Points

- Full walk-through of the process of Revenue Recognition start from booking (through Travel Agents, Walk-in) to Revenue Recognition.
- Verification of Synchronization of front end software (PMS) with accounting software. Reconciliation between PMS and accounting software.
- Cut-off procedures for Revenue Recognition, recognition of accrual of cut-off date revenue
- Room Tariff structure and its actual allocation, Rates offered are reviewed and signed off by FOM through rate variance report.
- Reconciliation from Pax (persons) Register / in and out time or booking forms.
- Surprise checks for unoccupied Rooms / Complimentary Rooms / House Rooms / Key Checks
- Cross verification of unoccupied Room Report with Housekeeping Occupancy Report
- Income audit which ensures that cash receipts, EDC batch closing and city ledger settlements are tallying with daily PMS trial balance of guest ledgers.
- Discounts for Corporates from Agreements.
- Night Audit Checks
- Authority Matrix for approval of waiving of cancellation charges or for special discount.
- Retention charges collected due to either cancellation or due to non-arrival upon reservation.
- Receipts from walk-in customers specially cash paying customers.
- Daily Occupancy Report/ Average Occupancy Report/Average Room Rent (ARR)/Revenue per available Room (RevPar).

Revenue from Food & Beverages (Restaurants)

The next major portion of the Revenue is from Food & Beverages, restaurant sales.

Audit Focus Points

- Approved Menu Rates which are appropriately updated in the POS.
- Point of Sale (POS) records with the accounting software. Check synchronization of POS Machines with the Accounting software.
- Reconciliation of Kitchen Order Ticket (KOT's) with POS.
- Manual POS in case of failure of POS system.
- Records for "Happy Hours" – sold at discounted rates or complimentary
- Internal controls procedures at the Cash Counters.
- Reconciliation of daily cash deposits with Bank Deposit slips.
- Surprise checks for physical verification of cash.
- Reconciliation of billing, cash collection and receivables
- Expenses or cash outflow should not be allowed from Cash Collected
- Cash turn in procedure of ensuring cash collected and credit card EDC batch closing summary are tallied with chance sheet (summary from POS) and deposited in front office or to accounts.

Revenue from Minibar

The revenue from the food and beverages from the minibar also needs to be verified by the Auditor.

Audit Focus Points

- Billing of these items is based on self-declaration by the Guest through filling up of the form kept in the minibar.
- Records at the minibar attendant for consumption and bills.
- Reconciliation between Daily report of consumptions and stock with Invoices raised to customer.

Revenue from Banquets

Normally, Hotels offers Banquet with various package plans. Rate offered is a composite rate for food and beverages and rent of hall. Generally, rate is for per pax (persons). Packages include different types of Menus. Further, Hotels offers for minimum guaranteed pax (persons).

Audit Focus Points

- Tariff rates for various packages offered by the Hotel.
- Test check for rates finalized for full day, half day or night events which is in accordance with Tariff Cards.
- Reconciliation of advances received with actual billing.
- Random checking for Guaranteed pax (persons) and actual pax (persons) from the plate count from billing process
- Policy of service charges. At times the same is waived. Check for approvals.
- Annual reconciliation of number of days and evenings that could be rented out and actually occupied.
- Accounting of Corkage (Service Charge for serving Liquor brought by Guest) as Income

Revenue from Conferences, Meetings etc.

Services include conferences, meeting room etc.

Audit Focus Points

- Tariff rates for various packages offered by the Hotel.
- Test check for rates finalized for full day, half day or on hourly basis which in accordance with Tariff Cards.
- An auditor should examine the packages offered and Invoices raised accordingly.

Revenues from Shops

Many Hotels provides some space at ground floor, lobby for Shops, e.g. Shop of Antic Pieces, Heritage items etc. Hotel enters into agreement with these shops owners for payment of fixed monthly rent.

Audit Focus Points

- Validity of the rent deed, contract deeds, for the space provided.
- Collection of Security Deposit or repayment of Security Deposit if Shop is surrendered.
- Cross verification of collection of monthly Rent from receipt book, Bank Book with agreement.
- If shop is closed then check whether Security Deposit is refundable or not. Because many times, it happens that Shop Owner leaves the shop space without intimating Hotel Management. Check whether any rent is pending in the same situation and Hotel is repaying Deposit after adjusting all dues.
- GST on any kind of barter arrangement with lease

Revenue from Membership (for Spa, Swimming Pool, Gym etc.)

Many Hotels offers Spa, Swimming Pool, Gym Services to outsiders also. In this case, Hotels charges monthly, yearly, life membership fees to customers. It also includes different packages for these other services.

These facilities are provided to resident guests, walk-in guests or through membership. For guest residence, these services are also offered in the form of complimentary or by charging on hourly basis.

Audit Focus Points

- Rate Card for the different kind of Membership
- Records of the Membership customers from the Register maintained
- Charges collected from guest attendance register, if not complimentary.
- Damages, if any, recovered from customer.
- Scrutiny of Membership on test check basis (fake membership)
- Impairment of Assets (Usage and depreciation provided)
- Repair and Maintenance expenses

Revenue from Car Hire

Hotels provide Car Hiring Services to their customers through dedicated travel agencies. Whenever guests hire cars, charges are posted to the guest folio. A hotel gets commission from travel agency which is based on the charges earned by the travel agency.

Audit Focus Points

- Tariff cards for the Guest Customers
- Reconciliation of bills issued to customers and the amount paid to the travel agencies.
- Adding of Car Hiring Charges in the Guest Polio, reconciliation statement between car hiring records and Room charges records.
- Logbook and billing to be cross verified in case of owned car fleet. Other internal controls to be checked in such case.
- Procedure for Commission income to be cross verified with the guest billing

Revenue from Telephone & Internet

An Auditor needs to consider the following points and verify the Revenue from Telephone and Internet

Audit Focus Points

- Telephone bills are charged through EPABX system and internet service is charged through internet service providing system.
- For internet charges, Service Tax is charged.
- In some states like Kerala, Luxury Tax is charged on telephone bills.

Revenue from Housekeeping

This revenue is normally charged for sale of wardrobes and baby-sitting, etc. Policy in respect of Pets of guests to be verified. Special rates, if any for carrying of these pets and care should be verified.

Revenue from Laundry

Laundry service is provided to employees of hotel and resident guests.

Audit Focus Points

- Rates for Laundry Services
- Cross verification of Bills generated with Laundry Register
- Laundry Bills added in the final bill

- Check management estimations, previous trends for redemption of award credits.
- As auditors one has ensure that accrual and redemption processes are robust to ensure that there are no unauthorized accrual and also unauthorized redemption.
- Process and internal controls for close monitoring of the Loyalty Programmes due to higher chances of fraudulent practises.

Payroll Costs

For any industry, employee cost plays a major role and absence of internal controls can impact operation of any Hotel.

The recent survey results indicate that Indian maintains the largest salary increase budget of all countries surveyed. It has been observed that both Payroll Cost and Revenue have a direct correlation with hotel market positioning. Luxury hotels, which are recognised the world over for their opulence in delivering a lavish guest experience reflect the highest figures, across all parameters being analysed in this section. The survey findings indicate that the Annual Payroll Cost as a % of Annual Revenue is the highest in Luxury hotels, gradually decreasing for Upscale hotels, Mid Market Hotels and Budget Hotels.

Therefore, Auditor needs to be very careful and critically examine the employee related cost incurred by the Hotel.

Audit Focus Points

- Perform a complete walk-through test to examine accounting system and internal control with regard to payroll.
- Segregation of duties within the payroll department and the EDP department.
- Analytical review of payroll costing using key performance indicators.
- Record maintenance for newly joined employees / final settlement for left employees.
- Analyse relationship between casual labour cost and monthly occupancy rate, compare the same with previous year figures and industry standards and obtain explanations from management for significant variances.
- Auditor can compare with following ratios of Current Year with earlier years:
 - o Annual Payroll Cost as % of Total Annual Revenue
 - o Annual Revenue per Employee

- o Annual Payroll Cost per Employee
- o Annual Payroll Cost per Occupied Room
- o Annual Payroll Cost per Available Room
- Timely calculation and payment of applicable Statutory related Dues and retirement benefits.
- Examine the following documents for their relevance to the period under audit:
 - o Contracts with unions
 - o Other employment contracts
 - o Employee benefit plans
 - o Post-retirement benefits.

Inventory and its Valuation

In the hospitality industry, due to its nature the probability of pilferage of Food is very high. Auditor needs to focus on movement of Stock its maintenance of records.

Audit Focus Points

Inventory

- Internal process of Inventory verification.
- Coverage of Inventory and locations and frequency of physical verification.
- Check how management dealt with material discrepancies, if any.
- Select items from Inventory sheets for physical verification
- Generally, Hotels Industry counts consumption of goods when it issues to Kitchen, Restaurants etc. Auditor needs to consider Inventory from these departments also.
- Obtain department-wise and location-wise Inventory Sheets (E.g. Vegetables, Meat/Fish, Milk & its products etc.) list for verification on cut-off date.
- Physical verification at Bar - Excise Inventory Registers/Records for Liquor Inventory. Reconcile with the Books of Accounts.
- Cut-off procedures used on inventories from all documents pertaining to movement of stocks.

- Identify control procedures for expiry dates of perishable items.
- Damaged, slow/non-moving stock.

Valuation

- Ensure Hotel followed principles of applicable Accounting Standard (AS2/ Ind AS 2) consistently.
- Ensure stock of foods & beverages and stores are carried at the lower of cost or net realisable value as per their Accounting Policy.
- Debit Credit Notes issued for expired/damaged material
- Sale of damaged/wastages
- Determine lower of net realisable value and cost for certain important items of inventory independently and ensure that their valuation is correct.
- Analytical review on the value of stock with the budgeted value, and also with the value of inventories at the end of the previous year.
- Provision for damaged or slow/non-moving stock, as also on stocks in excess of current requirements.

Repairs & Maintenance

Generally, major portion of expenses covers by repairs & maintenance after employee cost in the Hotels Industry.

- Budget and approval of annual repairs & maintenance
- Procedure for Request for Quotations and its allotment/Pre-tender and Post-tender Procedure
- CAPEX Vs Revenue : Capital item wrongly charged to revenue or otherwise and vis-a—versa.
- Scrutinizing Works Contract Order for work allotted
- Refurbishment or renovation expenditure without decapitalizing original asset from books.
- Payment according to the stage of completion of work or on the basis of RA Bills
- Correctness of booking of expenses
- Applicable taxes and booking of the same (E.g. No GST input in case of renovation/refurbishment made in immovable properties, restaurant area)

Verification of Commission payment of Travel Agents

Many Hotels are having tie-up or contract with Booking / Travel Agents for booking for Rooms, Hall, Banquets etc.

Commission Agent - Operating Models

- Hotels inform their per day Room rate on daily/weekly/yearly basis to Booking Agents. Booking Agents negotiate further as per contemporaneous market rates and publish per day Room Rate on their sites. If customer books a room through Booking Agent's site then Booking Agent keeps their commission as per agreed terms and transfers remaining amount to Hotel. And if customer makes payment at the counter of the Hotel, then Hotel pays agreed commission to the Booking Agent.
- Booking Agent makes a contract with the Hotel and fixes Rooms and its rates for a certain period. In this case, Booking Agent pays fixed Room rent to the Hotel even if, Rooms are not booked.

Audit Focus Points

- Check agreed terms between Booking / Travel Agents with Hotel Management.
- Cut-off procedures for booking of accrual of the Commission
- Commission is paid to active Travel Agents only (no dummy accounts)
- Unauthorised Commission booked/Higher Commission paid
- Yearly confirmation statements from respective Booking Agents.
- Reconciliation statements for Commission from Hotel for Commission paid with travel agents.

Service Charges

Generally, in the Hotel Industry service charges are levied on the bills generated. These charges are generally levied on food and beverage bills instead of collecting Tips from the customer. Generally, Service charges in the % of the total bill amount.

The purpose of the levying Service charges could be different from Hotel to Hotel. Some Hotels distribute in some % of the total collection to the staff or while some may use to meet the food and beverages labour costs.

Audit Focus Points

- Process of levying service charges
- Collection and the booking of the Service Charges, needs to be booked separately.

- GST applicability on the Service Charges (need to pay on the total collection)
- Contract / agreement with the Union, if some part distributed among the staff.

Others Areas

Kitchen Audit

Kitchen is the heart of F&B operations in which prepared Food is supplied to every outlet of the Hotel. The team is headed by Head chef who reports to the F&B Manager. And the team includes assistants and sous chefs.

Audit Focus Points

- Documentation of Menu set by Hotel Management
- Daily plan made by the Chef for requisitions from store.
- Procedure for request for purchase of raw material from respective department of Kitchen. PO's needs to be raised by Purchase department only on requisition of respective Kitchen department.
- Annual Rate Contracts for Purchases of raw materials and control over cost
- Internal Controls procedures over Raw Material Cost
- Cross verification of requisition to the store and issue of Raw Material to the Kitchen
- Internal control and accounting of the returned material
- Reconciliation of Order received from respective department (Room Service, Restaurants etc) with the requisitions.
- Disposal of Wastages / damaged material.
- Kitchen Inspection Reports
- Complaints and claims from the customers for Food and Beverages.
- Disclosure of contingent liabilities, claims by the customers.
- Fire Extinguishers in the Kitchen Area with expiry date

Audit of Hotel Operating Arrangements

Audit Focus Points

- Share of Profit / Revenue in case of Joint Venture / partnerships – terms and conditions of the arrangements.

- Payment of Management fees / Royalty in case of managed hotel model – check agreement between both parties.
- Payment of License Fees or annual rent in case of Hotel chains taken on Lease or for running purpose. The fees can be in lumpsum or fixed plus variable as per the terms of arrangement.
- Franchise Agreement
- Brand Agreements
- Revenue / cost recognition in the above cases
- Applicable taxes

Disclosures in the Financial Statements

Segment Reporting

Operating segments are reported in a manner consistent with internal reporting provided by the Chief operating decision maker who is responsible for allocating and assessing performance of the operating segments. Management of Hotels presents segmental information as per applicable standards (AS 17/ Ind AS 108) to assess operating performance.

The Segmental Information can be presented in the following ways:

- Geographical operating regions
 - Indian Locations, overseas Locations
- Owned hotels/ Franchisee (for chain hotels)
- Core services and other services
 - Hotel Services which includes Lodging, Boarding, Restaurant
 - Other Services

Significant Accounting Policy

Examples of Significant Accounting Policies adopted by few leading Hotel Companies / Chains

Revenue Recognition

The Indian Hotels Company Limited (A TATA Enterprise) – Annual Report FY 2019-2020

Revenue Recognition

Revenue is recognised at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring the goods or services to a customer i.e. on transfer of control of the goods or service to the customer. Revenue from sales of goods or rendering of services is net of Indirect taxes, returns and discounts.

Income from operations

Rooms, Food and Beverage & Banquets: *Revenue is recognised at the transaction price that is allocated to the performance obligation. Revenue includes room revenue, food and beverage sale and banquet services which is recognised once the rooms are occupied, food and beverages are sold and banquet services have been provided as per the contract with the customer.*

Space and shop rentals: *Rentals basically consists of rental revenue earned from letting of spaces for retails and office at the properties. These contracts for rentals are generally of short term in nature. Revenue is recognised in the period in which services are being rendered.*

Other Allied services: *In relation to laundry income, communication income, health club income, airport transfers income and other allied services, the revenue has been recognised by reference to the time of service rendered.*

Management and Operating fees: *Management fees earned from hotels managed by the Company are usually under long-term contracts with the hotel owner. Under Management and Operating Agreements, the Company's performance obligation is to provide hotel management services and a license to use the Company's trademark and other intellectual property.*

Management and incentive fee is earned as a percentage of revenue and profit and are recognised when earned in accordance with the terms of the contract based on the underlying revenue, when collectability is certain and when the performance criteria are met. Both are treated as variable consideration.

Membership Fees: *Membership fee income majorly consists of membership fees received from the loyalty program and Chamber membership fees. Income is earned when the customer enrolls for membership programs. In respect of performance obligations satisfied over a period of time, revenue is recognised at the allocated transaction price on a time-proportion basis.*

(Source: IHCL_Integrated Annual Report_201920)

EIH Limited – A Member of the Oberoi Group (Oberoi Hotels & Resorts) – Annual Report FY 2019-2020

Revenue Recognition

- (i) *Performance obligation in contract with customers are met throughout the stay of guest in the hotel or on rendering of services and sale of goods.*
- (ii) *Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of trade allowances, rebates, value added taxes, Goods and Service Tax and amounts collected on behalf of third parties.*

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Timing of revenue recognition from major business activities

Hospitality Services: Revenue from hospitality services is recognised when the services are rendered and the same becomes chargeable or when collectability is certain.

(Source: EIH-Annual- Report_2020)

Kamat Hotels (India) Limited (The Kamat Group) – Annual Report FY 2019-2020

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties collected on behalf of the government and discounts given to the customers.

- (i) *Revenue comprises of sale of rooms, banquets, food & beverages and allied services relating to hotel operations. Revenue is recognised upon rendering of service. Sales and services net of indirect taxes and discounts. Revenue yet to be billed is recognised as unbilled revenue.*
- (ii) *Initial non-refundable membership fee is recognised as income over the period of validity of membership which reflects the expected utilization of membership benefits.*
- (iii) *Annual membership fees collected from members [in respect of both under refundable and non-refundable membership scheme] are recognised as income on time proportion basis.*

- (iv) *Management fees under hotel management arrangement are recognised in accordance with terms of the arrangement.*
- (v) *The Company operates loyalty programme, which allows its eligible customers to earn points based on their spending at the hotels. The points so earned by such customers are accumulated. The revenues allocated to award points is deferred and revenue is recognised on redemption of the award points towards the services utilized.*
- (vi)

(Source: Kamat Hotels India Ltd_Annual Report_201920)

Loyalty Programmes

The Indian Hotels Company Limited (A TATA Enterprise) – Annual Report FY 2019-2020

Loyalty Programme

Critical accounting estimates and judgements: *The Company estimates the fair value of points awarded under the Loyalty Programmes by applying statistical techniques. Inputs include making assumptions about expected breakages, the mix of products that will be available for redemption in the future and customer participating Hotels.*

The Company assess whether the Loyalty points provide a material right to the customer that needs to be accounted for as a separate performance obligations. The Company determines that the customer would not exercise without entering into the contract.

Revenue in respect of customer loyalty program are recognized when loyalty points are redeemed by the customers or on its expiry.

Significant Accounting Policies: *The Company operates loyalty programme, which provides a material right to customers that they would not exercise without entering into a contract and the eligible customers earns points based on their spending at the hotels. The points so earned by such customers are accumulated. The revenues related to award points is deferred and a contract liability is created and on redemption/ expiry of such award points, revenue is recognised at pre-determined rates.*

(Source: IHCL_Integrated Annual Report_201920)

Impairment of Assets

The Indian Hotels Company Limited (A TATA Enterprise) – Annual Report FY 2019-2020

Impairment of assets

Critical accounting estimates and judgements: *Property, plant and equipment, Right-of-Use assets and intangible assets that are subject to depreciation/ amortisation are tested for impairment periodically including when events occur or changes in circumstances indicate that the recoverable amount of the cash generating unit is less*

than its carrying value. The recoverable amount of cash generating units is higher of value-in-use and fair value less cost to sell. The calculation involves use of significant estimates and assumptions which includes turnover and earnings multiples, growth rates and net margins used to calculate projected future cash flows, risk-adjusted discount rate, future economic and market conditions.

Significant Accounting Policies: Assets that are subject to amortisation are reviewed for impairment periodically including whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Statement of Profit and Loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the Statement of Profit and Loss.

(Source: IHCL_Integrated Annual Report_201920)

Kamat Hotels (India) Limited (The Kamat Group) – Annual Report FY 2019-2020

Impairment of non-financial assets

The carrying amounts of assets are reviewed at each balance sheet date for any indication of impairment based on internal / external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of a) fair value of assets less cost of disposal and b) its value in use. Value in use is the present value of future cash flows expected to derive from an assets or Cash-Generating Unit (CGU).

Based on the assessment done at each balance sheet date, recognised impairment loss is further provided or reversed depending on changes in circumstances. After recognition

of impairment loss or reversal of impairment loss as applicable, the depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. If the conditions leading to recognition of impairment losses no longer exist or have decreased, impairment losses recognised are reversed to the extent it does not exceed the carrying amount that would have been determined after considering depreciation / amortisation had no impairment loss been recognised in earlier years.

(Source: Kamat Hotels India Ltd_Annual Report_201920)

Impairment of Investments

The Indian Hotels Company Limited (A TATA Enterprise) – Annual Report FY 2019-2020

Impairment of investments

Critical accounting estimates and judgements: *The Company reviews its carrying value of investments carried at cost or amortised cost annually, or more frequently reviews its carrying value of investments annually, or more frequently when there is indication for impairment. If the recoverable amount is less than its carrying amount, the impairment loss is accounted for.*

(Source: IHCL_Integrated Annual Report_201920)

Kamat Hotels (India) Limited (The Kamat Group) – Annual Report FY 2019-2020

Impairment of investment in subsidiaries and joint venture entity

Use of significant accounting estimates, judgments and assumptions: *In the opinion of the management, investments/ advances in subsidiaries are considered long term and strategic in nature and in view of future business growth / asset base, the value of long term investments and loan & advances given are considered good except in case of a subsidiary and joint venture, considering adverse factors which have severely affected its financial position and expansion plans, on a consideration of prudence, provision has been made for impairment of investment/ advances.*

Significant Accounting Policies: *The Company's investment in instruments of subsidiaries, associates and jointly controlled entities are accounted for at cost.*

(Source: Kamat Hotels India Ltd_Annual Report_2019-20)

Leases

The Indian Hotels Company Limited (A TATA Enterprise) – Annual Report FY 2019-2020

Leases

Effective April 1, 2019 the Company has applied Ind AS 116 which replaces Ind AS 17 Leases. Refer note 2(j) – Significant accounting policies – Assets taken on lease in the Annual report of the group for the year ended March 31, 2019, for policy for lease accounting as per Ind AS 17.

On inception of a contract, the Company (as a lessee) assesses whether it contains a lease. A contract is, or contains a lease when it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether: (i) the contract involves the use of an identified asset (ii) the Company has substantially all of the economic benefits from use of the asset through the period of the lease and (iii) the Company has the right to direct the use of the asset.

At the date of commencement of the lease, the Company recognises a right-of-use asset ("ROU") and a corresponding lease liability for all lease arrangements in which it is a lessee, except for leases with a term of twelve months or less (short-term leases) and low value leases. For these short-term and low value leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease contracts may contain both lease and non-lease components. The Company allocates payments in the contract to the lease and non-lease components based on their relative stand-alone prices and applies the lease accounting model only to lease components.

The right-of-use assets are initially recognised at cost, which comprises the initial amount of the lease liability adjusted for initial direct costs incurred, lease payments made at or before the commencement date, any asset restoration obligation, and less any lease incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are also adjusted for any re-measurement of lease liabilities. Unless the Company is reasonably certain to obtain ownership of the leased assets or renewal of the leases at the end of the lease term, recognised right-of-use assets are depreciated to a residual value over the shorter of their estimated useful life or lease term.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including 'in-substance fixed' payments) and variable lease payments that depend on an index

or a rate, less any lease incentives receivable. 'In-substance fixed' payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease term includes periods subject to extension options which the Company is reasonably certain to exercise and excludes the effect of early termination options where the Company is not reasonably certain that it will exercise the option. Minimum lease payments include the cost of a purchase option if the Company is reasonably certain it will purchase the underlying asset after the lease term.

Lease liabilities are re-measured with a corresponding adjustment to the related right-of-use asset if the Company changes its assessment if whether it will exercise an extension or a termination option and any lease modification.

Variable lease payments that do not depend on an index or a rate are recognised as an expense in the period over which the event or condition that triggers the payment occurs. In respect of variable leases which guarantee a minimum amount of rent over the lease term, the guaranteed amount is considered to be an 'in-substance fixed' lease payment and included in the initial calculation of the lease liability. Payments which are 'in-substance fixed' are charged against the lease liability.

Lease liability and ROU asset have been separately presented in the Balance Sheet and lease payments are presented as follows in the Company's statement of cash flows:

- short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities are presented within cash flows from operating activities;
- payments for the interest element of recognised lease liabilities are included in 'interest paid' within cash flows from operating activities; and
- payments for the principal element of recognised lease liabilities are presented within cash flows from financing activities

(Source: IHCL_Integrated Annual Report_201920)

Kamat Hotels (India) Limited (The Kamat Group) – Annual Report FY 2019-2020

Leases

Policy applicable from 1st April, 2019:

Where Company is lessee:

The Company has applied Ind AS 116 - "Leases" from 1st April, 2019 using the modified retrospective approach by applying para C8(b) (ii) of Appendix C of Ind AS 116 and therefore the comparative information has not been restated and continues to be reported under Ind AS 17 - "Leases".

Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31st March, 2019. The details of the changes in accounting policies are disclosed in note 50 (A)(l)(e) of standalone financial statements.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprise of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date net of lease incentive received, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The right-of-use assets is subsequently measured at cost less any accumulated depreciation, accumulated impairment losses, if any and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date over the shorter of lease term or useful life of right-of-use asset unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method.

Identification of a lease requires significant judgment. The Company uses significant judgement in assessing the lease term (including anticipated renewals) and the applicable discount rate. The Company determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. In assessing whether the Company is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, it considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Company revises the lease term if there is a change in the non-cancellable period of a lease.

Lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Lease liability and ROU asset have been separately presented in the Balance Sheet and lease payments have been classified as financing cash flows.

Where Company is lessor

Assets acquired on leases where a significant portion of risk and rewards of ownership are retained by the lessor are classified as operating leases. Lease rental are charged to statement of profit and loss on straight-line basis.

Policy applicable before 1st April, 2019:

The Company determines whether an arrangement contains a lease by assessing whether the fulfilment of a transaction is dependent on the use of a specific asset and whether the transaction conveys the right to use that asset to the Company in return for payment. Where this occurs, the arrangement is deemed to include a lease and is accounted for either as finance or operating lease. Leases are classified as finance

leases where the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where Company is lessee

Operating lease - Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments are recognized as an expense in the Statement of Profit and Loss on a straight-line basis over the lease term except where scheduled increase in rent compensates the Company with expected inflationary costs. Payment for leasehold land is amortised over the period of lease or useful life whichever is lower.

Finance lease – Finance leases are capitalised at the commencement of lease, at the lower of the fair value of the property or the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of profit and loss over the period of the lease.

Where Company is lessor

Assets given on leases where a significant portion of risk and rewards of ownership are retained by the Company are classified as operating leases. Lease rental income are recognised in the Statement of Profit and Loss on straight-line basis except where scheduled increase in rent compensate the lessor for expected inflationary costs.

(Source: Kamat Hotels India Ltd_Annual Report_201920)

Covid-19 Pandemic : Reporting in the Financial Statements and Auditor's Report

Covid-19 related Reporting in the Annual Reports

Examples of Covid-19 related Notes in the Financial Statements and cognisance taken in the Independent Auditor's Report

The Indian Hotels Company Limited (A TATA Enterprise) – Annual Report FY 2019-2020

Note 2(d): Note to the Financial Statements

Estimation uncertainty relating to the global health pandemic on COVID-19:

On March 11, 2020, the World Health Organisation declared COVID-19 outbreak as a pandemic. Responding to the potentially serious threat that this pandemic has to public health, the Indian Government has taken a series of measures to contain the outbreak, which included imposing multiple 'lock-downs' across the country, from March 22, 2020, and extended up to June 30, 2020. The lockdowns and restrictions imposed on various

activities due to COVID – 19 pandemic have posed challenges to all the businesses of The Indian Hotels Company Limited (the “Company”/ “IHCL”) and its Subsidiaries, joint ventures & associates.

Lockdown guidelines issued by Central/State governments mandated closure of hotel operations and cessation of air traffic and other forms of public transport. This has resulted in low occupancies / shutdowns of our hotels pan India.

Business operations in the various international markets where the Company operates have also been impacted to varying extent based on the spread of the pandemic and the restrictions on business activities placed by the respective foreign Governments.

Most of the hotels of the Company were shut down entirely during the lockdown phase as the Company was not part of Government denominated essential services. With the lifting of the partial lockdown restrictions, the Company has started re-opening a few hotels in the non-containment zones, after establishing thorough and well-rehearsed safety protocols. The Company expects all the hotels to become operational in a phased manner after the lockdown is lifted and the confidence of travellers is restored. The Company expects the demand for its services to pick up albeit at a slower pace once lockdown is lifted and recovery in business to be driven by domestic leisure tourism, staycations, domestic business travel and limited international travel.

The Company has assessed the potential impact of COVID-19 on its capital and financial resources, profitability, liquidity position, ability to service debt and other financing arrangements, supply chain and demand for its services. Various steps have been initiated to raise finances from banks and institutions for working capital needs and long term fund requirements and the Company is in a comfortable liquidity position to meet its commitments. The Company has judiciously invoked the Force Majeure clauses for reliefs during the lock down period and does not foresee any disruption in raw material supplies.

The Company has also assessed the potential impact of COVID-19 on the carrying value of property, plant equipment, right-of-use assets, intangible assets, investments, trade receivables, inventories, and other current assets appearing in the financial statements of the Company. In developing the assumptions and estimates relating to the future uncertainties in the economic conditions because of this pandemic, the Company as at the date of approval of these Financial statements has used internal and external sources of information and based on current estimates, expects to recover the carrying amounts of these assets. The impact of the global health pandemic may be different from that estimated as at the date of approval of these financial statements and the Company will continue to closely monitor any material changes to future economic conditions.

Emphasis of Matters

We draw attention to Note 2(d) to the standalone financial statements, which describes the possible effect of uncertainties relating to COVID-19 pandemic on the Company's financial performance as assessed by the Management.

Our opinion is not modified in respect of the above matter.

(Source: IHCL_Integrated Annual Report_201920)

Kamat Hotels (India) Limited (The Kamat Group) – Annual Report FY 2019-2020

Note 26.7 (b): Note to the Financial Statements

During the current year, there are delays in repayment of principal, payment of interest and there are unpaid instalments amounting to Rs. 1,934.00 lakhs which were due/overdue as on 31st March 2020. The Company has requested all its lenders in the month of March 2020 for the extension of the dues considering the impact on account of COVID-19. Though, written confirmation from lenders are awaited, all lenders have agreed for the extension either verbally or has given in principle approval. In view of the above, in the opinion of the management, event of default is not triggered in any case and therefore, there is no other accounting implications and reclassification of non-current borrowings to current liabilities is not required as at 31st March 2020. Considering the above, in the opinion of the management, no intimation is required to be given to the stock exchange for unpaid loan instalments as at 31st March 2020 as required by SEBI circular dated 21st November 2019.

Emphasis of matter

Attention is invited to note 26.7(b) of the standalone financial statements. During the current year, there are delays in repayment of principal, payment of interest and there are unpaid instalments amounting to Rs. 1,934.00 lakhs which were due/overdue as on 31st March 2020. The Company has requested all lenders in the month of March 2020 for the extension of the dues considering the impact on account of COVID-19. We are informed that though written confirmation from all the lenders for extension are awaited, all lenders have agreed for the extension either verbally or has given in principle approval. In view of the above, in the opinion of the management, event of default is not triggered in any case and therefore, there is no other accounting implications and reclassification of non-current borrowings to current liabilities is not required as at 31st March 2020.

(Source: Kamat Hotels India Ltd_Annual Report_201920)

The Leela Palaces Hotels Resorts

Note 34.4: Note to the Financial Statements

Going Concern Basis

The standalone financial statements of the Company have been prepared on a 'Going concern basis' as the Brookfield Transaction has been concluded and the Company has paid as a one time settlement to banks and financial institutions who were the lenders to the company, (Refer Note No. 34.1)

the Company is confident of getting favourable judgment/ orders / settlement in respect of disputes with AAI and continuing the Mumbai Hotel operations. (Refer Note No. 34.2)

the impact of Covid-19 may not be a major challenge in continuing the Business. (Refer Note No. 34.12)

Note 34.12: Note to the Financial Statements

The World Health Organization (WHO) declared the outbreak of Corona virus disease (COVID-19) a global pandemic on March 11, 2020. Consequent to this, Government of India declared lockdown on March 25, 2020, which is still continuing in many parts of the country. As per the guidelines / directives issued by Central and State Government, other Regulatory Authorities for hospitality sector, the company has suspended its operation from 25th March, 2020 to till date. The Company has taken a number of initiatives to rationalize costs to ensure that the losses during the closure period and thereafter are minimized. The Company has taken several cost savings measures for post lockdown operations and to optimize the use of its financial resources. Despite closure, the properties have been maintained in accordance with the standards of The Leela. The extended lockdown and closure of the hotel will have significant impact on the company's revenues and profitability given that in the first four months of the financial year 2020-21, the company has an insignificant revenues from its hotel operations. The Company acknowledges that the immediate future will be challenging. All efforts are being made to start the operations from 1st August, 2020 as per the prevailing Government guidelines. The Indian hotel sector has been hit hard on account of the Covid-19 pandemic. Currently, inbound tourism has come to a halt with country under lockdown, suspension of visas and global advisories against travel. As of now, there are barely any firm booking enquiries for near future. The scope for quick revival looks dim. It is expected that the recovery will be slow and it will largely depend on factors such as easing of air travel, rail and road operations and recovery of the economy. In spite of these adversities, the management does not anticipate major challenge in company's ability to continue as a going concern. The Company on a prudent basis, assessed existence of any indication of impairment of carrying values of property, plant and equipment at the year-end in accordance with the requirements of Ind AS 36. Based on assessment, no such indications exist. The above evaluations are based on scenario analysis carried out by the management and internal and external information available upto the date of approval of these results, which are subject to impact of uncertainties that

COVID-19 outbreak may ultimately pose on economic recovery and consequential impact on the Company's results.

Emphasis of Matter

Material uncertainty related to Going Concern

We draw attention to Note no.34.4 in the Standalone Financial Statements regarding the preparation of financial statements on going concern basis for the reasons stated therein. However, matters stated in Emphasis of Matter above indicate that a material uncertainty exists that may cast significant doubt on company's ability to continue as a going concern. As stated in Note no. 34.4, the appropriateness of assumption of going concern is dependent upon getting favorable judgment / orders / settlement in respect of disputes with Airports Authority of India and the impact of Covid-19 in continuing the Mumbai Hotel operations.

Our conclusion is not modified in respect of this matter.

(Source : HLV_Annual Report_FY201920)

Independent Auditor's Report : Key / Critical Audit Matter – New Standard on Auditing 701

SA 701 is applicable for audits of financial statements for periods beginning on or after April 01, 2018 for audits of complete sets of general purpose financial statements of listed entities. It casts a new reporting requirement on auditors of listed entities to communicate the key audit matters in their audit reports. This Standard is also applicable in audit of unlisted entities in situations where law or regulation requires communication of key audit matters in the audit report.

SA 701 Communicating Key Audit Matters in the Independent Auditor's Report requires the communication of key audit matters in the auditor's report for audits of complete sets of general purpose financial statements of listed entities or when required by law or regulation.

Definition

Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance

Probable Key / Critical Audit Matters in the Hospitality Industry

- Going concern especially in Pandemic situations
- Revenue Recognition -

- Adoption of Ind AS 116 Leases
- Accounting for Loyalty Programme
- Accounting for Reimbursement of expenses to Hotel Operators
- Impairment of Investments
- Impairment of Assets

Examples of Key Audit Matters reported in the Independent Auditor's Report

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
1.	<p>Revenue Recognition</p> <p>To ensure accuracy of recognition, measurement, presentation and disclosures of revenues and related accounts.</p>	<ul style="list-style-type: none"> • We have assessed the Company's internal controls surrounding its revenue transactions; • We tested the key controls identified, • We performed substantive detail testing by selecting a sample of revenue transactions, that we considered appropriate to test the evidence of effectiveness of the internal controls and adherence to accounting policies in recognising the revenue, and the rebates and discounts there against.
<i>(Source: TajGVK_Annual Report_FY2019-20)</i>		
2.	<p>Valuation of Investments</p>	
	<p>The Company has investments in subsidiaries, joint ventures and associates. These investments are accounted for at cost less any provision for impairment. The Company evaluates the indicators of impairment of the said investments regularly by reference to the requirements under Ind AS 36 Impairment of Assets.</p>	<p>Assessed the indications of impairment of investments in subsidiaries, joint ventures and associates. We have also examined the basis of estimates of the recoverable amounts of these investments, the assumptions used in making such estimates, and the allowance for impairment.</p>

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
	<p>The Company carries out impairment assessment for each investment by: Comparing the carrying value of each investment with the net worth of each company based on latest financial statements</p> <p>Comparing the performance of the investee companies with projections used for valuations and approved business plans</p> <p>The recoverable amounts of the above investments are estimated in order to determine the extent of the impairment loss. As impairment assessment involves significant assumptions and judgment, we regard this as a key audit matter.</p> <p>Refer to note 6(a) – “Investments” of the standalone financial statements.</p>	<p>Compared the carrying values of the Company’s investment in subsidiaries, associates and joint ventures with their respective net asset values and assessed the performance and their outlook.</p> <p>Evaluated key assumptions in the Company’s valuation models used to determine recoverable amount including assumptions of projected EBITDA, growth rate, room occupancy, room rate, projected capital expenditure, discount rates. We involved our internal valuation experts to help us in evaluation of key assumptions and valuation methods. We also evaluated the forecasts based on historical performance</p> <p>We assessed the related disclosures in Note 6(a) of the standalone financial statements.</p>
<p><i>(Source: Indian Hotels Company Ltd_Integrated Annual Report_201920)</i></p>		
<p>3.</p>	<p>Assessment of Impairment of investment in a wholly owned subsidiary of the Company (Refer Note 1(l)(iii),8 ,38, 53 to the Ind AS Standalone Financial Statements) The Company has a non-current investment in EIH Flight Services Limited (EIHFSL), Mauritius, a wholly owned subsidiary of the company, amounting to INR 1,184.88 Million. The Company is of the view that the operations of its subsidiary represent a single cash-generating unit (‘CGU’).</p>	<ul style="list-style-type: none"> • We have understood and tested the design, implementation and operating effectiveness of the management controls over the assessment and conclusion over the impairment evaluation with regard to the investment in a wholly owned subsidiary of the Company. • Assessed The Appropriateness valuation model to determine recoverable amount (Value in use).

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
	<p>The Company performed an impairment assessment and concluded that the recoverable amount was lower than the carrying amount as at March 31, 2020 and accordingly, the Company recognised an impairment loss of INR 161.40 Million in the Statement of Profit and Loss which has been recognised under "Exceptional items". (Refer Note 38).</p> <p>Due to the multitude of factors and assumptions involved in determining the forecasted revenues/cash flows and discount rate in the projection period, significant judgments are required to estimate the recoverable value.</p> <p>Hence this is considered as a key audit matter.</p>	<ul style="list-style-type: none"> • Tested the key assumptions used in Determining the recoverable and assessed the reasonableness of the future cash flow projections, the growth rates and the discount rate. • Performed an assessment of the reasonableness of the previously prepared projections to determine management's ability to adequately and understand the reason for material variances. • Considered sensitivity of the reasonable possibility of changes in the key assumptions and inputs to determine the effect on the recoverable amount. • Checked mathematical accuracy of the model. • We involved our internal fair valuation specialist to test the valuation model and the discount rates used. The adequacy of the disclosures in the notes to the Standalone financial Statements their compliance with Ind AS.
<i>(Source: EIH- Oberoi-Annual- Report_2020)</i>		
4.	<p>Adoption of Ind AS 116-Leases As described in Note 33 to the standalone financial statements, the Company adopted Ind AS 116 Leases ('Ind AS 116') on 1 April</p>	<p>Our audit procedures included the following:</p> <p>We obtained an understanding and evaluated the design of controls over the Company's accounting of Ind AS 116. We tested the</p>

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
	<p>2019. The Company has recognised right-of-use operating lease assets aggregating ` 835.27 Crores and lease liabilities aggregating ` 907.55 Crores as of 1 April 2019. The lease liabilities are initially measured by discounting future lease payments during the lease term as per contractual arrangement.</p> <p>Auditing the Company's adoption of Ind AS 116 involved judgment because the Company has significant number of lease contracts. Certain aspects of Ind AS 116 required the Company to exercise judgments including determination of Incremental Borrowing Rate ('IBR') and lease term.</p>	<p>operating effectiveness of those controls over the application of accounting policies, evaluation of the completeness of the lease portfolio and the determination of IBR and lease term.</p> <p>To test the Company's implementation of the new leasing standard, we performed the following procedures:</p> <p>an evaluation of the completeness of the population of contracts meeting the definition of a lease under Ind AS 116, testing the accuracy of the Company's computation of initial right-of-use assets and lease liabilities.</p> <p>Additionally, we involved valuation specialists to evaluate the key assumptions and methodologies to develop the IBR.</p> <p>Examined the presentation and disclosures relating to Ind AS 116 including, disclosures relating to transition in the standalone financial statements.</p>
<i>(Source: Indian Hotels Company Ltd_Integrated Annual Report_201920)</i>		
5.	<p>Lease Accounting -Under Ind AS 116 The Company has adopted Ind AS 116 -Leases from the date of its initial application on 1st April 2019 which resulted in changes to accounting policies. The Standard was adopted retrospectively from 1st April 2019 and recognised the cumulative effect of initially applying</p>	<p>Our audit approach included understanding the Company's adoption of the Standard and identification of leases, Measurement of the lease liability and right to use asset for accounting.</p> <p>Our substantive tests included:</p> <ul style="list-style-type: none"> Verifying the underlying lease contracts for identifying the

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
	<p>the Standard as an adjustment to the opening balance of retained earnings as disclosed in Note 24.</p> <p>We identified Leases as a key audit matter because adoption of the standard resulted in significant changes to the financial statements, along with changes to the processes, systems and controls and the estimates made in determining the impact.</p> <p>Adoption of the standard lead to recognition of Right to use Asset of Rs.3197 Lakhs and Corresponding Lease Liability of Rs.4335 Lakhs and Company has operating Leases in 4 of the 6 properties its Operates.</p>	<p>leases to which the said Standard applies;</p> <ul style="list-style-type: none"> • Verifying the borrowing rates used for discounting future lease payments • Verifying the accuracy of recognition of Right to Use Asset and lease Liabilities as on the Transition date and Reporting Date • Verifying the correctness and completeness of the annual / periodic charge to the Profit & Loss Account in respect of Lease Liability and Right to Use Asset mentioned above • Verifying whether the disclosures are in accordance with the Standard.
<i>(Source : TajGVK_Annual Report_FY201920)</i>		
6.	<p>Impact of COVID-19 pandemic on Going Concern</p> <p>Refer Note 44 – “Going Concern” and Note 2(d) “Estimation related to COVID-19” of the standalone financial statements</p> <p>On 11 March 2020, the World Health Organisation declared the Novel Coronavirus (COVID-19) outbreak to be a pandemic.</p> <p>The Indian Government has imposed lock-downs across the country from 22 March 2020 up to 30 June 2020. These lockdowns and restrictions</p>	<p>Our audit procedures included the following:</p> <p>Obtained an understanding of the key controls relating to the Company’s forecasting process</p> <p>Compared the forecasted statement of profit and loss and cash flows with the Company’s business plan approved by the board of directors.</p> <p>Obtained an understanding of key assumptions adopted by the Company in preparing the forecasted statement of profit and</p>

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
	<p>due to COVID-19 pandemic have posed significant challenges to the businesses of the Company. This required the Company to assess impact of COVID-19 on its operations.</p> <p>The Company has assessed the impact of COVID-19 on the future cash flow projections. The Company has also prepared a range of scenarios to estimate financing requirements.</p> <p>In view of the above, we identified impact of COVID-19 on going concern as a key audit matter.</p>	<p>loss and cash flow and assessed the consistency thereof with our expectations based on our understanding of the Company's business.</p> <p>Assessed the forecasted statement of profit and loss and cash flow by considering plausible changes to the key assumptions adopted by the Company Performed the following procedures as mitigating factors:</p> <p>Obtained understanding of new borrowing facilities availed subsequent to the year-end;</p> <ul style="list-style-type: none"> • Assessed impact of Government's announcement to lift the lockdown restrictions and Company's plan to re-open hotels in a phased manner; • Assessed disclosures made in the standalone financial statements with regard to the above. Refer to note 44 and note 2(d).
<p>(Source : TajGVK_Annual Report_FY201920)</p>		
<p>7.</p>	<p>Others</p> <p>Contingent Liabilities in respect of claim made by Airport Authority of India (AAI) (Ref. Note No.34.2)</p>	<p>Obtained Lease Agreements and supplementary Agreement with Airport Authority of India (AAI). Correspondence from and with AAI, eviction orders judgment of Arbitrator, Judgment of Delhi High court. Petition filed before Supreme Court and their judgment. Petition filed before Eviction officer and their</p>

Risk Ref	Risk description	Control Framework/ Checks to be Carried out
		revised claim, various Legal opinions, case filed before Bombay City Civil Court, application made before Settlement Advisory Committee constituted by the Board of AAI.
<i>(Source : Hotel Leela Ventures_Annual Report_FY201920)</i>		
<i>Members can view "Technical Guide on Audit Hotel Industry" issued by Institute of Chartered Accountants of India.</i>		

7. Direct Taxes

Introduction

India has emerged as a key destination for travel & tourism over the past few years. This has reflection of change in ranking from 65 in 2004 to 34 in 2019 in the Travel & Tourism Competitive Index. Amongst the upcoming industries, hospitality industry is one of them. *The government, through its several initiatives, 'Incredible India!', 'Atithi Devo Bhava' and measures such as allowing FDI, Tax Holidays, among in the Indian market have played a key role in driving growth of Hospitality sector. Hospitality majors are entering into tie-ups to penetrate deeper into the market. The presence of global brands of hospitality industries is reflection of it. The purpose of this chapter is to discuss Tax Incentives available to Hospitality Industry and the tax issues that arise in Hospitality Industry.*

Business Structures

The Hospitality sector generally operates under following types of business structures/models. Some of these are as under (the list is illustrative and not exhaustive).

1. Operation & Management (O & M)/Managed Facilities
2. Hotel Restaurants under Lease
3. Brand/Franchise Licensing Contracts/Alliance
4. Owner Operator Model
5. Combination of Owner Operator Hotel & Managed Facilities

We are seeing a lot of newer models with different types of novel structuring. A detailed discussion on types of structuring have been covered separately in another Chapter

Tax Incentives

The Government announces direct tax incentives for various sectors and industries to promote growth and give boost for industries through the Finance Budget. Normally the Govt offers 2 types of Tax Incentives- Profit based linked Deductions or Capital Investment linked Deduction under the I T Act.

Profit linked Deduction incentives offered for promotion of Hospitality industries in specified state are mostly given to promote the development of that specific state or region.

Profit Based Incentives – Section 80IE

Eligibility	Hotel with -2 Star and above Category Hotel Business In Specified North –Eastern States
Commencement of business	On 1st Day of April 2007 and ending before the 1st April 2017
Amount of Deduction	100% of the Profit derived from Undertaking
Deductions - No of Years available	for period of 10 consecutive years commencing with initial assessment year
Whether separate audit required to claim deduction	Audit Report in Form 10CCBBA to be filed – (Ref Section 80IF(3) & Rule 18ED(3))

The deduction under this section is available to certain undertaking especially in North –Eastern States (States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim & Tripura) which have commenced operations on 1st April 2007 & ending as on April 2017- for 10 consecutive assessment years. The hotels commencing business in other than Northern Easter States are not eligible for deduction. This tax incentive is only for location based undertakings. The sunset clause was in 2017 for commencement of undertaking so as to be eligible. The tax payer in order to claim deduction has to file a separate audit report in Form 10CCBBA on or before the due date filing of return as prescribed u/s 139(1) of the IT Act. The profit based deduction is subject to compliance of the conditions.

However, the corporate tax payers are liable to pay MAT on book profits in cases where deduction u/s 80IE is claimed and income tax payable on total income is less than MAT on book profits of the company. And the non-corporate tax payer is liable to pay AMT on adjusted total income at the rates as applicable for the relevant Financial Year depending upon status- corporate or non-corporate entity. The credit for MAT or AMT paid can be carried forward for 10 years and can be adjusted against Normal Tax Liability.

Investment linked Tax Incentives u/s 35AD- The Government introduced investment linked deductions u/s 35 AD through Finance (No.2) Act 2009 for specified businesses, which included hotel business amongst other business. The Govt rationale for introducing this was that, as compared to profit linked deductions, investment linked deductions are relatively less discretionary in their impact. Profit linked incentives impose higher compliance, administration burden & are prone to litigation.

In view of the high employment potential, the Govt introduced investment linked incentive for the hotel sector & to give a boost to the hospitality sector, irrespective of location in India

Eligibility	A New Hotel of 2 Star and above Category of specified by the Central Government
Type of Business	Specified Business which covered a new Hotel
Geographical Restriction if any	Activities anywhere in India
Business	New hotel to commence operations after specified date
Year in which Deduction is Available	During the previous year in which such expenditure is incurred by him
Amount of Deduction	Whole of capital expenditure
Condition	Expenditure incurred “wholly and exclusively” , for the purpose of specified business
Whether separate audit required to claim deduction of capital expenditure	There is no requirement of filing any separate audit report in order to claim deduction for capital expenditure incurred
Deduction-Whether Optional OR Compulsory	Finance Act 2020, brought an amendment to make the Deduction Optional

Profit linked deductions or Investment linked expenditure are always subject to fulfilment of specified conditions.

Some of the key pointers and terms used in Section 35AD are as follows –

- 1. Wholly & Exclusively [35AD (1)]:** One of the conditions specified in Sec 35AD is that the capital expenditure should be incurred **“wholly and exclusively”** for the purpose of specified business. The word “wholly and exclusively” is neither defined in Section itself nor in the Main Definition Section of the I T Act. The word “wholly” refers to quantum of expenditure.

The word “exclusively” refers to the motive objective and purpose of the expenditure and gives jurisdiction to the taxing authorities to examine these matters. In Delhi Safe Deposit Ltd², it is held that the true test of an expenditure incurred wholly and exclusively for the purposes of trade or business is that it is incurred by the tax payer as incidental to his trade for the purpose of keeping the trade going and of making it pay and not, in any other capacity than that of a trader. It has to be examined whether the expense has been incurred with the sole object of furthering the trade or business interest of the taxpayer unalloyed or unmixed with any other consideration. If the expense is found to bear an element other than the trade or business interest of the tax payer, the expenditure is not allowable one. The expression “incurred wholly & exclusively for purpose of business and incurred solely for the purpose of such profits & gains are not synonymous. The Supreme Court dealt with the concept of wholly & exclusively for the purpose of business” These tests and principle of wholly & exclusively will hold good and the same analogy of “Wholly & exclusively for the purpose of business ”can be applied for capital expenditure incurred wholly and exclusively for the purpose of specified business

2. **Year of Allowability-** It is pertinent to note that deduction u/s 35AD is available, in the year in which capital expenditure **is incurred** by the taxpayer, i.e. as & when expenditure is incurred, the taxpayer is entitled to claim irrespective of the year in which payment against capital expenditure is made. The section also provides for allowability of expenditure incurred prior to the commencement of its operation, in the year in which the tax payer commences operations provided such expenditure is capitalised in the books.
3. **Star Category of Hotels [Sec 35AD (5) (aa)]** -This section applies to specified business of building & operating a hotel of 2 Star or above category as classified by the Central Government.). The Ministry of Tourism classifies hotels under the star rating system. The star rating category classification is based various considerations like location, use of land, eco-friendly measures, accommodation & restaurant facilities etc. Based on points allotted to each hotel & inspection of hotels which is undertaken by HRACC, set up by the Tourism Ministry, star category is awarded to Hotels.

The issue of allowability of expenditure is likely to arise where hotel operations commenced in previous year (say in month of Jan), & where

2 CIT vs Delhi Safe Deposit CI Ltd (1982) 133 ITR 756

upon application to Government for approval of star category, the authority issued certificate in subsequent year (i.e. say in the month of May). The allowability of expenditure for the previous year may become point of litigation. In River View Hotels³, the question arose whether for availing deduction, the date of certification for classification of 2 or more star category is relevant or the existence of classification as 2 or more star hotel as on the date of application. As there is time gap between the date of application for star category and date of certification by Ministry. It was held that the section stipulates that the tax payer to build & operate 2 or more star category hotel as classified by the Government. There is no time limit prescribed to obtain the certificate in the clause. The only requirement is to build an operation of 2 or more star category as classified by the Central Government. There is no fault on the part of tax payer to apply for obtaining such certificate & therefore since the conditions are fulfilled, the tax payer was entitled to deduction on capital expenditure.

4. **Transfer of Hotel Operations- 35AD [6A]**- The section provides that when owner continues to own the hotel, transfers the operations thereof to another person, the taxpayer shall be deemed to be carrying on the specified business of building and operating hotel and continues to be eligible for deduction u/s 35AD. This is typically, In O & M Model, the owner, builds the hotel and then O & M activities are transferred to another person, the owner would be eligible to claim deduction of capital expenditure. There may be challenge or deduction is questionable where the tax payer does not build a hotel but he takes hotel on lease and operates or conversion of existing hotel into different type of hotel like heritage hotel where substantial capital expenditure incurred.

- 4A **Building & operating a Hotel:** The meaning of specified business 35AD (8) I (iv) is building & operating, anywhere in India a hotel. However the term "building & operating" is neither defined in this section nor in the main definition section of the IT Act. Therefore, it would be prudent to assume the meaning in its ordinary parlance.

The relevant dictionary meaning of the term "building" is "a structure with walls and a roof, such as a house to give protection to people or things.

The relevant dictionary meaning of the term "operating" is- to conduct the affairs of, manage

3 ACIT vs River View Hotels (2018) 94 Taxmann.com 433/171 ITD 404 (Ahd)

5. **Availability of Deduction to a Hotel OR New Hotel [35AD(2)]**– The deduction is available to specified business which commences operations on or after 1st April 2010 in nature of operating & building a new hotel of 2 star or above category. The condition laid down is for commencing a new hotel. As per the section, specified business means building and operating anywhere in India a new Hotel of 2 Star or above category as classified by the Government. There may be a case where a tax payer who is in the line hotel business and owns a chains of hotels, owning 2 hotel business operations. One which commenced prior to 1st April 2010 and one new hotel business, whose business building & operations commenced after 1st April 2010. As per scheme & conditions, deduction for capital expenditure incurred would be available for new hotel business which commenced operations after 1st April 2010 and not for other existing hotels which are operating from earlier period (i.e. 1st April 2010). Further there is no such time limit of obtaining the star certificate prescribed in the clause. The only requirement is to build an operation of 2 or more star hotel classified by Central Government.
6. **Impact on other Tax Incentives available under Other Chapters of IT Act [35AD (3)]** – Once the deduction under 35AD is opted and claimed, deduction u/s 10AA and any deduction us/s 80H to 80RRB (Heading C under Chapter VIA) in relation to specified business shall be not allowable. In a situation where the tax payer is carrying out businesses which consists of business activities including specified business also, the deduction if any available u/s 80 H to 80RRB for business other than specified business are available to the tax paper. The restriction is with reference to Chapter VIA deduction in relation to specified business if 35AD deduction is claimed

The Finance Act 2020 brought an amendment and inserted new sections, giving an option for availing concessional tax rates for corporate entities. In this scheme, with concessional rate regime, the tax payer needs to forego certain deductions available under the I T Act. Once, the corporate tax payer opts for concessional rate of taxation scheme (like 115BAA – applicable @ 22%) in view of the specific exclusions covered u/s 115BAA, certain deductions including deduction u/s 35AD are not available to the tax payer. It is pertinent to note, that once the option of concessional rate of corporate tax is exercised the same cannot be withdrawn for the same or subsequent assessment years.

At present, i.e. Before presentation of Finance Act 2020, the tax payer did not have any option of not availing the incentive u/s 35AD of ITA. Finance Act 2020 brought an amendment in Section 35AD(1) to make the deduction optional. Therefore the taxpayer can choose whether to claim deduction or not

Thus, in such cases, the Hospitality Industry has a challenge in deciding whether to exercise of option u/s 115BAA of the IT Act or otherwise and to claim deduction u/s 35AD for new hotel business which are commencing operations. This would be a challenge to the taxpayer from tax optimisation perspective. The corporate tax payer in such situation has to work out the tax impact if the deduction u/s 35AD claimed with regular corporate income tax rate vis-à-vis the tax impact where option is exercised u/s 115BAA for concessional rates by not claiming deduction u/s 35AD.

7. **Restriction on Time limit for use of Capital Asset [35AD(7A)]**- The IT Act that provides any asset on which deduction is claimed and allowed, the same asset shall be used only for specified business for period of 8 years beginning with the previous years in which such asset is acquired or constructed. Here it is to be noted that period of 8 years has to be counted from the beginning of the year in which asset is constructed. In case where the asset is acquired on 30/31st March (at the end of the previous year), the period of computation of limit of 8 years shall be counted from 1st April (from beginning of the previous year). The usage of assets for a period of 8 years is minimum and not maximum.
8. **Impact of violation of conditions laid down in Sec 35AD: [35AD (7B)]**
– If conditions as set in Section 35AD are violated (like the asset is used for purpose other than specified business) or any other, the amount of deduction claimed and allowed in one or more year shall be the income of the taxpayer in the year in which such conditions are violated. Upon non-compliance of conditions, earlier years deduction claimed and allowed shall be deemed to be the income of taxpayer. However, depreciation u/s 32 shall be deducted from such deemed.
9. **Certain Expenses Not Allowable for Deduction [35AD (8) (f)]**: The capital expenditure incurred in the nature of, on the acquisition of any land or goodwill or financial instrument is not allowable. Further, any expenditure (capital and/or revenue) where payment is made in excess Rs. 10000 to person in a day otherwise than by an account payee cheque or bank draft or use of electronic clearing system is not allowable.
10. **Applicability of MAT or AMT in cases where 35AD deduction claimed:**
The corporate tax payers are liable to pay MAT in case where the tax payable on total income as computed under IT Act, is less than 18.5% of its books profits. The MAT is payable @ 18.5% of book profits of the tax payer

The non-corporate tax payers are liable to pay AMT where regular tax payable is less than alternate minimum tax payable on Adjusted Total Income. Adjusted Total Income for the purpose of AMT is before giving

effect of deduction claimed if any under 35AD or under Chapter VIA. AMT is payable @ 18.5% on Adjusted Total Income for the year.

- 11. Position of Losses by Specified Business:** As per Section 73A, the loss of hotel (specified business) arising out of claim of capital expenditure can be set off only against Profits & Gains of any other specified business or profits of that hotel. Initially there was ambiguity as to set off losses from specified business. The amendment was brought in by Financial Act, 2011 w.e.f 1-4-2011 in Section 35AD (8) I. The word "new" was removed from the definition of "specified business" in case of hotels & hospitals. With this amendment, the loss of specified business claiming deduction u/s 35AD can be set off from profits from another specified business, whether or not, another specified business is eligible for deduction u/s 35AD of the IT Act. The tax payer who currently operates a hotel would be able to set off the profits of such business against the losses of a new hotel (specified business) which start functioning on or after 1st April 2010. There is no restriction for the period of carry forward and set off brought forward loss.

Some Tax Issues & Indian Judicial Decisions

- 1 Rental Income in the hands of Property Owner:** The question would arise regarding the taxability of Lease Rental income received in the hands of Hotel Property Owner as House Property or as Business Income. There are mixed views on this issue. The court's main thrust in deciding this issue is on the intention of tax payer supported by tax payer's action & documentation. At the same time, it is a recognised principle of law that no precise and perfect test can be laid down to determine the chargeability of income under particular head of income. This aspect is to be seen from the businessman point of view and facts of each case, documents and agreement executed, contents of agreements & intention of the parties.

In *Mohiddin Hotels (P) Ltd*⁴ -The tax payer constructed a hotel and let it out on a fixed amount, from the day one when the hotel was ready for commissioning. The hotel was let out & the lessee was appointed to run for running the hotel business. In the facts of case, the High Court after examining terms of agreement, material, intention of the parties, held that the intention of the taxpayer was actually to exploit the hotel as its business assets. The fact that all licenses, permissions, and NOC required for

⁴ *Mohiddin Hotels (P) Ltd vs CIT* 284 ITR 229, *Sateo Securities & Financials Services Ltd vs IT* (2009) TIOL 265, *Everest Hotels Ltd vs CIT*(1978) 114 ITR 779 (Calcutta)

running the hotels were obtained in the name of the taxpayer is pointer to the aspect that assessee intended to exploit business asset (i.e. Hotel). Also taking into consideration general principles laid down relating to income from leasing out asset of business by the tax payer as held by the SC in Universal Plast Ltd⁵ - It was held that the Lease Rental Income received would be Income from Business and not House Property income.

On the contrary, there may be situations where the taxpayer earned income from letting out of hotel property. The tax payer did not carry out either commercial activity or business activity to earn such income. In such cases, the Courts have held that Income would be chargeable under the head of House Property and not under Business Income⁶

2. Chargeability of Lease Rent in the hands Individuals or AOP: In Shivsagar Estate⁷,

a group of 65 people owned a land parcel and gave the land to the hotel on lease rental basis who have determinate share in the land. The taxability of the lease rental received in the hands of individuals or as an AOP was point of dispute, The Tax authorities treated the lease rental received by 65 people & assessed as AOP. The ITAT held that lease rental received by 65 persons was assessable in the hands of co-owners individually and not in the status of AOP as all individuals have determinate share. Further, these individuals took loan and advanced the amount to Hotels for business purpose and earned interest on the loans. The ITAT held that, interest earned by the co-owners on loan given to the hotels (lessee) is assessable in the hands of AOP and not in the hands of individual co-owners as per their respective shares.

3. Hotel Repairs & Renovations/Refurbishment Cost-Capital Vs Revenue:

The allowability of Hotel repairs & renovations/refurbishment expenses is a burning issue for hospitality industry & is a bone of contention between the Tax payer and the Tax Authorities. The litigation point is whether repairs expenses are in Capital in nature and create a benefit of enduring nature or are revenue expenditure. Generally, the hospitality industry is required to incur repairs & renovation expenses on continuous basis. These expenses are incurred to maintain the standard of the property. It is a fact, that in this type of industry, the entities do need to carry out such renovation, refurbishment expenses to make the ambience look good, attract customers and to be in the competition with others. Rather sometimes due weather

5 Universal Plast Ltd vs CIT (1999) 237 ITR 454/103 Taxman 493 (SC)

6 Keyaram Hotels (P) Ltd vs ACIT (2008) 173 Taxman 262(Madras), Ocean Structures(P) Ltd vs ACIT (2008) 170 Taxman 42(Delhi))

7 CIT vs Shivsagar Estates (AOP) 204 ITR 1 (Bom)

conditions prevailing in specific geographical area, repairs are required. There is no standard test to determine or classify the renovation and repairs expenditure as revenue expenditure or capital expenditure. While arriving at the decision, the facts in each and every case are important.

In case of **Ooty Dasprakash**⁸, the tax payer incurred expenditure on modernizing hotels and repairing component of the portion of the building, furniture and fixture over 3 years. The dispute arose as to whether the expenditure incurred was of enduring nature & held to be capital in nature or revenue. The High Court based on analysis and facts, held that renovation and repairs expenses incurred solely for the purpose of the running hotel business and replacing the existing components of building, furniture fittings with a view to create a conducive & beautiful atmosphere for the purpose of running hotel business. It cannot be said to be of enduring nature and hence the same was not of capital nature and allowable as revenue expenditure.

New Kneilworth Hotel (P) Ltd-⁹ The taxpayer engaged in the business of running of hotel took a hotel building on long term lease. The tax payer incurred certain renovation expenses on leasehold premises in the capacity of lessee. The High Court upheld the ITAT order allowing the claim of renovation expenses incurred on leasehold premises as business expenditure u/s 37(1) of the IT Act, following Madras Auto Service Ltd¹⁰ decision. The Supreme Court dismissed the Income Tax Department's SLP filed against decision of the High Court as withdrawn.

In Asian Hotels Ltd¹¹ the point of litigation was allowability of certain expenses incurred for renovation & refurbishment programme. The ITAT observed that in cases where expenditure incurred in relating to profit making structures is distinct from profit of the business and expenditure is on fixed assets namely building, plant & machinery, furniture, that expenditure would be classified as Capital expenditure and not allowable as revenue expenditure. The ITAT disallowed these type of expenses. The ITAT further disallowed expenses of Fees paid to another company for conceptualisation plan & supervision of Renovation & Refurbishment Project, as the other company was engaged right from the beginning of the project and the fees paid to them was linked with the overall project which is in the nature of capital asset.

8 CIT vs Ooty Dasprakash (1999) 237 ITR 902/157 CTR 291 (Madras)

9 CIT vs New Kenilworth Hotel (P)Ltd (2020) 117 Taxmann.com 110 (SC)

10 CIT vs Madras Auto Service (P) Ltd (1998) 233 ITR 468 (SC)

11 Asian Hotels Ltd vs DCIT (2006) 101 ITD 247 (Delhi)

Though the above decision is not in favour of the taxpayer, but still, there is scope for a possible argument for claiming revenue expenditure that in hotel industries, building is the main asset & expenses are incurred to maintain, improvement & upkeep of this asset with an intention to increase revenue, from the point of view of marketability of the hotels and from customers perspective and not with intention to increase the value of property

4. **Amortisation of Renovation Expenses over the Years:** The question may arise on allowability of expenses especially where the taxpayer (non-corporate entities), for the purpose of preparation of Financial Statements has written off & amortised such repairs over a period of numbers years but claims the full amount of repairs in computation of income as deduction being current repairs.

In *Jai Parbolics Springs Ltd*¹² it was held that where the revenue expenditure is incurred wholly and exclusively for the purpose of business, the same must be allowed in its entirety in the year in which it is incurred. It cannot be spread over a number of years even if the tax payer has written off the amount in his books over a period of a number of years. Hence, the accounting treatment in the books of accounts may not necessarily decide the character of expenditure and allowability of expenditure under the IT Act.

5. **Payment of Service Charges to Online /Delivery Operators like Swiggy Zomato etc. and applicability of TDS-** -. In today's digital world of fast moving technology, many hotel industries with a view to provide services to a customer at their door step use online platforms (E Commerce Transaction) like Swiggy, Zomato etc. These operators provide their online platform to Hoteliers & delivery services to customers against service charges. They are commonly known as E-Commerce operator. The transaction involves 3 parties, Hotels/Restaurants, Service Provider and Customer. The ultimate payer is the customer who pays to the Hotels and the intermediary i.e. E- Commerce Operator/service provider collects the bill amount on behalf of Hotels/Restaurants. Online operators only act as facilitator between the actual buyer & the ultimate sellers. Healthy growth in size of ecommerce transactions, captures the attention of policy makers need to bring these transactions within ambit of TDS. The Finance Act 2020 has introduced a new Section 194 O in the IT Act. The provisions are applicable w.e.f 1st October 2020. The newly inserted section provides

12 CIT vs Jai Parbolics Springs Ltd 172 Taxmann 258 (Delhi HC),

for deduction of TDS from e-commerce payments. Under this provision, E Commerce Operator is liable to deduct TDS for payments made to an e-participant (Hotels etc.) in respect of sale of goods or services facilitated by E Commerce operator through its digital or electronic facility. The E commerce participant should be resident in India. The TDS is to be deducted @ 1% on the gross amount on sales or services or both. In case purchaser of goods or recipient of services pays directly to E –Participant, the Operator is also required to deduct TDS on that amount.

Another aspect is, these Online E Commerce Operators levy charges to Hotels/restaurants for using their online platform, for display of their products, on digital platform and for delivery of food. Both components – showcasing products on their online platform and for delivery charges, are generally charged at fixed percentage of billing. The applicability of TDS on service charges to these service providers in the nature of Commission as it promotes sales of the Hotels/Restaurants OR under payment to contractors' u/s 194C of the I T Act would be a challenge. There are mix views and regulatory authorities in some cases, have taken a stand that such payments would be subject TDS as Commission u/s 194H as it is linked to Sale price and for promotion of sales of Hoteliers and not at 1% or 2% as the case may under 194C of the I T Act. Some of the authorities have taken a stand that it would be covered under 194C of the IT Act – i.e. payment to contractors.

- 6. Voluntary Tips collected by the Hotels & disbursed to Employees** – To constitute salary and liable for TDS u/s 192 or not: It is a very common that, at the time of settlement of bills, customers give tips along with bills. In cases, where the voluntary tips are collected by the Hotels & distributed amongst the employees, a question may arise whether tips collected constitute "Salary" in the hands of the employees or not so as to attract provisions of TDS u/s 192 of IT Act. In ITC Ltd¹³, The Supreme court held that voluntary tips collected by the hotel & distributed amongst the employees, do not constitute salary and there is no obligation to deduct TDS u/s 192 of the IT Act & withholding tax provisions are not attracted. The court observed that there is no vested right in the employee to claim the amount of tips from his employer and tips being voluntary amounts that may or may not be paid by the customers for services rendered to them. Hence, it would not fall within the meaning of "Salary". Further TDS provisions would not get attracted because tips are received from customers and not from the employer.

13 ITC Ltd vs CIT(TDS) Delhi 268 CTR 126/68 Taxmann.com 323(SC)

7. **Various Hotel services provided to the customers to constitute “carrying out any work” so as to cover TDS u/s 194C-** In The East India Hotels Ltd,¹⁴ the tax payer, a 5 star chain of hoteliers offered various facilities to guests all of which are essential for carrying on the hotel business. The various services included select restaurants, banquet counter, beauty salon, barber shop etc. The issue before High Court was whether services rendered to the customer constituted “carrying out any work” for the purpose TDS u/s 194C of IT Act. The High Court observed that “carrying out any work in 194 C is limited to any work which is being carried out that culminates into a product or result. Hence, the services rendered by the taxpayer to customers by making available facilities do not involve carrying out any work which result into production of the desired object and hence do not constitute any work within meaning of Sec 194C & therefore are outside the purview of 194C of IT Act.
8. **Payment to Non-Residents towards online Booking of Hotel Rooms- Applicability of Withholding Tax-** The residents use online booking mode with the use of digital technology for booking hotels outside India and payments are made to non-residents. In such cases, whether withholding tax provisions are applicable or not needs to be tested. The question of withholding tax may arise at the time of payment to non-residents. In Jetways Travels Pvt Ltd¹⁵ the taxpayer who was in business of travel agents, arranged hotel booking in foreign countries on behalf of the customers & payment was made out of foreign currency obtained on behalf of customers. The taxpayer was not acting as an agent of hotel (foreign entity- Non Resident). The ITAT held that as the foreign entity- hotel do not have any Permanent Establishment in India and are not performing any services in India, the payments made by the taxpayer Resident to non-residents were not to subject to withholding tax in India
9. **Payments to Expats:** Employees of foreign entities do come to India on deputation for rendering services to Indian Hotel entities. Their stay in India may extend depending upon the agreement & nature of service which may be tested from PE point of view. The payments are made to Expats & to the foreign entities. The issue arises with respect to taxation of payment to Expat, existence of Permanent Establishment as result of a stay of an employee, carrying out business activities of foreign entities or activities of Indian entity to which he is seconded etc.

14 The East India Hotels vs CBDT (2004) 223 CTR 133 (Bom)

15 Jetways Travels Pvt. Ltd. – ITA No. 3447/Del/2010

In Centrica India Offshore Pvt Ltd¹⁶, the High Court held that employees sent on deputation from Canadian & UK Group Companies created PE. It was concluded that the real employer continued to be the overseas entities and deputed work employees cannot be regarded as stewardship. It was held that there is no distinction between the provisions of services by overseas entities by mere secondment of employees, since the services provided by the overseas entities is the provision of technical services through the secondees. . The contention of the tax payer on the lines that salary payment made was merely reimbursement and Indian company was only economic employer was rejected.

10. Payment to Non-Resident for “rendering services outside” India-

There can be cases where the Indian entities want to organise Mega events, exhibition/shows in India for marketing their brands and create worldwide presence. They expect foreign entities, organisations, Govt Depot participation in the show/events/exhibition and to book the space. The agents (Non-Residents) outside India were appointed and he would make marketing of the events in India to attract and for participation of foreign entities. The Advance Ruling Authority in case of Rajeev Malhotra¹⁷ held that non-resident would rendering services outside India and getting payment outside India, were wholly irrelevant factors. As the source of income being situated in India, the commission earned by the Non-Resident Agents would be liable to tax in India. And further since the source of income is situated in India, the applicant was liable to withhold the tax as applicable from payments which will be remitted by the residents to Non-Resident Agent.

11. Advisory/Consultancy services rendered by Non-Residents & payment thereof:

The Treaty between the two respective countries, and its applicability is important from perspective of Withholding tax and taxation of Fees for advisory services rendered by Non-Residents. The Indian tax payer entity availed services from Non-Residents for design work documentation, preparation of floor plan, lighting layouts. etc. The question arose before the ITAT regarding withholding tax on payment to Non-Residents. The ITAT in the case of Viceroy Hotels Ltd¹⁸ held that since there was no transfer of technology by the Non Resident to Indian Entity, but services rendered for installation of electrical fittings, considering Indian UK treaty, services could not be considered to be technical services since there was no transfer of technology but only rendition of service for installation of electrical fittings. Therefore it is held that withholding tax is not applicable.

16 Centrica India Offshore Pvt. Ltd vs CIT (2014) 364 ITR 336 (Delhi HC)

17 Shree Rajeev Malhotra (2006) 284 ITR 564 (AAR)

18 The ACIT vs Viceroy Hotels Ltd & Viceroy Hotels Ltd vs ACIT (2012) 18 ITR (Trib) 282 (Hyderabad)

12. **Advisory Services:** The Indian company¹⁹ entered into a contract with a foreign contractor for constructing a hotel. The foreign company was also to provide various managerial and technical services. The consideration paid for managerial and technical services was characterized as “FTS” since the exclusion dealt with consideration payable in relation to construction of a project and not with services rendered in this regard
13. **Business Income against Royalty or FTS:** The tax payer²⁰ was engaged in the business of providing various hotel related services to hotels across world. It entered into an agreement with a chain of hotels in India, to provide marketing and advertising services through its system of sales, promotion, public relations and reservations and income was received in form of marking fees, and fees for ‘Frequent Flier Program’ (FFP), and ‘Starwood Preferred Guest’ (SPG). The ITAT held that the tax-payer did not have permanent establishment in India and the payments received were in the nature of business income and not in nature of royalty or fees for technical services
14. **Fees for Technical Services:** The taxpayer²¹ engaged Non Resident company where there is no transfer of technology, technical know-how or any technical knowledge or skill which can apply in furtherance of his business objects, payments for same to a Singaporean company does not fall within scope of fees for technical services as per India-Singapore DTAA.
15. **Amount paid to Non-Residents for providing training services and access to Centralized Reservation System- FTS & applicability of Withholding Tax** –The tax payer (Non Resident)²² is part of Marriott Group & engaged in conducting training programs and providing access to computer systems- (CRS), Property Management System, & other systems (“CRS & others”) to hotels (Marriott) across the world. The tax payer entered into TCSA with Indian entities for conducting training programs to their employees. The Mumbai ITAT held that consideration received by the taxpayer for providing training services is for the managerial/leadership training provided to employees of the Indian Hotels& is not chargeable as FTS under India-Netherland Treaty. Regarding, other services, viz access to CRS, Property Management Services & other common facilities, provided to member of the entire group across the world, by the tax payer and not

19 Hotel Scopevista Ltd. vs ACIT (2007) – 18 SOT 183 (Delhi)

20 DDIT vs Sheraton Internal Inc.(2012) 19 Taxman .com 122 (Delhi ITAT)

21 Bramhacorp Hotels & Resorts P Ltd vs DDIT 61 Taxmann.com 186/ 70 SOT 25 (Pune ITAT)

22 Renaissance Services BV vs DDIT (2018) 171 ITD 381 (Mumbai)

were not tailor made services to suit specific requirements of the taxpayer and hence, CRS & others could not be treated as "Technical Services" & not chargeable as FTS under India Netherland Treaty. The tax payer has not granted any right of enjoyment of brand to the Indian Hotels & thus receipts of fees for providing various services are not taxable as Royalty under Article 12(4) of India –Netherlands Tax Treaty-

16. Franchise Agreements and payments thereof to Non-Residents-

Franchise Agreements especially Brand Name payments exist for domestic and for international brand. The nature of payments for domestic and international brand are generally same

- A] Brand Fee as percentage of Revenue of the Franchise
- B] Lump sum or one-time payment
- C] Marketing Contribution Payments

The litigation issue & bone of contention arises between the tax authorities and the Indian entities with respect of payment for brand usage fees & its applicability of withholding tax under the Royalty. Except Marketing Contribution Payments, the other 2 types of payments, can be characterised under Royalty. The contentious issue possibly is in case of Marketing Contribution payments. Brand fee as a percentage and lump sum payment are licensing for brand and mostly covered under royalty

- A) Use of Trade Mark:** The non-resident tax²³ payer had entered into a commercial service agreement with Indian hotels for advertising, publicity and promotion of their sales worldwide. Pursuant to the arrangement, it also allowed the use of its trade name, trademark and stylized "S". The consideration was fixed as a percentage of Room Sale Turnover. The ITAT held that the payments under consideration can neither be treated as "Royalty" (under Section 9(1) (vi) of the Act or Article 12 of the India-US DTAA) nor as "FTS" (under Section 9(1) (vii) of the IT Act or Article 12 of the India-US DTAA). The Delhi HC affirmed the above view of the Delhi ITAT.
- B) Brand Fees** US based company,²⁴ belonging to 'Marriott' group, was engaged in business of operating hotels worldwide under different brands, viz, 'Marriott' and 'Renaissance'. It rendered advertisement and marketing services to the Indian hotels using aforesaid brand names. It

23 DIT vs Sheraton International Inc. (2009) 313 ITR 267 (Delhi HC)

24 Marriott International Inc. vs DDIT 170 TTJ 305 (Mumbai)

has been held that these advertisement and marketing services carried out using these brand names would go to swell the existing brand names and is hence taxable as royalty in terms of Article 12 of the Indo-US DTAA.

- C) Marketing Contribution Payments:** The Indian Company entered into various contracts with Non Resident Company for setting up an Indian Hotel. As per International Marketing Program Participation Agreement with Indian Company, Non-Resident Company²⁵ was to provide advertising space in magazines, newspapers and other printed media and electronic media outside India. The consideration payable by Indian Co stated as fixed percentage of revenue by way of reimbursement of expenses that Non Resident Company would incur for conducting international marketing activities of Chain of Hotels. The AAR held that amount received by Non Resident Company from Indian Company would be taxable in India as Non Resident Company had service connection in India. The AAR also observed that Non Resident Company was providing managerial and consultancy services and thus Income would be qualifying and would fall within purview of FTS.
- D)** In contrast, the Indian company²⁶ made payment to Non-Resident Company (being International Chain of hotels) towards marketing service fees and reimbursement of expenses. The ITAT observed that there were 2 types of agreements entered into with International Hotel Chain- one related to services rendered outside India and other related to reimbursement of expenses. Considering the definition of Royalty under IT Act, sales & marketing services rendered outside India could not be regarded as Royalty. Also the International Hotel Chain did not render any managerial, technical, or consultancy services in India, not making available sales & marketing services to the taxpayer and therefore could not be regarded as FTS. In view of this, the ITAT held that payment received by International Hotel Chain could not be deemed to accrue and/or arise in India
- E)** The Tax Payer (Non Resident Company²⁷) received payment from an Indian Company towards marketing services outside India in terms of agreement entered into between the parties. The Indian Company deducted Withholding Tax as applicable. The taxpayer contended that as the marketing services were rendered outside India & therefore not

25 (2007) 208 ITR 534 (AAR)

26 ACIT vs V M Salgaocar & Bros Pvt. Ltd (TS- 100 ITAT-2014- (Panaji)

27 Marriott International Licensing Co BV vs DDIT (2014) 43 Taxmann.com 272 (Mumbai ITAT)

liable to tax India. The ITAT observed that payment which according to tax officer facilitated brand building/creation did not qualify as a Royalty and held that marketing fees were not taxable as Royalty. At the same time, the ITAT directed the Tax Officer to consider the taxability of the amount under Article 7 (Business Profits) of the tax treaty as taxability would be attracted in India if Non Resident carried on business in India through a permanent establishment. Such taxability would be restricted to the Profits attributable to the PE.

Abbreviations	
AAR	Advance Ruling Authority
AMT	Alternative Minimum Tax
AOP	Association of Persons
CRS	Centralised Reservation Systems
DTAA	Double Taxation Avoidance Agreement
FTS	Fees for Technical Services
GOVT	Central Government
HC	High Court
HRAA	Hotel & Restaurant Approval & Classification Committee set by Ministry of Tourism
IT Act	Income Tax Act, 1961
ITAT	Income Tax Appellate Tribunal
MAT	Minimum Alternate Tax
O & M	Operation & Management
PE	Permanent Establishment
TCSA	Training & Computer Systems Agreement
SC	Supreme Court
SLP	Special Leave Petition
TDS	Tax Deducted at Source
u/s	Under section
w.e.f	With effect from

8. Impact of GST on Hospitality Industry

Impact of GST on Hospitality Industry

The hospitality industry has been the recipient of the biggest indirect tax change post the GST regime. Hotels and restaurants which make up the Hospitality industry, were subjected to a variety of taxes in the pre-GST regime.

The multiple levies of Luxury Tax under the State Luxury Tax Acts and Service Tax under the Finance Act, 1994 has been levied on room hire services. The restaurants were also leviable for the levy of local VAT and Service Tax too. The multiplicity of taxes including the determination of taxable value separately for each taxing statute has affected the industry a lot in the past taxation regime.

The levy of GST on the hospitality industry has resolved the above issues. The subsuming of the levies has resulted in economising the taxation and profitability considering the eligibility of input tax credit and the rationalizing of the output tax rates.

The tax levy pre and post GST on a simple room hired for Rs 5,000 in Maharashtra was as follows :

Particulars	Pre GST	Post GST
Room Hire Charges	5000	5000
Luxury Tax @10%	500	0
Service Tax @9% (60% of effective tax rate 15%)	450	0
GST @12%		600
Total	5950	5600
Input Tax Credit available to Customer who is Trader	No	Yes
Input Tax Credit available to Hotelier	No	Yes

The hospitality industry has been subdivided into Hotels and Restaurants. Hotels are establishments that provides accommodation and other services for travellers and tourists. Restaurants are place where people pay to sit and eat meals that are cooked and served on the premises. Hotels and Restaurants also undertake supply of other ancillary services, which have also been covered in this chapter.

Accordingly, the following income sources have been identified and analysed in this chapter:

1. General Activities of a Hotel

Room Accommodation Rental and amenities

Laundry service

Airport pick and drop
Minibar
Hire of Banquet hall
Catering
Special events
Spa income
Forfeiture of advances

2. Restaurant services

1. Dine-in at restaurant
2. Take-away/delivery of food
3. In room dining
4. Sale of Cocktails

Each of the above sources of income i.e. Outward supplies have been analysed threadbare, going into the nature of the supply, the Place of Supply provisions, Time of Supply provisions, Valuation provisions, Rate of tax applicable and availability of Input Tax credit as per GST Act. Wherever necessary, industry practices and historical judicial precedents have also been referred to.

Activities of a Hotel

Activities	Time of Supply	Place of supply	Value of supply	Rate of Tax	Availability of ITC								
<p>Room Accommodation Rental and amenities¹</p>	<p>As per section 13(2), time of supply for services is the earliest of the following, if the invoice is issued within the time limit prescribed under section 31(2) i.e. within a period of 30 days from the date of supply of service.</p> <ol style="list-style-type: none"> 1. Date of issue of invoice 2. Date of receipt of payment <p>However, if the invoice is not issued within the time prescribed (30 days), then time of supply is to be taken as the earliest of the following.</p> <ol style="list-style-type: none"> 1. Date of provision of service. 2. Date of receipt of payment 	<p>Section 12(3) (b) of IGST Act, 2017 governs the place of supply of services supplied by way of hotel room accommodation. The extract of section 12(3) (b) is reproduced hereunder for an easy reference.</p> <p>The place of supply of services supplied – (b) by way of lodging accommodation by a hotel, inn, guest house, home stay, club or campsite, by whatever name called, and including a house boat or any other vessel, shall be the location of at which the immovable property or boat or vessel, as the case may be, is located or intended to be located.</p> <p>As per above reference, the place of supply for a hotel room accommodation is the place where the immovable property is located. The issue is controversial and</p>	<p>Notification No. 13/2018 Central Tax (Rate), has amended the provisions by substituting the words “value of supply” for the words “declared tariff” which have lessened some part of the burden of hotel industry in deciding the value of supply.</p> <p>The words “value of supply” can be construed as the transaction value. As per the explanation given in the Notification No. 13/2018 Central Tax (Rate), value includes charges for all amenities provided in the unit of accommodation.²</p>	<p>Notification No. 11/2017-CENTRAL TAX (RATE) dttd: 28/06/2017, as amended from time to time is prescribed to rate of tax on accommodation</p> <p>GST Rates for Hotels based on Room Tariff (w.e.f. 1/10/2019)</p> <table border="1" data-bbox="536 411 897 638"> <thead> <tr> <th>Tariff per Night</th> <th>GST Rate</th> </tr> </thead> <tbody> <tr> <td>1 Up to Rs.1000</td> <td>Nil</td> </tr> <tr> <td>2 More than ₹ 1001 to ₹ 7500</td> <td>12%</td> </tr> <tr> <td>3 ₹ 7501 and above</td> <td>18%</td> </tr> </tbody> </table>	Tariff per Night	GST Rate	1 Up to Rs.1000	Nil	2 More than ₹ 1001 to ₹ 7500	12%	3 ₹ 7501 and above	18%	<p>Input tax credit is available as per provisions of Section 16 of CGST Act 2017 and rules made there under</p>
Tariff per Night	GST Rate												
1 Up to Rs.1000	Nil												
2 More than ₹ 1001 to ₹ 7500	12%												
3 ₹ 7501 and above	18%												

Activities	Time of Supply	Place of supply	Value of supply	Rate of Tax	Availability of ITC
Laundry service	Normal provisions of time of supply as per section 13(2) would apply. Generally, the invoice is raised at the time when the customer checks out of the hotel (within 30 days of provisioning of service). As such, the time of supply is the time when the invoice is raised.	Sec 12 (3) covers lodging at Sec 12 (3) b and all ancillary services to the same at Sec 12 (3) d. Thus, laundry service provides by a hotel, being an ancillary service will be covered here and the supply will be an intrastate supply.	Value of taxable supply as per section 15 of CGST Act 2017, value is normally charged to the customer.	Usually laundry services are billed separately in invoice. It would be classified under SAC 99971: washing, cleaning and dyeing services which shall be charged at 18% GST.	Input tax credit is available as per provisions of Section 16 of CGST Act 2017 and rules made there under
Airport pick and drop	If it is a composite supply in nature of room rental being principal supply, then the provisions discussed in light of room rental will apply. In case the supply is treated as a separate service, normal provisions of time of supply as per section 13(2) shall apply.	For a composite supply, wherein cab service is provided as a part of the room rental service, where room rental service is the principal supply, then the same provisions as applicable to room rental service would apply here, and the same have already been discussed above. If, however, the cab is provided for other purposes such as sightseeing etc, then	If it is composite supply and part of room tariff the value shall be according to the declared room tariff or Value of taxable supply as per section 15 of CGST Act 2017, value is normally charged to the customer.	If tax not charged by supplier tax to be paid under RCM @ 5% accordingly to Notification No. 13/2017-Central Tax (Rate), Dt. 28-6-2017 Services provided by way of renting of any motor vehicle designed to carry passengers where the cost of fuel is included in the consideration charged from the service recipient, provided to a body corporate.	Option – 1: Pay GST at a rate of 5%. In this option, the person is allowed to take input tax credit of only GST paid on cab services taken from other persons. Any other GST paid cannot be taken as input tax credit and will simply lapse. Option – 2: Pay GST at the rate of 12%. In this option, the person is allowed to take input tax credit

Activities	Time of Supply	Place of supply	Value of supply	Rate of Tax	Availability of ITC
		<p>one may not be able call it a service "ancillary" to room rental. Such extra cab services, do not provide any "necessary support" and neither are "ministering" to the main supply of the room accommodation. Section 12(9) of the IGST Act would apply for determining the place of supply for transportation of passengers in case the service is not ancillary to room rental. Section 12(9) is reproduced here for an easy reference.</p> <p>a. a registered person, shall be the location of such person;</p> <p>b. a person other than a registered person, shall be the place where the passenger embarks on the conveyance for a continuous journey:</p> <p>Provided that where the right to passage is given for future use and the point of embarkation is not known at the time</p>		<p>And supply to any person, other than a body corporate who supplies the service to a body corporate and does not issue an invoice charging central tax at the rate of 6 per cent. to the service recipient</p>	<p>of all input goods and services subject to general restrictions on the use of input tax credit.</p>

Activities	Time of Supply	Place of supply	Value of supply	Rate of Tax	Availability of ITC
<p>Minibar</p>	<p>Considering that the supply from minibar is that of goods: Since the foodstuffs have already been made available to the guest, there is no further movement involved hence Sec 31(1) b applies to such a supply i.e. Tax Invoice should be made when goods are delivered or made available. If the minibar supply is considered as a supply of service, then the Time of supply provisions as per Sec 13(2) will apply and</p>	<p>of issue of right to passage, the place of supply of such service shall be determined in accordance with the provisions of sub-section. (2). Thus, a hotel may be able to charge IGST to a guest for cab services, if the guest is registered under GST, if the purpose of the service is not related to room rental</p> <p>Since the supply does not involve movement of goods, the Place of supply shall be the location of such goods at the time of the delivery to the recipient, as per Sec 10 (1) c of the IGST Act. Hence it will be an intrastate supply, as the delivery to recipient happens in the same place as the location of supplier. if the minibar supply is said to be a supply of service, then it will not fall in the restaurant service category. However, this service would certainly fall</p>	<p>The value of the goods shall be governed by the price as disclosed in the minibar menu. Reference : Kundan Mishtan Bhandar Appellate Authority Ruling</p>	<p>The tax rate on such goods shall be as per the prescribed rate in the HSN tariff. Notification No.11/2017.</p>	<p>Input tax credit shall be available as per provisions of Section 16 of CGST Act 2017 and rules made there under</p>

Activities	Time of Supply	Place of supply	Value of supply	Rate of Tax	Availability of ITC
	<p>will generally push the time of supply to the date of issuance of invoice.</p>	<p>under the clause Sec 12(3)d which covers services which are "ancillary" to lodging services. This is certainly subservient to the room rental services and hence the place of supply of such services would be the location of the immovable property only.</p>			
Hire of Banquet hall	<p>Normal Time of Supply provisions will apply for this service, i.e. as per Sec 13(2) of the CGST Act. The advance receipt and its adjustment post completion of the event should be considered in the time of supply.</p>	<p>Section 12(3)a refers to all services "directly in relation to an immovable property". This clause itself could be considered wide enough to include rental of banquet services.</p>	<p>As per the explanatory notes given for classification of service, rental of banquet halls would fall under the following SAC: 997212 Rental or leasing services involving own or leased non-residential property This service code includes: – rental or leasing services concerning industrial, commercial or other non-residential buildings or property by owners or leaseholders, such as factories, office buildings,</p>	<p>As per Notification No. 11/2017-Central Tax (Rate) notification (amended time to time), the GST rate for all Real Estate Services under 9972 is 18%.</p>	<p>Input tax credit shall be available as per provisions of Section 16 of CGST Act 2017 and rules made there under</p>

Activities	Time of Supply	Place of supply	Value of supply	Rate of Tax	Availability of ITC
Catering Service	Time of Supply provisions will apply for this service, i.e. as per Sec 13(2) of the CGST Act. The advance receipt and its adjustment post completion of the event should be considered in the time of supply	Section 12(4) of IGST Act is very clear in this respect. It prescribes that the Place of supply for catering services would be the location where the services are actually performed.	<p>w a r e h o u s e s , theatres, convention centres, exhibition halls and multiple-use buildings that are primarily non-residential; agricultural, forestry and similar properties.</p> <p>– rental or leasing of caravan sites, lock-up garages or other places for parking vehicles, by the month or year.</p> <p>Value of taxable supply as per section 15 of CGST Act 2017, value is normally charged to the customer.</p>	As per the explanatory notes given for classification of service, catering services would be categorised under the following SAC: 996334 Catering Services in Exhibition halls, Events; Marriage Halls and other outdoor/indoor functions As discussed above, in para 2.2.2 and as per Notification No. 11/2017- Central Tax (Rate) notification (amended time to time), the GST rate for catering services would be 5%.	Input tax credit is not available, refer serial No.7 of Notification No. 11/2017-Central tax (Rate), Dt. 28-6-2017 amended by time to time. Input Tax credit is available only in case of suppliers located in 'specified premises' and GST is charged @ 18% on supply

Activities	Time of Supply	Place of supply	Value of supply	Rate of Tax	Availability of ITC
Special events	Time of Supply provisions will apply for this service as per Sec 13(2) of the CGST Act. The advance receipt and its adjustment post completion of the event should be considered in the time of supply	Section 12(6) of IGST Act 2017 The place of supply of services provided by way of admission to a cultural, artistic, sporting, scientific, educational, entertainment event or amusement park or any other place and services ancillary thereto, shall be the place where the event is actually held or where the park or such other place is located	In case the event includes the value of alcohol and not charged separately, there could be a double levy of GST and VAT on the same. If the value of alcohol is mentioned separately, the value of alcohol shall attract VAT and the balance amount shall attract GST.	If suppliers located in 'specified premises' GST @ 18% would be leviable Serial No. 34 of 11/2017-Central Tax (Rate) notification (amended time to time), the GST rate for above services would be 28%, under SAC 9996 Services by way of admission to entertainment events or access to amusement facilities including casinos, race club, any sporting event such as Indian Premier League and the like As per exemption notification 12/2017 amended time to time if entry fees is not more than Rs. 500.	Input tax credit is available as per provisions of Section 16 of CGST Act 2017 and rules made there under
Spa income	Time of Supply provisions will apply for this service, i.e. as per Sec 13(2) of the CGST Act. The time of supply should be considered accordingly.	As per Section 12 (4) The place of supply of restaurant and catering services, personal grooming, fitness, beauty treatment, health service including cosmetic and plastic	As per the explanatory notes given for classification of service, physical well-being services would fall under the following SAC:	As per Notification No. 11/2017-Central Tax (Rate) notification, the GST rate for 9997 Other services (washing, cleaning and dyeing services; beauty and physical well-being	Input tax credit is available as per provisions of Section 16 of CGST Act 2017 and rules made there under

Activities	Time of Supply	Place of supply	Value of supply	Rate of Tax	Availability of ITC
Forfeiture of advances	As per the Time of Supply provisions under section 13(2) of the CGST Act, the time of supply triggers either at the time of issuance of invoice, or receiving advance, whichever is earlier. In the instant case, the invoice for forfeiture of amount would be raised only once the cancellation is confirmed.	In this case, the value of supply would be the amount from the original advance, which is forfeited. Some hotels may forfeit the entire amount, and some may forfeit the advance after refunding some portion the guest. Only the amount non refunded would be the value of this supply. Based on the terms of the contract, an alternative view of the same being not a consideration but a compensation against the breach of contract can be considered.	999723 Physical well-being services, including health club & fitness center. Since the Place of Supply provisions in the IGST Act do not have specific provisions relating to such a service of tolerating an act, the general provision as stated in Section 12(2) would be applicable: (2) The place of supply of services, except the services specified in sub- sections (3) to (14),— (a) made to a registered person shall be the location of such person; (b) made to any person other than a registered person shall be,— (i) the location of the recipient where the address on record exists; and (ii) the location of the supplier of services in other cases.	services; and other miscellaneous services including services nowhere else classified) is 18%. As per the Explanatory Notes to the Scheme of Classification of Services, this service would fall under: 999794 Agreeing to tolerate an act As per Notification No. 11/2017-Central Tax (Rate) notification, the GST rate for 9997 Other services (washing, cleaning and dyeing services; beauty and physical well-being services; and other miscellaneous services including services nowhere else classified) is 18%. This rate has been constant throughout the period GST was implemented.	Input tax credit is available as per provisions of Section 16 of CGST Act 2017 and rules made there under

Restaurant Services- Delivery/take away and room dining

Time of Supply

The time of supply provisions as applicable to other services continues to apply for restaurant services. A hotel may have facility of a card or wallet system which can be used for payment of the bill. Such an amount cannot be treated as a receipt since the actual receipt of the services since mere addition to wallet cannot be considered as acknowledgment to provide a service.

Place of Supply

As per Section 12(4) of the IGST Act, the place of supply of the restaurant service is the place where it is actually performed. Therefore, the 'place of supply' and the 'location of the supplier' of a restaurant service will always be the same State/Union Territory, and therefore such a supply will always be considered as an Intra-State supply.

Rate of tax on the Supply

Sr. no 7 of Notification 11/2017-CENTRAL TAX (RATE) dtd: 28/06/2017, as amended from time to time is prescribed to rate of tax on accommodation, food and beverage services covered under heading (SAC) 9963, which can summarize as under:

Sr. No.	Particulars	Rate of GST
1	GST rates applicable for restaurants, takeaways and delivery services by standalone restaurants whether air-conditioned or otherwise. In case of a restaurant, mess, canteen or eating joint attached to a hotel, residential or lodging facility with room tariff of less than ₹ 7,500 per room per day.	fixed at 5 per cent without input tax credit ⁴
2	GST rates applicable for restaurants whether air-conditioned or otherwise. In case of a restaurant, mess, canteen or eating joint attached to a hotel, residential or lodging facility with room tariff of above ₹ 7,500 per room per day. ⁵	fixed at 18 per cent with input tax credit

Sale of Cocktails

Restaurants which have the license to serve liquor, also supply a fusion of liquor and other products known as cocktails. The same could be liable to GST considering the fact that it is a mixed supply consisting of two or more taxable supplies(Food products and Service) and VAT considering the value of alcohol on the same. But a discussion is certainly warranted on the taxability of sale of cocktails.

Nature of Supply

The essence of a cocktail thus is, an alcoholic drink, which is flavored using fruit juice or other ingredients.

The question then is, is this a composite supply? A composite supply needs two or more supplies. Are there multiple supplies here? Or is it that one item being cocktail is supplied, which is coming in to being as a combination of various ingredients? Just in the manner cooked food is not a composite supply of all its ingredients, a cocktail also cannot be considered a composite supply or a mixed supply for that matter, since multiple supplies do not exist.

Then what is the nature of a cocktail? In the authors' view, once the various ingredients are mixed into alcohol, they lose their individual identity and become part and parcel of the alcohol i.e. cocktail.

There may be a problem with respect of claim of ITC in respect of the ingredients which have been used and consumed in preparation of the cocktail, however this paper does not deal with questions of ITC, and it may need a separate research by itself.

TAXABILITY OF DIFFERENT SERVICES OFFERED BY THE RESTAURANTS

Taxability of Alcohol Served in Restaurants

Supply of 'alcoholic liquor for human consumption' has been kept out of GST ambit. State VAT shall be levied on supply of alcohol for human consumption.

Example, Mr. A goes to a restaurant and orders 2 alcoholic drinks, food and sweets. The break-up of the invoice value and tax thereon shall be as follows:

Particulars	Amount (In Rs.)
2 Drinks of ₹ 300 each	600
Food	2,000
Sweets	300
Total	2,900
Service Charge (10%)	290
VAT on alcoholic drink at 20% $[600+60 * 20\%]$	132
CGST $[(2900 + 230 - 660) * 2.5\%]$	61.75
SGST $[(2900 + 230 - 660) * 2.5\%]$	61.75
Total Bill value	3,445.50

In this case, GST at 5% is levied on food, sweets and service charge amount only. As alcoholic drink has been kept out of ambit of GST, VAT at the rate of 20% shall be levied on it.

Food ordered through e-commerce operator

Before discussing the applicability of GST on food ordered through e-commerce operator, it is important to first understand the certain meanings.

As per Section 2(44), 'electronic commerce' means supply of goods or services or both, including digital products over digital or electronic network. As per Section 2(45), 'electronic commerce operator' means any person who owns, operates or manages digital or electronic facility or platform for electronic commerce.

Thus, cloud kitchens, delivery kitchens and food delivery applications would be covered by the definition of e-commerce operators.

Most of these e-commerce operators enter into contracts with the restaurant owners to offer them the search and delivery services through their website or mobile application. Customer places order by using their website or apps. Riders or delivery boys are responsible to take the food from the restaurant premises as per the order and deliver it at consumer's premise. This entire transaction in relation to food ordered via e-commerce operator is divided into 2 parts:

- (a) Sale of food by the restaurant which is delivered by the e-commerce operator. In this case GST to be charged by the restaurant shall be rate applicable in case of restaurant services, i.e., 5% or 18% as the case may be.
- (b) Delivery fee charged by the e-commerce operator from the buyers and commission charged by it from the restaurant. The e-commerce operator shall charge GST at 18% on both the charges collected from the customer and the restaurant. It shall not form part of restaurant services.

Given below is the summary of food ordered by Mr. A through XYZ.com (an e-commerce operator):

Particulars	Amount
Burger	129
Restaurant handling charges	29
Delivery Charges	16
CGST (2.5%)	3.95
SGST (2.5%)	3.95
Promo Code: 40% Discount	(51.60)
Total Bill Value	130.30

Let us analysis how GST is charged and at what rate:

Particulars	Amount	GST @ 5%	Analysis
Burger	129	6.45	GST shall be levied at the rate of 5% on both burger and restaurant handling charges being a 'composite supply'.
Restaurant Handling Charges	29	1.45	
Total	158	7.90	
Delivery Charges	16	—	It has been assumed this amount is inclusive of GST. As this is recovered by XYZ.com from the customer, it can't be deemed as part of restaurant services. XYZ.com shall be liable to pay GST at the rate of 18% on such delivery charges, i.e., ₹ 2.44 (₹ 16 * 18%/118%).
Discount (40%)	(51.60)	—	As it is offered by XYZ.com, restaurant shall not reduce the bill value while calculating the taxable amount. Thus, GST shall be charged on the actual value of burger and handling charges without giving effect to discount allowed.

Tax implications on Tip given to delivery boy:

Sometimes consideration in the form of 'tip' is given to the person who delivers the food parcel, which is over and above the total amount. Such amount is not fixed and is not mandatorily required to be paid. 'Tip' given by customer depends on the satisfaction level of the customer, time taken by the delivery boy to deliver the respective order. Therefore, it is classified as transaction in money (neither good nor service) and will not be considered as a part of restaurant or delivery services and, hence, GST is not applicable on this amount.

Tax Implications on Service Charges charged by Restaurant and Voluntary Tip :

Levy of Service Charges/Tips for the distribution amongst the staff is a common practice in case of hotels/restaurants. In this matter, it would be apt to highlight that Department of Consumer Affairs Food and Public Distribution, New Delhi

issued Guidelines No. J-24/9/2014-CPU(pt.) on dated 21st April 2017 provided that the levy of service charges would be subject to consent of the customers and no customer can be forced to pay the service charges. They would be voluntary in nature.

The service charges are generally in addition to the advertised prices, The service charges may be flat percentage of the total bill or may be conditional on the value of bill, the method of payment or the size of a party.

Few examples of such compulsory services charges are :

- a. Service charge added to all bills shown on the price list
- b. A fee for accepting payments by credit card
- c. A service charge for large parties
- d. Corkage
- e. Cloakroom charge
- f. Cover charge
- g. Concierge Charge

Since the same are in the nature of compulsory service charge and are not involuntary, the same shall be covered in the transaction value of respective services. The identification whether such services are independent or part of a principal supply should be considered accordingly.

The same has also been held as such by

- a. Hon'ble Bombay High Court in the matter of **Sun-N-Sand Hotel Private Ltd. vs The State Of Maharashtra on 2 December, 1968**
- b. **Hotel Ashoka vs The State Of Tamil Nadu on 28 October, 1976**

Voluntary tips :

In a recent judgment in the case of **Delhi High Court Commissioner Vat vs India International Centre on 19 November, 2010**, the court remarked :

"No doubt, the proposition of law that whatever is charged from the customers becomes the sale price and therefore, the dealer is liable to pay sales tax thereon is unquestionable but at the same time it cannot be treated as absolute principle of law, which is to be applied in all circumstances, irrespective of the nature of the charge."

The Hon'ble High Court further observed that

"Normally, what happens is that whatever services in a restaurant or club are utilized by a member, a member may give tip to the waiter/employee voluntarily. This may be given in cash to such an employee by a person utilizing service while making payment of bill. In these circumstances, naturally component of that tip would not be reflected in the bill. However, in order to ensure that there is no heart burning in a situation where some of the employees are luckier enough as compared to another collecting more tips than the other, the employees may decide that all these tips be pooled so that the same are distributed among them equally. In order to facilitate this move on the part of the employees, management comes to their aid by collecting those tips on behalf of these employees. In these circumstances, we find force in the submission of Mr. Sangal that the respondent assessee is naturally a trusty who collects the amount on behalf of the employees and then distributes the same amongst them."

Based on the above, a view backed by adequate documentation and adherence to rules can be considered that the voluntary tips collected by the hotel are in the nature of amounts received by pure agent (Rule 33) and accordingly are not taxable.

GST applicability with respect to various arrangements in the Hospitality Industry :

In the hospitality industry, the property owner and the hotel management company (Brand Owner) can be two different persons. There are various types of arrangements between them to share the revenue. We shall discuss the common arrangements:

- a. Lease rentals: The hotel management company (Brand Owner) operates the hotel and the restaurant and shall pay the landowner lease rentals as per the terms of the agreement. The landowner shall be charging GST on the basis of renting of immovable property
- b. Revenue Sharing: The property owner and the hotel management company (Brand Owner) enters in an revenue sharing arrangement wherein the property owner shall get a percentage of gross sale proceeds of the hotel. All the registration, approvals are in the name of Property Owner. A review of the terms of the agreement should be considered to identify whether such gross sale proceeds are in the nature of sharing of profit (not liable for GST) or are a varied amount of lease rentals (liable for GST).
- c. Hotel Management Model: The agreement refers to a model where the hotel management company (Brand Owner) shall be running the

business on account of the hotel owner and shall charge the hotel owner a percentage of gross sale proceeds. A review of the terms of such agreement should be considered to identify whether such amounts are to be considered as Royalty (Temporary or permanent transfer or permitting the use or enjoyment of IPR in respect of goods other than information on Technology Software) which shall be taxed at 12% or is in the nature of support services which is liable for tax at 18%.

GST concerns with respect to Input Tax Credit:

- a. Asset identification: A cost centre wise asset identification should be considered for eligibility of Input Tax Credit considering the fact that certain assets such as kitchen equipment, restaurant furniture etc are not eligible for credit whereas the room furniture shall be eligible.
- b. Credit reversal for Common Input Tax Credits: The credit reversal with respect to Common input tax credit used for providing taxable, non-taxable and taxable services on which input tax credit is not eligible should be considered and an appropriate allocation and reversal should be considered.

“composite supply” means a supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.

Composite supply or Mixed Supply or Independent supply.

Composite supply or Mixed Supply or Independent supply

Sometimes it may happen that hotel is providing multiple services to their guests on chargeable basis, e.g. with hotel accommodation they are providing services like.

Extra bed, Breakfast, Lunch and dinner, Airport pick up and drop, Laundry services, Site seen, City tour etc.

All these services are mentioned in one single bill with separate line item and with respective GST rate, the question which may arise is, whether all these services can be termed as composite supply or mixed supply or all can be treated as independent supply?

declared or published room tariff is relevant only for determination of the tax rate in respect of ‘Supply of accommodation, food and beverage services’ and if above referred/other services like airport pick up and drop, laundry services are optional in nature, then, GST rate of these respective services will apply.

Some time may happen that restaurant has two units –for sale of goods (like namkeen, sweet or similar items) and another for sale of restaurant food.

Clarification: as per Advance ruling of Kundan MishthanBhandar, In re [2019] 105 taxmann.com 364 (AAAR - Uttarakhand)

The Appellate Authority of Advance Ruling held that when goods such as sweets, namkeens, cold drinks and other edible items are supplied to customers in the restaurant or as a takeaway from the restaurant counter and are being billed under restaurant sales head, those should fall under 'composite supply' with restaurant service being the principal supply. The supply of food in this case is naturally bundled with the restaurant service.

Goods supplied to customers through sweetshop counter have no direct or indirect nexus with restaurant services. Anyone can come and purchase any item of any quantity from the counter without visiting the restaurant. The billings of such sales are also done separately. These sales are completely independent of restaurant activity and will continue even when the restaurant is closed. The supply is of food and not a composite service and ITC can be claim since it is supply of goods.

'Restaurant service' means supply, by way of or as part of any service, of goods, being food or any other article for human consumption or any drink, provided by a restaurant, eating joint including mess, canteen, whether for consumption on or away from the premises where such food or any other article for human consumption or drink is supplied.

'Outdoor catering' means supply, by way of or as part of any service, of goods, being food or any other article for human consumption or any drink, at Exhibition Halls, Events, Conferences, Marriage Halls and other outdoor or indoor functions that are event based and occasional in nature.

"Hotel accommodation" means supply, by way of accommodation in hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes including the supply of time share usage rights by way of accommodation.

'Declared tariff' means charges for all amenities provided in the unit of accommodation (given on rent for stay) like furniture, air conditioner, refrigerators or any other amenities, but without excluding any discount offered on the published charges for such unit.

'Specified premises' means premises providing 'hotel accommodation' services having declared tariff of any unit of accommodation above seven thousand five hundred rupees per unit per day or equivalent.

Accommodation Services to SEZ Unit.

Whether Hotel accommodation and Restaurant Service to employees and guests of SEZ units be treated as supply of goods and services to SEZ units? i.e. what will be Place of Supply in such cases?

As held in the case of *Gogte Infrastructure Development Corporation Ltd. AAR No: KAR ADRG 2/2018 order dtd: 21/03/2018*, that "The Hotel Accommodation & Restaurant services being provided by the applicant, within the premises of the Hotel, to the employees and guests of SEZ units, cannot be treated as supply of goods and services to SEZ units and hence the intra state supply and are taxable."

After this judgment, department has issued *circular No: 48/22/2018-GST dtd: 14/06/2018*, it was clarified as under:

Issue: Whether services of short-term accommodation, conferencing, banqueting etc. provided to a Special Economic Zone (SEZ) developer or a SEZ unit should be treated as an inter-State supply (under section 7(5)(b) of the IGST Act, 2017) or an intra-State supply (under section 12(3)(c) of the IGST Act, 2017)?

Clarification: at point no 1.2 and 1.3 of circular, it is clarified that:

It is an established principle of interpretation of statutes that in case of an apparent conflict between two provisions, the specific provision shall prevail over the general provision.

Section 7(5)(b) of the IGST Act is a specific provision relating to supplies of goods or services or both made to a SEZ developer or a SEZ unit, which states that such supplies shall be treated as inter-State supplies.

It is therefore, clarified that services of short-term accommodation, conferencing, banqueting etc., provided to a SEZ developer or a SEZ unit shall be treated as an inter-State supply.

Value of Supply. Sec 15(3)(a)

Tax to be paid on declared tariff or actual tariff

In hospitality business, every hotel is having its declared tariff and on the basis of demand and supply, either discount is offered or sometimes premium is also charged.

Moreover, in a room it may be providing an extra bed with charges, and if due to this, actual room charges are more than the declared tariff, then on which value the GST is to be paid?

As per entry 7 of Notification No:11/2017 as amended from time to time, registered person is required to discharge tax on value of supply and not on declared tariff value.

The same has also been clarified by CBIC in its Circular No. 27/01/2018-GST, dtd: 04/01/2018 as under:

Issue: Will GST be charged on actual tariff or declared tariff for accommodation services?

Clarification: Declared or published tariff is relevant only for determination of the tax rate slab. GST will be payable on the actual amount charged (transaction value).

Issue: What will be GST rate, if cost goes up (more than declared tariff) owing to extra bed.

Clarification: GST rate would be determined according to declared tariff for the room, and GST at the rate so determined would be levied on the entire amount charged from the customer. For example, if the declared tariff is Rs.7000 per unit per day but the amount charged from the customer on account of extra bed is ₹ 8000, GST shall be charged at 18% on Rs.8000.

ITC on car for passenger transfer.

If the hotel has purchased a car for pick up and drop of their guest from airport or railway station, whether Input tax credit can be claimed on such car?

As per block credit section 17(5)(a), input tax credit is allowed, which reads as under:

Sec 17(5) (a) motor vehicles for the transport of person having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the following taxable supplies, namely: -

(B) transportation of passengers; or

From the above, it is very much clear that, ITC on car used for transportation of passenger will be available, if the same is passed under commercial use or to say, taxi passing.

Whether for a Restaurant services provider other than specified premises, is it compulsory to charge 5% tax or they can opt to pay GST @ 18% tax and claim Input Tax Credit?

As held in the case of Coffee Day Global Ltd. AAR No: KAR ADRG 21/2018 dtd: 21/08/2018 that, "the applicant is not entitled to pay the GST @ 18% with input tax credit as the services being offered by the applicant are classified under heading attracting 5%, without input tax credit"

Restaurant in specified premises.

As per Sr. no. 7(vi)(b) if restaurant is located in specified premises (hotel room tariff more than 7500) then, GST will be charged at 18%.

Example - A person wants to open a restaurant in retail arcade which is owned and operated by a Hotel having room charges more than 7500. There is an inter connectivity to the arcade from the hotel and vice versa also a private passageway between the hotel and the arcade

Question: What will be rate of tax applicable on restaurant services offered in retail arcade of this hotel?

Held: In the case of Kutting Fusion Hospitality LLP, AR No: GST-ARA- 22/2019 dtd: 15/01/2020 (Maharashtra) that, rate of tax applicable in the above case will be 18%.

If for part of the year, a hotel is having tariff more than 7500 (specified premises) and for rest of period, tariff less than 7500, what rate to be charged for restaurant services?

The said issue is also addressed in circular No. 27/01/2018-GST above at sr. no. 1.4:

Issue: Same room may have different tariff at different times depending on season or flow of tourists as per dynamic pricing. Which rate to be used then?

Clarification: In case different tariff is declared for different seasons or periods of the year, the tariff declared for the season in which the service of accommodation is provided shall apply.

Similar view is also taken by Gujarat Advance Ruling authority in the case of Mangaldas Mehta and Co. Ltd. Ruling Order No: GUJ/GAAR/R/15/2019, order dtd: 28/08/2019. It was held that: "In case different room tariff is declared for different seasons or periods of the year, the tariff declared for the season in which the service is provided shall apply. GST Rate would be determined according to declared tariff for the room, and GST at the rate so determined would be levied on the amount charged for restaurant services form the guest/customer."

9. Internal Audit

The Institute of Chartered Accountants of India (ICAI) defines the internal audit activity as “An independence management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvement thereto and add value to and strengthen the overall governance mechanism of the entity, including entity’s strategic risk management and internal control system.”

Hotels earlier had the concept of Night Audit. However with the advent of Technology bringing in interface between front end and back end systems, Income Audit became more prevalent. As the name suggests, Income Audit or Revenue Audit is just one part of routine audit that generally gets carried out in Hotels.

Depending on the size of Hotel/Resort, volume of business, different locations and different sources of revenues, the Management may at times engage Internal Auditors either with a broad scope of work or for high risk or high priority area in order to have a fair assessment of Risk and Control through such a mechanism.

We have already acquainted ourselves with the different aspects of this Service Industry along with sources of revenues, key expenses involved, FoH and BoH functions, POS, Payroll, Accounting systems, compliances relevant, sensitivities involved, areas of analyses. In order to address the dynamics due to nature of this industry, an Internal Audit acts as an early warning signal for the management.

Let us try to walk through the IA areas of Hospitality Industry

9.1 Risk based Audit Planning

Strategic, risk-based plans are designed to ensure that audit resources are allocated to areas that will help achieve strategic outcomes and reduce the possibility that the Unit will be exposed to significant risks. The points below illustrate the principal components of the risk-based audit planning methodology.

9.1.1 Identification of the Audit Universe

All mandates, authorities, programs, corporate functions, organizational units, systems, assets, resources and processes of the Unit are identified that are within the potential scope of internal audit.

9.1.2 Grouping of Universe into Manageable Auditable Units / Processes

All the potential universe entities and elements are grouped into units that would likely produce meaningful findings for senior departmental management and that would be of such size and scope that an audit engagement could be practically conducted within a reasonable timeframe or cycle of coverage.

9.1.3 Risk Assessment of Manageable Auditable Units / Processes

Each auditable unit is assessed, based on the risk matrices prepared by the management,

9.1.4 Selection of Significant Audit Engagements

Audit projects are proposed that would be most appropriate to address the highest risk areas of the manageable audit units on a priority basis.

9.1.5 The Three Year Audit Plan

This could be one of the propositions to the management. The basic processes are common across all the business units. The variety takes place on account of product and/or service, processes, type of requirement/offering, volumes and overall management policies.

These processes are divided in three classes; A B & C. A class processes to be covered every year, B class processes to be covered once in two years and C class processes to be covered once in three years. The examples of processes falling in these classes are stated hereunder;

- A – Procurement to Payment (P2P), Order to Collection (O2C), Inventory, Statutory Compliance, Revenue and Financial MIS
- B – HR Payroll, MIS
- C – Product Costing, Asset Verification,

As suggested earlier, this is one of the propositions fraternity members can think over, however, it may vary as per the expectations of management of Client entity.

9.2 Planning the Internal Audit

The SIA 1 - PLANNING AN INTERNAL AUDIT, issued by ICAI states that "An internal audit plan is a document defining the scope, coverage and resources, including time, required for an internal audit over a defined period. The internal auditor should, in consultation with those charged with governance, including the audit committee, develop and document a plan for each internal audit

engagement to help him conduct the engagement in an efficient and timely manner.

While different internal audit organizations may identify a number of steps using a variety of terminology, the internal auditing process is essentially comprised of three main phases, namely:

- Planning
- Execution and
- Reporting.

At the most fundamental level, the audit professional must establish what is going to be audited (Planning), ensure that the approved plan is implemented (Execution), and communicate the results achieved (Reporting).

Once the engagement has been identified in the Risk-based Audit Plan, it must be effectively planned in order to determine the specific objectives, scope, audit criteria, and methodology.

At the inception of the planning phase, the audit engagement is usually defined in very broad terms. Since it is neither practical nor cost-effective to audit everything, the audit professional must identify the risks associated with the audit entity, formulate meaningful objectives and establish an appropriate scope. In so doing, the audit professional can ensure that audit resources and effort are devoted to a relatively few key areas that can have a significant impact on the performance and results of the program or activity being audited.

9.2.1 Understanding the Audit Entity

The audit professional needs to keep in mind the requirements of SIA 15 - KNOWLEDGE OF THE ENTITY AND ITS ENVIRONMENT issued by the ICAI. It states that in performing an internal audit engagement, the internal auditor should obtain knowledge of the economy, the entity's business and its operating environment, including its regulatory environment and the industry in which it operates, sufficient to enable him to review the key risks and entity-wide processes, systems, procedures and controls. The internal auditor should identify sufficient, appropriate, reliable and useful information to achieve the objectives of the engagement.

A permanent database called as "Master Data File" can be maintained. The audit managers, team leaders and team members can refer to this Master Data file before commencement of the audit run and shall also be required to make

necessary alterations in consultation with the Partner in Charge. Master Data file template can cover:

1. Overall Information		
Sr. No.	Particulars	Remarks
1	Name of the Entity	
2	Address of Reg. Office	
3	Tel.No. (Incl. Extension Nos.)	
4	Fax No.	
5	Website	
6	Nature of Organization/Business Segment	
	a. Sector	
	b. Turnover bracket to indicate MSME category	
	c. Nature of Products/Services	
7	Name of the parent / holding Company, if any	
8	Name of the subsidiary Company, if any	
9	Name of the sister concerns	
10	Details of Merger/Collaboration, if any.	
11	History of the Entity in Brief	
12	Whether Organization Chart available	
13	Branches & their broad activities	
14	Room Inventory, F&B Outlets, Other activities/facilities	
15	Marketing Style (Aggregators/Tour Operators, Corporate connects etc.)	
16	Important Patent / Trademarks / Intellectual property rights	
17	Brand name	
18	Key Personnel	
	Designation	
	Chairman	
	CEO	

Sr. No.	Particulars	Remarks
	Director-Finance	
	CFO	
	Associate Vice Presidents (specify)	
	Vice Presidents (specify)	
	General Managers (specify)	
19	Statutory Auditor	
20	Other Auditors, if any	
21	Company Secretary	
22	Solicitors / Tax Consultant	
23	Audit Committee Members & their designation	
24	Financial Year	
2. I.T. System Related Information		
Sr. No.	Particulars	Remarks
1	Present system in use (whether ERP or any other-specify)	
2	If the system is ERP, is "Operations Manual" available? If yes, whether Copy taken? (In respect of Sale & Purchase activities and VAT/GST)	
3	If ERP, whether the same is interrupted on a particular day for maintenance / back ups	
4	Whether reports generated from system can be directly converted into Excel or text file has to be converted into Excel	
5	Whether Working folder is on network drive or PC specific drive	
6	Information about PC used for CD writing	
7	Whether 'ERP Package Review' is carried out? If yes, whether copy of such Audit Report obtained. a) overall ranking given to the ERP by Auditor b) Important Remarks, Risk Areas if any.	

Sr. No.	Particulars	Remarks
8	Whether more than one Database Package used by the Company?	
	If yes, give details-	
	Database Areas Covered	
9	Details of integration of various functions/ areas in the system	
	Give separately,	
	Integrated Non-Integrated	
10	Whether separate P.C. is available for the Auditor? If yes, it is backed up by UPS	
	User Name:	
	IP address/es:	
	Password:	
	Concerned EDP Person -	
	Only 'View' facility should be available for auditor, whether checked?	
11	Whether Internet Facility available for Auditor?	
	Whether separate Mail ID available for auditor? If yes,	
	User Name:	
	Password:	
12	Details of various codes. Viz.	
	Company Codes in ERP	
	Business Unit Codes	
	List of concerned User log-ins	
13	List of all transaction codes, especially important codes	
14	List of all account codes, especially important GL codes	
15	Notes on Package functionalities and accounting entries	

Sr. No.	Particulars	Remarks
3. Location Specific Information		
1	Information about the People dealt with	
	Name	
	Designation	
	Profile	
	Tel. Ext No.	
	Email ID	
	Computer IP Addresses	
2	Availability of Printing facilities/ Xerox facilities	
3	Office Timing	
4	Weekly Off	
5	Mode of Transport	
6	Food Facility and quality of food	
7	Nature of Audit (whether routine or special)	
8	Availability of Areawise Authority Matrix - Cash, Bank, Sales, Purchase, Stores, Excise etc.	
9	Overall Organisation Structure	
10	Strength and Weaknesses - Key Audit Areas	
11	Client Policies and Procedures (Soft copy / Hard Copy)	
12	Business Restructuring - Acquisition, mergers, disposal of activities etc.	
4. Product/Services Related Information		
1	About the Products/Services	Pune
	Existing Range - Information through catalogues / brochures / website	
	Future plans - new products/services to be launched	
	Changes in Product Technology	
	Market Share	
	Key competitors	
	Current Projects	

Sr. No.	Particulars	Remarks
	Commercial Policy, Associates Agreements, Discount Structure (Obtain Copy)	
	Information about the distribution network used / it's structure and concerned officials (may be in the form of organisation chart)	
	Major expenditure type relating to selling and distribution activities	
	Level and description of Business Risk - change in technology, obsolescence, customer dependency etc.	
2	About the Input Material	
	Key Input Materials and type (natural resource / manufactured product)	
	Available indigenous or Imported	
	Movement in the prices of raw material during the preceding year (past trend of 1 year) - whether the prices are controlled or the market forces determine the prices or the supplier has monopoly and determines the prices	
4	Product/Services Related Information	
	Level and description of Business Risks - availability of RM, dependency on monopolistic supplier etc.	
5	Organizational Chart	

9.2.2 Information Sources

Some of the key documents and information that the audit manager can use to gain a good understanding include:

- Acts and related legislation or regulations
- Policy, procedures and standards manuals and directives
- Results of previous audits or evaluations by the AES or by the Office of the Auditor General
- Organization charts

- Job descriptions and delegation instruments
- Listings of key personnel
- Process and system maps or flowcharts
- Operational and financial data and reports
- Planning and performance reports (i.e. the INAC Performance Report, the INAC Report on Plans and Priorities)
- Management meeting reports or minutes
- Management control frameworks, e.g. results-based management and accountability frameworks (RMAFs), risk-based audit frameworks (RBAFs)
- Risk assessments
- Management studies or reports

In addition to reviewing documentation and analysing financial and non-financial performance information, the auditor may also want to consider visiting sites or checking in as Guest and observing operations, interviewing management, field staff, and reviewing any available internal controls documentation.

9.2.3 Assessment of Internal Controls

9.2.3.1 Preventive Controls

Preventive controls are intended to trigger an obstacle that prevents the routine processing of a particular transaction. Some examples of preventive controls are providing (and reinforcing) training of employees on how to do the job correctly, segregating duties to reduce the opportunity for intentional wrongdoing, creating physical deterrents such as locks, alarms and building passes to deter theft. Preventive controls may also be thought of as application controls in the sense that they are embedded in the intended transaction, process, or activity.

Examples of preventive controls are segregation of duties, proper authorization with defined authority matrix, adequate documentation and physical control over assets etc.

9.2.3.2 Detective Controls

Detective controls are intended to detect unintended consequences after they have occurred. Some examples of detective controls are reports which detail the information accessed by an employee from a department or agency's

systems, reconciliation of an inventory listing to the actual physical material, and monitoring (or auditing) contribution recipients to ensure that funds have been used for the purposes intended. Detective controls may also be thought of as monitoring controls in the sense that they operate above or outside routine processes or activities and their preventive controls.

Examples of detective controls are reviews, analysis, variance analysis, reconciliations, physical verification, etc.

9.2.4 Determining Audit Objectives, Scope, Criteria and Approaches

9.2.4.1 Audit Objective

The audit objective is often thought of as the question(s) that the audit seeks to answer.

Objectives should be carefully considered and clearly stated in such a way that a conclusion with respect to each is possible.

Objectives may be focused on key generic internal auditing outcomes, e.g. assurance on risk management, on controls, or on governance, or may be focused on specific high-risk issues or concerns identified during the planning phase.

9.2.4.2 Scope

The scope statement clearly describes the areas, processes, activities, or systems that will be the subject of the audit and to which the conclusions will apply.

The audit scope should even describe areas, processes, activities or systems which might normally be associated with the program or activity but which are excluded. The scope will also describe the time period covered by the audit, for example, the period or fiscal year during which files or transactions to be examined were originally prepared.

9.2.4.3 Audit Criteria

Audit criteria are reasonable and attainable standards of performance and control against which compliance, the adequacy of systems and practices, and the economy, efficiency and cost effectiveness of operations can be evaluated and assessed. Audit criteria provide a basis for developing audit observations and formulating conclusions.

Criteria suitable for audit purposes must be appropriate to the nature of the audit. The failure to identify and obtain acceptance by the auditee may result in inappropriate, or highly contested, conclusions being drawn by the internal auditor.

Good audit criteria statements should be relevant, reliable, neutral, and complete. In identifying relevant and reliable criteria, the team can usually rely upon acts and regulations, policy, guidelines or standards, and recognized experts. In the absence of such criteria, the audit manager can draw upon a wide variety of potential sources for audit criteria, e.g. professional associations' standards, generally recognized industry norms, accepted good practice, generic management control frameworks, and the auditee's own standards.

9.2.4.4 Audit Approach

The purpose of articulating the audit approach is to ensure that sufficient, appropriate audit evidence is collected to enable the drawing of a conclusion with respect to each of the audit objectives. Using professional judgment, the auditor develops the approach and methodology based on the nature and extent of evidence needed to reach a conclusion with a high degree of assurance and the most appropriate and cost-effective mix of audit tests and procedures to gather that evidence.

An effective approach will normally incorporate a variety of auditing tools and techniques. Different tools and techniques have various strengths and weaknesses. For example, one may require a high degree of technical skill while another high degree of interpersonal skill; one may be expensive but reliable, another inexpensive but less reliable.

9.2.5 Audit Program

Audit programs document and detail the audit tests and procedures that the auditor has designed as the approach to collect and analyse audit evidence in the most cost-effective manner while ensuring objectivity, independence and uniformity.

The purpose of the audit program is to provide:

- A guide for conducting and coordinating the audit work to be done
- A framework for assigning audit work.
- A Tool to ensure desired quality of deliverable.
- A framework for effectively supervising work and assessing the cost and the quality of the work performed and
- A vehicle to document the exercise of due care and compliance with professional standards and policies.

9.2 Conducting the Internal Audit

The purpose of the execution phase of the audit is to gather sufficient, appropriate audit evidence to reach a conclusion on each of the objectives identified in the planning phase. Fieldwork is generally regarded as the beginning of the 'conduct' phase and is interpreted as the point at which the audit team is implementing the audit program, usually on site with the auditee.

9.3.1 Pre-audit discussion

Pre audit discussion meeting is conducted to appraise the team members and the team leader about following issues;

- Detailed information of the client and its business activity
- Details of the audit scope
- Discussion on the areas to be covered and probable risk areas
- Allotment of sub areas to team members etc.

Detailed guideline for Pre audit discussion and Pre- Preparation

Sr. No.	Particulars	Administrative	Home Work	Pre-Audit Discussion	Responsibility
1	Intimation to client about Audit Schedule. Obtain Confirmation from Client for the audit- schedule for all locations				
2	Identify Audit Team				
3	Intimation to client about Audit Team				
4	Arranging the Travelling / Conveyance arrangement of audit team. /Travel advance				
5	Generate Assignment Number				
6	Hard File along with sign off Form, Pre Audit Discussion Sheet, Flaps				

Sr. No.	Particulars	Administrative	Home Work	Pre-Audit Discussion	Responsibility
7	Availability of Laptops or Desktops				
8	System Access and Password				
9	Concerned officials, Extension, Cell nos and their Email ID's				
10	Mandays working Calculation sheet preparation				
11	Copy of Scope				
12	Visit Client Web Site				
13	Reading of Master File by all Team Members				
14	Reading & Understanding of earlier OCS, IA Reports for client by Team members for all areas.				
15	Reading & Understanding of Observation compilation by Team members for specific Audit Areas				
16	Reading of Standard Operating process for specific area If same is not available for client then read SOP available for similar Industry				
17	Checklist Reading by the team Member				
18	Checklist in Hard or soft file in the File or Folder				
19	Understand Nature of Clients Business				
20	Understand Client History and culture				

Sr. No.	Particulars	Administrative	Home Work	Pre-Audit Discussion	Responsibility
21	Understand Client's Financials eg. Annual Accounts, Notes to Accounts, Director's Report, Chairman's Speech, etc				
22	Understand features of Main Products				
23	Understand Market for main products and Main Customers				
24	Understand ERP and other Software's used at client place				
25	Important T codes or system Paths for generation of Reports for area to be covered				
26	Discuss Checklist, Critical areas and link between the points, Not applicable areas in Check list for specific client				
27	Detail Scope discussion for each location				
28	Discussion of critical & major observations of earlier audit runs.				
	Updates on the areas could not be focused due to non-availability of information during earlier audit run				
29	Allotment of areas to the Team members for each location				

Sr. No.	Particulars	Administrative	Home Work	Pre-Audit Discussion	Responsibility
30	Discuss about the target completion date and area wise allotment and estimation of time				
31	Discuss data Storage method				
32	Discuss OCS Preparation				
33	Read Points Noted by the Team members either in Pre audit Discussion sheet (Which should be maintained in the Hard File or Soft File (which should be stored in Administration Folder) If the points are jotted down by Team members then it should also be maintained in Hard or soft file as mentioned				
34	Team Leader or Manager should sign Preaudit Discussion sheet in Hard File. If the Soft file is prepared, then same reference should be given on the Hard File				
29	Allotment of areas to the Team members for each location				
30	Discuss about the target completion date and area wise allotment and estimation of time				
31	Discuss data Storage method				
32	Discuss OCS Preparation				

Sr. No.	Particulars	Administrative	Home Work	Pre-Audit Discussion	Responsibility
33	Read Points Noted by the Team members either in Pre audit Discussion sheet (Which should be maintained in the Hard File or Soft File (which should be stored in Administration Folder) If the points are jotted down by Team members then it should also be maintained in Hard or soft file as mentioned				
34	Team Leader or Manager should sign Pre-audit Discussion sheet in Hard File. If the Soft file is prepared then same reference should be given on the Hard File				

It would be pertinent to mention here that a proper homework leads to better efficiencies in conducting the audit

9.3.2 Conducting Audit

Auditing includes understanding the Systems, People, and Processes, applying tests, validating results, gathering evidence and making professional judgments depending upon various factors.

Seeking answers to following few questions can facilitate the Internal Audit activity:-

- a. Is there a Revenue Leakage?
- b. Is the Unit losing out on its Peak Performance?
- c. Does the MIS cover all the Business Segments?
- d. Is the Loyalty Program generating revenue?
- e. Has the Unit employed/engaged the right skills?

- f. Is the Revenue Management strategy enhancing yield?
- g. Does the advertising strategy cater to right customer segment vis-à-vis prices and amenities?
- h. Does the Unit manage its costs efficiently and effectively?
- i. Are assets and investments adequately safeguarded?
- j. Has the Unit connected with relevant B2B service providers for online bookings?
- k. Are there adequate efforts to enlarge direct bookings potential?
- l. Is the Unit having all facilities and amenities required by its guests?

Hotel business is characterized by:

- Uneven sales pattern; normally weekend sales will be higher than those on weekdays.
- Pricing based on demand/supply and competition
- Cost of input items like groceries and vegetables varies considerably on frequent basis.
- Non-predictability of daily business resulting in food wastages.
- There is high attrition rate for employees (waiters)
- Changing tastes of customers
- Novelty and Quality as a differentiating factor
- Brand recognition
- Business needs
- Exclusivity, attention and experience expected by guests

These necessitate different audit approach to be adopted by auditors.

- Control over cash transactions and system implemented to ensure all customers are billed needs to be evaluated in detail.
- Monitoring mechanism over purchase of input material items, daily consumption and wastage needs to be analysed.
- It is advisable to analyse movement in gross margin on monthly or even fortnightly basis.

- Corporate Connect programs through relevant contracts/agreements
- Policies for Discounts, in house use, No shows, Day use, arrival-departure procedures, scanty baggage guest identification, advance payments, bill generation and settlement in the system

For any hotel a strict control and continuous monitoring by the management over input material costs and daily wastages is required to maintain high gross margin. A gross margin report should be prepared weekly / fortnightly / monthly basis, based on volume of operations.

Few key points for consideration in analysis:

- Check how the gross margin has varied in the audit period
- Which input material items are showing consistent percentage against net sales
- Which input material items have higher percent variation i.e. high delta
- Closing stock is maintained at consistent level during all months

Ratio Analysis

Ratio analysis is an important analytical tool for reviewing financial data for any company. This ratio analysis technique holds more relevance in hotel industry due to its peculiar business model.

As such following key ratios need to be analysed to evaluate financial results of hotel operations over a period.

1. Gross margin to sales

$$\text{Gross margin} = \text{Sales} - \text{Direct Expenses}$$

2. Consumption to sales

$$\text{Consumption} = \text{Opening stock} + \text{Purchases} + \text{Direct expenses} - \text{closing stock of groceries}$$

Consumption will focus only on the usage of groceries as part of hotel's daily food serving cost. Direct expenses will include salaries of employees in kitchen department.

3. Net margin to sales

$$\text{Net margin} = \text{Sales} - (\text{Direct} + \text{Indirect Expenses})$$

4. Sales value per employee
5. Percentage of daily wastage to sales value
6. Direct expenses to Indirect expenses ratio
7. Indirect expenses to sales

Additionally, checklists can be made around following areas for verification and analyses:-

1. Procurement to Payment
2. Order to Collection
3. Capex
4. Inventory
5. Sub-contracting
6. General Ledger Scrutiny
7. Human Resource & Administration
8. Fixed Asset
9. Overtime, Service Charge, Tips
10. Forex
11. Imports
12. Other sources of revenue
13. Exports
14. Raw Material
15. Store Accounting
16. Material Management
17. Repairs
18. Insurance
19. Energy Charges
20. Cash & Bank

9.3.3 Discussion with auditee

Throughout the audit, the auditor will have discussions with the auditee to review and discuss observations and findings and potential implications. This helps ensure that all pertinent information has been considered in developing conclusions and provides an opportunity for the auditor and the auditee to work to develop effective solutions to identified deficiencies. At the end of the audit this informal communication process is formalized through closing or exit meetings.

The auditor should formally discuss all significant audit findings and conclusions with auditee before the report is drafted.

This formal debriefing helps ensure that:

- There are no “surprises” with respect to reporting results.
- There have been no misunderstandings or misinterpretations.
- The internal auditor is aware of all relevant evidence and any corrective action already taken.

In addition, this process will help ensure there is buy-in and feedback on proposed implications and recommendations. A debriefing meeting may also be used to discuss points that are of interest but are not significant enough to be included in the audit report. These findings of lesser significance may be addressed in a management letter to the auditee.

9.3.4 Audit evidence

As discussed above, audit evidence is collected to substantiate conclusions with respect to each of the engagement objectives.

Audit evidence is the information collected, analysed and evaluated to support an audit finding or conclusion. As stated in SIA 10 – INTERNAL AUDIT EVIDENCE issued by the ICAI the internal auditor should, based on his professional judgment, obtain sufficient appropriate evidence to enable him to draw reasonable conclusions there from, on which to base his opinion or findings. It further states that, the internal auditor should evaluate whether he has obtained sufficient appropriate audit evidence before he draws his conclusions there from. The internal audit evidence should enable the internal auditor to form an opinion on the scope of the terms of the engagement. To support the exercise of that judgment, knowledge of the concepts underlying evidence is necessary.

9.3.4.1 Concepts

There are a number of attributes that are normally associated with good audit evidence, i.e.:

- **Sufficiency** - the measure of the quantity of evidence - enough evidence should be collected and evaluated so that a reasonably informed unbiased person would agree with the auditor's findings and conclusions
- **Reliability** - the measure of the appropriateness and trustworthiness of sources and techniques - generally evidence is more reliable if from a credible independent source than from the auditee, if obtained through direct physical examination, observation, computation and inspection than indirectly, documentary rather than oral, and confirmed rather than sole source
- **Relevance** - the measure of the pertinence of the evidence - evidence shall have a logical relationship to what it purports to prove.

When considering the adequacy of evidence, the internal auditor should keep in mind:

- The audit is seeking reasonable but not absolute conclusions
- Incomplete data may result in the inability to reach reasonable conclusions
- Examination of extensive evidence may be uneconomical, inefficient and ineffective
- Evidence shall be reasonably representative of the population being reviewed or addressed.

9.3.4.2 Types of Audit evidence

Evidence used to support audit conclusions may be categorized into different types:

Physical - consists of direct observation and inspection of people, property and events.

Testimonial - is provided in statements of auditee personnel and others. Examples of testimonial evidence include letters in response to audit enquiries and interview notes. If possible, testimonial evidence should be supported by documentary evidence.

Documentary - is that which exists in some permanent form such as records, purchase orders, invoices, memoranda, and procedure manuals.

Analytical - stems from analysis, verification, and assessment of compliance-non-compliance, consistency-inconsistency, or cause-effect relationships. The sources of such evidence are computations, comparisons with prescribed standards, past operations, similar operations, or laws or regulations, and reasoning.

In general, evidence accumulated from different sources and of different types is the strongest evidence. The determination of when it is necessary to gather corroborating evidence from different sources or of a different nature is a matter of professional judgment. Factors that may be taken into consideration when deciding whether or not to seek additional evidence include:

- Is there a high degree of consistency among the evidence already collected (i.e. the lack of contradictory evidence)? If so, the need for additional evidence is decreased; if not, the need is increased.
- Is there a high degree of risk, significance or sensitivity associated with the matter to be reported? If so, additional evidence may reinforce the internal auditor's conclusion; if not, existing evidence may be sufficient to gain acceptance of the conclusion.
- Is the cost of obtaining additional evidence worth the benefits to be obtained in terms of supporting the finding? If not, proceed.

9.3.4.3 Methods of obtaining evidence

Following are the methods of obtaining audit evidence:-

1. **Interviews** : Interviews can help to define the issues, furnish evidence to support audit findings, and clarify positions between the auditor and the auditee on audit observations and recommendations
2. **Audit Tests**: Audit tests are developed and conducted for either compliance or substantive verification purposes. Compliance oriented tests are designed to assess the adequacy and effectiveness of controls. Substantive test procedures include the detailed examination of selected transactions. These could further be "Specific Item Test (Judgmental)" depending upon size or other characteristic OR "Representative Item Test" to examine a random selection of items, usually accomplished through Statistical Sampling techniques.
3. **Sampling**: This assessment helps in reducing the population to a reasonable sample that covers requisite areas. Since it is not possible to verify all the transactions, events, records, etc., the auditors use risk assessment to narrow down to areas or groups of transactions with higher risk for audit. Once the

area or group is selected based on risk, auditors may select transactions for audit using a sampling technique so that the audit conclusions would apply to the entire population.

The use of audit sampling for testing compliance -

- Determine sample design and audit parameters, including materiality, desired confidence level, and sample selection method;
 - Perform relevant audit procedures on each item selected;
 - Investigate the nature and causes of non-compliance; and
 - Evaluate the results, including projecting the results across the population if the sample was selected using statistical procedures.
 - Reassess the sampling risk
 - Consider their possible effect on the particular internal audit objective and on other areas of the internal audit engagement.
4. **Surveys:** Surveys are structured approaches to gathering information from a large population.
 5. **Inspection:** Inspection consists of confirming the existence or status of records, documents or physical assets.
 6. **Flowcharting:** Flowcharting is the graphic representation of a process or system and provides a means for analysing complex operations, e.g. key control points, redundant activities. A system flowchart would provide an overall view of the inputs, processes and outputs while a document flowchart would depict value adding activities and critical controls.
 7. **Modelling:** Modelling includes the field of quantitative techniques, often referred to as operations research. It makes use of mathematical and statistical models designed to simulate real processes and help in decision-making.
 8. **Observation:** Similar to inspection, observation entails personally verifying or attesting to a process or procedure, eg: observing check-in/check-out procedures, F&B billing, daily Bar inventory, House Keeping procedures, posting from Guest Ledger to City Ledger etc.
 9. **Confirmation:** Confirmation involves a request, usually provided in writing, seeking corroboration of information obtained from the auditee's records or from other less reliable sources, e.g. anecdotal information from a client of the auditee.

- 10. Analysis:** Analysis consists of examining information obtained and using it to corroborate other findings or to compare auditee performance against performance indicators and policies, past operations, similar operations in other organizations, and legislation.

9.3.4.4 Documenting Audit Evidence – Working Papers

The SIA 3 – DOCUMENTATION, issued by ICAI recommends that the internal auditor shall keep in mind following points while documenting for the audit assignment undertaken;

- Internal audit documentation should record the internal audit charter, the internal audit plan, the nature, timing and extent of audit procedures performed, and the conclusions drawn from the evidence obtained
- Internal audit documentation should be sufficiently complete and detailed for an internal auditor to obtain an overall understanding of the audit.
- The internal audit documentation should cover all the important aspects of an engagement viz., engagement acceptance, engagement planning, risk assessment and assessment of internal controls, evidence obtained and examination/ evaluation carried out, review of the findings, communication and reporting and follow up.

Working papers provide a demonstrable link between reports issued and the work performed, and support the findings, conclusions and recommendations. Working papers can also be used to:

- Justify and provide proof of work carried out
- Help auditors respond to questions about coverage or results
- Facilitate supervisory quality assurance reviews and
- Provide supporting evidence when external auditors or other reviewers want to rely on the results.

A completed set of working papers should be neat and uniform in size and appearance and include:

- An index to contents
- A legend of symbols and abbreviations used
- A statement of the purpose of the working papers
- Evidence of the application of the audit program
- The results of the audit, e.g. debriefings, reports, action plans

9.2.5 Reporting

The SIA 4 – REPORTING, issued by ICAI states that the internal auditor should exercise due professional care to ensure that the internal audit report, inter alia, is clear, factual, specific, concise, unambiguous, and timely and complies with generally accepted audit procedures as applicable in India. As such, the auditors are responsible for ensuring that completed audit reports are:

- Issued in a timely manner and
- Provide sufficient context by describing the area that has been examined, how it fits into the organization, its importance, and the relevant laws, policies and standards and
- Clearly identify risks and opportunities for improvement to be addressed by management.

An Internal Audit Report can include:-

1. Covering page
2. Auditor and Auditee Details
3. List of Contents
4. Audit approach and audit plan
5. Audit scope
6. Process Grading Parameters with definitions
7. Observation Rating Parameters with definitions
8. Details of Overall Rating
9. Executive summary
10. Overview of the Process
11. Detailed Observations
12. Management comments and action plan
13. Previous audit compliance, if any
14. Disclaimer
15. Acknowledgements

Once the Report has been issued, the following steps are taken to close the audit:

- Finalize and archive working papers (Hard Copies)
- Compile the soft files.
- Generate the folders as described in Audit Administration sheet.
- Store the soft files accordingly

The SIA 3 – DOCUMENTATION, issued by ICAI recommends that the above procedures be completed within 60 days after the signing of the Internal Audit Report.

10. Miscellaneous

IMPORTANT WEBSITE REFERENCE:

Particulars	Website Address
Ministry of Tourism	www.tourism.gov.in
Ministry of Commerce	www.commerce.gov.in
Hospitality Promotion Board	https://www.india.gov.in/official-website-hospitality-development-and-promotion-board
India Brand Equity Foundation	https://www.ibef.org/
Federation of Hotel & Restaurant of India (FHRA)	https://www.fhrai.com/
Hotel & Restaurant Association of India (Eastern) HRAEI	http://www.hraei.co.in/
Indian Hotel & Restaurant Association (AHAR Hospitality)	http://www.ahar.in/

Financial Assistance Available to Hospitality & Tourism Industry

The Ministry of Tourism, administered by GOI, makes available financial assistance to support tourism service providers i.e. hoteliers, travel agents, tour operators, for undertaking various taking tourism promotional activities . The activities include sales tours, , participation in travel fairs/exhibition & road shows. The main objective of the MDA scheme is to promote marketing of brand "Incredible India" – in the established markets as well as in the emerging markets

Conditions for Financial Assistance

The assistance to available to Tourism Service Provide approved by Ministry of Tourism, Govt of India

Financial support under the scheme would be available to companies with foreign exchange earning upto a maximum of Rs.15 crores during the preceding financial year.

Tourism Service Providers must show a cumulative increase of 5% in foreign exchange during a 3 year period to be eligible for the financial support under MDA Scheme at the end of 3 year

Financial support under the MDA scheme will be provided to a tourism service providers for participation in a total 2 events in one financial year

To avail the benefit of reimbursement of air fare under the MDA scheme, all the service providers the service providers to travel only by Air India to stations directed connected by Air India.

There are other few conditions & criteria for eligibility for Financial Assistance Support which are given in **REVISED GUIDELINES FOR MARKETING DEVELOPMENT ASSISTANCE (MDA) SCHEME**. The guidelines are separately annexed at the end of Chapter/Book

Schemes and Benefits

1. Merchandise Exports from India Scheme (MEIS)
2. Services Exports from India Scheme (SEIS)
3. Remission of Duties or Taxes on Export Product (RoDTEP)
4. Export Promotion Capital Goods Scheme (EPCG)

Merchandise Exports from India Scheme (MEIS)

- Objective: To offset infrastructural inefficiency and Reduce cost involved in export of products
- Entitlement: The reward under the scheme are admissible for Notified goods
- Reward: Duty credit scrips for exports of goods to a notified market and Rewards 2% to 5% of realized FOB value or FOB value of export as given in the shipping bill

Notified Market and Notified Products

Higher Reward

- Agricultural and Eco-friendly Products, etc.

High Potential products

- Fruits, Vegetable, Dairy and Herbal products, etc.

Global Supported Products

- Tea, coffee, spices, processed food, marine products Handicraft, sports goods, furniture and wood articles

Supported to major Markets

- Pharmaceuticals, Industrial machinery, tools, auto components Iron, steel base metal product, etc.

Services Exports from India Scheme (SEIS)

- Objective: Promote exports of notified services; To make services more competitive in global market; Incentives to exporters to offset infrastructural inefficiencies and associated costs involved
- Entitlement: To Service providers of Notified Services (Cross border trade and Consumption abroad)
- Reward: Duty credit scrips for exports of notified services including Hotels and Restaurant services, Rewards 5%-7% on net foreign exchange earned (NFE)

Remission of Duties or Taxes on Export Product (RoDTEP)

- Need for RoDTEP

FRICION FROM GLOBAL MARKETS

- The US government challenged various Indian export subsidy schemes (including MEIS) against which various representations were made by both the countries
- Indian Govt considered the need to revisit the existing structure of MEIS and to identify the pre-requisites for new and transparent scheme, which would be compatible with WTO norms

SEAMLESS ECONOMIC BENEFIT

- India being a member of WTO and in compliant with WTO trade norms, RoDTEP scheme is required to be launched for providing a seamless flow of economic benefit from Government

REFUND OF TAXES NOT PROVIDED IN EXISTING SCHEMES

- In existing schemes, certain taxes such as State taxes on power, oil, water and education cess are not included
- Under RoDTEP, such taxes are also proposed to be included in the indicative list

STAYING GLOBALLY COMPETITIVE WHILE MEETING INTERNATIONAL STANDARDS

- Being more compliant and transparent with WTO norms, it will help exporters to meet international standards for exports and to boost the growth of their businesses

Export Promotion Capital Goods Scheme (EPCG)

The Scheme

- Legal Framework
- Nexus of capital goods with export product
- Obtain EPCG authorization from DGFT.
- Validity-18months, No revalidation.
- Import: Zero customs duty
- Exemption from IGST and Cess, if physical exports
- Installation certificate
- Export Obligation : 6 times duty saved in 6 yrs from date of authorization + Annual EO
- GST & C. Cess not taken for fixation of EO, if paid and ITC is not availed

Capital Goods as defined in Para 9.08

- Any plant, machinery, equipment or accessories required for manufacture or production, either directly or indirectly, of goods or for rendering services, including those required for replacement, modernisation, technological up-

gradation or expansion. It includes packaging machinery and equipment, refrigeration equipment, power generating sets, machine tools, equipment and instruments for testing, research hand development, quality and pollution control.

- Capital goods may be for use in manufacturing, mining, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture and viticulture as well as for use in services sector.

Regulatory/Policy Issues faced by Hospitality Industries

Lack of Clarity & Implementation

In recent times, tourism has become more inclusive of new concepts that require the support of the government to develop and flourish. Some of these can include cruise-tourism, adventure-tourism, agri-tourism or rural-tourism. There is a need to propagate these concepts with dedicated policies developed for their development.

Industry players need dynamic and far-sighted policies by the government to help them boost tourism. As it stands, the problem with policies is that they lack clarity in formulation and proper implementation.

Long & Complex Visa Procedures

For inbound international tourists, visa procedures are seen as a hindrance. A number of countries competing with India for tourists provide visa on arrival. India should provide visa on arrival for more countries or for certain categories of tourists for a specific duration. Now for few countries, the Govt has taken initiative to issue visa on arrival

Delay in Licenses & On time approvals

A number of projects in the tourism infrastructure segment and in the hotels industry are delayed due to non-attainment of licences and approvals on time. The government recently cleared the long-standing proposal for single window clearance for hotel projects to hasten the process of infrastructure development. It was expected to help in the development of tourism and hospitality infrastructure in the country. However, in this short-term, that has not yet been observed. Problems continue to persist for the hotel industry in getting approvals and clearances

(Source: Report by Ministry of Government)

Hotel Industries Major Focus Areas

1. Room Occupancy- Topline & Profit Margin are directly related to Room Occupancy. And room occupancy, directly have an impact on profit margin. Higher the room occupancy, better profit margin, & drop in room occupancy, may have direct dip in EBDITA
2. Consistent improvement on EBITDA Margin, Return Ratios, & Cost Ratios
3. Big Chain of Hotels, are now using Data Analytics tools to know customer insights, customer preferences, behaviour pattern & identifying needs. Periodic Market Research on Hotel Accommodation. The Hotel Industry is dependent on Customer. Therefore, to attract more customers & increase the numbers, the technology tools are being adopted for analysis.

Expectation of Hospitality Industries

1. Regulatory mechanism for streamlining the issue of music copy rights for playing in hotels
2. Orders of delisting all ill legal properties from ITA & bringing all such properties under regulations
3. Hospitality industry has never been featured in any budget or economic schemes
4. To have one time & one window licensing, immediate release of funds from SEIS Licenses to cover OPEX- especially considering COVID-19 pandemic

Concerns & Challenges

Rising Cost

The share of human resource-related costs has increased from 5% in the early 2000s to ~25% in 2013. Along with this expense, energy costs account for the lion's share of operational expenses. Reducing the energy cost by eliminating wasteful consumption, investing in technology and adopting 'green' standards are keys to mitigating the increase in expenses.

Multiple avenues for managing costs, such as optimal resourcing, conversion of fixed costs to variable by increasing proportion of contractual labour, strengthening of back-end infrastructure, outsourcing of back-end operations through service contracts, managing attrition, managing construction costs and crash time for new project development are open to the industry.

High Attrition

Considering the spurt in the availability of hotel rooms and market entry of new players in the sector, talent poaching has increased. This has led to the increase in the attrition rate, which has reached as high as 50 percent across functions. Job roles with younger and relatively lower on-the-job experience employees see a churn rate much higher than the industry average.

Characteristics such as long and irregular working hours, high pressure situations, fast paced work and heavy work load during festive seasons, define this sector which collectively are a cause of concern for current and prospective employees.

Employer Employee Expectation Mismatch

Students graduating from premier institutes expect to reach managerial positions in two to three years. They are hesitant in taking up entry-level jobs that take them longer to reach mid-level profile slab. However, industry players feel spending time garnering experience in the entry-level job roles and profiles is critical in the formative years and lay a strong foundation for the future. The Demand on effort and time required, coupled with relatively lower remuneration, had an impact on the attractiveness of the sector as an employer of choice.

Average age on the job experience has reduced at managerial level

With high attrition and ongoing talent war, players are hard pressed to accommodate good talent in their organizations via faster promotions and higher pay. Prevalence of such practices in the last decade has resulted in a lowering of age at the managerial level by almost 5–7 years. Players are concerned that personnel at this level have lower experience of on-ground situations, which has led to a decline in the service quality.

Low attractiveness of tier 2 & 3 cities for entry level experience for fresh graduates

With increasing saturation in metros and tier 1 cities, the incoming supply of units properties will be in tier 2 and 3 cities. However, premier training institutes are primarily located in metros and tier 1 and 2 cities. Graduates from such institutes are not willing to begin their career in less glamorous environments of tier 2 and 3 cities. Consequently, employers face issues in manpower staffing in the new supply in the former areas.

Demand Irregularity

Almost 90% of the demand for hotel rooms in the organised sector comes from companies. Therefore, it is primarily during the weekdays. As a result, occupancy rates during the weekdays are much better than those during weekends. This translates in to almost 150 nights in a year, with low demand impacting the RevPAR across the year.

SWOT Analysis

STRENGTHS	WEAKNESSES
<ol style="list-style-type: none"> 1. A very wide variety of hotels is present in the country that can fulfil the demand of the tourists 2. International players in the market such as Taj and Oberoi & International Chains 3. Manpower costs in the Indian hotel industry is one of the lowest in the world. This provides better margins for Indian hotel industry 4. India offers a readymade tourist destination with the resources it has. Thus the magnet to pull customers already exists and has potential grow 	<ol style="list-style-type: none"> 1. The cost of land in India is high at 50% of total project cost as against 15% abroad. This acts as a major deterrent to the Indian hotel industry 2. The hotel industry in India is heavily staffed. This can be gauged from the facts that while Indian hotel companies have a staff to room ratio of 3:1, this ratio is 1:1 for international hotel companies 3. Only 97,000 hotel rooms are available in India today, which is less than the Bangkok hotel capacity 4. The services currently offered by the hotels in India are only limited value added services. It is not comparable to the existing world standards
OPPORTUNITIES	THREATS
<ol style="list-style-type: none"> 1. Demand between the national and the inbound tourists can be easily managed due to difference in the period of holidays. For international tourists the peak season for arrival is between September to March when the climatic conditions are suitable where as the National tourist waits for school holidays, generally the summer months 2. In the long-term the hotel industry in India has latent potential for growth. This is because India is an ideal destination for tourists as it is the only country with the 	<ol style="list-style-type: none"> 1. Guest houses replace the hotels. This is a growing trend in the west and is now catching up in India also, thus diverting the hotel traffic. 2. Political turbulence in the area reduces tourist traffic and thus the business of the hotels. In india examples of the same are Insurgency in Jammu Kashmir and the Kargil war.. 3. Changing trends in the west demand similar changes in India, which here are difficult to implement due to high project costs

OPPORTUNITIES	THREATS
<p>most diverse topography. For India, the inbound tourists are a mere 0.49% of the global figures. This number is expected to increase at a Phenomenal rate thus pushing up the demand for the hotel industry</p> <p>3. Unique experience in heritage hotels</p>	<p>4. The economic conditions of a country have a direct impact on the earnings in hotel industry. Lack of trained man power in the hotel industry</p>

Transport Facilities

A well-knit and coordinated system of transport plays an important role in the sustained economic growth of the country. The present transport system of the country comprises of several modes of transport including rail, road, air transport etc. Tourism industry is also affected by the performance of these services heavy road taxes are the great threat to the tourism and hospitality industries

Accounting Concerns

1. Timely tax compliance on consolidation of all data and tax compliance cost.
Multiple POS for revenue generation and other stream and consolidation

Role of CA Professionals

Business Advisory Services to Management – Improvement of EBDITA Margin, Return Ratios, Room Average Revenue, Optimisation Cost & ratios, Room Occupancy

Business Valuation & Equity Valuation Services

Representation before various authorities

Advisory services Regulatory Compliance.

Data Analytics

Advisory Services in relation in Joint enture- Franchisee Brand Ageements

Over the past few years, India has emerged as a key destination for travel and tourism. The government, through its campaigns, 'Incredible India!', 'Atithi Devo Bhava' and measures such as allowing FDI, tax holidays, among in the Indian market have played a key role in driving growth of the sector.

Rising consumption, growing disposable income, favorable demand supply dynamics of hotel rooms and, above all, growing demand for personalized and immersive experiences have been reshaping the industry.

Come 2020 and the world as we knew it, changed completely due to the global pandemic. With governments across the world imposing bans on international travel as well as lockdowns, the travel and tourism industry has been hit the hardest. That said, given the increased contribution of the industry in global as well as Indian GDP and employment, we expect a gradual revival by the end of 2020, as economies come on stream and infuse policy stimulus to return to near-normal levels.

11. Concerns in Hospitality Industry

11.1 Key Concerns in Hospitality Industry

Travel is an integral part of our lives and so is food. This both come together in the Hospitality Industry. “Home - away from Home” this Tagline says it all and was one of the driving factors for decades. Now, the hospitality industry is past this curve. The covid 19 pandemic will definitely mark a new normal for this industry. But in addition to how the pandemic will change the way things are now, there are certain areas in the entire hospitality industry that also need to be highlighted.

1. Customers

Unless there are customers the entire industry shall come to a standstill. The customers are usually self-motivated to avail the services of this industry – Hotel or Restaurant. The biggest concern for any particular hotel/ restaurant is how to attract these customers? However the biggest challenge in How to retain them? How to make them come again?

Marketing and Public relations plays a major role in addressing these two challenges. The expenditure on marketing need to be carefully budgeted with optimum bifurcation between different media’s such as Flex and Hoardings, Newspapers, Social Media, Sponsorships, Award ceremonies, Radio FM etc. The feedback mechanism also plays an important part in focusing on the areas of customer concern.

There has to be a specific emphasis on Brand building. The image and goodwill creates customer loyalty. The management has to make concerted efforts towards building up and developing their brand. Such exercise also requires substantial capital budget.

2. Technology

In today's world, Technology is power. The more state of art technology the more effective one is. Technology in the hospitality industry can be used in variety of different manners.

Hotel:

a. Personnel Training:

Simulation techniques, programmed situations and evaluation can be used to train staff. Ultimately a trained staff is a boon for any hospitality industry.

b. Reservations and Scheduling:

Most of the hotels reservations are now completely automated. The scheduling is also a very important process since it needs to take care of customer preferences, likes / dislikes etc. Thus it is being increasingly handed over to Artificial Intelligence.

c. Inventory tracking:

Any shortage of supply is a direct threat to goodwill. The digitalization of inventory and stocks would lessen the human errors in restocking, reordering etc.

d. Automation in security:

Drones are effectively being used the world over for reaching out to people in distressed situations. Such technology can be effectively used towards security and protection. Instead of cameras (that are immobile), the drone technology can be used to circumvallate the hotel for better security.

e. Customer generated Check-in and Check-out

Just as in automated check-in and boarding pass for air travel, the hotels can also have automated check-in and check-out. It will greatly release the service pressure on the front office staff and they can perform only the control, monitoring function over the check-in and check-outs.

Restaurants

a. Touchscreen PoS

The point of sales can be automated at different terminals especially in Café's, Bistros, Pubs and Drive ins. This would not only reduce the contact but the time spent in ordering, generation of KOT/ coupon, payment would

be saved. Multiple such touchscreen points would help to serve larger number of people.

b. Payment solutions

These type of payment options are very effective in malls, cinemas and such places where there is no Dine-in facility. The payment gateways (QR code for scanning) can be displayed at multiple places to facilitate ordering. The delivery can be made at the respective counters.

There are devices available even for contactless payments. Especially in the pandemic situation, the pin, sale value, swipe everything can be made by the customer.

Another facility can be given in these public places is Electronic coupon. The electronic coupon vibrates when the order is ready, the customer can then pick it up from the respective counter. This type of coupon facilitates customers to carry on with their shopping etc. till the order is readied without having to loiter about the restaurant for picking up the parcel.

c. Handheld machines for KOT and Kitchen display screens

The KOT is generated electronically. This is almost the norm today and this technology is cost effective even for restaurants with lower number of covers. Electronic KOT facilitate better control.

Kitchen display screens are also increasingly used for monitoring the completion of orders. Such display screens are also widely popular for display kitchens and where the customers/ delivery boys are awaiting to pick up.

d. Waste Management

One of the biggest costs are incurred on wastage. The AI technology may be used to understand and have early warning signals for probable expiry. The inventory planning can also be carried out with the help of these storage control devices. The planning of stocking on items, the manner of stocking etc. can also be carried out with proper use of technology. Issues and returns from stock can be monitored which may lead to minimum wastage.

e. Safety checkers

Whether the food is safe to eat? Such and other checks can be implemented with the help of diagnostic type of machines. In some cases, the food values are also analysed. This type of machines help in reducing the safety risks and also reduces the risks of error in human checks.

3. Staff

Retention of skilled staff is one of the basic concerns of the industry. Despite technological advancements, the hotel industry will not be the same without the human touch. Chefs/ Sous-chefs are one of the most valuable assets of any restaurant. The Human resources department is one of the most worked department. The attrition rate in this industry is phenomenally high especially in respect of semi-skilled staff. Special care and attention needs to be given to bond the employees with the organization and create a work-friendly atmosphere. Big hotels also have in-house special security who also double up some times as detectives. There is a wide variety of skilled employees required by hotels.

In certain cases, there are in-house grievance cells wherein every effort is made to sort the inter-employees problems. The issues between guests and employees are also sorted out by such special cells.

4. Repairs and Maintenance

Cleanliness is of utmost importance in any hotel or restaurant. Apart from pest controls there are stringent measures required to be undertaken for upkeep of maintenance. There are specialized agencies to whom certain housekeeping jobs like gardening, cleaning the building façade, glass windows etc. may be outsourced. The upkeep of premises is a very costly affair and every decent hotel and restaurants have huge budgets for this type of maintenance.

Repairs is another recurring expense which is a big concern for the industry. There has to be a control on the repairs. A policy for repairs is always useful. An in-house repairman as staff is recommended than outsourcing the entire process especially for bigger sized hotels. It is also recommended to spend on capex with durable and longer lasting equipment.

5. Price Changes

The prices of various items keep on fluctuating. However the prices of food items cannot be changed as frequently to match these changes. The government's food policy also directly affects the hospitality industry. Natural calamities like drought/ flood, shortage of production, epidemics in animals, strikes, riots affect the procurement chain.

Therefore food planning and procurement assumes lot of importance. To secure the price by making rate contracts is one way however it is not always possible in all the cases. The probability and marginal costing theories have to be implemented with great care while carrying out the pricing.

6. MIS

Innumerable amount of data is created by various flow points. The analysis of this data to create an informative MIS is of immense use to the management. Informed and calculated decisions like Discounts, Package schemes, marketing, staff incentives, security up-grade, renewal of contracts, managing of cash flows, advertisement budgets, technology upgrade etc. can be made by the management.

12. Trends

Technology is here to stay and so is the dream to see all the world. At the moment the world tour seems a bleak prospect and yet this dream of seeing the world is not going to go away. The business cycles would take its turn and slowly but surely the trend would change. Albeit the rules of the game would change and it seems the change would be for good. There would be much more awareness about cleanliness and hygiene. The air travel if it becomes costlier would give rise to a new trend of going back to basics- by the ship. All said, the tourism and therefore the hospitality industry is here to stay and would definitely be on the same level soon. The hospitality industry needs to revamp its hygiene standards. Not only the star hotels but round the corner hotels, pizza joints, bistros, udupi and irani café's need to follow suit in terms of cleanliness and quality.

The world is changing dramatically and people are looking for different experiences rather than vanilla trips. Following trends are here to stay:

1. Wellness Travels

The latest trend which is here to grow more so in the pandemic times. There are various trends like: Detox holidays, Healthy holidays, Spiritual/ Yoga holidays, Organic Food holidays

2. Millennial Travels

The people born in and around the millennium are the adults and youngsters who are one of the biggest markets of hospitality industry. They want something different, exceptional and adventurous. If one can capture their imagination, then that would be a trendsetter.

3. Exclusivity

Be it a senior person or junior, the persons who are travelling are looking out for something exclusive. One of the phenomena that has caught on as never before, 'I'm better than my neighbour', especially due to advent of

smart phones and apps like Insta/FB where people want to be on camera with an exclusive- never before experience. Some of the trend setters seem to be Food& Culture holidays, where there is a right mix of local exotic food and cultural insights.

Hospitality industry needs to have tie-ups with local travel agencies/ airlines which would help to announce exclusive travel packages at economic rates.

4. Bleisure travels

Business with pleasure was always an old idea however the trend to cater exclusively to business travelers post their business trip is a winning idea. Again the business people need to be offered exclusive packages so as to increase their stay post business days. It makes commercial sense since these people need to travel and are bound to travel. The focus should be to increase the occupancy time. Exclusive, unusual family plans would definitely be a winner.

13. Way Forward:

1. The hospitality industry includes many sub-sectors that open up opportunities, below list shows such closely related sectors:
 - **Accommodation:** hotels, resorts, vacation rentals, camping, etc.
 - **Food & beverage:** restaurants, night clubs, franchises, catering, food trucks
 - **Travel:** airlines, cruise ships, private jets and charters
 - **Tourism:** excursions, tour packages, destination management
 - **Events:** festivals, concerts, conferences, fashion shows, etc.
 - **Sports & recreation:** international competitions, private clubs, rentals, retail
2. The tourism and hospitality industry is one of the strongest industries in the world in terms of overall GDP, employment and growth. According to the World Travel and Tourism Council's 2017 report, the year of 2016-2017 experienced below growth parameters as part of overall tourism and hospitality industry:
 - +6 million net additional jobs in 185 countries
 - +7.6 Trillion US\$ (10.2% Global GDP)
 - 292 million jobs sustained
 - 1 in 10 jobs in the global economy

3. Hospitality and tourism management career options are predicted to grow from the industry's current place at 1 in 10 jobs on the planet to 1 in 9 jobs on the planet or 380 million jobs worldwide by 2027.

Breadth of hospitality industry:

Hospitality sector offers a fun and challenging work environment, giving opportunities to travel and work in cities around the world and experience diverse cultures, which is truly a great motivator for millennials. No wonder, the sector is growing employment sector that offers good security and opportunities to advance in a career for the future. Consider the diversity of a career in the hotel industry and hospitality industry careers in closely related sectors:

- **Hotel operations:** front office, rooms division, food & beverage, events
 - **Hospitality management:** HR, finance, marketing, real estate, public relations
 - **Entertainment:** venue management, event planning, sales, retail, VIP services
 - **Luxury:** lifestyle services, private charters, VIP events & services
 - **Food & Beverage:** fine dining, catering, culinary arts, sommeliers
 - **Health & wellness:** spas, fitness, private clinics, retirement living, hospitals
 - **Online & technology:** OTA's, start-ups, sharing economy
 - **Other roles:** hotel openings, hospitality consultancy, project management, R&D
4. The four main drivers of revenue growth predicted for hotels, airlines, restaurants, and travel and tourism businesses:
 - **New money:** The global traveller pool is growing by millions every year with new consumers from emerging and developed markets with growing disposable incomes.
 - **Affordable airfare:** Airfare prices continue fall encouraging more travel and leaving more money on the table for other sectors.
 - **Business travel:** The global economy is strong and business travel is projected to grow by more than 6 percent in 2018.
 - **Focus on experiences:** Consumers are spending more on recreation, travel, and eating out, and less on material goods.

Major Challenges faced by the Hospitality Industry right now:

1. Climate change:

The threat of climate change will adversely impact many major tourist destinations. Threats resulting from climate change, safety and security issues, as well as unprecedented migration streams are tomorrow's game changers. The main challenges for the hospitality industry are the lack of predictability and the magnitude of such events – and how fast the industry can react and adapt.

2. Industry consolidation

Corporate consolidation has led to increasing concentration of size and power among the top players. Hotel operators will seek to expand their portfolios through targeted acquisitions of smaller regional chains. While the ultimate goal is to create value through cross-organizational synergies, this development also comes with downsides, as the management of structures with a diverse selection of geographies and a plethora of brands generates more complexity and threatens to increase overall rigidity.

3. Online visibility and brand recognition

An area where traditional hoteliers are lagging behind their more advanced opponents is online visibility and brand recognition. In the past some brands were able to create their markets based on the number of properties or an outstanding service offering. With the dawn of the internet and the connected rise of OTAs however, this trend has been disrupted. Because of the immense amount of indiffereniable hotel brands, hotel chains can already barely compete with online travel and booking players, making new competitive strategies inevitable.

4. Competition from tech and digital players

Major technology firms such as Google or Facebook could well threaten to replace hotel brands by offering technological solutions and creating novel markets to attract new types of customers. The control of tech behemoths over all types of data related to customer behavior both off- and online, could oust traditional incumbents into niche markets. Companies that fail to identify their niche are at risk of becoming mere revenue generators for technology companies. Some big enough brands may survive, but their business will get tougher.

5. Skilled talent shortage

As the accommodation and restaurant industry is creating jobs at the fastest rate of any sector in the economy according to the International Labour Organization, fuelling this growth with the right skilled labour is yet another concern for owners. Attracting and retaining younger generations of hospitality professionals will require a lot of flexibility and attention from hoteliers in the future.

The future of hospitality

1. Sustained disruption from online travel agents (OTAs) and digital players

Well-established OTAs are continuing to look for new ways to challenge the hotel industry.

- a) Expedia, for instance, has been expanding its global presence by focusing on “brand-agnostic customers” through more relevant local offerings and content strategies. A world in which we no longer search for information via browsers and apps as we do now, but instead ask a virtual personal assistant – whether it be Amazon’s Alexa, Apple’s Siri, or Google Assistant – to book holidays or business trips for us - may not be too far off.

In the wake of these changes, there are many aspects for hoteliers to pay attention to, but there are also lessons to be learned in order to better equip traditional providers for what lies ahead.

- b) Airbnb’s rapid expansion - embodied by its strategy roadmap aptly dubbed “Airbnb For Everyone” is another example of aggressive efforts for non-traditional hospitality industry players to play on traditional hotel business’s territories: the digital giant has drastically expanded the type of properties available to customers - from vacation homes and B&Bs to experiences or collections.
- c) Google has clearly been placing bets on the travel and hospitality industry by consolidating its various offerings into its Google Trips interface - tapping into its gigantic ocean of user data and delivering highly relevant information to users across the various stages of their trip planning. Its tools range from Google Assistant to flight and travel data and put the company in a comfortable position when competing not only with major hotel chains but also OTAs.

2. Big Data, AI and customization in the hospitality industry

Data is everywhere and for companies that know how to collect and store it correctly it can be a major success factor. Big Data Analytics can

help operators correctly predict whether high-rolling guest spending on expensive food and drinks are merely celebrating a special occasion or if this behavior is the clients' usual behavior while traveling. This sort of information is crucial in efforts to determine a customer's lifetime value.

A deep understanding of customer needs through the collected information also enables hoteliers to stay relevant through their ability to offer personalized services to every guest, thus increasing their likeliness to return.

When it comes to ensuring that each room is sold at the highest price possible, revenue management is used to focus primarily on setting room prices and optimizing room inventory. Today, Revenue Management strategy goes beyond those aspects, and revenue managers should look for new ways to optimize revenue growth and profitability through data integration.

3. Digital transformation in the hospitality business

In today's ever-connected environment, addressing current challenges head on means embracing the possibilities offered by an end-to-end customer experience. It is not about merely relying on a loyalty program anymore, it is about creating a broad and connected ecosystem across all brands and touchpoints.

Major players in the industry - such as Accor²⁸ - have already realized the immense potential of new technologies and are currently looking for ways to incorporate them into their client offering.

4. Millennials and Generation Z travel trends:

Millennials are a hugely attractive market, representing two billion people globally. Their collective spending is set to overtake Generation X by 2020, so it is not surprising that hotels have picked up on this trend.

Many are discussing how to best approach this group of customers and how to stay attractive in the light of changing values and behavior. Hotel chains have launched brands designed to appeal to this demographic segment, often by reducing guest room sizes and putting more emphasis on creating hospitable common areas.

²⁸ Accor S.A. is a French multinational hospitality company that owns, manages and franchises hotels, resorts and vacation properties. It is the single largest hospitality company in Europe, and the sixth largest worldwide.

Both generations' need for unique experiences has led to the surfacing of the experience economy. This buzzword describes the transition from a product- and service-driven economy to an experiential one. The combination of advances in technology with the changing values of consumers led to the success of social media and sharing networks as commercial platforms. This provides an opportunity for traditional hotel brands to leverage their existing brand equity to offer a range of more focused services and experiences that go beyond hotel stays.

Role of Chartered Accountants in the growing Hospitality Sector:

Hospitality industry is poised to grow in years to come and our community of Chartered Accountants have our role chalked out in the growth story. Our work could span across solutioning and being enablers to meet the needs and the objectives of the hospitality industry, for instance:

- Back office solutions for a Chain of Restaurants including reporting, bookkeeping and management accounts
- Producing strategic business plans and advice to various fast food franchisees
- Negotiating and guiding clients through effective due diligence in the journey of consolidation and thus, facilitate mergers and acquisitions in the industry
- Providing refinancing support for a hotel group
- Improving efficiencies, productivity and cost saving
- Raising finance for growth, sales and acquisitions, with hands-on transaction management, from concept to completion
- Advice on regulations specific to the hotel industry on areas such as tax, GST, licensing, etc
- Forensic review of processes to assess potential fraud risk and recommending mitigative steps

14. Hospitality Sector - Conclusion

The industry is faced with challenges. Investors anyway have shied away from this industry, and not just because of the interest in the new age "tech companies". Even though hospitality sector is vitally important from a National perspective since hospitality sector employ more nearly 5 crore people in the

organized sector and provide up to 10 percent of India's GDP at 30 billion of the 2.75 trillion economy. These figures are meaningless because for an industry which has been badly hit, the future figures are what will matter now.

The hospitality industry going forward will have to come to terms with a complete overhaul. Having been forced to change numerous times, from early days of the 9/11 terror attacks to SARs, to Mumbai terror attack to various regional issues has been deal with on a regular basis.

1. Hotels will need to completely review their cleaning methodology and reduce at least for time being an item in the room. To ensure deeper clean, hotels will be doing away with extra show pieces, decorations and possibly reduce furniture in the room, to allow better and deeper cleaning.
2. Up market hotels will also move towards disposable cutlery crockery glassware. More hotel owners will be able to initiate comfortable roll outs of disposable items. With the shortage of service and kitchen stewarding staff, this will be a welcome change for hotels and restaurants.
3. More automation. People will be happy to have less human interaction. Large hotels will have check-in kiosks in place of reception desks. Customers will simply have to leave the luggage with a kiosk printer sticker for identification and transfer of the luggage to the rooms. The reception will be staffed with no more than 2 people and the extra load will be handled with kiosks.
4. Introduction of Force Majeure and other terms in all leases and contracts. Till today, not many thought about the force majeure clause. It was a ubiquitous clause which normally was covered in the insurance. But what happens when the case is something and the result something else.
5. Hotels will look like hospitals for the new future. With all staff wearing face masks, housekeeping staff at least the core team wearing protective equipment. There will be medical and training on infection containment if any guest complains of symptoms. Constant use of sterilizer and sterilization techniques. Avoiding too much and excessive interaction, which was once taken as a pride. Of adding extra warmth and hospitality. Guests themselves may not be comfortable with any staff "getting too close" both physically and figuratively. And of course, the masks, gloves and possibly face shields, along with revised easier to sterilize uniforms will all be a part of the revised look of hospitality.
6. Additional measures and specialized staff. Because when we had the Mumbai Hotel terror attacks, immediately X Ray machines became

- compulsory. If not from the authorities, then definitely from a perception perspective of the larger hotels to show their security measures. This coupled with various other gadgets, equipments and procedures, (like retracting Bolsters and vehicle entry restriction etc.) All of which have added new costs and staff to hotels. Same will be the case with hospitality this time. We will be forced to have perhaps semi medical staff in charge for sterilization and other procedures, especially in the larger hotels.
7. The design and metrics of the entire industry will change. With so called social distancing and other norms, the layout, planning and design of restaurants, gyms and even pools will all lead to complete change in the performance metrics of hotels. It may not be possible to accommodate more than single occupancy for some time to come especially in corporate hotels. Thereby changing the revenue metrics of most hotels. The restaurant layout will have to be changed with tables set at distances which will require the same amount of overhead in cooling, cleaning and manning. Thereby putting a load of reduced number of covers and revenue while overheads are the same.
 8. Greater focus on car travel. With people avoiding air travel and trains also. The focus will be on travelling in your own "safe secure" car. So this will restrict travel to destinations around 4 to 6 hours distance. Greater boost to domestic travel. While people will definitely be travelling on their own time. And using their own cars. Majority of travel will all take place 4-6 hours within driving distance of people. And so city resorts and properties not too far will do well. Also a side effect will be self driving and cars for hire will also get a boost as air travel and train travel will come down at least in the foreseeable future. Corporate travel will reduce for the next 2 years. It will take at least 2 years to even reach the existing business. As companies will be very fearful of medical costs and coverage of employees who may fall victim while on duty and worse still could come to office.
 9. The ability of the hoteliers to institutionalize massive changes in the organization in multiple ways will serve as a barometer of how successful they will be going forward. They may also see significant improvements in the margins & the way hotels operate once lenders/bankers can mitigate the risk to overcome the survival time.
 10. Even with SOPs of health and safety becoming more defined in big branded hotels, the business of bed & breakfast models will also pick up speed in India, like the west, alongside.

11. Repurpose hotels have different lenses attached to it and one has to think out of the box as to how existing hotels can be repurposed into different real estate models if their survival is at risk for another 3 years.
12. The industry runners will have to probe distinct ways and means to preserve and conserve cash in all aspects while taking enough support from the regulators & socializing the issues with stakeholders. It will look at things from quantitative and qualitative facets, against issues faced by the industry because of the COVID 19.
13. Businesses with the presence of more than a decade will have some mechanism of cash element being diverted in the business, equity support that has to be demonstrated.
14. In the long run, one has to keep an eye on the best practices happening globally.
15. Support from the banks/financial institutions are legitimately huge in the international market for this industry. Separate funds have been created in the past.
16. Reinventing of the wheel in terms of cost management, manning ratio, cash management & support from stakeholders like banks in form of short-term working facilities/OD, EPCG scheme, GST, a waiver from the property tax, liquor taxes, and many more ways which can give sufficient breathing time to the industry to jump back on its original level.
17. The industry is currently averaging out close to 8-10% occupancy depending on which part of the country it is operating in.
18. Hoteliers will have to be mindful of the CAPEX, they will incur in the process of making their hotels safe and hygienic. There is a possibility that these solutions are for the short-term pre-vaccine era which might become redundant in the future. One should not go overboard & have a balanced approach for incurring CAPEX.
19. The organized players, because of scale & enough intervention, usually can recover 60-65% of the cost faster than unorganized players. They have structures and processes that unorganized players lack & hence impact will be far-reaching.
20. As the customers will increasingly prefer compliance, independent operators will have to ramp up to get them in order. India is going in a direction

where the need for compliance, transparency, sustainability, responsibility is growing.

21. This crisis will force the unorganized sector to obtain a level of compliances in terms of hygiene & safety in the near-term. Government & regulators might enforce certain guidelines or we may even see certifications that will take care of safety issues.
22. Social changes brought about because of this pandemic in lifestyle will also affect travellers and tourists while booking accommodation.
23. Technology will remain a big differentiator and young professionals will have to be friendly with the fact that AI, machine learning & automation are not here to take their job but make them more distinctive & unique.
24. The re-skilling of staff and professionals will require them to embrace digital and online learning. Their mindset will have to be aligned with the new future that will prepare them for COVID -like the environment of uncertainty.
25. Payroll forms a tremendous part of P&L for this industry, and cost-cutting measures in this area are to reduce the room to staff ratio. This has to be done while enhancing the productivity of the staff so it does not affect the business. And this is by identifying ways to adopt technology in operations.
26. For structured hotels, health & hygiene specifications were already in place except for few basic changes, the change that may be forthcoming may be in a plethora of other forms like sustainability, energy saving, staffing & recruitment, & many other ways.
27. There is a digital explosion that has opened up fresh opportunities amid uncertainties. It will be interesting to see how this will affect & benefit the industry as a whole. India is in a unique place at the moment. It is demarcated as the one that will lead the future as the economic shifts happen.
28. With the emphasis on bringing down the manning cost, there is a need to re-skill the manpower. Re-skilling will be important because the time & expectation will differ from what it was a pre-COVID era. This industry has also lagged in an adaptation to technology as compared to other sectors.
29. Companies will have to learn to effectively communicate in this virtual environment and identify non-verbal cues in the absence of physical nuances.

30. Only businesses with enough reserve will be able to weather this storm. Hotels who were doing well, owners & management would take out cash & invest in either upgrades or CAPEX, expansion & growth. So if they have not kept a pile of reserve or contingency aside, they will be greatly challenged in upcoming times.
31. As the numbers are quite terrifying because of the shutdown of business, the government has offered respite by being considerate and proactive in their response. However, this industry will need more aid by a combination of solutions because it is sitting on close to \$8 billion of the loan book, organized & unorganized combined.
32. Financial institutions and bankers need to back up this under-penetrated industry, which has an enormous amount of potential for growth and expansion by placing the right bets on a calculated class of assets.
33. International capital markets are more flexible in decision making as they are not dependent on regulators for guidelines. Banks in Germany, UK & New Zealand are taking independent decisions based on the history of the borrower and providing all the essential support.
34. Second, international sovereigns are also providing support to corporates in the form of reimbursing the payroll, which is a key expense anywhere.
35. We aspire for an extended moratorium of a year. As deferment of interest is announced till March 2021, the industry recommends capitalization of it.
36. One-time restructuring of the accounts with details to be worked out about the qualification of account & etc.

7. Interesting Facts- DID YOU KNOW !!!:

1. Tallest Hotel in City

6 out of the top 10 tallest hotel in the world exists in one city. Yes, you guessed that right. Dubai has over half of the top 10 tallest hotels in the world. JW Marriott Marquis Dubai is the world's tallest hotel having 76 stories. This twin tower standing tall in Dubai, United Arab Emirates is 355 metres tall

2. Most Expensive Hotel Room

The Royal Penthouse suite of Hotel President Wilson in Geneva is considered to be the most expensive hotel room in the world. The average

price per night for this room is a whopping amount of approximately \$61,000- \$84,000

3. The World's Oldest Hotel

Koshu Nishiyama Onsen Keiunkan in Japan is named as the oldest hotel in the world. Another amazing hospitality fact is that it is recorded in the Guinness Book of world records. The hotel is over 1300 years old. The ownership is held by the same family for over 50 generations.

4. The World's Largest Hotel

Abraj Kudai Hotel in Saudi Arabia would be opening soon and that would have around 10,000 rooms and over 70 restaurants

5. Total number of hotel rooms in the world

Total number of rooms worldwide is expected to be around 15.5 million as per the Intercontinental hotel's group report. The number has soared as on date. According to STR Global, the number of hotels rooms is over 18.5 million as on date and is expected to breach the 20 million mark soon

6. The city with the Highest Average Room Rate

Many would believe that New York City; the city so nice, they named it twice, would take the trophy for this one. However, the city that has the highest average rate is the city of Geneva in Switzerland. A room can cost almost \$308 on average per night. Phew

7. Costliest Room Service

This is again one of the astonishing facts about the hospitality industry. The most costly room service is found in Las Vegas. You should be prepared to pay a tab of worth \$68 if you ever plan to stay in a hotel there .Las Vegas is closely followed by New York City in this matter. The average tab in NYC is about \$67



