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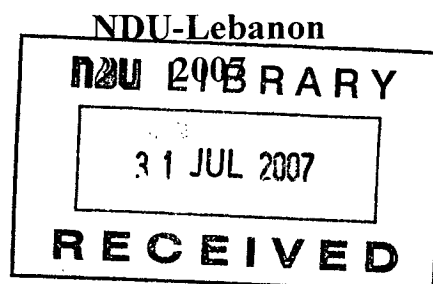
**&**

**Bordeaux Business School  
Institute of International Business**

**Catering Incorporation: Analysis and Evaluation**

**A Memoir Submitted in Partial Fulfillment of the  
Requirements for the Joint Degree of the Master of Business  
Administration (M.B.A.) and the Master of Science in  
International Business (M.I.B.)**

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# Approval Certificate

## CATERING INCORPORATION: ANALYSIS AND EVALUATION

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June 26, 2007  
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## Declaration

I hereby declare that this Memoir is entirely my own work and that it has not been submitted as an exercise for a degree at any other University.

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CHARBEL YOUSSEF SEMAAN

## **Dedication**

Before proceeding in this project a word of thanks should be given to the people who made this happen.

I would like to express my appreciation and admiration to the Committee of MBA - MIB Program, as to NDU & Bordeaux Universities.

A special thanks to Dr. Atef Harb, my advisor in this Thesis.

People who showed the best cooperation are appreciated in supplying us with the valuable information and for their time.

Last but not least to my teachers, parents and friends who encouraged and supported us during our university studies.

## **Abstract**

The foodservice industry is booming in a very high speed these last few years and it is becoming more and more important and we see a lot of competitors in this field. One of the most important companies in the world is Catering Inc. this company is international and we see it in more than 80 countries around the world, one of its expansion is in Lebanon where it distributes healthy and prepared food for Universities and hospitals.

As MIB-MBA student and a former worker in this company, we intended to develop this project with the hope of being a good example for an international joint catering company applying the laws and regulations of the Lebanese Law. As a part of the Lebanese market, the company suffers from some problems and decreasing its growth in Lebanon due to several reasons.

The international perspective for this project is the following. Though we've chosen an international Company and instead of doing a study for the company to open in another country, we will study the Lebanese part of Catering Inc. in this project, where it is a new expansion for this international company and it's not doing well and is facing some problems in the Lebanese market.

What are the problems of this company? How to solve them? Where are the strength & weaknesses? For example: although the sales and the numbers are very good, there's no long term planning, there's no new technology, no stock software, etc. as for many other problems that we discussed in this study and gave our own recommendations on how to solve them.

As business consultant, we've presented a detailed study of Catering Inc. Lebanon, present real figures, show its strength, weaknesses, problems, assess its accounting part and analyze its financial statements. Then we gave solutions for the problems it's facing and how to remove the points of weakness. By applying the recommendations we gave so Catering Inc. Lebanon can get the international good image that the company has, as to keep on growing. For example: the company should arrange a lot of meetings among managers to solve the problems and put effective strategies and plans. Catering Inc. has to enter the technology world, etc.

As for the main findings and the added value of this project, we got an important experience on how to study a company from different sides, filtering the problems and the most important is the part to give the recommendations that we saw appropriate to use in order to solve the problems. As for the added value for the company, they started to work on some of my recommendations, such as the linked software, the meetings with the managers but not on regular basis, job description, etc.

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## Chapter 1. Introduction

While the years are passing, we see that the industry of catering and foodservice is Booming due to several reasons. Income, working women, age, ethnicity, the decrease in dining in and the increase in dining out; for that the industry of catering and foodservice is becoming more important. The foodservice companies are growing in a high percentage, and are improving their quality, E-commerce, technology, going internationally, etc. In this project we see a study that was made on one of these companies; it will cover the Lebanese part of this International Company, where we shall include a detailed assessment of this company, plus recommendations for the problems that it needs in Lebanon to be able to compete with other companies.

Catering Inc. is this multinational foodservice company that has an expansion in Lebanon. Getting the opportunity to Work in Catering Inc. Lebanon, gave me a proper experience to be able to study this company knows its weaknesses and build up the solutions that will push this company into a higher standard in the Lebanese market.

Taking a first look at Catering inc., with the work experience in this company let us notice that the company is facing some problems: No long-range business plan - No customer service follow-up is made – No reliable control system on employees working hours – No united software and stock program...

Therefore our first objective and mission in this project are to play the role of a Lebanese business consultant to Catering Inc., build up our detailed studies about: its administration, management, accounting cycle, etc. then go into a deep analysis in the problems that the company is facing.

Second objective is to provide a detailed assessment for the company, as presenting solutions and recommendations for the company problems, and how the company can keep on with its growth in the Lebanese market. But in order to achieve this objective, we must go into the process of studying the company from its different sides.

Taking a first look at the company, we build up some research questions that we will study in this project about Catering Inc.

- ❖ Does the company have a good management and administration system?
- ❖ What are the parts in the company that should be studied?
- ❖ What are their problems? And how can they be solved or minimize their impact?
- ❖ Does the company have any problem with its accounting system and in its stock?
- ❖ Where are the gaps and the problems in its management?

This leads us to build our hypothesis for Catering Inc.:

1. As the company is facing a lot of management and other problems, the Managers and the Board of directors should meet on regular basis, to solve these problems and this way, the margin of error will decrease and we will get a better management.
2. Catering inc. should go into the new technologies, like linked software between the branches, Wi-Fi technology, advanced methods of payment. Doing so will give the company advantages in the market in the way of payments, controlling the stocks, follow the technology, etc. which will ease the work and increase the sales and services of the company.

Now we can go further and begin the study process, where we shall start with an intro about the foodservice: Its history, present and future look of this business, how it evolves with time, and its continuous growth and reasons why. Then we will have an introduction about Catering Inc. Company. Further more, we will start with the study of the Lebanese extension of the company, where we will start with a review of literature part then continue to see a detailed study about: Human Resource Department, Internal Management & Control System, Accounting Studies & Financial Analysis, to get to the conclusions and recommendations part; Backing up our information with real tables and real data from the company. All this is to arrive to the most important part of this project which is the problems study that the company is facing and how these problems can be solved.

## Chapter 2. Review of Literature

Where are the foodservice growth and shape these days? What are the changes in its demographics that make this business growing?

What is the history of catering and restaurants? What's the difference between them? How did they evolve through time?

What is Catering Inc.?

Starting the study with seeing where is the food-service business in today's world, and how it is growing.

“Consumer spending at full-service and fast food restaurants will continue to grow over the remainder of this decade and the next. However, the larger increase will likely occur at full service restaurants. Simulations assuming modest growth in household income plus expected demographic developments show that per capita spending could rise by 18 percent at full-service restaurants and by 6 percent for fast food between 2000 and 2020. The assumed increase in income alone causes such spending to rise by almost 15 percent and 7 percent at full-service and fast food restaurants, respectively. The increasing proportion of households containing a single person or multiple adults without live-at-home children will cause per person spending to rise by another 1 to 2 percent in each of these segments. However, the aging of the population will decrease per person spending on fast food by about 2 percent per capita.” (<http://www.ers.usda.gov/publications/aer829/aer829.pdf> )

a) With the increase of the food-service business today, we can take a look at future effects that will affect this business positively:

Age: where 26% of the population is over 50, and by 2010 it is projected to be 32%, where this population shift will do significant changes in foodservice behaviors, because life-stage have a big influence on the foodservice world.

Income: Worldwide, the population is becoming wealthier. This leads to spending significantly half or more on food prepared outside the home.

Ethnicity: the population will continue to become more ethnically diverse, with the growth of population and the international opening between people, which leads to closing the gap of traditions, as it will affect the consumer taste profile.

Working women: we all know that the percentage of working women is rising, this will lead the families to rely more and more on food prepared away from home, due to the busy lifestyle and the less of free time.

- b) Now we will see the different phases in life and how each generation is dealing with the changes in life and the growth in the business of foodservice:

Generation Y: where this group of people is between the age of 15-25, where they grew up eating fast food and in restaurants. And when they will enter the work life, this behavior will remain. Rarely cook and eat out frequently with their families.

Generation X: Age between 26 & 35, they have some remaining family dining but the majority don't know how to cook from scratch, in the future they will remain on some meals assembly. But they will purchase meals prepared outside home.

Boomers: they are the last generation that they really know how to cook; their age is 35-55 years old. But they are shifting slowly to the foodservice outside home, and look for convenient and healthy food places to eat.

Matures: this group includes people between the age 56 & 65. Where they cannot follow the change and will remain grocery shoppers, and eat home prepared food. But in the future when the boomers become matures, this case will change.

As we can see, in the near future, the eating at home behavior will be decreasing in a high percentage, while dining out will see a very large growth. Now let's return in history to see how the restaurants and the foodservice business have begun.

## **2.1. Catering vs. Restaurants**

The history of restaurants and catering is quite interesting. At the beginning, catering or restaurants didn't exist as today. The word restaurant appeared first in the 16<sup>th</sup> century and meant a food which "restores" and though we had famous chefs and dishes that time but they were under the employment of rich people or were strictly controlled by certain guilds. And the places for ordinary people to eat were inns and

taverns. Until 1765 where all started to change. (*McKinsey. 2005. foodservice executive summary.*)

The birthplace of a true restaurant was in 1765 where a Parisian “bouillon seller” named Boulanger opened the first restaurant and called it “Boulanger” where he was the first public place where any diner might order a meal from a menu offering a choice of dishes, but he faced problems that time with the guild of *traiteurs* and had to close, then reopen the restaurant later and continue serving his ragout and also prepared other dishes on site and to order.

The first luxury restaurant that worth of the name was Parisian founded by Beauvilliers in 1782 in the Rue de Richelieu, called “La Grande Taverne de Londres” where he introduced the novelty of listing the dishes available on a menu and serving them at small individual tables during fixed hours. Also Beauvilliers was credited for being the first to combine the three essentials of an elegant room: smart waiters, a great wine cellar and superior cooking.

Later with time restaurants became global where you can find different kind of foods in the same country (Mexican food, Italian food, Chinese food, etc.). As examples for international restaurants: McDonald, KFC, etc.

On the other hand, Caterers were known since 100s of years as the *traiteurs* or the cooks. At that time, they formed guilds of *traiteurs* and they had an exclusive right to sell cooked meat dishes but limited themselves to selling whole cuts of meat, not an individual helping. They were popular for selling small quantities at low prices.

Nowadays, catering concept has changed, where an event caterer serves food with waiting staff at dining tables or sets up a self-serve buffet. The food may be prepared on site, made completely at the event, or the caterer may choose to bring prepared food and put the finishing touches on once they arrive. The event caterer staff isn't responsible for preparing the food but often help set up the dining area. This service is typically provided at banquets, conventions, and weddings. Any event where all the attendees are provided with food and drinks or sometimes only hors d'oeuvres is often called a catered event.

A catering company or specialist is expected to know not just food preparation, but how to make it attractive. Many events require working with the



entire theme or color scheme. Catering companies have moved toward full-service taking charge of not only food preparation but also decorations, such as table settings or lighting. It's not that food is no longer a focal point, but rather that it is part of a broader mission. Many suggest that catering is about satisfying all the senses. A caterer and his or her staff should be friendly and cooperative because, after all, they are in the food service industry and should follow the motto "the customer is always right".

Catering is typically sold on a per-person basis, where adding additional people is a flat price per person. Keeping the cost of the food and supplies below this is required to make a profit on the catering. With the correct atmosphere, professional event caterers experience can bring clients satisfaction of all the senses in a way that makes an event special and memorable. Of course, beautifully prepared food can appeal to your sense of taste, smell and sight - perhaps even touch, but the decorations and ambiance should play a significant part in the client's enjoyment as well. (*McKinsey. 2005. Foodservice executive summary.*)

Catering includes providing food for airline passengers, schools, prisons, companies, universities, weddings, parties...

In this project we will see a detailed study of a multinational catering company named Catering Inc. in its Lebanese part.

## **2.2. Company Information**

Catering Inc. is one of the largest and most successful International foodservice companies in the world. Today, they offers the largest quality food and related services in more than 90 countries employing over 400,000 people serving over 20 million meals a day and an annual revenue of \$21 Billion.  
*<http://www.compass-group.com/>*

They operate worldwide as one organization through a senior and experienced international team, which has remained unchanged. They have held the firm through strategic focus on food service, support services and vending, as they work constantly to satisfy the clients. Their unique business model, employing, brand ownership and international coverage, allied to the scale and global purchasing

strength, continues to help this company to retain clients, while attracting new ones as the trend to outsourcing continues.

While generating high levels of organic growth, Catering Inc. Group has created depth in the business through the development of their own trade brands. These include Scolarest, Me direst, Upper Crust and Caffè Ritazza in the retail food market; and Selecta in vending.

Regarding the high quality, profitability and fast growing food and support services group, Catering Inc. internal business profile, unique portfolio of food services brands, experienced international team and clear strategy have put the company in a great position for support, as they have expertise in local training initiatives. All these measures lift the skill level of the local staff, benefiting by increasing the flexibility and service quality.

### **2.2.1. Vision**

The vision of Catering Inc. is to be the highest quality and most profitable owner and operator of the world's top food service businesses.

### **2.2.2. Mission**

The Mission of Catering Inc. is to achieve leadership in their chosen food service markets through the constant pursuit, in association with their clients and partners, of superior levels of service, efficiency and quality. The total dedication of the staff to the achievement of excellence is the major factor in their success.

### **2.2.3. Quality Assurance**

As a market leader in the foodservice industry, maintaining a high quality in every aspect of their business is the most important factor in meeting and exceeding clients and customers expectations.

The commitment to high quality has culminated in recent accreditation to the ISO 9001:2000 standards.

In real terms this means that their clients are guaranteed involvement to comprehensive information through a range of formal tools and systems, including customer surveys, hygiene reports, quality reports and period call reports.

Their efforts are focused at site level in order to achieve consistency in all areas of customer service and to allow for the on-going improvement of practices to satisfy customers.

#### **2.2.4. Quality Circles:**

Working in Quality Circles where they exceed the clients and customers expectations in everything they do for them. However, it is not good enough to only exceed present expectations. They always look ahead to the future.

This requires the gathering of global best practice and plotting a path to future standards and practices that will ensure that clients and customers get the very best food service there.

The importance of this task has been the driving force behind the creation of a global network of quality managers. These people devote their entire energy to maximizing quality at site level within the context of their global future.  
*<http://www.compass-group.com/>*

In this project we will jump from the Macro view of Catering Inc. internationally, to its Lebanese micro view. Where there are a lot of differences like:

- **Legislation:** it is the law that the government of each country puts, for the companies to follow. So, Catering inc. Lebanon should follow the rules and regulations made by the Lebanese government.
- **Education:** there's a lot of space and difference between the education in Lebanon and other country, where each country focus on teaching its history, business, rules... plus the level of education that people reach.
- **Culture:** generally refers to patterns of human activity and the symbolic structures that give such activity significance. Different definitions of "culture" reflect different theoretical bases for understanding, or criteria for evaluating, human activity. In this project there will be different culture in food eating, as of different culture in working.
- **Union:** Also there will be differences in the Union that is present in Lebanon and other countries.

- Political system: It is a concept in which theoretically regarded as a way of the government makes a policy and also to make them more organized in their administration. Of course it will differ between countries, especially the instability in the political field in Lebanon.
- Taxes: consist of direct or indirect tax, in Lebanon as of other countries there's the VAT tax system, but of course it differs in the percentage, rates and the collection of money.
- Prices: In every country, and in every part of the country, the prices differ based on quality of food, economy level, market segmentation, competition...

In this project you will see a detailed study of the Lebanese Catering Inc. company and give our conclusion and recommendations. This project will consist of the following parts:

- Human Resource Department
- Assessment of the Accounting cycle
- Internal Management & Control System
- Interim Tax declaration
- Auditor's Report & Financial Statements Analysis
- Conclusion and recommendations.

Until now we saw that the foodservice business is booming and in growth, plus we saw the history of Catering Inc. Company which is very good, the company is in more than 90 countries, its name is known worldwide, but when we come to Lebanon and see Catering Inc., we see it very weak and needs a lot of changes to get bigger and be known in its international image. But to achieve this goal we have to solve some problems that the company is facing; one of these problems is that the company doesn't have long term plans in order to grow, or take care of force-major problems if any occurs, for example a disaster happened in the company when the Lebanese-Israeli war happened in the summer of 2006. As we can see another problem, that's the company doesn't try hard to update and go into technology world which is necessary these days to follow up with competition and the market.

Before going further more in this project, we had to stop a while and explain a little bit about the references that we used to accomplish this project.

Starting with the most important reference that we used, which is the interviews done with the managers and some important personnel in the company, where we got most of the information and the data. Going further, organization and government websites, as for some books were used to get ideas, laws, Lebanese accounting and financing steps, information about catering or the company data; some of these websites are: <http://www.compass-group.com/>, <http://en.wikipedia.org/wiki/Catering>, [www.sec.gov](http://www.sec.gov), [www.finance.gov.lb](http://www.finance.gov.lb), etc. while the books were mainly about the accounting and finance mainly as for other books about history of cooks and cooking, operation management, etc.

Other kinds of references that were used are the business articles where we read and used them in the project in our own words. Some of these articles were:

- "the restaurant and fast food race" by Douglas M. Brown & "food service executive summary" by McKinsey, where we see in these two articles that they talked and present a detailed study about the increase in the dining out of the people thus the booming and the evolution in the foodservice industry, also they analyzed the trends in this sector, present results to explain the success of this industry, the effect of technology, as they did provide a comparison of the behavior and the race going on between some sectors of the industry (restaurants and fast food as an example).
- Another article was by Peter M. Noble and Thomas S. Gruca "industrial pricing" where it discussed the theories and the pricing strategies that should be taken by the management to put the end used prices, such as cost, quality pricing, customer value, competition, etc.
- Moreover we found a couple of articles, one that talks about some problems that the managers can face and they provide us with some solutions on how to solve these problem, this article is "executive problem finding" by R.J Anderson, J.A. Hughes & W.W. Sharrock. A second article was written by Matthew Werhner "the retail and foodservice technology studies industry summary" where we see the use of technology in the foodservice industry and

have a company should go into them to keep on with the competition in the market.

After putting all the things together, we can begin now with the detailed study for the company, where we shall start with the Administration and the operations part of the company that plays a very big role for the company to survive and control its operations, staff, stock, etc. In this project we will see in a detailed study a very important department in the administration which is the Human Resource Department, and go on with the other chapters with other studies in the company.

### **Chapter 3. Human Resource Department**

Being international, Catering Inc. Human resource department has a very big administrative role to play in the company to deal with the operations issues that have cross-national boundaries activities in foreign environment, like the payrolls, job descriptions, working hours, etc. Working in many countries mean no traditional issues. Below is a detailed study of this section in the administration of the company.

#### **3.1. Objectives**

The objective of the Human Resources department of Catering Inc. is to: Find, develop, train, motivate, retain and maintain the image of an employer of choice. They employ qualified people for each job and exceed the expectations of their employees. Promoting the best people is one of the most important functions in HR of Catering Inc. as it is an integral part of the Company's success.

Catering Inc. employs the highest competence of individuals who share an attitude that customer service is the most important. The employee's ability to be customer service oriented is very important whether he or she is serving the customer directly or indirectly. Selecting employees at various levels focuses on identifying the ones who are customer focused. This starts with recruitment advertising which emphasizes on customer service and continues with preliminary screening that restates this theme. The right attitude is equally as or more important than technical competency. Then, as the company moves into its selection system, it looks at specific skills, general knowledge and customer service.

Having the right employees is just the first step, then there is training which Catering Inc. serves well. There are several training centers in Abu Dhabi, London and China. Training centers get it down into details like temperature for cooking, inspecting restaurant facilities. Managers are taught to give performance reviews including how to give feed back, how to listen and what to do if a personnel becomes defensive.

In general they train managers on every facet of the operation. They, in turn train their crew employees. Every country they deal with according to its culture. Here is an overview of how in Lebanon the human resource department functions.

### 3.2. Compensation Programs

Effective compensation management usually assists any business at achieving its strategic objectives. Employees need to feel that their effort is appreciated and rewarded. Jobs include training and development, career opportunities, challenges and rewards. Staff pay reflects performance.

Catering inc. places emphasis on the training and development of its employees. They aim to provide career opportunities for people to achieve their potential. Job progression is used to encourage employees who got their first job in the company to progress to management positions, these promotions are based on the performance of the staff member. Over 40% of the company's managers started as hourly paid staff members in the restaurants. Over half of the company's middle and senior managers have moved up from restaurant based positions, this is a great motivation for employees to work hard.

Not only that, hourly paid staff enjoys benefits like:

- Free meal allowances
- Paid holidays (four weeks per year)
- Free life insurance (value dependant upon service)
- Private health care (for employees aged 18+ with 3 years service)
- Stock purchase scheme
- Employee discount card
- Service awards (at 3, 5, 10, 15, and 25 years service)
- Stakeholder pension

Beside these options employees enjoy legal compensations:

- Social security declarations.
- In Lebanon, the law gives employees the following:
  - Daily transportation bonus six thousand Lebanese pounds.
  - If working more than eight hours per day overtime is paid for \*1.5 per hour.
  - Family allocation which is paid by the social security as follows:



All of these compensations make the employees enjoy their jobs, be in a better mood for work, be more faithful to Catering Inc., work harder and enjoy learning and developing themselves which in return makes them great employees to deal with customers or with any other sort of job responsibility given to them. This will help the Human Resource achieve its strategic objectives as having a fun and caring environment at the restaurants. For the Human Resource, the right attitude of the employee is equally as important as or more important than technical competency.

### **3.3. Working days and hours**

The official working days in the company are six days through the year except summer season which is five days.

- Sunday is considered as a paid holiday through the year.
- All the employees in the company work for 48 hours per week except for summer. At summer season employees are required to work for 40 hours.
- Some managers stay at work to finish their duties.
- Security Employees.
- Maintenance Employees.
- Sometimes, employees who are demanded to do irregular operations.

### **3.4. Payroll Calculation**

The Calculation is based on the Basic Salary, Overtime, and bonus.

Basic Salary: is the agreeable salary between the employee and the employer.

Overtime: is calculated as after 1440 hours per month based on the basic salary.

Bonuses: is given based on the employee's assessment.

At May 05 the following figures took place. See table 1: Payroll Calculation

**Table 1: Payroll Calculation**

<b>Payroll Calculation</b>								
<b>Employee</b>	<b>Salary</b>	<b>Bonus</b>	<b>Transportation</b>	<b>Overtime /hours</b>	<b>Salary /hour</b>	<b>Amount</b>	<b>Medical Security</b>	<b>Total</b>
<b>Hani Khoury</b>	1,500,000	150,000	150,000	15	1,041	15,615	30,000	<b>LBP 1,845,615</b>
<b>Fouad Boutros</b>	900,000	250,000	150,000	20	625	12,500	18,000	<b>LBP 1,330,500</b>
<b>Mario Khattar</b>	800,000	300,000	150,000	18	556	10,008	16,000	<b>LBP 1,276,008</b>

### 3.5. Job Descriptions

A job description summarizes the most important features of a job, including a description of the work that details the required tasks, knowledge, skills, abilities, responsibilities and reporting structure. The following are job descriptions for key personnel.

#### 3.5.1. General Manager

**Objectives:** To direct, promote, and coordinate the operations in the cooperative in a manner that will optimize the cooperative's market share and savings, improve the company's efficiency, help achieve the cooperative's mission and goals, and result in customer service.

**Responsibilities:** The general Manager's responsibilities involve supervision, public relations, marketing, profitability and sales, service, reporting, capital requirements, and other duties as assigned by the board of directors.

**Supervision:** Involves developing and communicating cooperative goals and results to personnel; selecting, supervising, and supporting the employee team; and upholding cooperative policy.

**Public relations:** Involves building and maintaining positive relationship with company's members, clients, and suppliers.

**Profitability and Sales:** Involves establishing and achieving sales and profitability goals, and increasing the company's market share through regular sales efforts.

**Service:** Involves providing and promoting the service necessary to meet the company's goals and needs.

**Reporting:** Involves keeping the board informed of the company's status and activities, and assisting with board activities.

**Capital Requirements:** Involves determining the company's fixed asset needs and presenting a fixed asset budget to the board.

**Other duties:** Are duties assigned by the board of directors and will enforce and uphold the company's credit policy

### **3.5.2. Chief Accountant**

- General responsibility for supervising the accounting procedures of the company.
- Assign and audit the work of the accounting department.
- Engaged in the more critical and confidential aspects of accounting.
- Responsible for the development of policies, systems, special financial studies, etc. of major importance.
- Difficult accounting works on involved projects and problems.
- Duties require broad conceptual judgment, initiative and ability to deal with complex accounting issues.
- Works with confidential data, which if disclosed, might have significant internal effect or minor external effect.
- Interim Tax Declarations: preparation of Vat, Social Security, and salaries and wages taxes.

### **3.5.3. Junior Accountant**

- Administer all aspects of payroll utilizing the payroll system, which includes computing the payroll using a computerized system.
- Calculate sales commissions and bonuses.
- Compile time sheets and calculate overtime.
- Prepare the payroll summary on a monthly basis.

- Calculate and complete quarterly disability insurance.
- Complete correspondences regarding payroll information to ministry of finance.
- Review payroll taxes and other information both quarterly and annually.
- Prepare yearly payroll and R6 schedule.
- Review, code and process A/P check requests.
- Process and distribute A/P checks.
- Handle inquiries from vendors.
- Maintain A/P system records.
- Close A/P on a monthly basis, review, corrects and distributes reports.
- Audit petty cash for reimbursement.
- Audit employee expenses and performs supplier's reconciliations.

#### **3.5.4. Senior Accountant**

- Process month-end balancing and journal entries.
- Complete the month-end process.
- General ledger analysis of accounts.
- Prepare monthly Standard Reporting Package.
- Controls the invoicing procedures.
- Prepare daily journal entries.
- Communicate with co-workers, management, clients, suppliers and others in a courteous and professional manner.
- Reconciliation of bank statement.

#### **3.5.5. Internal Auditor**

- Evaluates both administrative and accounting controls and prepares reports to the CEO and board of directors and on problems which require strengthening of internal controls.

- Determines if the system of authorization and recording procedures are adequate to provide reasonable accounting control over assets, liabilities, income and expenses.
- Reviews cash control procedures and monitors safeguarding of assets.
- Determines that there is separation. Reviews relevant documents necessary to determine if an audit trail exists for all records and systems.
- Monitors activity in member accounts as well as file maintenance done on member accounts.
- Monitors activity and file maintenance in accounting records and data processing systems.
- Evaluates compliance with regulations applicable to the ministry of finance.
- Prepares and assists in audits conducted by the external auditors contracted by the company.
- Prepares reports of all work done and submits to CEO & Supervisory Committee for review, follow-up and recommendations for action.
- Discuss findings with supervisors/managers of areas evaluated.

#### **3.5.6. Financial Manager**

- Analyzes, develops and maintains computer applications, procedures and other systems that satisfy the needs of the user departments.
- Oversees computer applications to ensure proper use and security.
- Analyzes problems, determines cause and initiates corrective action.
- Develops clear and concise documentation, instruction manuals.
- Coordinates and installs new software applications with user departments.
- Stays current with technology through seminars, educational opportunities, trade magazines, etc...
- Shares on-call duties with other individuals within Information Services.
- Coordinates and participates in both internal and external user group functions.

- Assist in the month-end closing and distribution of monthly financial statements.
- Perform detailed financial statement analyses, including discussions on various issues.
- Communicate with co-workers, management, clients, franchisees, and others in a courteous and professional manner.
- Conform with and abide by all regulations, policies, work procedures, and instructions.

After assessing the Human Resource Department, we notice the following discrepancies that occurred in our study:

→ No customer service follow-up is made. Where Catering Inc. should follow some steps to perform an effective customer follow up system which should include the following: distribute a customer satisfaction survey from time to time to be filled by the customer, where it will include questions about the company, services, prices, food quality... another way of customer follow up is a suggestion box to be posted on each site for the customer to put their comments and suggestions.

→ Tracking Competitors is not made. Especially about the competitors pricing and performance in the market. In order to fix this problem, the company should build up a team to be specialized only to follow up the market; from the sales and market share volume, market prices, performance, kinds of meals, etc. of Catering Inc. and compare it with its competitors. Then try to find the points of weakness between them and their competitors and empower them in order to get to the goal of being the first in its field.

→ No time sheets are provided in order to control employees working hours. Where this problem can be solved easily by putting a fingerprint machine in order for the employees to pass by when they arrive as when they leave work, this way is the optimum way to control the working hours of the employees. And to be more accurate, secure and sure; cameras of surveillance to be placed in each site to control and be sure of everything that goes on with each employee while he's at work.

→ The company doesn't arrange periodic meetings for the board of directors. When they should meet to make the SWOT analysis of the company to see its strength, weaknesses, if there is any opportunity and threats in the market and try to

improve the company by taking out the threats, take the opportunities, keep up and take care of what make the company strong, as to solve the problems that the company is facing, as of each department manager should present a report to be discussed during the meeting. Also, new ideas should be thought of, studied and implement them depending if they are short, mid or long term objectives.

→ In the job descriptions the Human Resource department didn't decide the minimum qualifications of the candidates. Also, job descriptions are not specified for certain key personnel, as for a lot of employees are not in their right position in the company. To solve this problem the HRM should follow the following procedures to have the optimum working team in the company: the first step is to find for the right employee for the wanted job in form of education background, work experience, etc. To match the proper qualifications wanted. After finding the employee, proper training should be done for the new worker to know the company and its system more. A detailed job description is to be specified for each worker with the proper work methods and tools to be used to make the best output. There's a lack of incentives for the employees to get motivated to accomplish their work properly. For that adding legitimate incentive is required to be given.

→ The company doesn't have a priority list. This leads for certain important tasks not to be accomplished on time. For that we go back to the idea that the board of directors should meet on regular basis to put the task list for the company, short term, mid-term and long term tasks, study their priority from the most important to the least one, then the company should follow the objectives and tasks based on the priority to accomplish each of them on time.

From this chapter we got the chance to see how the HR department is working in this company, as our experience in it gave us the chance to go deep into the system and see its weaknesses. Moreover, the main value that we got is the chance to give our opinion (conclusion) and recommendations to show the weaknesses and the solutions for this company.

In the next chapter we shall see a detailed study and assessment of the accounting cycle that is followed in Catering Inc. beginning with the transactions entries and ending with the financial reporting.

## **Chapter 4. Internal Management & Control System**

“Internal Control is a system or process implemented by a firm board of directors, management and other personnel, intended to provide reasonable assurance about achieving control objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

The first category addresses a firm’s basic business objectives, such as maintaining performance and profitability goals and safeguarding assets. The second category which is dependent on the transaction processing portion of the accounting information systems ensures the preparation of reliable financial statements. The third category deals with complying with several laws and regulations to which the firm is subject.”

Business firms should establish procedures to maintain proper control over five basic business activities:

1. Sales
2. Purchasing
3. Production and inventories
4. Personnel and payroll
5. Property, plant and equipment

### **4.1. Control Environment**

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.



### **4.1.1. Management**

The chief executive officer is ultimately responsible and should assume "ownership" of the system. More than any other individual, the chief executive sets the "tone at the top" that affects integrity and ethics and other factors of a positive control environment. In Catering Inc., the chief executive fulfills this duty by providing leadership and direction to senior managers and reviewing the way they're controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions.

### **4.1.2. Board of Directors**

Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and curious. They also have knowledge of the entity's activities and environment, and commit the time necessary to fulfill their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem.

### **4.1.3. Internal Auditors**

Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role.

### **4.1.4. Accountants**

Internal control, as a process and a structure, is of great concern to accountants. As key users of the Accounting Information systems, accountants take active roles in developing and reviewing the internal control structure or framework. They should also work closely with system designers during the development phase of information systems to ensure that the planned control measures are adequate and

auditable. Developing and evaluating the internal control structure is a skill that accountants should excel.

#### **4.1.5. Other Personnel**

Internal control is, to some degree, the responsibility of everyone in an organization and therefore should be an explicit or implicit part of everyone's job description. Virtually all employees produce information used in the internal control system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions.

A number of external parties often contribute to the achievement of an entity's objectives. External auditors, bringing an independent and objective view, contribute directly through the financial statement audit and indirectly by providing information useful to management and the board in carrying out their responsibilities. Others providing information to the entity useful in effecting Internal control are legislators and regulators, customers and others transacting business with the enterprise, financial analysts, bond raters and the news media. External parties, however, are not responsible for, nor are they a part of the entity's internal control system.

### **4.2. Internal control procedures**

#### **4.2.1. Establishment of responsibility**

An essential characteristic of internal control is assignment of responsibility to specific individuals. Controls are most effective only when one person is responsible for a given task. At Catering Inc. the cash on hand at the end of the day in the cafeteria is the responsibility of only one person. If there was a shortage at the end of the day the responsibility can be quickly assessed.

#### **4.2.2. Separation of Duties**

“There are two common application of this principle:

- The responsibility for related activities should be assigned to different individuals.

- The responsibility for establishing the accountability for an asset should be separate from the physical custody of the asset.

The rationale of segregation of duties is that the work of one employee should, without a duplication of effort, provide a reliable basis for evaluating basis the work of another employee”. (*Wiegandt/Kieso 5th edition*)

At Catering Inc., in the purchasing system, different clerks are assigned to order goods, to receive the goods and to pay for the supplier. Also, in sales different clerks are assigned to make orders, deliver orders, billing the customer, and receiving payment.

#### **4.2.3. Independent internal verification**

“Most systems of internal control provide for independent internal verification. This principle involves the review, comparison, and reconciliation by data prepared by one employee or several employees” (*Accounting information Systems 5th edition*)

At Catering Inc. the verification is made:

- ❖ Periodically or on a surprise basis.
- ❖ By an employee who is independent of the personnel responsible for the information.
- ❖ Exceptions should be reported to a management level that can take appropriate corrective action.

#### **4.2.4. Other controls**

Rotating employees' duties and requiring employees to take vacations. These measurements are designed to deter employees from attempting any thefts since they will not be able to hide their improper actions. At Catering Inc. when rotating supervisors for the cash receipt from the cash register final counting, was discovered that the surplus collected by the replaced employee higher than the supervisor who collected them before. And after analysis it was discovered that theft of cash surplus happened by the former supervisor.

### **4.3. Types of control**

#### **4.3.1. Documents Control**

A document is virtually anything that provides information. It may be a record, procedure, specification, drawing or report. The information may be presented on paper, floppy disc, and compact disc.

All working documents within the company are approved by the general manager. In case of amendments to be made, the General Manager is responsible for distributing details of the amendment, either by controlled modification of all copies of the information or through its reissue; he is also responsible for removal of unnecessary information.

- ❖ All data is backed up on a daily basis onto floppy disc, compact disc or tape.
- ❖ All documents must be given a unique file identification number and name.
- ❖ In the situation that quality data is lost from the computer files then it will be restored from a controlled copy.
- ❖ All records will be retained until disposal or archiving is authorized by the internal auditor or general manager.
- ❖ The documents are arranged based on their category and date sequence.

Archiving procedure: At the end of the year every department passes its documents to the archive officer, where he will organize these files in archive cabinets for every department. After four years all files are removed from archive cabinets and stored in sealed cartons. On every carton there list attached which shows its contents. After six years files may be removed from the cartoons and destroyed in accordance with the director's approval.

#### **4.3.2. Fixed Assets Control**

The accountant shouldn't have physical custody of the asset or access to it. Moreover, the custodian of the asset should not maintain or have access to the accounting records. The separation of accounting responsibility from the custody of assets is especially important for cash and inventories because these assets are very vulnerable to unauthorized use or misappropriation.

### Acquisition of a Fixed Asset procedure:

At Catering inc. any asset that should be purchased that exceeds amount of five hundred American dollars passes through several stages. First the person who is responsible from middle management sends as asset requisition form to the General Manager. The form includes the kind of asset and the necessity of its use. If the General Manager approves, he sign the form and sends it to the purchasing department. The purchasing department sends a purchase order to the supplier. Upon delivery the receiving clerk after receiving the ordered asset types on it an identification number, fills the receiving form and sends it along with the invoice to the accounting department. The asset is delivered for use. The accountant transacts the journal. The company bought a personal computer at 18 April, 2005 for 880 USD including vat from General Computers. The transaction occurs as follows:

**Table 2: General Journal (Fixed Assets Control)**

<b>General Journal (Fixed Assets Control)</b>				
<b>Date</b>	<b>Account number</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
18/04/06	2262	Office & Computer equipment	800	
		purchase of personal computer		
	44267	Vat Assets	80	
		purchase of personal computer		
	403	Fixed assets suppliers		880
		General computers		
Prepared by : Fady Cesar			Approved by: H.Khoury	

### 4.3.3. Cash Control

“Cash is the one asset that is readily convertible into any other type of asset. It is easily concealed and transported, and highly desired. Because of these characteristics, cash is the asset most susceptible to improper diversion and use. Because of the large volume of cash transactions, numerous errors may occur in executing and recording cash transactions. To safeguard cash and to assure the

accuracy of the accounting records for cash, effective internal control over cash is imperative” (Weygandt/kieso 5th edition)

#### 4.3.3.1. Petty cash fund

The company uses small cash payments to pay relatively small amounts that don't exceed one hundred US dollars. The operation of a petty cash fund involves.

##### 1) Establishing a fund

Two essential steps in establishing a petty cash fund are appointing a petty cash custodian who will be responsible for the fund and determining the size of the fund. Ordinarily, the amount is expected to cover anticipated payments for a three to four week period. When the fund is established, cash is transferred to the custodian after it is brought from the bank. Catering Inc. agreed as a petty cash amount for 100 USD for the period. The transaction occurs as follows:

**Table 3: General Journal (Establishing a Fund)**

<b>General Journal (Establishing A Fund)</b>				
<b>Date</b>	<b>Account number</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
1/5/2006	532002	Petty cash	100	
	532	Cash Transferred to petty cash		100
Prepared by : Fady Cesar			Approved by: Hani Khoury	

##### 2) Making payments from the funds

The custodian of the petty cash fund has the authority to make payments from the fund that conforms to prescribed management policies. Each payment of the fund must be documented on a pre-numbered petty cash receipt. Note that the custodian and the individual receiving payment are required on the receipt. Other supporting documents must be attached like the bill from the customer.

**Table 4: Petty cash Receipt**

<b>Catering inc. Petty cash Receipt</b>	
Date: 8 May, 2005	
Number: 982	
Amount: 38 USD	
Paid to: Aramex	
Description: Postage charges	
Custodian: Edgard Issa	Received by: <i>Carlos Aboud</i>

The receipts are kept in the petty cash box until the fund is replenished. As a result, the sum of the petty cash receipts and money should equal the established total at all times. This means that surprise counts may occur at any time by the controller or the internal auditor to determine if there are any frauds. No accounting entry is made at this stage. The accounting effects of each payment are recognized when the fund is replenished.

### 3) Replenishing the fund

When the money in the petty cash fund reaches a minimum level, the fund is replenished. The request for reimbursement is initiated by the petty cash custodian. This individual prepares a schedule supported by petty cash receipts and other documentation, to the treasurer's office. The receipts and supporting documents are examined by the treasurer's office to verify that they were the proper payments made from the fund. The treasurer then approves the request and a check is prepared to restore the fund to its established amount. At the same time all supporting documents are stamped "paid" so that it cannot be submitted again for payment. The treasurer sends the documents to the accounting department at the end of the month and requests for the paid amount to get back the petty cash to the amount agreed. The transaction occurs as follows:

**Table 5: Payment Journal.**

Payment Journal				
Date	Account number	Account Titles and Explanation	Debit	Credit
31/05/06	6269	Postage	38	
	532002	postage expenses		38
	532002	petty cash		
	532002	petty cash r.# 982		
	532002	petty cash	38	
	532	Transfer to petty cash		
	532	Cash		38
	532	Transfer to petty cash		
Prepared by: Fady Haddah			Approved by: H. Khoury	

A petty cash fund should be replenished at the end of the accounting period regardless of the cash in the fund. Replenishment at this time is necessary in order to recognize the petty cash payments on the financial statements.

#### 4.3.3.2. Making Bank Deposits

Bank Deposits at catering Inc. are made by the head cashier. After sales are made and transferred to the cashier department to be checked up, it is documented on a sheet form showing the amount to be deposited. The bank issues a deposit slip showing the amount deposited.

#### 4.3.3.3. Writing Checks

“A check is a written order signed by the depositor directing the bank to pay a specified sum of money to a designated recipient. Thus there are three parties to a check: the drawer who issues the check, the bank on which the check is drawn, and the payee to whom the check is payable. A check is a negotiable instrument that can be transferred to another party by endorsement” (*Money & Banking 4th edition*)

At Catering inc. checks are issued on a computerized System and the authorization signature is allowed only by the General Manager



#### **4.3.3.4. Bank Statement**

“Each month the depositor receives a bank statement from the bank. The bank statement shows all the movements made. It shows the checks paid and other debits that reduce the balance in the depositors account. Deposits and other credits increase the depositors’ account. The account balance after each day’s transactions”  
*(Money and Banking 4th edition)*

Reconciling the Bank account: To carry out the reconciliation the company should follow the following procedures:

- Have on hand the previous month’s reconciliation, current bank statement and the canceled checks.
- Compare all the deposits between the bank and the company.
- Compare all the checks paid and transfers made.
- Compare the canceled checks and the checks that are still outstanding from the last month.
- Check the checks that the supplier didn’t withdraw the current period.
- List and analyze charges or debits issued by the bank that are not recorded in the company’s accounts.
- To require from the bank all the necessary documents that the company didn’t receive.

At Catering Inc. the bank reconciliation is prepared by an employee who has no other responsibilities pertaining to cash. When the internal verification is not followed in preparing the reconciliation cash frauds may escape unnoticed.

#### **4.3.4. Expenditure Cycle**

##### **4.3.4.1. Objectives**

- To ensure that all goods and services are ordered as needed.
- To receive all ordered goods and verify they are in good condition.
- To safeguard all goods until needed.

- To determine that invoices pertaining to goods and services are valid and correct.
- To record and classify the expenditure promptly and accurately.
- To post obligations and cash disbursements to proper suppliers accounts in the account paying ledger.
- To ensure that all cash disbursements are related to authorize expenditures.
- To record and classify cash disbursements promptly and accurately. (*Accounting Information Systems 3rd edition*)

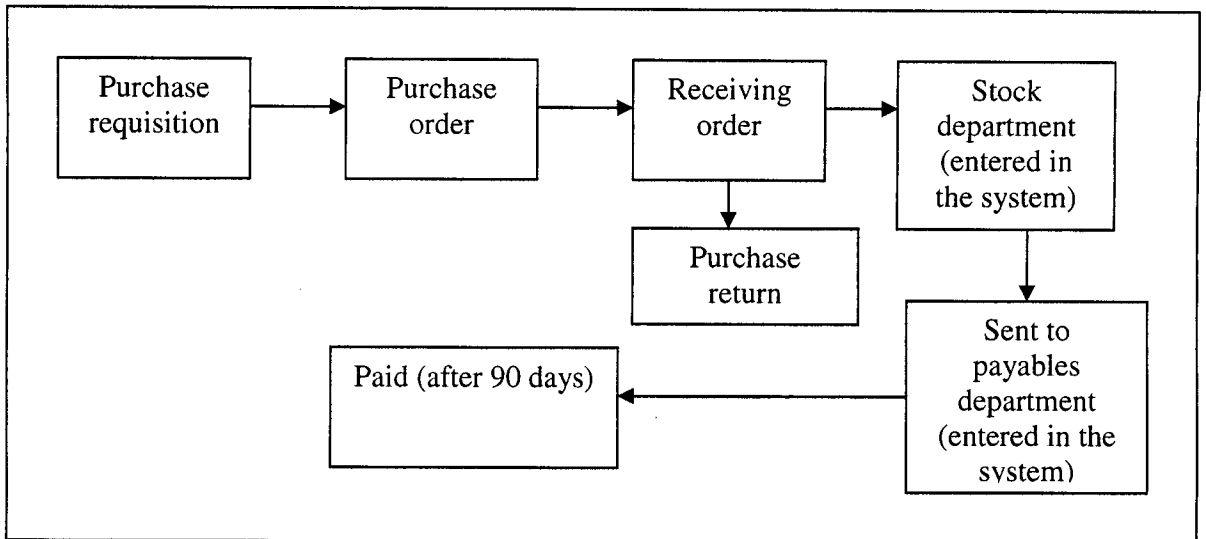
#### **4.3.4.2. Purchasing policy**

Procurement of both materials and services at Catering Inc. is based upon a list of approved suppliers. For every material the purchasing department decides which supplier is to be bought from. The company never depends on one supplier for a single material. It always depends on two at least. The selection of the new supplier is based upon his registration to an effective quality system or a successful vendor appraised by the company. Also the approval is based upon the unit prices charged for the goods or services, the terms and promised delivery date. In the event that materials are to be procured from an unapproved source the respective contract is subjected to measures which will adequately assure the quality of supplies. All suppliers are reviewed on a periodic basis and if necessary corrective action will be taken.

#### **4.3.4.3. Purchasing Cycle**

At every point of sale there is a store. The store keeper will issue a purchase requisition to authorize the purchasing department to place an order for goods or services. Key data elements in a purchase requisition include the quantity, date needed, item number and description, name of the requestor and approval's signature. The purchasing department will approve the items ordered. After approval it will issue a purchasing order signed by the authorized person to the supplier. Upon the purchasing order the supplier is allowed to deliver the materials.

**Figure 1: Purchasing Cycle**



**Table 6: Purchase Requisition**

<b>Catering Inc.</b>		
<b>Purchase Requisition</b>		
		Number: 687
		Requisition Date: 15 March, 2005
		Date Wanted: 19 March, 2005
<b>Suggested Supplier: Ste. Moderne pour le Commerce</b>		
Item No.	Description	Quantity
Sd 0024	Mountain Dew 250ml*24	16
Sd 0016	Pepsi Cans 330ml*24	24
Prepared by: Fouad Boutros		Department: Stock Department

Table 7: Purchase Order

Catering Inc. Al Hamra, Beirut, Lebanon				
Fax: 961 1 500475 Phone: 961 1 657846		<b>Purchase Order</b> Number: 1487 Date: 18 March, 2005		
To : Ste. Moderne pour le Commerce				
Order Date: 18 March, 2005	Supplier number: 401100012	Terms of payment: 90Days		
Date to be delivered: 19 March, 2005				
Item Code	Description	Quantity	Unit Price USD	Total USD
Sd 0024	Mountain Dew 250ml*24	16	2.00	192.00
Sd 0016	Pepsi Cans 330ml*24	24	4.00	36.00
Prepared by: Mario khattar	Approved By: Rola Zayyat	Department: Purchasing		

#### 4.3.4.4. Receiving report

A receiving clerk first counts the received goods. At the same time the quality manager checks out the condition. Then the receiving clerk compares quantities of items received with the purchase order. He issues a receiving report. This report shows items received with their quantity. The conditions of the goods are noted on the form. The receiving report is signed by the receiving clerk and the quality manager before it is filed. Then items are stored in the warehouse, and invoices are signed by the receiving clerk, Catering manager and operations manager. After the signatures are done the documents are sent to the payables clerk along with the purchasing order and the receiving report.

**Table 8: Receiving Order**

<b>Catering inc.</b>			
<b>Receiving order</b>			
Date: 19 March, 2005			
Number: 865			
Vendor: Ste. Moderne Pour le Commerce	Purchase Order No. 1487	Freight charges : None	
Item No.	Description	Quantity	Condition
Sd 0024	Mountain Dew 250ml*24	16	Good
Sd 0016	Pepsi Cans 330ml*24	24	Good
Received by: Habib Habib	Checked by: Zeina Khayat	Delivered by: Adel Adoul	

**4.3.4.5. Purchase return:**

A purchase return occurs when the firm is unsatisfied with the ordered goods. It happens when the ordered goods are damaged, overages (more delivered goods than ordered), or overcharges. They are triggered when the goods are received and inspected, where they are compared with the purchasing order. The clerk who finds the required adjustment notifies the purchasing department. The purchasing department prepares a debit memorandum to the selling firm, where the goods are returned. A copy of the debit memorandum and the credit note from the selling firm is delivered to the payables clerk.

At 19 April, 2005 the company received goods that were not ordered from Malco for 770 USD including vat. The company issued a debit memo calling for returning of the goods. After three days the company received a credit note from the supplier the transaction occurred as follows:

**Table 9: General Journal (Purchase Return)**

<b>General Journal (Purchase Return)</b>				
Date	Account number	Account Titles and Explanation	Debit	Credit
31/03/05	4011	Suppliers	770	
	601	Malco purchases		700
	44261	purchases of goods Vat Vat on purchases		70
Prepared by : Fady haddad			Approved by: Hani Khoury	

**4.3.4.6. Payables department:**

The invoices are delivered along with the receiving report, and the purchase order to the payables department. The payables department clerk performs a check for completeness of the related copies that have been delivered with the invoice. He checks the quantities received from the invoice with the receiving report against the purchasing order. He also checks the unit prices that were billed with the purchase order. Then recomputed the batch totals. If any error is detected he settles it and transacts the entry. The companies bought goods from Ste. Moderne pour le commerce for 528 American dollars Excluding Vat, the entry occurs as follows:

**Table 10: General Journal (Payables)**

<b>General Journal (Payables)</b>				
Date	Account Number	Account Title and Explanation	Debit	Credit
20/1/2005	601	Purchasing of goods	528	
	4261	Vat purchases	52.8	
	401	Ste. Moderne pour le commerce		580.8
Prepared by : Fady haddad			Approved by: Hani Khoury	

At the end of the day, the data are posted. After the data are posted the accounts payable and expenses ledger is increased. The supplier's balance is increased where the amount of the invoice is added to the previous total. After ninety days the invoice is due to be paid. Payables aging report reflects the amount to be paid. The payables clerk issues a payment voucher. Payment vouchers are established to take out cash from the company

**Table 11: Payment Voucher**

<b>Catering Inc.</b>		
<b>Payment Voucher</b>		
Date: 17 June, 2005		
Number: 3241		
Paid to: <u>Ste. Moderne pour le commerce</u>		
<input type="checkbox"/> Cash	Bank	Audi
	Cheque No.	736482
Invoice		
Date	Number	Amount
19 March, 2006	24987892	580.8
	Total Amount due:	580.8
Only: USD Five hundred eighty and 80percent		
Prepared by: Rouba Asmar	Approved by: Hani Khoury	Received By: Walid Achkar

#### 4.3.5. Inventory Management:

Catering Inc. Company operates in several locations. One of them is the American University college of Science and Technology. This explains how the inventory is managed at the store, kitchen and outlets. See Figure 3

The Cafeteria sells several kinds of foods and beverages which are categorized as follows:

Finished goods:

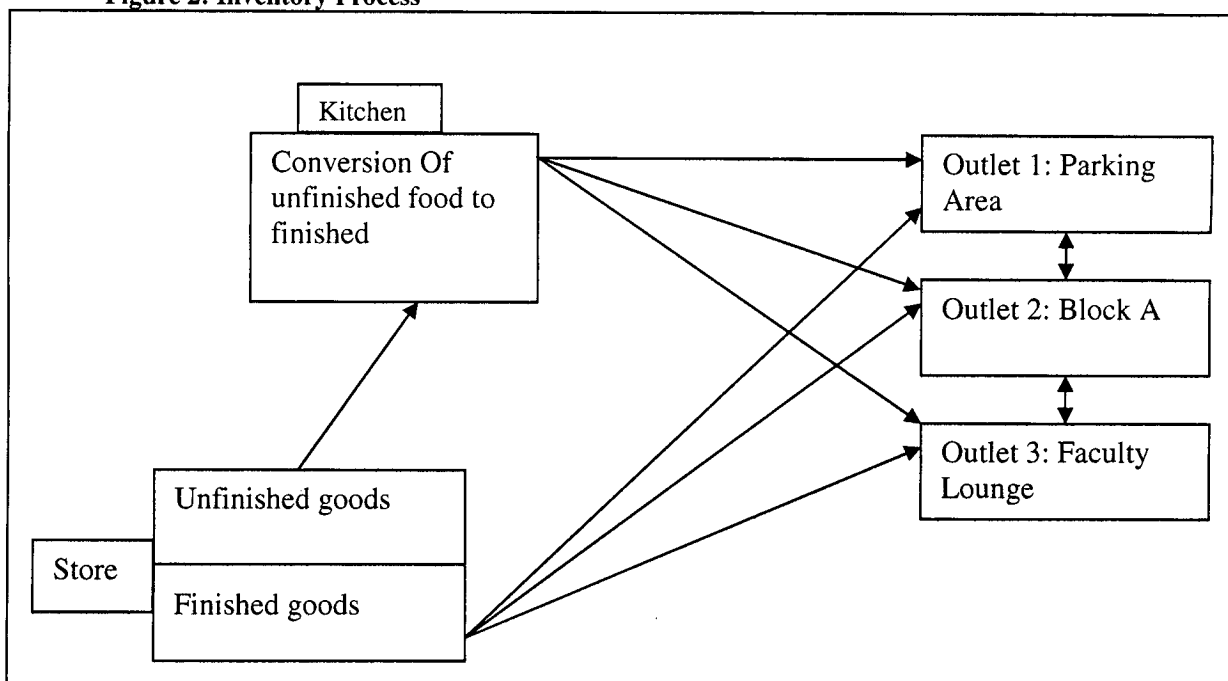
- o Cold Beverages

- Hot Beverages
- Pastries
- Chocolate and Confectioneries

Produced Food:

- Sandwiches
- Plate of the day
- Salad

**Figure 2: Inventory Process**



#### 4.3.5.1. Delivery and order of goods

##### 1) Store

- ❖ The store sends unfinished goods to the kitchen and finished goods to the outlets.
- ❖ The store keeper recounts the items after the receiving clerk and reconciles them with the receiving report.



- ❖ The store keeper is authorized to send goods by a stock requisition. See figure 4.8. The store keeper will take out the inventory based on a delivery note signed by the receiver.
- ❖ After the delivery notes are signed they are piled and at the end of the day sent to the stock controller.

Table 12: Stock Requisition

<b>Catering Inc. Stock Requisition</b>		
Date: 19 March, 2005 Number: 376		
Item No.	Description	Quantity
Sd 0024	Mountain Dew 250ml*24	8
Sd 0016	Pepsi Cans 330ml*24	12
Prepared By: <u>Kamil Ghantous</u>		

Table 13: Delivery Note

<b>Catering Inc. Delivery Note</b>		
Number: 3421		
Date: 20 March, 2005		
Delivered to: Outlet 1		
Item Code	Description	Quantity
Sd 0024	Mountain Dew 250ml*24	8
Sd 0016	Pepsi Cans 330ml*24	12
Prepared By: Fouad Boutros		
Approved by: Tatyana Mdawar		Received By: Kamil Ghantous

## 2) Kitchen

- ❖ The kitchen chief orders unfinished goods from the store through a stock requisition.

- ❖ The kitchen will receive the goods based on a delivery note issued from the store.
- ❖ After receiving of raw material the kitchen converts them to finished goods ready for sale.
- ❖ After conversion the head of the kitchen will issue a daily production report.
- ❖ A daily production report shows the quantity of food produced.

### 3) Outlets

- Every outlet will order from kitchen and store according to a stock requisition.
- The kitchen will send produced food to the outlets with a delivery note.
- According to the delivery note the items are in the outlets and out of the kitchen.
- The store will send finished goods to the outlets with a delivery note.
- According to the delivery note the items are in the outlets and out of the store.
- The outlets make its sales during the day and at the end of the day a z read is issued.
- The z read shows all the items separately sold during the day, and total sum of the z read must equal total cash received.
- The Catering manager will check out goods to be wasted and a wastage report is issued signed by the outlet leader and catering manager. The z read is sent to the stock controller.

#### **4.3.5.2. Stock Control department**

At the end of the working day all the delivery notes along with the stock requisitions and z reads are sent to the stock controller. The stock controller will input the data into a software system. It is through this system the stock controller controls the inventory in the store, kitchen and outlets. Every Saturday he counts physically the inventory which must match up with the system. The counting is done in the store, kitchen and outlets as follows:

### 1. Outlets

Beginning stock (which he closed from the last day)

**Add: Stock in (According to the delivery notes)**

Goods available for sale

**Less: Sale of goods (Z reads)**

**Wastage**

Ending stock

### 2. Store

Beginning inventory

**Add: Purchases**

Goods available for production and sale

**Less: transfer of goods (delivery notes)**

Ending inventory

### 3. Kitchen

Beginning inventory

**Add: goods delivered from kitchen**

Goods available for production

**Less: produced food (daily production report)**

Ending stock

## 4.3.6. The Revenue Cycle

### 4.3.6.1. Objectives

- To Record sales orders promptly and accurately.
- To verify that the customers are worthy of credit.
- To transport the products on agreed time.
- To bill the products on accurate manner.
- To record and classify cash receipts promptly and accurately.
- To post sales and cash receipts to the proper customer's accounts in the accounts receivable ledger (*Accounting Information systems 3rd edition*).

#### **4.3.6.2. Marketing Objectives**

The Marketing department has the objectives to determine and satisfy the needs of the customers and generating sufficient revenue to cover costs and expenses. Also, provide return on investment.

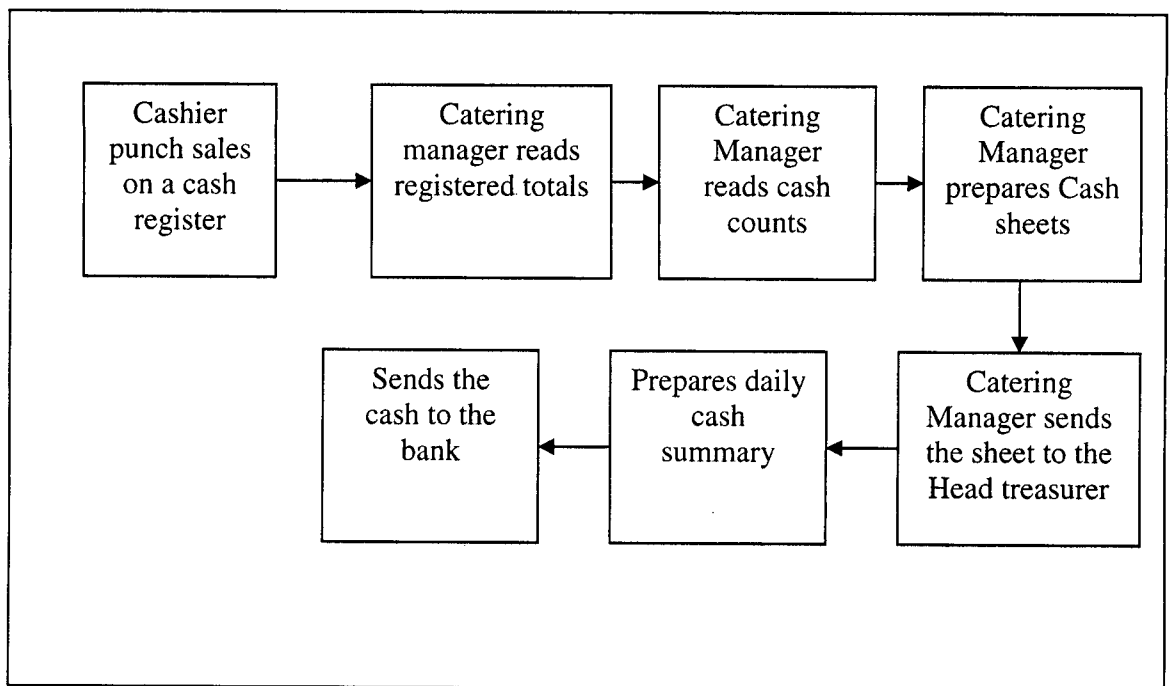
#### **4.3.6.3. E-Commerce**

E-commerce has not yet been implemented in Lebanon, since the Lebanese market doesn't yet this change. However, an internet site has been implemented giving the people the needed information of Catering Inc. in general and the schedules of its departments and employees.

#### **4.3.6.4. Sales process**

##### **I. Cash sales**

At Catering Inc. cash sales is centered on cash registers that appear to customers. During the sales effective control is made. At Universities, the cash registers are placed in the cafeteria where the operations are made. Each outlet has its own cash register. When a cash sale occurs, the sale is punched on the cash register with the amount clearly visible to the customer. This procedure prevents the cashier from ringing up a lower amount and pocketing the difference. The customer receives a cash receipt slip showing the items he ordered and is expected to count the change received. At the end of the working day the catering manager will issue a Z read which accumulates all the items punched during the day with the total amount. The catering manager compares the total amount on the z read with the total physical cash. The catering manager will report on a cash count sheet that is signed by him and the cashier. The count sheet which registers the counts and z reads is given then to the head cashier. The latter prepares daily cash report received from all sources. The head cashier than sends one copy to the accounting department to be journalized and another copy to the bank where the cash is deposited. The bank stamps the daily cash summary when he assures the amount is right and sends it back to the company's treasurer.

**Figure 3: Cash Sales process**

## II. Credit Sales

The customer orders through a written form (considered as a purchasing order for the customer) or through the telephone from a sales employee or the customer. The marketing department first receives the order and issues a sales order to the credit department. The credit department checks if the customer is creditworthy. This check compares the credit limit in the customer's records against the current balance plus the estimated sales amount of the order transaction. If accepted the order is signed by the responsible employee and is sent to the operations department. The operations department after finishing the order delivers it to the customer. The customer signs a delivery note with the invoice which assures his receiving of goods. The documents are then sent to the accounting department. The accountant then checks the documents and journalize them in the sales ledger.

## III. Sales return and Allowances

Sales return arises when the customer is unsatisfied with the goods and send back all or part of the ordered goods. In this case, a credit note is prepared in the

returned goods. A credit note is issued only when the evidence is presented that the returns have actually been received.

#### **4.3.6.5. Pricing Policy**

The company prices its products according to the competition in the market. In the Lebanese market it realizes that as a food industry it must maintain the price and keep on its high quality. As the management should study more on how to put their prices and they should follow more effective strategies according to cost, customer value, food quality, experience in the market, etc.

We notice in this part that The Internal Management and the control in Catering inc. are suffering from several weaknesses:

→ Fixed assets and stock products are not reviewed periodically, where there will be a higher margin of errors in the stock of the company, as the changes in the cost of the fixed assets. To fix this problem, each site should do a review for its stock at the end of each month for it to be controlled and followed up to minimize the chance of errors. As to study and compare the fixed assets each month and try to minimize the cost of these assets.

→ The company pricing policy is based upon the competition in the market. This leads its products quality to be ranked as other competitive products. To solve this problem, the company should keep its prices upon its food and services quality, as upon the cost for the company not to lose which lead in the future to close. The way to do this is to calculate the cost, assets and other expenses, then put a low profit for the company not to lose its quality name, not to lose money and keep its profits to continue fighting in the market and grow more and more.

→ The company doesn't have an efficient work plan. As well as it doesn't have a long-range business plan. SWOT analysis is not performed. These problems are to be solved the way we saw in the chapter before, where first the managers of each site should meet regularly with the supervisors and study how can they make the work goes better, see where the points of weaknesses are and try to put a plan to improve the work, sales, efficiency, etc. after doing so, the board of directors should arrange periodic meetings with the managers to make the necessary studies, put an efficient work plan, do the SWOT analysis for each site. The most important part for the

company is to have a long range business plan that should be studied by the board where the plan should include the following: new sites to open, marketing strategies, etc.

→ It doesn't give its employees a certain time limit in order to achieve various activities whether financial or operations. Where this have to start with the board of directors to push on the managers to accomplish the work on time and no lateness in the operations and the activities. In their turn, the managers should follow the right procedures to accomplish the job and the plans with minimum errors as possible and on the right time. Failing to do so will lead the employees to take their time in doing the tasks they are given, which will affect the company in several ways.

→ The company doesn't have any computer software or system to control its stock and it is far from the foodservice technology. Therefore Catering Inc. should build up a unique linked software system between the branches and the head office (Intranet System) this way the company will have more control and supervise the stock, sales, accounting part, etc. As the company should go into the Wi-Fi implementation, as it have to enter the evolution of payment system, try to add the electronic payment system like credit cards beside cash and checks.

Assessment of the accounting cycle in Catering Inc. for the year 2005 is the part that we shall see in the following chapters. Where the study focuses on the following: Journal voucher, chart of account, general ledger, adjusting entries, financial statements, closing entries and the VAT system in Lebanon. Also, we will see an independent auditor's report about the company and the analysis of the financial statements.

## Chapter 5. Accounting Studies & Financial Analysis

The accounting process is a series of activities that begins with a transaction & ends with the closing of the books. Because the process is repeated each reporting period, it is referred to as the accounting cycle and includes these major steps:

Identify the transaction and the preparation of the purchase order or invoice. Analyze and classify these transactions. Record them by making entries in the appropriate journal. Post general journal entries to the ledger accounts. Preparations of the trial balance. Prepare the adjusting entries to record amounts and post them to the ledger accounts. Also the preparation of the financial statements (income statement, balance sheet, cash flow...). At the end we have to close the entries and prepare the after closing trial balance.

### 5.1. Journal Voucher

“Journal voucher is the first step in processing financial data. The bookkeeper enters data into the journals in chronological order on a daily basis or as he or she receives financial information.” *(Shinn, 2002)*

- Every transaction during an accounting period is recorded in a journal.
- Debits and credits for each transaction must be equal.
- Use of special journals reduces the recording costs and facilitates the search process.
- The number and titles of special journals will depend on the accounting information needs and system design preferences of management. *(M.M.k. peker presentation)*
- Journal Voucher categorizing at Catering Inc.:
  - Sales Journal,
  - Receipts Journal figures,
  - Purchases Journal,
  - Cash disbursements journal,
  - Payroll journal,
  - General journal



**Table 14: Receipts Journal**

<b>Receipts Journal</b>				
<b>Date</b>	<b>Account Number</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
Jan. 19, 2005	5311	Cash LBP R/328 Jeita Country Club	1,500,000	
	701	Sales of Goods Inv/ 3298 Jeita Club		1,500,000

- The date of the transaction is recorded in the Date column. The date recorded should include the year, month, and day of the transaction.
- The debit account title is entered first at the extreme left margin of the column headed “Account titles and explanation” and the amount of the debit is recorded in the debit column.
- The credit account title is indented and entered on the next line and the amount of the credit is entered in the credit column.
- A brief explanation of the transaction is given.
- A space is left between journal entries.

Since most accounts appear later in financial statements, mistakes in account titles might lead to incorrect financial statements. So, in order to lessen this problem another accountant (Chief Accountant) checks the journal vouchers.

After the entry is made it is printed and piled with the necessary documents and sent to the Chief Accountant who checks it if necessary corrections to be made.

Computerized accounting systems generally do not allow an entry to be completed until debits equal credits for each transaction, thus maintaining at all times the equality of debits and credits. So the Chief Accountant checks for the date, invoice number and supplier’s name with the external document; Accounts and amounts to be debited and credited. The brief explanation of the transaction also is checked out.

## 5.2. Posting

“Posting is the procedure of transferring journal entries to the ledger account. After posting, the bookkeeper computes new balance for each general ledger and prepares a trial balance for each general ledger account to ensure that debits and credits are equal. Having, debits and credits equal do not ensure that the amounts were properly posted to the right accounts.” *(Wegandt/kieso 5th edition)*

The computerized accounting system has eased the posting procedures. In a click on the post icon the accounts are recorded in the ledger automatically.

At the end of the day when all the transactions are recorded the Chief Accountant controls the documents. When he is sure that all the transactions are correct, the Chief Accountant within the computerized system posts the transactions to ensure that every account is in the right ledger.

## 5.3. Chart of Account

“Most companies have a chart of accounts that lists the accounts and the account numbers which identify their location in the ledger”. The number and type of accounts in Lebanon is the same in all enterprises. Because the ministry of finance mandates one unified chart of account Catering Inc. Company has to follow this chart. *(Weygandt/kieso 5th edition)*

A brief explanation of the chart:

- Class 1: Equity and Long term Debts
- Class 2: Accounts of Fixed Assets
- Class 3: Inventory and Goods in process
- Class 4: Receivables and Payables
- Class 5: Financial Accounts
- Class 6: Expenditure
- Class 7: Income

## **5.4. General Ledger**

The number and description of general ledger accounts depend on the needs of the management and all account titles for a company are included in the chart of accounts. All transactions must be posted from the journals to the general ledger before financial statements are prepared. When specialized journals are used some similar transactions are grouped and only the total amount is posted to the general ledger. It includes the accumulated total of all transactions, since the foundation of the company.

### **5.4.1. Subsidiary Ledgers**

- ❖ Used to handle detailed information for a general ledger account.
- ❖ Agrees in total to the corresponding general ledger account.
- ❖ Same amounts are posted to both subsidiary and general ledgers.

### **5.4.2. Typical Subsidiary Ledgers:**

- ❖ Accounts receivable,
- ❖ Accounts payable,
- ❖ Depreciation expense,
- ❖ Accumulated depreciation,
- ❖ Inventory

### **5.4.3. Unadjusted General Ledger Trial Balance**

- ❖ List of all general ledger accounts,
- ❖ Prepared as an aid in preparing adjusting entries.
- ❖ Before an unadjusted trial balance is prepared all the transactions other than adjusting entries must be recorded in the journals and posted to the ledgers.

## 5.5. Adjusting Entries

“At the end of every month, the accountant makes adjusting entries and reviews the Trial Balance before preparing the Financial Statements”. (*Hornngren & al*).

- ❖ Prepared at the end of the period before the preparation of the financial statements, every month at Catering Inc.
- ❖ Every adjusting entry effects both the balance sheet and the income statement,
- ❖ Total debits = total credits, for each adjusting entry,
- ❖ Recorded in the general journal,
- ❖ Each prepared separately,
- ❖ Posted individually to the proper ledger account,
- ❖ Most adjusting entries are not posted to subsidiary ledgers.

Below we see the Adjusting Entries at Catering Inc.:

### 5.5.1. Prepaid expense

The insurance is paid yearly and adjusted every month for the purpose of monthly financial statements. The insurance is for 11,880 USD per year.

For the month of March 05 it was 990. The entry occurs as follows:

**Table 15: General Journal (Prepaid Expense)**

General Journal (Prepaid Expense)				
Date	Account number	Account Titles and Explanation	Debit	Credit
31/03/05	6268	Insurance expense	990	
	4719	Insurance for workers Monthly Distribution of Charges Insurance for workers		990
Prepared by: Gilbert Kayoun			Approved by: Hani Khoury	

### 5.5.2. Accrued expense

The company has an overdraft facility. It's estimation for March 05 is 1280 USD. Also, The Company estimates its monthly electricity expenses for 1400 USD. The Telephone charges for 1,200 USD per month.

The entry occurs as follows:

**Table 16: General Journal (Accrued Expense)**

General Journal (Accrued Expense)				
Date	Account number	Account Titles and Explanation	Debit	Credit
31/03/05	6736	Banking Financial interests Interest expense for March 05	1,280.00	
	6269	Electricity Electricity Charges March 05	1,400.00	
	62615	Telephone Charges	1,200.00	
	481	Telephone Charges for March 05 Accrued Expenses Accrued Expenses for March 05		3,880.00
Prepared by : Gilbert Kayoun			Approved by: Hani Houry	

### 5.5.3. Inventory Adjustment

At the end of March 2005 ending inventory was 127,399.00 USD. Where the ending Inventory for February was 129,401. However, the ending inventory entry for the end of the month occurs as follows:

**Table 17: General Journal (Inventory Adjustment)**

<b>General Journal (Inventory Adjustment)</b>				
<b>Date</b>	<b>Account number</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
31/03/05	6052	Closing Stock For the Month of March 05	84,231.00	
	6152	Closing Stock For the Month of March 05	45,170.00	
	371	Inventory Closing for the Month of March 05		129,401.00
31/03/05	371	Inventory Ending Stock for March 05	127,399.00	
	6051	Opening Stock Ending Stock for March 05		80,254.00
	6151	Opening Stock Ending Stock for March 05		47,145.00
Prepared by : Gilbert Kayoun			Approved by: Hani Khoury	

#### 5.5.4. Depreciation expenses

“Depreciation expense is the process of allocating the cost of an asset to an expense over its useful life”. (*Weygandt/Kieso 5th edition*).

It is prepared monthly. The company follows the straight line method. However, accrued for March 2005 is 13,500 USD distributed as follows:

Office & Computer Equipment.....	1350
Furniture.....	2500
Software.....	750
Technical Installations & Industrial Tools.....	4500
Telecommunication Materials .....	1000
Transportation Equipment .....	3400

The entry occurs as follows:

**Table 18: General Journal (Depreciation Expense)**

<b>General Journal (Depreciation Expense)</b>				
<b>Date</b>	<b>Account number</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
31/03/05	65120	Depreciation	13,500.00	
		Depreciation of March 05		
	28262	Dep. of Office & Comp. Equipment		1,350.00
		Depreciation for March 05		
	28263	Depreciation of Furniture		2,500.00
		Depreciation for March 05		
	28266	Depreciation Of Software		750
		Depreciation for March 05		
	2824	Technical Installation & Industrial Tools		4,500.00
		Depreciation for March 05		
	28261	Depreciation of Telecom. Materials		1,000.00
		Depreciation for March 05		
	28250	Depreciation of transportation equipment		3,400.00
		Depreciation for March 05		
Prepared by : Gilbert Kayoun			Approved by: Hani Khoury	

## 5.6. Financial Statements

### 5.6.1. Income Statement

“An income statement is a report that shows how much revenue a company earned over a specific time period. An income statement also shows the costs and expenses associated with earning that revenue. The literal “bottom line” of the statement usually shows the company’s net earnings or losses. This tells you how much the company earned or lost over the period”. ([www.sec.gov](http://www.sec.gov))

At Catering Inc. the income Statement is prepared Monthly. Below we shall see the balance sheet and the cash flow statement of the company.

### 5.6.2. Balance Sheet

“A balance sheet provides detailed information about a company’s assets, liabilities and shareholders’ equity. Assets are things that a company owns that have value. This typically means they can either be sold or used by the company to make products or provide services that can be sold. Assets include physical property, such as plants, trucks, equipment and inventory. It also includes things that can’t be touched but nevertheless exist and have value, such as trademarks and patents. And cash itself is an asset. So are investments a company makes.

Liabilities are amounts of money that a company owes to others. This can include all kinds of obligations, like money borrowed from a bank to launch a new product, rent for use of a building, money owed to suppliers for materials, payroll a company owes to its employees, environmental cleanup costs, or taxes owed to the government. Liabilities also include obligations to provide goods or services to customers in the future.

Shareholders’ equity is sometimes called capital or net worth. It’s the money that would be left if a company sold all of its assets and paid off all of its liabilities. This leftover money belongs to the shareholders, or the owners, of the company”  
([www.sec.gov](http://www.sec.gov))

The following formula summarizes what a balance sheet shows:

**ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY**

A company's assets have to equal, or "balance," the sum of its liabilities and shareholders' equity.

At Catering Inc. the Balance Sheet is prepared Quarterly.

### 5.6.3. Cash Flow Statement

“A cash flow statement shows changes over time rather than absolute dollar amounts at a point in time. It uses and reorders the information from a company’s balance sheet and income statement.

The bottom line of the cash flow statement shows the net increase or decrease in cash for the period. Generally, cash flow statements are divided into three main



parts. Each part reviews the cash flow from one of three types of activities: (1) operating activities; (2) investing activities; and (3) financing activities”.

*(www.sec.gov)*

At Catering Inc., Cash flow statement is prepared Quarterly.

- ❖ Descriptions and details must be stated according to IAS.
- ❖ Accounts are grouped, current and non-current, operating and non-operating, etc.
- ❖ Footnotes and other required disclosures made.

### 5.7. Closing Entries

“Journalizing and posting entries is a required step in the accounting cycle. Closing entries formally recognize in the ledger the transfer of net income or net loss and owner’s drawing to owner’s capital”. *(Weygandt/Kieso 5th edition)*

- ❖ At the end of each accounting year, all nominal accounts are closed.
- ❖ We don’t necessarily close the accounts every time we prepare the financial statements, only at the year end.
- ❖ Nominal accounts are:
  - Revenue accounts, closed to Income Summary.
  - Expense accounts, closed to Income Summary.
  - Income Summary Account closed to R/E.
  - Dividend Account closed to R/E.
  - Drawing accounts in partnerships and sole proprietorships, closed to the partner’s Capital Acc.
- ❖ Complete the accounting process for the current period,
- ❖ Prepared after all the adjustments are recorded in the journals and posted to the ledger.
- ❖ All nominal accounts must be closed out, so that the company starts a new year with zero balance in those accounts.

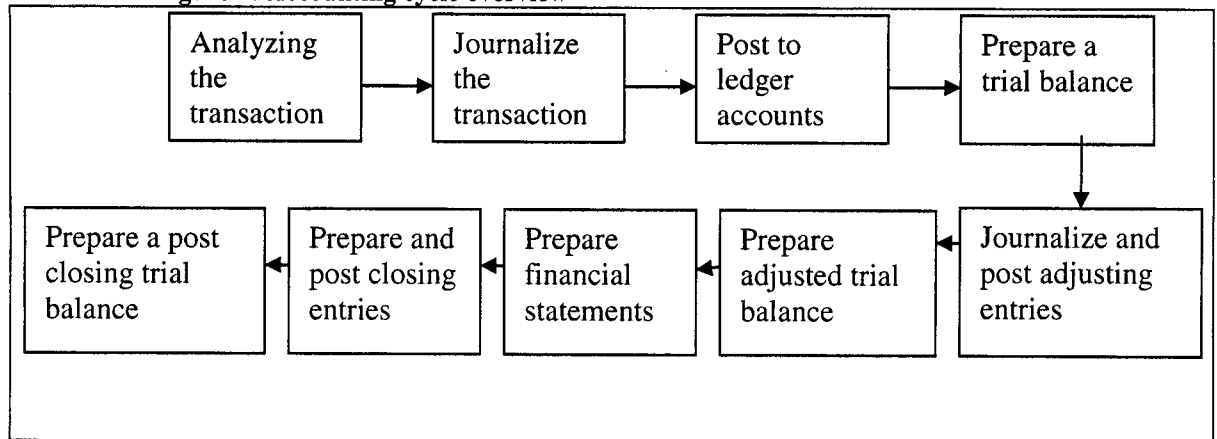
- ❖ Each closing entry must be recorded in the general journal and individually posted to the appropriate general ledger account.
- ❖ In CW Food & Beverage closing entries are prepared at the end of every year.  
At 31 September, 2005 the following closing transactions occurred:

**Table 19: General Journal (Closing Entries)**

<b>General Journal (Closing Entries)</b>				
Date	Account #	Account Titles and Explanation	Debit	Credit
31/12/05	601	Purchases End of period closing at 31/12/05		1,148,000.00
	611	Purchases of raw materials End of period closing at 31/12/05		1,350,000.00
	701	Sales Of non produced food End of period closing at 31/12/05	1,789,000.00	
	711	Sales of produced food End of period closing at 31/12/05	2,250,000.00	
	191	Gross Trade Margin End of period closing at 31/12/05		1,541,000.00
	191	Gross Trade Margin End of period closing at 31/12/05	1,541,000.00	
	62	Other operating Charges End of period closing at 31/12/05		141,000.00
	63	Personnel Charges End of period closing at 31/12/05		350,000.00
	64	Fees & Taxes End of period closing at 31/12/05		3,000.00
	65	Depreciation & Amortization End of period closing at 31/12/05		244,215.00
	194	Operating result End of period closing at 31/12/05		802,785.00
	194	Operating result End of period closing at 31/12/05	802,785.00	
	67	Financial Charges End of period closing at 31/12/05		26,165.00
	68	Non operating Charges End of period closing at 31/12/05		15,432.00
	196	Non operating result End of period closing at 31/12/05		761,188.00
	196	Non operating result End of period closing at 31/12/05	761,188.00	
	69	Income Tax End of period closing at 31/12/05		114,178.00
	197	Period Result End of period closing at 31/12/05		647,010.00
Prepared by : Gilbert Kayoun			Approved by: Hani Khoury	

Below we can see an Overview of the Accounting Cycle.

**Figure 4: Accounting cycle overview**



## 5.8. Interim Tax Declarations

VAT was invented by a French economist in 1954. Value Added Tax is tax on exchanges. It is levied on the value added that results from each exchange. It differs from a sales tax because a sale is levied on the total value of the exchange. For this reason VAT is neutral with respect to the number of passages that there are between the producer and the final customer. VAT is an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer). Exports are usually not subject to VAT. And the percentage of the VAT varies from country to country.

### 5.8.1. Value Added Tax

"The VAT [LAW] was published in issue no 63, December 24 2001 of the Official Gazette. It was amended by the LAW no. 479 dated 30/01/2003 (issue no.8 of the Official Gazette dated 31/01/2003), and the LAW no. 583 dated 23/04/2004 (issue no. 23 of the Official Gazette dated 23/04/2004).

The introduction of the VAT in Lebanon was based on several considerations.

On the one hand, VAT would contribute in reducing the deficit and containing the debt levels accumulated during the years of the war and the years

thereafter, its implementation would help in ensuring continuous economic growth and financial and monetary stability.

On the other hand, the Lebanese tax system had traditionally relied heavily on import duties. Therefore, in its effort to implement its international and regional trade obligations (WTO, EU, Arab Trade Union...), which had required the reduction of custom tariffs, Lebanon had to introduce an alternative broad base tax on consumption, which would play an important role in generating revenues.

The VAT is an indirect tax that is collected by the Treasury at the level of the business unit but paid by the buyer and ultimately by the consumer. Because there is a wide list of exempted goods and services, the tax burden of the VAT varies depending on the level of consumption and the nature of the basket of goods and services consumed.

The Value Added Tax, which is already implemented in more than 125 countries, is the best among the indirect tax alternatives. VAT does not discriminate against investments. The VAT constitutes the most important element of the tax reform undertaken by the Lebanese government since the end of the war in 1992” (*www.finance.gov.lb*)

Who is considered a taxable person?

A taxable person is every natural or juridical person who, in the course of an independent economic activity, supplies goods and services other than the exempted ones, and has a turnover for four successive quarters exceeding the following:

- L.P. 225 million on or after 1/1/2004.
- L.P. 150 million on or after 1/1/2005

What is the VAT rate? The Vat rate is 10% and zero %.

#### **5.8.1.1. Tax Period**

Legally, the tax is calculated at the end of each calendar month. In the early stages of implementation, the tax period will be a quarter instead of a month.

Every taxable person shall remit the tax return within 20 days from the end of the tax period.

However, Catering Inc. revenue allows it to register in the Vat as voluntarily. The company registered at February June 2002. The company declares 100% vat on its sales and not all suppliers it deals with are subject to vat. Also, there are items that are not tax subject.

### 5.8.1.2. Computation

During the second trimester at 31 June, 2005 the company had the following balances:

Sales	1,500,000,000 LBP
Sales Return	2000000 LBP
Vat Sales	149,800,000 LBP
Purchases (Vat excluded)	125,000,000 LBP
Purchases (Vat Included)	750,000,000 LBP
Vat Purchases	75,000,000 LBP
Expenses	150,000,000 LBP
Vat Expenses	15,000,000 LBP
Fixed Assets	9000000 LBP
Vat fixed assets purchases	900,000 LBP

**Table 20: General Journal (Computation of the Company Balances)**

<b>General Journal (Computation of the Company Balances)</b>				
<b>Date</b>	<b>Account number</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
30/06/06	4427	Vat Sales Vat 2nd Trimester year 2005	149,800,000.00	
	44261	Vat purchases Vat 2nd Trimester year 2005		75,000,000.00
	44266	Vat expenses Vat 2nd Trimester year 2005		15,000,000.00
	44262	Vat fixed assets purchases Vat 2nd Trimester year 2005		900,000.00
	4425	Vat Vat 2nd Trimester year 2005		58,900,000.00
	4425	Vat Vat 2nd Trimester year 2005	58,900,000.00	
	5121	Bank Account HSBC		58,900,000.00
Prepared by : Fouad Boutros			Approved by: Hani Khoury	

### 5.8.2. National Social Security Fund

The National Social Security Fund was issued on the decree number 13955 Of 26 September, 1963 and was amended at 4 May, 1987.

The Social Security provides the assistance to employees in the private sector, public sector, University students, public drivers and teachers.

The assistance constitutes of:

### **5.8.2.1. Medical Security**

The beneficiary can take advantage as long as his wife never works and his children not exceed eighteen years of age as long as the child is still studying and not working till twenty five years of age.

80% of all expenses not related to hospitals.

90% of all expenses related to hospitals.

100% off all expenses related to Childbirth.

### **5.8.2.2. Family Allowance**

The beneficiary also takes advantage if he is married:

- Sixty thousand Lebanese pounds for the employee's wife if she's not working.
- Thirty three thousand Lebanese pounds for a child. Not exceeding five children. Till the child reaches eighteen years of age, if still studying the employee can benefit until the child reaches twenty five.

### **5.8.2.3. End of Service**

The beneficiary takes advantage to get retirement funds. He must be registered at least five years. However, in case of death the funds are transferred to his wife and children and to his brothers and sisters if not married.

- The employee has to pay 2 % from his salary.
- The Employer has the following duties to pay:
  - Family Allowance: 6 %
  - Medical Security: 7 %
  - End of service: 8.5 %

**5.8.2.4. Computation**

At CW Food & Beverage, for the month of July 2005 the following salaries and compensations occurred:

Salaries	123,986,000
Transportation	30,000,000
Bonuses	11,000,000
Overtime	6,476,000

**Table 21: Expense Journal**

<b>Expense Journal</b>				
<b>Date</b>	<b>Account number</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
31/07/06	6351	Social Security (6%) Family Allowance July 05	8,487,720.00	
	6351	Social Security (7%) Medical Security July 05	9,902,340.00	
	6351	Social Security (8.5%) End Of Service July 05	12,024,270.00	
	4311	Social Security payable to social security		30,414,330.00
Prepared by : Fady Haddad			Approved by: Hani Khoury	

The bonuses & Overtime are computed to the rate of salaries. Transportation is non-taxable.



### 5.8.3. Salaries & Wages

Income tax of employees is declared quarterly. Tax is enforced on every real income after deducting for every real person of the levied for an amount of 7,500,000 L.L in addition to 2,500,000 LL for the married levy not more than one wife and 500,000 LL for every child he has provided not exceeding five children if:

- ✚ Males under the age of 18 or up to the age of 25 if they are studying in the University.
- ✚ Males that suffer from a physical handicap and do not perform a job provided that the handicap is proved by a medical certificate issued by the permanent medical committee at the ministry of health.
- ✚ Females before marriage if they became widows or divorced

In case the father died or has an evidenced handicap and no more exercise a paid job, the mother will be given the additional deduction. If the employee works in more than one company he will benefit only once "Ministry of Finance".

#### 5.8.3.1. Tax Brackets

Commercial income, noncommercial & industrial careers tax is computed as follows:

Table 22: Tax brackets

TAX Brackets			
Tax rate	Brackets		
4%	On the Taxable income that does not exceed	9,000,000	
7%	On the Taxable income that is above	9,000,000	and does not exceed 24,000,000
12%	On the Taxable income that is above	24,000,000	and does not exceed 54,000,000
16%	On the Taxable income that is above	54,000,000	and does not exceed 104,000,000
21%	On the Taxable income that is above	104,000,000	

### 5.8.3.2. Computations

However, at Catering Inc. the following three employees have the following income and deductions.

**Table 23: Salary & Wages Information**

<b>Salary &amp; Wages Information</b>			
<b>Employee</b>	<b>Salary/quarter</b>	<b>Transportation/quarter</b>	<b>Family</b>
Fouad Boutros	4,500,000	450,000	Married with 2 children
Hani Khoury	2,700,000	450,000	Married (working wife) with 3 children
Mario Khattar	2,400,000	450,000	none

The tax is computed as follows:

**Table 24: Salaries and Wages Computation**

<b>Salaries and Wages Computation</b>						
<b>Deductions</b>						
<b>Employee</b>	<b>Salary/quarter</b>	<b>Personal</b>	<b>Wife</b>	<b>Children</b>	<b>Taxable Income</b>	<b>Tax</b>
Fouad Boutros	4,500,000	1,875,000	625,000.00	250,000	1,750,000	70,000.00
Hani Khoury	2,700,000	1,875,000	None	375,000	450,000	18,000.00
Mario Khattar	2,400,000	1,875,000	None	none	525,000	21,000.00

The transportation is not taxed as long it never passes 150,000 per month.

In the next chapter we shall see the auditor's report and the financial statements analysis, where we will start with a study that shows a report done by an independent auditor, as we will see the analysis of the balance sheet, statement of income of the company, statement of cash flow, financial ratios, etc.

## 5.9. Auditor's Report & Financial Statements Analysis

“Internal auditing is an examination in which management, and not the external public, is the main beneficiary. It is carried out usually by auditors employed by the company, but sometimes by external service providers. The internal auditor's role is broader, and basically depends on what kind of assurance management wants. It usually certifies the efficiency and effectiveness of processes, departments, projects or internal controls. The Institute of Internal Auditors is generally accepted as the custodian of Internal Auditing best practice.” ([www.wikipedia.com](http://www.wikipedia.com))

### 5.9.1. Independent Auditor's Report

To the Shareholders  
Catering Inc. S.A.L  
Beirut, Lebanon

We have audited the accompanying Balance Sheet of Catering Inc. S.A.L. as of September 30, 2005, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on the financial statements based on our audit.

Except as set forth in paragraphs (a) and (b) below, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- a) We were not provided with a statement of account from a fixed assets supplier who is claiming additional amounts of USD 36,204. As indicated in Note 4 to the financial statements, this amount was not recognized by the company's liability. We were not able to determine whether this contingent liability is complete.

- b) We were not provided with the company's board of directors and general assembly of shareholders' meetings held during the fiscal year ending September 30, 2005 and up to the date of the financials including the approval on 2004 accounts.

In our opinion, and expect for the effect of such adjustments, if any, as might have been determined to be necessary, had we been able to perform the audit procedures described under paragraphs (a) and (b) above, the financial statements referred to above, present fairly, in all material respects, the financial position of Catering Inc. S.A.L. as of September 30, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

The accumulated losses of the company as of September 30, 2005 exceeded its capital. In accordance with Article 216 of the Lebanese Code of Commerce, the boards of directors are required to convene an extraordinary general assembly meeting to decide on the appropriate measures.

The Company's accounts reflect a balance due from a shareholder in the amount of LBP22.4 million outstanding as of September 30, 2005 which is in contradiction of Article 158 of the Lebanese Code of Commerce.

Beirut, Lebanon

November 24, 2005

**5.9.2. Financial Statement:****5.9.2.1. Balance Sheet:****Table 25: Balance Sheet**

<b>Catering inc S.A.L.</b>			
<b>BALANCE SHEET</b>			
		<b>September 30,</b>	
Assets:	<b>NOTES</b>	<b>2005 LBP'000</b>	<b>2004 LBP'000</b>
<b>Current Assets</b>			
Cash and Bank		1,065,320	89,351
Accounts receivable		53,611	24,179
Due from a shareholder	6	22,381	-
Inventory		195,072	73,727
Prepaid expenses and other assets	3	216,999	131,047
<b>Total</b>		<b>1,553,383</b>	<b>318,304</b>
<b>Non-Current Assets:</b>			
Tangible fixed assets, net	4	1,702,752	1,350,846
<b>Total Assets</b>		<b>3,256,135</b>	<b>1,669,150</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Due to a bank		257,350	157,567
Accrued expenses and other liabilities	5	861,718	369,098
Trade accounts payable		341,898	133,257
Fixed assets suppliers		96,398	320,129
Due to a related party	6	120,166	6,568
Due to shareholders	6	455,518	0
Notes payable (net of deferred charges)		21,165	6,844
<b>Non-Current Liabilities:</b>			
Notes payable (net of deferred charges)		18,713	13,301
<b>Total Liabilities</b>		<b>2,172,926</b>	<b>1,006,764</b>
<b>Shareholders' Equity</b>			
Capital	7	600,000	600,000
Accumulated profit/(Losses)		62,386	(34,660)
Profit for the year		420,823	97,046
<b>Total shareholders' equity</b>		<b>1,083,109</b>	<b>662,386</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>3,256,135</b>	<b>1,669,150</b>

**5.9.2.2. Statement of Income:****Table 26: Statement of account**

<b>Catering Inc. S.A.L</b>			
<b>STATEMENT OF INCOME</b>			
		<b>Year Ended September 30,</b>	
	<b>Notes</b>	<b>2005 LBP'000</b>	<b>2004 LBP'000</b>
Sales	8	4,121,110	1,303,939
Operating expenses:			
Cost of materials used		(1,409,067)	(530,925)
Services fees	8	(570,804)	(191,936)
Salaries, wages and related charges	9	(779,815)	(118,485)
Other operating expenses	10	(677,690)	(345,984)
Depreciation and amortization	4	(187,015)	(14,677)
Total operating expenses		(3,624,391)	(1,202,007)
Operating Income		496,719	101,932
Other (expenses)\income, net		(5,057)	229
Financial charges, net		(23,388)	(5,115)
Write-off of assets		(47,451)	-
		(75,896)	(4,886)
Profit for the year		420,823	97,046

**5.9.2.3. Statement of Cash Flows:****Table 27: Statement of Cash Flow**

<b>Catering Inc. S.A.L</b>		
<b>STATEMENT OF CASH FLOWS</b>		
	<b>Year Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities</b>		
profit for the year	420,823	97,046
Adjustments to reconcile losses for the year with net cash from operating activities:		
Depreciation and amortization	187,015	14,677
Write-off of debit balance	28,289	-
Net book value of fixed assets written-off- Note 4	19,162	-
Adjustment	(1,535)	-
<b>Changes in working capital</b>		
Increase in accounts receivable	(29,432)	(24,179)
Increase in inventory	(121,345)	(73,727)
Increase in prepaid expenses and other assets	(114,682)	(131,047)
Trade and other payables	(15,090)	453,386
Increase in due to a related party	113,598	6,568
Increase in notes payable	19,733	20,145
Increase in accrued expenses and other liabilities	492,620	351,149
Net cash used in operating activities	999,156	714,018
<b>Cash flows from investing activities</b>		
Acquisition of fixed assets	(643,092)	(1,271,036)
Advances on purchases of fixed assets	86,985	(94,487)
Net cash used in investing activities	(556,107)	(1,365,523)
<b>Cash Flows from Financing Activities</b>		
Injection of capital	-	220,500
Due to a bank	99,783	157,567
Due from shareholder	(22,381)	-
Financing by shareholders	455,518	0
Net cash provided by financing activities	532,920	378,067
Net increase/ (decrease) in cash	975,969	(273,438)
Cash – Beginning of year	89,351	362,789
Cash – End of year	1,065,320	89,351

**5.9.2.4. Statement of Changes in Shareholders equity:****Table 28: Statement of Changes in Shareholders / Equity**

<b>Catering Inc. S.A.L</b>						
<b>Statement of Changes in Shareholders / Equity</b>						
	<b>Capital LBP'000</b>	<b>Unpaid Capital LBP'000</b>	<b>Paid-Up Capital LBP'000</b>	<b>Accumulated profit LBP'000</b>	<b>Profit for the Year/Period LBP'000</b>	<b>Total LBP'000</b>
Balance, Sept 30, 2003	600,000	-220,500	(379,500)	-	(34,760)	344,740
Injection of Capital	-	220,500	220,500	-	-	220,500
Transfer to accumulated loss	-	-	-	(34,760)	34,760	-
Profit for the year	-	-	-	-	97,046	97,046
Balance, Sept 30, 2004	600,000	-	600,000	(34,760)	97,046	662,286
Transfer to accumulated loss	-	-	-	97,046	(97,046)	-
Losses for the year	-	-	-	-	420,823	420,823
Balance, Sept 30, 2005	600,000	-	600,000	62,286	420,823	1,083,109

**5.9.2.5. Notes to Financial Statement****1. Organization and Operations**

Catering Inc. S.A.L. was established on June 30, 2003 and registered in July 3, 2003 in Baabda, under Commercial Registration Number 2001345. The objective of the Company is providing catering services to organizations and to the public.

**2. Summary of Significant Accounting Policies:**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The fiscal year of the Company ends on September 30 of each year. The principal accounting policies are summarized as follows:

**A. Tangible Fixed Assets:**

Fixed assets are stated at historical cost net of accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful life of the assets, using the following annual rates:



**Table 29: Depreciation Annual Rates**

<b>Depreciation Annual Rates</b>	
General installations and lease hold improvements	10%
Equipment and tools	10%
Furniture	7.5–10%
Electrical equipment	20%
Transportation equipment	12-20 %
Office and computer equipment and other materials	20%
Kiosk	10%

**B. Inventory:**

Inventory is stated at lower of cost and net realized value. Cost is derived using the weighted average method.

**C. Sales:**

Sales generated from catering operations, are recognized when services are rendered. Such revenue includes credit sales in addition to cash sales.

**D. Foreign Currencies:**

Transactions in currencies other than Lebanese Pounds are initially recorded at the rates of exchange prevailing on the dates of the transactions. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into Lebanese Pounds at the rates of exchange prevailing at the balance sheet date. The resulting exchange gains and losses are included in the related statement of income.

**E. Financial Assets and Liabilities:**

Financial assets and liabilities are presented as follows:

**Cash and cash equivalents:** This caption represents short term balances. The carrying value of these balances approximates their fair value.

**Receivables:** Receivables are stated at their nominal value as reduced by appropriate allowance for estimated doubtful amounts, if any.

**Payables:** Payables are stated at their nominal value.

## 3. Prepaid Expenses and Other Assets:

This caption is composed of the following:

**Table 30: Prepaid Expenses & Other Assets**

<b>Prepaid Expenses &amp; Other Assets</b>		
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Advances on services fees- NDU	99,495	-
Software (net of amortization)	9,738	-
Blocked deposits	5,050	5,050
Advances to suppliers	3,570	-
Value Added Tax, net	85,813	91,561
Deferred charges	1,814	-
Prepaid charges	8,361	3,769
Other debit balances	4,972	28,853
<b>Total</b>	<b>216,999</b>	<b>131,047</b>

## 4. Tangible Fixed Assets, Net

This caption consists of the following:

**Table 31: Tangible Fixed Assets**

<b>Tangible Fixed Assets</b>				
	<b>Balance September 30, 2004</b>	<b>Additions/ Transfers</b>	<b>Disposals/ Transfers and Adjustments</b>	<b>Balance September 30, 2005</b>
<b>Costs:</b>				
<b>General installations and leasehold</b>				
Improvements	706,861	357,387	-13,567	1,050,681
Tools and Equipment	301,840	166,163	-	468,003
Transportation equipment	130,200	-	-	130,200
Office and Computer equipment and other materials	24,942	64,103	-	89,045
Kiosks	30,036	9,573	-7,304	32,305
Furniture and Fixtures	77,157	49,303	-3,437	123,023
	1,271,036	646,529	-24,308	1,893,25
Advances on acquisition of fixed assets	94,487	3,318	-90,303	7,502
<b>Total cost</b>	<b>1,365,523</b>	<b>649,847</b>	<b>-114,611</b>	<b>1,900,759</b>
<b>Accumulated Depreciation:</b>				
<b>General installations and leasehold</b>				
Improvements	-3,306	-92,659	979	-94,716
Tools and Equipment	-2,355	-43,957	-	-46,312
Transportation equipment	-4,430	-22,717	1,101	-26,046
Office and Computer equipment and other materials	-2,286	-15,420	-	-17,706
Kiosks	-530	-3,119	730	-2,919
Furniture and Fixtures	-2,040	-8,702	434	-10,308
<b>Total accumulated depreciation</b>	<b>-14,677</b>	<b>-186,574</b>	<b>3,244</b>	<b>-198,007</b>
<b>Net Book Value</b>	<b>1,350,846</b>			<b>1,702,752</b>

The Company accounted for the depreciation of 2005 for an amount of LBP 186.6 million reflected under “Depreciation and amortization” in the statement of income.

“Advances on acquisition of fixed assets” as of September 30, 2004 include an amount aggregating to LBP53 million representing payments on account on a computer software and equipment in process of installation. During 2005, the

Company recognized an amount of LBP 48.8 million representing cost of licenses, equipment and hardware against these advances, based on invoices received from the supplier. The mentioned supplier is claiming for additional amounts totaling to USD 36,204 representing cost of software, implementation, training and other expenses. These amounts are rejected by the Company. Subsequently to the balance sheet date, the software was removed and replaced by another one.

As disclosed in Note 8, the contract signed with the USJ terminated on August 31, 2005, as a result, the Company has written-off an amount of LBP 19.2 million representing the net book value of immovable assets used during the performance of the contract services which are considered as loss. This amount was included under 'Write-off of assets' in the statement of income.

#### 5. Accrued expenses and other liabilities

Accrued expenses and other liabilities include the following:

**Table 32: Accrued Expenses & Other Liabilities**

	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Due to personnel	48,708	26,766
National Social Security Fund	131,309	14,481
Services fees and other liabilities	306,196	205,942
Accrued charges	233,321	-
Taxes payable	1,447	5,291
Other creditors	140,737	116,618
<b>Total</b>	<b>861,718</b>	<b>369,098</b>

Service fees & other liabilities are relating to the contracts disclosed in Note 8.

## 6. Due to/from Shareholders, Board Members and Related Party Transactions

**Table 33: Party Transactions**

<b>Party Transactions</b>		
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Due to shareholders		
Gabriel Assis	455,518	-
Due from Lea Wanna (a shareholder)	22,381	-
Due to a related	120,166	6,568

Due to shareholders represent current accounts which is non-interest bearing.

Related party transactions:

Due from a shareholder represents the balance of a loan outstanding as of September 30, 2005. This balance is not subject to interest.

The Company occupies the premises, owned by a board member, free of charge.

Due to a related party presents in 2005 a balance due to Catering inc. S.A.L. resulting from cleaning services rendered to the company (Refer to Note 10).

### 7. Capital:

Sales and services fees consist of the following for the year ended September 30, 2005

### 8. Sales and Service Fees:

Sales and services fees consist of the following for the year ended September 30, 2005:

**Table 34: Sales & Services Fees**

<b>Sales &amp; Services Fees</b>		
	<b>Sales</b>	<b>Services</b>
AUST (first contract)	2,275,649	-407,240
NDU (second contract)	1,111,351	-150,750
USJ (third contract)	734,110	-12,814
Total	4,121,110	-570,804

The Company signed three contracts with three universities in Lebanon, to design and operate food service facilities in their campuses.

The first contract starts on October 1, 2004 for a period of 10 years. According to the contract, the company should submit a performance bond in the amount of \$200,000 and should pay 4.65% as sales commissions.

The second contract covers a period of 3 years deemed to be renewed for two similar periods. The Company should pay service fees at 5% of gross sales with a minimum annual amount of \$100,000 for the year 2005.

The third contract is for a period of one year starting September 1, 2004. The Company paid a fixed amount of \$85,000 as service fees. This contract was terminated on August 31, 2005.

#### 9. Salaries, Wages and Related Charges

This caption includes the following:

**Table 35: Salaries, Wages & Related Charges**

<b>Salaries, Wages &amp; Related Charges</b>		
	<b>2005</b>	<b>2004</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Salaries	523,015	79,330
Temporary personnel	1,658	3,429
Transportation	133,480	17,460
Overtime and bonuses	11,134	15,914
Total	779,815	118,485

## 10. Other Operating Expenses

This caption consists of the following:

**Table 36: Other Operating Expenses**

<b>Other Operating Expenses</b>		
	<b>2005 LBP'000</b>	<b>2004 LBP'000</b>
Postage and telecommunications	48,790	35,250
Transportation	29,727	5,102
Entertainments	-	4,601
Legal Expenses	18,978	31,109
Printings and stationery	67,332	43,181
Maintenance and repairs	10,333	3,968
Advertising expenses	3,603	10,433
Insurance	37,868	9,010
Taxes, duties and penalties	16,326	15,674
Cleaning expenses	157,427	51,351
Electricity	118,403	19,071
Travel, accommodation and restaurants	42,305	52,363
Gifts	14,972	6,818
Uniform	23,878	12,606
Laundry	31,151	4,901
Licenses	2,156	-
Miscellaneous	54,441	40,546
<b>Total</b>	<b>677,690</b>	<b>345,984</b>

“Cleaning expenses” in 2005, are mainly services rendered by a related

## 11. Commitments and Contingencies

The commitments of the Company as of September 30, 2005 consisted of the letters of guarantee totaling to USD 2,250 issued on behalf of the Company.

The Company's records are still subject to review by the tax authorities and Social Security since inception.

## 12. Comparative Financial Statements

Certain reclassifications have been made to prior year figures to conform to the current year classification.

**5.9.2.6. Financial Ratios**

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = 72.1 \%$$

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}} = 12.9 \%$$

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Average Stockholders' Equity}} = 38\%$$

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Sales}} = 10.21 \%$$

$$\text{Earnings per Share (EPS)} = \frac{\text{Net Income}}{\text{Number of Common Shares Outstanding}} = 7014 / \text{Share}$$

$$\text{Accounts Receivable Turnover Ratio} = \frac{\text{Sales}}{\text{Average Accounts Receivable}} = 76.88 \%$$

$$\text{Average Daily Sales} = \frac{\text{Sales}}{360} = 11,447,528 \text{ LBP}$$

We saw in this part of the project the assessment of the accounting cycle in Catering Inc. as we introduced and talked about the VAT system in Lebanon because the taxes varies a lot from country to another, for that we had to talk about the tax system in the country we are studying. After that we analyzed the financial statements of the company. Finishing with those three steps we got to the conclusion part of this chapter where we comment, list the problems we found and build up our recommendations:



→ If we take a look at the tables we found that the sales increased at Catering Inc. as did the profit by more than four times from year 2004 to year 2005, thus we can say that the company is growing in a very high speed.

→ We didn't see any budget for expenses, payments, No Forecasting for sales (open new sites), the company opens many sites without forecast or detailed study, which leads the company to more sales, but more debts and losing a lot if the new site didn't give the expected results (ex: one of these mistakes that the company have done when they opened a site in a hospital and in few months they closed it because there was no profit which was the result of the non forecast, non budgeting, increase in the debts to finance the new site, etc.).

→ Though we saw the final number of the sales which is very good, on the other hand we didn't see any details (location, product, etc.). Also, the profit is high but on the other hand we see that there's a very high increase in the debts and no payments for the debtors, moreover, no payments of dividends or other payments for shareholders were done. If we take a look at the ratios we notice that the company is growing in a very rapid way and is somehow on the safe side, but saying again that the liabilities are not in a good situation for future look comparing them with the assets. That I why the Catering Inc. should put an effective strategy and a well studied future plan on how to empower its current situation before going on with opening other sites that only leads to more debts, more payments, more losing on the long run that will affect the position of the company as a whole.

In this part we get to finalize our study about Catering Inc. as Business consultant. Where after this detailed view of the Company, we get to the last part where we will see the conclusion that shows us the weaknesses of Catering Inc. Lebanon. So we can build our recommendations that the company should take into consideration to make this company goes on in the Lebanese market.

## **Chapter 6. Conclusions and Recommendations**

### **6.1. Conclusions**

Now we got to the final part where we did a detailed study, analysis and assessment of the company that included: internal management, Human resource department, internal control, accounting cycle, assessment of the financial statements, etc. We showed the problems that it is facing in Lebanon, the points of weakness that they are not giving attention to them and should take into consideration our conclusions and the recommendations that will help improving the performance of the company in the Lebanese market, and help fixing the gaps we showed in the study, due to the big competition that it's face, the fact that the company have always short range plans, etc. thus it could solve them and continue growing in the Lebanese market without struggling and fear from the competitors.

While doing the research, interviews, studies, etc. we faced some problems of getting more detailed information about the company due to the limitations that the management in the company gave me. Some of these limitations were: We couldn't have more specific, accurate and updated information about the accounting part as well as the internal management and control of the company. Also, the information taken from the interviews were limited as you can see in the study of the company. Another problem we faced, is to get magazines, articles and journals about the history of catering where almost all the info were taken from reliable articles from the internet. The hardest part of this project was how to link the accounting training to the work experience in Catering Inc. Lebanon and give this project an international view.

Having exceeded all the problems faced, we've done the appropriate studies, conclude the problems the company is facing and build up the required recommendations for this international company to have in Lebanon its international image. This whole project was done on the purpose for the Lebanese expansion of the international company to find the problems its facing, build up the appropriate recommendations to have in Lebanon its international image because it is not doing well in the market in the past few years.

Now we get to the point to ask: What is the added value from this project? Where we can answer that doing this project helped us a lot to understand more what we've learned from our studies, how to convert theory into actual work, how to understand the concept of an international company and how it shall act in each country from kinds of food served, prices, laws, etc., how to make a whole study about a company to get to know its points of power, weaknesses and the threats from the competitors in the same field as well as to see the opportunities that the company can take to improve and grow, also know how to build up our conclusions from the study and give the recommendations that we found appropriate for the studied company. We made these steps for Catering Inc. and we made some added value that we got from this study. The first one was personal one that connects the study with the work experience to the project done and gave me the appropriate experience to do such a detailed study, knew how to filter the company and show the problems its facing, then give the recommendations needed for Catering Inc. to fight in the market and still stand and grow. The other added value was for the company, where they started to work on some of my recommendations, such as the linked software, the meetings with the managers but not on regular basis, job description, etc. This happened when I showed the study and the recommendation to one of the managers in the company and in his turn showed them to the board.

Starting with the conclusion where we will see a list of problems and weaknesses that Catering Inc. is facing, note that we saw detailed conclusions at the end of each chapter:

- The company doesn't have a long-range business plan.
- In the job descriptions the Human Resource department didn't decide the minimum qualifications of the candidates. Also, job descriptions are not specified for certain key personnel.
- The company doesn't have a work plan. It doesn't give employees a certain time limit in order to achieve various activities whether financial or operations.
- The company doesn't have a priority list. This leads for certain important tasks not to be accomplished on time.

- The company pricing policy is based upon the competition in the market. This leads its products quality to be ranked as other competitive products.
- Intranet system is not applied.
- No time sheets are provided in order to control employees working hours.
- The company doesn't arrange periodic meetings for the board of directors.
- Fixed assets and stock products are not reviewed periodically.
- No customer service follow-up is made.
- The company doesn't have the appropriate technology (intranet, linked software...)
- Tracking Competitors is not made. The company is not following the competitors pricing and performance in the market.
- Marketing and Advertising strategies are not performed.
- SWOT analysis is not performed by the managers and the board of directors.
- We didn't see any budget for expenses, payments, No Forecasting for sales
- Increase in the debts and no payments for the debtors and no sales details (location, product, etc.)

## 6.2. Recommendations

Knowing the weaknesses and the problems, and knowing the market and the business world, we can easily continue with building our SWOT analysis to Catering Inc., and provide some recommendations that will help the company solve its problems where some of them were mentioned in the study, and continue growing in the Lebanese market as it is growing internationally, and keep the good image of the company as a whole, as competing to gain the highest market share as possible in the Lebanese market. Below we shall see the recommendations that we were able to build as to strengthen the company weaknesses.

- ✓ Long-range plan: a plan that should contain a financial description of the operational system, production capabilities, and a sales and marketing plan. Work plan: a detailed calendar essential to show timetable for reaching specific goals.

A work plan is also critical in fulfilling production or distribution schedules, the calendar must also highlight dates relating to various activities.

✓ Human Resource department and the management should take into consideration these recommendations: they must rewrite job descriptions in addition to enforcing effective timesheets. Priority list in which the company must have a clear idea of what to accomplish each day, arranged according to the tasks' performance importance and priorities. Pricing policy: the company should price its products according to its cost and value. To improve communication between personnel by implementing an effective intranet system. Establish a store department to follow up the condition of stock products and fixed assets.

✓ Expand the marketing department tasks in order to study the prices and performances of competitors in the Lebanese market. Also, to implement a customer related system to follow the customer comments and to organize advertising campaigns

✓ To arrange meetings quarterly between board of directors and managers. The meetings should discuss the strength, weaknesses, opportunities and threats.

✓ a plan that should contain a financial description of the operational system, production capabilities, and a sales and marketing plan, rewriting the job description, enforce effective timesheets, detailed calendar and timetable and priorities of activities, as of a customer related system

✓ The company should enter into the foodservice technologies to be able to grow, compete and maintain in the Lebanese market. Starting with a unique and linked software system between the branches and the head office (Intranet System) this way the company will have more control especially on the stock and accounting part, going into the Wi-Fi implementation, entering with the evolution of payment system, try to add the electronic payment system like credit cards beside cash and checks.

✓ Catering Inc. should put an effective strategy and a well studied future plan on how to empower its current situation: payments of debts and dividends, forecasting, budgeting, etc. This should be done before going on with opening other sites that only leads to more debts, more payments, more losing on the long run that will affect the position of the company as a whole.

Applying these recommendations, Catering Inc. should definitely solve the problems that it is facing, fill the gaps, and have more growth, more control, which will lead to get to the good image in Lebanon as it is internationally.

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