

This part is to review and evaluate accounting system within CPL. The purpose of the accounting function in the company is to fulfil company's obligations to report to relevant authorities (*inter alia* HMRC), to provide financial information for other departments, and to collect information about current performance to assess compliance with company's financial strategy and guidelines.

The company's structure is hierarchical with five departments, each being subordinated to a director, who is a shareholder in the company at the same time. Within the Finance Department responsible for main activities of accounting system, a flat structure exists, where all employees are subordinates of Finance Department Director.

### **Record keeping systems**

In the company the main financial documents are:

- Statement of profit or loss, that states profitability of the company, meaning it delivers profits or losses, it delivers information about cost structure in the company, how much it spends on interest or income taxes,
- Statement of financial position, shows the structure of the assets and liabilities of the company, what are links between assets and liabilities, that diagnose whether company finances its operation with external (credits, loans, bonds, new shares), or its own resources,
- statement of cash flows, that presents what activities consume cash, and how much cash a company actually has, cash flow is often called a more credible source of information about condition of company, than profit/loss statement, since a company cannot function with a high profit, but without cash in its bank account.

These documents also provide information to banks (credit rating), shareholders (expected dividend level), and government (all laws applicable are complied with).

Records are added to purchase ledger after confirmation of delivery from purchase managers. Additionally, an aged creditor listing is maintained, that signalises what suppliers should be paid, in the first place. Company pays for all the supplies by bank transfer or cheque.

In the sales activities, company maintains good dispatched listing, that is used to produce and send invoices to customers. Invoices are issued once a week, and statements on invoices are prepared once a month. Then all postings are added to the accounts receivable ledger. When customers pay by bank transfer or cheque, accounts receivable ledger is updated.

If customers have default on payments, aged receivables are monitored by Finance Department (Xu Hin). Delayed payments are monitored through preparing aged debtor listing, and listing of debtors who are due to pay for more than 30 days. These are consulted with relevant sales managers. In case of return for valid reason, credit note requests are issued.

Bank reconciliation statement is issued once a month and used to reconcile balance with cashbook and paying-in book.

Company maintains two payrolls. The first one is a payroll for weekly payments, chiefly made by cash. The second one is for full-time employees, and all payments are done on monthly basis.

All the staff of Finance Department has got access to general ledger.

Record keeping system meets requirements of the company, however it should be maintained in more efficient way (see comments on IT, and accounting software).

### **IT infrastructure.**

Hardware is 42 computers, of which 8 are located in the Finance Department.

Software used in company is:

- Microsoft Office 2013 (40-licence packet),
- Main financial accounting system,
- Proprietary system for maintaining accounts receivables and accounts payable ledgers,
- General Ledger, system to maintain general ledger and generate trial balance,
- Sage 50, for payroll activities,
- Cost Wise system, for costing activities,
- Traditional standard costing and variance system,
- CAD/CAM system for manufacturing purposes.

Personnel is allowed to install software after the written permission of manager. Backing up in the company is made twice a day, but is conducted manually by the employees.

### **Internal systems of control**

Internal systems of control may support accounting system in order to keep complete records of all business events, provide compliance with requirements of organization in terms of financial reasonability, reliability of financial information, efficiency.

In the purchase ledger all records are added before verification of delivery by executive staff and purchase managers.

In the area of credit control, raising credit limit over 25,000 GBP is always discussed between Credit Control Clerk and the Finance Director.

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When goods are purchased, quantity of them is checked by the store staff, and confirmed by purchase managers.

Situation in special purchases for Production Department shows that inventory is neither conducted in due manner, nor in reasonable time intervals.

Procedure of countersigning cheques and bank transfers to be made is done through involvement of Chief Accountant any director.

Crediting policy is made through consultations between Credit Risk Clerk and Financial Director.

### **Working methods/practices**

All payments for purchases are made via bank transfers, however some suppliers are paid through cheque. Payments are first signed by Chief Accountant, and one of directors.

Much of work done in the Finance Department is done manually, by transferring records from one application to another.

### **Training**

Employees who want to improve their skills, use external education (AAT, CIMA, ACCA) and arrange it and pay for it, at their own.

Strengths of the accounting system:

- Considerable part of Finance Department Staff does, or is willing to, improve its skills,
- Almost all employees of the department have strictly defined scope of responsibilities,
- Company receives profit from business operations, therefore is capable of covering expenses related to changes in accounting and internal control systems.

### **Weaknesses:**

#### **Record keeping systems:**

Credit Control and Accounts Receivable Ledger are done by one person, and in consequence, the department and the whole company suffers from relentless lack of due attention to both areas.

#### **IT infrastructure:**

Software tools for Finance Department are incompatible, which is why the department is not capable of doing its work properly and on time, especially in periods, when heavy loads of work are required to be done (before the end of fiscal year).

Backups are done irregularly, manually and with external memory devices, what may involve loss of information.

#### **Internal systems of control:**

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Systems are deficient in many key areas. A major problem of the internal control is that almost all things are done too rarely. Such important activities like the monitoring of debtors, are done once a week, without any control over it, when Xu Hin is on a leave. Sales invoices are also issued once a week, giving opportunity for issuing invoices with serious mistakes as to what quantity or price should be, exposing the sales process to risks generated by guesswork and inaccuracy.

**Working methods and practices.**

The company generally lacks disciplinary measures. Discipline of workplace is very low in some areas, and company does not appear to take any disciplinary action against personnel even for obvious abuses (i.e. computer games being played in Stores).

Poor co-operation between departments, especially between Finance and Sales and purchases. Finance Department may enter into the areas that are solely within the control of these departments. Sales may be reluctant to accept that credit control is the domain of Finance Department (conflict of interest: Sales Department may assume pressure on sales result, neglecting a growing level of receivables, whilst Finance Department may press on customers to pay their debt, discouraging them to develop trade relations with CPL).

Recovery of amounts due can be blocked by Sales Director, what may end up with vicious circle of “virtually good” trade relationships with some customers, who will not pay their debts off (especially when their financial situation get worse, or they file a petition for bankruptcy).

There is lack of tools that would signalise that customers are close to reach their credit limit. Credit policy may allow Credit Clerk to ignore more credible customer assessment results provided by Experian.

**Training:**

Lack of basic IT security training.

No training is done within the company.

Employees have no possibility to train at their own by getting familiar with some information, since company does not distribute communiques about certain procedures, nor does it clearly communicate its procedures and policies to the staff (which is why they tell that “they did not know about sth.”, “or they have not heard of sth.”).