

A&A Computers Ltd.
Accountancy Report 2008

Table of contents:

1. Introduction	
1.1 General	3
1.2 Summary	3
1.3 Conclusion	4
2. Bookkeeping	
2.1 General	5
2.2 Financial reports	5
2.3 Bookkeeping	5
2.4 Conclusion	6
3. Controlling Tools	
3.1 General	7
3.2 Monthly controls for the accountant	7
3.3 Periodical controls for the manager	7
3.4 Conclusion	8
4. Procedures	
4.1 General	9
4.2 Sales Procedures	9
4.3 Repair Procedure	10
4.4 Bank Statements	10
4.5 Petty Cash	11
4.6 Inter Office Deliverance	11
5. Business Plan (financial paragraph)	
5.1 General	12
6. Quarterly Reports	
6.1 General	13
6.2 Financial Ratio's	13

1. Introduction

1.1 General

A&A Computers exist for about 13 years and is located in Arusha, Tanzania.

In 2005 a new plant is started in Moshi, Tanzania.

The core business of A&A Computers is to sell computers.

The Founder and also Managing Director is Alex Righolt and at this moment about 20 employees are working for A&A Computers, 16 in Arusha and 4 in Moshi.

The total turnover is about \$ 1.000.000,- by which remains an estimated profit from \$ 65.000,-.

The bookkeeping is done with QuickBooks small business, which is South African administration software. QuickBooks is adequate for A& Computers.

The purpose of this report is to investigate and give advice to improve: the quality of the administration; the setup, effectivity and the working of administrative procedures.

Also is the financial part of a business plan made and an example of quarterly reports to be use by the Managing Director.

1.2 Summary

In chapter two the bookkeeping is investigated by interviewing the accountant, criticize the Profit and Loss Statement and Balance Sheet and also looking in QuickBooks.

The purpose is to find out if the quality of the administration is adequate as a fundament for periodical Management reporting.

In chapter three is describing a set of controls and control tools which are to be used by the Accountant to check necessary administrative connections and controls for the Managing Director to judge for example margin figures. By implementing these controls the bookkeeping will be (more) reliable and timely and deviations will be found in an early stage.

In chapter four the most important procedures of A&A Computers are judged and recommendations are made to lower risks and improve effectivity. Procedures are a base for a reliable administration.

In chapter five the financial part of the business plan is treated. With figures from the last years a forecast is made. The forecast is to be tuned by future developments. The forecast is to be used as benchmark and steering wheel for the quarterly reports described in chapter six. The quarterly report is an important management tool and shows how the company is performing in accordance to the prognoses and tells about the present financial situation.

1.3 Conclusion

Unfortunately the administration is not done in a proper way by the accountant and, at this moment, doesn't fit as basis for reporting purposes. To get a reliable and timely administration as a basis for Management Decisions it will be necessary to recruit a more experienced person as a controller. He must be able to instruct the employees to book cash, bank, bills and invoices, to control the financial administration and to prepare the quarterly reports.

Further it's important to have proper and effective procedures to ensure that no failures or fraud will happen. In the report are described the main procedures concerning sales, bank and cash and also recommendations to improve them.

Strategic planning is important for the management as a guide for the business development and should be reconsidered periodically.

In this report the business plan is limited to the financial forecast.

The business plan provides business strategies over the next three to five years. The financial paragraph of the business plan offers a benchmark against which actual performance can be measured and reviewed.

This measurement is done in the quarterly reports which are an important control and steering tool for the Management.

It will take some time to implement all above by A&A Computers but it is necessary to maintain a healthy and efficient company.

2. Bookkeeping

2.1 General

The accountant is Peter Mboye, he is responsible for recording the daily financial transactions, and to produce reports for the Tax Authorities and management of A&A computers¹. The accountant is responsible recording the bank statements and control of the bookkeeping, like timely and correct recording of the expenses, receipt, stores, debt collection, paid payroll taxes and creating financial reports

The bookkeeping program is QuickBooks which is developed for small business and its working with an integrated stock purchase and sales module.

The sales were initiated by the store and repair department and set in quick books, the purchases were initiated also by the sales manager, and the petty cash expenses are booked by the administrator

2.2 Financial reports

In spite of the job description none were produced by the accountant!

2.3 Bookkeeping

Judgment of the balance and profit and loss shows there was a delay in booking which makes it impossible to control the bookkeeping or to produce accurate management reports. Many irregularities were found!²

For example:

- No openings balance was booked in 2008 or 2007 including the separate Accounts Payable and Accounts Receivable;
- Essential connections between the balance sheet and bank statements, stock list and the petty cash missed;
- Wages and salaries were not booked;
- No depreciation was booked;
- The costs of goods sold from the Moshi plant were not separated the cost of goods sold from the Arusha plant;
- The financial relations between the plants don't fit, differences in receivables, payables and stock pricing;
- Internal used products were booked in costs of good sold;
- Even in this small enquiry if found many booking mistakes.

The lack of proper bookkeeping has caused failures like purchases booked in the wrong currency, wrong stock prices or amounts, Account Payable and Receivable which are not reliable, wrongly paid VAT.

¹ See Supplement A: Job description Peter T Mboye

² See Supplement B: Remarks Balance Sheet and Profit and Loss Statement

2.4 Conclusion

At this moment the administration is done in an absolute insufficient way and manner. The accountant doesn't fit for his job. In order to get a proper administration he should be replaced by a controller who is responsible for the bookkeeping and produces reports for the management, auditor and the Tax.

It's not the goal of this enquiry to correct and control the administration. At this moment the administration of the year 2007 is send to the auditor. She will prepare the annual accounts and hopefully make the necessarily corrections.

Important is that as from the year 2008 a proper and reliable administration is held. So in the next chapter you will find a control tool which will provide this.

3. Controlling Tools [checking]

3.1 General

The Accountant should be controlling the administration so the figures he provides to the management are in time and reliable and usable for Management Decisions. Unfortunately as seen above; the accountant hardly controls the administration. Because of the lack of a structured control system control tools are to be implemented³. The purpose of these control tools is to make sure that primary connections in the administrations are correct, balances on Account Numbers are made clear and lists are judged for questionable figures.

Two kinds of controls tools are to be used:

- Monthly controls for the Accountant
- Periodical Controls for the Manager

3.2 Monthly controls for the Accountant

This one is meant for the accountant, with which he controls if the balances from the Balance Sheet and the Profit and Loss accounts are timely and reliable and among other controls

- Equals **in line** with external documents (like Bank Statements, Cash book);
- equals with sub administrations (Stock list, Accounts Payable, Accounts Receivable);
- interoffice (**Moshi / Arusha**) relations are in both administrations the same;
- Several balance accounts are specified and so on. (**verbalize better**)

An example of the monthly controls is found in supplement C. explanations for each control is shown in the monthly control overview.

3.3 Periodical controls for the Manager

The Manager control tool is a figures' judgment. This is done on several lists prepared in QuickBooks⁴ as the stock list, accounts receivable and payable and the sales list. The manager is periodically judging these for questionable figures

Deviating or strange figures must be explained by the accountant.

³ See Supplement C : Monthly Controls

⁴ See Supplement D : Figures Judgment

3.4 Conclusion

To prevent an administration / accountant to be delayed in booking or produce unreliable figures it's necessarily that both kinds of tools are used. For this moment in the form as found in the supplements, in the future the tools are to be update dependently on the needs of the organization.

If both tools are correctly applied it will help to get a timely and reliable bookkeeping also it's a tool with which the accountant is can be controlled by the Management of the Controller.

4. Procedures

4.1. General

The administrative organization and the internal control in a company are important. Internal Controls are to be an integral part of any organization's financial and business policies and procedures. Internal controls consists of all the measures taken by the organization for the purpose of; (1) protecting its resources against waste, fraud, and inefficiency; (2) ensuring accuracy and reliability in accounting and operating data; (3) securing compliance with the policies of the organization; and (4) evaluating the level of performance in all organizational units of the organization. Internal controls are simply good business practices. Internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning.

An important part for reaching this is to separate adequately organization duties. Critical duties can be categorized into four types of functions

- Authorization; this function authorizes/ initiate handlings/ transactions;
- Custody; persons responsible for example the custody for Cash or Stock value's and only handed over after an authorization;
- Record keeping; functions registering the transactions;
- Reconciliation; the controlling function.

In a perfect system, no one person should handle more than one type of function. However in a small company as A&A Computers this is difficult to reach. But it's still important to consider the different procedures and functions from the employees with the above in mind.

Because some functions can not be separated the controlling part becomes more and more important.

In this report I have investigated several important procedures by A&A Computers and made some recommendations to achieve a better internal control⁵

4.2 Sales Procedures

By the sales you'll find that duties are mixed because the persons who sell also purchase them (authorization) have the custody of the stock, do record keeping and have custody of the cash.

⁵ See Supplement E. Procedures

So it is important to have good reconciliation tools.

I tried to give in my recommendations solutions to improve these.

More and more is noticed that a good administrative system is important, this will give the possibility to intercept some missing duties. Especially the periodical control of the gross margins is a good control tool.

Further I found out that a lot of the procedures had smaller and bigger risks.

Like missing or inappropriate procedures for:

- Terms given to customers;
- Stock adjustments for own use;
- Unique numbering of articles
- Discounts;
- Booking of cheque;
- Pricing.

The implementation of the recommendations will make it possible to have more control over the sales. Important however is a reliable administration.

4.3 Repair Procedure

The repair procedure is a combination of a database and invoicing in Quick Books. Unfortunately there is no automatically link between those two so the input is done twice manually. By doing this there is a risk that some hours or item used for repair are not charged to the client.

However it is a smaller risk, in the recommendation is told how by using prenumbered vouchers the risk will be diminished.

Happily a strong stock counting procedure is done by A&A Computers so failures will possibly be seen afterwards.

Further is an advice to charge customers for diagnostic costs, so you won't have the risk that an item beyond repair is not paid for the diagnosis.

4.4 Bank Statements

Up to now the bank is not booked from the bank statements. Mean reason is that the cheques are booked by receiving them and so shown as being received on the bank.

While the real receiving may take some days.

Further is the Bank Statement not received daily or weekly.

I would strongly suggest finding out if, by internet, the bank statements can be received more often and they will be booked daily. So the balance from the bank in QuickBooks reflects the Bank Statement.

By not controlling the bank this way there is a risk that bank payments or receivings are missed.

4.5 Petty Cash

The Petty Cash is not booked properly; not all the receivings are booked and also it is mingled with the cash received sales.

Nor is there a control by comparing the counted Petty Cash with QuickBooks.

First I would advice to use a Cash Book in which all receivings and expenses and the remaining balance are laid down (this may be a spreadsheet which is already (partly) used in Moshi).

So the balance of the cash book can be controlled with the counted cash and the balance in QuickBooks.

Second advice is to separate accurate the sales cash and the Petty Cash. This is extremely important because the deposit receiving of the sales cash are to be connected with the booked undeposit in QuickBooks. By connecting this is controlled that no sales money has disappeared!

4.6 Inter office deliveries

Up to now the inter office deliveries are booked as a sale valued zero. By doing this the costs of goods sold from Arusha are polluted with the goods of Moshi and is the gross margin unreliable.

Further Moshi is booking the purchase for different prices as Arusha so there is a difference in the balance between the two companies.

In the recommendation is told how to handle with inter office deliverances in a proper way.

5. Business plan (financial part)

5.1 General⁶

The business plan is made by and for the management in order to serve as a guide and a plan for the next years of your business's life.

Four critical functions are served by the business plan:

1. It helps the management to clarify, focus and research their business's development and prospects.
2. Provides a considered and logical framework within which a business can develop and pursue business strategies over the next three to five years.
3. Serves as a basis for discussion with third parties such as shareholders, agencies, banks, investors etc.
4. Offers a benchmark against which actual performance can be measured and reviewed.

A business plan should be a realistic view of the expectations and long-term objectives for an established business or a new venture.

The planning process forces managers to understand more clearly what they want to achieve, and how and when they can do it.

Here the plan is purely a financial plan, based on experiences and figures from the past years.

It will merely serve the fourth function and it also gives a realistic view how the profits and costs will develop in the future years.

However it is important that the manager will continue the planning process and use the business plan as an important decision tool.

In the next chapter the quarterly financial reports are presented. The business plan⁷ is also used here as a benchmark.

The business plan for A&A Computers Ltd. is found under supplement F.

⁶ See Supplement G. Business Plan Theory

⁷ See Supplement F. Business Plan A&A Computers MkII

6. Quarterly reports⁸

6.1. General

The quarterly report is an important management tool.

The quarterly report shows how the company is performing in accordance to the prognoses and tells about the present financial situation.

The quarterly report starts with the financial ratios which are indicating in a blink how the company is performing. Then an overview is given from the Profit and Loss in relation to the budget first in totals and later in the report more detailed. With this information the management is shown how the company is performing. The quarterly report is a steering mechanism for the management and also shows if interfering is needed.

At this moment the accounts numbers are not quite build up logically. It is better if they are renumbered and maybe diminish the amount to the accounts with a substantial balance.

6.2 Financial Ratios

Financial ratios are useful indicators of a firm's performance and financial Situation. Most ratios can be calculated from information provided by the Financial statements. Financial ratios can be used to analyze trends and to compare the firm's financials to those of other firms. In some cases, ratio analysis can predict future bankruptcy.

Financial ratios can be classified according to the information they provide.

The following types of ratios are used:

- Liquidity ratios

Liquidity ratios provide information about a firm's ability to meet its Short-term financial obligations. Two frequently-used liquidity ratios are the current ratio (or working capital ratio) and the quick ratio.

The current ratio is the ratio of current assets to current liabilities. The quick ratio is an alternative measure of liquidity that does not include inventory in the current assets. This ratio is used because the current ratio may include many items that are difficult to liquidate quickly and that have uncertain liquidation values.

Short-term creditors prefer a high current ratio since it reduces their risk.

Shareholders may prefer a lower current ratio so that more of the firm's assets are working to grow the business.

⁸ See Supplement H. Quarterly Reports

- Asset turnover ratios

Asset turnover ratios indicate of how efficiently the firm utilizes its assets. They sometimes are referred to as efficiency ratios, asset utilization ratios, or asset management ratios. Two commonly used asset turnover ratios are receivables turnover and inventory turnover.

Receivables turnover is an indication of how quickly the firm collects its accounts receivables. For A&A is this for this moment a less important ratio because most of sales are cash sales. **AR disagrees** So this quarterly report doesn't include this ratio.

Another major asset turnover ratio is inventory turnover. It is the cost of goods sold in a time period divided by the average inventory level during that period. The inventory turnover often is reported as the inventory period, which is the number of days worth of inventory on hand, calculated by dividing the inventory by the average daily cost of goods sold. It shows how long it takes for the average inventory is sold which indicates the financing of the stock. The shorter the period the less financing is needed. This one is an important ratio for A&A Computers.

- Financial Leverage Ratios

Financial leverage ratios provide an indication of the long-term solvency of the firm. Unlike liquidity ratios that are concerned with short-term assets and liabilities, financial leverage ratios measure the extent to which the firm is using long term debt.

The debt ratio is defined as total debt divided by total assets.

The debt-to-equity ratio is total debt divided by total equity.

Debt ratios depend on the classification of long-term leases and on the classification of some items as long-term debt or equity.

- Profitability ratios

Profitability ratios offer several different measures of the success of the firm at generating profits.

The gross profit margin is a measure of the gross profit earned on sales. The gross profit margin considers the firm's cost of goods sold, but does not include other costs.

Return on assets is a measure of how effectively the firm's assets are being used to generate profits.

Use and Limitations of Financial Ratios

Attention should be given to the following issues when using financial ratios:

A reference point is needed. To be meaningful, most ratios must be compared to historical values of the same firm, the firm's forecasts, or ratios of similar firms.

Most ratios by themselves are not highly meaningful. They should be viewed as indicators, with several of them combined to paint a picture of the firm's situation.

Year-end values may not be representative. Certain account balances that are used to calculate ratios may increase or decrease at the end of the accounting period because of seasonal factors. Such changes may distort the value of the ratio. Average values should be used when they are available.

Ratios are subject to the limitations of accounting methods. Different accounting choices may result in significantly different ratio values.