

Assessment Plan

Task	Planned completion Date	Actual completion date
Discuss with tutor to approve topic		
Set a time schedule		
First Draft		
Second Draft		
Final Project		

I confirm I have agreed to the planned completion dates and will do my best to meet them.

I also confirm that the project is my own unaided work:

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Date: 20/01/2014

Assessor:.....

Date.....

Analysis of accounting system of Inkwell Ltd with recommendation to improve the system

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Date: 20/01/2014

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1. Terms of Reference

- 1.1. This report has been prepared to cover the assessment requirements of AAT Learning and Assessment Area – Internal Control and Accounting Systems.
- 1.2. The objectives of this report are to:
 - 1.2.1. Analyse the accounting system of Inkwell Ltd with recommendation to improve the system
 - 1.2.2. Make recommendations to Accounting department IWL.

2. Methodology

- 2.1. This report was planned and prepared using AAT scenario booklet Inkwell Ltd, knowledge gained from studying AAT (Association of Accounting Technician), searching the Internet, particularly websites promoting the accounting software SAGE, studying textbooks; studying at Premier Training college and having tutorials.

3. Executive Summary

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4. Introduction – Organisational background overview

- 4.1. Inkwell Ltd aims to supply re-manufactured inkjet and toner cartridges without compromising quality with a 100% guarantee.
- 4.2. IWL was established 7 years ago by Paul Farnon, Managing Director and Victoria Dawson, Sales Director. Two years ago Anil Gupta, the Finance Director joined the company. All three have various experience in manufacturing and distribution cartridges and now are the controlling shareholders of the company.
- 4.3. The company's head office with management and accounting departments and its warehouse are situated in Birmingham. Also IWL has 60 shops in main UK cities and towns. It keeps sufficient inventory enough to meet three days of normal sales.
- 4.4. The company uses re-cycled cartridges, refills them and distributes them to customers through its network of national shops, on-line shop and warehouse. All refilled cartridges are usually up to 20% cheaper and have a quality at least as good as the original.
- 4.5. During last the 7 years the company has grown steadily and now has £16 million of revenue and employs 180 employees.

The company organisation chart can be found in Appendix 2

5. Evaluation of employees within the organisation

Accounting Staff

- 5.1. The current main Accounting Staff of Inkwell Ltd is as follows:-
- 5.2. Alex Fox (the writer of the project) Accounting Technician undertakes a lot of project work, hopes to complete AAT next year
- 5.3. Michael O'Payne, Company Accountant, AAT and ACCA qualified, produces the monthly management accounts and approves all payments to suppliers. Main role is to manage the work of the accounting technicians and clerks running the accounting system
- 5.4. Michelle Labelle, General Ledger and Inventory Clerk, no accounting qualification, enters all data directly into the general ledger and produces the trial balance
- 5.5. Liana Khan, Accounts Payable (Purchase Ledger) Clerk, has level 2 AAT qualifications, she is responsible for entering all supplier's invoices and credit notes into the Accounts Payable (Purchase) Ledger
- 5.6. Gregg Morris, part-time Accounting Receivable (Sales Ledger) Clerk, is going to take an accounting qualification, inputs all data into the Accounts Payable Ledger
- 5.7. Alan Cook, Costing Technician, has no accounting qualification, operates IWL's costing system
- 5.8. Sharon Ward, has a university education and is studying level 3 AAT, runs payroll and personnel systems
- 5.9. Accounting work is submitted to Anil Gupta, Finance Director, shareholders of IWL, who has BSc, FCMA education and is in charge of the accounting department. Produces the final financial accounts

6. Evaluation of Accounting system

Information Technology

- 6.1. Inkwell Ltd has 28 computers in the head office which run on an integrated basis and 60 computers in shops which are standalone. All computers are connected to the Internet.
- 6.2. For accounting purposes the head office's computers have the following software:
 - 6.2.1. Quick cost software
 - 6.2.2. Integrated Payroll and Personnel System
 - 6.2.3. MO Excel spread sheet
- 6.3. These software programmes outlined above are compatible with each other.
- 6.4. The accounting department collects and inputs all data and achieves the final production of the trial balance and financial statements and reports.

Accounting system

- 6.5. As it was mentioned before the company has to keep enough inventories in each shop to be able to meet three days of normal sales. This is duty of Michelle Labelle, General Ledger and Inventory clerk. She is responsible for reviewing daily e-mail reports by the shop managers on the number of cartridges held in each shop. If inventory gets above three days' holding in any shop she calls to the shop manager and find out why. This data is sent by e-mails and represented in spread sheet Microsoft Office (MO) Excel. As all shops computers are standalone this data is not analysed automatically and Michelle does it manually.
- 6.6. She reconciles invoices against Purchase order manually.
- 6.7. In addition, Michelle manually produces a monthly bank reconciliation statement.
- 6.8. Liana khan, Accounts Payable enters all supplies invoices and credit notes into Purchase Ledger.
- 6.9. Greg Morris, Accounts Receivable is responsible for inputting all data into the Accounts Payable ledger. He opens the mail every morning and sorts through it for all cheques received from customers. These cheques are entered manually into a day book to record the receipt and it is used to update the ledger accounts.
- 6.10. Sharon Ward, Payroll and Personnel Database clerk receives from the shops managers the staff rota represented in spread sheet MO Excel. She transfers this data into payroll and personnel software system and calculates wages and overtime payments.
- 6.11. She issues forms by HMRC maintaining the personnel database.
- 6.12. All BACS transferred and company cheques are required to be signed by two of the company authorised signatories.

7. Internal Accounting requirements

- 7.1. As every UK based organisation Ink Well Ltd has to comply to external and internal regulations such as taxation regulations, company law, data protection law, late payments law. The company has most of these requirements in place.
- 7.2. For example, the company has to follow Data protection law and from its extract of the company policy hand book we can find following:
 - 7.2.1. All computers have to be loaded with licenced software and no unauthorised software is allowed to be used
 - 7.2.2. No authorised member of staff is allowed onto computers
 - 7.2.3. Every computer must be individually password protected
- 7.3. To be granted credit from its supplies and bank the company has to comply some of the following financial requirements:
 - 7.3.1. Working capital levels has to be kept to a minimum
 - 7.3.2. The company has to have the lowest cost mix of debt and equity
 - 7.3.3. Credit rating should be strong
 - 7.3.4. Cash managing statement have to be regularly updated
- 7.4. Also it is important that the company has a convincing business plan for growing steadily and no overtrading.
- 7.5. IWL has a policy for debt collecting procedures:
 - 7.5.1. All outstanding accounts more than one month are reviewed with Michael O'Payne
 - 7.5.2. Any outstanding balances more than two months overdue are in principle reviewed by either Anil Gupta or Victoria Dawson
 - 7.5.3. If payment is not received after three months then company policy is to pass onto debt collecting agency
- 7.6. The company has an agreement to make payments to its supplies during the following month after delivery
- 7.7. IWL has to comply with HMRC and UK authorities regulations:
 - 7.7.1. The clerk Sharon Ward issues the statutory forms as P45's, P60's and P11D's
 - 7.7.2. All BACS transfers and company cheques have to be signed by two of the company authorised signatories

- 7.8. The company complies with the Trading Standard rules. These rules are especially important for shops where customers have to be treated with respect and properly served.
- 7.9. As a legal entity IWL has to comply with legal regulations which include taxation regulations, company law, data protection law and late payment law. This affects the way how accounting system operates.
- 7.10. Particularly companies have to follow SSAP (Statements of Standards Accounting Practice) which are set in accordance of FRC's (Financial Reporting Council) framework. The most important part of these requirements are preparation and presentation of financial statements which include Profit and Loss Account, Balance Sheet, Cash Flow Statement with their main elements of assets, liabilities, equity, income, expenses
- 7.11. Examples of these requirements are to maintain and keep financial records during 5 years after submission:
 - 7.11.1. Financial Statements have to be filed with Company House, where they are available for public and government inspection
 - 7.11.2. Vat and tax returns have to be submitted to HMRC and to be kept during 5 years.
- 7.12. The objectives of financial statements are to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. These users can be such as Existing and potential investors in a business, Lenders, Suppliers, Employers and Trade unions, Customers, Government and government agencies, for example:
 - 7.12.1. Government and government agencies need to know how much the company made profit in order to calculate the tax due; to ensure that the company completes VAT returns on time; to provide data for statistics
 - 7.12.2. Suppliers are interested in accounting equations to decide whether to supply goods and services to the company or not
 - 7.12.3. Lenders can check if the company will be able to pay finance cost and make repayments
 - 7.12.4. The public can assess employment prospects and the contribution to the economy

8. Analysis of Current System

Strengths

- 8.1. Despite of being a very young company Inkwell Ltd is already a well-established business which is spread across all the country and abroad. Carefully analysed the cartridge market the shareholders produced a convincing plan for further growth. Having properly produced financial statements the company was able to convince its bank and supplies to give additional credit to the company for extending its business. Keeping the main financial position controlled and having good relationship with its customers and suppliers Inkwell Ltd is growing steadily and not at risk of overtrading.
- 8.2. The company runs a very popular business. Because the company refills used cartridges and the old cartridges are not thrown in waste and do not damage the environment, this model is considered as green and environmentally friendly. This is why the business is supported by the government and greeted by the public

Weaknesses

- 8.3. There are some communication problems within the organisation. For example, there is tension between Anil Gupta, the Finance Director and Michael O'Payne, the Company Accountant.
- 8.4. There is a lack of collaboration and sometimes people have different objectives. For example, even directors of the company Anil Gupta and Victoria Dawson cannot come to an agreement who and how should chase bad debts.
- 8.5. Some staff are reluctant to get any formal education in accountancy and improve their skills. For example, Alan Cook, the Costing Technician has experienced his reluctance many times to undertake any form of personal development or training viewing this as a waste of time and money.
- 8.6. Some staff have lack of delegation, skills, enthusiasm and are irresponsible to their direct duties. Although the Financial Director Anil Gupta performs annual accounts, he does not wish to be involved in any routine duties.
- 8.7. Peter Chapman, the stock manager was reluctant to investigate the discrepancy of £3500 of the stock although the importance of the matter was obvious.
- 8.8. The shop managers are not responsible to send returns to the head office on time, although it may lead to a breach of the legislation.
- 8.9. The accounting department has low efficiency which causes delay and poor work performance. Some periods in the accounting department are really busy but some uneventful. For example in June some members of staff had overlap of tasks and did not finish their work on time. Particularly Gregg Morris did not complete inputting data receivable what caused delay of producing the trial balance and final financial statements. The following months were uneventful.
- 8.10. The work to make payments was poorly organised and some suppliers were not paid on time. Probably because of this delay of payments some of these suppliers increased prices.
- 8.11. The job which was given to the accounting department, including chasing bad debts, data input and preparing trial balance was not organised properly and tasks were not given priority. Also a contingency plan was not written regarding a replacement of staff. Alternatively the lack of efficiency can be explained because of the bulky old-fashioned accounting computer system, which consumes a lot of time and energy. Due to the financial information being non-integrated errors may not be integrated and incurable financial record keeping.

- 8.12. Furthermore efficiency and quality of work are suffering immensely because of poor written and amended procedures as staff are not always aware of their individual responsibilities.
- 8.13. A contingency plan is not written regarding absence of staff. For example, when Alan Cook was absent nobody covered him and did his duties. As result of this his job was not done on time what caused delay of job of the whole accounting department. If the contingency plan had been in place, somebody could have replaced the absent worker and the department would have been working smoothly without any delay.
- 8.14. The business does not have retrospective discounts for its customers based on the value of their purchases. As a result of these big customers are not interested in buying the product at such price and try to find alternative retailing companies which would sell the similar products cheaper. It means that the company loses its potential customers.
- 8.15. No procedures were written how to sell products online safely. If the staff do not know these procedures the company can be at risk of being a victim of fraud because some bogus customers can escape without paying money for the product.
- 8.16. The shop in Norwich was broken into and over £2,000 in cash was stolen. Although according the company procedures all cash and cheques are supposed to be removed from the shop and banked at the end of each business day, the shop managers ignore these rules and leave cash and cheques in the tills. This is graded as high risk for the potential of fraud.
- 8.17. The discrepancy of £3,500 worth of inventory was discovered in the warehouse. What is worth, the staff appeared to be reluctant to investigate the accident.
- 8.18. Due to the lack of keeping computer archived records, people do not have access to previous financial transactions and if queries arise an investigation might not be possible.
- 8.19. For example, when the payments to supplies were entered it was not always possible to reconcile them against purchase orders.
- 8.20. The company does not follow already the written policy handbook which particularly states that only authorised members of staff are allowed to use IWL's computers.

- 8.21. Example of this, a girl friend of a shop manager, who was obviously not a member of staff, had access to the IWL's computer on many occasions, which has never been password protected. This is graded as high risk for the potential fraud and breach of the Data Protection regulations.
- 8.22. Fraud by the definition from Wikipedia, the online encyclopaedia, "is a deception deliberately practiced in order to secure unfair or unlawful gain. As a legal construct, fraud is both a civil wrong (i.e., a fraud victim may sue the fraud perpetrator to avoid the fraud and/or recover monetary compensation) and a criminal wrong (i.e., a fraud perpetrator may be prosecuted and imprisoned by governmental authorities)."
- 8.23. Not having archived records and not keeping computers protected by passwords make a potential fraudster believe that it is very easy to commit a fraud. The current situation makes the company very vulnerable from incidents such as theft of cash, theft of stock, collusion with customers, bogus supply of goods or services, fictitious sales.
- 8.24. The company has 88 computers but only 80 of them have operating licence. It means that 8 computers operate without licence. Furthermore passwords have never been changed and still are "Go green". Obviously the company is at risk to breach the Data Protection Act.
- 8.25. The company is not responsible for prompt payments to its workers. Some shop workers are very often slightly underpaid because the shop managers do not bother to send returns to the head office on time. The company at risk to breach the Late Payment Law.
- 8.26. The management of IWL deliberately creates a so called "window dressing". The company usually does not pay its customers before the full-year and half-year ends, they however are paid in the couple of weeks of the following month.
- 8.27. "Windows dressing" in accounting is a set of actions or manipulations of financial documents to make information look more attractive to its users. Whatever the purpose of these manipulations this can be considered as false accounting and the company could be prosecuted for breaching the law.

9. Recommendations

- 9.1. Although all this range of weaknesses described in previous section at the first glance seem are not connected to each other, they have one common reason and this reason is the weak computer software which the company running.
- 9.2. The computer system is bulky, old-fashioned, working slowly, requiring manual inputs, which leads to numerous errors, insecure, unreliable. This computer programme is not designed for accounting purposes, especially for middle and large companies. It is the last century.
- 9.3. From everything this, If we change or improve the computer system, it is likely that many of weaknesses will be disappear automatically and the company will be stronger and get amore advantages.
- 9.4. From all available on the market accounting programmes I would like to recommend to choose SAGE. It is because comparing with all these accounting products like QuickBook, Pegasus running on DOS, Exchequer, IRIS Legal, SAP, Talisman, Elite, SAGE seems to be the most suitable for the company and has the most advantages.
- 9.5. Payroll SAGE is already in a place and some staff are accustomed to use it and doing well.
- 9.6. SAGE has a specially designed Costing module, and taking into account specialisation of the company, it can be highly beneficial for the company.
- 9.7. SAGE can be supported by Window Vista operating system, which is already in a place.
- 9.8. However acquiring new computers with more recent operating system as Windows 7 or 8 would strongly advisable. The company can run its own server or use database on the cloud.
- 9.9. SAGE has an advanced version SAGE 300ERP, which is specially designed for medium and large companies; SAGE is compatible with Microsoft Excel spread sheet, which is currently in a place in the company; therefore it would be easy to transfer all data from old software to SAGE.
- 9.10. SAGE is a widespread programme with high reputation, designed especially for accounting purposes and million companies around the world use it.
- 9.11. Many young professionals, students, including me are familiar with it because we were studying SAGE in college. So it would not be difficult to find a local college to get training. Particularly AAT has a unit studying SAGE software which also can be included in Diploma.

- 9.12. SAGE 300ERP is the most advanced version of SAGE software and was specially designed for retailing and manufacturing companies and has sophisticated modules: General ledger module, General Ledger Security module, General Ledger Consolidation module, Multi-currency module, Intercompany Transaction module, Transaction Analysis and Optional Field module; Inventory control; Project and Job Costing module; Purchase Order module, Accounts Payable module, Order Entry module, Accounts Receivable module, System manager.
- 9.13. This software has a full range of functions including finance, purchasing, sales, customer relationship management, and manufacturing, will enable the company to manage with even the most sophisticated business process.
- 9.14. In finance the company will be able to capture and analyse every detail of the company's financial status, make decisions and provide detailed risk analysis and complete audit trail available across the entire system.
- 9.15. In purchasing the business will be able to manage requests from tender and responses, contract and blanket orders, comprehensive supplier rating, classification and statistics; create delivery scheduling and receiving; open item management and tracking, manage payment terms scheduling, create user-defined payment process.
- 9.16. In manufacturing IWL will be able to use the most of its resources and manage every element of the production process, manage multiple manufacturing modes.
- 9.17. In sales the business can manage quotes, blanket orders, inventory allocation, delivery scheduling, shipping, returns, and invoicing; carry out credit checking and customer ratings; create its own matrix of pricing rules; calculate sales commission; track and manage all open items; create its own cash collection process; manage customer reminders.
- 9.18. In Electronic Document Management it will be possible to reduce cost on postage and fax and use less stationary; to manage risk vital documents destroyed from fire or flooding; to follow Green Agenda and use less paper.
- 9.19. Using this software will eliminate if not all but many weaknesses in the business. It will help avoid manual input, therefore to increase efficiency and save time, to make all system clear and transparent. Particularly it will help shop managers to send their returns on time, the accounting department finish their work without delay in busy periods.
- 9.20. The new software will allow the business to create retrospective discounts for its customers and develop procedures how to sell on line.
- 9.21. To keep all computers and modules protected by individuals passwords and have a licence for all computers. It will make the company protected from fraud.
- 9.22. Using this new software will encourage the staff to get new skills and make them enthusiastic.

- 9.23. However implementing this software is not enough to eliminate all weaknesses of the accounting system and organisation overall. IWL has to re-examine already written procedures and manuals for all areas of its business especially in the accounting department and even to write new ones to make its business more robust.
- 9.24. A procedure is a chronological sequence of required actions for performing a certain task. Procedures for routine work have many advantages. Procedures can prescribe the most efficient way of getting job done. Using procedures the work can be done in the same way when a different person starts in a job. Procedures can be simplified by writing manuals.
- 9.25. For example the company can write procedures and manuals regarding absence of the staff and who and how to replace the absent people; who exactly responsible for chasing bad debts; who is in charge for investigation of discrepancy of the stock; how to make payments to its workers promptly without delay; which tasks have priority and which can be done later; how to keep computers and the system secured and protected by passwords.
- 9.26. An additional step of approving the system could be getting training, accounting qualification and explaining importance of procedures and manuals.
- 9.27. I suggest that the people will be excited of studying the new software. Because they will like keeping up with new technology, getting new knowledge, skills and experience and opportunity to be promoted in the future. They can study this software from studying materials provided by SAGE. Also they can attend a local college for learning an AAT unit especially devoted to this accounting software SAGE. I would suggest studying this software together in small groups because it would help to get people to know each other what will help them to remove the tension and misunderstanding between staff.
- 9.28. The staff have to be encouraged to get a formal qualification like AAT (Association of Accounting Technicians). For example, the company can offer a training scheme and pay tuitions fees for the courses, give half day realise for attending college. Also the company may introduce bonus for most enthusiastically studying workers
- 9.29. I would like to stress on importance of getting formal accounting qualification especially for people who performs high profile tasks. Although Michelle Labelle prepares the trial balance, which can be viewed as financial statement, she has no accounting qualification. She has to undertake learning AAT urgently.
- 9.30. However if studying procedure and manuals have to be compulsory, the staff have to be explained the seriousness of procedures and manuals, especially which relate to external rules and regulations.
- 9.31. For example the staff have to be instructed that under no circumstances unauthorised staff is allowed to use computers; the computers always have to be protected by passwords and the passwords have to changed regularly; cash in shops have to always be banked daily without any exceptions; that creating “window dressing” is illegal and can be prosecuted by the law.

10. Cost/Benefit analysis

10.1. However improving the system would cost money. So it would be reasonable to provide cost-benefit analysis and estimate even approximately advantages and disadvantages of implementing new a software system, getting a professional qualification and implementing procedures and manuals.

10.2. I would like to estimate the cost of acquiring and supporting the software system for 4 years:

£

- The cost of the hardware which includes
 - 100 new computers and printers 50,000
- The cost of the software SAGE 300ERP and Microsoft Office 2010..20,000
- The installation cost 5,000
- The cost of training of the staff.....20,000
- Annual maintenance for 4 years 12,000
- Insurance for 4 years.....5,000
- Totally..... 102,000

10.3. Now I would like very roughly estimate benefits of such implementation: The company has 190 full-time employees, in average an employees is paid £10 an hour and working 2000 hours a year. So the company pays for labour for 4 years = $190 * £10 * 2000 * 4 = £15,200,000$. If we theoretically assume that implementing the new system will speed up the work only by 3%, the benefit will be: $£15,200,000 * 3\% = £456,000$. £456,000 is much greater than £102,000. Therefore the implementation of the new system is obviously profitable.

10.4. However not all benefits of the improvements can be measured only in terms of money, some of them can be classified as intangible although they are not less valuable. The company should think about value of its goodwill which consist of tangible and intangible assets.

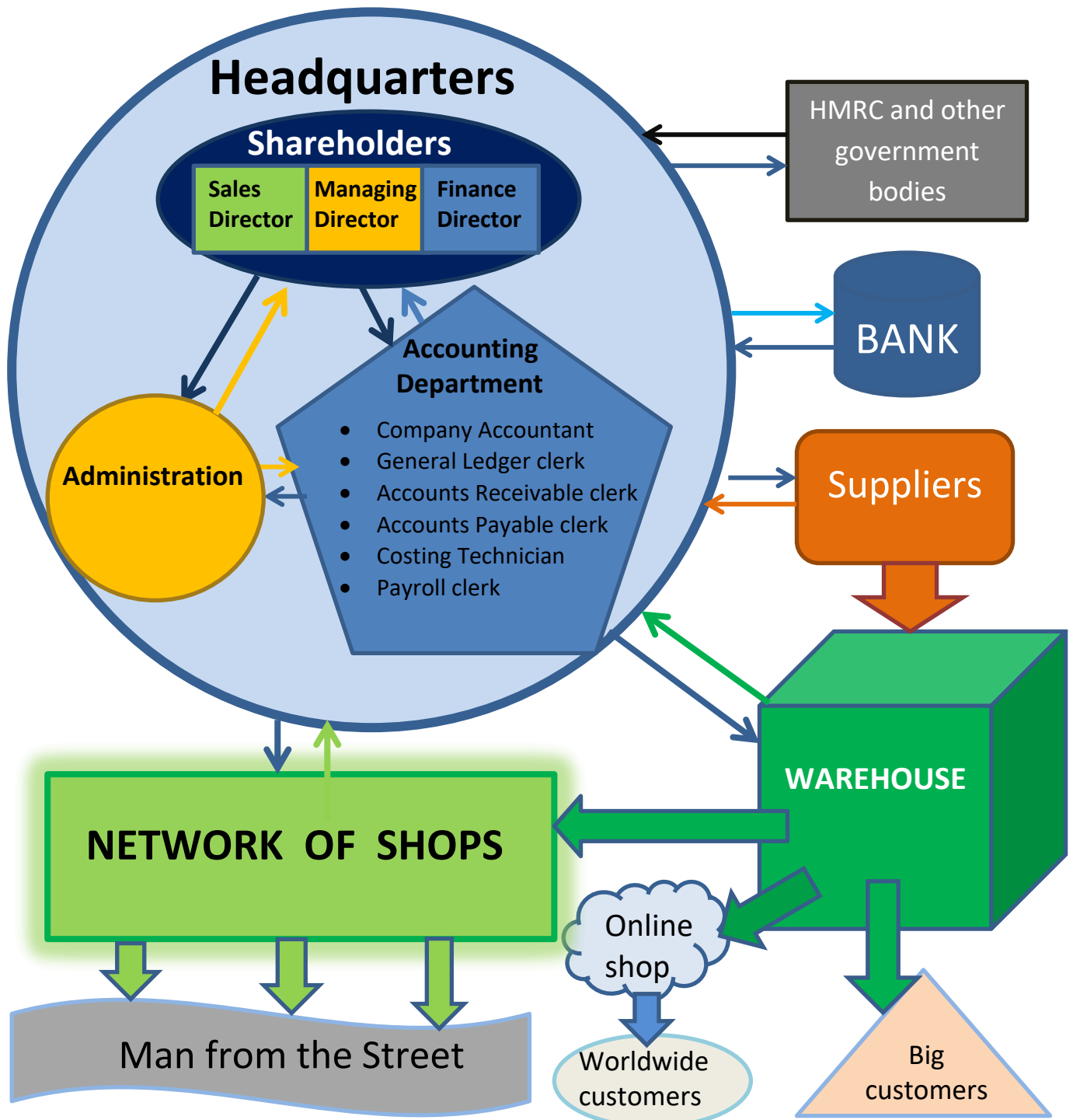
10.5. For example, the new software system will be much more reliable, smart and compatible with another software application. This software will help people to improve communication not only within the accounting department and the whole organisation but with external bodies. The staff will get inspired of keeping up with the newest technology and become enthusiastic to make contribution to the company.

- 10.6. Getting a formal qualification will give people a professional approach to work and knowledge of rules and legislation. For example they will never make such mistakes as creating “window dressing”. And the business in general will look much more respectable and earn goodwill.
- 10.7. Putting proper procedures in a place and following them will make people more disciplined and organised and business more robust and prosperous.

Appendices

Appendix 1. Organisation Chart

INKWELL LTD STRUCTURE



Appendix 2. Bibliography

- 1 AAT (Association of Accounting Technicians) <http://www.aat.org.uk/>
- 2 “Internal control and accounting systems” by Michael Fordon, published by Asborne books, ISBN 978 1905777 389
- 3 “Managing systems and people in the accounting department”, study text/workbook 2008/09 I published by Kaplan Publishing UK, ISBN 978-1-84710-607-0
- 4 <http://www.sage.co.uk/>
- 5 <http://www.sageasiapac.com/contactUs.asp>
- 6 “Internal control and accounting systems Inkwell Ltd” scenario assessment book

Appendix 4. ????

Appendix 5. ????