

ACTIVITIES

1. INTERNAL CONTROL OVER CASH

Sally Harper operates a small advertising agency as a sole trader and currently has one employee, a receptionist. Every now and then, Sally allows a high school, TAFE or university student to do two-week-long work experience stints in her office. As Sally has such a small business, she doesn't see any point in adopting any internal controls over cash. The receptionist sometimes allows the work experience student to attend to customers who come in to pay their advertising bill in person with cash.

Discuss the following:

- A. Should Sally adopt internal controls over cash?
- B. Regardless of your answer to (A), what are three controls that Sally could adopt?
- C. Explain the advantages of internal control to Sally.

2. INTERNAL CONTROL OVER INVENTORY

Jeremy Wright has a business manufacturing surfboards. Once the surfboards have been made, they are usually transported by car to his retail outlet by friends who owe him favours. The surfboards are generally displayed inside the shop, but sometimes a display is set up outside. Jeremy only has one employee working in the shop. If the employee is serving a customer inside the shop, there is no one to watch what is happening elsewhere inside or outside the shop.

- A. What are some inventory control problems that Jeremy may experience?
- B. What inventory control procedures could Jeremy implement?

3. DEFINITIONS

Define the following terms:

- A. Internal control
- B. Administrative controls
- C. Accounting controls
- D. Cash, inventory, non-current assets, accounts payable and accounts receivable.

4. INTERNAL CONTROL OVER NON-CURRENT ASSETS

Darwin Sputnik has decided to open up his own carpentry business making furniture. He plans to use his home garage to start the business; then, when he has more finance, he will move to bigger premises. He already has over 20 orders for furniture. To make sure he can complete the jobs more quickly, he has asked three of his friends, who are all inexperienced carpenters, if they would like to help him out one day a week. The friends have all agreed.

Currently Darwin's garage has no lock-up door and his property has no fence or gate around it. Darwin has interviewed two 15-year-olds whom he is planning on employing under an apprentice scheme.

- A. What are some control problems over non-current assets Darwin may face?
- B. Write an internal control over non-current assets policy for Darwin to implement.

5. INTERNAL CONTROL OVER ACCOUNTS PAYABLE

Tilly Adams has been in business for six months. Lately she has found it difficult to pay all her bills on time. The reason for the difficulty is that she sometimes forgets to file all the accounts payable in the correct month, so she sees the bill after the payment deadline. Occasionally her cash flow is low, usually in the last week of every month. Sometimes she is so busy she does not manage to bank cheques the business has received. Usually this happens in the third week of the month, and Tilly only gets around to banking these cheques at the beginning of the following month.

- A. What internal control measures over accounts payable should Tilly adopt?
- B. Explain your reasoning.

6. ACCOUNTS RECEIVABLE AND SUPPLYING CREDIT

- A. Bobbi Miller operates a dry cleaning business. He has been operating the business for two years. Five per cent of Bobbi's customers never pick up their dry cleaning; therefore, he is not paid for these items. Bobbi is still assuming that at some stage clients will return to pick up their dry cleaning, so he refuses to write them off as bad debts.

What are some simple steps Bobbi could implement to have greater control over accounts receivable?

- B. Winfred Higginbottom is about to open a business leasing luxury cars. He plans on leasing Porsches, BMWs, Audis and SAABs. To attract new customers he will offer a line of credit to customers.
 - i. Should Winfred extend a line of credit to every potential customer? Explain.
 - ii. What are some of the issues Winfred will need to consider before extending a line of credit to a customer?

7. LIMITATIONS OF INTERNAL CONTROL

- A. Monty Casino operates a business selling designer coats to major retailers. Currently his business has no internal controls in place. After attending a seminar on the benefits of internal control, Monty hires an expensive consultant to implement some internal control policies in the business. Monty's business associate is unhappy about the amount of money that the consultant is charging. He mumbles to Monty: 'I hope this doesn't end up being a waste of money.' Monty is surprised that anyone could think that internal control may not work.

- i. Explain to Monty three ways in which internal control is limited.
 - ii. A common internal control problem in small business is paying the same bill twice. This occurs when an invoice payment is not correctly recorded and a second cheque or electronic transfer of funds is processed. How can Monty's business apply internal controls to prevent this problem?
- B. Ingrid Murphy has opened a shop selling computer hardware and software. The shop is in a large retail complex. Ingrid sells both large and small items of equipment. She has one salesperson and one till operator. In the back of the shop she has an administration person who signs for deliveries, opens the post, answers the phone, counts the daily takings and does the banking. The stock for the business is all kept in the back of the shop next to a window that does not shut properly. When it rains, water sometimes drips down onto the stock.
- i. Write a report highlighting internal control issues that Ingrid faces.
 - ii. What are some measures she could take to address these control issues?
 - iii. Outline the limitations of this new internal control system.

8. INVENTORY CONTROL

Claire is a shopping entrepreneur who has recently purchased part ownership in her local supermarket. The store is part of a large Australia-wide franchise, and is quite large, with 10 checkouts, 80 part-time employees and a range of more than a thousand items on the shelves.

Claire has asked you to advise her on setting up of a loss prevention system within the store. She has also asked you to explain how the different elements, such as people and components, will interact to produce the most beneficial inventory control system for the business.

She wants you to consider all the elements of inventory control, including:

- accidents
- employee errors
- customer theft
- employee theft
- spoilage.

Working with a partner, devise a system that will meet Claire's requirements. In a written report, and using diagrams, illustrate how all these elements will interact.