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| **Client name:** Cosmopolitan Industries Pvt. Ltd. (CIPL) | | |
| **Accounting period:** 01 June 2020 to 30 June 2021 | | |
| **Prepared by:** Tanvir Ahamed |  | **Date:** 07 June 2021 |
| **Reviewed by:** Humaun Ahamed |  | **Date:** 09 June 2021 |
| **Final Reviewed by:** Faruk Uddin Ahammed, FCA, CISA |  | **Date:** 09 June 2021 |
| **Subject:** Process of accounts payable |  |  |

**Objective:** The objective of this memo is to document the whole process of accounts payable for the Cosmopolitan Industries Pvt. Ltd. (CIPL).

***(Following process is noted from the discussion with Mr. Khayer Uddin, Deputy General Manager-Finance & Accounts, Epic BD :)***

Epic Designer Limited (parent company of Epic Apparels Co. Limited) contacts with the customers from Hong Kong office to manufacture the products. EDL decides the plants (manufacturing factory) based on capability of productions for those product in Bangladesh. The customers can decide/select the supplier’s for purchasing materials. In absence of customer demand, epic can purchases material from vendor which selected by epic BD. Besides, EPIC has list of authorised suppliers for purchasing materials.

**Purchase process:** There are generally two way the purchases are made:

* Purchase by Import
* Local purchase.

**Purchase by Import:**

Most of the raw material purchased by CIPL is from import. There is an authorized list of vendors from which the purchase is made. Sometimes customer of the specific contract demands a particular vendor for purchasing raw materials for that specific contract. For cases like this, customer’s preference is given the priority. The process of purchase is listed in details below:

* Hong Kong (HK) Merchant, based on the required number of raw materials needed raise a purchase requisition (PR).
* After the approval, HK sourcing team selects the supplier from the authorized list and communicate with the supplier through pro-forma invoice including the availability of the material to be delivered, time of delivery, quality needed, price of the material etc. Most of this communication happens through mail.
* After all this agreed with the supplier, a Purchase Order (PO) is raised for the purchase.
* The commercial officer/executive opens Letter of Credit (L/C) against this purchase order.
* The product is received at plant and warehouse team prepare the GRN accordingly.

**Local purchase:**

CIPL purchase raw materials from local vendors/suppliers in some cases. The purchase team purchases from listed vendors/suppliers or quotations based for purchasing raw materials. For quotations based systems performed following process:

* The factory head, mentioning the required amount of raw materials needed raise a purchase requisition (PR). That purchase requisition is then sent to the central purchase team for checking;
* The central purchase team verifies the PR and sent the PR to Head of central purchase team for approval;
* Finance head approved the PO and dispatched to vendor on electronic medium. Minimum Three Quotation collects where authorized vendor is not available;
* Central purchase team selects the supplier from the quotation based on the availability of the material to be delivered, time of delivery, quality needed, price of the material etc. through comparative statement for purchasing raw materials which checked by Purchased head and approved by Plant CFO;
* Central purchase team prepares the PO based on PR and verified by Head of department;
* Good is received and GRN is prepared.

**Recording of Purchase:**

* Each purchase of raw material is recorded at cost or net realizable value whichever is lower;
* When the Good Receive Note (GRN) is prepared by the Factory, a purchase entry is posted including quantity and value in the OMS-V2 System (For Fabrics and Trims), then in the SAP, the payable entry is posted mentioning only the value for Fabrics and Trims. For other Consumable raw material purchase, a direct entry is posted in the SAP;
* The payable entry posted is this:

Purchase of Raw material----DR.

Accounts Payable-Credit------------CR.

* Treasury executes the payment to the vendor and payment entry posted in the systems is:

Accounts Payable/ Respective vendor A/C.........… Dr.

Bank A/C.............................................................… Cr.

**Intercompany payables:**

* Intercompany payables mainly include trade payables and non-trade payables.
* The management maintains a ageing schedule of the intercompany payable.

**What could go wrong? :**

1. Accounts payable reported in the financial statement may be understated;
2. Intercompany payable reported in the financial statement may be reported inaccurately.

**Control applied:**

1. Accounts payable is recognized only when the GRN is verified by the Plant head of finance and gives a verification report. Then after checking the invoice for the goods/Service accounts payable is posted in the system;
2. Intercompany payable is recognised when the goods/service is received from the intercompany and balance is reconciled and approved each month.