DOCUMENT CONTROL INFORMATION

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| Location | Zurich, Switzerland |

Note: Major changes to the process narrative documentation must be approved by the Global Accounting Manager.

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# **Abbreviations & Definitions**

|  |  |
| --- | --- |
| AP | Accounts Payable |
| CFO | Chief Financial Officer |
| CR | Credit |
| DR | Debit |
| GL | General Ledger |
| P&L | Profit & Loss Statement |
| SAP | General Ledger Software |
| SE | Summit Equipment |

# **Policies, Procedures & Related Documents**

|  |  |
| --- | --- |
| **Procedures** | **Description** |
| SE-003 | **Journal Entry Policy**  To provide the requirements for journal entries, including the need for appropriate documentation and support and the requirements of a properly prepared, reviewed, approved and posted journal entry. |
| SE-005 | **Account Reconciliation and Analysis Policy**  To define standards and procedures for balance sheet account reconciliations and analysis. |

# **Trade Payable Accounts & GL Coding**

| **GL Account #** | **GL Account Class** | **GL Account Name** |
| --- | --- | --- |
| 1110101 | AP – Tax payables | Corporation tax advances |
| 3000000 | AP – Trade payables | Payables - Domestic suppliers |
| 3000001 | AP – Trade payables | Payables - Invoices to be received |
| 3000002 | AP – Trade payables | Purchase credit notes to be received |
| 3000200 | AP – Trade payables | Payables - amounts owed to professionals |
| 3001700 | AP – Trade payables | Payables - related companies domestic |
| 3010000 | AP – Trade payables | Payables - foreign Suppliers |
| 3302200 | AP – Tax payables | Withholding tax on employee |
| 3313000 | AP – Tax payables | Corporation tax |
| 3410101 | AP – Other payables | Employees for salaries to be paid |
| 3410110 | AP – Other payables | Employee bonus awards |
| 3411108 | AP – Other tax payables | Social security contributions - employees |
| 3430100 | AP – Other payables | Sundry creditors |

# **Key People**

| **Unit/Department** | **Function** |
| --- | --- |
| Purchasing Department | Purchasing Clerks  Material Master Data Maintenance Clerks  Assistant Purchasing Manager  Purchasing Manager |
| Inventory Management Department (Warehouse) | Warehouse Employees  Warehouse Supervisor  Warehouse Controller |
| Accounting Department | Accounts Payable (AP) Accounting Clerks  A/P Manager  Vendor Master Data Maintenance Clerk  Controller |
| IT Department | IT administrator responsible for SAP |

# **IT System Overview**

The company uses SAP as their enterprise resource planning software, which integrates a number of information systems including the general ledger system, the inventory module and the accounts payable module.

# **Purchases process narrative**

## ***Overview***

The Purchases process consists of the following sub-processes:

1. Ordering/Purchasing of goods
2. Goods receipt
3. Invoice processing

## ***Ordering/Purchasing of goods***

The ordering and purchasing of goods sub-process exists of the following three steps:

***1 - Request for purchase***

The purchasing department receives a request from any department that requires purchase of any kind (i.e., supplies, services, inventory items). The request includes the product or service requested, the quantity, date when it is expected to be fulfilled, preferred vendor, and the reason for the request. The request has to be approved by the requesting department manager prior to sending it to the purchasing department. To purchase a product, the product must exist or is active in the Material Master Data file in the inventory module of SAP. If the product being requested is not in the Material Master Data file, a setup has to be performed prior to the processing of the purchase request. The preferred vendor must also exist or is active in the Vendor Master Data file in the AP module of SAP. If the vendor does not exist, the purchasing department shall provide alternative vendors for the requestor’s consideration. If the requestor would still want the preferred vendor not on the Vendor Master Data file, the vendor has to be setup by the accounting department.

*1a – Material Master Data file creation and maintenance*

The setup of a new material is initiated by the Marketing department manager using a Material Master Request template. The completed template must be approved by the Controller. The approved template is then submitted to the material master data maintenance clerks who are part of the Purchasing department and are responsible for the material master data setup and maintenance in the Inventory module of SAP. The purchasing manager reviews and approves the set-up of the material master data in the system. End-user access rights to the material master data are limited to these two clerks and the Purchasing department manager (control #1).

A single Material Master Data file entry is set up for every material. The file entry would include the product description, unit price and unit of measure (e.g., pieces). Material number is automatically assigned by the system. The maintenance and review of items in the master file is being performed annually and any subsequent changes to the Material Master data files do not require further approval.

Material Master data maintenance includes:

* Adding new material
* Editing general material data, e.g., name, type, description
* Deactivating and reactivating any material for purchase

***1b - Vendor master data setup and maintenance***

To add a new vendor in the AP module, a Vendor Maintenance Request Form must be completed. A new vendor is initially selected by the Purchasing department manager, who negotiates the terms and fills in the form. The form must be approved by the Controller. The approved vendor form is then submitted to the vendor data maintenance clerks who are responsible for the Vendor Master Data setup and maintenance in the AP module. End-user access rights to the vendor master data are limited to these clerks and the AP manager (**control #2**).

A single Vendor Master Data file entry is created for each vendor. The file entry ould include vendor details, such as vendor name, address, tax identification number, payment terms, bank account details. Maintenance and review of lists of vendors in the master file is being performed annually and subsequent changes to the Vendor Master Data files do not require further approval.

Vendor Master Data maintenance includes:

* Adding/deleting vendors
* Editing general vendor data, e.g., name, address, tax identification
* Editing vendor conditions such as payment terms, delivery terms
* Editing bank account details
* Deactivating and reactivating any vendor

Prices agreed for each product can be found in the hard copy request form.

***2 - Creation of purchase order***

Upon receipt of approved purchase request, the Purchasing clerk selects the item requested for purchase from the material master data file. The purchase clerk also selects the vendor from the vendor master data file. Once done, all the details are automatically compiled and a purchase order with a unique number is created in the inventory module. Any Purchasing clerk can create/maintain a purchase order for any product. The assistant purchasing manager reviews approves the purchase orders in the system. Two copies of the purchase order is being generated from the system, one for the vendor and the other for file.

***3 - Vendor confirmation***

Purchase orders are generated from the Inventory module and sent to suppliers by fax or email by the assistant purchasing manager. Suppliers agree with the terms of the purchase order (quantity, delivery terms, price, etc.) by sending back an order confirmation via fax or email. Received order confirmations from suppliers are then recorded in the Inventory module by the Purchasing clerks, and the status of the purchase order is changed to “Confirmed.”

## ***Goods receipt***

The goods receipt sub-process consists of the following three steps:

***1 - Goods receipt and quality/quantity control***

Upon receipt of goods, a warehouse employee checks for any external damages and compares the quantities as well as types of received items to the packing notes of the vendor. If discrepancies are noted, handwritten notes will be made on the packing notes. If packages are damaged, a respective stamp is put on the truck driver’s delivery acceptance sheet, including a brief comment of the damage note and the same comment is written on the packing note. Once this is done, the warehouse employee inputs the receipt goods in the inventory module to generate a Goods Received Notice (GRN) from the inventory module. The GRN is automatically pre-numbered by the system and would contain information such as purchase order number, quantity, description and unit of measurement of the items delivered. The warehouse supervisor checks the delivered goods against the GRN and stamps and signs this to evidence that checking of the items delivered has been made as part of his responsibility in holding the goods. The discrepancies and damaged goods noted and received will also be noted in the GRN for further follow-up with the purchasing department.

***2 - Recording goods and two-way match***

Stamped and signed GRNs are then forwarded to the Purchasing department. A Purchasing clerk accesses the related purchase order in the Inventory module and compares the purchase order specification to the GRN. When there are no inconsistencies, the system provides the function to add the delivery by clicking “Yes” in the section “Delivery matches order” and the related PO status is also set to “Close”. The default application receipt date is the current date (**control #3**).

In cases wherein the GRN do not the match the purchase order or damaged goods delivered are noted, the purchasing clerk needs additional information and reconciliation with the vendor before accepting the delivery in the system. For regular orders, the purchasing clerk can accept quantities below the initially ordered volumes, in case no further delivery will be made by the vendor to fulfill the order, or note this as a partial delivery. The purchasing clerk performs one of the following:

* Sending the goods back (order cancelled) and issuing a new order. The related GRN and purchase order will then be tagged as “cancelled” in the system.
* Record a partial receipt of goods with the remainder of the order still pending. The related GRN will be accepted as delivered but the purchase order will remain opened until remaining order is fulfilled.
* Amending the initial order to reflect the accepted changes (order changed). Order changed has to be approved first by the purchasing manager. The related GRN is then accepted as delivered and the related purchase order is amended to reflect the change.

For all other discrepancies (i.e., over-delivery), the system does not allow the recording of the goods. In this case, the purchasing clerk needs to contact the vendors and deal with the mismatch by either:

* Cancelling the order and issuing a new one; or
* Order changed

***3 - Inventory general ledger recording***

On a daily basis, the inventory module creates a batch total, updating the inventory subsidiary ledger of the purchase order closed and partially closed (as a result of goods delivered), and automatically interfaces with the General Ledger module within SAP, crediting the Payables – invoices to be received account.

## ***Invoice processing***

The invoice processing sub-process consists of the following four steps:

***1 - Invoice processing***

The Accounting department receives all invoices and are stamped with the date of receipt. The Accounting department forwards this to the purchasing department for checking and three-way match prior to processing. Generally vendors include the purchase order number on their invoice. If there is no purchase order number, the purchasing clerk manually adds the purchase order number on the invoice.

Once the three-way match is performed, invoices are entered in the AP module by the AP clerks. The system requires the purchase order number when recording an invoice (**control #4**). The AP clerks select the vendor from the vendor master data and input the invoice amount, quantity, invoice date, and invoice number. Master data — e.g., vendor name, vendor number, payment terms, VAT, tax identification number, vendor’s bank accounts — are pre-populated from the vendor master data and cannot be changed.

***2 - Three-way match***

Upon receipt of the invoice, a three-way match is being performed by the purchasing clerks. A report of the purchase order and the GRN is extracted from the inventory module to an excel file and the corresponding invoice is manually added to match the information between the three documents. Once done, this is being submitted to the purchasing manager for review and evidenced by the evaluation and sign-off of the preparer (the purchasing clerk) and the reviewer (the assistant purchasing manager). Exceptions to the three-way match are investigated by the assistant purchasing clerk (**control #5**). Once the report is reviewed, it is forwarded to the accounting department for recording and processing of AP.

***3 - Payables subsidiary and general ledger recording***

Once the three way matching is performed, the AP clerk inputs the invoice in the AP module for further processing. The AP module assigns a sequential AP invoice number. To avoid duplicate invoices, there is a front end system edit within SAP, which identifies the duplicate invoice number and then creates a pop-up error message. The AP invoice list is reviewed and approved by the AP manager prior to disbursement processing. When the invoices are approved, the system automatically updates the subsidiary ledger within the AP module. The AP module will automatically interface with the General Ledger module within SAP, reversing the entry made on the Payables – invoices to be received account and crediting Payables – domestic or foreign suppliers.

***4 - Disbursements***

Cash disbursements are processed in SAP. The disbursements are matched to unpaid invoices in order to ensure that invoices are not paid more than once. As discussed above, the system prevents an invoice from being entered twice. The AP Clerk runs checks for all unpaid invoices in SAP and also makes copies of the checks to keep on record. All checks are then forwarded to the accounting manager for review and approval. The Accounting Managers reviews and discusses any unusual items with the AP Clerk and/or the Controller. The Controller signs all checks over CHF 5,000. The CFO signs all checks between CHF 5,000 and CHF 10,000, and all checks greater than CHF 10,000 are signed by both the CFO and the Controller. When the checks are processed, the AP batch automatically uploads to the GL, debiting Payables – domestic or foreign suppliers and crediting Cash.

# **Accounts Payable Reporting**

***Accruals***

Every end of the month, the purchasing manager estimates the amount of the inventory received at the warehouse with pending invoice and provides the information to the Inventory Accounting manager who calculates the related liability at year-end. This step is part of the Inventory process and not in scope of this narrative.

***Monthly Reporting***

Every month, a reconciliation is prepared by the Senior Accountant for each AP account and reviewed by the Finance manager (**control #6**). The Senior Accountant will perform the reconciliation in a template in Microsoft Excel. The template includes information such as GL account number, GL amount, sub-ledger details, adjusting manual transactions, reconciling items and review and approval details.

As part of this process, the Senior Accountant:

1. Accesses the AP sub-ledger and input the closing balance for the month into the template.
2. Log onto SAP and input the closing GL balance for the month into the template.

If at this stage, there are no reconciling items, the Senior Accountant will physically sign off the reconciliation as prepared and submit it for review and approval.

If there are reconciling items, the Senior Accountant is required to investigate and resolve these until the total difference is less than CHF 100.

Each reconciliation is reviewed by the Finance Manager. As part of the review, the Finance Manager will check that the parameters of the reconciliation are correct by checking the opening and closing month end dates used, and performing a spot check between the closing balance in the AP reconciliation and SAP.

Any unreconciled differences greater than CHF 10,000 are investigated and resolved before the end of the following month.

If there are unreconciled items or items requiring further investigation, the Finance Manager will return the reconciliation to the Senior Accountant to address. Types of questions include the source of a reconciling item, business nature of the reconciling item or confirmation that the reconciling item will clear within the next 30 days. Once resolved it will be resubmitted to the Finance Manager to recommence their review.

Upon completion of their review, the Finance Manager physically signs off on the reconciliation to indicate their approval of the reconciliation.

Once reconciled and approved, the Senior Accountant will place a copy of the reconciliation in the monthly reconciliation file. The Senior Accountant will then prepare the JE in SAP if needed to adjust for any reconciling items in addition to the automatic upload of the AP Module. Then, based on his review, the Finance Manager will approve the JE in SAP.

***Financial Statement Reporting***

The Business Unit Financial Controller will prepare the significant disclosures of the financial statements. Once prepared, the financial statements are sent by the Business Unit Financial Controller to the CFO who performs the final review.

# **Segregation of Duties**

The table below describes observations as to any potential conflicting duties. Incompatible duties may indicate weaknesses in procedures and controls over authorization of transactions and safeguarding of assets.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Procedure** | **Authorized by?** | **Custody of assets held with?** | **Recorded by?** | **Controlled by?** |
| Maintains/updates vendor master data | Controller | N/A | Material master data maintenance clerk | Purchasing manager |
| Creates and modifies purchase orders | N/A | N/A | Purchasing clerk | Purchasing manager |
| Approves purchase orders | Assistant purchasing manager | N/A | N/A | N/A |
| Receives goods from vendors | N/A | Warehouse employee | N/A | Warehouse supervisor |
| Documents receipts of goods | N/A | Warehouse supervisor | Purchasing clerk | N/A |
| Matches invoices to purchases orders and receiving information | N/A | N/A | Purchasing clerk | Assistant purchasing manager |
| Maintains trade payables records; modifies trade payables information. | Assistant purchasing manager | N/A | Purchasing clerk | N/A |
| Reconciles trade payables records to the general ledger | N/A | N/A | Senior Accountant | Finance Manager |