STUDY ON INTERNAL CONTROL OF SUPPLIERS AND CUSTOMERS IN A CONSTRUCTION COMPANY

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ABSTRACT: *Control covers debts and liabilities, outstanding liabilities and purchases and expenses in the profit and loss and long-term liabilities, provisions and funding costs. The validation tests applied to cover all, claims liabilities in the financial statements but with less emphasis on testing for registration. It can be done but circularize commercial debt is often not necessary because suppliers provide documentary evidence statements from third parties. Direct circularization of claims is a basic procedure, but it does not provide evidence for all relevant assertions. Other important procedures are: tests of independence; testing for the possibility of recovery.*

KEY WORDS: *control, suppliers, customers, debts, liabilities.*

JEL CLASIFICATION: *A10, M 41.*

1. INTRODUCTION

Based on case studies we identified in the company under discussion charge of internal control program suppliers and customers based on a variety of objective procedures.

This program involves the analysis control suppliers balances on the balance sheet. Control of accounts receivable in the balance sheet and turnover of the income statement assumes prior knowledge of the company's activity: what goods or services sold, who are the customers that are current payment terms, which are accounting principles applicable turnover industry, etc.

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2. INTERNAL CONTROL OF SUPPLIERS

The objective is to verify the correct record on the balance sheet liabilities and claims vis-à-vis suppliers and ensure that the company complies with the accounting principle of separation and it is achieved by the following procedures:

- identification of assets and liabilities related to accounts payable on the asset and liability side;
- achieving a comparative table of the accounting balances from year to year;
- verifying that balances with the overall balance;
- ensuring that the presentation of the balance sheet balances of suppliers is not compensating balances receivable and payable;
- verification of the recording on separate operations that relate to regular suppliers, providers of property and any deductions on account of guarantees;
- greater attention is given to suppliers operating since any adjustments to those accounts have a direct impact on the result sheet, while those on accounts payable for property affects only the presentation in the balance sheet and financial accounting masses;
- assessing whether the accounting balances reflecting providers it has the indirect tax regime applicable;
- separate accounting of suppliers flows should facilitate control of VAT;
- confronting the balances of suppliers overall balance analytical balance of accounts payable, differences may occur because certain operations on the suppliers were recorded in the log of operations and have seen various reasons;
- from analytical balance providers, identify the debit balances of suppliers that may arise, as a rule, following the receipt of advances or payment of amounts greater than those due;
- selecting and analyzing major debit balance their origin by ensuring that they are due to accounting errors, payment of outstanding transactions;
- indication of whether the company has programs for purchases and payment of the suppliers;
- from analytical balance, identify suppliers accounts without movement during the year (no cost, no payment) by turnovers analysis or comparison with previous analytical balance finding that existing latent profits correspond to closing balance of debts old to suppliers whose payment was not made any complaint;
- check if the suppliers payment is not motivated by a dispute that can generate supply risks;
- studying the terms of suppliers payment (based on commercial contracts);
- assessing progress ratio (=) providers operating account balance / Total purchases (accounts payable balances include operating suppliers, the effects of paid invoices to be received and expenses incurred in advance; purchases accounts include accounts of class 3 and accounts 60, 61 and 62; accounts are restated suppliers VAT included); comparing the theoretical rational payment deadlines and analyze these disparities;

- selection of main suppliers on the closing balances and verify correct takeover the following year;
- verify that the account balance 'providers - Paid effects "is found only effects the maturity date of closing is back and taking in the following year was made correctly;
- checking first payments next year and ensure that they meet the debt reflected in the balance sheet;
- checking accounts purchases - payments, ensure that records explanation is given, the bills were booked on a purchases journal, that the payments were accounted for on a cash journal, the accounts have been properly called and balances properly identified;
- analysis of costs and benefits related to foreign purchases if necessary;
- identify the main stations operating expenses related to: purchases of raw materials, purchases of goods, external costs, subcontracting costs, rent, energy, etc.;
- identify costs "subscription" whose amount is predetermined and regular (rents, energy, certain fees, etc.) and identify accounts that were registered;
- verification of compliance with the principle of separation exercises so: for purchases in stock, check stock validation is done by the closing date;
- verification log purchases last month of the year and the first month of the following year, a select few spending bills accounted for and dealing with the other shipping documents (bills of work, bills of acceptance, delivery notes, contracts, etc.).

3. INTERNAL CONTROL OF CUSTOMERS

In practice, customers control covers two aspects:

- validation of the net book value of the receivables included in assets (it is important to verify that the carrying amount of the receivables is in line to achieve value - recovery);
- verifying strict adherence to the principle of separation of the accounting (cut - off) in accounting for turnover.

Regarding internal control program itself is based on customer following procedures:

- ✓ the controller must ensure that the assets and liabilities in the balance sheet related to customer account are justified and properly assessed, the risk control is the most significant overstatement of claims in relation to the possibilities of recovery and, therefore, provisions for impairment are necessary;
- ✓ setting an array synthesis showing progress during the year, asset and liability accounts of customers: active receivables, advances received passive income accrued as a liability;
- ✓ reconciliation of balances with amounts in the balance sheet;
- ✓ ensuring that in the balance sheet have not been offs between debit and credit balances;

- ✓ check if the company registers distinct customers, according to the VAT regime (which will facilitate control of VAT);
- ✓ obtaining an analytical balance of customers at the end of the year and comparison with the amounts of the overall balance and the balance sheet;
- ✓ Identify customers with credit balances, they represent advances received normal or above normal amounts paid;
- ✓ calculate the following ratio: credit customers at year / turnover of the year; claims customers can thus be expressed in number of days of turnover;
- ✓ comparing the result with the theoretical limits of receipt, provided by the delivery contracts and justify significant differences;
- ✓ the practicability of accounts receivable control must relate to all categories of customers: customers, clients, bills drawn effects receivable remitted effect on revenue;
- ✓ making a painting that highlight variations closing versus opening for impairment of receivables: receivables from opening facilities and reversals of provisions, amounts at closing;
- ✓ studying the principles envisaged for the passage of a category of claims to be provisioned: calculating a provision resulting from legislation or a specific analysis of each client;
- ✓ appreciation of the principles of prudence and Consistency;
- ✓ obtain a detailed calculation of impairments and comparison with the previous year and to ensure that the claim was not subject to a double allowance account and the claims made in the calculation of the provision to VAT;
- ✓ obtaining detailed statements of claims accounted for expense as unrecoverable; in principle, we recoverability may be determined by the legal office or court; to avoid fiscal risk, it is appropriate to show extreme caution in moving to stranded customers, changing and removing costs from the balance sheet; prefer to maintain the balance, even with a null value, via provision.
- ✓ analyze accounting principles in turnover;
- ✓ consideration of the transfer of ownership principles finding consistent with the accounting income;
- ✓ check if the company complies with the principle of consistent accounting methods from one year to another in record turnover;
- ✓ check if the turnover is accounted for in the net (without taxes recoverable) and independent of any discounts or discounts to customers that have accounted for separately;
- ✓ obtaining an account balance breakdowns "Deferred income" and confronted them with the amount appearing in the balance sheet and control if it is related operations next year while checking that income accrued were accounted for VAT;
- ✓ assessing the evolution of turnover in the last 2-3 months of the year compared to previous months and explain any irregular developments;
- ✓ calculation of gross margins, resulting from the difference between turnover and major operating expenses: personnel expenses, cost of production or cost of the goods.

4. CONCLUSION

Resulting from the study conducted I consider that the control program of settlement accounts with third parties mainly aims to achieve the following objectives:

- consistency in the balance of analytical with synthetic accounts;
- if debtors balances have been correctly determined and the amounts included in the balance sheet assets are in accordance with the accounting records;
- inventory of assets and liabilities existing at the end of the year;
- the balance sheet value of receivables from debtors are real;
- all transactions with customers, sales, securities and receipts were recorded in the proper period;
- all advance payments were properly calculated and recorded so that all costs are reflected in the same period the services received;
- accurate assessment adjustments for bad debts, discounts, and rebates remises were properly highlighted.

To control settlement accounts with third parties responsible for the internal control considered the possible occurrence of the following risks:

- tendency to overstate its claims administrator in an attempt to provide a better financial situation than in reality;
- the risk that borrowers to be unable to pay, which means that borrowers balance sheet balances to be reduced on the basis of its assessment;
- invoices relating to a financial year may be registered in another time, with the risk that they may not be outlined as income;
- risk of fraud should be considered permanent in terms of claims against third parties because the company can record fictitious sales,
- the risk of diversion of cash if the same employee receives bills from customers and sales journal updates etc..

The objectives of the control on short-term debt identified in the company covers the following aspects:

- all creditors have been included in the financial statements actually exists at the balance sheet
- debts were calculated so that expenses are recorded according to the services provided;
- appropriate adjustments were established in connection with debit balances of creditors and potential losses from purchase transactions;
- accrued liabilities and other creditors included in the balance sheet represents the future obligations or accounts payable.

At the end of the financial year 2012 the company concerned, total debt was RON 902 318, of which 873 331 RON trade and other receivables in the amount of 28 987 RON. Compared to the beginning of the receivables decreased by RON 155 833 representing a decrease of 15.14%.

For the control was considered as approximate estimated fair value accounting values. There have been adjustments to receivables in the amount of 113 916 RON for uncollected trade receivables in terms of the contract and whose collection was considered doubtful by the management company. .

Test results on the age of trade receivables other than doubtful revealed that all receivables liquidity within the asset under 1 year. Trade receivables are carried at anticipated realizable value.

The financial statements ended on 31.12.2012 balance commercial debt was RON 220 418, which recorded an increase over the previous year with 62 863 RON. Total accounts payable balances fall in the category due to be paid within a period of up to one year. Short-term commercial debt (maturities less than 12 months) are recorded at nominal value which approximates fair value of amounts to be paid for goods or services purchased.

In reporting years ended 31.12.2012 other liabilities recorded were distributed as follows:

- short-term bank loans 0 RON;
- advance payments received on account of orders 15 463 RON;
- other liabilities including tax 263 044 RON;
- payment of debts within one year 13 128 RON

On 31.12.2012, the short-term credit limit granted by a commercial bank was repaid in full.

In the category "Other liabilities", is nominated sum of RON 263 044 which represents the Company's current obligations to budgets and other creditors.

Compared to the previous period reporting liabilities decreased by RON 3 076 515, which represents a substantial decrease from the same period last year.

During 2012, the general meeting of shareholders decided to increase capital to allocate necessary resources and outstanding extinguishing current obligations to the budget. After the period of first refusal, subscriptions made by major shareholders have been used to pay these debts, so the company has been paid to date all outstanding budgetary obligations.

All liabilities recorded in the balance sheet are Maturity less than one year, except for the amount of 13.128 RON, representing collateral received from another company. The procedures revealed no obligation resulting from past events, for which it was necessary outflow of resources embodying economic benefits.

Much of the internal control processes of the company covers bills received from suppliers and customer relationship.

In this regard I propose that the following measures and procedures to be priority control program accounts for suppliers and customers of this company:

- check the actual obligation to pay by a particular supplier;
- establish an internal system for approving bills: the manager responsible for the procurement of a certain type is within the jurisdiction approving invoices for approval (you can set limits amounts to a manager may approve bills concerning his department, which exceeding that amount will reach next manager approving the ladder;
- you can go even further with a system in 3 steps: placing an order, making reception, invoice matching with that order. This is a more complicated but

more secure, especially if another operator at each step processes the transaction;

- verify the existence of contracts with suppliers and mail invoices to contracts;
- eliminating the possibility of erroneous input data (double, mathematical errors, etc.);
- eliminate payment error possibilities;
- reconciliation of suppliers' statements and direct confirmation of payment amounts;
- obtaining evidence relating to debt and outstanding liabilities and long term liabilities and records of profit and losses;
- direct confirmation of debtors;
- other evidence of the debtors and advances paid and associated records in profit and loss account;
- a specific technique used to test the existence and duties / rights claim is direct circularization. This is carried out as follows:
  a) obtaining records receivables at the date of confirmation;
  b) checking the total nominal ledger;
  c) check for each omission / misrepresentation evident by comparing the list this year with last year's list;
  d) selecting sample confirmation hips.

The control covers debts and liabilities outstanding liabilities and purchases and expenses in the profit and loss and long-term liabilities, provisions and funding costs.

The validation tests applied to cover all claims liabilities in the financial statements but with less emphasis on testing for registration.

It can be done but circularize commercial debt is often not necessary because suppliers provide documentary evidence statements from third parties.

Direct circularization of claims is a basic procedure, but it does not provide evidence for all relevant assertions

Other important procedures are:

- tests of independence;
- testing for the possibility of recovery.

I believe that a review of control procedures to assess the risks arising from the analysis of settlement accounts with third parties require verification of internal control relating to authorizing payments to suppliers, creditors log rechecked by monitoring those providers that were actually made prepayments for that requires recalculation of gross profit and its reduction due to the increase in the purchases. Through proper implementation of procedures to eliminate the risk that the amounts were canceled journal suppliers, for no apparent reason, to be reconsidered. There is also the risk that purchase invoices are logged as being paid without the statement to be evidence of such payments. To improve the financial activity of the economic entity, the firm I suggest some recommendations in order to fasten collection of bills and reducing the risk of not collecting the bills by assessing the provision for impaired receivables.

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