

AUE 2602

Corporate Governance in Accountancy

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college of
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Important Information

Remember the submission of either assignment allows you entry into the exam and will be used in calculating your year mark.

Examination: **30 October 2017 08:30 – 10:30** (80%)

Important Information

myUnisa has the following resources:

- Prescribed study material
- All tutorial letters
- Past examination questions
- Discussion forums
- Additional resources
- Etc.

Make sure that you familiarize yourself with the information contained in myUnisa and MO001

Important Information

DO NOT STUDY ONLY THESE NOTES AS THEY ARE NOT COMPREHENSIVE ENOUGH FOR YOU TO PASS YOUR EXAMS.

IT IS MERELY TO AID YOU IN YOUR STUDIES.

Structure of Course

- **Topic 1:** Corporate governance and statutory matters
- **Topic 2:** Internal control
- **Topic 3:** Business cycles
- **Topic 4:** Revenue and receipts cycles
- **Topic 5:** Acquisitions and payments cycle
- **Topic 6:** Inventory and production cycle
- **Topic 7:** Payroll and personnel cycle
- **Topic 8:** Finance and investment cycle

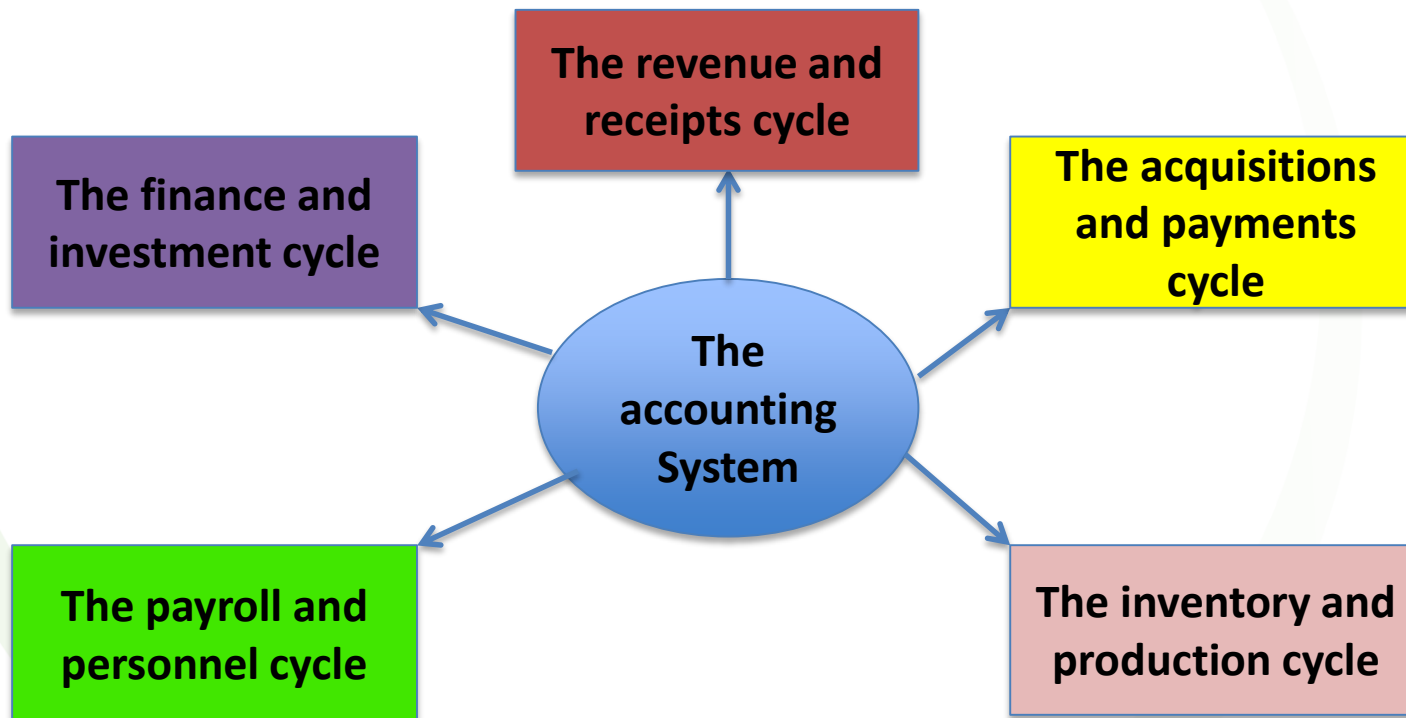
Topics covered in these slides

- **Topic 3:** Business cycles
- **Topic 4:** Revenue and receipts cycles
- **Topic 5:** Acquisitions and payments cycle
- **Topic 6:** Inventory and production cycle
- **Topic 7:** Payroll and personnel cycle
- **Topic 8:** Finance and investment cycle

TOPIC 3

Business Cycles

Five Business cycles in relation to the accounting system



Weakness, Risk and Internal Controls

It is important for you to be able to differentiate between a weakness, a risk and an internal control.

Weaknesses

(What is the company currently doing wrong?)

Risks

(What is the consequence of the weakness, what can go wrong, the financial implication?)

Internal controls

(What should be implemented to mitigate the risks?)

Weakness, Risk and Internal Controls

For example:

The following is a brief description of a **function** in an everyday credit sales transaction of Big Clean:

Once an order from an existing client is received, it is immediately recorded on an internal sales order (ISO) by the order clerk and sent to the warehouse for picking and despatch by the warehouse clerk.

- **Weakness:** The order is not checked against the approved customer list by the order clerk before accepting the order.
- **Risk:** Sales might be made to an unapproved customer and may result in the customer not paying his account.
- **Internal Control:** The order clerk should confirm the customer is approved by checking if the customer is on the approved customer list.

Weakness, Risk and Internal Controls

- You should be able to identify weaknesses and risks in a business cycle, in order to be able to understand and apply internal controls in the cycle.
- When you do questions on weaknesses, risks and internal controls:
 1. Determine in which **cycle** you're in. For example - Receipts and Revenue
 2. Determine in which **function** you're in. For example – Receiving Customer Orders (Jackson & Stent p10/10)
 3. **What is being asked** – is it weaknesses, risks or internal controls? If the question asks for weaknesses, and you give internal controls / risks, you will not receive any marks. So read the questions very carefully.

TOPIC 4

Revenue and Receipts Cycle

In business, revenue is income that arises in the course of ordinary activities of an entity from the sale of **goods** and **services** to customers

Depending on the type of business activities, some companies might also receive revenue from the **fees, interest, dividends** or **royalties**

Revenue and Receipts Cycle

The balances and totals produced by the revenue and receipts cycle are reflected in the financial statements as follows:

Account balance (SOFP)	Classes of transactions (SOCl)
<ul style="list-style-type: none">• Accounts receivable	<ul style="list-style-type: none">• Credit sales• Sales returns• Discounts allowed• Credit losses• Interest received
<ul style="list-style-type: none">• Cash and cash equivalents	<ul style="list-style-type: none">• Cash sales• All receipts (revenue and other)

Revenue and Receipts Cycle

This topic is divided into the following learning units:

1. Activities and functions in the cycle
2. Documents used in the cycle
3. Risks and internal controls (manual system)
4. Computerisation of the cycle

Revenue and Receipts cycle

Functions and Documents used in this cycle

Functions Refer to Jackson and Stent (2016: 10/2-10/7) for a detailed discussion	Documents Refer to Jackson & Stent (2016: 10/6 – 10/7) for a detailed discussion
1. Order department – Receiving customer order	Customer order Internal sales order Price list
2. Order department – Sales authorisation	Credit application Debtors ledger
3. Warehouse	Picking slip Delivery note Back order note
4. Despatch	Delivery note List of deliveries
5. Invoicing	Sales invoice Price lists

Revenue and Receipts cycle

Functions and Documents (continued)

Function	Documents
6. Recording of sales	Invoice Sales journal Debtors ledger General ledger
7. Receipts mail room / cashier	Remittance register Customer remittance advice Receipts Bank deposit slip
8. Recording of Receipts	Bank deposit slip Cash receipts journal (CRJ) Debtors ledger General ledger
9. Goods returned by customer	Goods return vouchers Credit note Returns and allowances journal Debtors ledger General ledger
10. Credit management	All records in the cycle Monthly statements Age analysis Credit bureau information

Revenue and Receipts Cycle

Risks and internal control in the cycle for credit sales

Study: Jackson & Stent (2016: 10/10 – 10/19)

Remember the functions of this cycle?

For each function you need to know:

- The **objective** of the function
- The **documents/records** used in the function
- The **risks** present in the function
- The **control activities** to mitigate/reduce the risk

Note: This knowledge will be also very useful to you in your later studies and future careers, so put the effort in now, and reap the rewards later

Revenue and Receipts Cycle

Functions of this cycle

1. Order department – Receiving customer order
2. Order department – Sales authorisation
3. Warehouse
4. Despatch
5. Invoicing
6. Recording sales and raising the debtor
7. Receipts mail room / cashier
8. Receiving and recording payment from debtors
9. Goods returned by customer
10. Credit management

Refer to Jackson and Stent (2016: 10/2- 10/7) for a detailed discussion

Revenue and Receipts Cycle

Risks and internal control in the cycle for credit sales

Let us take an example of the first function in the revenue and receipts cycle, the **Order department – Receiving customer order**

The text book, presents the information in a very easy to use manner

Function (Objective)	Documents	Risks
To record orders from customers and initiate action to fill them.	<ul style="list-style-type: none">• Customer order• Internal sales order (ISO)• Price lists	Orders may be accepted from a non- account holder
Internal Control Activities		
No orders to be accepted, if customer is not an approved customer – inspect approved customer list		
Order clerk to request customer's account number		
Order clerk to sign all ISOs to indicate performance of control activities		

The table above, is obviously incomplete and is just an illustration as to how you should study each function within a cycle, you will find the complete table in your textbook

Revenue and Receipts cycle

When you study risks and internal controls, **do the following:**

- **Link** each internal control to a risk / risks for each of the functions (Jackson & Stent 2016: 10/10 – 10/19)
- Risks and internal controls become more logical and therefore easier to remember in the exam
- Remember the **“What, on what, why and by whom”**

Revenue and Receipts Cycle

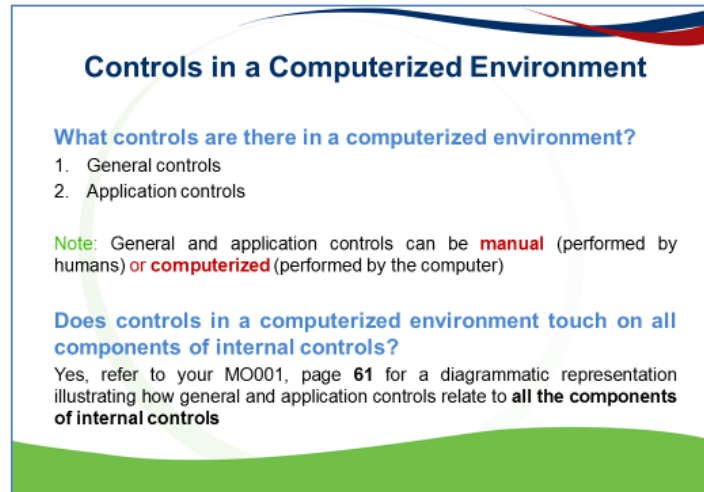
Order Department – Receiving customer order (J&S 10/10)

Risks	Internal controls
<p>1. Order may be accepted from non-account holder → May result in sales made to customer who does not pay his account</p>	<p>2. The order clerk should check the approved customer list 4.1 The order clerk should request a customer's account number 5. Order clerk should sign all ISOs to indicate performance of control activities (Isolation of responsibilities)</p>
<p>2. Orders may not be acted upon timeously or at all → Could result in loss of sales and customer goodwill</p>	<p>1. All orders should be recorded on sequentially numbered ISO's 6. The order clerk should regularly sequence check the ISOs and matched it to delivery notes to identify any orders that have not been acted upon</p>
<p>3. Inaccurate or incomplete order details may be recorded → May result in incorrect deliveries, returns & customer dissatisfaction</p>	<p>3. Customer order should be attached to ISO, with 2nd staff member to cross check detail. 4.2 Customer should provide order reference number 4.3 Order clerk to confirm all order details by reading order details recorded back to customer 5. The order clerk should sign all ISOs to indicate performance of control activities (Isolation of responsibilities)</p>

Revenue and Receipts Cycle

Computerization of the cycle

Refer to the first lecture, where controls in a computerized environment was discussed



Controls in a Computerized Environment

What controls are there in a computerized environment?

1. General controls
2. Application controls

Note: General and application controls can be **manual** (performed by humans) or **computerized** (performed by the computer)

Does controls in a computerized environment touch on all components of internal controls?

Yes, refer to your MO001, page **61** for a diagrammatic representation illustrating how general and application controls relate to **all the components of internal controls**

Remember that general and application controls is relevant as part of the computerization of this cycle.

Did you notice that the computerised system has the same functions as the manual system

Study: Jackson and Stent (2016:10/22 – 10/39)

Revenue and Receipts Cycle

What is a Masterfile?

The masterfile contains the “Permanent” or “Semi-permanent” information.

e.g. **Debtors masterfile** would contain inter alia:

- The customer's name
- The customer's account number
- The customer's ID number / Company registration number
- The customer's physical and postal address
- The customer's credit limit as determined by credit controller / manager
- The customer's repayment terms (e.g. 30, 60 or 90 days)

Refer to Jackson & Stent (2016: 10/23 - 10/25) for the internal controls pertaining to the Debtors Masterfile

Revenue and Receipts Cycle

Risks and internal control in the cycle for cash sales

Study: Jackson and Stent (2016:10/40 – 10/42) section 9.1 – 9.3

Cash sales transactions

- occur daily in many business
- carry a high risk of fraud and theft

Therefore management must implement a strict system of internal controls.

You should know, the **risks** related to cash sales, the **stages of a cash sale** and the **principles of internal controls** related to cash sales

Quick Quiz 1

- Rearrange the following functions in a credit sales transaction in the correct order and provide a brief explanation of each:
- 1 Invoicing
- 2 Credit management
- 3 Warehouse/despatch
- 4 Receiving and recording payment from debtors
- 5 Order department
- 6 Recording sales and raising the debtor

Quick Quiz 1

- Rearrange the following functions in a credit sales transaction in the correct order and provide a brief explanation of each:
- 1 Order department
- 2 Warehouse/despatch
- 3 Invoicing
- 4 Recording sales and raising the debtor
- 5 Receiving and recording payment from debtors
- 6 Credit management

Revenue and Receipts Cycle

NB!!!

When doing the activities, tutorial 102 questions, assignments and past examination papers, take note of how the information is given in the scenario, as well as how the solution is presented. Also take note of how this topic is normally tested at your level of study.



TOPIC 5

Acquisition and Payments cycle

Goods, services and assets are acquired and paid for in order to continue with business activities that will generate revenue.

Acquisitions and Payments Cycle

The balances and totals produced by the payments and acquisition cycle are reflected in the financial statements as follows:

Account balance (SOFP)	Classes of transactions (SOCl)
• Accounts payable	• Credit purchases
	• Cash purchases
	• Purchase returns
	• Discount received
	• Interest on late payments
	• Expenses

Acquisitions and Payments Cycle

This topic is divided into the following learning units:

1. Activities and functions in the cycle
2. Documents used in the cycle
3. Risks and internal controls (manual system)
4. Computerisation of the cycle

Acquisitions and Payments Cycle

Functions and Documents used in this cycle

Functions Refer to Jackson and Stent (2016: 11/2 – 11/5) for a detailed discussion	Documents Refer to Jackson & Stent (2016: 11/5 – 11/6) for a detailed discussion	
1. Ordering of Goods and Services	Requisition Purchase order form	
2. Receiving of Goods	Supplier delivery note Goods received note	
3. Recording of Purchases	Purchase invoice Credit note Creditors statement Purchases journal	Purchases returns & allowances journal Creditors journal General ledger
4. Payment Preparation (requisitioning)	Remittance advice Cheque requisition	
5. Actual Payment (preparing the Cheque) and Recording	Cheque Returned paid Cheque Bank statement	Cash payments journal (CPJ) Creditors ledger General ledger

Acquisitions and Payments Cycle

Risks and internal control in the cycle

Study: Jackson & Stent (2016: 11/9 – 11/13)

Remember the functions of this cycle?

For each function you need to know:

- The **objective** of the function
- The **documents/records** used in the function
- The **risks** present in the function
- The **control activities** to mitigate/reduce the risk

Note: This knowledge will be very useful to you in your later studies and future careers, so put the effort in now, and reap the rewards later

Acquisition and Payments cycle

Functions of this cycle

1. Ordering of goods (and services)
2. Receiving of goods
3. Recording of purchases (acquisitions)
4. Payment preparation (requisitioning)
5. Actual payment and recording of the payment

Refer to Jackson and Stent (2016: 11/3- 11/5) for a detailed discussion

Acquisitions and Payments Cycle

Risks and internal control in the cycle for credit purchases

Let us take an example of the first function in the payments and acquisition cycle, the Ordering of goods and services

The text book, presents the information in a very easy to use manner

Function (Objective)	Documents	Risks
To initiate orders so that required to maintain optimum conditions are always available	<ul style="list-style-type: none">• Requisition• Purchase order	Ordering unauthorized goods resulting in losses to the company through fraud.
Control Activities		
<ol style="list-style-type: none">1. The stores personnel should confirm that goods are really needed2. Before an order is placed, a senior buyer should check the order to requisition for accuracy and authority3. Before order is placed, a senior buyer should review order for suitability of supplier.		
* The order should be cross referenced to the requisition		

The table above, is obviously incomplete and is just an illustration as to how you should study

Acquisitions and Payments Cycle

When you study risks and internal controls, **do the following:**

- **Link** each internal control to a risk / risks for each of the functions (Jackson & Stent 2016: 11/9 – 11/13)
- Risks and internal controls become more logical and therefore easier to remember in the exam
- Remember the **“What, on what, why and by whom”**

Acquisitions and Payments Cycle

Ordering of Goods and Services (J&S 11/9)

Risks	Internal controls
1. Ordering of incorrect or unnecessary goods → could result in liquidity problems and wastage	1. The order clerk should not place an order without an authorised requisition 1.1 The order should be cross referenced to requisition 1.2 The stores personnel should confirm that goods are really needed 2.2 Before order is placed, a senior buyer should review order for quantity and nature of goods being ordered
2. Ordering unauthorised goods → could result in losses to the company through fraud	1.2 The stores personnel should confirm that goods are really needed 2.1 Before order is placed, a senior buyer should check the order to requisition for accuracy and authority. 2.2 Before order is placed, a senior buyer should review order for suitability of supplier

Acquisitions and Payments Cycle

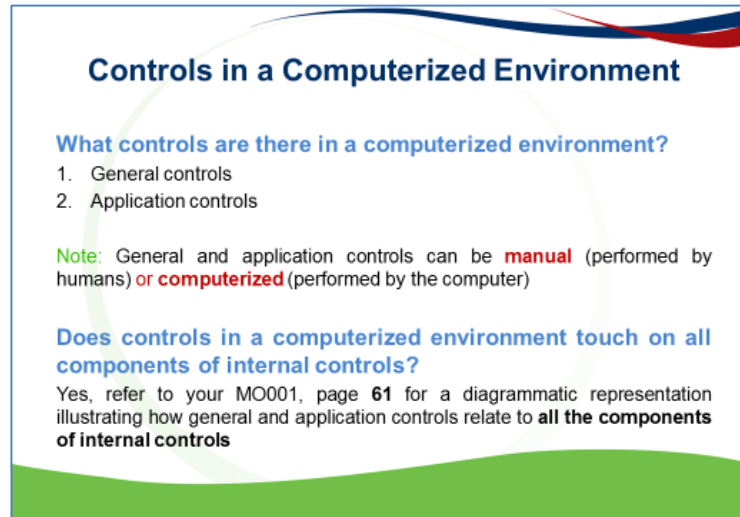
Ordering of Goods and Services (J&S 11/9)

Risks	Internal controls
<p>3. Requisitions not acted upon / orders not placed timeously or at all → could result in losses to company due to delay in e.g. production</p>	<p>4. Order department should file requisitions sequentially by department, and should frequently review the files for requisitions not yet cross referenced to an order</p>
<p>4. Obtaining inferior quality goods → could result in losses to company due to delay in e.g. production</p>	<p>3. Company should have an approved supplier list to which the buyer should refer when ordering. (before a supplier is approved, snr personnel should carefully evaluate supplier iro the quality of their goods)</p>
<p>5. Paying unnecessarily high prices for good → could result in losses to company due to overpayment of goods</p>	<p>2.2 Before order is placed, a senior buyer should review order for reasonableness of price.</p> <p>3. Company should have an approved supplier list to which the buyer should refer when ordering. (before a supplier is approved, snr personnel should carefully evaluate supplier iro the price of their goods)</p> <p>3.1 If no approved suppliers list, buyer should seek quotes from a number of suppliers before placing the order.</p>

Acquisitions and Payments Cycle

Computerization of the cycle

Refer to the first lecture, where controls in a computerized environment was discussed



Controls in a Computerized Environment

What controls are there in a computerized environment?

1. General controls
2. Application controls

Note: General and application controls can be **manual** (performed by humans) or **computerized** (performed by the computer)

Does controls in a computerized environment touch on all components of internal controls?

Yes, refer to your MO001, page **61** for a diagrammatic representation illustrating how general and application controls relate to **all the components of internal controls**

Remember that general and application controls is relevant as part of the computerization of this cycle.

Did you notice that the computerised system has the same functions as the manual system

Study: Jackson and Stent (2016:11/16 – 11/30)

Acquisition and Payments Cycle

What is a Masterfile?

The masterfile contains the “Permanent” or “Semi-permanent” information.

e.g. **Creditors masterfile** would contain inter alia:

- The supplier's name
- The supplier's account number
- The supplier's ID number / Company registration number
- The supplier's physical and postal address
- The supplier's credit limit
- The supplier's repayment terms (e.g. 30, 60 or 90 days)

Refer to Jackson & Stent (2016: 11/16-11/18) for the internal controls pertaining to the Creditor's masterfile

Acquisitions and Payments Cycle

NB!!!

When doing the activities, tutorial 102 questions, assignments and past examination papers, take note of how the information is given in the scenario, as well as how the solution is presented. Also take note of how this topic is normally tested at your level of study.

TOPIC 6

Inventory and Production Cycle

Inventories encompasses goods purchased and held for resale, including merchandise purchased by a retailer and held for resale.

Inventories also encompass:

- Raw materials
- Work in progress
- Finished goods produced

Inventory and Production Cycle

The balances and totals produced by the inventory and production cycle are reflected in the financial statements as follows:

Account balance (SOFP)	Classes of transactions (SOCl)
Inventory	Cost of sales

Inventory and Productions Cycle

This topic is divided into the following learning units:

1. Activities and functions in the cycle
2. Documents used in the cycle
3. Risks and internal controls (warehousing)
4. Risks and internal controls (production)
5. Inventory counts
6. Computerisation of the cycle
7. Inventory valuation concepts

Inventory and Production Cycle

Basic requirements of this cycle

As the inventory cycle is internal, it must achieve three things:

- Control the physical **transfer** (movement) of inventory
- Protect the inventory from **damage, loss** and **theft**
- Plan, control and record the **costs** of manufacture

Refer to Jackson and Stent (2016: 12/3- 12/4) for a detailed discussion

Inventory and Production Cycle

Documents used in this cycle

Refer to Jackson & Stent (2016: 12/4 – 12/5) for a detailed discussion

Warehousing	Production
Goods received note Picking slip Delivery note	Material requisitions Material issue note Manufacturing schedules Job cards Production report Costing schedule Transfer to finished goods note

Inventory and Production Cycle

Risks and internal control in the cycle

Study: Jackson & Stent (2016: 12/6 – 12/10 and 12/20 – 12/22)

Remember the basic requirements of this cycle?

For each function you need to know:

- The **objective** of the function
- The **documents/records** used in the function
- The **risks** present in the function
- The **control activities** to mitigate/reduce the risk

Note: This knowledge will be very useful to you in your later studies and future careers, so put the effort in now, and reap the rewards later

Inventory and Production Cycle

Basic requirements of this cycle

As the inventory cycle is internal, it must achieve three things:

- Control the physical **transfer** (movement) of inventory
- Protect the inventory from **damage, loss** and **theft**
- Plan, control and record the **costs** of manufacture

Refer to Jackson and Stent (2016: 12/3- 12/4) for a detailed discussion

Inventory and Production Cycle

Risks and internal control in the cycle for warehousing

Let us take an example of the first function in the inventory and production cycle, Warehousing

The text book, presents the information in a very easy to use manner

Function (Objective)	Documents	Risks
Control the transfer of goods in and out of all warehousing facilities	<ul style="list-style-type: none">• Goods received note• Materials requisitions• Picking slip, etc.	Goods received from suppliers are not transferred into the warehouse timeously or at all (stolen)
Control Activities		
No movement of inventory should take place without an authorizing document		

The table above, is obviously incomplete and is just an illustration as to how you should study each function within a cycle, you will find the complete table in your textbook

Inventory and Production Cycle

When you study risks and internal controls, **do the following:**

- Link each internal control to a risk / risks for each of the functions (Jackson & Stent 2016: 12/6 – 12/10)
- Risks and internal controls become more logical and therefore easier to remember in the exam
- Remember the **“What, on what, why and by whom”**

Inventory and Production Cycle

Warehousing (J&S 12/6 – 12/7)

Risks	Internal controls
<p>1. Goods received from suppliers are not transferred into the warehouse timeously or at all → could result in theft, goods showing as out of stock, which could lead to loss of customer.</p>	<p>3. Whenever there is a transfer of inventory between sections, e.g. receiving section to warehouse, both the deliverer and the receiver should acknowledge the transfer by signing the transfer document after having checked the description, quality and quantity of the items against the source documents.</p> <p>4. Documents should be sequenced and filed numerically.</p> <p>5. Documents must be sequenced checked and missing documents investigated. For example, a missing GRN in the warehouse will indicate that the goods have not been transferred to the warehouse.</p>

Inventory and Production Cycle

Fraud in the cycle

Refer to Jackson & Stent 2016: 12/20 – 12/21

Fraud in this cycle can occur through:

- Fraudulent financial reporting
- Misappropriation of assets

It is very interesting to see to what lengths people will go to manipulate the inventory balance.

Inventory and Production Cycle

Inventory counts

One of the most common control activities: whereby actual inventory on hand is counted and compared with the theoretical inventory in the accounting records

The responsibility for carrying out “inventory counts” rests with management, since it is managements responsibility to ensure that the inventory figure in the financial statements is valid (exists), accurate and complete

Study: Jackson & Stent (2016: 12/11- 12/13) to understand the controls that should be present when conducting an inventory count

Inventory and Production Cycle

The differences between a cycle count and an annual count:

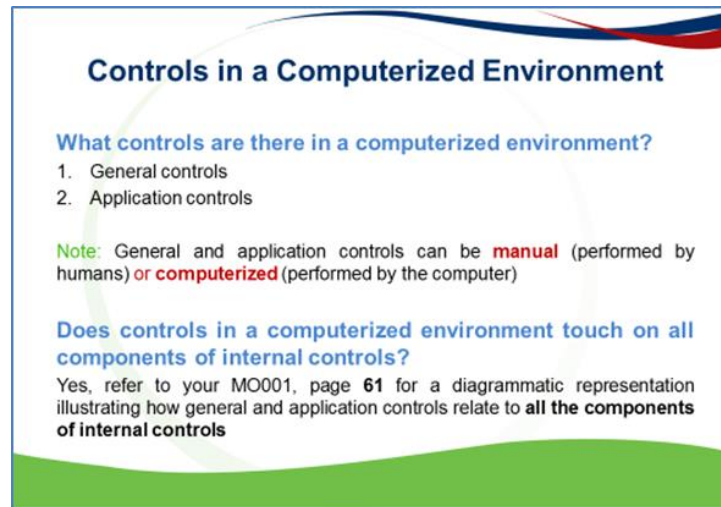
Cycle counts	Annual count
More regular – e.g. once every 3 weeks	Only at financial year end
Only some inventory is counted – e.g. high value items	All inventory must be counted
Comparisons to perpetual inventory records	Comparison to theoretical inventory records (not necessarily perpetual records)
Some additional procedures to take into account - p12/11	
For both counts	
Sound count controls and method of physical counting is the same (p 12/12 – 12/13)	
Discrepancies must be thoroughly investigated and followed up on	

It is very **NB** for you to **read the question carefully** – answer what was asked!!!

Inventory and Production Cycle

Computerization of the cycle

Refer to the first lecture where controls in a computerized environment was discussed



Controls in a Computerized Environment

What controls are there in a computerized environment?

1. General controls
2. Application controls

Note: General and application controls can be **manual** (performed by humans) or **computerized** (performed by the computer)

Does controls in a computerized environment touch on all components of internal controls?

Yes, refer to your MO001, page **61** for a diagrammatic representation illustrating how general and application controls relate to **all the components of internal controls**

Remember that general and application controls can be relevant as part of the computerization of this cycle. The inventory masterfile and access controls are key in a computerized inventory cycle

Study: Jackson and Stent (2016:12/13)

Inventory and Production Cycle

What is a Masterfile?

The masterfile contains the “Permanent” or “Semi-permanent” information.

e.g. **Inventory masterfile** would contain inter alia (if applicable):

- The name and description of goods
- The goods barcode
- The shelf life of goods
- The reorder levels of goods
- The preferred supplier

Inventory and Production Cycle

Inventory and valuation concepts

IAS 2 state that inventory should be measured (valued) at the lower of cost and Net Realisable Value (NRV)

It is important that inventory should be valued accurately as the internal control objectives of validity, accuracy and completeness may be at risk if the inventory in the financial records is either over- or undervalued

Study: Jackson and Stent (2014:12/18 – 12/20) section 3

Inventory and Production Cycle

Cost formulas that can be used:

- Specific identification
- Weighted average cost
- FIFO

Cost of inventory include:

- all costs of purchase including import duties, transport costs, etc.
- costs of conversion
- costs in bringing inventory to present location and condition
- It excludes: → storage costs, admin costs, selling costs

Cost of manufacturing of goods include:

- allocation of overheads to cost of inventory → fixed and variable production overheads,
- @ normal capacity
- It excludes: → abnormal waste

Inventory and Production Cycle

NB!!!

When doing the activities, tutorial 102 questions, assignments and past examination papers, take note of how the information is given in the scenario, as well as how the solution is presented. Also take note of how this topic is normally tested at your level of study.

Payroll and Personnel Cycle

Two main types of transactions are processed through the payroll and personnel cycle namely:

- Payment to employees for services rendered (Salaries and wages)
- Accrual and payment of payroll related liabilities (Taxes, pension fund, etc.)

Payroll and Personnel Cycle

The Balances and totals produced by the revenue and receipts cycle are reflected in the financial statements as follows:

Account balance (SOFP)	Classes of transactions (SOCl)
<ul style="list-style-type: none">Bank and cash	Wages and salaries (Net of employee deductions such as pay-as-you-earn (PAYE), unemployment insurance fund (UIF) skills development levy (SDL) etc.)
<ul style="list-style-type: none">Accounts payable (accumulated leave, unclaimed wages, medical aid, SARS, etc.)	

TOPIC 7

Payroll and Personnel Cycle

This topic is divided into the following learning units:

1. Activities and functions in the cycle
2. Documents used in the cycle
3. Risks and internal controls (manual system)
4. Computerisation of the cycle

Payroll and Personnel cycle

Functions and Documents used in this cycle

Functions Refer to Jackson and Stent (2016: 13/4 – 13/5) for a detailed discussion	Documents Refer to Jackson & Stent (2016: 13/5 – 13/6) for a detailed discussion	
1. Personnel (Human Resources)	Payroll amendment form Employee's file List of employees / Employee register	
2. Timekeeping	Clock cards Batch control sheet Batch register	
3. Payroll preparation	Clock cards Deduction tables	Updated list of employees Payroll
4. Payment preparation and payout	Payroll Payslips	Paypackets Unclaimed wages register
5. Deductions: Payment and recording	General ledger Payroll (wage journal)	Cash payment journal Return form

Payroll and Personnel Cycle

Risks and internal control in the cycle

Study: Jackson & Stent (2016: 13/9 – 13/13)

Remember the basic functions of this cycle on?

For each function you need to know:

- The **objective** of the function
- The **documents/records** used in the function
- The **risks** present in the function
- The **control activities** to mitigate/reduce the risk

Note: This knowledge will be very useful to you in your later studies and future careers, so put the effort in now, and reap the rewards later

Payroll and Personnel Cycle

Functions for any wage system

- Personnel
- Timekeeping
- Payroll preparation
- Payroll preparation and payout
- Deductions: payment and recording

Refer to Jackson and Stent (2016: 13/4- 13/5) for a detailed discussion

Payroll and Personnel Cycle

Risks and internal control in the cycle for credit sales

Let us take an example of the first function in the payroll and personnel cycle, Personnel (Human Resources)

The text book, presents the information in a very easy to use manner

Function (Objective)	Documents	Risks
To assist with all personnel matters to ensure efficiency by controlling: <ul style="list-style-type: none">• Recruitment• Dismissals, etc.	<ul style="list-style-type: none">• Payroll amendment forms• Employee file• List of employees	<ul style="list-style-type: none">• Recruiting/retaining unsatisfactory or unnecessary employees• Incorrect dismissal procedures
Control Activities		
All requests for appointment or dismissal of employees should originate from the section making the request and should be in writing and a motivation provided		

The table above, is obviously incomplete and is just an illustration as to how you should study each function within a cycle, you will find the complete table in your textbook

Payroll and Personnel Cycle

When you study risks and internal controls, **do the following:**

- Link each internal control to a risk / risks for each of the functions (Jackson & Stent 2016: 13/9 – 13/13)
- Risks and internal controls become more logical and therefore easier to remember in the exam
- Remember the **“What, on what, why and by whom”**

Payroll and Personnel Cycle

Personnel (Human Resources) (J&S 13/9)

Risks	Internal controls
<p>1. Recruiting/retaining unsatisfactory or unnecessary employees → cost to company, loss in profit</p>	<p>1. All requests for the appointment of employees should originate from the section making the request, e.g. factory, etc and should be in writing & a motivation provided.</p> <p>2. Requests should be signed by the section head and countersigned by the section manager after ref to budget.</p> <p>6. Sound personnel practices should be followed to obtain honest, competent personnel: interviews, background checks, etc</p>
<p>2. Incorrect dismissal procedures → could result in lawsuits being filed against co leading to decrease in profit</p>	<p>1. All requests for the dismissal of employees should originate from the section making the request, e.g. factory, etc and should be in writing & a motivation provided.</p> <p>2. Requests should be signed by the section head and countersigned by the section manager after ref to budget.</p> <p>7. A file should be kept for each employee and should include the employment contract, performance appraisals and disciplinary warnings.</p>

Payroll and Personnel Cycle

Personnel (Human Resources) (J&S 13/9)

Risks	Internal controls
<p>3. Unauthorised amendments to employee records:</p> <p>3.1 Fictitious additions</p> <p>3.2 Unauthorised changes in wage rates → could result in unnecessary expenses for co, leading to decrease in profit</p>	<ol style="list-style-type: none">1. All requests for the appointments/ dismissals should originate from the section making the request, should be in writing with a motivation.2. Requests should be signed by the section head and countersigned by the section manager after ref to budget.3. Changes to pay rates etc, should be decided by personnel dept/wage committee after:<ol style="list-style-type: none">3.1 consultation with interested parties3.2 consideration of relevant laws and regulations4. All changes should be documented and authorised by authorising body5. The file of PAF's should be regularly reviewed for validity & gaps in sequence7. A file should be kept for each employee & should include: rel PAF's; employment contract; performance appraisals & disciplinary warnings; personal details.

Payroll and Personnel Cycle

Personnel (Human Resources) (J&S 13/9)

Risks	Internal controls
4. Inaccurate or incomplete records	2. Requests should be signed by the section head and countersigned by the section manager after reference to budget. 5. All amendments to employees details should be promptly committed to sequenced payroll amendment forms which should be cross-referenced to the supporting documentation and authorised by a senior member of the personnel section. 5.1 From time to time, the file of PAF's should be reviewed for validity and gaps in

Payroll and Personnel Cycle

Computerization of the cycle

Refer to the first lecture, where controls in a computerized environment was discussed

Controls in a Computerized Environment

What controls are there in a computerized environment?

1. General controls
2. Application controls

Note: General and application controls can be **manual** (performed by humans) or **computerized** (performed by the computer)

Does controls in a computerized environment touch on all components of internal controls?

Yes, refer to your MO001, page 61 for a diagrammatic representation illustrating how general and application controls relate to **all the components of internal controls**

Remember that general and application controls is relevant as part of the computerization of this cycle.

Did you notice that the computerised system has the same functions as the manual system

Study: Jackson and Stent (2016:13/16 – 13/28)

Payroll and Personnel Cycle

What is a Masterfile?

The masterfile contains the “Permanent” or “Semi-permanent” information.

e.g. **Employee masterfile** would contain inter alia:

- The employee’s name
- The employee’s banking details
- The employee’s ID number
- The employee’s tax reference number number
- The employee’s physical and postal address
- The employee’s wage/ salary rate (or payscale)
- The employee’s working hours

Refer to Jackson & Stent (2016: 13/16 – 13/28) for the internal controls pertaining to the Employee’s Masterfile

Payroll and Personnel Cycle

NB!!!

When doing the activities, tutorial 102 questions, assignments and past examination papers, take note of how the information is given in the scenario, as well as how the solution is presented. Also take note of how this topic is normally tested at your level of study.

TOPIC 8

Finance and Investment Cycle

Investing and finance activities consist of transactions that relate to the acquisition of the **non-current assets (fixed assets)** which are required to manage the activities of the enterprise.

The financing activities include funds obtained from borrowing, finance leases and operating leases.

Finance and Investment Cycle

The balances and totals produced by the finance and investment cycle are reflected in the financial statements as follows:

Account balance (SOFP)	Classes of transactions (SOCl)
<ul style="list-style-type: none">• Share capital	<ul style="list-style-type: none">• Dividends paid
<ul style="list-style-type: none">• Reserves	<ul style="list-style-type: none">• Profits or loss (reserves)
<ul style="list-style-type: none">• Long-term loans	<ul style="list-style-type: none">• Interest paid
<ul style="list-style-type: none">• Property, plant and equipment	<ul style="list-style-type: none">• Profit or loss on sale of asset
	<ul style="list-style-type: none">• Depreciation
<ul style="list-style-type: none">• Investments	<ul style="list-style-type: none">• Profit or loss on investment

Finance and Investment Cycle

What are the characteristics of this cycle?

1. Frequency of transactions

- Transactions in this cycle **do not** generally occur every day.

2. Size of transactions

- Transactions are usually **material** (amounts are large)

3. Legal and regulatory requirements

- Transactions are governed by statute and the **MOI** of the company

4. Non routine internal controls

- Transactions **not** subjected to routine every day control

Finance and Investment Cycle

What are the characteristics of this cycle?

5. Non standard documentation

- Unlikely that documentation will be standard every day documentation.

6. Major risks within the cycle

- Client understates completeness of long term liabilities
- Client overstates existence and valuation of investments
- Invalid transactions occur (legal and regulatory requirements)

Finance and Investment Cycle

Compensating controls

1. Planning

- Transactions should be carefully planned by senior experienced management

2. Authorization

- Authorization for material transactions should be at the highest level

3. Implementation

- If transaction not straightforward, it should be carried out by competent staff and properly controlled

4. Review and approval

- Transactions subject to: Progress reporting, comparisons to budgets, etc.

Refer to Jackson and Stent (2016: 14/3- 14/5) for a detailed discussion

Finance and Investment Cycle

NB!!!

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GOOD LUCK 😊😊😊



Thank you

