

For finance class

Business



Case Study- Internal Control Inform the President of any new internal control requirements if the company decides to go public? LJB Company is recognized as a small distributor company. However, its goal is to go public in near future. While running the small distributor company, the President of LJB had small workforce and less controlling unit or measures. However, the President's aim of going public with the company in the future requires certain changes in internal control. The internal control is defined as the assimilation of planning, controlling, policies and workforce of a company working together to meet the company's objectives (DiNapoli, 2007). The internal control of a small company differs from big companies because the smaller firms have quite less operational process compared to the large firms. The President had to meet with a few internal control requirements to take the company to the next higher level i. e. to go public. The internal control aspects that need to be considered by the President are planning, controlling and workforce maintenance. Planning is one of the major steps that should be taken in an effective way so that future problems can be identified easily and corrective measures can be taken to deal with bigger issues in the future. Controlling involves certain processes such as departments, policies and activities of the employee. For LJB Company, the entire unit should be segmented in departments with specific tasks assigned to each department to make the operations smoother. The President of LJB should take a strong step towards implementing the company's terms and policies because they ensure that the employees perform under stipulated guidelines and provide their best as they are able to remain focused towards their responsibilities.

2. Advise the President of what the company is doing right (they are doing
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some things well) and also recommend to the President whether or not they should buy the indelible ink machine. When you advise the President, please be sure to reference the applicable internal control principle that applies.

According to LJB Company's operational process as a small firm, the President implemented certain appropriate internal controlling measures. In this context, it can be stated that the company has been able to attain certain positive outcomes which has facilitated them to the desire of taking the business to public. The terms and policies applied in LJB were quite strong because an employee was fired by the President when he was found guilty of wrongdoing within the company premises. This shows active involvement and ability to demonstrate proper control by the President in order to fulfill LJB's objectives.

Indelible ink machine is used more in larger companies rather than smaller firms. The President of LJB should go for purchasing indelible ink machine because the accountant himself controls many of the operational aspects. Purchase of this machine will help the accountant to operate his important task in lesser amount of time and with more accuracy. The machine can help to reduce hand work in writing of daily expenses in bill book of accounts rather they can be stored in computer and print out can be taken to maintain the documents. This process will help LJB's accountant to have control over activities in the account section effectively. Indelible ink machine will help LJB in performing a number of their operational processes effectively and thus it will certainly facilitate the company in attaining its future goals by minimizing the paper work as well as making the working processes faster. In general, use of a machine largely helps to minimize cost and the activities can be performed in efficiently. The internal control variable of controlling

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can be significantly increased through this process.

3. Advise the President of what the company is doing wrong (they are definitely doing some things poorly). Please be sure to include the internal control principle that is being violated along with a recommendation for improvement.

The operational process of LJB as a small distribution company was controlled by the President. However, there were certain aspects that were creating hindrances in the operational process. The operational process of LJB is different from certain other firms because due to over burden upon the accountant of the company employees had the liability to handle the petty cash and maintain records of such use through only placing a note for the use. Moreover, there was no provision of assigned individual password for an employee which resulted in difficulties for the company to prove any misconduct by an employee. These loopholes in the operational process created obstructions in properly controlling the unit. These situations in the LJB took place due to lack of manpower and departments which became the major drawback for the President to control the unit in an effective way.

The drawbacks present in the operational process of LJB can be overcome by the President with proper allocation of departments along with increase in manpower. In this aspect, the segregation of tasks in departments can help to separate work along with incorporating precisely skilled employee for those particular departments. This can ensure a substantial reduction in workload of the employees such as the accountant. It will also enable to ensure operational excellence and quality of work which will be paramount for the company in the future as and when it decides to go public.

Reference

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DiNapoli, T. P. (2007). Standards for internal control in New York state government. Retrieved from http://www.osc.state.ny.us/agencies/ictf/docs/intcontrol_stds.pdf