# Rjet task – college essay

This means that the customers were happy with the product being sold, and this is a sign of strength within the company. It was a profitable year. For year 6 and 7 the cost of goods sold also went up 31. 8%. This number is to be expected. Since the net sales went up, obviously the cost of goods sold will also go up. This also means that CB's purchasing department was able to keep the cost of goods sold down. If the net sales had been lower than the cost of goods sold, then there would have been a problem. The best numbers to look at when comparing year 7 to year 6 is the gross profit.

The profit difference during these two years was 37. 5% that is a good gross profit. This means several things, the first being that the company grew, that the customers were happy with the product, and that management did a good job in promoting its product. The operating expenses shows why there was such a great increase in gross profit. Their advertisement department spent 37. 5% more on year seven than they did on year six. This simply means that CB spent a lot of money in advertising. The advertising department had more money to spend because the company made more money that year.

Sales commissions also were up 33. 3% in year 7 from year 6. This is a positive trend for CB because the sales personnel should be awarded commissions from having such a high year in sales. This will also ensure that the sales department will keep its employees happy, and they wont try to look for a job at a different company. The total of selling expense for CB increased 33% in year 7 from year 6. It looks like CB invested good amounts of money knowing that it will see good returns for profit that year. Administrative salaries increased 21. % in year seven from your six. This is always a good thing, knowing that good administration will be compensated. The executive compensations also went up 29. 4%. If you have a positive year for the increased of gross profit is 37. 5%, it would be noted that the hard work of the executive should be compensated and that should also trickle down to the administrative salaries. The total general and administrative expense a rose 20. 4% in year seven from year six. This is not necessarily a bad thing, but when expenses rise, it can be considered a good strength.

It would be good for CB to find ways to keep these expenses down specially from increasing every year, but when you have a productive year as you do in year 7, you will expect for general and administrative expenses to go up. The total operating expense went up 23. 9% from year 6 to years 7. This is quite a hike, but any time that there is a great increase in net sales and gross profit, you can expect a hike in the operating expenses. When looking at the over all big picture of what is happening at CB, we can conclude that this hike is normal in the operating expenses.

It would be a bad thing is CB had an increased of 23. 9% in its total operating expenses and then if we looked at the net sales of the gross profit and see that there was not a hike in those areas. But since there was an increase in net sales gross profits, we can also conclude that there would be an increase in total operating expenses. Operating income is a measure of a firm’s profit that excludes interest and income expenses. In the case of CB there was a gain of 154. 6% from gear 6 to year 7. This is a healthy increase for CB.

Net earnings for CB comparing year 6 to year 7 looks quite well with a total profit gain of 313. 4%. This is the bottom line net profit net earnings; this is what was actually made by CB. While doing the horizontal analysis there was quite a huge gain for CB as in total profit between years 6 and your 7. This is always a positive analysis when a company has higher profits than the previous year, and in this case CB, not only did it make a higher profit, but had a gain of over 300% of what it did in year 6. Any investor looking at these numbers will say that this company was a profitable company during this time period.

Although CB had a great year in year seven compared to year six, the numbers are very different when comparing year 8 to year 7. Sales were down 15% in year 8 compared to your 7, which is a big concern, it can be considered as a weakness for CB. In the storyline for competition bikes, it tells us that this was a year where the economy was very weak, and this can account for the sales to drop. A 15% drop in sales is not a good thing for any company. This 15% drop in CB sales is reflected throughout the rest of the income statement when comparing year 8 two year 7.

Because the sales were down 50%, your cost of goods sold was also down 14. 5%. Your gross profit was also down 16. 3%, and these are all contributing factors from having an economy that is weak during that time. Operating expense in general also went down, the total selling expense dropped 14. 9%. This is obvious since the sales were down; your expenses are going to also be down or should go down. Sales commissions took a big hit dropping 15%, which is not a good thing for the salesman in the company. This is looked upon as a weakness especially by the salesman.

If a salesman is counting on the sales commission, he might want look for a company that is more stable with its numbers. The salesman did a great job in year 7 compared to year 6, but in year 8 the sales were down and so was the commission paid out. In some cases a salesperson might consider looking for a different job, or try to figure out a different way to compensate for that loss of commission during that year. Advertising was also down 16%, which may have contributed to the loss of sales, which did a chain reaction to the commission that affected the salesperson directly.

Although the percentage of commission remained at 3%, the lack of sales, due to a week economy, affected everything. Administrative salaries did not have an increase; neither did the executive compensation have an increase because it was such a non-profitable year compared to year 7. The top administration for CB was not compensated anything extra. This can be looked upon as a weakness because every year any administrative or executive personnel wants to see a company grow and have an increase, but when there has been a year where they all have worked hard with no increase in compensation, that can be discouraging.

Under the general administration expenses the only department they had a big decline was the research and development department. With a total decrease of 16. 3% this department struggled this year in making new innovations for making CB the best bike company in the market. So under the total general and administration expenses there was still an overall increase of 1. 2%. This is not a favorable situation for CB, and it can be looked upon as a weakness because while general and administration expenses went up 1. 2% the gross profit of the company dropped 16. 3%.

The total operating expenses is down 3. % compared to year 7, with such a decline in gross profit of 16. 3%, it would be more favorable to see the total operating expense to also drop more than 3. 6%. Operating income is also down 69. 1%. Net earnings, or as we say the bottom line, profit dropped 84. 1% in year 8 compared to your 7 which is a sign of weakness. It is always a weakness when we see net earnings drop especially with that big of a difference. Now we would look at the comparative balance sheets and perform a horizontal analysis of the assets, the property equipment, and liabilities that CB has. On comparing year 7 to year 6, CB had a decline of 64. % in their cash and cash equivalents. This can be looked upon as a weakness of the company, because if the company sales increased, then the company should have more cash and cash equivalents. Some analyzers might interpret this as CB not being able to handle its cash and keep up with demand. Although CB had a drop in cash and cash equivalents, it had a big spike in Accounts Receivable of 164. 3%, and when comparing all of your assets for year 7, there was a general increase of 31. 5%. This 31. 5% is a very healthy number; this has to have been a very productive year in order for this number to be so high.

When we look at the total assets that include the land manufacturing plants and offices, furniture and equipment, the total assets increase of 2. 2% is quite normal, and it reflects strength for CB. Whenever there is such a productive year, as it was in year 7 and comparing it to year 6, your liabilities will also be higher. The current liabilities arose 122. 4%, which is in accordance to the growth of the company for that same time period. All the long-term liabilities decreased which is a good thing, it shows that CB is able to pay off his debt when it comes to mortgage and other long-term liabilities. A1b

For competition bikes we will now start a vertical analysis. First we will analyze the gross profit for year 6, 7, and 8. The gross profit is 26. 6%, which is a healthy profit margin for year 6, and averages 26. 9% through year 8, which indicates strength for CB. The cost of goods sold was 72. 9% on average during this time. The cost of goods sold plus gross profit makes up the net sales or the revenues. We will now break down the 73. 4% of cost of goods sold for years 6. Operating expenses totaled 6. 7% this includes advertising, the website, sales commissions, distribution network support, and transportation out.

This 6. 7% in operating expenses shows stability within the company, which is strength. If we look at the individual breakdown of the operating expenses, for example sales commissions, we will see that it carries the same weight year after year. What these numbers reflect is stability within CB, which reflects strength. The general administration expenses, shows stability within the company. Although when looking at the individual numbers, for example administrative salaries, we see that there is no increase between year seven and year eight.

This is a sign of weakness because the administrative salaries were not increased at year eight, and neither was executive compensation, but this can be a result from having a bad economic year. When looking at the balance sheet for CB, and specifically at the current assets we see a drop in cash and cash equivalents from years 7 two year 7. In year 6 you have 6. 2%

cash and cash equivalents, and by year 7 it drops down to 2. 2%, which reflects a weakness in the cash and cash equivalents, but when comparing year 7 to years 8 there is an increase from 2. 2% to 9. 7%.

This hike up represents strength within the cash and cash equivalents. The other big noted item when looking at the assets for CB is noted in the counts receivable. In Accounts Receivable it starts at years 6 with 6. 5%, and by your 7 it jumps up to 16. 7%. This jump up reflects that it is getting harder for CB to either collect his debt, or that a lot more companies are owing money to CB. In year 8 this 16. 7% drops down to 14. 2%, but is not a big drop, and it reflects a weakness that is continuing through year 8. Raw material inventory, which represents 2. 5% in year 6 and 2. 2% in year 7, and 2. % in year 8, shows strength within the company to handle its inventory. The work in progress inventory also is leveled off at 3% through year 7 and your 8, which also reflects stability within the inventory department, which can be translated into strength for the company. In property and equipment assets, CB maintained between year 6 and year 8, reflecting strength in its stability. Taking a look at liabilities for CB under its account and notes payable there is an increased from years 6 at 1. 6% to year 7 of 4. 6% to8 eight of 6. 1% this reflects a weakness as CB is now acquiring more debt.

Noticing in all the current liabilities, in year 6, 2. 5% will increase to 5. 4% in year 7, and 7% by year 8, it is showing a steady increase. This increase can be viewed as a weakness. The one taking a look at the long-term liabilities such as mortgage payable, CB is showing strength because it is paying off his debt on its mortgage. It has gone from 42. 9% in year 6, to 39. 6% in year

7, down to 37. 3% in year 8. If you look at CB's total long-term liabilities, you will see a steady decline from 47. 5%, to 46. 2%, which reflects strength. A1C For this section we will be concentrating on trend analysis.

Trend analysis is when you look at your historical trend analyzing and therefore you can make a forecast based on what you have seen in the past for the company. With CB we can look at year 6 as the base year and move forward to year 7, and in year 7 it have an increase of 133. 3%, which is a strength in the company, but in year 8, that increase from years 6 slows down to 113. 3%, which still represents a gain but it is not a strong gain, it's actually a loss from year 7. No one forecasting for a trend analysis we take the average of the increase from year 7 in year 8 and we move that forward making year 8 our base year.

From year 8 as our base year, the trend for CB is on a steady increase. The trend shows that by year 9, there will be a growth of 103. 2%, by year 10 it will increase to 107. 6%, and by year 11 it will increase to 111. 8%. As looking at trend analysis it is showing a steady increase over the years to come, which reflect strength in the future. A 2 The following is going to be a racial analysis of CB. When looking at the racial analysis, it is done to be able to measure five different areas within CB. The first area is to measure the ability to pay current liabilities.

The second is to measure the ability to sell inventory and collect receivables. The third is to measure the ability to pay short-term and long-term debt. The fourth is to be able to measure profitability. The fifth is to analyze stock as an investment. We will take a close look at each one of these ratios to determine how CB stands up against its competition. The first ratio we will look at his current ratio. Current ratio falls in the first category of measuring the ability to pay current liabilities. Being more specific, we are looking to see if CB can commit to pay its current obligations. For year 7 the current ratio for CB is 5. 9%, which reflex's strength. Any time a company has a ratio of 2 or better as their ratio, it is a strength for the company. For year 8, CB had a ratio of 5. 25% in its current ratio. There was a decline from year 7 to year 8, but does this decline is not significant enough to say that the racial is bad, and although it weakened a little bit, it is still 5. 25%, which is better or far greater than two. When comparing year 7 or year 8 to what the industry average is, CB is doing a lot better. The current ratio industry average is 4. 20%, and CB over the year 7 and year 8 has an average of 5. 25%, which compared to 4. 0%, CB is doing quite well. The next racial that we would look at is the acid test ratio. The acid test ratio measures most liquid assets within CB to calculate how easy it is to make payments on what it owes or current liabilities. In this ratio, it is expected to measure a one or higher. For years 7 CB had 4. 41%, which demonstrate strength in the company's ability to make payments easily. In year 8, CB had an acid test ratio of 4. 14%. This reflects a slight weakness when compared to year 7, but it is still higher than a one. In the current industries average acid test ratio measures 3. 40%.

When comparing the industries average to CB's 4. 275% average, the conclusions show strength in the acid test ratio for CB. The next ratio that we will look at for CB is the averaged collection period. This ratio measures how long it takes for CB to collect its debt. In year 7 the average for collection was 43. 8, meaning that it took an average of 43. 8 days for CB to collect what was owed from different companies. This shows a weakness within CB's ability to collect debt. In year eight the average collection continued at 43. 8 days, showing that CB's ability to collect did not improve. The industry average for collecting debt is 32. days, and when you compare CB to the industries average, you see that CB has a weakness in the ability to collect its debt. The next ratio that we will look at is debt ratio. The debt ratio represents the percentage of a company's assets that are acquired via debt. Any time a company debt ratio is over 50, it is considered a weakness within the company. When looking at year 7 for CB, its debt ratio is 47%. This can be considered a weakness since it is border lining the 50. In year 8 the debt ratio for CB drop down to 46. 2%. Although some I consider it a strength that the debt ratio is dropping, it is still pretty high.

The industry average is 38% and when comparing to CB's debt ratio of an average of 46. 6%, to the industries average, we analyze that this ratio and can consider it a weakness for CB. Now lets look at CB's gross profit margin ratio. The gross profit margin is used to measure the difference in the amount of money made, and the amount it take to make them money. In year 7 for CB, 27. 4% is its gross profit margin. This means that for every dollar CB sold, it made a profitability only 27. 4 cents. This can be considered a weakness for CB. In year 8 CB gross profit margins was 27%, which translate into a bigger weakness for CB.

The industries average is 31. 1%, and when comparing that to CB's gross profit margin in year 7 and year 8 with an average of 27. 2%, CB is showing a weakness in this department. Next we will look at CB's operating profit margin. The operating profit margin is used to measure the portion of the company's revenue that is left over after paying the variable costs of production. This margin should be as high as possible. For years 7 CB had an operating profit margin of 5. 3%. This shows strength for years 7. In year 8 the operating profit margin for CB drop down to 1. 9%, which reflects a weakness in the company.

The industry average for operating profit margin is 5. 2%. When comparing CB's operating profit margin to the industry average, CB reflects a weakness at 3. 6% average when compared to 5. 2% industry average. We will now take a look at CB's net profit margin. The net profit margin tells you how much profit CB makes for every dollar it generates in revenues or sales. The higher a company's profit margin compared to its competitors the better. In year 7 the net profit margin for CB was 3. 3%, which reflects a weakness in the company. In year 8, CB's net profit margin drop down to 0. 6%, which reflects a bigger weakness for CB.

When comparing to the industries average of 5. 1%, CB's average for years 7 and 8, of 1. 95% reflect a serious weakness. Next we will look at the company's earnings per share ratio. The earnings-per-share will demonstrate how much profit is allocated to each outstanding share of the company's common stock. In year 7 CB had point $. 20 per share, which reflects strength in the company. In year 8 CB's earning per share drop down to . 03 cents per share, which reflects a weakness. When looking at the industries average of . 08 cents per share, and comparing it to the average of year 7 and 8 of point 11 ? ents per share, although CB experienced a weakness in year 8, it is still considered strength when you consider the average for the company. We will now look at the return on total assets ratio that CB has.

The return on total assets is a ratio that is considered to indicate how effectively a company is using its assets to generate earnings before obligations must be paid. The greater the number and percentage, the better the return on total assets. In the year 7 CB had a return on total assets of 4. 6%. This is reflecting an average of neither a strength nor weakness for CB.

In year 8 however the percentage of return on total assets dropped to 0. 7%, which reflects a weakness in the company. The industry average is 4. 8%, and when comparing it to that of CB's, CB definitely shows a weakness in the return on total assets ratio. We will not look at the ratio of return on common equity. This ratio reveals how much profit a company generates with the money shareholders have invested. In year 7 CB had a return on common equity ratio of 8. 6%. This 8. 6% reflected strength for CB. In year eight the ratio of return on common equity dropped to 1. 4%, which shows a weakness.

The stockholders would not be happy with this number. The return on common equity average in the industry is of 8. 1%. When comparing year 8 and 7 for CB against the industrial average, CB will show that there is a weakness in the company. Next we will take a look at CB's price-earnings ratio. Price earning ratio is the racial that determines whether a company's stock is cheap or expensive. In year 7 CB had a price-earning ratio of $49. 67, which reflects a weakness for the company. In year 8 the price-earning ratio jumped to $96. 61, which reflects even a greater weakness for the company.

The industry for price earnings ratio average is $29, which when compared to CB's average of $73. 14, it definitely reflects a weakness. Why would anybody want to invest an average of $73. 14 in a company for every dollar earned, when they can invest only $29 and still receive that one-dollar earned. The next ratio that we will look at is the time interest earned ratio. The time interest earned ratio is the ability of a business to pay off his debt. The higher the racial measures, the more favorable a company is able to pay off its interest and debt. CB in year 7 had time interest earned ratio of 5. 27, which reflects strength for that year.

In year 8 however, that ratio dropped to 1. 77, which reflects a weakness for that year. When comparing those years to the industry average of 4. 24, CB is still showing a weakness when it comes to times interest earned ratio. We will now analyze CB's working capital. It is important to understand the ratio of working capital for any company to see if they are holding on to too much cash or if they don't have enough cash. In year 6 the working capital ratio for CB was 8. 79, which means it had too much cash on its hands. The industry average should be 2, which means that CB had over four times the amount of cash needed.

In year 7 CB's working capital racial dropped to 4. 78, which means it put a better use to its cash compared to year six, but it is still looked upon as a weakness for CB. In year 8, CB's working capital ratio dropped a little more to 4. 24. In year 8 this number is still a little bit high which reflects a weakness on CB in its ability to handle, or manage its working capital. They are ways for CB to improve its working capital. The first thing that they can do to improve its working capital, is to not let that working capital sit around. Instead of letting it sit there, CB should invest it back into the company.

This can be done in several ways. The first suggestion will be for CB to pay off his long-term liabilities, especially the ones that are drawing a higher interest rate. This can include paying off mortgages and paying off all kinds of debt. The other suggestion on how to use the excess working capital to increase a profit would be to put some of that money into research and development. If CB wants to stay on top of competition, it will always have to invest into research and development department to make a better product on the cutting edge. A3 In evaluating the internal control for CB there are several things that come into question.

Internal control is meant to eliminate the possibility of fraud. With a strong internal control, the company will try to eliminate every possible loophole so that the employees do not commit fraud. If you have a week internal control system in your company, the possibilities for fraud and other questionable business arrangements can be easy. When talking about CB, they do not have a strong internal control system. Because of this weakness in their system, and the lack to have a strong internal control system, CB is open to the possibility of employees committing fraud in many different levels.

Some of these weaknesses are that they have no way to secure assets, there is no encouragement for employees to follow company policy, there is no promotion to operate efficiently, and there’s no way to ensure accurate reliable accounting records. A3a The first corrective action that CB should take is to safeguard its assets. They should start a procedure on how to safeguard corporate assets. In the storyline for CB, the purchasing department sends the invoice over to accounting on any product that they purchased.

The accounting department pays for the product that was purchased without ever knowing if what was purchased matches watch was shipped in. CB should consider structuring a receiving department that works independent from the purchasing department, and the accounting department. This department will be solely in charge of receiving products and making sure that they match the invoice. Once the products matched the invoice, then the invoice can be sent to the accounting department and a check can be written to pay for what came in.

Since CB bypasses this procedure, the risk of the accounting department paying for something that was not received is high. This simple step will it eliminate overpaying for products not received, paying for products that were damaged during shipping, and keeping the inventory levels correct. With this simple step CB will also eliminate the temptation for employees to commit fraud by having personal interest in any purchasing related product. Since the company is now holding the department in accountability, it will be harder for the employees to purchase bogus products and get paid for them.

The next corrective action that CB should take is to implement a clear separation of department. If it is the same department making the purchase and paying for the purchase how can CB know that there is no internal fraud, each department must be held accountable for what they are hired to do. If the purchasing department is limited to purchasing, then the receiving department can communicate that the purchasing department's purchase order came complete and accurate and then send the invoice to the accounting department.

Again if there is no distinct separation in each department, it opens up a window for fraud. A good example would be, if the purchasing department employee had a personal interest and makes a purchase from himself to the company, then sends the invoice to the accounting department, the accounting department would pay for that invoice without ever being accountable if the products came in or not. For this reason it is important that each department be separate. Each department will hold the other department in accountability.

Fraud would be minimized, and the possibility of committing fraud will be brought down to a minimum. The third corrective action would be to implement an internal audit department. This internal audit department will visit at random the different departments within the company to check for fraud. With this system in place each department will try its best to continually work within company policy. If a department is not within company policy, this internal audit department will communicate it with the CEO and CFO.

With this internal audit department functioning properly, not only will each department try to stay within company policy, but it will also find the departments are committing fraud, and narrow the fraud by department's and then concentrate on that department to find out which employee is committing the fraud. Once the fraud is found, and the one committing it is found, the CEO will be able to make a good decision on what to do with that employee. Without an internal audit department, fraud can continue for years without being noticed. It can cost the company a lot of money, and ruin its reputation.

You have heard of the expression, one bad apple ruins the barrel; that can very well be said about employees. If one employee is committing fraud, and another employee realizes that the first employee is making a ton of money committing this fraud and nothing is being done to correct it, it will be very tempting for that second employee to start committing fraud on his own. This internal audit department will eliminate not only the fraudulent employees, but also the temptation to commit fraud. The fourth corrective action for CB to consider is to have an annual audit done from one external source that has no interest in CB.

If the internal audit department has a member in that department that together with a friend from a different department agree on committing fraud within the company, then when the external audit comes and checks on them, the fraud will be found. For this reason it is important that CB conduct an external audit every year. Not only will the external audit help to eliminate any fraud within the company, but it will also assist the owners in having a third-party take a look at the company to make sure that it is ran correctly. With these four measures CB can start correcting its weaknesses.

There will always be measures for improvement, and not all fraud can be avoided, but with these good steps, CB can work towards making a fraud proof company. A3B In identifying the risks of the company, CB has many risks that can be pointed out within its internal control system. Some of these weakness includes the problem of not hiring competent reliable and ethical personnel. CB has no assignment of responsibility within each department, it has no separation of duty, has no internal audit, and it doesn't have any external audits as well. AB1

The way you will mitigate the risks arising from the eternal control weakness is to address each of the risks that were identified within the CB company. The first risk can be mitigated by hiring personnel that are competent reliable, and ethical. This can all be controlled within the human resource department. If the human resource department took a careful look at each person that was up for employment, and did an extensive background check, and investigated their claims for competence by either a test or checking with the school they claim to have graduated from, CB would then be able to weed out the high risk employees.

CB's human resource department can also take a look at the ethics when hiring. By looking at the ethics from each individual, CB can notice whether the individual will be more likely to commit fraud or not. This can be done by a series of questions, or by placing the potential employee in a particular situation where they will have to make a choice based on ethics. The whole purpose of hiring the right person is so that fraud can be avoided within the company and risk can be minimized. The next risk that can be mitigated by CB is to make sure that the policy book includes a detailed assignment of responsibility for each department.

This is so essential for a company that if it is not followed, then no particular employee will have a clear-cut responsibility, and therefore when fraud is in action no one will want to take the responsibility saying that it's somebody else's fault. With clear-cut responsibility within each department and each employee, the employees will not have an excuse of what is expected of each one of them. Not only will the employees have clear understanding of their responsibilities, but each department will also have their clear-cut responsibilities.

With each individual and each department having their responsibilities written down in policy, CB will know where to go directly when there is a problem of fraud. Not only will CB be able to pinpoint the fraud, but it can also track down where it started and how it evolved. CB will be able to put an end to the fraud and correct its policy so that it does not happen again. The third risk that can be mitigated by CB is the separation of duties. Without the separation of duties, work can get very confusing, and responsibilities watered down between many employees.

With the separation of duties, each individual department will be responsible for a certain section of the company. If the purchasing department purchased something, and the same purchasing department cut a check to pay for the invoice, how will CB keep track of its inventory and purchasing? It would be very easy for an individual inside the purchasing department to purchase something and pay for the invoice and take that product home without any accountability. Without the separation of duties there would be a lot of temptation to commit fraud.

The example given is just one of many that can be committed if each department does not have a separation of duties. The correct way of doing things would be for the purchasing department to purchase raw materials; the receiving department to make sure that the raw materials arrived in a correct form and quantity, and the receiving department send the accounting department the okay to pay for those goods that were purchased by the purchasing department. Without a clear-cut separation of duties, CB will continue to have a high risk of fraud. The fourth risk that can be mitigated by CB is to have a department that conducts internal audits.

This department will be responsible for conducting surprise audits on a regular basis for each department. These audits will be conducted specifically to look for fraud within each department. It is kind of like a big brother looking over your shoulder for each department. If this internal audits finds fraud being committed or the risk of fraud to be committed, it can quickly send the recommendations to the CEO of the company on how to take care of the situation. The last risk that can be mitigated by CB is to have a yearly external audit done on the company.

This external audit must not have any connections with the company or its employees. This is a healthy system to try and double check the company from fraud. It’s a way to make sure that the company’s accounting system has no error in it. If this external audit has any connections with CB, it will compromise the validity of the report. Let’s say that the audit department that comes in checks CB’s accounting, but that they themselves are also a company that offers consulting to CB, if something is going wrong they will tend to turn the eyes the other way.

This is why it is so important that the audit departments that come in have no ties with CB. It would also be wise for CB to hire different audit departments maybe not every year but every so often to change to another company. 4A The Sarbanes Oxley Act (SOX) went into effect after many companies failed due to fraud being committee within the company. The reason this law was put into effect was to put the internal control system responsibilities fully upon the CEO and the CFO of the company.

The law required this because since these companies failed there, and there was nobody to put the blame on for the fraud that was committed for these companies that failed, the CEO's and CFO's simply said that they were not aware of the actions of their company. With this new law put in place the CEO and the CFO could not just turn the eye and say that they were not aware of the fraud going on in their company. Because of the fraud going on in these companies, many Americans lost all their investment money and retirement, while others took advantage of a system that eventually bankrupted these companies.

To make sure that people don't lose their money, or investment, the Sox law will hold somebody accountable if the fraud continues. Not only does Sox law put the internal control system's responsibility in the hands of the CEO and CFO, but it also makes them file a yearly report with the FCC on its accounting practices. The FCC requires each company to file a report yearly using an external auditing company. This company can have no ties or interests with the company it is performing its external audits.

The Sox law also requires that the company sign a sworn statement by the CEO and the CFO stating that all accounting measures are done in accordance to the law. Any violations of this law will carry the consequences of strict penalties of 25 years for security frauds, or 20 years for a sworn false statement. The first step for CB to comply with the Sox law is to fix its internal control failure. CB must create a strong internal control system that will eliminate or minimize any possibility for fraud.

In this first step CB must create a receiving department to create a clear separation of departments within CB. With the separation of each department CB will help safeguard the assets of the company. CB can also in this step encourage employees to follow company policy, which will include daily tasks in an effective manner, and to promote an efficient way of doing things. The next step CB can take for complying with the Sox law is to start performing internal audits. These audits will be done at random in different departments to make sure that CB is complying with regular accounting principles.

These audits will ensure accurate reliable accounting, and if you have reliable, accurate accounting you will also have investor confidence. Using internal audits can be a great tool in making sure that the accounting process is done correctly, but to comply fully with the Sox law, CB has to also perform an external audit. A company that has no affiliation with CB should do the external audit, and this audit that is done externally, will be signed by the CEO, and the CFO, of CB and filed with the ICR for Sox.