

# Purchase and sales cycle essay sample



**ASSIGN  
BUSTER**

## Figure 1-1 Purchases Cycle

### Purchasing Review

Purchasing is a process of buying goods and services. It was done by every department of Hup Seng Industries Berhad, when they have the needs, wants, and demands to authorise certain goods and services. The purchases cycle starts with purchase requisition request by various departments. The purchase requisition was sent to the purchasing department. After the related suppliers were reviewed and examined by the purchasing agents, purchase requisition will be approved and approved supplier quotation will be issued. Purchase order will also be issued and copies will be sent to several related parties. Before the goods are received by Logistic & Warehousing department, the purchase order will be monitored and followed up. The goods will be examine and inspected by the Quality Management department as soon as they are received. Goods received notes will be received right after the examination and inspection were done and it will be given to the Accounts department in order to make a stock recording into relevant accounts for future usage.

### Documents Involved

#### Purchase Requisition

Purchase requisitions were issued by various departments when the departments need certain goods and services. It contain information such as description of items, quantity, price range, payment terms, required delivery date, names and address of suggested suppliers, and other relevant information. Purchase requisitions are often used as a proposal to the

purchasing department in order to decide whether the purchase is necessary and worthy. Approved Supplier Quotation

Approved supplier quotation will be issued by the approved suppliers to the company when the purchasing department inquires them. The content of the quotation includes description of items, exact price, payment terms, delivery date, name and address of the suppliers and other information. These quotations are used as company's reference for them to decide which supplier to choose. Purchase Order

Purchase order is a written sales contract between the company and the supplier. Details of the exact merchandising and services to be rendered are stated in the purchase order. Similar to the purchase requisition and approved supplier quotation, it includes the specified price, payment terms, quantity, delivery dates, item description, shipping terms, and other obligations, conditions and relevant information. It will be issued in 5 copies and sent to several departments and parties, which are, suppliers, Purchasing department, Logistic & Warehousing department, Quality Management department, and Accounts department. Receiving Reports

Receiving report is a document that records the receipts of goods. It is a copy of purchase order which excludes the statement of quantity. Adequate and independent count will be done by the staffs of the Logistic & Warehousing department. Besides the amount of goods received, descriptions, dates and other information and data will be recorded so that comparisons with the purchase order can be done easily. This document is

relatively important because the receiving of goods will lead to recognition of the liability of the company. Goods Received Notes

Goods received notes will be received after goods had received and examined. The Quality Management department will inspect on the quality and quantity of the goods received. It will be issued after the Quality Management department had verified that the quantity and quality are the same as the purchase order. Supplier Invoice

Supplier invoice is also known as the bill sent by the supplier. It indicates the description and quantity of the goods shipped, services provided, amount charged, terms of trade, cash discounts and date billed. Cheque

Cheque is one of the ways to pay for the goods and services received and clear the debt. It was signed and authorised by the Purchasing or Finance department of the company.

Departments Involved

Purchasing Department

To Store

To Supplier To Accounting Department

Figure 1-2 Purchases Department

Purchasing department approves and accepts the purchase requisition to fulfil the item requested by various departments. Purchasing agents are responsible to examine, evaluate and inspect on the suppliers and select whichever supplier who gives the company the reasonable price, best quality, reasonable terms of payments before the company made any

purchase. Approved supplier quotation will be compared by the Purchasing department so that the company can choose a better supplier among all the suppliers in the market. Purchase order will be issued once the decision has been made. Other relevant documents such as preparation of letter of credit will also be issued by the Purchasing department. Finally, this department will monitor and follow up on the purchase orders until the goods are received. Logistic & Warehousing Department/Production Department

To Bin Card

To Accounts Department

Figure 1-3 Stores-Receiving of Goods from Supplier

When the goods were received by the supplier, the Logistic & Warehousing department will signifies the receipts and goods will be places and stored properly. Before the goods were stored, the department will compare the goods received with the purchase order so that the exact amount and item received, correct price were charged. When the production department needed the goods for producing purposes, Logistic & Warehousing department will transfer the amount they needed to them. When the goods were found defective, complaints will be issue to the supplier so that returns or replacement could be done. The procedures that carried out was liaising on complaints with supplier, return and/or replace the defective goods received, and act on any shortage on quantity. Quality Management Department

Quality Management department is responsible to check and inspect on the quality and quantity of the goods received from the supplier. This

department will prove credential on the goods received after the inspection. This will also ensure that, the product made by the company is made by the materials which are defect-free. Reports will be sent to the Logistic & Warehousing department if any defects were found so that complaints can be done as soon as they are detected. Accounts Department

Goods received notes will be transferred to the Accounts department after the stock checking for recording and future usage purposes. Besides, the Accounts department also deals with the invoices by suppliers and approving of the payment voucher. Meanwhile, Accounts department have to keep the supporting documents such as purchase orders, delivery notes, and other related documents in sequence filing manners. Furthermore, all of the purchasing activities and transactions related will be journalised and posted into the purchase ledger and general ledger by the Accounts department. Bank reconciliation statement will be prepared by them on a monthly basis too.

Figure 1-4 Accounts Department

Figure 1-5 Journalising and Posting the Purchase

To Cashier

Figure 1-6 Approving payment vouchers

Figure 1-7 Accounts Department

Figure 1-8 Accounts Department

No

Figure 1-9 Accounts Department

No

Figure 1-10 Accounts Department

Figure 1-11 Accounts Department

Cashier

To Accounts Department To Supplier

Figure 1-12 Cashier-Approving Cheques

Cashier will approve and clarify the cheques which are needed to make the payment to the supplier. Payment to supplier is authorized by matching the supporting documents received from accounts department such as payment voucher, purchase invoice and remittance advice. Then, the cashier will prepare the cheque and obtain approval of cheque. After that, the cheque will be given to supplier whereas the purchase invoice will be returned back to accounts department. The payment voucher will be kept by the cashier.

Internal Controls

Based on the purchase flowchart illustrated above, Hup Seng Industries Berhad has a relatively strong internal control on their purchasing cycle. The internal control of the organisation is strong. Below are the illustrations of the reasons of strong internal control according to elements. Organisational Structure

Organisation is essential to have a good structure to have a strong internal control. Firstly, the organisation must be good at differentiating jobs and

responsibilities of the employees in the entity. For instance, the purchasing agents are concerned about examining, inspecting and selecting the suitable suppliers for the company and negotiate with them in order to get a better price, reasonable payment terms, and higher quality of goods and services. Meanwhile, employees in the Quality Management department are required to carry out professional inspections on the quality and quantity of the goods received from the supplier. Logistic & Warehousing departments are responsible to take good care of the custody of the goods and respond to the Purchasing department when shortage of goods arises. Accounts department will record the balance in the general ledger with the amount in the relevant accounts correctly. Besides, they will also update the bank reconciliation statement on a monthly basis. Segregation of Duties

According to the purchase flowchart, the purchasing functions are segregated clearly from the requisitioning to the receiving functions. None of the departments are mixing of the functions of authorisation, recording, and custody of the asset, which are the three primary section of the company. The authorisations of purchase were made by the Purchasing department. However, when it comes to the recording of transactions, Accounts department are fully in charge of the job. Lastly, the custody, receiving and storing of the assets are to be done by the Logistic & Warehousing department. Authorisation Controls

All of the transactions should require the authorisation and approval by the person or department in charge in order to prevent any incorrect or fraudulent type of transaction. From the flowchart, it is clearly stated that the purchase requisition and purchase order will only be approved and



issued after the appropriate examinations on the supplier and inspections of the purposes of items to be purchased. Recording Control

This control is to ensure that the authorised transactions are entered.

Account department will be responsible to access and record all of the transactions. Therefore, all of the related documents are needed to be filed accordingly in Accounts department. Other departments have the authority to send a copy of any transactions to the Accounts department. Personnel

Personnel are the people employed by or active in an organization, business, or service. For instance, the staffs in Quality Management department should be equipped themselves with suitable and appropriate experiences, skills and knowledge in order to carry our inspections and examinations on the good received from the suppliers. These skills will help them in

differentiating the defectiveness of the goods from all of the goods received.

When skills, knowledge and experience were used at the right place, the company could save more cost and time. Another example is purchasing agents from the purchasing department should have adequate experience and skills in order to choose the suitable supplier out of the suppliers in the market. With the skills, knowledge and experience applied, the agents are able to negotiate a better price from the supplier. Physical Custody Control

This improves the internal control by preventing unauthorised access to physical assets and alteration to documents and records. Goods received are places by the Logistic & Warehousing department. Any assessment of physical assets by the Production department or other departments must be authorised by the Logistic & Warehousing department. Accounts department

will carry out stocktaking once in a while to ensure that theft and misappropriation will not happen. Management

Hup Seng Industries Berhad has a clear cut management system which will provide the departments a clear direction, job assigned and responsibilities. Purchasing department is responsible to collect request on item needed from various department. They should contact with the supplier so as to find out all the information about the items and decide whichever benefits the company most. After that, purchase order will be issued and they will monitor and follow up the purchase orders until the goods are received. In the meantime, at the Logistic & Warehousing department, they will receive and place the goods purchased. If there is any defective, they will lodge complaints with the suppliers, return or replace the defective goods. If there is any shortage of goods, they will form a request to purchase items needed to the purchase department. Quality Management department will inspect and examine on the goods received so that the goods received match with the criteria from the purchase order. Accounts department collects all the supporting documents issued and received. Book-keeping will be done by them. Besides, payment voucher will be approved by them when there is an authorised goods purchased.

### Judgement

Hup Seng Industries Berhad maintains a strong control over its purchases cycle as well as recording cash disbursement transactions. Other than those elements mentioned above under internal controls from the aspect of organizational structure, segregation of duties, authorization controls, recording control, personnel, physical custody control and management, to <https://assignbuster.com/purchase-and-sales-cycle-essay-sample/>

illustrate this, simply look at the policy imposed by the company which requires the purchasing agents to obtain competitive bids from several suppliers for single purchases over a specified dollar amount or ongoing purchases that are expected to aggregate to a specified amount. The agents compare the bids and recommend one based on factors such as cost, quality, delivery, customer support, and so on and so forth. In contrast, if Hup Seng Industries Berhad allows the purchasing agent to make purchases without first obtaining competitive bids from several suppliers. This increases the risk that the company does not obtain the best price or quality. It also provides an opportunity for a dishonest employee to receive kickbacks.