

Chic paints essay sample

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1. Chic Paints is a large Limited company. Chic Paints is a limited company formerly part of Ashtead PLC. Ashtead PLC had been a long standing manufacturer of everything from bricks to butter.

In 2005 Ashtead PLC decided that its future was no longer viable and therefore decided to change its business model, over the next few years Ashtead PLC started to sell off or close down those of its subsidiaries that were no longer considered a strategic fit within the organisation.

CPL was put up for sale in 2007, and was subject to a management buyout from its previous owners by five of CPL's current directors, Greg Pearce, Dave Whistler, Ruth Jones, Ahmed Khan and Susan Mather. These five directors have managed the company for many years. All these five directors have shareholdings in the company

Greg Pearce -Managing Director-25% Shareholding

Dave Whistler-Finance Director-25% Shareholding

Ruth Jones-Sales Director -20% Shareholding

Ahmed Khan-Production Director -15% Shareholding

Susan Mather-HRM Director-15% Shareholding

Dave Whistler joined the company only 6 months ago when he bought Jane Yips 25% equity stake in the business along with Greg Pearce the Managing Director Dave is the joint largest investor in the business. Last year, however two of the directors, Ruth Jones and Ahmed Khan had indicated that they wanted to sell their shareholdings in the company and retire. The other directors have been trying to find new investors who would both buy Ruth and Ahmed's shares and also have the necessary skills to replace them as

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functional directors. In July, the directors found two possible replacements Colin Addison and Zhang Wei. Once the sale was finalised the directors decided to change the direction of the business from general household paint into the specialised paint sector, such as those used for Boats, cars and industrial machinery. Six years on from the management buyout the company has steadily reduced its turnover from £200 Million to £120 Million but has increased its gross profit margin from around 12% at the time of the management buyout to around 30% today.

Net assets over the same timescale have increased from £20 Million to £25 Million, The workforce of Chic Paints Limited have reduced from around 500 employees to 350. Chic Paints Ltd adopts a tall “ hierarchal” organisational structure. This type of structure is typical of a large company. 1. 1 The Accounts system in use currently at Chic Paints is not an integrated system. The Financial system used to account for all of Chic Paints transactions is Microsoft Excel spreadsheets 2010. This includes an inventory control system which is used to book goods in and out of the warehouse and production areas. The Payroll software used is Sage 50 payroll.

1. 2 At the end of the month the accounts staff uses the spreadsheets to update the accounting ledgers. These run on proprietary software, specifically tailored for CPL, the General ledger enables a trial balance to be produced, and it also provides financial reports such as an Audit trail, cash flow, income, budgetary information and other key financial indicators. 1. 3 There is eight stand-alone computers locate in the accounts department, each full time member of staff has their own dedicated computer, but part-time staff are expected to use shared computers. Each computer is

individually password protected only the employee and their line manager should know this password.

2. 0 Key external stakeholders of Chic Paints Limited

2. 1 Customers – Chic Paints limited does not sell to the general public, but to company's in the UK and internationally which are involved in the manufacture and repair of boats, cars and industrial machinery. Chic Paints customers' primary concern will be that they receive good quality products at a reasonable price, and also good credit terms. 2. 2Suppliers – Chic paints Ltd main suppliers will be those which supply materials for the manufacture of the paint, and also the paint pots which package the paints. The supplier's main priority will be that they receive prompt payment in line with the agreed credit terms. Financial information required from suppliers would include information to enable them to determine whether to grant credit to Chic Paints Limited.

2. 3HMRC – will require payment of corporation tax, Value added tax, income tax, and national insurance through the PAYE system. 2. 4Bank – the bank require financial accounts such as Management accounts to be presented as a condition of the Loan agreement. The Bank may also request information such as Statement of cash flow. 2. 5Value added Tax act 1994 – VAT is a tax charged on goods and services that VAT registered businesses provide in the UK. Chic Paints accounting staff need to be aware and up to date with current rates of VAT and any changes.

There are three rates of VAT depending on the goods or services the business provide, the rates are:

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Standard – 20%

Reduced – 5%

Zero – 0%

3. 0Financial Statements

3. 1Income Statement – Shows the profit or loss of the business, it also allows shareholders to see how the business has been performing and allows directors to fulfil their legal obligation to report on the financial record of the business. 3. 2Statement of Financial position – the main purpose of this statement is to show the company's assets, liabilities and capital at a given point in time usually prepared at a company's year-end. This statement does not show the company activity for a whole year. 3. 3Statement of Cash Flows – main purpose of a cash flow statement is to help the business plan and control the flow of income in order to meet scheduled financial obligations. The financial information included in the cash flow statement also aids potential and current lenders and investors in determining a company's financial position. The cash flow statement ties together all the information from the income statement and the statement of financial position to give a summary of the overall picture of the businesses inflows and outflows. 4.

0External regulations affecting Chic Paints Limited

4. 1Company's Act 2006 – Sets out the way in which the company's financial statements should be set out and prepared. Chic paints accounting team will need to ensure they abide by these regulations when preparing their financial statements. 4. 2Data Protection Act 1998 – regulates how the company stores and processes sensitive and confidential information on customers, suppliers and employees. Chic Paints will need to ensure they

comply with this act to avoid the risk of heavy penalties for the misuse of data. 4. 3 UK Accounting Standards – further define the way in which the financial statements should be prepared. 4. 4Late payment of commercial debt Act 1998 – Allows suppliers to charge interest on late payment of invoices.

Chic paints Ltd will need to ensure supplies are paid on time in line with the agreed credit terms, and that it does not delay payments to suppliers beyond acceptable periods. 5. 0Health and Safety legislation – Chic paints will need to comply with various health and safety regulations such as having nominated and trained first aiders in line with regulation and safe working practices for staff. Other health and safety policies in place should be, manual handling and fire wardens.

6. 0Evaluation of Accounts Receivable and Credit Control

This report evaluates the Accounts Receivable (Sales Ledger) of Chic paints Limited and makes recommendations to improve it. 6. 1Chic Paints Limited currently use Microsoft Excel spreadsheets to record all of their accounting transactions, this is not an integrated system 6. 2The accounts receivable clerk (Xu Hin) also acts as the company's Credit controller, she is responsible for all data input into the sales ledger, all of this data inputted into the spreadsheets has to be transferred manually into in to the company's tailored ledgers each month because the two systems are not compatible.

The main problem with a manual system is the risk of errors being made by having to manually transfer the data, it also takes a lot of time up to carry out this task. 6. 3The Accounts receivable clerk is also responsible for raising <https://assignbuster.com/chic-paints-essay-sample/>

all sales invoices, credit notes and producing customer statements, and reconciling debtor payments. The current accounts receivable clerk has been at Chic Paints for the past two years she has neither accounting nor credit control qualifications. The implication of only one employee to carry out the two jobs is that it makes a lot of work and things can get missed and possible errors made as a result.

There is only one other member of staff who can covers Xu Hins work the Chief Accountant, Hazel Richmond. Her time is very expensive and it has been a few years since she has done this work so lack of experience would also slow the work down making it not a cost effective solution.

6. 4Sales invoices are raised and sent out to customers on a weekly basis, customer statements are produced and sent out on the last trading day of each month. The sales invoices are generated using a goods despatched listing. 6. 5The current process for accepting new customers consists of the accounts receivable clerk performing a credit check on the company by using Experian an online credit scoring organisation. After discussions with the relevant sales manager the accounts receivable clerk then sets an initial credit limit of anything up to £25, 000. The current internal controls allow the accounts receivable clerk to set a higher credit limit than recommended by Experian.

In the absence of the Finance director the managing director would authorise the credit limit for a new customer he is not as qualified as the Finance director to do this. Recently one of CPL's customers has gone into administration, the credit reference agency had recommended that they be

given a credit limit of £15, 000 due to the lack on controls in the business the AR clerk granted the maximum credit limit which she is authorised to grant which was £25, 000. At the time the customer went into administration they were considerably overdue and currently owed Chic paints £40, 000.

CPL dos not insure its trade credit risks.

6. 6Credit note requests sent to CPL for goods returned by customers have to be approved by the relevant sales manager before it is raised, those requests which exceed £2, 500 need to be approved by the sales director, Ruth Jones. 6. 7Each month an aged debtors listing is produced showing all the outstanding debtors of the company. The current process for chasing these debtors is any debtors more than one month overdue are reviewed with the relevant sales manager, any more than two months overdue reviewed with the sales director. All late payments are chased up by a combination of telephone calls, emails and letters to the customer. 6. 8The current internal controls in place for Credit control allows orders to be placed by customers who are overdue on payments.

There are no real procedures as to when to place customer's accounts on stop for late payments. Orders should only be granted to customers who's accounts are up to date and don't have a bad payment history. The accounts receivable clerk who also acts as the company's credit controller does not have time to chase up late payments on a regular basis as well as carry out sales ledger work. The sales staff and director both have very good relationships with existing customers so if payments do need chasing up they are in a good position to do so however sales staff are very busy

chasing up new leads and customers so do not get a lot of opportunities to do this.

7. 0 Recommendations to improve the Accounts Receivable (Sales Ledger)

The accounts receivable process is critical to the success of the business managed correctly it can help the business reduce its bad debts improve cash flow and minimise administrative overheads. 7. 1 Introduce a computerised Accounting package such as Sage Line 50

Moving to a computerised accounting package such as Sage line 50 offers an array of benefits all of which improve efficiencies and cut costs. The accounts department has previous experience of using sage software within their payroll function.

Currently Chic paints are limited in the system which they are currently operating. The systems are not integrated meaning they are limited to the functions they have available to them such as creating reports needed by the business for its own use and information needed by their external stakeholders.

All information currently has to be entered twice which does increase the risk of human errors being made by this needing to be done manually, it also takes a lot of extra time for this to be carried out resulting in extra money being paid in overtime.

Installing a new computerised accounting system would help minimise these labour intensive tasks and minimise administrative overheads. 7. 2 Credit control process Recommendations

More detailed checks should be completed such as credit checks and trade references on potential new customers before they are granted any credit terms with the business. These checks will reduce the risks of bad debts being incurred.

Credit check their customers

The accounts receivable clerk should obtain references from the customer's bank credit reference agencies and trade references from their suppliers. They should establish how solvent the customer is and whether they are likely to have any problems paying their invoices on time. This would benefit the business by reducing the risk of bad debts and late payers. Under the current procedure the accounts receivable clerk has authorisation to grant credit to customers of anything up to £25, 000 regardless as to the credit limit recommended by Experian. A maximum credit limit should be established for all new customers, these credit limits should only then be reviewed if all terms have been adhered to. Extending Credit to customers involves a certain amount of risk currently CPL do not insure themselves against this risk. CPL should insure themselves against the risk of default and insolvency or their customers.

Pro-forma invoices should be sent to new customers on their first orders, and payment requested before goods are released.

7. 3Discounts

Implementing settlement discounts could be very beneficial in encouraging trade customers to pay more promptly improving the cash flow of the business.

7. 4Chasing up late payments

Start an automatic reminder procedure, the installation of the computerised system would aid in this. Invoices which are overdue should be flagged up and reminders automatically sent out to the customers by the accounts receivable clerk. At present there are no guidelines for the AR clerk to follow as to when she can place customers on stop. Customers' accounts which are significantly overdue should be flagged up and be placed on stop immediately to prevent further orders being sent out to them. The AR clerk could implement a ' stop list' for late paying customers this list should then be circulated to appropriate employees to prevent further credit of goods supplied be granted to them while their account is overdue.

7. 5Improve efficiency of Accounts Receivable clerk

Training

The accounts receivable clerk does not have any accounting or credit control qualifications, the company should provide professional accounts training for the AR Clerk, this would improve the efficiency in the accounts receivable process. The only person able to covers the AR Clerk/Credit Controllers role currently is the Chief Accountant, Hazel Richmond. Her time however is very expensive she also has not done this work for a few years so lack of experience would slow her down which would not be a cost effective solution for the business. It would be beneficial for the account department if a training programme was put in place for training for all members of the accounting team to train in each other's job roles so they could cover any absences.

The only person able to cover the AR Clerk/Credit Controllers role currently is the Chief Accountant, Hazel Richmond. Her time however is very expensive she also has not done this work for a few years so lack of experience would slow her down which would not be a cost effective solution for the business.

8. Sustainability evaluation and Recommendations

Chic paints mission statement states that ‘ they will operate their business in a sustainable manner; reducing their impact on the environment wherever possible and using recyclable materials as a matter of course in all our products whenever feasible’.

This statement should be supported by policies and procedures to ensure that

is followed by all of Chic paints employees.

One of Chic Paints main suppliers approached them to try and sell their new ultra green biodegradable paint pots these containers would degrade 95% biologically after they were finished with, helping to minimise impact on the environment.

CPL should look at switching to these new more environmentally friendly containers after financial review and should actively source products from green suppliers.

Chic Paints Limited agreed to sponsor their local football club Ashton Wanderers by paying for a full team kit. After the team performed badly last season Chic Paints dropped their sponsorship to the club.

Chic Paints should have carried on supporting the club regardless of how they performed during the season.

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Chic Paints currently post out all of their invoices credit notes and customer statements, trying to introduce an electronic way such as email to send these documents out would reduce paper wastage and be a lot more environmentally friendly it will also save the business money and improve cash flow.

The accounts department should be encouraged to send all payments to suppliers by BACS transfer and send remittances by email.

Directors should look at holding meetings with external clients, customer's suppliers by Lync in/Skype and conference calls to reduce the carbon footprint. It would also be a lot more cost effective to hold meetings in this way where possible. Introduce a cycle to work scheme for employees.

Internal Controls and Analysis of Fraud

Controls within Chic Paints are inadequate and lax formal written internal control policies would support the Accounts Department and reduce the risk of fraud. 1. Credit Control – the only current control is to obtain a credit report from a credit referencing agency; however the Accounts receivable clerk does often ignore the recommendation given by the agency. 2.

Software Security – the General ledger was accidentally accessed by an unauthorised member of staff there are security settings, however the list of authorised users has never been set up for this so everybody in the accounts department could access this software. 3. Payroll – weekly wages are paid in cash increasing the risk of theft and the payroll clerk Wages being paid in cash could also lead to the payroll clerk colluding with the weekly paid staff and add more cash to the pay packets than is due to be paid to them Cash pay packets should only be collected in person, however the

payroll clerk regularly allows employees to collect on behalf of other colleagues. Cash wages are not double checked for accuracy.

GRN's Goods received notes - goods received notes are signed off without the quantities on the goods received note being checked against the quantity which were actually ordered.