

Application of internal controls in small business



Done Jones, a small business entrepreneur, should establish as internal controls a recording system for its expenditures and payroll, system of task delegation, and an authorization system. A small business involves numerous expenditures from the purchase of raw materials and tools to operating expenses. Done Jones also employs at most ten personnel. Task delegation becomes necessary to divide work that Done Jones cannot do alone. As such, the purchase-order system is an appropriate specific type of internal control that Done Jones can implement. Personnel requiring cash disbursement fills out a purchase-order form containing the details of the expenditures and signatures, and later on receipts.

After receiving authorization from Done Jones, the form passes on to the finance officer for filing and fulfillment. With the recording of all expenditures through the order-purchase form (Hupalo, 1999), then the firm has records of its financial flows for purposes of accounting. A counterpart form also applies to cover sales. A payroll form (Hupalo, 1999) applies to record salary disbursements to have records of the correct payment of salaries to prevent irregularities and complaints. The payroll form has other purposes such as in taxation and welfare benefits. With these, Done Jones is able to balance the firm's books, comply with tax obligations, and balance expenditures with receipts to determine accurately the revenue and profitability status of the firm, productivity of personnel, and effectiveness of operating systems (Bragg, 2006).

The small business of Done Jones during its early years of operation require detective controls such as performance measures and basic accounting and largely involve environmental and risk aversion components through the

development of a uniform recording and reporting system applicable to all employees (McPeek & Carlson, 2004). These internal controls are necessary for the firm to obtain feedback from its financial management practices currently applied and identify issues or weaknesses for purposes of improvements. Reference List Bragg, S. M. (2006).

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