

Correct weaknesses in freeze-times system

[Finance](#)



Finance Accounting 24 September Correcting Weaknesses in Freeze-Time's

System Inventory: All inventory deliveries should be counted to identify any discrepancies between deliveries and purchase orders. Additionally, inventory should be tracked on a regular basis. A small retail store such as Freeze-Time can use a computer spreadsheet to keep updated about sales trends, fast-moving, obsolete stock in order to know what to order.

Furthermore, procedures should be established for approval and recording capital and expense items of any stocks returned to the supplier due to poor quality, inadequate specifications etc. Otherwise, defective merchandise will be handled negligently, returned unintentionally to inventory or stated inaccurately. This escalates the potential of theft and concealment.

Moreover, receiving transactions should not be generated without actually receiving goods accompanied with proper evidence of delivery. This is because goods may not be reported or reported inaccurately that may lead to misstated inventory. In addition, the ordering department should be independent from the accounting and operating departments that process data the responsibilities for requisitioning, purchasing, receiving should be clearly divided from those of invoice processing, accounts payable etc. This is because an employee can order inventory from a fake supplier and send payment to post office box rented by him. Hence, Rosa and Benita should take segregated duties and appoint specific individuals for each task.

Moreover, periodic physical inventory count of merchandise should be conducted to determine if it corresponds with the amount recorded in the books. Not only should Rosa check receiving reports before making payments, but she should also cross-check it against price stated on vendor invoices.

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Equipment:

1. It is the management that decides activities/transactions that require supervisory or other approval to be performed. Normally only expenditures beyond capital addition levels require management approval.
2. Segregation of duties of inventory purchaser and equipment purchaser is critical to protect equipment so that no one person controls everything. Additionally, this will often lead to errors in the financial statements by confusing purchasing inventory with equipment and vice-versa; hence, misstated financial statements. Law requires employees are to fill appropriate forms regarding receipt and responsibility over of equipment. Therefore, a specific person should authorize equipment purchases, correctly record new purchases and record changes in equipment in order to be held accountable.
4. Retired and disposed assets should be appropriately authorized in addition to being accounted for prior to disposal or removal from inventory listing. This is because theft or loss can be more easily concealed from records without prior written approval. Moreover, approval ensures that equipment is unneeded, obsolete or otherwise unusable. Hence, the plant manager should be assigned the duty of authorizing equipment prior to its retirement or disposal.
3. Equipment being fixed asset should be stated as per cost less accumulated depreciation and impairment loss. The depreciation policies have been determined by the auditor as being in conformance with the book value, stated policies of previous years. The depreciation policy is appropriate and has been consistently applied as there has been no change in policies since last ten years. However, the depreciation policy, book values <https://assignbuster.com/correct-weaknesses-in-freeze-times-system/>

should be evaluated in terms of current market conditions and applicable accounting policies to give an accurate picture in the financial statements for any revaluation, impairment and the like.

5. Ensuring that the asset register reconciles to the general ledger is vital to determine the completeness and valuation of equipment. Additionally, reconciliation will identify any assets that are no longer on hand or unrecorded retirements. Normally, tax is paid based on values shown in the balance sheet; hence, it is integral to confirm assets on hand to save taxes on retired items. Reconciliation will also serve to validate the asset's historical book value for use in the financial statements. Potential problems associated with not preparing reconciliations are recording incorrect asset values; not accounting for stolen, lost, or diverted assets; incorrect equipment records; and inability to provide accurate data to funding organizations.