ABCV Limited

Accounting Policies & Procedures Manual

Table of Contents

INTRODUCTION

This manual provides basic accounting procedures and controls which should be implemented in order to lay a foundation for a system of internal accounting controls..

As the company grows, it will need expanded internal controls. Management should be aware of the growing control needs of the company and update the control environment as they deem necessary.

I. GENERAL LEDGER

The General Ledger (GIL) accumulates all accounting activity for an accounting period. The importance of the GIL system becomes apparent in light of a twofold objective that:

1. All transactions are properly accumulated, classified, summarized and recorded in the accounts and
2. Financial transactions and reports accurately reflect the details of all operations.

As evidenced by the objective, the activities of a GIL system are varied, ranging from the preparation of journal entries (JEs) to the production of the final financial statements. The basic flow of events for a GIL system is simple, revolving mainly around the journal entry. Initially, JEs are prepared by summarizing the period's activity. JEs are then posted to the GIL. Reports are generated from the GIL, reviewed for accuracy and any variances are explained. Finally, financial statements are produced from the final general ledger. Because of the impact of the GIL system, the following key controls are imperative:

- Approval of all JEs by a designated officer before posting.
- Reconciliation of the various sub-ledgers (such as accounts receivable, fixed assets, accounts payable, etc.) to the G/L on a timely basis and investigation and correction of any discrepancies. See Appendix A for a sample subsidiary ledger reconciliation.

- Review of month-end financial statements by officers and managers, including prompt explanation of any variances or unusual activities.

All transactions are posted to Surf Accounts, a cloud based accounting system where all responsible individuals have password protected access. As stated above, summarization of the month's activities is done via the journal entry and all transactions are posted to surf accounts. It is imperative that all transactions are posted when they occur or otherwise notified to the accounting office for posting before the end of the accounting period in which they occur. The different accounting activities which give rise to journal entries are as follows:

1. Cash activities

- Cash receipts – summarized by totaling the cash receipts journal (See Cash section

- Cash disbursements – summarized through a recap of the cash disbursements log (See Cash section). Note that automatic deductions from the bank account for insurance, payroll, etc. should be individually recorded upon notification.

2. Operating activities

- Accounts payable – summarized via the accounts payable and cash disbursements subsidiary ledgers (See Cash & Purchasing Cycle sections).

- Accounts Receivable – summarized through a recap of the sales journal and the cash receipts journal (See Cash & Revenue Cycle sections).

- Payroll – summarized through pay- roll reports generated by the outside payroll service (See Payroll section).

- Depreciation/Amortization – summarized through the fixed asset log (see Fixed Assets section).
- Amortization of prepaid expenses and other assets (see Other section) should be done by maintaining a supporting schedule for each prepaid item. This schedule should include:
  The life of each item and the monthly amortization

Prepare the JE by summarizing all monthly amortization. A typical JE to amortize the current asset prepaid insurance follows:

Debit	Insurance expense	xx
Credit	Prepaid insurance	xx

The above entry expenses the portion of the asset which was "used up" in the period on which you are reporting.

- Any additional JEs must be backed up by supporting documents.

After posting the approved JEs to the GIL, certain reports should be produced. It is important that printed reports and supporting documents necessary to provide an "audit trail" are retained, as these will be useful in researching problems and supporting an examination by independent accountants.

The following reports are usually generated.

- Trial Balance – Lists all G/L accounts with ending balances.

- Financial Statements – Balance Sheet & Income Statement

Financial statements should be distributed to all officers and managers who have control over costs and have the ability to make financial decisions. The statements should be reviewed and discussed monthly and unusual items identified and investigated.

Chart of Accounts

The chart of accounts is the foundation of the accounting system. It lists all of the individual accounts (assets, liabilities, shareholders' equity, revenue and expense) of the company. Surf accounts contains a full chart of accounts.

II. CASH

A. Cash Receipts

Adequate control over cash receipts is essential. An individual outside the accounting function, such as a receptionist, should be designated to open the mail every day. Checks received should immediately be restrictively endorsed and entered on a daily cash receipts log (prepared in duplicate). See Appendix I for a sample cash receipts log. Checks remitted without stubs or backup information should be photocopied and attached to the accounting copy of the cash receipts log.

A copy of the daily cash receipts log and the check stubs and/or backup information should be sent to accounting. One individual in accounting should be responsible for recording the cash receipt by allocating the funds to the appropriate customer account and creating the cash receipts entry.

This is most effectively done through the use of a cash receipts journal with specialized columns for routine transactions. See a sample cash receipts journal in Appendix I.

The second copy of the daily cash receipts log and the endorsed checks should be forwarded to a responsible individual in the accounting department who is not responsible for processing cash receipts. The person should complete the bank deposit slip and verify the completeness and accuracy of the deposit by agreeing the total to be deposited to the total per the daily cash receipts log. A duplicate deposit slip, stamped received by the bank, should be returned and attached to the accounting copy of the daily cash receipts log.

Deposits should be made on a daily basis. Cash (except petty cash) should not be kept on the premises overnight.
It is noted that the majority of receipts are received by interbank transfer from customers. All documentation supporting these transactions received from the bank should be uploaded to electronic folder in the cloud. These documents should be matched to lodgments to the company bank account statements on a daily/monthly basis.

B. Cash Disbursements

The control of cash disbursements should be of supreme concern to you. Cash is a liquid asset that can be easily misappropriated. Thus, management control over this area is especially critical. Basic controls of cash include:

1. Management should approve authorized check signers and record this information with the bank. Management should also set euro limits above which two signatures are required. For example:
   - checks written for < €1,000 might require one authorized signer
   - checks written for > €1,000 might require two authorized signers
2. No checks should be prepared without proper approval. All cash disbursements should be based on supporting documentation such as an appropriate invoice, completed expense report, etc.
3. All checks should be pre-numbered and all check numbers should be accounted for. Unused checks should be stored in a locked area and physical access limited to authorized personnel only.
4. The cash disbursements clerk should not reconcile the bank accounts or be an authorized signer on the bank account.
5. Voided checks should be retained to provide a trail when reconciling the bank account. (See section "C" below for Bank Reconciliation Procedures).

A *three part check* is suggested:

- original sent to the payee
- first copy attached to the invoice upon payment and filed by vendor
- second copy retained in a file in numerical order

Cash is generally disbursed for the major categories of accounts payable, expense reports, payroll and petty cash. The cash disbursements procedures are presented by category:

1. Accounts Payable

a. Invoices should be approved for payment in writing after review by an authorized individual, who indicates approval by initialing the invoice. A total of the invoices to be paid should be calculated for later reference. This total is called a batch total.

b. Checks may be generated manually or through a computer system. Each check "run" should result in a check register/cash disbursements journal which lists:
   - Run/disbursement date
   - Check number
   - Payee
   - Invoices check is paying
   - Purchase order #
   - Amount

   The total from the check register should be compared to the batch total calculated in 1 above. Differences should be reconciled immediately. See sample cash disbursements journal in Appendix A.

c. Supporting documents, referred to as a "voucher package", are attached to the check for signing. The voucher package usually contains a:
   - ❑ purchase order
   - ❑ packing list
   - ❑ receiving report
   - ❑ invoice(s)

d. The check signer(s) signs the check and initials the "approved by" section of the voucher stamp. The check signer should review the voucher package for completeness and accuracy before signing each check.

e. Signed checks should be mailed immediately by someone not involved in steps a-d above. Do not return the checks to the check preparer. Check copies and voucher packages should be filed in the vendor paid file.

   Note:
   - Checks should be mailed immediately.
   - Checks should not be prepared if they are not going to be remitted immediately.

2. Expense Reports

a. Expense reports should be completed on a timely basis.

b. Receipts for out-of-pocket expenses should be attached to the expense report (if receipts are not retained tax deductions may be denied by Revenue authorities).

c. The dates, times and business relationship should be stated.

d. The employee should sign and date the expense report prior to its submission to accounting.

e. Meal and entertainment costs must be separated from travel costs. Tax law allows only a portion of meals and entertainment expenses to be deducted.

The company's approved expense report (supplied to all staff incurring such expenses on behalf of the company) should be treated as an approved invoice. The voucher stamp should be affixed and the accounts payable recording process should be commenced (steps a-e of accounts payable).

3. Payroll

The payroll is prepared by an outside payroll bureay service. In connection with the payroll service, it is beneficial to maintain a separate bank account for payroll. A zero balance account should also be considered.

Similar to the accounts payable voucher package, payroll has its own package consisting of an employee time card or time sheet and the payroll register. Issuance of the employees' checks and preparation of a check register correspond directly to the procedures in Accounts Payable. An additional requirement is the computation of deductions and withholdings. Monthly payroll tax returns and payments must be made to Irish and Kosovo Revenue.

Occasionally, it will be necessary to write a manual payroll check. A special register for such checks should be maintained by the payroll clerk, and the entry to the payroll register should be initialed by the person authorized to sign the payroll check when the check is signed.

Any hand written checks should be communicated to the payroll service during the next regular data input.

4. Petty Cash

Petty cash is a revolving fund maintained at a constant (imprest) amount to cover the local emergency needs and small cash expenditures such as postage, minor office supplies, travel advances, etc.

At all times the general ledger petty cash account balance should be the amount of cash that was originally advanced to the custodian of the petty cash account. Only when the amount originally advanced is increased or decreased should the general ledger balance change.

The following procedures are helpful in establishing and maintaining the petty cash account:

a. To establish the petty cash account, draw up a check to the name of the custodian for an amount sufficient to cover small expenditures for a designated period of time.

b. Approved petty cash vouchers should be presented to the petty cash custodian before cash is removed from the fund. The vouchers should indicate the amount and purpose of the expenditures and be adequately documented.

c. Replenish the petty cash when it is nearly depleted. Total the petty cash vouchers to determine the replenishment amount and process the petty cash reimbursement as an invoice.

d. The cash on hand plus the non-reimbursed petty cash vouchers should at all times total the constant (imprest) amount per the general ledger.

C. Bank Reconciliation

Purpose: To reconcile the differences between the general ledger balance (books) and the bank statement balance.

The bank reconciliation process is an important element in the internal control over cash, and is particularly critical where adequate segregation of duties is not feasible. It is essential that the reconciliation be prepared by someone other than the person who actually processes the cash receipts and disbursements.

The company maintains bank accounts in Euro and US Dollar and may also hold Stg£. The holding of monies in foreign currency accounts is subject to ongoing monitoring by senior management to ensure minimization of exposure to the risk of financial loss due to changes in currency exchange rates.

The reconciliation must be approved by management or a designated official. The bank reconciliation process will be expedited if a separate general ledger account is maintained for each bank account. See sample bank reconciliation in Appendix I. *The procedures involved in the preparation of a monthly reconciliation are as follows:*

1. Establish the accuracy of the bank statement.

    a. Ensure that the beginning balance in the bank statement agrees to the ending balance of the prior month's bank statement.
    b. Agree each deposit in the bank statement to the duplicate deposit slip receipt from the bank.
    c. Agree each paid check returned by the bank to the bank statement listing of checks.
    d. Agree debit and credit memos per the bank statement to the memos mailed by the bank.

2. Determine the reconciling items between book and bank balances.

    a. Outstanding Checks – Checks recorded as cash disbursements per the books but not presented to and cashed by the bank as of the bank statement date.

        1. Arrange the paid checks returned from the bank in numerical order.

        2. Agree each paid check with the related cash disburse ments entry and the list of outstanding checks for the previous month (if applicable). Check off each entry in the cash disbursements journal to indicate that the check has been cashed by the proper payee for the correct amount and returned by the bank.
        3. The outstanding checks represent the total of the unmarked disbursements in step (2) above.

    b. Deposits in Transit – Deposits recorded as cash receipts per the books but not presented to the bank and available for use as of the statement date.

        1. Agree each deposit entry per the bank statement with the deposits recorded in the cash receipts journal. Check off the deposits per the cash receipts log which have been recorded as deposits by the bank.
        2. Any unchecked items in the cash receipts log represent deposits in transit.

    c. Other Reconciling Items

        1. Examine the bank statement for additional debit or credit items not recorded in the company's books such as:

            - Check returned for insufficient funds – These items should be deducted from the cash book balance. In addition, it is important to remember to re-establish the amount as a receivable.

- Collection charges – These amounts should be deducted from the company's books and recorded as an expense.
- Bank charges – Again, these amounts should be deducted from the company's books and recorded as an expense.
- Fund transfers – Record amount in company's books and ascertain that amount is properly recorded in other accounts. For example, if it is an interbank transfer, the offsetting bank account must also show the transfer or, if it is a transfer from a customer, accounts receivable must be reduced.

2. Examine the company's books for any open/unmarked items, e.g. checks recorded but still in the company's custody. Held checks should be recorded as payables until the checks are released.

D. Investments

Cash management is very important to a young company and the company should develop an Investment policy in respect of cash deposits and other strategic company investing activities. Controls for managing investments should include the following:

1. The Board of Directors should formally define authority limits in terms of the types and amounts of investments which may be purchased, and the persons authorized to carry out investment transactions.

2. Cash flow forecasting must be sufficient to determine how much money can be placed in long-term versus short-term investments.

3. Procedures should be in place to evaluate short-term investments, specifying methods to be used to a) calculate yield or market value appreciation and b) compare the result obtained with realistic, conservative investment goals.

4. Procedures should be in place to evaluate long-term investments, describing the criteria used for comparing investment performance with investment objectives.

5. Procedures for periodic top executive review and approval of investment activity should be established and consistently followed.

6. Consideration should be given to having all physical instruments held in safekeeping accounts at banks for security reasons.

7. Regular reporting of investment activity to top management should be required.

III. The Purchasing Cycle

The purchasing cycle involves ordering, receiving and paying for goods and services required by the organization. Care should be taken to ensure that purchases are matched to related income and where necessary proper provision is made for costs which have not been invoiced and should be properly accrued in an accounting period.

The cycle consists of the following steps:

- Identification of a need
- Placement of an order
- Receipt of the goods or services
- Approval for payment/establishment of payable amount
- Disbursement of cash
- Recording of the transactions involved

1. The need for the acquisition of goods or services may arise in several areas and may be a routine one, such as inventory replenishing, or a one-of-a-kind item or service. Inventories should be routinely reviewed to identify items whose on-hand balance has fallen below a predetermined reorder point. For more significant purchases, the individuals responsible for ordering merchandise should be encouraged to get several bids to ensure that the company is purchasing goods at the lowest possible cost. While this may appear to be a very time-intensive effort, especially during the development stages of the business, significant price variations in the marketplace will make it worthwhile to shop around.

2. Typically one individual (purchasing department) should be the focal point through which all orders are channeled. The originating department issues a purchase requisition, and the purchasing department prepares a purchase order (PO) that is sent to the particular vendor. PO's should contain the following components:

   - Name of your company
   - Name and address of vendor or supplier
   - Vendor number (established by your organization and maintained on a Vendor Master File)
   - Purchase order number
   - Requisition number
   - Authorization
   - Date of issue
   - Required delivery schedule
   - Terms and conditions
   - Shipping instructions
   - Insurance required
   - FOB point
   - Responsibility for damage
   - Billing instructions

   PO's should be pre-numbered for control purposes. PO's are normally prepared in multiple form with the original routed to the vendor, and copies to the originating department, the receiving department, the warehouse or stock room and finally the accounting department. One copy is retained in the purchasing department. See a sample purchase order in Appendix I.

3. When goods are received from a vendor, the receiving department checks them to ensure that their identity, quantity and quality conform to the purchase order. A receiving report (see sample in Appendix I) is prepared in duplicate detailing this information. The receiving report not only provides a basis for subsequent payment of the vendor invoice, but also serves notice of the correct timing to record the purchase transaction. One copy of the receiving report should be maintained by the receiving department in a receiving log and the second

copy should be forwarded to accounting. Whereas goods are received at a certain time, services may be rendered over an extended period, making a receiving report inapplicable. Instead, a formal statement that the services have been duly provided is necessary.

4. Payment terms between your company and the vendor depend upon whether credit arrangements have been established. If no credit arrangements are in place, the vendor may demand cash on delivery or advance payment. When credit arrangements are in effect, the goods are normally delivered in anticipation of payment at some later date. Approval for payment is normally a formality, provided the goods or services have been delivered as requested.

   The voucher is a key element in initiating payment to the vendor. It is basically a summary of the items contained in the voucher package. The package consists of a purchase order, packing list, receiving report and supporting invoice(s). Upon approval by appropriate authority, the disbursement process begins.
   See Appendix I for sample voucher.

   Disbursement may be made immediately or delayed. The payment schedule adopted depends on:

   a. the availability of any favorable discounts for prompt payments and

   b. the organization's current cash position.

      A cash requirements forecast (see sample in Appendix I) may be pre- pared at regular intervals showing the amount of cash needed to pay certain categories of vouchers.
      Also, a schedule of aged accounts payable (analogous to the accounts receivable aging) may be prepared.

5. If the purchase is on credit, recording the purchase requires the establishment of a payable. This is a twofold process. Consider the purchase of supplies on account from XYZ Supply Co. in the amount of €5,000. The accounting department matches its copy of the approved purchase order with its copy of the receiving report, which triggers the recording of the transaction in the general ledger as follows:

Debit	Supplies	5,000	
Credit	Accounts Payable		5,000

   In addition to recording the €5,000 in the accounts payable control account, the €5,000 must be entered in the accounts payable subsidiary ledger, which is a file detailing what amounts are owed to each vendor individually.

   The establishment of a payable relates not only to the purchase of inventory, supplies, fixed assets, and intangible assets, but to the receipt of services as well. There is one area of concern that cannot be overlooked when accounting for payables, namely the area of accruals. For example, when the time period related to an expense (receipt of service) spans two accounting periods, the portion related to each period must be duly recorded in each, even though there will be only one disbursement. A simple example is a utility expense payable on the 15th of every month with €200 payments. If the company has a year end of 12/31/X1, this means that the January 19X2 utility payment (disbursement) will be applicable to services received in both accounting periods.

   If the December portion (1/2 payment) is not accrued at year end 19X1, the entire €200 expense will be charged to 19X2 when the disbursement is made, when only €100 should be. In order to correct this problem, the portion of the expense related to the current year is accrued as a payable on December 31, 19X1.

Dec. 31	Debit Utilities Expense	100	
	Credit Utilities Payable		100

On January 15, 19X2, when the payment is made, the following transaction is recorded:

Jan. 15	Debit Utilities Payable	100	
	Debit Utilities Expense	100	
	Credit Cash		200

Note that this treatment results in 1/2 of the €200 utilities expense being recorded in the period ended December 31, 19X1, and 1/2 being recorded as an expense in 19X2. This is necessary to match the expense actually incurred with the proper accounting period regardless of when the disbursement is made to pay the expense.

IV. The Revenue Cycle

Revenue should be recognized when the earnings process is complete (or virtually complete) and an exchange has taken place. The company's revenue recognition policy is as follows:

Revenue is recognized when charges are made to clients, principally when advertisements appear in the media. 3rd party media such as Google & Facebook ascribe advertising income to content created by ABCD Ltd and provide the company with a self generated invoice which is payable in the month following invoicing. This income is recognized at date of invoice.

All other branded content video created and distributed by the ABCD Ltd to its social media audience is invoiced to clients in accordance with performance metrics agreed in advance. Clients are invoiced at delivery and invoices are recognized at invoice date.

Following are some examples of when revenue should be recognized:

- revenue from selling products is generally recognized at the date of sale (i.e. date of delivery to customers)
- revenue from services is recognized when services have been performed.
- revenue from disposing of assets other than products, is recognized at the date of sale.

The revenue cycle incorporates the receipt and processing of sales orders, the shipment of goods or providing services to customers and the related billing and collection activities. The revenue cycle typically consists of the following activities:

- Receipt of an order
- Credit screening and approval
- Shipment of goods or provision of services
- Customer billing and servicing of accounts receivable
- Collection of cash
- Recording of the accounting transactions
- Sales analysis

Other related activities include the setting of sales prices, costing of sales, provision for bad debts, write-off of uncollectible accounts and provision for warranty expenses.

Receipt of an Order

The sales order may originate from a variety of sources such as telephone, fax, mail or website. Where custom goods or services are involved, a negotiated contract may accompany the sales order. Regardless of the manner in which the order is placed, the company must implement a specific policy defining what will qualify as a request for shipment or delivery of service. Numerous complications can arise when a specific policy is not set; for example, if salespersons receive a commission based on sales orders booked, some bookings may be recorded which are not actual sales, but rather a

request to "try out" the product or service on a trial run. If an organization does not require a hard copy of the sales order/purchase order request received from the customer, the chance of invalid sales occurring increases.

Credit Screening

In the case of regular customers, credit information should be stored in the customer master file or credit file. The credit information can be expressed as either a credit rating or a credit limit. A credit rating is a rating of customers by credit worthiness. A credit limit is a euro limit up to which credit sales are automatically authorized. A credit rating or limit provides a means for routine screening by sales persons acting under a general authorization.

The establishment of credit arrangements may precede the placement of the first order by the prospective customer, or it may be initiated after a number of cash sales have been completed.

The credit arrangements should be reviewed periodically, and revised according to improved or deteriorated relationship which has developed. Obviously, the level of the credit limit or rating that is set depends upon the financial stability and reputation of the customer, the customer's previous payment record and the eagerness of your company to do business with the client. Credit references from banks or from other suppliers doing business with the particular customer are useful sources of information in determining a credit limit.

Shipment of Goods or Provision of Services

Frequently, an order for goods extends to several different items. In the case of an extensive inventory of differing items, a picking ticket is often prepared to facilitate the retrieval of the items from inventory. The picking ticket identifies the items and quantities required and gives the warehouse location. In situations where inventories are smaller, a copy of the sales order may be deemed sufficient in requisitioning the goods. Some form of paperwork must accompany the goods in transit.

It may be in the form of a copy of the invoice (with price data omitted), or it may be a separate shipping document such as a packing slip.

Insurance must be arranged for the shipment, and if a common carrier is involved, then a bill of lading will be required. A bill of lading forms the contract between the shipper (seller) and the common carrier. A shipping log should be kept by the shipping *department which lists all shipments, the date of the shipment, and the corresponding shipping document number.*

ABCD Ltd does not currently maintain a stock of items for resale and principally provides services. Where products are made available for resale the procedures outlined above should be adopted. However services may also be commoditized and set up as products for sale and invoiced accordingly with standardized profit margins.

Billing and Collection

Preparation of an invoice should take place simultaneously with the shipment of goods. Controls such as a reconciliation of invoices to the shipping log should be implemented to ensure that all goods shipped are billed.

Where goods are supplied or services are to be rendered over a period of time, invoices for progress payments may be sent during the period with a final invoice at the end of the period.

There are two principle types of accounts receivable systems: balance forward and open invoice. The former applies payments to the outstanding balance rather than against particular invoices; there is no attempt at matching individual payments and invoices. On the other hand, with the open invoice system, individual payments are matched to specific invoices. It is intended that the company will maintain an open invoice Ledger thereby requiring the matching of invoices to payments.

Typically, the open invoice system is preferred so that disputes over invoices can be highlighted and resolved in a more effective manner. If the customer is not satisfied with the goods or service provided, part or all of them may be returned unpaid, or the customer may keep the goods and seek an allowance or adjustment of the invoice amount. Cancellation of an invoice or adjustment of the amount due is formalized through a credit memo, a copy of which is sent to the customer. If there is an ongoing relationship between the customer and the organization, the credit memo may serve to reduce the amount of future payments. Otherwise a voucher should be prepared and a refund check sent to the customer.

Accounting Transactions

The formal accounting transactions involved in the revenue cycle include the sale and establishment of the receivable, the relief of inventory and recognition of the cost of goods sold, the adjustment of the invoice amount to reflect a return or allowance, the recognition of sales discounts or sales tax and the final collection of cash. R ceipt of the sales order is not the occasion for a formal transaction; rather, a formal transaction occurs when the earnings process is complete, usually upon shipment of the goods or provision of the service to the customer. The point of sales order, however, is of importance from an internal management perspective. The following series of entries represents the recording of a credit sales transaction.

1. The following is an example of a sale of inventory on credit for €1,000 and a 23% sales tax, to a customer with credit terms of 2% discount if paid within 10 days, if not, the entire balance is due in 30 days:

Debit	Accounts Receivable	1,230	
Credit	Sales		1,000
Credit	Accrued Sales Tax Payable		230

Explanation: The sale of goods on credit for €1,000 with 23% Sales Tax Terms 2I10 net 30.

An entry must also be made in the accounts receivable subsidiary ledger, which is a file detailing what amounts are due from specific customers, updating that particular customer's account.

2. When goods are sold, inventory on hand is decreased; thus a second transaction in addition to #1 must be recorded. The purpose of this transaction is to relieve inventory for the goods that were sold, and transfer the cost to Cost of Goods Sold. We will assume that the €1,000 sale in #1 relates to inventory which has a book value of €800. The following transaction is required:

Debit	Cost of Goods Sold	800	
Credit	Inventory		800

Explanation: To relieve inventory of goods sold on xxIxxIxx and charge cost to Cost of Goods Sold.

3. If the credit sale is paid within the discount period, the accounting for the receipt of payment requires the use of an additional account. Its purpose is to accumulate all discounts taken on credit sales into one account. Let's assume that the €1,000 sale of goods in transaction #1 above is paid by the customer within the discount period, the customer having subtracted the 2% from its remittance. The following transaction would be necessary:

Debit	Cash	1,205.40	
Debit	Sales Discounts	20.00	
Credit	Accounts Receivable		1,230.00
Debit	Accrued Sales Tax Payable	4.60	

Explanation: To record the payment of invoice 111234 net of 2% discount.

Note that the 2% discount is applicable only to the €1,000 of inventory, not the €230 of Sales Tax and that the accounts receivable of €1,230 established in transaction 111 has been eliminated. The receivable established in the accounts receivable subsidiary ledger (customer file) must be removed from the customer's account as well. Note the Vat provision must also be adjusted for the lesser amount received.

4. If the sale of goods is followed by a sales return, a transaction involving the sales returns account is recorded. This account is treated as a reduction from sales on the income statement in the same manner that the sales discounts account is. We'll assume that the €1,000 sale in transaction #1 is followed by a €500 return instead of the payment and discount of transaction #3. The following transactions are necessary.

Debit	Sales Returns	500	
Debit	Accrued Sales Tax Payable	115	
Credit	Accounts Receivable		615

Explanation: To record the return of merchandise sold on invoice 111234, including value added tax.

The customer's individual account in the receivable subsidiary ledger must be credited for the returned merchandise as well.

Further, note that the above transaction only addresses the sale. Assuming that the goods are not damaged and are fit for resale, they must be added back to inventory. This requires an additional entry as follows:

Debit	Inventory	400	
Credit	Cost of Goods Sold		400

Explanation: To add back to inventory returned goods sold on invoice 111234.

Sales on any basis other than cash make subsequent failure to collect the account a possibility. An uncollectible account receivable is a loss of revenue that requires a decrease in the asset "accounts receivable" and a related expense to recognize the loss. One of two methods of recognizing the uncollectible account receivable are typically used: direct write-off or allowance.

Direct write-off: No entry is made until a specific account has been determined to be uncollectible.

The expense is then reported as follows:

Debit	Bad Debt Expense	xxx	
Credit	Accounts Receivable		xxx

Allowance: An estimate is made of the uncollectible accounts for all sales made on account for the current period. An account, specifically the allowance for doubtful accounts, decreases the accounts receivable balance. The following entry details the allowance method.

Debit	Bad Debt Expense	xxx	
Credit	Allowance for Doubtful Accounts		xxx

Explanation: To establish allowance for doubtful accounts.

Debit Allowance for Doubtful Accounts xxx
Credit Accounts Receivable xxx

Explanation: To directly write off individual accounts which are deemed uncollectible.

The allowance method affords a more proper matching of expenses to revenues and achieves a more appropriate carrying value for accounts receivable at the end of period.

In addition to these accounting transactions, the payment of sales commissions or bonuses represents a further accounting transaction.

Sales Analysis

Sales history is accumulated for analysis by management to aid planning and control. Sales recorded over some period of time may be analyzed by customer type, by region or territory, by product type, by euro amount and so forth. The information relevant to your management needs should be derived and isolated for analysis.

Accounts Receivable Aging

A report essential for control over accounts receivable is the aging report. In order to maintain favorable cash flow, it is recommended that each receivable's status be monitored. The report is prepared from the open invoice file either by manual or automated access, depending on the system you choose. The open invoice file is a file of invoices usually maintained chronologically and sequentially for which the customer has not yet remitted payment. The aging report contains the individual invoices coming to a total balance due from each customer along with an age category (30, 60, 90, >120 days). See sample aging in Appendix A. *The aging report should regularly be analyzed with late payers identified and addressed immediately.*

Late payers may be indicative of liquidity problems on the part of the customer, quality problems with respect to merchandise shipped, etc. Timely identification of potential problems and remedial action is the key to successful accounts receivable management.

V. INVENTORY

Inventory represents goods held for sale in the ordinary course of business. Identification and valuation of inventory are critical because inventory can have a material impact on both the balance sheet and the income statement.
The inventory on-hand at the end of an accounting period is reported as a current asset on the balance sheet as the intent is to sell it or use it to produce goods which will be sold within one year or one operating cycle, whichever is longer.

Controls over inventory are critical. Listed below are the items of major concern which should be considered when establishing inventory controls. It is noted that ABCD Ltd does not currently hold inventories for resale. It is the responsibility of management to ensure however that all assets of the company are safeguarded and adequate procedures are put in place to ensure no loss arises to the company.

Physical Safeguards Over Inventories

Proper safeguards over inventories should be in place to avoid shrinkage due to loss, theft, damage etc. These may include locked storage areas for high value items, limited access to secured areas, and adequate security at warehouse locations.

Conduct of Periodic Physical Inventories and Appropriate Adjustment of Books

The inventory on-hand at the end of an accounting period is determined by a physical count. If a periodic inventory system is used, a physical inventory count is essential because, as the name implies, the amount of inventory on-hand is determined only periodically and the cost of goods sold is a residual amount that is dependent upon the ending inventory.

When a perpetual inventory system is used, there is a continuous record of the inventory balance. Purchases of inventory are recorded as a debit to the inventory balance and sales of inventory are recorded by debiting cost of goods sold and crediting the inventory balance for the cost of the inventory. When a perpetual inventory system is used, physical counts of inventory are performed to verify the amount of inventory as reported by the perpetual inventory records.

The physical inventory count may result in a balance different from that reported by the perpetual records. This may be the result of bookkeeping errors, counting errors or inventory shrinkage (i.e. theft, waste, loss of inventory items). If a difference results, the balance of inventory should be adjusted to agree with the physical count by making a "book-to-physical adjustment" to the accounting records. For reporting purposes, any overage or shortage would be recorded as an adjustment to cost of goods sold. Inventory stock may be maintained for consumable items where they constitute a sufficiently large amount to warrant separate recording and management.

Management Authorization of Major Inventory Purchases

The appropriate level of management should be responsible for authorizing major inventory purchases. The level subject to authorization should be determined based on the individual company's needs and level of purchases on an on-going basis. Purchasing levels should be appropriate for the expected volume of sales.

Obtaining Accurate Production Cost Information

The cost of inventory includes all expenditures *necessary to get the inventory into condition and location for sale. Inventory cost therefore includes not only the purchase price of the goods, but also expenditures such as freight-in, storage, inventory related insurance and taxes and materials and labor used to manufacture such inventory.*

If goods are manufactured, inventory is typically classified into three major categories: raw materials, work-in-process (WIP) and finished goods. The cost of raw materials inventory is the actual cost of the products purchased, adjusted for any freight-in, purchase discounts etc. Direct labor cost includes the salaries and wages of those workers directly involved with the manufacturing process. Manufacturing overhead includes all manufacturing costs other than the cost of raw materials and direct labor. Examples of such costs include the cost of indirect labor, such as the salary of the operations manager, indirect materials and a properly-allocated portion of general overhead expenses such as utilities, depreciation, taxes and insurance.

There are several methods for assigning costs to ending inventory and cost of goods sold. The most common procedures used include average cost, first-in-first-out (FIFO) and last-in-first-out (LIFO).

Valuation of Inventory at Lower of Cost or Market and Write-offs of Obsolete Items

In certain instances, departure from the historical costs basis of valuing inventory may be appropriate. Generally accepted accounting principles require such a departure if the revenue-producing ability through the sale of inventory falls below its original cost. When physical deterioration, obsolescence, a change in the price level, or any other event causes the value of inventory to fall below its cost, a loss should be recognized in the current period income statement, and the value of inventory reduced on the balance sheet for the difference. In these instances, inventory is valued at the lower of cost or market rather than at historical cost.

Accurate Shipping/Receiving Logs

Maintaining accurate shipping logs is important as most merchandising and manufacturing companies recognize revenue at the point of sale. At this time, the earnings process is complete or virtually complete because the merchandise has been transferred to the buyer. In addition, maintaining accurate records is important should there be a customer dispute regarding receipt of the merchandise.

Maintaining accurate receiving logs is important as companies typically record inventory purchases as goods are received. However, purchases of inventory should be recorded by the buyer when legal title passes.

VI. FIXED ASSETS

A Fixed Asset is generally any asset purchased for use in the day-to-day operation of business and from which an economic benefit will be derived over a period greater than one year. This category of assets includes items of property and equipment such as buildings, office furniture, or delivery trucks, and excludes such assets acquired for resale (inventory), investment, maintenance (e.g. supplies), or general and administrative expenses. At the time a fixed asset is acquired, its cost is capitalized and subsequently depreciated over the asset's estimated economic life (with the exception of land which is not subject to depreciation).

Three economic events occur in the fixed asset cycle; fixed assets are:

1. Acquired, constructed, created or discovered
2. Used or consumed and lose their value over time
3. Disposed of

Assets should be recorded at their acquisition cost, including freight, tax and installation charges. Assets capitalized each month should be listed separately in a fixed asset log which is reconciled to the general ledger on a monthly basis.

Suggested categories include:

- Land
- Buildings
- Autos/Trucks
- Furniture & Fixtures
- Manufacturing Equipment
- R & D Equipment
- Leased Equipment Under Capital Lease
- Leasehold Improvements

As capital assets are added to the fixed asset log each month, a fixed asset number should be assigned and a corresponding pre-numbered asset sticker should be placed on the actual asset. Asset stickers can be purchased at most stationery stores. Such stickers facilitate control over the assets by allowing you to take periodic "physical inventories" of your company's assets. An example of a fixed asset log is provided in Appendix I.

One problem area within accounting for fixed assets is determining when an expenditure related to the asset should be expensed (i.e. maintenance) or capitalized (added to the book value of the asset and depreciated). Generally, small expenditures are expensed as incurred, while expenditures that increase the economic life or improve the services derived from a fixed asset are capitalized (added to the book value and depreciated).

Company policy should determine what types of expenditures or purchases are capitalizable, and what cutoff amount the expenditures must be to require capitalization vs. expense treatment.
Generally, a company establishes a limit, such as €500, when deciding which expenditures to capitalize and which to expense.

Depreciation

The company has adopted the following convention for its depreciation policy. For example, a full month of depreciation is taken in the month of acquisition and none in the month of disposal.

The most common depreciation methods for book purposes include straight line, reducing balance and sum of the year's digits method.

At month end, the depreciation expense on each fixed asset should be calculated in compliance with the adopted method, and the proper entry posted to the General Ledger. This means that a portion of the asset's cost is expensed in each accounting period throughout its useful economic life. This is a system of cost allocation, not of asset valuation. Note that depreciation is not subtracted (credited) directly from (to) the fixed asset account, but is accumulated in a contra-account called Accumulated Depreciation.

This account is netted against the fixed asset account for balance sheet presentation, and in the determination of any gain or loss on disposal of the fixed asset when it is sold. The accumulated depreciation account continues to increase in balance, to the extent of the cost of the asset, until the asset is fully depreciated or disposed of. The account balance is eliminated only when the asset is taken off the books.

Generally a separate accumulated depreciation account is utilized for each fixed asset. The following example illustrates the recording of monthly depreciation on a fixed asset (company truck) using the straight-line method of deprecation, an initial cost of €10,000, and an estimated economic life of 3 years with no salvage value.

The straight-line method is widely used due to its simplicity. The depreciation expense is calculated using the following simple formula:

$$\frac{\text{Cost Less Salvage Value}}{\text{Estimated Life of Asset}} = \text{Depreciation Charge}$$

Where salvage value is the estimated amount expected to be received for the fully depreciated asset upon disposal.

Applying example information in the above formula will result in the calculation of the following depreciation charge and subsequent example entry.

$$\frac{\text{€10,000}}{\text{36 months (3 years)}} = \text{€278 depreciation per month}$$

Oct. 31 Debit Depreciation Expense 278
Credit Accumulated
Depreciation - Truck 278

Explanation: To record the October depreciation expense on a straight-line basis for the company truck

When adopting a depreciation policy for book purposes, keep in mind that depreciation is a form of cost allocation, and choose a method that is consistent with the economic benefit derived from the asset's use. If the benefits derived will be approximately equal throughout it's life, straight-line depreciation is appropriate. If, on the other hand, the greater benefit will be derived early in the life of the asset, a method that is accelerated or results in a higher depreciation expense charge in earlier months/years may be preferable.
The depreciation policy adopted by the company is as follows:

Motor Vehicles	*20% Reducing Balance*
Plant & Equipment	*12.5% Straight Line*
Fixtures & Fittings	*12.5% Straight Line*

Leases

There are two basic types of leases from a financial statement standpoint, a capital lease or an operating lease.

Basically, the factors which determine the type of lease are:

1. The existence of a bargain purchase option at the end of the lease term.
2. Transfer of title of the asset to the lessee at the end of the lease term.
3. The length of the lease in comparison to the useful life of the asset.
4. The present value of lease payments made by the lessee in comparison to the fair value of the asset.

The above factors must be evaluated for each lease entered into and the financial statement treatment determined. Essentially, a capital lease is one that transfers all of the benefits and risks incident to the ownership of property to the lessee. The financial statement impact of classification for the leases is described below:

1. Capital lease - A capital lease is reflected on the lessee's balance sheet as both an asset and a corresponding liability. A capital lease generally produces a declining income statement charge over the term of the lease, represented by the sum of amortization of the capitalized asset, usually straight-line, and a declining interest expense element on the lease obligation balance. The effect is similar to that which would result if the lessee borrowed money and purchased the asset outright instead of leasing it.

2. Operating lease - An operating lease normally results in a level income statement charge over the term of the lease, reflecting the rent payments required by the lease agreement. An operating lease does not result in an asset or liability being reflected on the lessee's balance sheet.

See a sample lease data form in Appendix I *which helps to summarize the information necessary to classify leases. This form should be completed for every lease.*

VII. PAYROLL

The company has outsourced operation of its payroll process to outside payroll service providers. In order to facilitate the orderly and cost effective processing of payroll the following practices and procedures have been adopted by the company.

Time cards or time sheets should be filled out each pay period by every employee in the company. All time cards should be signed by the employee and approved by an authorized person separate from the payroll function. Authorized time cards should be submitted to the payroll clerk prior to any payroll data being communicated to the payroll service. The payroll clerk should confirm the employee's department and verify the hours by re-extending hours worked.

The payroll service should provide numerous reports including:

1. A payroll register with departmental and grand totals.
2. A payroll tax recap with departmental and grand totals.
3. A recap of employees' year-to-date wages.

The payroll service should return the checks without signatures affixed. The employee name and net wages per each paycheck should be agreed to the payroll register and the number of hours worked agreed to the approved time card *before the paychecks are signed. Individuals outside of the payroll and personnel functions should sign and distribute the pay checks.*

The payroll service should deposit taxes and prepare and send payroll tax reports to the Revenue authorities. The following taxes will be reported to these agencies:

1. Income tax
2. Social Insurance-employer and employee
3. Universal Social Charge
4. Benefit in Kind tax
5. Other Payroll Deductions

Unlike the computations involved in determining payroll expense, recording the related journal entries is a simple and straight-forward process. There are several payroll related accounts, and care must be taken to post the proper amounts to each. To illustrate, here is the entry to record a hypothetical bi-monthly payroll expense of
€50,000 with related taxes withheld. For demonstration purposes, assume 7% Income tax, 10% Social Insurance tax, and 7.15% Universal Social Charge.

Debit Wages Expense 50,000 Credit PRSI Control 5,000 Credit PAYE Control 3,500 Credit USC Control 3,575 Credit Wages Control 37,925

Explanation: To record payroll and related taxes for the period ended 10I31IX1.
In addition, the use of an imprest account, a separate account to which one check is deposited for the entire payroll and from which all payroll checks are drawn, is recommended. Such an account will facilitate greater control over payroll disbursements.

Personnel

When dealing with personnel matters, it is important to retain proper, complete information. This is necessary for such matters as providing assistance in the hiring of qualified personnel, providing employees with timely and useful reviews and evaluations, the issuance of timely and accurate paychecks, assuring the satisfaction of governmental regulations regarding employees, assurance that compensation and benefits packages are allowing the recruitment and retention of competent personnel, and to assure a safe, healthy, and productive work environment.

A personnel file should be maintained for each individual in the company. Each file should contain forms that authorize the hiring, payment, deduction of taxes and insurance benefits, discipline and termination of employees.

Personnel records should always be locked and access restricted to authorized personnel only. Persons responsible for the personnel files should not have the authority to approve time cards or time sheets. See exhibits of personnel forms in Appendix IV.

Terminating employees should return any company property prior to receiving their last pay check. Change passwords to computers or security systems as soon as possible after an employee terminates. All employees should be provided with an employment contract within the prescribed period of hiring. All employees should be provided with a copy of the Employee Handbook setting out the company's employment policies and procedures.

VIII. OTHER

Insurance

There are several categories of insurance which should be maintained in order to protect the assets of the company.

1. Workers compensation – This insurance is usually required by the state in which the company operates.
2. Liability –This type of coverage will insure for negligence against injuries resulting in the place of business or while traveling.
3. Property – This type of coverage will insure inventories, facilities, furnishings, and equipment from fire, theft, etc.
4. Key person life – This type of coverage insures for business interruptions and/or financial loss due to the death of a key offi- cer or owner.

Insurance coverage should be reviewed regularly with an insurance agent familiar with your type of business.

Value Added Tax

It is the obligation of the company to secure a "VAT registration number" and remit to the proper collection authorities any sales tax collected. When selling the product or providing a service to customers, it is the company's responsibility to collect and *remit any sales tax. Where a customer is resident in a state of the European Union the VAT registration number of the customer must be obtained and quoted on all invoices issued to the customer. Where a customer is EU resident and does not have a VAT registration number, VAT must be charged on the sale invoice and remitted to the Revenue Authorities. No VAT will be charged to customers resident outside of the European Union. Every effort must be made by all persons charged with the Sales and Purchasing cycle to ensure that the correct vat of status of every counterparty is obtained in advance.*

Accounting Periods

Periodically, the accounting books must be closed and financial statements produced. Options for accounting periods are as follows:

1. Every calendar month – this is the most typical accounting period used.
2. Every 4 weeks – 13 four week periods per year. Recognize, however, that some computer general ledger packages will not allow more than 12 accounting periods per year.
3. Two 4 week periods and one 5 week period per quarter – this method is easy to manage but will distort the earnings and expenses for the period with 5 weeks in it.

The company has adopted a monthly/quarterly reporting period.

Appendix I

Exhibit A - Subsidiary Ledger Reconciliation

Exhibit B – Daily Cash Receipts Log

Exhibit C – Cash Receipts Journal

Exhibit D - Cash Disbursements Journal

Exhibit E - Bank Statement Reconciliation

Exhibit F – Purchase Order

Exhibit G – Receiving Log

Exhibit H - Voucher Stamp

Exhibit I – Cash Requirements Forecast

Exhibit J – Aged Trial Balance of Accounts Receivable

Exhibit K – Fixed Asset Log

Exhibit L – Lease Data Form

EXHIBIT A

SUBSIDIARY LEDGER RECONCILIATION

(Example)

Subsidiary Ledger Balance on ______________________________

Additions: ______________________________

Deductions: ______________________________

____

____

Adjusted Subsidiary Ledger Balance *

General Ledger Balance *

*Should equal each other

EXHIBIT B

DAILY CASH RECEIPTS LOG

(Example)

Date

Name of Payor	Check number	Amount of check
1.	______________	______________
2.	______________	______________
3.	______________	______________
4.	______________	______________
		______________
	Daily cash receipts total	______________

Prepared by

Verified by

EXHIBIT C

CASH RECEIPTS JOURNAL

(Example)

Date	Description	Cash	Discounts Allowed	Account Receivable	Customer Name	Acct.#	Misc. Cash
Totals							

EXHIBIT D

CASH DISBURSEMENTS JOURNAL

(Example)

Date	Check#	Payee	Invoice Amount	Discount	Net Amt.	G/L #
Totals						

EXHIBIT E

BANK STATEMENT RECONCILIATION

(Example)

Bank Statement Balance on _______________	____________________
Additions:	
Deposits in Transit	____________________
Other	____________________
Deductions:	
Outstanding Checks	____________________
Bank Entries	____________________
Other	____________________
Adjusted Bank Balance	*
General Ledger Balance	*

* Should equal each other

EXHIBIT F

PURCHASE ORDER

(Example)

Date ________________

Vendor Number ____

Vendor Name ____

Address ____

____

Phone ____

Vendor Contact ____

Date Required ____

Shipper Preference ____

Shipping Terms ____

Charge to A/C # ____

Quantity Ordered	Quantity Received	Part #	Description of Goods	Extended Unit Price	Cost

Total ordered	________
Tax	________
TOTAL DUE	________

IMPORTANT

Our purchase order number must appear on all invoices, packages, etc. Please notify us immediately if you are unable to ship complete order by date specified. Send three copies of your invoice with the original bill of lading attached.

Ordered by ______________________________ Date ______________

Approved by ______________________________ Date ______________

EXHIBIT G

RECEIVING LOG

(Example)

Received By	Date Received	Time Received	Vendor Name	PO #	Description	Qty Received	Delivered By

EXHIBIT H

VOUCHER STAMP

(Example)

Date	Received Due
Date PO#	Amount
Due Discount	Taken
Invoice	Total Approved
By Vendor	Number
Invoice	Number G/L
Acct. # Entered By	

Note - Information on the voucher stamp should be arranged in the same order in which you enter the information into your computer system.

EXHIBIT I

CASH REQUIREMENTS FORECAST

(Example)

Date	Purchase Order	Vendor Name	Inv. #	Invoice Amount	Pay By	Date Paid	Check No.	Discount Taken	Check Amount
Totals									

EXHIBIT J

SUMMARY AGED TRIAL BALANCE OF ACCOUNTS RECEIVABLE

(Example)

Cust. No.	Cust. Name	Contact Phone No.	Date of Last Pmt.	Credit Limit	Total Balance	Current	Over 30	Over 60	Over 90	Over 120
Totals										

EXHIBIT K

FIXED ASSET LOG

(Example)

Asset No.	Description Serial No.	Date Acq.	Check No.	Depreciation Method/Life	Dept.	Orig. Cost	Salvage Value	Net Deprec. Basis

EXHIBIT L

LEASE DATA FORM CONTINUED

FOR DETERMINATION OF STATUS AS OPERATING OR CAPITAL LEASE

(To be completed for each new lease or lease modification)

(Example)

1. Property leased:
2. Location:
3. Type Property

   Land only:

   Real: Plant Office % Land

   Equipment: Plant Office

   Other:
4. Lessor:
5. Terms of lease

   Original: From To

   Renewal: From To

   Renewal: From To
6. Deposit Representing
7. Payment terms

   Original: € per thru

   Original: € per thru

   Renewal: € per thru

   Renewal: € per thru
8. Expenses

Paid by:	Lessor	Lessee	Estimated Amount
Taxes:			
Insurance:			
Maintenance:			
Other:			

   Other Special Features:

EXHIBIT L

LEASE DATA FORM CONTINUED

FOR DETERMINATION OF STATUS AS OPERATING OR CAPITAL LEASE

(To be completed for each new lease or lease modification)

(Example)

9. Contingent Rentals (explain)

10. Options to purchase (explain)

11. Interest rate at date lease was negotiated:
    Lessee's Incremental Borrowing Rate %
    Lessor's Implicit Rate, if known %

12. Fair Market Value of property at date of lease (estimate) €

13. Residual Value of property at the end of the lease term €

14. Estimated useful life of property: years months
    Depreciable life of similar property:years months

15. Estimated salvage value of property € or %

16. Does title transfer to you at end of lease (y/n)

17. Penalties for failure to renew

18. Sublease Information
    Sublessor:
    Date of sublease: From To
    Payment terms: € per thru
    € per thru

19. Describe any unusual provisions of the lease not covered elsewhere on this form:

Prepared by

Date

EXHIBIT M

GENERAL LEDGER CHART OF ACCOUNTS

(Example)

Account #	Account Name
1001	Cash - General Account
1010	Cash - Payroll Account
1020	Cash - Money Market
1030	Cash - Other
1049	Petty Cash
1050	Time Certificates of Deposit
1060	Other Investments
1101	Accounts Receivable - Trade
1110	Accounts Receivable - Employee
1120	Allowance for Bad Debts
1201	Raw Materials
1301	Work-In-Process
1401	Finished Goods
1530	Advances to Employees
1570	Prepaid Insurance
1571	Prepaid Rent
1575	Prepaid Federal Taxes
1576	Prepaid State Taxes
1601	Land
1605	Buildings
1610	Autos/Trucks
1620	Furniture & Fixtures

Account #	Account Name
1625	Manufacturing Equipment
1630	R & D Equipment
1635	Leased Equipment
1640	Leasehold Improvements
1705	Accumulated Depreciation - Buildings
1710	Accumulated Depreciation - Autos/Trucks
1720	Accumulated Depreciation - Furniture & Fixtures
1725	Accumulated Depreciation - Manufacturing Equipment
1730	Accumulated Depreciation - R & D Equipment
1735	Accumulated Depreciation - Leased Equipment
1740	Accumulated Amortization - Leasehold Improvements
1800	Other Assets
1801	Organization Costs
1805	Accumulated Amortization - Organization Costs
2000	Notes Payable
2050	Trade Accounts Payable
2055	Other Accounts Payable

EXHIBIT M

GENERAL LEDGER CHART OF ACCOUNTS

(Example)

Account #	Account Name
2100	Accrued Payroll Expense
2110	Accrued Commissions
2130	Accrued Vacation
2160	Accrued Federal Payroll Taxes
2170	Accrued State Payroll Taxes
2210	Accrued Legal and Accounting Fees
2220	Accrued Interest
2230	Accrued Other
2260	Accrued Sales Taxes
2510	Federal Income Taxes Payable
2520	State Income Taxes Payable
2901	Preferred Stock
2940	Common Stock
2950	Retained Earnings
3000	Sales
4000	Cost of Sales
4880	Obsolescence
4940	Warranty Expense
7000	Payroll Expense
7010	Employer Payroll Tax Expense
7300	Insurance Expense

Account #	Account Name
7305	Property Tax Expense
7350	Office Supplies
7360	Non-capitalized Tools and Equipment
7370	Equipment Rental
7380	Equipment Repair
7405	Depreciation - Building
7410	Depreciation - Autos/Trucks
7420	Depreciation - Furniture & Fixtures
7425	Depreciation - Manufacturing Equipment
7430	Depreciation - R&D Equipment
7435	Depreciation - Leased Equipment
7440	Amortization - Leasehold Improvements
7500	Facilities Rent
7510	Facilities Maintenance & Repair
7530	Utilities
7600	Recruiting & Relocation
7610	Dues & Subscriptions
7620	Training & Seminars
7700	Engineering Consulting
7705	Other Consulting

EXHIBIT M

GENERAL LEDGER CHART OF ACCOUNTS

(Example)

Account # Account Name

For a detailed chart of accounts consult Surf Accounts

Account #	Account Name
7710	Legal & Accounting
7800	Telephone Expense
7810	Postage
7820	Freight
7830	Travel & Entertainment – 50% limitation
7840	Travel & Entertainment – no Limitation
7870	Advertising
7880	Trade Shows
7890	Public Relations
7900	Licenses & Fees
7920	Bank Charges
7950	Miscellaneous
8500	Interest Income
8600	Interest Expense
9000	Provision for Federal Income Taxes
9010	Provision for State Income Taxes

EXHIBIT N
PHYSICAL INVENTORY PROCEDURE
(Example)

The following procedures should be followed for the physical inventory on December 31, 19XX for the following locations:

The North Store
The South Store
The Warehouse

Each location has been assigned a range of tag numbers to be used for this inventory. The location is responsible for ensuring all tags are returned in numeric sequence by tag number.

For this physical inventory you are responsible for counting ALL items in your store having ABC part numbers.

The stores should be broken up into areas and then individuals should be assigned to tag all inventory items in that area. Our auditors have also requested that a rough sketch of the store be done with notes of which tag numbers are used in which areas. Please do the sketch on 8 1/2 x 11" paper so that it can easily be included with our files. When distributing tags to the individual, the range of tags that are given to them should be noted on the sketch for tracking. This will become important when collecting inventory tags in the event a tag is missing.

As the individual counts an item in a specific area, they should fill out one inventory tag for each item number in that area. The tag should include the following information:

1. The part number of the item
2. The quantity counted
3. A brief description of the item
4. The initials of the counter

Please make sure that all four items are filled out for every tag used, and they are written in the appropriate boxes on the tag. Any calculations that might be required in filling out the tag should be written in the box immediately below the description. Any tags that are mistakes should have the word "VOID" written in large letters on the tag. NEVER THROW OUT AN INVENTORY TAG. Leave your voided tag with the next tag you use, this will assist you in retaining the tag sequence when collating tags. If you need to make any corrections on a tag that has been filled out, VOID the original tag and write a new one. This is critical to the validation of the counts.

When all items have been tagged, your observer will look around your location to ensure that all items have been tagged and spot check tags for accurate counts and inventory numbers. The observer will also be responsible for reviewing that the tags have been filled out properly and completely. When the observer is satisfied that all items are properly tagged, the process of picking up the tags may begin. NO tags are to be picked up until your observer has verified the count for your entire location.

Tags should be picked up in numeric sequence by the observer ensuring that there are no missing tags. The tags should be returned to their boxes, and the observer will bring them back to the office.

Please note that procedures for collecting tags may change at audited locations at the discretion of the PricewaterhouseCoopers representative.

Location	Date	Start Time	Observer
The North Store	12/31	8:00 a.m.	Russell
The South Store	12/31	10:00 a.m.	Sandy
The Warehouse	12/31	12:00 noon	Alice

EXHIBIT O

NEW HIRE FORM

(Example)

Start Date

Employee Name

Address

W4 Data

Phone Number of Exemptions

Department

Job Title

Job Description:

Wage Rate (Annually, monthly, hourly) Exempt or nonexempt
Vacation time of days per year. Sick time of days per year.
Stock Options
Number of shares authorized Date
of authorization Date(s) of exercise
Performance review to be given (annually, semi-annually) Date of first performance review
Insurance (Has the employee completed the appropriate forms?)

Medical Dental

Life Disability

Legal & Ethical Standards
Emergency Information (names and numbers to call)

Name Doctor's Name Address

Address

Phone Phone

I consent to the retention and use of my personal data for the purposes of my employment with ABCD Limited in accordance with general Data protection legislation in force.

Employee Signature Date

EXHIBIT P

DISCIPLINARY ACTION FORM

(Example)

Prepared by Date

Approved by Date

Date of meeting

Employee name

Department

Description of incident (list dates, times, number of occurrences, and a brief discussion of any conversations):

Recommendation for correction of disciplinary action:

Probationary period recommended (if any) Date for follow-up meeting Follow-up discussion:

Final outcome of the issue:

I consent to retention of this document on my employee file for the prescribed period under employment law in Ireland.

Signature of employee Date

Signature of supervisor Date

EXHIBIT Q

EMPLOYEE REVIEW FORM

(Example)

Review Date

Employee Name

Department

Job Title

Job Description:

Performance since last review or hire:

Significant accomplishments during review period:

Recommendations:

Wage Data:

Old salary New Salary Effective date of increase

Employee comments:

Date of next review

I consent to retention of this document on my employee file for the prescribed period under employment law in Ireland.

Employee signature Date Reviewer signature Date Authorized signature Date

EXHIBIT R

EXIT INTERVIEW

(Example)

Termination date

Name Department

Job Title

Reasons for termination/resignation (to be completed by exit interviewer):

If dismissal, cite past disciplinary action, dates, and events:

Employee comments (to be completed by employee):

Vacation pay due upon termination date Pay due upon termination date Pay authorized by

I consent to the retention of this document on my employee file for the prescribed period under employment law in Ireland

Employee signature Date

Exit interviewer signature Date