

Processing

The student has accurately prepared a WAC inventory card for a stock item. (This could have been prepared for FIFO.) Processing is at Excellence level.

Describing elements of the entity's inventory subsystem

Customer satisfaction is a major goal of Fun Times. To build on this goal it is important that Graeme, the storeroom manager, watches when the stock on the shelves is getting old and makes sure that this is the first stock to be sold. Graeme also needs to make sure that the shelves are full with stock at all times. If this doesn't happen, customer satisfaction will decrease and Fun Times will lose sales, which will affect their profit. Profitability is another major goal of the business. The more sales they get, the more the income will increase and expenses will decrease, which will then cause the business profit to rise.

1

Fun Times uses a perpetual inventory system for recording the movement of the toys and puzzles. This means that every time a sale is made, the records of inventory are updated. It is a running record of inventory movements during a period of time. Inventory cards show a theoretical balance of inventory that Fun Times have on hand. This balance can then be confirmed by a physical stock take. This system is the most appropriate for Fun Times because it provides an up-to-date Cost of Goods Sold figure. Once the business knows the COGS figure they can then complete an income statement at any time to calculate profit. Fun Times can then monitor the profitability which is a major goal of the business.

1

The purchasing process is very important for Fun Times because Matthew, the owner, wants to ensure he has enough stock on hand to meet his customers' needs. On 18 August the purchase of 15 Lego toys was recorded when the goods arrived. Prior to receiving this order, Graeme placed the order with the supplier, however Mason had to authorise the order form before it was processed. ... Authorisation of purchases is important. When Mason signs/authorises the order before Graeme sends it off, he gets the chance to correct any of Graeme's errors. As owner he also gets an understanding of what stock he has and how long it takes for the inventory to arrive. To meet the customer satisfaction goal it is important that the correct amount of stock is on the shelves at the correct time.

2

The accounting software package used by Fun Times has been set up by Mason and Kelly to identify re-order points for each type of toy they stock. Each product has a different lead time depending on the supplier. By authorising the purchases Mason becomes familiar with the different lead times. This will allow him to decide on the quantities he needs to order by knowing what is already on its way and what they currently have in stock. This should allow him to meet the business goal of having sufficient quantities of hand to meet customer demands.

1

The lead time also helps to determine the re-order quantity. Sometimes Fun Times have issues with orders being held up due to the fact that many of their toys are imported. Looking at the inventory card, Fun Times waited until they had very few puzzles in stock before they ordered more. When they made a sale on 3 August for 12 puzzles to Toyworld, the inventory level got down to only three puzzles in stock. This is very risky because if a customer had suddenly wanted to buy five puzzles that order would not have been able to be filled and the customer might go and shop elsewhere. This would result in an unhappy customer and a loss in sales.

2

Checking inventory received and internal control of documents omitted from this exemplar

Fun Times uses a number of documents in their inventory subsystem. When stock is ordered they use order forms/purchase orders. When the order arrives in store Graeme matches the packing slip against the stock to ensure all inventory has been received. If a product has been damaged or mislaid, that product is sent back to the supplier with a credit note ... Some business have their own documents, however all documents have common internal control features – all are sequentially numbered, most will have multiple copies and many need to be authorised. The toy orders at Fun Times are filed electronically via email with toy suppliers. Mason uses an accounting software package for his inventory system so order forms are generated electronically.

It is essential that in any business there are only a small number of people who have authority to approve invoices for payments. Janice works in the office at Fun Times. Although she has a lot of experience in business, when an invoice arrives for payment she must staple it to the packing slip and give it to Matthew (the owner) to sign/off authorise. When she gets it back with Matthew's signature, Jayne then passes it onto Kelly who does the payments to suppliers online. This would have occurred when the inventory was received on 6 August. Having these three people involved means there is no chance of dishonesty in payments or receiving the goods. If they weren't authorised, the business could be spending money that wasn't required, which would increase expenses and affect the liquidity of Fun Times.

According to the inventory card for Lego toys on 31 August, Fun Times did a physical stock take. It was discovered that there were 20 Lego toys in stock when there should have been 21. This meant that there was an inventory shortage of one Lego toy. This stocktaking process is important because it allows Fun Times to track their missing items and maintain strong liquidity, which is a vital goal for the business.