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REFERENCE

NOT TO BE BORROWED.

AN APPRAISAL

OF THE

ACCOUNTING AND INTERNAL CONTROL SYSTEMS

OF

(1) PUSPAMARA

(2) RESEARCH METHODOLOGY

(3) LIMITATIONS OF STUDY

(4) CHAPTER ORGANIZATION

by

(5) ACKNOWLEDGMENTS

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880228

(1) STATEMENT OF PURPOSE

(2) BRIEF ACCOUNT OF THE STUDY

(3) ORGANIZATION OF THE STUDY

(4) BRIEF EXPOSITION ON THE STUDY

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A Graduation Exercise presented to

the University of Malaya in

part fulfilment towards the

Degree of Economics with

Honours in Accounting

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¹Section 6(1) of the MARA ACT: It is the duty of the Majlis to promote, stimulate, facilitate, and undertake economic and social development in Malaysia and more particularly in the rural areas.

²Consequence of the recommendations of the 'Economic Congress of the Indigenous People' held in June 1965.

SYNOPSIS OF ESTABLISHMENT AND GROWTH OF

P U S P A M A R A

'Puspa' means flower in English, and 'Pusparamara' connotes a project under the umbrella of Mara; so it was initially and to a certain extent still is. Prior to the establishment of Pusparamara the innumerable number of indigenous craftsmen marketed their own products. However, their conditions were in a sad state - the cottage industries were decadent and relatively unknown.

The only organised centre for the distribution of their products was the 'Malay Handicraft Centre' at Kuala Lumpur under the sponsorship of the Selangor State Government. It was managed voluntarily by volunteer workers. It was not surprising that business organised on such altruistic basis suffered losses. The trend altered with the advent of RIDA (Rural and Industrial Development Authority). The Authorities realised (s) the importance of small industries to the progress of the nation as a whole as they are an integral element in the socio-economic structure of the country.¹ The project under RIDA was known as the 'Small Industries Institute'. Under this project, technical as well as financial aids were the main concerns. In 1964 events took a new turn when the Authority bought over the 'Malay Handicraft Centre' and established a new sales centre in Petaling Jaya. This marked the beginning of a new policy - the provision of sales centres for the display and sale of the products of the cottage and small industries. When RIDA was converted to MARA in 1965² the 'Small Industries Institute' was

¹Section 6(1) of the MARA ACT: It is the duty of the Majlis to promote, stimulate, facilitate, and undertake economic and social development in Malaysia and more particularly in the rural areas.

²Consequence of the recommendations of the 'Economic Congress of the Indigenous People' held in June 1965.

renamed 'Puspanamara'. In 1966, the sales centre in Petaling Jaya was shifted to the new MARA building at Jalan Tuanku Abdul Rahman. From then onwards 'Puspanamara' became a business venture dealing in goods of the rural craftsmen while aid to the latter came under the responsibility of another division in the MARA organisation. In furtherance of this, more specialised responsibility, new sales centres were established in Penang, Kuala Trengganu and Kota Kinabalu in East Malaysia. In addition to these, agents were appointed in major towns through out Malaysia.

This gives us the present extent of the activities of Puspanamara but the immediate future may see the expansion of activities into places like Johore Bahru, Malacca, and Seremban. Such ambitions are well substantiated for Puspanamara has in a matter of a few years become financially independent from Mara. In brief, it may be said that Puspanamara is now one of the few profit-making projects of MARA. It is a case in point where the protected infant sheds its umbrella.

Interested parties outside the business entity.¹ These are the areas which will be appraised in the light of efficiency and suitability for managerial dependence for decision-making.

Permeating any accounting system, actually constituting part of it, will be checks and control procedures that are designed to compel compliance with established routines. These procedures are generally termed as 'Internal Control'. This concept has undergone considerable changes through time but the pre-war definitions mainly concentrate on the accuracy of accounting data and safeguard of cash. By the post-war period 'Internal Control' was extended to embrace aspects beyond the accounting and financial functions. In 1949 the Committee on Auditing Procedure of the AICPA issued a bulletin and

¹Accounting Systems for managerial control. Irwin Incorporation: Illinois 1963 page 4.

INTRODUCTION

OBJECTIVES AND SCOPE OF THE STUDY

Retailing is the deceptively simple process of buying and selling goods for the motive of pecuniary gain. Many factors are important considerations for any successful venture, and one of these is the effectiveness of the accounting and internal control systems of the organisation. A wide definition will be the working frame-

work for the examination of the internal control system of Moore and Stettler define 'Accounting System' as the means by which the management of an entity accomplishes the collecting, processing, and reporting of the essential data that reflect the results of the operations carried out under its direction and supervision. The accounting system includes the forms, records, procedures, and devices utilised in recording, summarising, and reporting the operating and financial data required by management for its own use in controlling the activities for which it is responsible and for presentation to interested parties outside the business entity.¹ These are the areas which will be appraised in the light of efficiency and suitability for managerial dependence for decision-making.

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¹Accounting Systems for managerial control.
Irwin Incorporation: Illinois 1963 page 4.

defined 'Internal Control' as comprising the plan of account-organisation and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.² Internal Control thus embraces the whole system of controls and internal checks,³ financial or otherwise, established by management in the conduct of a business. This wide definition will be the working framework for the examination of the internal control system of Puspamara stores.

Mara is a quasi-governmental institution and though Puspamara is avowed to be a commercial venture, a blend of the two characteristics is quite inevitable. For example, in its profit pursuit, the management must also be conscious of the over-all policy of MARA. The social and economic responsibilities of MARA to the rural population inevitably filter through Puspamara. A conflict between profit-making and altruism is to be expected. It will be acknowledged that differences in practice will occur in several areas of management with other retail organisations. Conversely, on account of Puspamara being a project of a sophisticated parent organisation its operations will be facilitated by the many professional expertise available. Such features will be highlighted in the course of the study.

In summarising, the objectives of this study are:

- (1) To appraise the accounting and internal control systems of Puspamara store.

²American Institute of Certified Public Accountants. 'Internal Control' page 6.

³Internal check is not synonymous with but forms part of internal control. Internal check is best regarded as the checks on the daily transactions which operate continuously as part of the routine system. It includes such matters as the allocation of responsibilities and division of work.

- (2) To appraise management's use of accounting reports for executive action.
- (3) To compare the activities of Puspamara with standard retail practices.

RESEARCH METHODOLOGY

The writer was attached to the Malay Handicraft Centre for practical training for about two months and he also spent a few days in the Internal Audit Department of MARA. He was thus in the fortunate position of observing, first hand, the actual practises. Within that span of time the writer also studied the operations of the Puspamara sales centre and had consultations with the General manager, Accountant, Chief auditor, the Supervisors of the stores and the sales staff.

All data used in the study are from two sources:

- (1) Financial statements and internal reports,
- (2) Source documents.

A simple survey was undertaken in the Malay Handicraft Centre to discover the composition of the customers by nationality; the classification was Whites: Chinese: Malays: Indians: others. The 'Others' category include only non-Malaysians, like Japanese, Filipinos, Thais and Taiwanese. The sales girls were instructed to mark in a prepared form all such customers who enter the store regardless of whether they purchase anything or not. The results of the survey are used in Chapter One.

LIMITATIONS OF THE STUDY

Any case study runs the risk of either being too lengthy and descriptive or too brief. This is the dilemma that confronts the writer and which he tries to avert. But it is feared that tinges of both may surface in certain parts of the study. Most obviously the accounting system is incompletely analysed as the payroll and recruitment procedures apart from others have been deliberately omitted because of its insignificance in this particular case study.

It is therefore not claimed that the study is a comprehensive examination of the accounting systems of Puspamara.

The lack of comparative data between Puspamara and other retailing institutions handling the same product lines is another setback. There are few established channels for the distribution of the produce of the cottage industries and the Malay Handicraft Centre and the Puspamara Sales Centres seem to be the main ones. The relatively few smaller stores handling such goods are reluctant to be made subjects of a study. The writer therefore resorts to the comparison of the performances of the stores within the Puspamara group and this has obvious limitations.

There are altogether five stores under Puspamara and each of these has its own accounting system. Consequently, each store deserves considerable time for evaluation and this the writer was unable to undertake. It is thus a limitation that a proper on-the-spot study of the accounting systems of the Penang, Kuala Trengganu, and Kota Kinabalu stores was not made. All information relating to the above stores were obtained from or gleaned from the consultations the writer had with the Chief Book-keeper, Accountant and General Manager.

Last but not least, the writer assumes full responsibility for any errors or shortcomings appearing in this study.

CHAPTER ORGANISATION

This study consists of nine chapters. Chapter One portrays an over-all picture of Puspamara - the location of the stores, types of goods carried and types of customers. Chapter Two outlines the organisational structure of Puspamara, both at management and at store levels. The remaining chapters are concerned with some of the more important elements in the accounting system, and the approach is both descriptive, analytical and prescriptive. Chapter Three deals with cash control, the analysis being divided into receipts, from cash sales, debtors and credit sales,

while Chapter Three B deals with cash disbursements and control of cash balances. ^{Chapter Four} consists of an examination of the credit extension policy of Puspamara and how it controls its debtors. Chapter Five is wholly devoted to Purchasing where the questions of How Much, When and from Whom to buy are examined; this chapter also includes a discussion on forms. In Chapter Six the problems of Merchandise control and how these are resolved in Puspamara form the core of the chapter. Chapter Seven and Eight are quite distinct from former chapters as that chapter Seven examines the internal auditing function while Chapter Eight exposes the degree to which the management makes use of accounting reports for making decisions. The final chapter Nine, summarises the major aspects of the accounting systems, the conclusions drawn from such an examination and the related prescriptions.

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'Thank You'.

CHAPTER I

PUSPAMARA

an Accountant. The necessary supervision of the correctness of the application are left to the individual store supervisors. The link

MARA is functionally divided into seven Divisions- Finance and Accounts; Training and Scholarships; Industry and Commerce; Research; Transport; Advisory and Internal Auditing.¹ Within each major Division there is further sub-division and the Puspamara project is the responsibility of the sub-divisional head of the Division of Industry and Commerce. Many of the projects undertaken by MARA are normally heavily subsidised and the financial independence of Puspamara from 'Administrative Funds' distinguishes it from the ordinary. This arises chiefly from the fact that Puspamara is essentially organised to operate on a competitive and profit seeking basis.

There are altogether five stores which are formally recognised as Puspamara Stores. The store located in the MARA building is designated as Puspamara sales centre, while the other stores are the Malay Handicraft Centre in Jalan Mountbatten, one in Penang Port Commission Building, one in Dutamara building in Kuala Trengganu and one in Kota Kinabalu, Sabah. Contrary to expectations the Puspamara Sales Centre is not the 'Home' office or headquarters of operations. The Malay Handicraft Centre is recognised as an independent unit and has its own set of financial statements. Each of the remaining stores is similarly individualistic though their financial accounts are consolidated with those of the Puspamara Sales Centre for presentation purposes. If consolidation of accounts can be accepted as indicative of dependence, then in this sense the stores outside Kuala Lumpur are Branches.

In all other areas the operations are directed and managed by the General Manager, stationed in the Division of Industry and Commerce. In the coordination and determination of operating policies he is assisted by a Committee comprising the Director of the Division, a marketing specialist, and

¹ See Diagram 1: MARA ORGANISATION CHART ON PAGE 13

an Accountant. The execution of these policies and the necessary supervision of the correctness of the application are left to the individual store supervisors. The link between the efforts of the supervisors and the management is the accounting system which provides regular reports to management. In short, one recognises a two tier level of operations. The first tier is the managerial one which plans, coordinates, and directs the operations of the stores. The second tier comprise the Supervisors who are responsible for the proper execution of the policies established by tier one.

All items of revenue are assigned to the individual store which makes them and similarly all items of expenses, whether directly traceable to the operations or indirect are to be recovered from that revenue. We have therefore the application of a profit-centre approach. For this determination each store maintains its own accounts, the sophistication of the system depending on the size of the store. The degree of independence from managerial direction is also a function of size and experience. The Malay Handicraft Centre is completely independent as far as wages, purchasing, rent payments, and other areas. On the other hand, there are the stores, like those located outside Kuala Lumpur, whose powers are limited to selling only. In other words, each store in the group varies in powers, independence and degree of control from Headquarters.

THE MALAY HANDICRAFT CENTRE

In terms of time, this is one of the oldest centres dealing in handicrafts. It was in existence as far back as 1952. But from the time of its inception to the time when it was transferred to Mara control, it was run on an altruistic basis by volunteers. It was not surprising then to learn that the accounting system was rudimentary and pace of operations unaggressive. At the time of the transfer in June 1964, the net loss for the semi-annual period amounted

to dollars three thousand and forty five. Since then the permanent staff had been recruited and so has the philosophy-from one of mere service to service with the profit motive. Concurrent with these changes was the institution of a proper accounting system.

What these changes had done to the store is best evidenced by the profit figures for 1965 and 1966, which are \$14,866 and \$17,699 respectively. The annual net turnover at present hovers around \$150,000/-. The store is opened from 9 a.m. to 5 p.m. six days a week. Altogether eight females run the store - a supervisor, cashier, accounts clerk and five salesgirls.

PUSPAMARA SALES CENTRE

This sales centre was formerly in Petaling Jaya but that location was off the usual shopping traffic and the wise decision to shift it to the MARA building was made in 1965. Since then the store has been extremely successful, the net profit for the six months ended June 1967 amounted to \$10,057. The average annual sales turnover is over \$200,000/-.

The store is the most spacious and impressive of all Puspamara stores. The air-condition enhances the shopping experience and this accounts for the great proportion of European shoppers calling at this store.

CHAWANGAN PUSPAMARA-PENANG

This store is relatively new and is only on a very modest scale. Annual sales turnover for 1966, its first year of operations, was about \$10,000/- and a deficit of about \$4,475/- was sustained. This loss was caused mainly by two factors-the high percentage of cost of goods sold to revenue and the comparatively high operational expenses.

The percentage of 'cost of goods sold' to sales revenue was as high as 90%, indicating an average mark-up of

Puspamara Sales Centre: average mark-up 25%.

about ten per cent which is very low when compared to the average mark-up of the Kuala Lumpur stores.² This explains the low gross profit of about \$1,000/-. Expenses for the same period was about \$5,000/-. In other words, the sales efforts were yielding disproportionate sales returns.

CHAWANGAN PUSPAMARA - KOTA KINABALU

This store was formally established in November, 1966. In the first two months of operations the total sales was \$2,923/- an average of about \$1,000/- a month. This heralds a good start. However, similar to the Penang store, the cost of goods sold accounted for a large proportion of sales revenue (about 92%) and the low mark-up was insufficiently off-set by the increased sales turnover to yield a higher profit figure which in the two months of 1966 amounted to only \$67/-. The 1967 accounts are not ready yet so we have no basis to compare.

CHAWANGAN PUSPAMARA - KUALA TRENGGANU

This branch is located in the lair of the batik and silverware industries and is thus in the unenviable situation of very string price competition. This venture was initiated in early 1968 and how it will fare remains to be seen.

A reflection on the location of the stores reveals that they are in areas of tourist attraction. Kuala Lumpur, Penang, Kota Kinabalu, and Kuala Trengganu are some of the major attractions in Malaysia. This choice of sites gives an insight into the nature of the goods handled by Puspamara. Retail units may be classified according to ownership - into individually owns stores, partnerships and companies. On the basis of services performed we may have mail order houses, self service stores; and taking location as the basis, we have neighbourhood stores, shopping centres and

²Malay Handicraft Centre: average mark-up-30%.
Puspamara Sales Centre: average mark-up 25%.

roadside stands and stores on wheels. However, the best way to classify Puspamara is via the nature of merchandise carried. On this basis we have general classes of Convenience, Speciality and Shopping stores.

Convenience goods are those goods which are purchased quickly, and with the minimum of effort. They are generally goods of low monetary value and customers are not too particular as from where they buy the goods. In short, convenience goods are goods in which the probability of gain from making price and quality comparisons among sellers is small relative to the searching time involved. Conversely, shopping goods are those in which the gain made from price and quality comparisons is great compared to the time and effort involved. Generally these goods are of higher monetary value and customers tend to deliberate in purchasing rather than on impulse. Speciality goods are products in which customers are not only willing but arose out of necessity to single out the product. The special efforts needed to buy the product stems from the limited availability of the products.

Puspamara stores deal in items ranging from Silverwares to batek and mats. There is considerable product differentiation within each major line. The items vary greatly in price and substance but they maintain oneness in the design aspect. All items carried are identifiable with Malaysian culture especially those of the Malays. The differences in skill and labour required for the finish of the products account for the wide price differentials - from \$350/- a piece to 65¢ a piece.

Evidently Puspamara does not belong to the Convenience class for it has closer resemblance to the shopping and speciality classes. For example, while Arrow shirts are available in many of the stores in Kuala Lumpur batek shirts are relatively scarcer. Only a handful of shops carry an appreciable quantity and variety of batek

shirts. It is the same for Silverware products. People who want batek or silverware have to search out the particular outlet which carries the product in sufficient quantity and variety to suit their tastes. And they will spend considerable time in shopping around for the colour or design which best conforms to their tastes.

The multifarious variety of goods carried can be conveniently classified by the major lines of batek, silverware, and maratex. The latter needs explanation. Maratex is the group name embracing items like songket, purses, handbags, straw fans and mats. Batek and silverware are the most lucrative of all the product lines. In the Malay Handicraft Centre batek accounted for about 18.25% of total sales in 1967 while silverware accounted for about 60%. These two categories are responsible for about three-quarters of the sales revenue of the store. In the Puspamara sales centre the trend repeats itself. In 1966, both these two categories accounted for about 80% of total sales. In Kota Kinabalu, batek alone accounted for about 68% of total sales for 1966. The combined sales turnover of the group ranges from \$350,000 to \$400,000 a year.

From an analysis of the stores were now examine the most important aspect of from the revenue viewpoint - the customers. A very simple and rudimentary survey was undertaken in the 'Malay Handicraft Centre' for a period of one month (15/2/68 - 15/3/68). The salesgirls were instructed to mark on a prepared form of the number and nationalities of those who entered the stores and inquired regardless of whether they buy anything or not. The nationality classification was "Whites"; "Chinese"; "Malays"; "Indians" and "Others". The "Others" group apply to those who do not fit into any of the groups and these include Japanese, Thais, Filipinos and Taiwanese.

A total of 1723 customers were recorded for the mentioned period. Of these 826 were Whites, 313 were Malays;

two hundred and eighty seven Chinese; 144 were Indians; and 153 others. This means that about 48% of the patrons of the Malay Handicraft Centre were of non-Malaysian origin and if we take the assumption that these were either tourists or transitional residents and combine them with the Others about 58% of the customers are those who cannot be totally relied upon for repeat sales for long. The remaining 43% are Locals whose potential for future sales are worth considering. From this simple analysis it is concluded that tourists or non-citizens are an important source of sales revenue and this should open the eyes of management to the essentiality of maintaining close contacts with Tourists Agencies. On the other hand, more attention is also necessary to boost sales among locals. At present most of the local purchases are made not so much for personal use but more as gifts and presents for friends going Overseas or returning home. At a time when government bodies like the Ministry of Information and Broadcasting, and commercial concerns like Guinness Stout Company Ltd, are encouraging their staffs to 'go' batak it would be fruitful for Puspamara to publicise its name.

The present trend and circumstances augur well for Puspamara, and this realisation is expressed by the plans to establish similar sales centres in Johore Bahru, Malacca, and Ipoh.

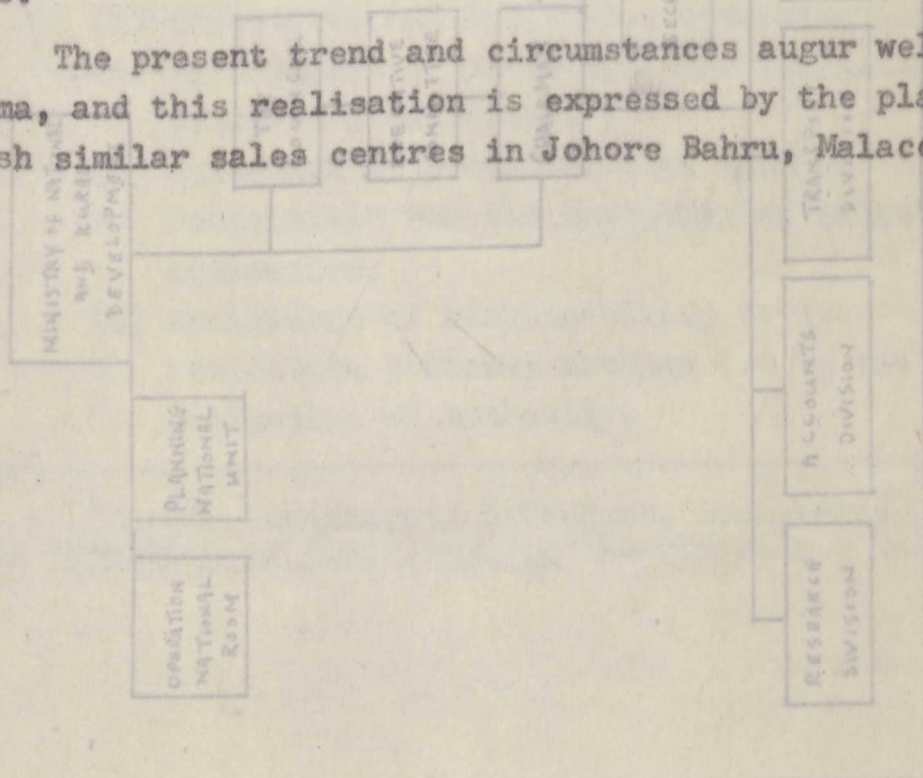
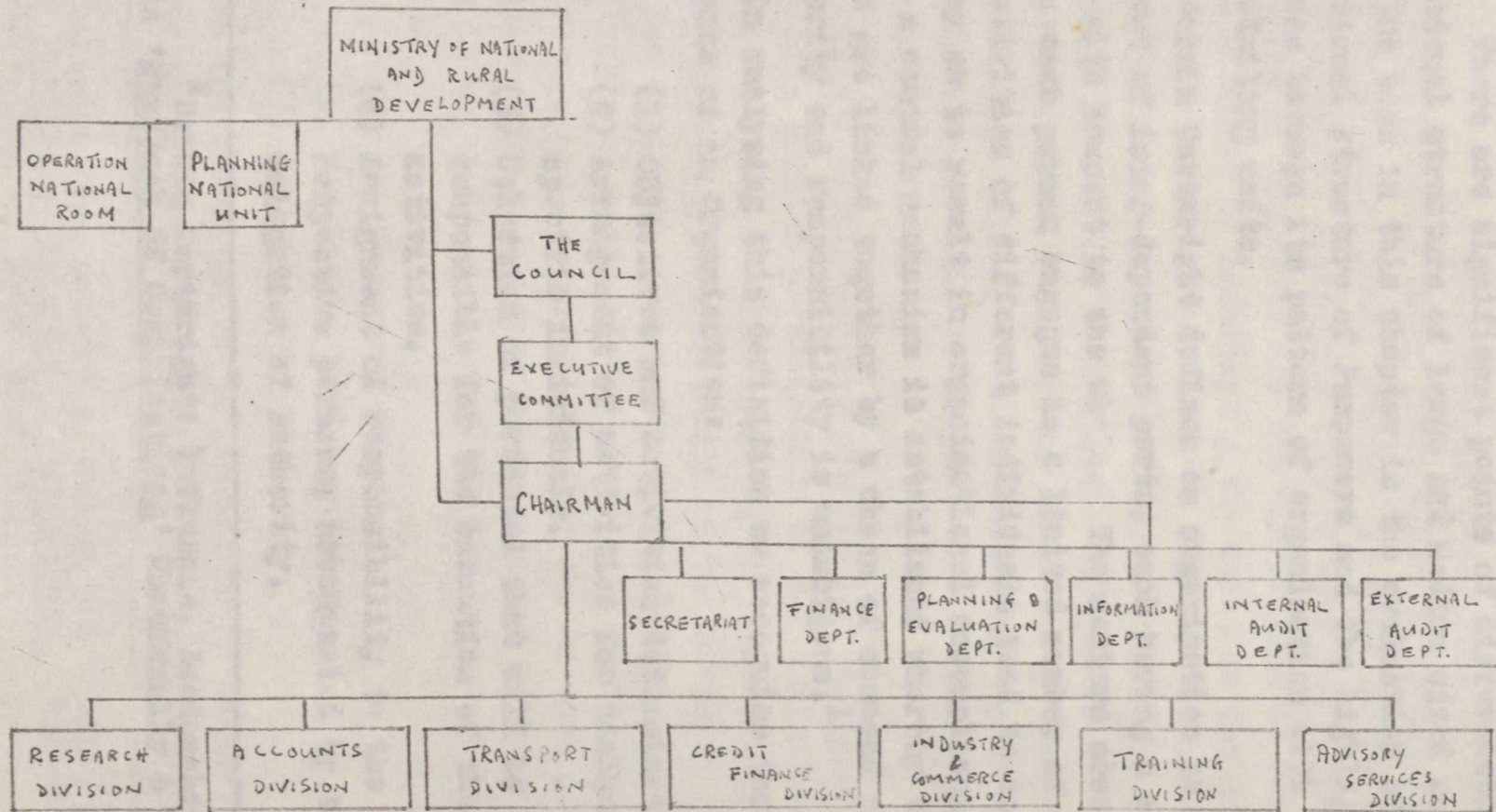


DIAGRAM 1

MARA ORGANISATION CHART



CHAPTER II

ORGANISATIONAL STRUCTURE OF PUSPAMARA

There are significant points of differences in organisational structure of large and medium sized retailing units. The task in this chapter is the evaluation of the organisational structure of Puspamara and the highlighting of differences between its pattern of organisation with that of larger retailing units.

Dorwin Cartwright defines an organisation as an arrangement of inter-dependent parts, each having a special function with respect to the whole. The members assemble on schedule, each person engages in a limited number of activities ...the activities of different individuals tend to combine in such a way as to result in organisational accomplishments... finally, a control mechanism is established whereby the various positions are linked together by a chain of command so that the authority and responsibility is unambiguous.¹

On analysing this definition we recognise the following elements of an Organisation:

- (1) Objectives and activities determination.
- (2) Arrangement of activities for assignment to specific individuals.
- (3) Selection of personnel that will be responsible for the execution of these activities.
- (4) Assignment of responsibility to the respective persons, accompanied by the delegation of authority.

¹ Dorwin Cartwright: Influence, Leadership, Control in 'Handbook of Organisations' Rand McNally & Company, page 1.

² Adapted from Helbert J. Duncan and Charles P. Phillips: 'Retailing, Principles and Methods'. Homewood, Illinois, R.D. Irwin, 1960 page 152.

- (5) Provision of control mechanism so that these persons discharge their respective responsibility for the accomplishment of the predetermined objectives.²

The inter-relationship among these elements is normally portrayed by organisational charts. It must be noted that these charts do not depict the flow of work but rather the downward flow of authority and the upward flow of responsibility. The danger of identifying the chart as the organisation itself should be avoided. A business organisation may have a fine organisation chart and yet function ineffectively. A business firm must be thought of in terms of human beings of which it consists. Therefore, though considerable time will be spent in analysing the organisation chart equal emphasis will be devoted to the examination of the personalities involved.

Mara's activities are principally confined to the promotion of a greater participation of the bumiputras in the commercial and industrial sectors of the economy, and this is the specific responsibility of the Division of Industry and Commerce. Puspamara is the concern of one of the sub-divisional heads of the Division. At the apex of the hierarchy stands a General Manager who assumes direct responsibility for the proper functioning of Puspamara. The areas in which he is accountable are laid down by the Director as:

- (1) The Puspamara Scheme.
- (2) Non-Viable indigenous art.
- (3) Adoption Schemes.

In the execution of the duties he is assisted by a Committee comprising the Divisional Director, a marketing

²Adapted from Delbert J. Duncan and Charles F. Phillips: Retailing, Principles and Methods. Homewood, Illinois, R.D. Irwin. 1960 page 152.

specialist, and the Accountant in charge. This Committee meets in conference at least once every four months where problems are discussed and remedial actions taken. In these discussions, accounting reports are extensively made use of, both by the General Manager and the Accountant.

The marketing specialist is primarily in an advisory capacity while the Director sanctions or vetoes decisions. The Accountant and the Manager are generally the more active participants in such discussions; these two being actively involved in the operations of Puspamara. The former assumes complete authority over managerial aspects of the business while the financial and accounting areas are the concerns of the Accountant.

ORGANISATION AT STORE LEVEL

The store organisation primarily deals with the division of duties and the relationship among these duties in such a way as to get the store operated smoothly and efficiently.

In each of the stores, irrespective of its size; a supervisor assumes full responsibility for its harmonious functioning. The exact duties of the Supervisor varies from store to store. For example, the Supervisor of the Malay Handicraft Centre undertakes the purchasing and disbursing activities quite autonomously whilst the Supervisors of the branches need have prior approval from the management for all matters except selling. In all stores, however, the Supervisors give the final word for all matters they are authorised to perform and are accountable to management for the revenues and expenses of the stores concerned.

The recording of the flow of transactions in the stores is the responsibility of the Accounts Clerk in the Malay Handicraft Centre, and the Chief Book-keeper in the Puspamara Sales Centre. Both are subject to the instructions of the Accountant. Because of the newness and smallness of the sales turnover of the stores outside Kuala Lumpur the

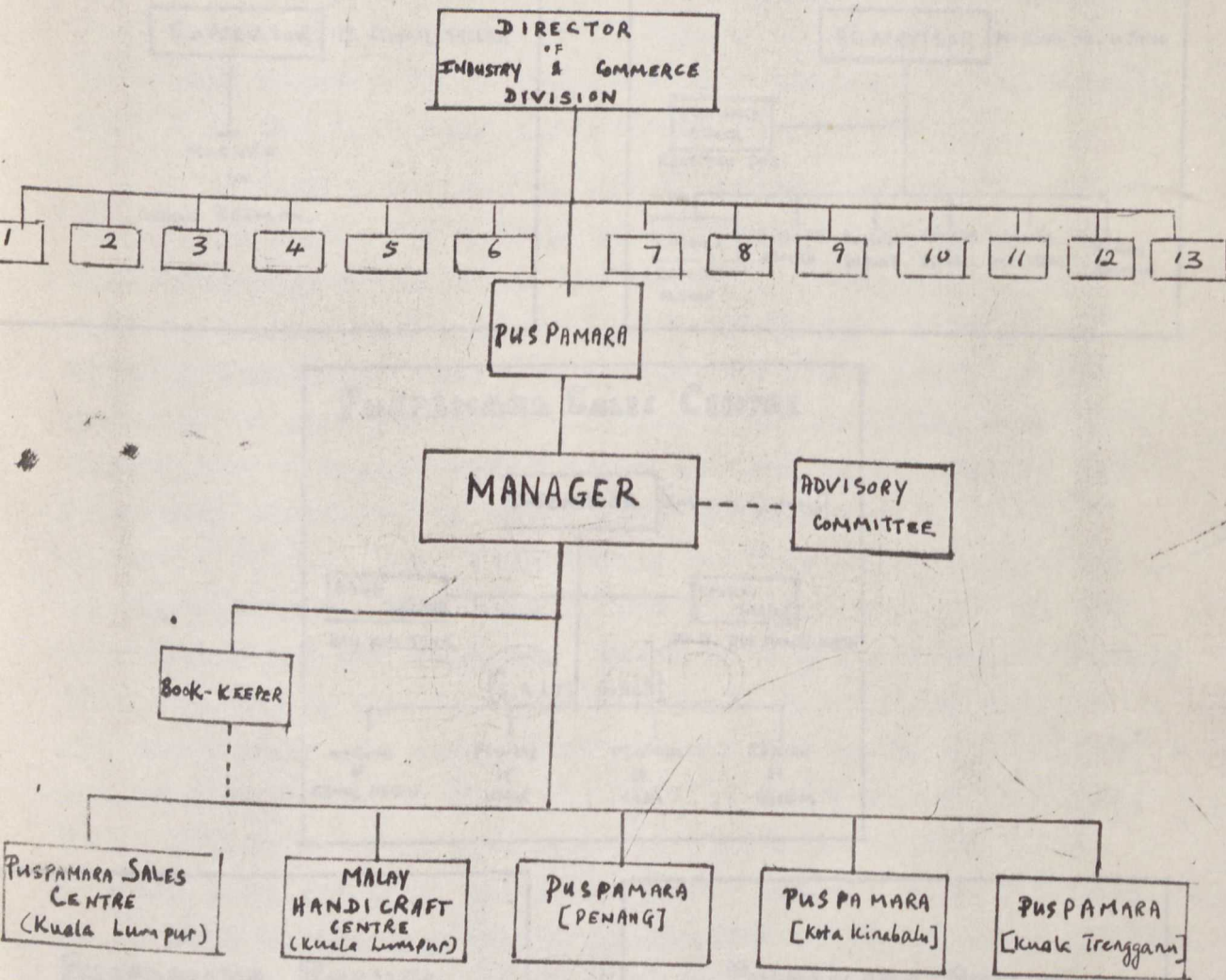
supervisors themselves have to keep records of their transactions.

The salesgirls in the stores are supervised by the Supervisor. In the Malay Handicraft Centre one of them is designated as Cashier and the rest are delegated only selling responsibilities. In the branches the lack of sales staff enforces the situation whereby the salesgirl or the supervisor herself has to become cashier as well. This, in brief, is the nature of the organisational structure of Pusparamara, and the relationship among the various elements is summarised in the organisation chart presented on the following pages 18 and 19. Any evaluation requires a procedure and in this case the evaluation will follow the components of organisation as outlined earlier.

In the course of the discussions the writer had with the manager it is gathered that there is a healthy consciousness of the aims and objectives of Pusparamara. Profitability seems to be the major objective. The manager shows keen awareness of his task to guide the stores in Penang, Kuala Trengganu, and Kota Kinabalu to financial independence while keeping continual surveillance of the progress of the more successful ventures. Similarly, the store personnel are also alive to this objective. This is exceeded only by the will to do well. The Supervisor of the Malay Handicraft Centre once exclaimed 'We must show them (the management) that we (females) are as capable as any to operate a business successfully.' Disregarding the reference to sex, it is obvious that the main objectives of the organisation have been adequately instilled in its personnel.

Human beings decide the course the organisation takes. Once this is accepted the importance of putting the right man in the right job is undebatable. Unfortunately, in practice this ideal is seldom realised. The necessity to conform to the political requisite of promoting Malay

ORGANISATIONAL CHART of PUSPAMARA

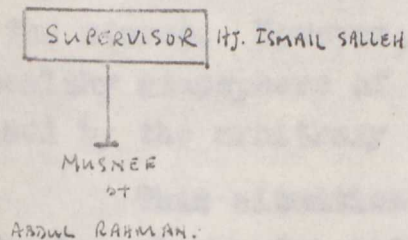


BATEK MALAYSIA SENDIRIAN BERHAD.
 SHARIKAT JELATEK SENDIRIAN BERHAD
 MARA HANDICRAFT DEVELOPMENT CENTRE
 RAW MATERIALS SECTION
 KULIT CRAFT (LEATHER & TANNERY)
 SHARIKAT MA'WAL (BAKERY)
 KAYU KAYAN (TANNALISED TIMBER)

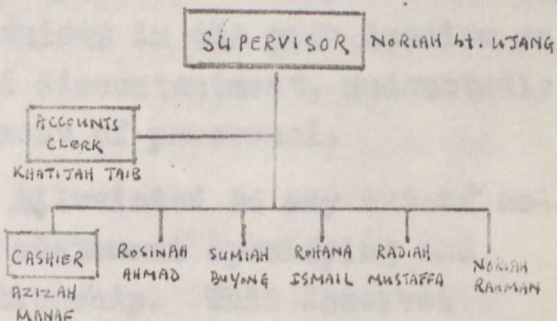
8 : JENGA TRIANGLE
 9 : RURAL HOUSING
 10 : SHOPHOUSES & BAZAARS
 11 : JOINT VENTURE SECTION
 12 : BATEK CORPORATION
 13 : ADMINISTRATION

DIAGRAM 3 : ORGANISATIONAL STRUCTURE OF PUSPAMARA STORES

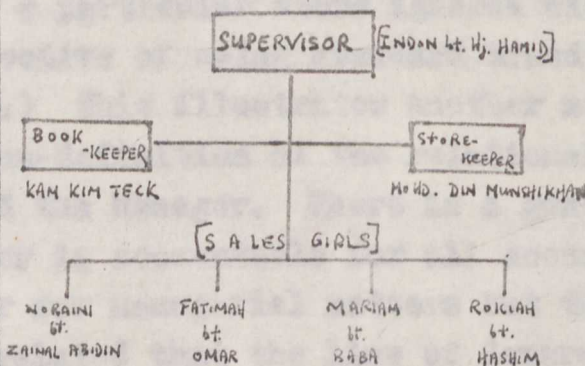
PUSPAMARA BRANCH PENANG



MALAY HANDICRAFT CENTRE



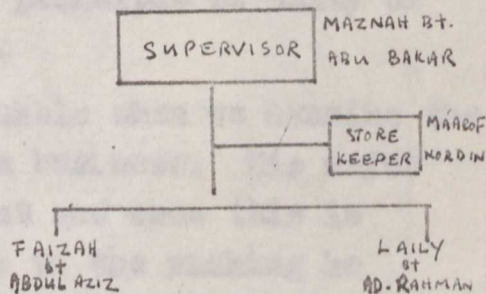
PUSPAMARA SALES CENTRE



PUSPAMARA BRANCH KOTA KINABALU

SUPERVISOR PRISCINA SIPONONG

PUSPAMARA BRANCH KUALA TRENGGANU



participation in business limits the staffing possibilities. Coupled with the sad fact that Malays are generally a late entrant into the business world perforces the Authorities to make the best of the situation. How successful the limitation has been offset is reflected by the present profitability of the stores. However, there exists in the organisation an unhealthy atmosphere of envy and discontentment, undoubtedly caused by the arbitrary appointment of personnel.

This situation is not alleviated to any extent as there is a lack of a categorial statement specifying the exact superior-subordinate relationship. This deserves consideration because it is ludicrous to call a store as under a management when its operations are undertaken in defiance of management directives. (For example, the Supervisor of a particular store ignored with impunity the Manager's directive of using standard brand name on all apparels sold.) This illustrates another more fundamental problem, the non-definition of the relationship between the Accountant and the Manager. There is a general understanding that the former is accountable for all accounting matters and the latter for managerial matters but these two aspects are so inter-related that the line of demarcation is vague. It is not surprising that misunderstandings should arise between them for even the other staff members are at a loss as to whom to grant priority in moments of alternative choice. (For example, both the Accountant and the Manager may demand certain reports simultaneously and put the Book-keeper in a dilemma). There is a breach in the principle of unity of command in organisational structure.

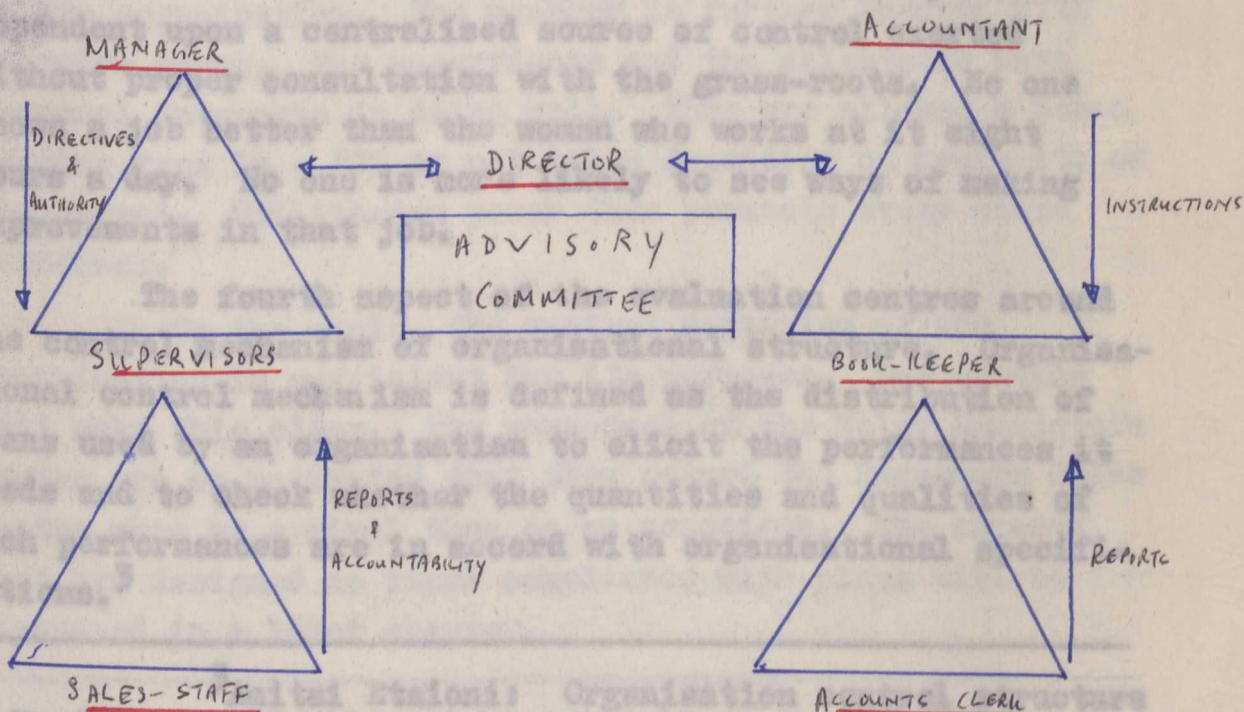
An easy solution is obtainable when we examine the purpose or role of the accountant in business. His major responsibility is to serve management and once this is realised there should be no doubt as to the ranking he merits. The Accountant, in other words, should be in an advisory capacity with expertise in the fields of finance

and accounting but subordinate to the General Manager in all other respects. This is expedient since the accountant has other responsibilities in other areas of the Accounts Division in Mara.

Co-ordination is made imperative by the functionalisation of the organisation. A prerequisite of co-ordination is communication. The communication process in Puspamara follows the pattern of downward flow of authority and the upward flow of accountability. In the former process the supervisors exert their wills upon the salestaffs in the stores while they themselves execute the directives of the Management. In the accounting area, the Accounts Clerk and the supervisors of the branches submit internal reports to the chief book-keeper who in turn submits them to the Manager. However, the accounts clerk often by-pass the book-keeper. These processes are illustrated below:

DIAGRAM 4

COMMUNICATION PROCESS IN PUSPAMARA



Underlying this pattern is the assumption that organisational goals can best be accomplished by asymmetric one way control from a single source at the top of the organisation. This is exemplified by the fact that although the management committee meets once every four months the supervisors are not consulted or represented at all. This procedure is quite unlike the practice the Malay Handicraft Centre adopted when it was under the State government. Then, the Menteri Besar, a Federal marketing specialist, the State Treasurer, and other Committee members, inclusive of the Supervisor met every month. The retail trade is such a dynamic one that only those in personal and intimate contact can keep up with the ceaseless forces of change....in demand, tastes, and competitive conditions. It is unfortunate that the supervisors are completely substituted by accounting ^{reports} in the present procedure. It must be admitted that Accounting cannot record many qualitative factors. This is not to be interpreted as an advocacy of the elimination of influence by the management over its members. The main thrust of the criticism is to advocate an organisation whose parts are actively inter-dependent as opposed to one whose parts are dependent upon a centralised source of control exerted without proper consultation with the grass-roots. No one knows a job better than the woman who works at it eight hours a day. No one is more likely to see ways of making improvements in that job.

The fourth aspect of the evaluation centres around the control mechanism of organisational structure. Organisational control mechanism is defined as the distribution of means used by an organisation to elicit the performances it needs and to check whether the quantities and qualities of such performances are in accord with organisational specifications.³

³Amitai Etzioni: Organisation control structure in Handbook of Organisation Rand McNally & Company, 1965, page 650.

The salestaffs need to be supervised and the supervisors themselves need supervision. In this sense, the organisational structure is one of control - and the organisational chart depicts the hierarchy of control.

Three sources of control can be identified- coercive power, utilitarian power, and identitive power. Coercive power is said to be used when physical means are used, for example, the threat of dismissal. Utilitarian power is usually manipulated to motivate the staffs to better performances with the promises of material rewards (bonuses). Symbols which give prestige and esteem are sources of identitive power. These are arranged in a mix which best suits the organisational needs and the objective is well summarised thus: Symbolic means of control tends to convince people, that of material tends to build up their self-oriented interests in conforming and the use of physical means forces them to comply.⁴

In Puspamara both the manager and the supervisors are vested with identitive power on account of their rank in the organisation. The manager is further endowed with coercive power. The supervisors and the salestaffs have personal interests in doing well. They are allowed a bonus ranging from 10 - 20% on net sales depending on seniority of employment. Utilitarian power thus permeates every store personnel.

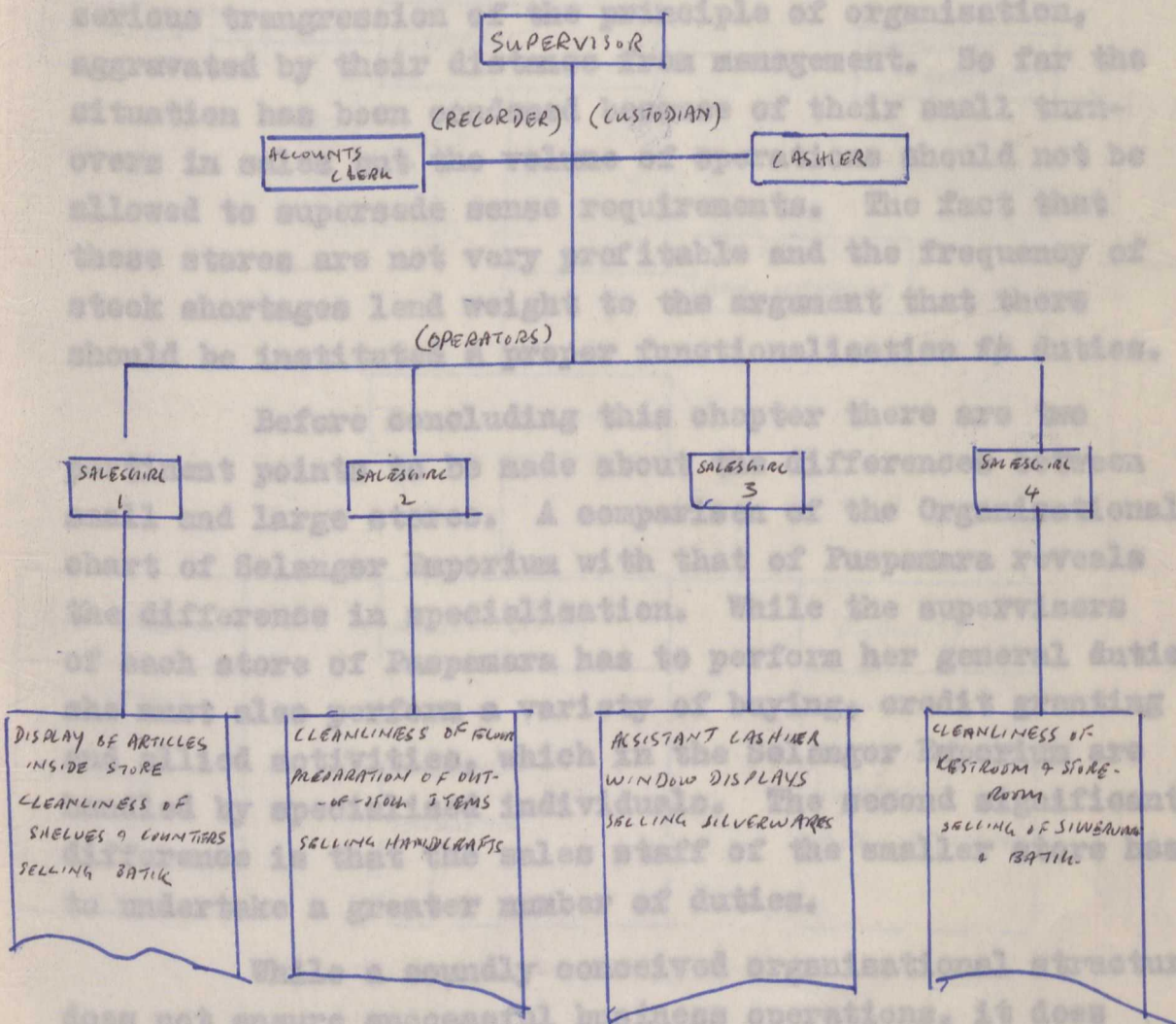
On the whole, the control mechanism of the organisation is sufficient for its purposes. One example will make this clear. The personnel of the Malay Handicraft Centre are so motivated that they regard the Puspamara Sales Centre more as a rival than as an associate. The aspects that are designed to impel compliance with plans will be discussed in a later chapter.

⁴Amitai Etzioni: Organisation control Structure, in Handbook of Organisations RandMcNally & Company, Chicago, 1965, page 655.

A further noteworthy comment is on the lack of job descriptions accompanying the organisation charts. Consequently, there is no current formal division of duties and assignment of such duties among the store personnel. The importance and utility of having such elements is beyond dispute, and will become evident as the discussion progresses and below is a model for the Malay Handicraft Centre:

DIAGRAM 5

MODEL ORGANISATION CHART FOR MALAY HANDICRAFT CENTRE



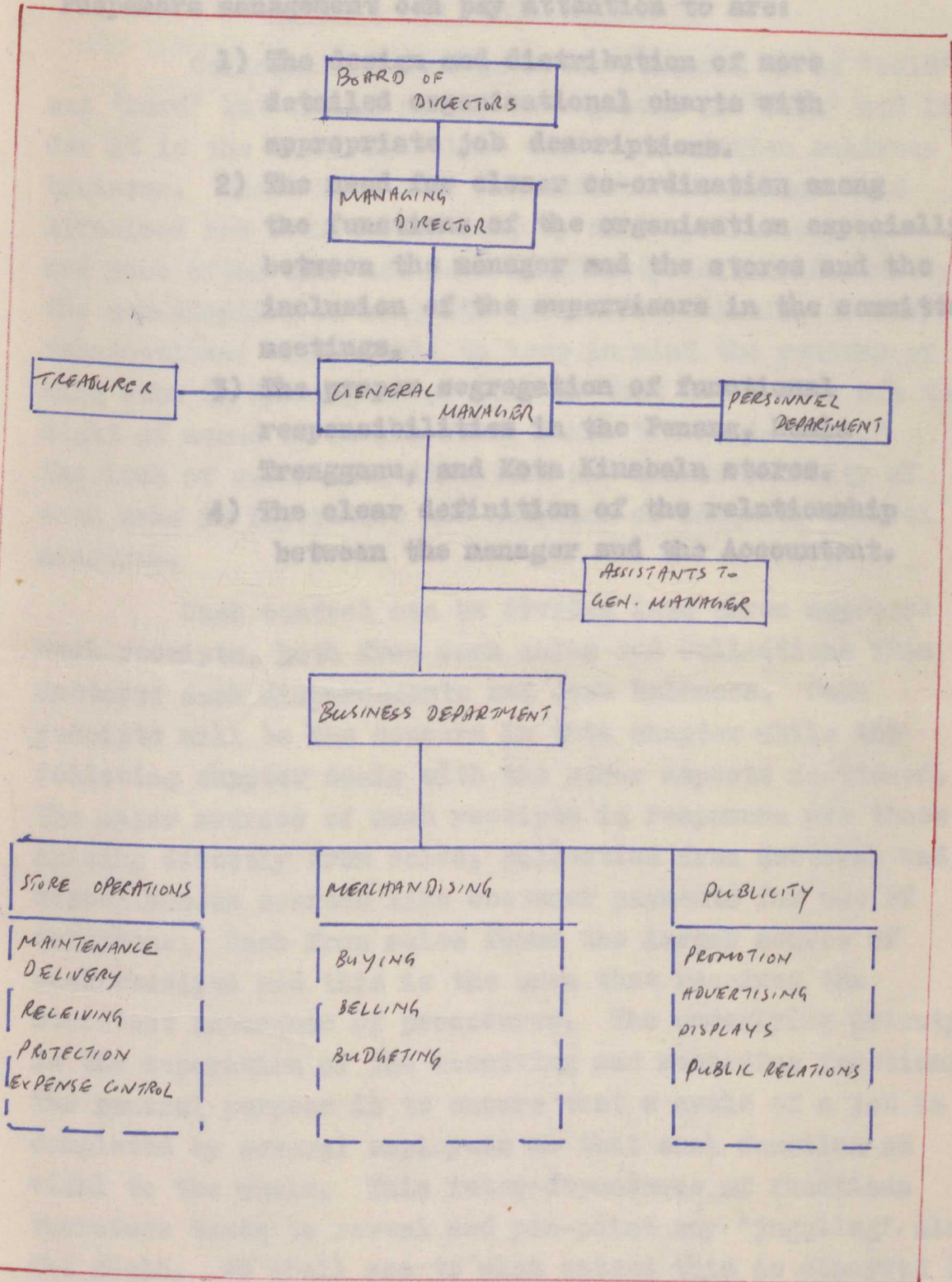
The model maintains the line of authoritative control in addition to the separation of duties and assignment of these duties. Furthermore, it meets the criterion of organisational independence between the operating, custodian and accounting duties. The basis of the separation rests on the premise that the players should not be allowed to keep their own scores. This is met in the Malay Handicraft Centre and the Puspamara Sales Centre but not in the stores outside Kuala Lumpur. In these stores the supervisors are simultaneously the operator, the custodian and the book-keeper. This is a serious transgression of the principle of organisation, aggravated by their distance from management. So far the situation has been condoned because of their small turn-overs in sales but the volume of operations should not be allowed to supersede sense requirements. The fact that these stores are not very profitable and the frequency of stock shortages lend weight to the argument that there should be instituted a proper functionalisation of duties.

Before concluding this chapter there are two pertinent points to be made about the differences between small and large stores. A comparison of the Organisational chart of Selangor Emporium with that of Puspamara reveals the difference in specialisation. While the supervisors of each store of Puspamara has to perform her general duties she must also perform a variety of buying, credit granting and allied activities, which in the Selangor Emporium are handled by specialised individuals. The second significant difference is that the sales staff of the smaller store has to undertake a greater number of duties.

While a soundly conceived organisational structure does not ensure successful business operations, it does provide an atmosphere in which the institutional objectives

DIAGRAM 6

ORGANISATION CHART OF SELANGOR EMPORIUM (S) BERHAD



are most likely to be realised.⁵ This should be the working philosophical approach and some of the areas in which Puspanara management can pay attention to are:

- 1) The design and distribution of more 'cold' and 'hard' detailed organisational charts with appropriate job descriptions.
- 2) The need for closer co-ordination among the functions of the organisation especially between the manager and the stores and the inclusion of the supervisors in the committee meetings.
- 3) The proper segregation of functional responsibilities in the Penang, Kuala Trengganu, and Kota Kinabalu stores.
- 4) The clear definition of the relationship between the manager and the Accountant.

Cash control can be divided into three aspects: Cash receipts, both from cash sales and collections from debtors; cash disbursements and cash balances. Cash receipts will be the concern in this chapter while the following chapter deals with the other aspects mentioned. The major sources of cash receipts in Puspanara are those arising directly from sales, collection from debtors, and miscellaneous sources like customer payments for use of telephone. Cash from sales forms the larger source of cash receipts and this is the area that requires the strictest adherence of procedures. The underlying principle is the separation of the receiving and recording functions. The general purpose is to ensure that a cycle or a job is completed by several employees so that each function is vital to the whole. This inter-dependence of functions therefore tends to reveal and pin-point any 'juggling' along the chain. We shall see to what extent this is observed in the Puspanara management.

⁵William Sprigel: Retail Personnel Management McCrawhill, 1958. page 8.

CHAPTER III

CONTROL OF CASH RECEIPTS

Colloqually, cash is often referred to as 'cold' and 'hard' but should really be regarded as 'warm' and liquid' for it is the vital lifeblood whose circulation enlivens the business. There have been innumerable cases where this lifeblood has been tapped away by unscrupulous employees and more often than not such dishonesty is facilitated by the non-adoption of adequate procedures relating to cash transactions. It is well to keep in mind the remarks of King John in Shakespeares' play of that theme "How oft the right of means to do ill deeds makes ill deeds done." The lack of owner identification and transferability of cash make it imperative the adoption of adequate control measures.

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Cash Receipts System of Malay Handicraft Centre

To each item of merchandise on sale is attached a price tag. Additional information on the price tag include code number of the article and a description of the article. This price tag is to play a major role in the cash control system.

When a customer indicates his purchases the price tags are removed and handed over to the cashier, the salesgirl simultaneously showing the articles concerned. The cashier makes use of the price tags to record the sales in the Sales Docket in triple copies. (A copy is illustrated below)

ILLUSTRATION 1

No 30424		CASH SALE	22 8 1968
PUSPAMARA			
9, MOUNTBATTEN ROAD,			
KUALA LUMPUR.			
1 x K25 Broom	Rayu	Flt	5 - 20

Telephone : 85534



The original copy is given to the customer and the cash so collected is placed in a drawer specifically reserved for her use. All arithmetic is done on an Adding Machine.

The same price tags are then attached to new displays. During rush periods the tags are heaped on the cashier's desk and used only when the rush peters out. The rule of one-cashier only is observed even during such rush hours. All the remaining salesgirls are not permitted to relieve the sole cashier by setting up another receipts centre. This means that only the cashier handles cash. Near to closing time, the cashier checks the amount of cash she has on hand and compares this with the total that the sales docket indicates. This initial tallying serves only as a temporary measure for in the period between the balancing and actual closing time there may be further sales. The cash on hand at the end of the day are nevertheless stacked and kept in a safe in the store premises.

On the next day, the cashier checks through the sales docket and records each sale on the machine tape. The sum of all these should tally with the cash on hand. Woe betides the cashier when it is short for she has to make good the difference. The cashier next analyses the individual sales into the following categories: Batek: Silverware: Maratex: Handicrafts: Miscellaneous. This Analysed Sales Tape² is then handed over to the Accounts clerk who uses it to record the Daily Sales Book and the Cash Debit Book. The cashier records the same information in her Cash Receipts Book. (illustrated over-leaf). she should need some ready money for after office hour shopping and cash is in her custody. So long as she is able to refund the 'loan' the next day there will be no cause for suspicion.

²See Illustration 3.

³See Diagram 3: Cash Receipts System of

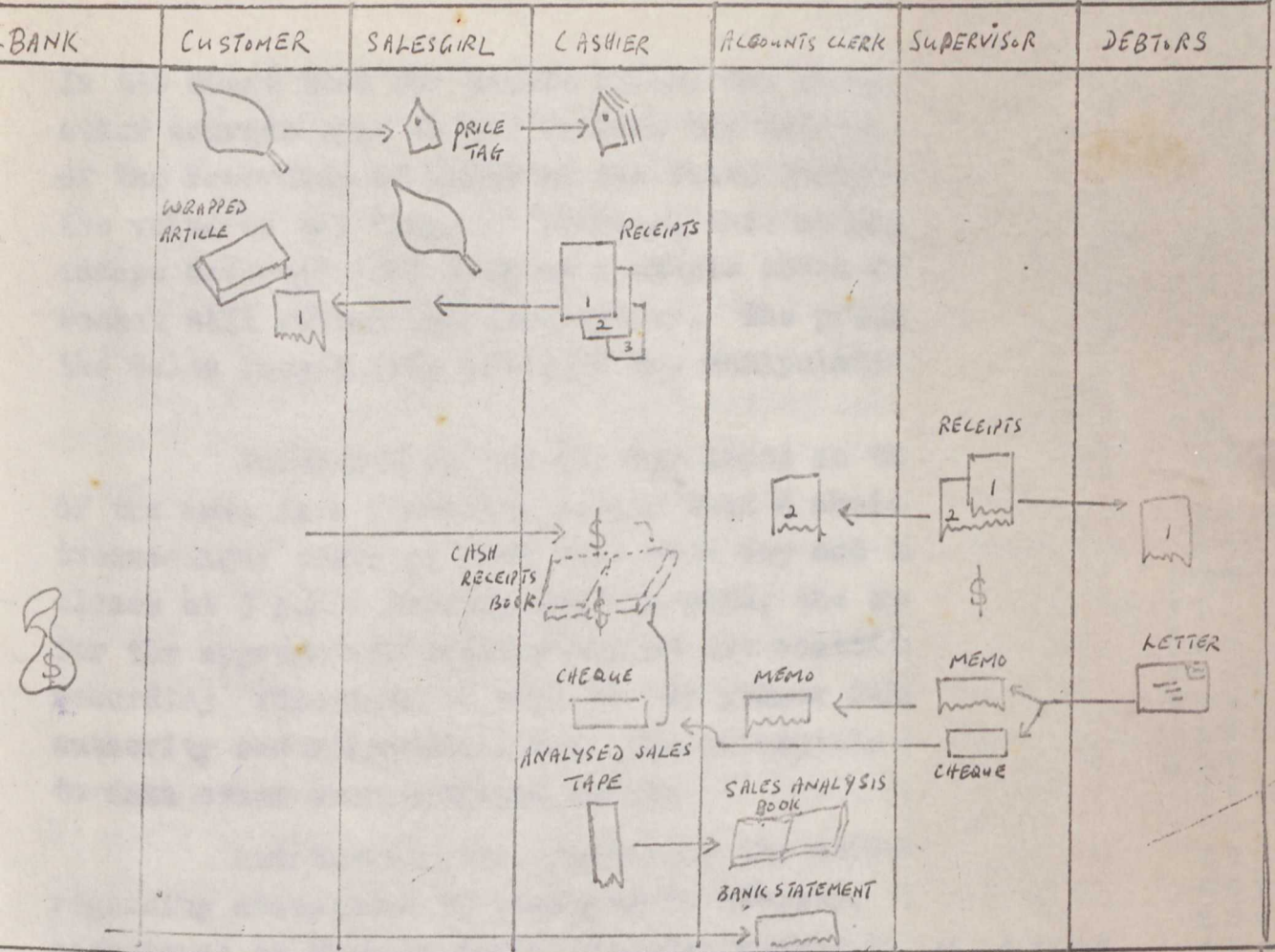
Kalay Handicraft Centre. - 30 -

DAILY and MONTHLY CASH RECEIPTS BOOK

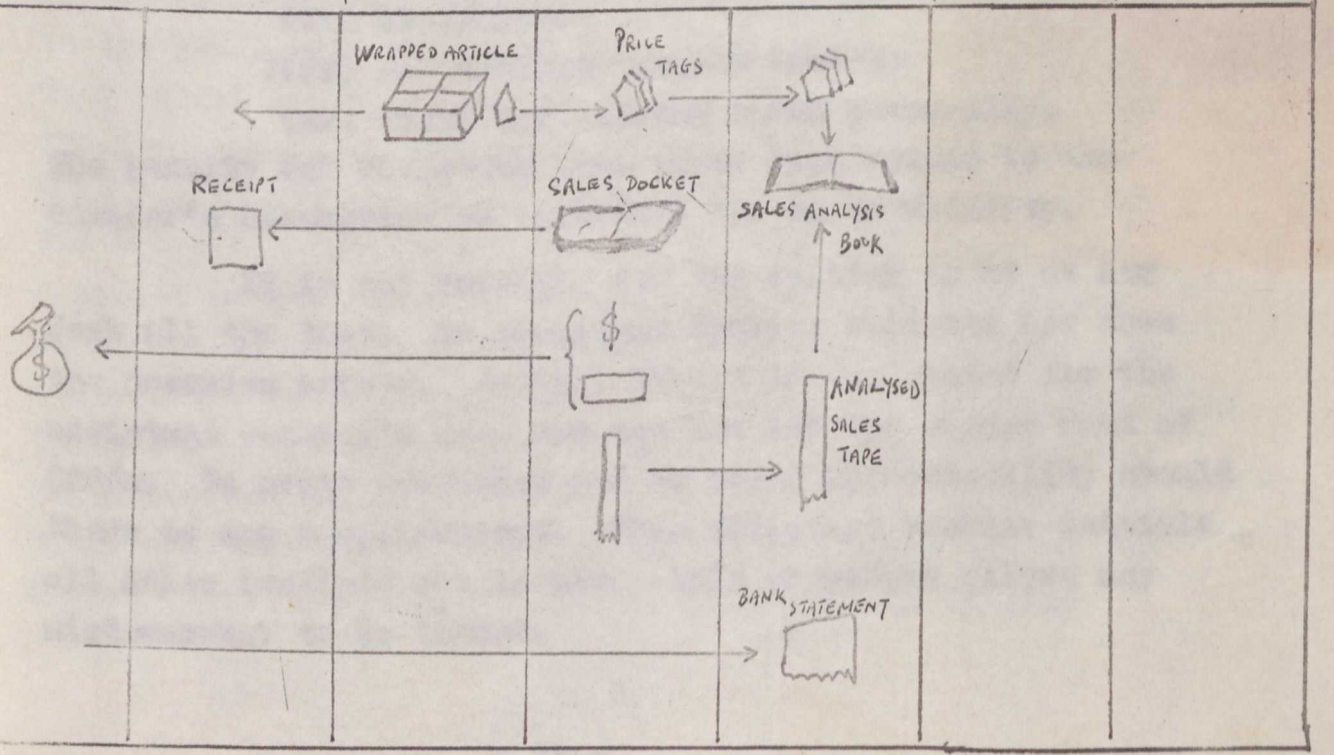
An approach to the examination of the adequacy of the cash receipts system is to inquire into the fraud possibilities. The most obvious way of cash misappropriation is afforded by the delay in the depositing of the cash in the bank. Internal control principles dictate that all cash collected in a day should be as far as possible deposited in the same day. The intention is to keep the bank deposit entries current. The delay of one day means that the cash is disposable for as long as the cash is not deposited. This may encourage temporary borrowing especially by the cashier. For example, if she should need some ready money for after office hour shopping the cash is in her custody. So long as she is able to refund the 'loan' the next day there will be no cause for suspicion.

³ See Diagram ~~1~~²: Cash Receipts System of Malay Handicraft Centre.

GRAM 7: CASH RECEIPTS SYSTEM OF MALAY HANDICRAFT CENTRE



GRAM 8: REVISED PROCEDURE



In the event that she cannot refund the amount taken, then other courses open to her include the deliberate omission of the recording of sales in the Sales Analysis Sheet to the value of the 'loan'. However, this attempt will not escape detection for long as a simple check of the Sales Docket will reveal the discrepancy. The prenumbering of the Sales Docket also prevents any manipulation here.

Furthermore, the one day lapse in the depositing of the cash is a necessity rather than a choice as bank transactions cease at 3.30 p.m. each day and the store closes at 5 p.m. Bearing this in mind, the system provides for the appropriate segregation of the custodian and recording functions as well as the proper delegation of authority and responsibility. The salesgirls have no access to cash other than outright theft.

Reinforcing the system are the strict regulations regarding acceptance of payments by cheques. To avoid the acceptance of cheques insufficiently backed by funds, the cashier is under strict orders not to accept cheques other than those from:

- (i) all government departments.
- (ii) Ministries.
- (iii) All semi-government bodies.
- (iv) Firms and persons known personally.

The penalty for deviation from these regulations is the cashier's assumption of liability for their validity.

It is not possible for the cashier to be at her desk all the time. An assistant cashier relieves her when the occasion arises. Another drawer is designated for the assistant cashier's use, and she has her own change fund of \$20/=. To avoid confusion and to place accountability should there be any complications, this assistant cashier initials all sales receipts she issues. This procedure allows any misdemeanour to be traced.

On the whole, the cash receipts system of the Centre is satisfactory and its simplicity is commensurate with its scale of operations. The question is whether or not the system can be improved upon. Firstly, the current procedure of showing the articles and the price tags to the cashier for recording in the sales docket may prove adequate in normal circumstances. The work-load of the cashier, however, may be lop-sided during rush sales hours (when a bus load of tourists call, for instance). The observance of a one cashier rule who not only collects the cash but also prepares manually written receipts may actually bog down service. It is therefore proposed that during such periods the assistant cashier be authorised to alleviate the situation.

Secondly, the cashier leaves the office without the proper balancing of the sales with the cash receipts. It would be better if the cashier balances them and the supervisor initials the balancing sheet before leaving the office. The initialling by the supervisor serves two purposes: as a check on any tendency to defalcate cash and to prevent any subsequent manipulation of the record.

Thirdly, the use of the price tags could be exploited further. Instead of returning the price tags to the salesgirls for re-stocking the goods sold, new price tags should be available for that purpose. At the end of the day, the total of the amounts indicated by the price tags represents the daily sales and this could be used by the Accounts Clerk to check with the Analysed Sales Tape supplied by the cashier. In this way the Accounts Clerk would have a more definite evidence to journalise and post her books. If discrepancies are revealed during the recording (when the price tags and the Analysed Sales Tape disagree) only then the sales docket need be consulted. In this way there need not be interruption to the cashier's use of the docket every time the Accounts clerk wishes to clarify

anything. The institution of what can be termed 'Revolving Price tag System' will result in a change of procedures and these are illustrated in Flow-chart 8.

Finally, the present duplication of work between the cashier and the Accounts clerk could be avoided. The cashier's 'Cash Receipts Book' is similar in design and classification to the Accounts Clerk's Sales Book. In place of the duplication, the cashier's efforts should be channelled to some aspects more useful to management. For example, the cash Receipt's Book could be redesigned to allow the analysis of daily cash receipts.

ILLUSTRATION 4

PROPOSED CASH RECEIPTS BOOK DESIGN

DATE	CASH	CHEQUE	DEBTORS	MISCELLANEOUS	TOTAL

COLLECTION FROM DEBTORS

This source of cash receipts is relatively infrequent on account of the restriction of credit facilities.⁴ Credit is specifically allowed only to the staffs of the stores and Mara, employees of government and semi-government bodies and respectable persons and stores. Bad debts is not a significant

⁴This is elaborated upon in Chapter 4.

problem but belated payments is. These problems will be examined further in the Chapter on Credit Sales and Accounts Receivables.

Payments are made in two ways: the debtor settling the debt via the post and payment in person. The Supervisor handles the collection from the mail while the Accounts clerk handles the payment in person. All letters addressed to the Centre are immediately directed to the Supervisor's desk. The very fact that the Supervisor handles the mail is control. She has no access to the accounting records. The probability of the employees fraudulently converting the cheque is minimised by the limitation imposed that none of them is authorised to open any letter. The cheques are handed over to the cashier and the memos accompanying them are handed over to the Accounts Clerk. The latter uses the memos to post to Accounts Receivable and the Cash debit book. (See Diagram 7).

Payments in person are made to the Accounts clerk who records in triple copies such collections in a separate receipts book. The original goes to the debtor the second copy is retained by her while the third copy and the cash are handed over to the Cashier. The Cashier and the Accounts Clerk act as counter-controlling elements. The Cashier is relieved of all responsibilities from this source of collections as long as she can prove the balance of collections of cash from debtors and the aggregate as shown in the receipts given by the Accounts clerk. The onus is therefore on the Accounts clerk to prove otherwise. In this instance, the Accounts clerk acts as the recording and receiving agent but this is offset to a great extent by the requirement of acknowledging cash receipts by three copies. She cannot alter her retained copy for then it will be different from that of the Cashier's copy, while any temptation to understate the amount would be tempered by the Debtor's vigilance over the amount he actually paid and the amount stated in his

copy of the receipt.

CASH RECEIPTS SYSTEM OF 'PUSPARAMA SALES CENTRE'

The element that differentiates the system of this store from the others in the group is the Cash Register.

The procedures adopted in the sales centre is as follows:

- a) Each salesgirl has a personal sales docket.
- b) Each sale is recorded in her own sales docket.
- c) All arithmetic is done on the 'Adding Machine'.
- d) Two copies of the sales are available. Both of them are usually left intact in the docket.
- e) On receiving payment from the customer, the salesgirl punches the relevant keys in the Cash Register and puts in the cash.
- f) The paper receipt tape is given to the customer. An examination of the receipt tape reveals that an analysis of the sale is made simultaneously.⁵
- g) The individual sales are registered on an Audit sheet. This record is locked in the machine and the key is held by the Supervisor.
- h) The Supervisor uses the Audit sheet to check the cash receipts.
- i) The sales dockets are used to up-date the stock cards.

⁵ There is the need to alter the 'Letter-head' of the receipt tape into 'Pusparama Sales Centre' - Kuala Lumpur and the change of the phone number. The present 'head' is a relic of the Petaling Jaya past. See sample attached.

AGRAM 9: CASH RECEIPTS SYSTEM OF FOREIGN SALES CENTRE

Customer Salesgirl Bank
j) The cash is then deposited in the 'Union Overseas Bank Ltd.'
h) The Analysed sales tape is then passed to the Book-keeper.

The use of the Cash Register has to a great extent minimised the probabilities of cash misappropriation because of the built-in characteristics of the Machine. All 'entries' are prerecorded. For example, when salesgirl A sells a Batek Shirt for \$10.50, she rings up that amount (\$10.50 BTK) and the cash box releases itself. The information punched is simultaneously recorded in a consecutively numbered paper receipt tape as well as the Audit sheet. Assuming the customer pays \$11/- and the salesgirl A takes more than \$10.50 in change the cash at the end of the day will not balance with the Audit Sheet total. The system therefore is effective in detecting errors.

However, from the control viewpoint deterrence is also important. There are altogether four salesgirls in the Centre and each of them has authorised access to the use of the Register. In other words, the common usage of the Cash Register means that any shortage of cash may be attributed to any of the four. The specific person responsible, however, is difficult to pin-point. This reveals that the use of the Cash Register does not necessarily mean that all cash transaction will be automatically accounted for as the machine can be circumvented unless proper procedures are established. The liberal usage of the Cash Register is in conflict with the principle that there should be specific assignment of responsibility and delegation of authority. One of the salesgirls should be made accountable for the Cash Register and be designated as Cashier. Furthermore, a set of rules should be drawn up and brought to the careful attention of all employees. For example, the employees should be notified that:

DIAGRAM 9: CASH RECEIPTS SYSTEM OF PUSPAMARA SALES CENTRE

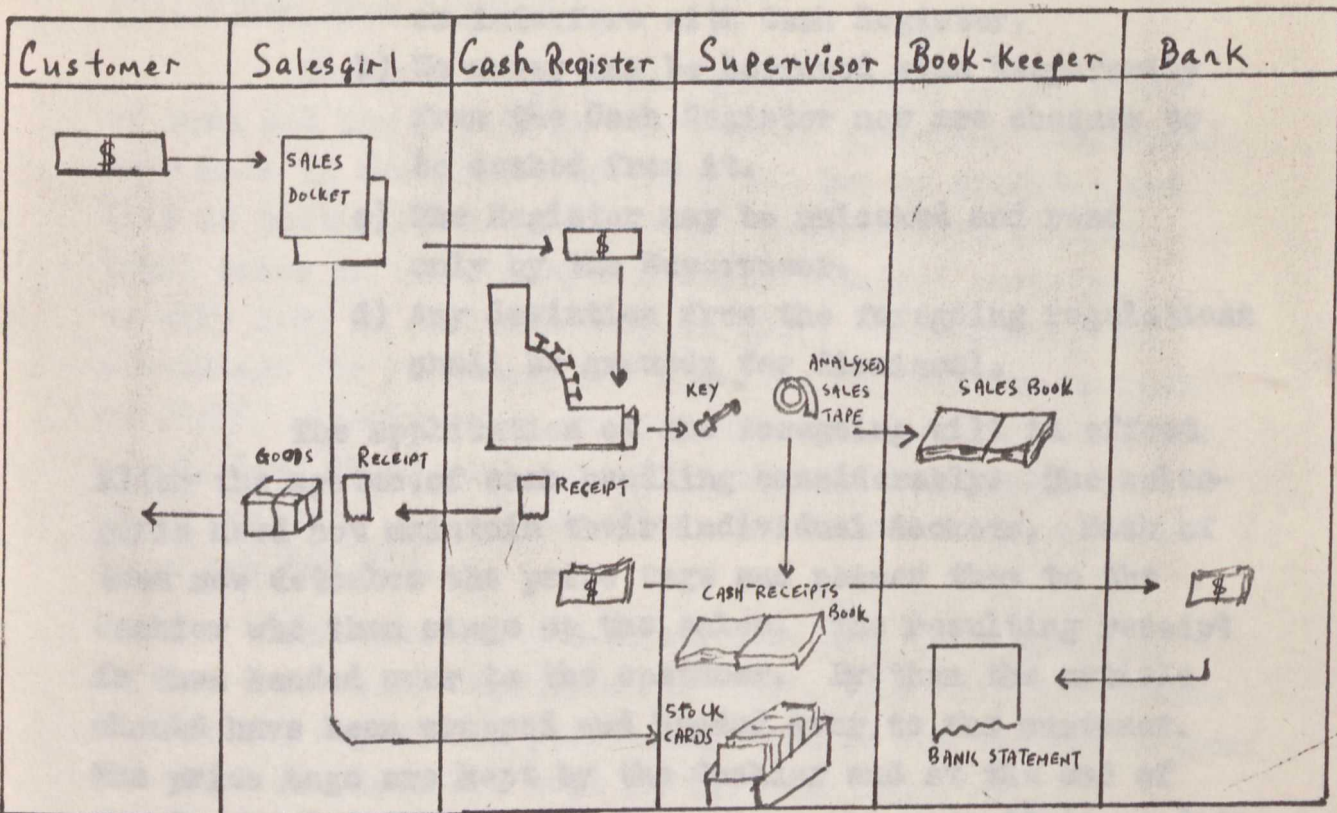
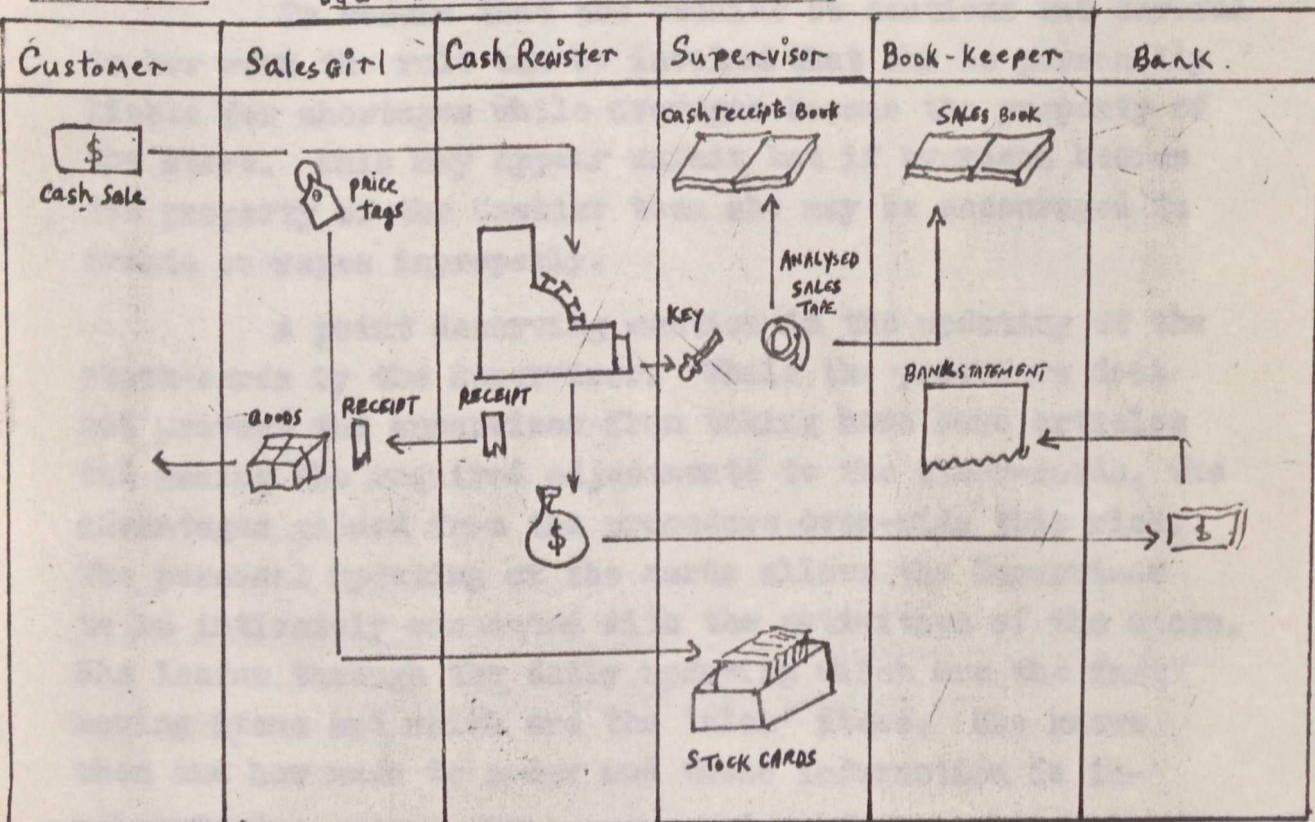


DIAGRAM 10 REVISED PROCEDURE



keeping in stock saleable items
Collection from
a) No one other than the cashier may enter
or interfere with Cash Register.

b) No money may be borrowed even temporarily
from the Cash Register nor are cheques to
be cashed from it.

c) The Register may be unlocked and read
only by the Supervisor.

d) Any deviation from the foregoing regulations
shall be grounds for dismissal.

The application of the foregoing will in effect
alter the system of cash handling considerably. The sales-
girls need not maintain their individual dockets. Each of
them now detaches the price tags and passes them to the
Cashier who then rings up the sales. The resulting receipt
is then handed over to the customer. By then the article
should have been wrapped and handed over to the customer.
The price tags are kept by the Cashier and at the end of
the day handed over to the Supervisor who uses it to up-date
the stock-cards.

To ensure that the Cashier be cautious and careful
in her work the rule can be invoked that she be personally
liable for shortages while overages become the property of
the store. This may appear unfair but if averages become
the property of the Cashier then she may be encouraged to
create overages improperly.

A point deserving mention is the updating of the
stock-cards by the Supervisor. While the procedure does
not prevent the supervisor from taking home some articles
and making the required adjustments to the stock-cards, the
advantages gained from the procedure over-ride this risk.
The personal updating of the cards allows the Supervisor
to be intimately connected with the activities of the store.
She learns through the daily updating which are the fast
moving items and which are the 'sick' items. She knows
when and how much to order and this information is in-
valuable to a store whose revenue depends primarily on

CHAPTER III. B
keeping in stock saleable items. 6

Collection from debtors

The proximity of the sales centre to the staff of Mara and its repute as the leading store of 'Puspamara' have made it the choice of those who buy on credit. And this is testified to by figures. Credit sales as % of total sales in the 'Malay Handicraft Centre' amounted to only 1.8% in 1966 and 5.1% in 1967. Conversely, the percentage for Puspamara Sales Centre in 1967 was as high as 20.1%. Credit sales in Puspamara in 1967 was, in other words, four times more important than in the 'Malay Handicraft Centre'. In dollar value, the total annual credit sales was \$53,555.

The procedures adopted here are along the same line as the 'Malay Handicraft Centre'. The only difference is that the Supervisor personally handles all the collections and these receipts are kept in the Cash Register.

Group II The Penang, Kuala Terengganu and Kota

Kinabalu stores - where purchases and disbursements are finalised by management.

CASH DISBURSEMENT PROCEDURE IN GROUP I

The Supervisors of the stores are authorised to make purchases independently. They need not obtain prior approval from management to incur liabilities, the latter being informed after the fact. The Supervisors prepare 'Purchase Orders' in triple copies - the original is given to the supplier, one copy to the General Manager and the third is retained in the 'Purchase Order' book.

The invoices accompanying the goods received are filed by the Accounts Clerk/Book-keeper in an 'Accounts' book. On the date due for payment,

usually four ⁶ This will be further treated in 'Inventory Control'. Supervisor who then prepares the cheque

CHAPTER III : B

CASH DISBURSEMENTS

The depositing of the cash receipts in the bank does not imply in any way that the problem of safeguarding cash has been solved. The independent nature of the various stores entails that all disbursements are to be met from the store's own funds. The problem of control is therefore extended to cover the legitimate application of the funds. This is directly related to purchasing for this activity represents the commonest area where liabilities are incurred and funds used. The policy and procedure for purchasing varies among the stores and on this distinction, they can be separated into two groups.

Group I Puspamara Sales Centre and the Malay Handicraft Centre - where purchases and disbursements are initiated by Supervisors.

Group II The Penang, Kuala Trengganu and Kota Kinabalu stores - where purchases and disbursements are finalised by management.

CASH DISBURSEMENT PROCEDURE IN GROUP I

The Supervisors of the stores are authorised to make purchases independently. They need not obtain prior approval from management to incur liabilities, the latter being informed after the fact. The Supervisors prepare 'Purchase Orders' in triple copies - the original is given to the supplier, one copy to the General Manager and the third is retained in the 'Purchase Order' book.

The invoices accompanying the goods received are filed by the Accounts Clerk/Book-keeper in an 'Accounts Payable' file by due date. On the date due for payment, usually four days before that, the Accounts Clerk/Book-keeper notifies the Supervisor who then prepares the cheque

DIAGRAM 11

PURCHASING AND CASH DISBURSING PROCEDURAL FLOW-CHART

and signs it. She then proceeds to Headquarters with the supporting invoices. The Accountant counter-signs the cheque which is then sent to the vendor.¹

The invoices are then stamped 'paid' (with cheque number and date of payment entered) and kept in a 'paid file'. After the issue of each check the Accounts clerk who has custody of the cheque book, fills in the stub of the cheque book the 'funds' in the Bank before and after payment.

Some of the recommendations that Habert and Simon advocate for internal control over cash disbursements are:

- (a) That all disbursements should be made by cheque
- (b) That all cheques should be pre-numbered and all numbers are accounted for as either used or voided.
- (c) All general disbursements cheques should require two signatures.²

DIAGRAM 12

PURCHASING AND CASH DISBURSING PROCEDURAL FLOW-CHART

These are satisfactorily observed in the procedure just described. There is, however, the potential danger that the counter-signing of the cheques presented by the Supervisor be regarded as perfunctory by the Accountant. The latter has many other responsibilities unrelated to the affairs of 'Puspamara' and his work-load may make him unconscious of the importance of the counter-signing. The signature of the Accountant presents the final step in the chain of control. Should there be any attempt at fraud his scrutiny will either expose it or by-pass it. His scrutiny should cover the following fraud possibilities:-

¹See Diagram 9. Purchasing and cash disbursing procedural Flow Chart for group I.

²"Controllershship" Ronald Press Company, New York 1952 page 204.

DIAGRAM 11

PURCHASING and CASH DISBURSING PROCEDURAL FLOW-CHART

GROU
ONE

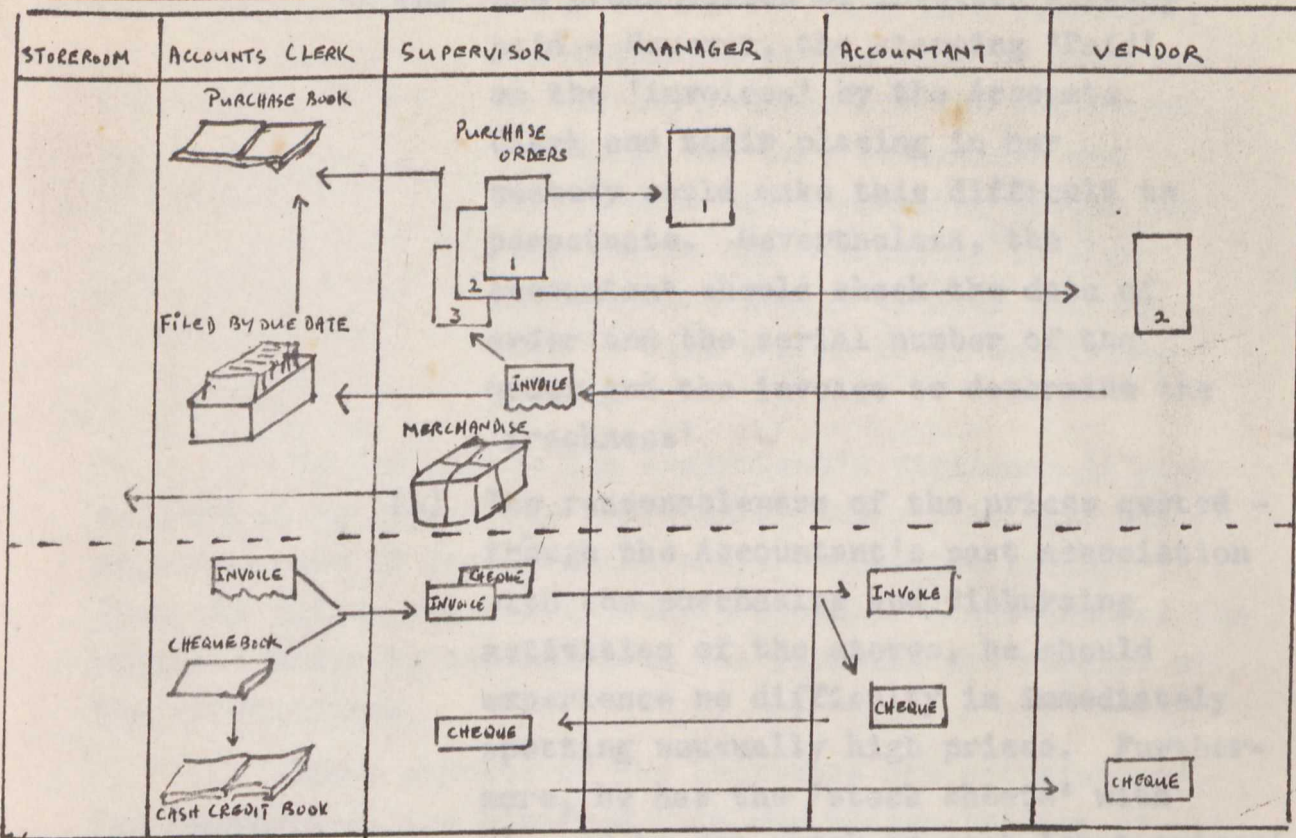
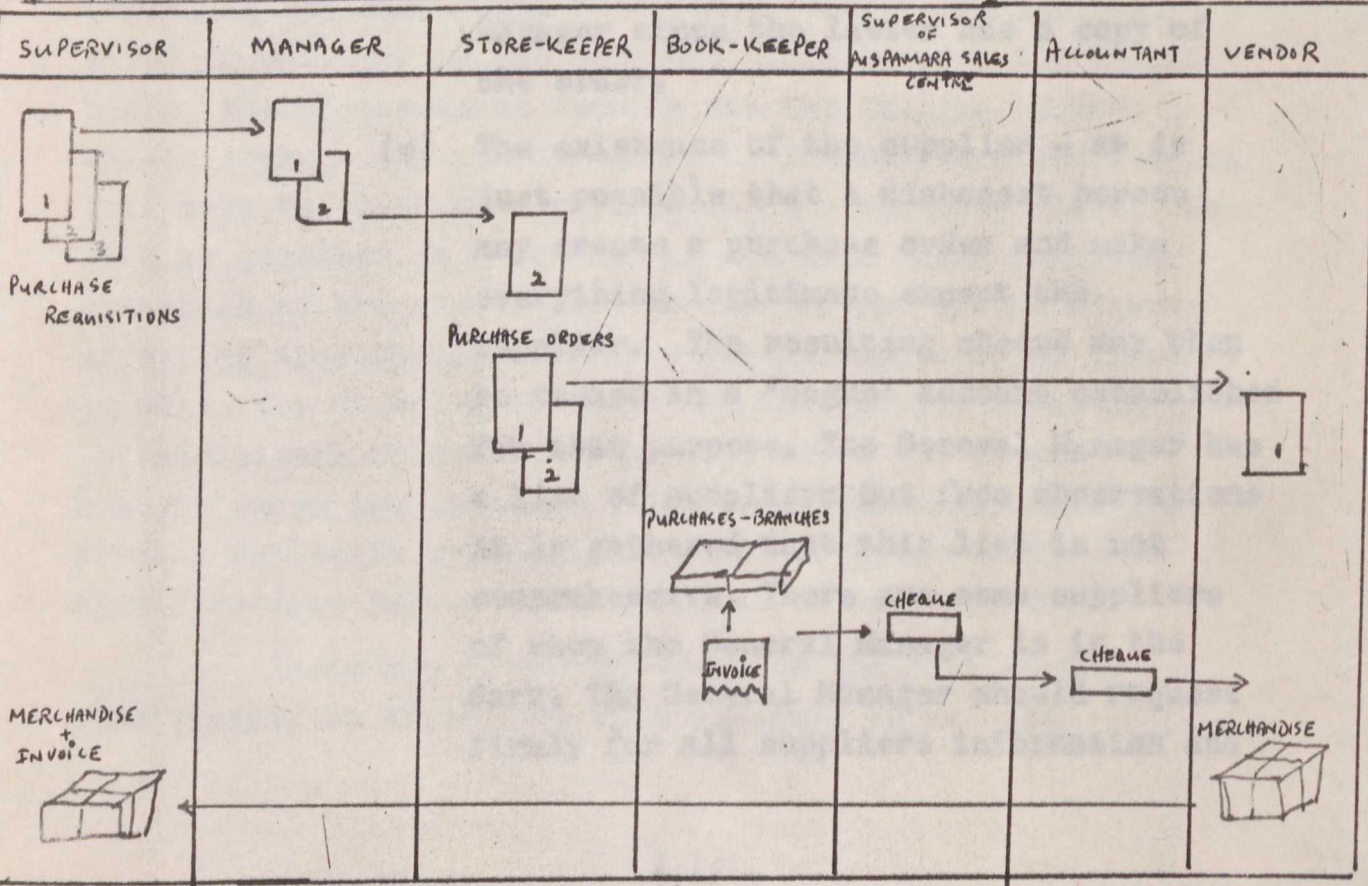


DIAGRAM 12

PURCHASING and CASH DISBURSING PROCEDURAL FLOW-CHART

CH
TR



(a) The presentation of invoices already paid - However, the stamping 'Paid' on the 'invoices' by the Accounts Clerk and their placing in her custody would make this difficult to perpetuate. Nevertheless, the Accountant should check the date of order and the serial number of the order and the invoice to determine the 'freshness'

To facilitate the Accountant's vigilance in such matters it is proposed that an approved copy of the purchase order to the merchant should be sent to the Accountant. Then the latter will be able to check the activities of the stores, he should experience no difficulty in immediately spotting unusually high prices. Furthermore, he has the 'stock sheets' with him and he can check on past 'cost prices' if necessary. Should further check be necessary he can consult the General Manager since the latter has a copy of the order.

(c) The existence of the supplier - it is just possible that a dishonest person may create a purchase order and make everything legitimate except the supplier. The resulting cheque may then be cashed in a 'bogus' account established for that purpose. The General Manager has a list of suppliers but from observations it is gathered that this list is not comprehensive. There are some suppliers of whom the General Manager is in the dark. The General Manager should request firmly for all suppliers information and

Accountant and the these should be filed in a catalogue.
In spite of the inco The catalogue should then be distributed
necessary and should to the supervisors and the Accountant.

CASH DISBURSEMENT IN

This will not only centralise and
standardise the purchasing system but
also enable the Accountant to sign
disbursement cheque without fearing
that it will end up in an unintended
pocket.

To facilitate the Accountant's vigilance in such
matters it is proper for the General Manager to pass his (The
approved copy of the purchase order to the Accountant.
Then the latter will have both the supplier's invoice and the
purchase order to substantiate the purchase and receipt of
the merchandise.

Other aspects of the procedure are satisfactory.
The supervisors are divorced from the responsibility of
handling any cash receipts and all payments are made by
cheques. There is thus appropriate segregation of the cash
receiving and disbursing functions. Additional internal
check is provided by the Accounts clerk keeping the cheque
books, the disbursement records and the filling of the
cheque stubs. Any extraordinary or fraudulent disbursements
will have to clear the Accounts clerk's scrutiny first. No
risk is involved in allowing the Accounts clerk to be the
custodian of the cheque book nor the keeper of the records
affecting disbursements for she has no authority to disburse
at all. The stamping of 'Paid' on the settled bills and
the additional recording of payment dates and cheque
numbers serve two purposes. Not only will this procedure
prevent duplicate payments, it will serve as a reference
should vendors subsequently complain of non-payment.

There are inconveniences, on the part of the
supervisors, in travelling some distance to see the

Accountant and the latter may not always be available.³ the
In spite of the inconveniences the same procedure is, however,
necessary and should not be dispensed with. (see Centre').

CASH DISBURSEMENT IN GROUP II

All purchasing in this group except Duta Mara must first be authorised by the General Manager. The supervisors send to Headquarters a list of desirable items to be purchased. The General Manager surveills the purchase requisition and approves it if found desirable. The approved requisition is then sent to the store-keeper who then sends the requested items to the respective stores. (The Home - office and branch accounting is practised. The goods being charged at cost + 5%). Should these items be out of stock, the store-keeper with the authorisation of the General Manager then directs suppliers nearest the stores to fill the order. The bills are then sent to the Book-keeper of 'Puspamara Sales Centre' and paid from the 'funds' of the said Centre. The costs of these goods are then assigned to the respective stores concerned.⁴

The limitation of the authority of the supervisors in Penang and Kota Kinabalu to contract debts and subsequent settlement entails a lot of correspondence between them and Headquarters. But the management feels that the costs of the paper-work so incurred are insignificant when compared with the risks of mismanagement should they be so authorised. Probably this fear is sustained by the poor performances of the stores in the past and management's belief that they need a further period of trial before more responsibilities are allowed to be exercised by them.

³The 'Malay Handicraft Centre' is about 1 mile away from MARA Headquarters.

⁴See Diagram 12 Purchasing and disbursing procedural flow chart for group II.

The Duta Mara store in Kuala Trengganu enjoys the privilege of being authorised to make purchases. (However, payments are still done by the 'Puspamara Sales Centre'). This is expedient because the store is located in the ^{home} 'house' of handicrafts. And it would be irrational to observe similar procedure to the other stores in the group. The risks of misappropriation are, however as great. These are supposed to be minimised by the imposition of an upper limit of inventory - at \$15,000/-. At any level of inventory value below \$15,000/- the store supervisor purchases directly.

DATE	AMOUNT	GENERAL PRINTING	PACKING	SILVER	OTHERS	TOTAL
From the practical viewpoint the procedure is satisfactory but one must not lose sight of the risks of collusion between the store supervisor and the suppliers. There is considerable likelihood that in the event of collusion, it will find expression in the supplier overcharging and splitting the excess receipts with the store supervisor. Management must therefore continually keep track of the price quotations and the previously proposed catalogue of suppliers could resolve this problem to a great degree.						

PETTY EXPENDITURES total should always be \$200/-.

To meet daily needs on minor expenses a petty cash fund is maintained on an imprest system in each of the stores. The stores in group I are allowed a petty fund of \$200/- per month. These are kept by the supervisors and all disbursements from the fund require the verbal approval from them and later substantiated by receipt documents.

The monthly reimbursements of these funds by the Accountant provides the control measure. At such times, the Accountant checks through the invoices and receipts which the supervisor has brought as evidence of expenses. This monthly check during reimbursements may not prevent the unauthorised usage of the fund for the period before reimbursement. This is offset to a great extent by the irregular and unannounced checks of the Auditors.

During such checks the money in the fund and the receipts there are added and at any one time should total two hundred dollars. Any differences will mean the unauthorised usage of the money in the fund. Furthermore, the receipts are checked and compared with the Petty Cash book kept by the Accounts clerk. The classifications of the book are as follows.

ILLUSTRATION 6
PETTY CASH BOOK DESIGN

DATE	CASH RECEIVED	PARTICULARS	VOUCHER NO.	GENERAL EXPENSES	PRINTING + STATIONARY	PACKING MATERIALS	SILVER POLISH	POSTAGE	ALLOWANCES

At any instance the total should always be \$200/-.

For minor payments in the stores in group II, each store is allowed a fund of \$50/- per month. Expenses are again supported by documents and at the end of each month these are submitted to headquarters as evidence and request for reimbursements. Any individual bill exceeding \$25/- is immediately investigated. The daily supervision of petty fund is the responsibility of the state MARA officer.

The amount available for fraud may be small but this is no excuse for it to be neglected. One American senator said "It is the breaking away of small stones that starts big Avalanches." The Management therefore ^{should} not neglect vigilance over petty cash usage.

between the 'Malay Handicraft Centre' and the 'Puspawara Sales Centre'. In the former, all deposits and withdrawals

CONTROL OF CASH BALANCES

In addition to concern over the cash disbursement and receipts procedures, close control should also be maintained over the resulting cash balances. This problem is resolved to a greater degree by the practice of depositing all cash daily in the bank. These procedures have already been reviewed and in this section we shall be more interested with Bank Reconciliation and the planning to assure that the balances will neither be excessive nor inadequate.

The primary purpose of the bank reconciliation is to determine that agreement exists between the bank records of the store's cash transactions as evidenced by the bank statements, and the store's records of these transactions. If properly done, the task is much more than a listing of outstanding cheques, deposit in bank, and unrecorded bank charges. It can be used to become an important phase of internal control.

The bank statement shows the date and amount of deposits as well as the date, amount and number of cheques issued. These information could be utilised to maintain a check over the disbursing officer and the salesgirls who deposit the cash. Assuming that the Supervisor dodges the control elements then these transactions will be unrecorded by the Accounts Clerk. This will become evident when the Accounts Clerk compares the records with the statements.

The cash of the stores is deposited on the day following the collection and consequently there should be only a day's lapse when the date of deposit and the date of sales are compared. Any longer lapse can only elicit the fact that the salesgirls who deposit the cash have bridged procedures.

So much for the usefulness of the reconciliation. There is no standard way in the treatment of cash balances between the 'Malay Handicraft Centre' and the 'Pusparamara Sales Centre'. In the former, all deposits and withdrawals

are handled by the 'Overseas-Chinese Banking Corporation'. In Puspamara Sales Centre, the 'Overseas Union Bank Ltd' is used for deposits only and at the end of each month all the deposits are transferred to 'Bank Negara' from which all withdrawals are made. The use of two banks for two purposes result from two considerations - the convenience and the security provided by it. For example, the 'Overseas Union Bank Ltd' is only about 50 yards away and is the only bank within reasonable distance. To carry a thousand over dollars each day over a considerable distance is to invite trouble. Secondly, the use of two banks for two purposes aids in the task of reconciling the Bank statements since the items will be distinctly separated - one only withdrawals and the other deposits.

Who should perform the Bank reconciliation is important. The requisite is that the person who does the reconciliation should be completely independent of any other responsibility related to cash. The Accounts clerk and the Book-keeper in the 'Malay Handicraft Centre' and 'Puspamara Sales Centre' respectively are the obvious candidates and their assignments to this task is in conformance with the control requisite.

Control of cash balances is not only limited to the reconciliation of bank statements; the need to use the cash balances economically should not be overlooked. The opportunity cost of maintaining idle funds is the loss of the revenue that could have been earned had it been loaned out.

The 'Puspamara Sales Centre' has excess cash balances of about \$40,000 and prior to June 1967 this sum was deposited at 'Malayan Finance Company Ltd' and earned interest at 6%. After that date the sum was transferred to a 'Sales Centre Revolving Fund' (interest also at 6%) managed by MARA. Had this amount of idle money not been usefully applied the loss would have amounted to about

two thousand four hundred dollars per annum. accomplished

The 'Malay Handicraft Centre', on the other hand, does not use its funds fully. In 1965 and 1966, the cash balances were \$60,000 and \$40,000 respectively. In 1966, about half of the funds was kept in a 'fixed deposit' basis since the 1966 'Profit and Loss Statement' showed interest on fixed deposits as \$1,131.25. But in 1967 the procedure was reversed. A considerable sum of money was transferred to MARA resulting in a cash balance of about \$20,000 and this whole sum was kept in a 'Current Account' thus yielding no interest revenue. Realising the desirability of making full utilisation of the cash balances there should be some scientific procedure whereby decisions as to the time and amount of money available for such usage can be based. In the present method, management, through feel and rule of thumb judgements make the decisions, and usually only at the end of the year. But during the time that the excess fund is accumulating, interest revenue is lost by maintaining it on 'current account'. A cash budget is the proper substitute for the trial and error procedure. efficient measure

A cash budget is a projection or forecast of the anticipated cash receipts and disbursements and the resulting cash balances within a specified period. The operation of any business must be planned within the limits of available funds and the cash budget is a necessary function in cash administration. The basic purpose is to plan so that the business will have necessary cash and when cash is available, the effective utilisation of such cash. have been

Most people achieve better results when aiming at a target rather than taking things as they come. The Cash Budget could be used to stimulate sales efforts. The General Manager is in a qualified position to prepare the budget since he has with him monthly records of sales and disbursements. He is therefore in a position to set a target for the next period. In setting this target he must be conscious of the dangers of being too optimistic or

pessimistic. There is little thrill in having accomplished a target set too low nor much encouragement if one consistently falls short of a target deliberately set too high.

Earning income is the most important objective of business but cash is the lifeblood of business.⁵ Cash is also the most active element in a store and during the turnover processes adequate procedures must be carefully established and observed. The mere showing of a net income on paper unsubstantiated by money in the bank is of no avail. Therefore it is important to keep control over cash receipts, disbursements and balances. All hard earned revenue should be received in full, only legitimate liabilities should be settled and the best possible returns be found for the excess cash available. Internal control procedures are basically designed for deterring fraud and errors and detecting them promptly when they occur. Many of the procedures of 'Puspamara' stores are based upon a division of duties and this provides mutual check and verification of each other's work. Sufficient measures have been taken to establish accountability for cash receipts. The present controls to ensure disbursements only for the legitimate liabilities of the store are adequate for the size of the stores but there are possible improvements in the present procedure to await possible future expansion. This, however, cannot be said of the cash planning. A cash forecast is needed to plan properly the future sources and payments of money, and the full utilisation of the store's funds.

⁵ There need be no correlation with the amount of income earned and the amount of cash realised because Accounting is on an accrual basis. In the proportion of credit sales in relation to total sales between 'Puspamara Sales Centre' and the other stores on the one hand and the general unimportance of credit sales to 'Puspamara' on the other can be attributed to a number of factors.

CHAPTER IV

CREDIT SALES & ACCOUNTS RECEIVABLES

'Credit' so pervades the daily business transactions of modern society that its meaning is generally assumed to be known. Many people understand and use the term in different ways and in this chapter the working definition takes credit to be the measure of the ability of an individual or business enterprise or government authority to obtain present merchandise deferring the payments in money to a definite future time.

Credit performs an essential service. It is a temporary substitute for money for the business may be transacted without the use of money. Thus credit acts as a medium of exchange for the period until the debt is settled by money and in this way allows the acceleration of exchange and consumption.

Except for the 'Puspamara Sales Centre' credit sales forms an insignificant part of the total sales of all the stores under 'Puspamara'. In 1966, total credit sales of the 'Malay Handicraft Centre' for example, amounts only to a sum of about \$16,000. This insignificance is even more glaring when expressed as a percentage of total sales - about 9.8%. The picture is no different in 1967; annual credit sales totalled only \$7,695/- and is only about 5.1% of total sales for the same period. The actual credit sales of the remaining stores in Penang, Kuala Trengganu and Kota Kinabalu are ~~so~~ equally if not more meagre. Conversely credit sales is comparatively an important aspect in the 'Puspamara Sales Centre'. In 1967 it accounted for about 20.4% of the total sales revenue : in dollar value \$53,555/-. Why there should be such a great difference in the proportion of credit sales in relation to total sales between 'Puspamara Sales Centre' and the other stores on the one hand and the general unimportance of credit sales to 'Puspamara' on the other can be attributed to a number of factors.

One of the factors lies in the policy of credit extension of 'Puspamara'. Requests for sales on credit are generally unwelcomed by the store supervisors and they seldom hesitate to assert that cash sales are preferred to all who inquire about credit facilities. 'Strictly cash basis' is the motto that is adhered to faithfully by the supervisors. There are exceptions to every rule and in Puspamara the following categories of bodies find exception to the general rule:

- (a) staff of the stores
- (b) staff of Mara
- (c) staffs of all government and statutory bodies on presentation of 'Local government orders' issued by the respective authorities.
- (d) Authorised requests by reputable firms
- (e) - All persons personally authorised by the supervisor.

The desirability of conforming to this policy will be examined now. The extension of credit facilities to the staffs of the stores and Mara is made in consideration of the security and certainty of the repayment. Faith or confidence is the foundation of credit. Credit actually is derived from the Latin 'credo' which means 'I believe' and 'credo' itself is a combination of two older words - sanskrit 'crad' meaning trust and the latin 'do' meaning 'to place'. Trust of future payment is the criterion applied in allowing the staffs of Puspamara and Mara to take present values in exchange for a promise of future payments. Their employment in MARA means that their salaries or wages are collateral and available as settlement of debts should their accounts threaten to become delinquent. This explains the absence of delinquency of accounts among the staffs of MARA.

One direct consequence of the liberality of credit extension to them is its abuse. This gives credibility to

the maxim that too much of a certain thing makes one oblivious of its value. Credit is used for credit's sake by the majority of the staff of MARA. Under normal circumstances, credit is used as a medium of exchange only when conditions perforce its use for example, when large purchases are made. The frequency of nominal purchases on credit points to the need for an appraisal of the present credit policy. In 1966, for example, purchases of \$5/-, \$9.50; \$9.80; \$13/- and in 1967, \$2.85; \$4.70; \$8.10 and \$8/- were on credit.¹ These figures only represent purchases of not very popular items like 'Mengkuang' and 'Tembaga'. It is unfortunate that no further breakdown of the 'Batek' figures are available. The total credit sales may appear significant but I believe this seemingly importance will be shattered on a further analysis of the individual credit sales.

The semi-governmental status of MARA obligates Puspamara to grant credit to all employees of all government and statutory bodies who produce 'Local order vouchers'. And by no means are these purchases infrequent. The following table represents some of the purchases by government departments in 1966 in the 'Malay Handicraft Centre'

TABLE I

'MALAY HANDICRAFT CENTRE' - CREDIT SALES TO
SOME GOVERNMENT AND STATUTORY BODIES : 1966

Ministry of Defence	\$ 514.75
Prime Minister's Department	2,697.85
National Electricity Board	781.00
Ministry of Foreign Affairs	3,809.60
Ministry of Information & Broadcasting	854.00
Bank Negara, Malaysia	1,980.60
Ministry of Transport	248.35

¹Source: Puspamara Sales Centre, 'Credit Sales Analysis, report 1966 and 1967.

The formality of the process of obtaining approved 'Local order vouchers' discourages the purchases of small amounts on credit basis. The majority of the purchase made by the government departments or their staffs usually end as gifts to visiting dignitaries or parting friends. These gifts can by no means be nominal in value. The problem here, however, is the recurrent lateness in the actual payment. An analysis of the Collection period of 'Accounts Receivable' in the 'Malay Handicraft Centre' will support this. The following table shows the dates of debt incurred and payment date.

TABLE 2

COLLECTION PERIOD ANALYSIS OF CREDIT
SALES MALAY HANDICRAFT CENTRE 1967.

Date sales made	Date paid	Period (Days)	Debtor
9.1.67	2.2.67	24	private individual
14.1.67	23.1.67	9	" "
8.2.67	22.4.67	74	Ministry of Information
10.3.67	4.5.67	55	Private
11.3.67	3.10.67	242	Ministry of Information staff
16.3.67	14.6.67	88	Selangor Club
17.3.67	28.4.67	41	Private
27.3.67	31.5.67	63	Private
28.3.67	4.4.67	6	Private
7.4.67	20.7.67	103	Private
21.4.67	5.6.67	56	Prime Minister's Office
27.4.67	30.10.67	183	Prime Minister's Office
2.5.67	5.6.67	63	Prime Minister's Office
6.5.67	22.8.67	106	Cathay Advertising Corp.

<u>Date sales made</u>	<u>Date paid</u>	<u>Period (Days)</u>	<u>Debtor</u>
17. 5.67	26. 7.67	69	Housing Board
18. 5.67	29.12.67	222	Housing Board
19. 5.67	26. 7.67	67	Selangor Golf Club
6. 6.67	24. 7.67	78	Ministry of Internal Affairs
23. 6.67	14. 8.67	51	Ministry of Transport
31. 7.67	16. 9.67	46	Private
24. 8.67	3.10.67	39	Private
1. 9.67	7.12.67	98	Ministry of Information & Broadcasting
2.10.67	28.10.67	26	Private
28.10.67	8.12.67	22	Private
13.11.67	13.12.67	30	Private
6.11.67	5.12.67	29	Private
19.12.67	27.12.67	8	Private

On an average the lapse period is about 60 days (2 months).² The private individuals and commercial concerns who enjoy credit facilities are usually prompt in their payments (the initial short-listing being responsible). Their problem is of a different nature and will be treated accordingly later. The problem posed by the two months lapse before the Treasury finalises the payments needs further analysis. There^{are} several elements of costs involved in granting credit. These costs can be classified into:-

$$\begin{aligned}
 &^2 \text{Average Accounts Receivable} = \text{Average age of} \\
 &\quad \text{Average daily credit sales} \quad \text{receivables} \\
 &\quad \frac{2414 + 3000}{2} \quad = \frac{2707}{53} \div 52 \text{ days} \\
 &\quad \frac{16,000}{300}
 \end{aligned}$$

(a) Direct expenses of granting credit - the cost of keeping the records and the cost of notifying debtors.

(b) Financing costs.

Sales on account necessitates the accurate keeping of records of the debtors - the maintenance of separate Accounts Receivable, Control and Subsidiary Accounts. This requires a proportion of the efforts of the Accounts clerk. Part of the salary that she gets should therefore be assigned to this work. How much to assign is difficult but let us assume a sum of \$5 per month. This is fair as it represents less than 3% of the gross salary of the Accounts clerk. Furthermore, we must consider the expenses involved in the preparation of monthly reminding statements - the stamps and writing supplies involved. Let us give it a nominal value of \$1 per month. Therefore about \$6/- per month are incurred just to keep the credit accounts current.

The second major category of cost is the opportunity cost. By this is meant the cost of a lost opportunity rather than the actual cost incurred. Sales on credit actually amounts to the financing of the debtor for the period the debt is outstanding. The opportunity cost here is the interest revenue foregone had the cash been loaned out. The outstanding 'Accounts Receivable' for 1966 in the 'Malay Handicraft Centre' was about \$3000/- and using 6% as the current interest rate the amount of interest revenue foregone for financing the debtors for two months is about \$30.³

$$\frac{3}{100} \times \frac{6}{12} \times 3000 = \$30 / \text{two months}$$

1966: Debtors Outstanding \$30,000
Financing Cost: $\$30,000 \times \frac{6}{100} \times \frac{2}{12} = \150

Expenses related to control of debtors

All in all about twenty one dollars per month is incurred to finance the debtors. This is applicable only to the 'Malay Handicraft Centre' where credit sales is relatively insignificant. If we use the same procedure for 'Puspamara Sales Centre' the amount come to about \$155 per month.⁴ Perhaps the general lateness in settlement of debts by the Government Treasury is understandable and is a burden which must be borne by all alike who deals with the Government. Understandably therefore, management cannot do much in this area except to follow up the debts as soon as possible.

The situation is reversed when it comes to handling credit sales of individuals or firms in the private sector. The Management and the Supervisors are in the position to reject or approve them. However, that decision is not as easy as it sounds. Two contradictory forces are involved and they need be balanced before the final judgment. On the one hand, there are advantages in allowing credit facilities to customers who are not known personally at first glance. This is not far from saying that the present policy of extending credit facilities to known persons (in other words, personal friends) is not wholly satisfactory. On the other hand, there are the costs and risks to be borne when credit is given.

Credit is generally recognised by retailers as an effective producer of sales. Some customers expect credit service and unless such service is available sales to these customers will be limited. This customer demand for credit arises from the fact that it makes their buying more pleasant. Credit makes it unnecessary for them to carry appreciable sums of money while on shopping trips.

⁴1966:Debtors Outstanding \$30,000 see B/s on Appendix 6
 Financing Cost: $\$30,000 \times \frac{6}{100} \times \frac{1}{12} = \150
 Expenses related to control of debtors
 \$155

The availability of credit also enables many people with 'monthly take-home pay' to buy on credit during a part of the period between the dates on which their incomes are received. Such customers are likely to be more steady customers and hence to buy a greater proportion of their goods from the store than any other.

These are some of the advantages of granting credit facilities. The rejection of credit service to any particular customer without prior investigation means the sacrifice of the revenue which may have been earned both at present and in the future.

However, the result of a more liberal granting of credit will be the assumption of certain expenses and risks which have already been examined. In short, these include the costs of maintaining the records, the financing cost during the debt period; the follow-up procedures to secure payments and the risks of non-payment at all.

Should credit be given? The answer is yes - and not only to the friends of the Supervisor or Manager but also to potential good customers. The criterion should be - will the profit on the extra trade created be greater than the cost of financing the credit, bearing loss of any non-payments and recompensing the extra work involved?

The liberalisation of the credit policy should be exercised with care and rationality. To avoid attracting the wrong type of customer it is best not to advertise that credit facilities are available. They should be offered only if requested. The Supervisors should be disciplined along the lines of never deal with a rascal under the impression you can prevent him from cheating you.⁵ The supervisors

⁵Chapin & Hassett "Credit and collection: the Principles and Practice"
McGraw Hill Coy Inc. 7th Edn.

⁶The four e's are "Character" "Capacity" "Capital" and "Economic conditions".
1960
page 51

should be adequately disciplined to evaluate the four c's of credit before coming to a decision.⁶

So far we have examined the reasons for the paucity of credit sales in 'Puspamara' stores. Why 'Puspamara Sales Centre' has more credit sales than all the stores combined remains to be seen. Location seems to be the major factor. The 'Puspamara Sales Centre' is located in the MARA building itself. The staffs of MARA therefore do most of their shopping there. The comparatively more impressive atmosphere and air-conditioning of the store may also be the attractive features.

This discussion of the credit sales policy of 'Puspamara' stores has elicited a number of deficiencies in the credit sales procedure. The most serious is the strict policy of 'cash transaction' only rule. There should be a more liberal credit policy and this should also be extended to more firms and individuals after proper investigation. The liberalisation of credit to the mentioned favoured groups should be reviewed. The high frequency of small purchases on credit terms should be discouraged. One way is to let a minimum limit above which credit will be allowed. A \$50/- limit seems appropriate.

The sphere in the which the accountant can be of greatest assistance to the Manager and the supervisors in the credit area lies in the record keeping files. It is desirable that management and the supervisors be supplied with detailed and summarised reports of the credit situation. This is so because 'Accounts Receivable' remaining as such are only assets or claims against others. Net income and cash are realised only when the debtors settle their debts. Therefore there should be means whereby they can ensure that the business collects amounts owed by its customers promptly and fully and that the collections are properly paid into the

⁶ The four c's are "Character" "Capacity" "Capital" and "Economic conditions".

stores account.⁷

Two sets of books are kept. One is the general ledger where the total of the debts outstanding are debited and this control account is detailed in the subsidiary ledger. The latter is categorised alphabetically and this facilitates checking the individual debtors' status at any one time.

Monthly statements are sent to the debtors requesting payment as soon as possible but these statements are not essential really because most of the credit customers will eventually pay through the government Treasury. The statements to the few private individuals who enjoy credit facilities are generally a formality as they usually pay up in the specified period. So far no legal action has been necessary to force recalcitrant debtors to pay up.

There are a great variety of measures for controlling credit and collections, but only a few of these are generally important. Some of these are:

- (a) Change in credit sales volume:
obtained by dividing the difference between the figures for two periods by the amount of credit sales for the less recent period.
- (b) Aging of the Receivables where the outstanding accounts of customers owe aged according to payment date.
- (c) Ratio of credit sales to total sales.
- ⁸ (d) Average collection period obtained by the ratio $\frac{\text{Average Accounts receivable}}{\text{Average daily credit sales}}$

⁷This has been treated in 'Collection from debtors.'

⁸Black H.A. & John E. Champion "Accounting in Business Decisions : Theory method and use" Prentice Hall, 1961 pages 404 - 428.

Some of these should become regular internal reports to the supervisor and Manager to keep them in making decisions as to what to do about the present debtors and modify their decisions as to future credit granting. ^{help} This means that the retailer who ^{dis}regards this operation of customer demand the more readily will the goods be sold. This has much validity and the retailer who ^{dis}regards this operated under a severe handicap. It must be remembered that goods are bought for resale and that they cannot be sold unless they meet the needs and desires of customers and are made available to them at prices they are able and willing to pay.

What to buy is therefore an important question as the supervisor-cum-purchaser must make sure that she has in stock, merchandise that prospective customers want and expect to find in the store. She may use such methods as talking to the salesgirls, visiting other stores or even courting customers views but more attention will be given to her use of the 'stock-cards' and the 'sales Analysis books' in arriving at purchasing plans.

It has been said that sin lies not in making a mistake but in making the same mistake twice. To lessen the number of repetitive mistakes in purchasing the 'Malay Handicraft Centre' maintains two sets of books¹ - The 'sales Analysis' book and the 'out-of-stock' book. The 'Sales Analysis' book tells the supervisor how much of each of the major categories of goods are sold per day as well as per month. The following is an illustration of the design of the book:

¹So do all the remaining stores of 'Puspanara'.

CHAPTER V

PURCHASING

"Goods well-bought are half-sold" is an axiom which is often stated. This means that the better the anticipation of customer demand the more readily will the goods be sold. This has much validity and the retailer who ^{dis} regards this operation under a severe handicap. It must be remembered that goods are bought for resale and that they cannot be sold unless they meet the needs and desires of customers and are made available to them at prices they are able and willing to pay.

What to buy is therefore an important question as the supervisor-cum-purchaser must make sure that she has in stock, merchandise that prospective customers want and expect to find in the store. She may use such methods as talking to the salegirls, visiting other stores or even courting customers views but more attention will be given to her use of the 'stock-cards' and the 'sales Analysis books' in arriving at purchasing plans.

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¹So do all the remaining stores of 'Pusparamara'. The design of the stockcard is illustrated below:

ILLUSTRATION 7

DESIGN OF SALES ANALYSIS BOOK

DATE	CODE NO.	DESCRIPTION	SELLING PRICE	COST PRICE	SILVERWAS	MARATEX	RATEX	HANDICRAFT
11-3-68	1C220	BATELSHAW	\$11.50	49.00			811.50	
3-1-68	811			10				
16-1-68	17337			8				
11-1-68	17338			7				
25-2-68	17609		3	4				

All in all there will be twelve such books for a year and for each month a sales report is prepared. At the end of the year, an annual sales Analysis is also prepared. Therefore the Supervisor has at her disposal the past sales history of the different categories of the articles. The reports will tell her how much she sold of each size, style and price line of the different articles. These information will thus aid her in framing her purchasing policies.

The 'out-of-stock' book brings to the attention of the supervisor the items that require urgent restocking. Normally, the salesgirls are instructed to enter in the 'out of stock' book any item of merchandise which to their knowledge has been out of stock. However, during the period when the stock cards are not up to date the out of stock situation is brought to light when customers request for the items. This procedure is unsatisfactory as the potential sales would have been lost.

The unit stock card system, however is the most important element in aiding the Supervisor's purchasing plans. The design of the stockcard is illustrated below:

²For other uses of the stock-card system - see Inventory Control.

ILLUSTRATION 8

STOCK CARD

161098 BRACELET CHICKAK					COST PRICE SELLING PRICE		
DATE	INVOICE NO.	RECEIVED	SOLD	BALANCE	DATE	INVOICE NO.	BALANCE
3-1-67	B/F	-	-	10			
10-1-67	17377	-	2	8			
11-1-67	17398	-	1	7			
23-2-67	17609	-	3	4			
10-3-67	20728	6	-	10			
11-4-67	18234	-	2	8			

When the ordered goods are received, the Accounts clerk rises the invoice supplied by the vendor to record the date, invoice number and number of articles received and the resulting balance in the relevant stock-card. For example, on 10.3.67 seven 'Bracelet chickak' were received, bringing the resulting balance to ten articles. When one bracelet was sold on 11.4.67 the balance was reduced to nine. Therefore, the stock-cards record the inflow and outflow of merchandise and the dates of sale and receipt indicate the saleability and the time period required for the fulfillment of an order respectively.² The supervisor therefore need only consult the stock-cards to determine how many articles she has in stock for a particular item and confirm her interpretation of the monthly sales Analysis report.

How much to buy at a particular order is a different problem altogether and adeptness at this requires experience. The supervisor's problem is to order that

²For other uses of the stock-card system - see Inventory Control.

amount which is sufficient to meet demand for a period of time and not to add further to the costs of carrying the merchandise.³ Unlike manufacturing concerns where the usage of materials is more consistent and determinable the retailing unit cannot make good use of the 'Economic order Quantity' procedure. Sales depends primarily on the customers and demand is unpredictable on a consistent basis. The supervisor therefore uses her experience, the stock-cards and the sales report to formulate how many articles to buy at each order. Generally, she favours conservatism and buys on a 'Hand-to-mouth' basis. By this is meant that the supervisor orders when circumstances warrant it, for example when stocks are low, and not too much at a particular time, for example, enough to bring the balance to the previous figure in the stock-card.

A major portion of the purchasing procedure of 'Pusparamara' stores has already been discussed in the chapter on 'Cash Control'.⁴ The discussion will therefore be centred on the areas untouched before.

The 'purchase order' is the catalyst that sets in motion a series of events which culminates in a liability. The 'purchase order' accordingly should be well designed both to ensure that the specified goods are received and to prevent the incurrment of extra expenses resulting from clarifying correspondence between purchaser and seller. The 'purchase order' serves a variety of purposes, both internal and external. Through the use of multiple copies, the order form serves

(a) an acknowledgement form to be executed and returned by the supplier.

³ see 'Inventory Control.'

⁴ Cash Disbursements Flow diagram 5.7 desire slight variations. In such cases, the supervisor still uses the

code number of the article but in addition she sketches the article with the variations and a brief description of the alterations.

- (b) as a source of information for the Accounts Clerk
- (c) as a receiving report

- (d) as a source of information for the supervisor negotiate inspection through correspondence and should the supervisor negotiate through correspondence and

In addition to the internal functions of the 'purchase order' it should always be kept in mind that the order form is a contractual instrument. The terms and conditions contained in the form should therefore include those which are essential to protect the buyers interests as well as to inform the supplier that the buyer desires to purchase the items specified.

A 'duplicate book' forms the 'Purchase order Book' of the 'Malay Handicraft Centre'. This book is serially numbered but there are no prepinted heads on the form. Each sheet is a blank one. It is similar to a letter paid with which the supervisor corresponds with the supplier. Usually, after the preliminaries, the supervisor writes "Please supply the following and this is followed by a specification of the code numbers and the quantity of the items ordered. Prices are not quoted but this is not surprising as the Supervisor depends only on a few major suppliers which have established standard prices through past dealings.

When the merchandise ordered arrives it is accompanied by a bill or invoice. (An invoice is an itemised statement of merchandise shipped to the purchaser with the quantity, value or prices and charges shown). This invoice is used to check the merchandise received as to description and quantity. The prices are checked simultaneously as the stock cards are entered. This is the procedure with regards to established vendors for standardised items. Frequently, customers may desire slight variations. In such cases, the supervisor still uses the

code number of the article but in addition she sketches the article with the variations and a brief description of the alterations.

For relatively new and untried suppliers, the supervisor negotiates the prices through correspondence and should the quoted prices be higher than former ones, she attempts to bring them, at least, to par with previous bargains. However, such suppliers form only a reserve list used when the established suppliers are unable to cater to orders on the requested date.

The procurement procedure of the 'Puspamara Sales Centre' is along similar lines with one major difference. The 'purchase order' forms are preprinted as illustrated on the following page.

It is unfortunate that the 'purchase orders' are not used to check with the invoices, the goods received. The reason given by the supervisor of the 'Malay Handicraft Centre' why this was not done was that it was too burdensome. But it must be remembered that the invoice is prepared and sent by the supplier and it is quite unlikely that intentional fraud will be practised here. Should there be any deviations between the invoice items and the actual goods received they are most likely due to carelessness. What the supervisor should be wary of in the case of receipt of goods is not so much whether the arithmetic is correct (this is not an advocacy that it should be neglected altogether) but more with whether the charges are fair and in accordance with predetermined rates, and whether the goods received are actually ordered. It may be revealed that goods not ordered are sent or that the quantities received are contrary to what were ordered. And these cannot be deduced from the invoices. In short, the supervisor should use the purchase order to check with the invoices and then either may be used to check the goods.

Pengerus/Penyelia,
Puspamara.

MAJLIS AMANAH RA'AYAT (MARA)
BAHAGIAN PERUSAHAAN DAN PERDAGANGAN
CHAWANGAN PUSPAMARA

Talipon: K.L.24158

Bil: MARA

Bil: Tuan

Puspamara,
 Bangunan MARA,
 232 Jalan Tuanku
 Abd. Rahman,
 Kuala Lumpur.

Tarikh:

..... of an order form for the stores it
 must be kept in mind that the stores handle standardised
 items as well as cater to individual tastes. Should the
 latter be necessary then there must be adequate grace for

Tuan/Puan,
 illustrated form used by the 'Puspamara Sales Centre' would
 suffice. But it suffers from the following deficiencies:
 kapada:
 dan hantarkan tuntutan kapada kami.

Bil:	Barang	Banyak-nya	Kenyataan
------	--------	------------	-----------

(b) The order forms are not bound. The
 loose sheets enables practically
 anyone to have access to them and
 missing form are not traceable as they
 are not pre-numbered.

These two defects encourage an unscrupulous person
 to use the forms to place orders and retain the goods
 without authorisation. Such a situation would come to
 light only when the creditor takes measures to enforce
 payment but then it will be too late for Puspamara authorities
 to act.

It is believed that the following form design is
 suitable for the purposes of all 'Puspamara Sales Centres'.
 Pengerus/Penyelia,
 Puspamara.

it will be To the extent that purchase orders are to be used in checking the goods received and for a variety of other purposes, the form must be complete as to the quantity ordered, goods description and prices. This will save a great deal of burdensome clerical work later. The purchase orders should preferably be standardised as to the address-heads and other common information. At present the supervisor of the 'Malay Handicraft Centre' has to write her address for every order placed. This duplication of effort will be avoided with the pre-printing of the information.

..... In the design of an order form for the stores it must be kept in mind that the stores handle standardised items as well as cater to individual tastes. Should the latter be necessary then there must be adequate space for the illustration. One would have thought that the illustrated form used by the 'Puspamara Sales Centre' would suffice. But it suffers from the following deficiencies:-

Code No.	Description	Quantity	Price/Unit	Total
	(a) The back of a preprinted order number.			
	These forms should be serially numbered so that control over its usage can be effected easily.			
	(b) The order forms are not bound. The loose sheets enables practically anyone to have access to them and missing form are not traceable as they are not pre-numbered.			

Dear Madam,
We acknowledge receipt of your No. 04518 and we are able/unable to supply the goods ordered. These two defects encourage an unscrupulous person to use the forms to place orders and retain the goods without authorisation. Such a situation would come to light only when the creditor takes measures to enforce payment but then it will be too late for Puspamara authorities to act.

It is believed that the following form design is suitable for the purposes of all 'Puspamara Stores' but here

The suppliers are relatively unsophisticated in management and lack proper running systems thus necessitating this section for the conven- 72 - of Puspamara itself.

it will be specific for the 'Malay Handicraft Centre'.

ILLUSTRATION 10

Number: 04518

To do so with the minimum investment in
MALAY HANDICRAFT CENTRE safety and

9 JALAN MOUNTBATTEN

KUALA LUMPUR.

Telephone No:

Date:

..... If management were to undertake the purchasing
function on behalf of the stores it will mean a possible
reduction in product costs through the combination of
Sir/Madam, store requirements into large orders to obtain
discounts. Please supply us with the following items not
later than, transportation charges being
borne by buyer/seller. expenses like stamps, and correspondence

Code No.	Description	Quantity	Price/Unit	Total
----------	-------------	----------	------------	-------

Dear Madam,

We acknowledge receipt of offer No.04518 and we are able/unable to fulfil the order by the requested date.

So far we have been discussing the act of buying by the individual store supervisors. The discussion is under the assumption that this decentralised purchasing system is preferable to a more centralised system, for example, purchasing by Management. The problem boils down as to which system best satisfies the following purchasing objectives:

5 The suppliers are relatively unsophisticated in management and lack proper ^{accounting} ~~running~~ systems thus necessitating this section for the convenience of Puspamara itself.

- (a) To maintain continuity of supply to support selling.
- (b) To do so with the minimum investment in goods consistent with safety and economic advantage.
- (c) To avoid waste and obsolescence
- (d) To procure goods at the lowest cost consistent with the quality and service.⁷

If management were to undertake the purchasing function on behalf of the stores it will mean a possible reduction in product costs through the combination of individual store requirements into large orders to obtain discounts. Further savings could be effected in procurement costs, particularly in such areas as travelling expenses and other administrative expenses like stamps, and correspondence supplies. However, the decentralised purchasing procedure still suits the stores best. The stores are situated in different areas and this makes it difficult for management to co-ordinate the requirements of the various stores. It is difficult for management to adjust the central buying to the needs of the stores. Buying and selling are so closely related to the individual store that it is a responsibility best suited to the individual store supervisors. Furthermore, it is doubtful whether the resulting economics in Central purchasing are enough to compensate for the expenses arising from the ensuing correspondence or communications between Management and the stores. The decentralised purchasing system should be maintained.

⁷Adapted from Stuart F. Heinritz:
"Purchasing: Principles & Applications" Prentice Hall New Jersey 3rd Ed. 1961 page 12.

To have too much in stock of merchandise is to have capital tied up unnecessarily and to be making bad use of it, to be out of stock is to lose opportunities to make profitable sales and build goodwill while actually driving potential customers into the arms of competitors. Purchasing is therefore a vital area. Good buying consists of stocking what customers want. In 'Puspamara' stores, the unit stock card system and the monthly sales report and the 'out-of-stock' books aid in the purchasing program. It may be risky to obtain all supplies from a few sources as the stores may then become too dependent on the suppliers. But it pays to be a good customer of the suppliers because through frequent dealings both suppliers and buyers have agreed to many important things. that ease purchasing. The use of similar code numbers and agreed prices are some examples. The purchasing procedure would be much simplified with the adoption of preprinted forms that contain all the necessary details. Through the use of multiple purchase orders much clerical work is avoided with regards to the ordering, receiving, recording and paying for the goods. The goods should still be purchased by the respective store supervisors as this decentralised system best suits the needs of the stores.

- (a) stock-out costs: A stock-out occurs when goods requested by customers are not available. The term signifies the condition of being out-of-stock, and there are two variants of this cost. The most immediate effect will, of course, be the loss of profit on sales if as a result of the stock-out, the customer buys elsewhere. The customer who has found one or more out-of-stock situations in a store will become less likely to return for other purchases. There is thus also a loss of future sales which

CHAPTER VI

MERCHANDISE CONTROL

The necessity of carrying Merchandise inventory is regarded by all retailers as an evil necessity. The uncertainty of the promptness of delivery by supplier and the uncertainty of customer demand makes it imperative for retailers to hold merchandise inventory as a buffer between receipt of merchandise and the sale of such items. The storage of inventories represents the choice of two alternatives - the forfeiture of potential sales revenue or the incurrment of costs arising from keeping the goods in stock with the hope that the resulting profit would more than compensate the costs of carrying. By inventory, the writer means the multifarious types of finished goods handled by 'Puspamara' stores.

It would be helpful to examine the more significant costs involved in inventory decisions as these will be referred to continually later. There are two distinct types of costs - one set which calls for larger orders and thus increase holding of stock and the other set which discourages such stock accumulation. The former costs are:

- (a) stock-out costs: A stock-out occurs when goods requested by customers are not available. The term signifies the condition of being out-of-stock, and there are two variants of this cost. The most immediate effect will, of course, be the loss of profit on sales if as a result of the stock-out, the customer buys elsewhere. The customer who has found one or more out-of-stock situations in a store will become less likely to return for other purchases. There is thus also a loss of future sales which

might have been made. Furthermore, there may result a tarnishing of the 'good-will' of the store and this may have adverse repercussions on other

potential customers. The other variant of this cost arises when an emergency order is placed. In this case the sales will not be lost.

However, as a result of the 'rushed-order' there will be additional costs of handling and transport.

(b) The purchasing process, from the initiation of a request to the payment of the invoice, involves clerical and administrative cost. The cost of placing an order for a small quantity tends to be very similar as for a large order. The per-unit order costs tend to decline as order size increases.

(c) Delivered cost per unit: In the same manner, the handling cost per unit of inventory purchased tends to decrease, with larger orders. For example, there may be economies in freight and quantity discounts.

Against such considerations are the opposing factors which discourage larger orders and consequent accumulation of stock. The possession of inventory ties up working capital. A business prospers or not in terms of the return that can be earned on capital invested in the business. Thus if the retailer's capital is invested in inventory it expects the latter to earn a certain return. The opportunity cost of carrying the unsold merchandise is the interest revenue foregone, were the capital tied up invested elsewhere. The larger the inventory in stock, the greater will be this

financing costs. For example, the opportunity cost of carrying an average inventory of ninety two thousand one hundred and seventy five dollars for 1967 by the 'Malay Handicraft Centre' was about \$5,332/-.¹

Then there are the Carrying cost - costs of insuring the merchandise against pilferage and fire; deterioration and obsolescence. All these tend to increase as average inventory levels rise. For example, the carrying cost of the 'Malay Handicraft Centre' for 1967 is as follows:

Insurance against Fire and Burglary	\$ 734.50
Allowance for obsolescence and deterioration 1% of average inventory	<u>921.75</u>
	\$1656.25 per annum

A third category of costs are those involved in providing the storage, the supervision and the protection necessary. The nature of the merchandise dealt in entails that they be protected from rain and sun and other elements of the weather and unauthorised withdrawals. Special compartments, cabinets and shelves are necessary to store the silverware, Batek and Handicrafts. The most evident cost, apart from the fixing of the fixtures is the rental cost. For example, the monthly rent of 'Malay Handicraft Centre' is \$500/- and it is estimated that the storage area occupies 1/5 of the building and this means about \$100/- per month is allottable to storage cost.

Inventory control or more accurately in this case, merchandise control refers to the procedure of properly balancing these two sets of factors i.e. to select the inventory level that minimises total long-run costs.

¹Using 6% per annum as the working interest rate.

Deterioration and obsolescence
Financing

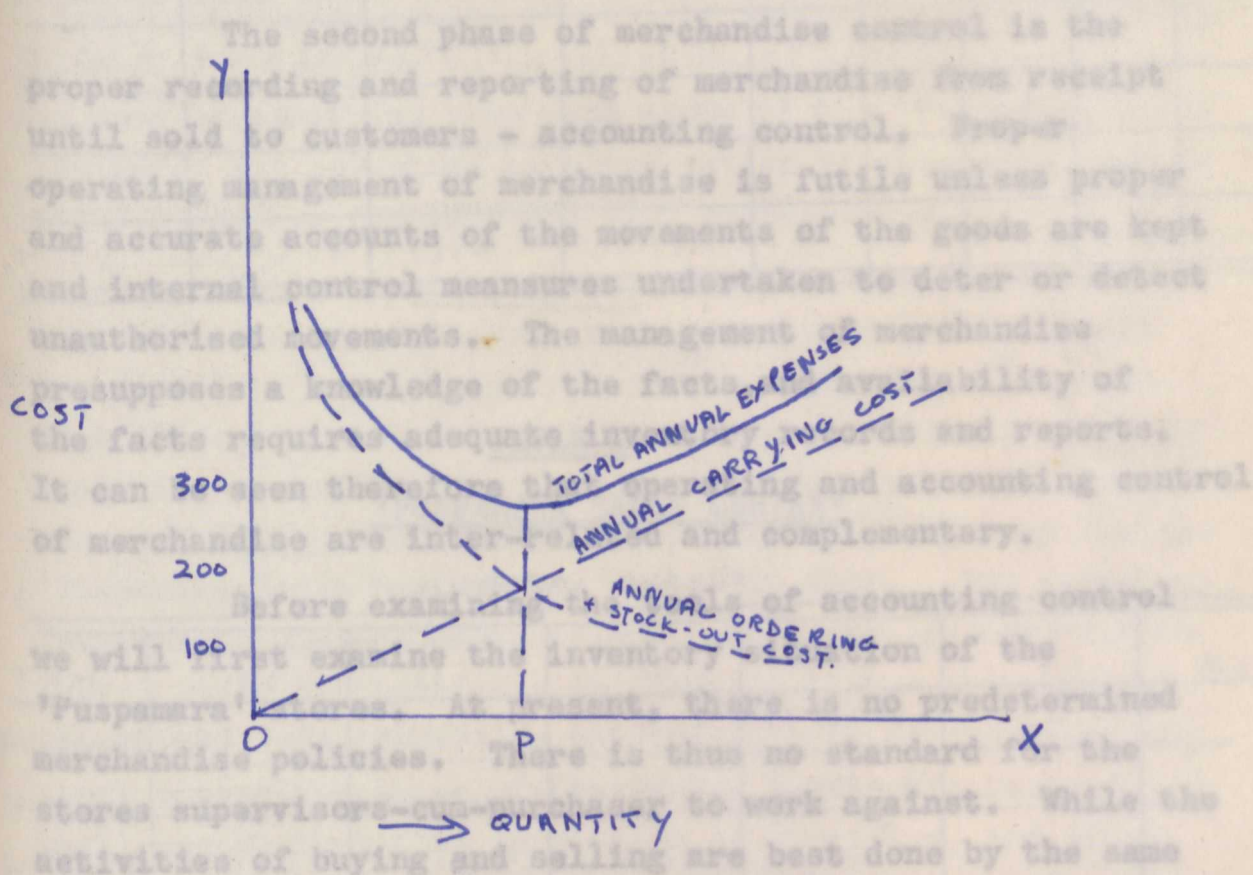
- 78 -

77.00
443.00
520.00

merchandise. This dilemma is illustrated graphically below.

DIAGRAM 13

GRAPHICAL PRESENTATION OF INVENTORY MANAGEMENT GOAL



OP represents that quantity of a particular line of merchandise which minimises total annual expense and it is the task of management to achieve this optimum level by proper inventory control. In other words the problem of management and the supervisors is how to stock that amount of goods adequate to meet sales demand at the least possible expenses of carrying, (which is about \$682.00 per month for the 'Malay Handicraft Centre')² This is the first phase of

² Storage	\$ 100
Insurance	61.20
Deterioration and obsolescence	77.00
Financing	444.00
	<u>\$ 682.20</u>

merchandise control - the concern with the physical movement of goods and the maintenance of the stock at the desired level. The objective is balanced stock, not merely small stock-consistent with sales demand. The first phase of merchandise control is therefore to maintain the right stocks in the right quantities and at the right time and price.

The second phase of merchandise control is the proper recording and reporting of merchandise from receipt until sold to customers - accounting control. Proper operating management of merchandise is futile unless proper and accurate accounts of the movements of the goods are kept and internal control measures undertaken to deter or detect unauthorised movements. The management of merchandise presupposes a knowledge of the facts, and availability of the facts requires adequate inventory records and reports. It can be seen therefore that operating and accounting control of merchandise are inter-related and complementary.

Before examining the tools of accounting control we will first examine the inventory situation of the 'Puspamara' stores. At present, there is no predetermined merchandise policies. There is thus no standard for the stores supervisors-cum-purchaser to work against. While the activities of buying and selling are best done by the same person it is contrary to customary practice of allowing these activities to be executed without limitations. This deficiency is most blatant in the 'Malay Handicraft Centre' and the Kuala Lumpur 'Puspamara Sales Centre'. The problem is not so severe in the other stores for the General Manager actually regulates their stock levels.

the two stores are portrayed by the tables above. The 'Inventory Turnover ratio' $\left(\frac{\text{cost of goods sold}}{\text{Average inventory}} \right)$ is an indicator of the speed in which the merchandise moves from seller to customer or the number of times the average stock is sold during a period of time. The greater the rate of turnover the smaller is the amount of investment necessary for a given volume of business and

TABLE 3

INVENTORY "MALAY HANDICRAFTS CENTRE"

ITEM	INVENTORY VALUE 1965	1966	1967	% OF SALES 1965	1966	1967	COST OF SALES 1965	1966	1967
SILVERWARE	54661.34	41971.96	49322.86	64.3	64.0	46.0	-	-	-
BATEK	4368.60	7993.75	15206.10	10.8	11.2	18.0	-	-	-
HANDICRAFTS	8048.39	8706.44	25645.22	15.7	15.7	18.5	-	-	-
MATERIALS	23612.25	21205.70	18291.88	9.2	10.4	17.2	-	-	-
TOTAL	100690.58	77882.01	106496	-	-	-	10,952.37	19,939.35	74106.66

TABLE 4

'PUSPAMARA SALES CENTRE'

INVENTORY ANALYSIS

ITEM	INVENTORY VALUE 1966	1967	VALUE OF SALES 1966	1967	COST OF SALES 1966	1967
SILVERWARE	53597.82	41182.54	71700.88	88265.58	-	-
BATEK	25319.15	18435.15	82574.56	104284.61	-	-
HANDICRAFTS	14172.65	12770.50	18026.15	26349.88	-	-
MATERIALS	15031.95	15182.53	16136.43	39693.84	-	-
TOTAL	108141.57	88004.52	186738.02	268393.91	144977.05	191150.60

The inventory situation of the two stores are portrayed by the tables above. The 'inventory Turnover ratio' ($\frac{\text{cost of goods sold}}{\text{Average inventory}}$) is an indicator of the speed in which the merchandise moves from seller to customer or the number of times the average stock is sold during a period of time. The greater the rate of turnover the smaller is the amount of investment necessary for a given volume of business and

consequently the higher is the rate of return on invested capital. Indirectly, a low turnover ratio also points to an unsatisfactory inventory situation or general over-investment. The inventory turnover ratios of the 'Malay Handicraft Centre' for ~~one thousand nine hundred and sixty five~~¹⁹⁶⁵ years, 1966 and 1967 are 1.12, 1.4 and 1.2 respectively. Unfortunately, similar turnover ratios of similar stores are not available, therefore a decision as to the adequacy of these ratios must be made by comparing them with those of the 'Puspamara Sales Centre'. The inventory turnover ratios of the latter centre are 1.4 and 2.0 for 1966 and 1967 respectively.³

This comparison shows that the 'Puspamara Sales Centre' has a comparatively higher turnover ratio. It is beneficial to have a higher turnover ratio for this means that the sales centre is utilising more efficiently its capital investment. The average inventory value for three years of 'Malay Handicraft Centre' was \$95,020/- and for the 'Puspamara Sales Centre' was about \$97,960/-. The average investment in merchandise is thus about the same but the latter store has been able to secure a higher sales volume.⁴ This is an 'eye-opener' to the possibility of improving the stock control position of the 'Malay Handicraft Centre'. We shall see whether this conclusion is justified, and if so, what are the specific items that need such attention.

Unfortunately, cost of sales for the major categories of merchandise are not available, so we will have to evaluate the turnover ratios of the major categories by using retail values. $\left(\frac{\text{sales at retail}}{\text{Average inventory at retail}} \right)$

³The Ending Inventory value of 1965 is \$98,526.50

⁴1967 'Puspamara Sales Centre' \$262,759.91
Malay Handicraft Centre 151,981.20

TABLE 5

'MALAY HANDICRAFT CENTRE' 1967

INVENTORY TURNOVER RATIO ANALYSIS

ITEM	SALES	AVERAGE INVENTORY AT RETAIL	TURNOVER RATIO
Silverware	\$89,068.68	\$ 59,360	1.5
Batek	27,740.40	17,680	1.6
Handicrafts	24,711.47	17,130	1.4
Maratex	10,461.00	25,670	0.4

TABLE 6

PUSPAMARA SALES CENTRE 1967

INVENTORY TURNOVER RATIO ANALYSIS

ITEM	SALES	AVERAGE INVENTORY AT RETAIL	TURNOVER RATIO
Silverware	\$88,265.88	\$ 62,079	1.4
Batek	104,785	28,440	3.7
Handicrafts	26,529.68	17,510	1.5
Maratex	39,690	19,640	2

A comparison of the turnover ratios of the two stores by categories pinpoints the over-stocking of 'Maratex' and 'Batek' in the 'Malay Handicraft Centre' as the main cause of the lower turnover ratio of the Centre. The 'Maratex' ending inventory value of the 'Puspamara Sales Centre' in 1967 was about \$19,640/- at retail and the sales for the same period was about \$39,690, compared with the 'Malay Handicraft Centre's' figures of about \$25,670 and \$10,461 respectively. There is no plausible reason why the 'Puspamara Sales Centre' should have a 'Maratex' Turnover ratio of about 2 compared to 0.4 of the 'Malay Handicraft Centre' except that there is a considerable overinvestment in this line of goods in the latter store. Similarly, the comparative 'Batek' turnover ratios show that the 'Puspamara

Sales Centre' has more satisfactory control. This confirms the earlier conclusion that the 'Malay Handicraft Centre' can profit greatly by paying more attention to inventory control especially the 'Maratex' and 'Batek' items.

The number of days sales in average inventory is also an indicator of the inventory situation.⁵ The number of days sale in inventory for the Malay Handicraft centre for the years ~~one thousand nine hundred and sixty five years,~~ 1966 and 1967 are 253, 222 and 257 days respectively. On an average basis it requires about 4/5 of the number of days operations before an item of each category of merchandise is sold. Similar figure for the 'Puspamara Sales Centre' is about 150 days. This throws light on the comparatively higher annual sales turnover and not profitability of the 'Puspamara Sales Centre.' This is the situation with respect to the comparison between the two stores but on a general basis there is room for improvement in the inventory management. For an item to remain in stock for even 150 days before it is sold is a long time and in which much of the carrying costs mentioned earlier would have been incurred. Comparatively lower turnover ratios for silverware, Maratex and handicraft items can be accepted without much risks for because 'fashion' is not the order of the day. The same cannot be said of 'Batek'. Here colour and design are the main considerations and customer tastes change with time. It is this item which requires promotional attention combined with purchasing and stocking control so that the turnover ratio can be raised and the average time the item remains in stock reduced. The consequence of neglect will be over-stock costs.

Proper inventory management must be planned and directed. And some of the prerequisites for successful accounting control are proper classification and identification of inventories and adequate records.

$$\text{No. of days of operation} = \frac{300}{\text{Inventory turnover}}$$

~~Incorrect~~ The major categories of merchandise handled by 'Pusparamara' as mentioned before, are 'silverware', 'Batek', 'Handicrafts' and 'Maratex' (Thai silk and songket). Within each major classification there is further differentiation. The individual stores has its own system of identifying the items and the classification system of the 'Malay Handicraft Centre' will only be examined.

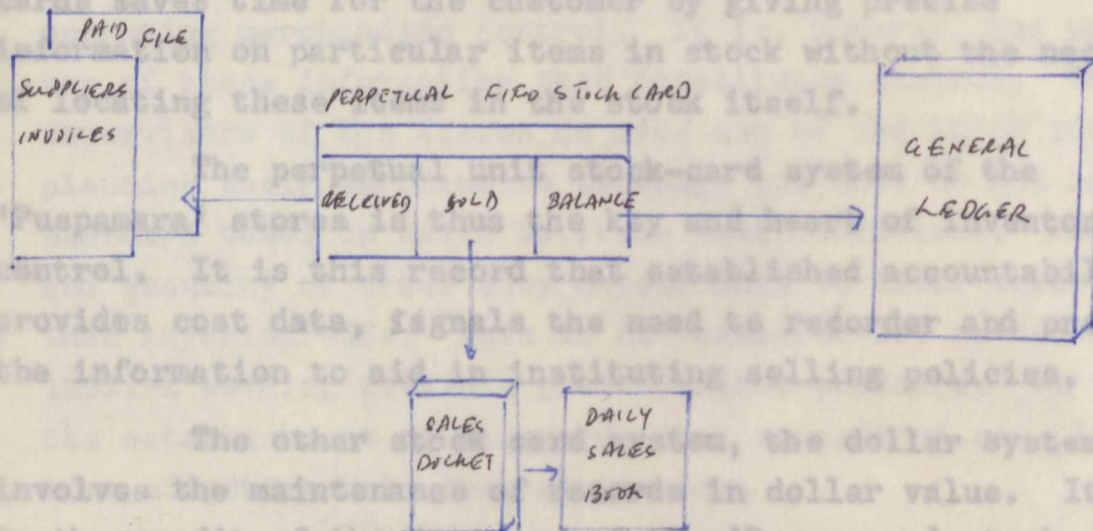
The principle applied in the classification appears to be a combination of the alpha-numerical group classification system. To each of the major categories of merchandise is assigned an alphabet - R for Batek and Maratex; A for Handicrafts; K for silverware. Numbers are assigned to the different items in the major line. For Batek and Maratex the range is from R1 to R198. Theoretically, therefore, the classification should be well-defined in group, say R1 - R100 for Batek and R101 to R198 for Maratex; K1 to K20 for broches and K21 to K50 for earrings and so on. Such a system of classification minimises the likelihood of duplication and difficulty of identification. It is also unambiguous and easy to learn and handle. However, there are breaches of this orderliness in practice here. In the silverware classification, for example, Ks 590 is the code number for cigarette cases and one would assume that cigarette tins would be Ks but it is coded as Ms 433. In the Handicraft line handbags are classified under AC..... but paintings are identified by different alphabets - YA, and calendars are under MC..... Even within the Batek and Maratex lines there is no definite division. The numbers from 1 to 198 can either be Batek or Maratex items - one new to the job will thus find considerable difficulty in learning the system. Such disorderliness tends to induce the occurrence of mistakes in recording the stock cards.⁶

⁶The frequent deviations of Book and physical values (see stock as at 31.12.67) revealed by inventory taking are caused principally by the incorrect recording of the code numbers of the daily sales or the inaccurate up-dating of the stock-cards. Sales of one item are recorded as another.

Incorrect and out-of-date stock cards are worse than useless. They are dangerous because these cards may be used by the supervisors for selling and purchasing decision-making.

The design of the stock-cards has already been illustrated earlier and there is only one further point which needs mentioning about the design. The individual stock cards are not serially numbered. Each card should have a serial number of its own apart from the stock code number. This is to insure that every card is accounted for and that none is missing. The accounting process involving the recording of the stocks is illustrated below.

DIAGRAM 14
INVENTORY ACCOUNTING FLOW CHART



(a) The Quantity on hand; the dollar value.

There are two types of stock control systems, the unit and dollar systems. The unit system gives specific information relative to physical characteristics of merchandise i.e. the number of units on hand and the other information. This system reveals what merchandise are 'runners' and 'sleepers' and thus aids in the reduction of the unprofitable items. It also shows the proper level to buy merchandise and the quantity of stock on hand without taking a physical inventory. Apart from the advantages provided by the unit system of stock control for purchasing, the system is also useful in aiding selling.

In this field, it shows the age condition of the stock, thereby drawing attention to the items which need special pushing. It also minimises the number of 'out-of-stock' situations as this danger point is revealed by the daily up-dating of the cards. Furthermore, the unit stock cards saves time for the customer by giving precise information on particular items in stock without the necessity of locating these items in the stock itself.

The perpetual unit stock-card system of the 'Puspamara' stores is thus the key and heart of inventory control. It is this record that established accountability, provides cost data, signals the need to re~~re~~order and provides the information to aid in instituting selling policies.

The other stock card system, the dollar system involves the maintenance of records in dollar value. It is to the credit of the designer of the 'Puspamara' stock card system that by the simple addition of the cost and selling prices of the item on each stock card (each in different column) the information mentioned above are also available in dollar values if and when required. The information provided by the stock cards of the 'Puspamara' stores are summarised below.

(a) The Quantity on hand; the dollar value.

- The maximum level of inventory represents the upper limit beyond which the inventory value of the store should not exceed. (b) The unit cost (c) The selling price is the level below which the inventory should not fall. (d) The saleability of the item (This level can be estimated by checking the dates between sales). (e) The purchase order quantity. (Similarly by checking the quantity received columns, the usual order quantity can be estimated). (f) The age of the stocks (By comparing the dates of acquisition and review). (g) The dollar value of the inventory at any particular time.

We see therefore that the supervisor-cum-purchaser has access to all the relevant information related to operating merchandise control. It is, however, the proper use of these information that constitutes control. The supervisors of the stores do make use of the stock cards in planning their merchandise strategy but they do not have standard bases on which to frame their decisions. For time and quantity of order they depend more on their experience than anything else. This is not satisfactory as control implies working within a predetermined standard. It is in the establishment of standards that management can play a more effective role than at present.

A small measure in this direction has already been taken with the requirement of the supervisors to give copies of every purchases made. But this is control after the fact. The need for merchandise control arises before the merchandise comes into the store. There are a number of tools of preventive control and these include the maximum and minimum system and inventory models for major items.

The maximum level of inventory represents the upper limit beyond which the inventory value of the store should not exceed. The lower limit is the level below which the inventory value should not go. These two levels represent the compromise attempt at storing too much and too little.

Which category of the inventory should management and the supervisors pay more attention to is therefore important. It is recognised that not all of the items require equal attention. One way of making the relative importance of the inventory is the ABC approach. Generally it is found that a major category of inventory accounts for a relatively large proportion of the sales volume and on this basis, the inventory of the two stores are analysed below.

TABLE 7

MALAY HANDICRAFT CENTRE

1967

ABC CLASSIFICATION OF INVENTORY

ITEM	INVENTORY 1967	% of Inv. value	% of sales	Cumulative %	Rank- ing
Silverware	\$ 49,352.60	46.32	59	59	A
Batek	19,206.10	18.03	18.3	77.3	B
Handicrafts	19,645.22	18.5	16.3	93.6	C
Maratex	18,291.85	17.2	7	100.6	A

\$106,496

However, at times it may not be workable to classify inventories on the basis of sales contribution alone, and this is evidenced by the 'Maratex' group. On a sales contribution basis 'Maratex' belongs to the 'C' category as it accounts for about 15.1% and 7% of the sales of the 'Pusparamara Sales Centre' and the 'Malay Handicraft Centre' respectively. It needs reclassification because of its high per unit value. For example, in the 'Pusparamara Sales Centre' 364 items of 'Maratex' are valued at \$6,802/- while

TABLE 8

PUSPAMARA SALES CENTRE

1967

ABC CLASSIFICATION OF INVENTORY

ITEM	INVENTORY	% of Inv.	% of sales	Cumulative %	Rank
Batek	\$ 18,435.65	18.7	39.86	39.9	A
Silverware	41,652.84	42.2	33.5	73.4	B
Maratex	15,182.53	15.4	15.1	88.5	A
Handicrafts	12,770.50	12.9	10.1	98.6	C
	\$88,041.52				

From the two tables we gather that 'silverware' accounts for more than half of the sales of the 'Malay Handicraft Centre' and about one third of the sales of the 'Puspamara Sales Centre'. It is justified in classifying this category as the 'A' Category in the 'Malay Handicraft Centre' as it accounts for about 59% of the total sales. 'Silverware' is ranked as 'B' in the 'Puspamara Sales Centre' for on a comparative basis 'Batek' is more important as the latter is responsible for about 40% of the sales. On the same basis 'Batek' is the 'B' category in the 'Malay Handicrafts Centre'. Handicraft is marked as the 'C' group as it accounts for only a small proportion of the sales of the two stores.

However, at times it may not be workable to classify inventories on the basis of sales contribution alone, and this is evidenced by the 'Maratex' group. On a sales contribution basis 'Maratex' belongs to the 'C' category as it accounts for about 15.1% and 7% of the sales of the 'Puspamara Sales Centre' and the 'Malay Handicraft Centre' respectively. It needs reclassification because of its high per unit value. For example, in the 'Puspamara Sales Centre' 364 items of 'Maratex' are valued at \$6,802/- while

thirty one thousand five hundred and sixty eight items of 'Handicrafts' are only worth \$2,876/-. On a percentage basis the comparative figures are 3.7% and 31.5%. Therefore 'Maratex' need more attention than Handicrafts do. The same picture applies to the 'Malay Handicraft Centre'. This is why 'Maratex' is reclassified as an 'A' category.

After ranking the importance of the different categories of the inventory. The next area is to develop an inventory model for the store. A 'replenishment system' is appropriate for the 'Pusparamara' stores. The 'replenishment system' differs from the 'reorder point system' in that inventory costs are not considered explicitly and there is no fixed reorder quantity. All that the supervisor needs to do is to review the stock-levels at fixed periodic intervals. If there has been any sales since the last review an order is placed. The amount to be ordered is equal to the amount the 'replenishment level' exceeds the actual inventory level at the time of the review.

The replenishment level is determined by the formula

$$M = B + \overline{sd} (L + R)$$
where M - replenishment level L - lead time
whilst B - Buffer \overline{sd} - average daily sales
potential R - time between reviews of operating and

The reorder quantity is determined by the formula

$$Q = M - I$$
where I - inventory on hand at times of review
 Q - quantity to order.⁷

Let us take 'Basket Nest' as an example to illustrate the procedure of this system.

$B = 10$ units $R = 10$ days
 $\overline{sd} = 1$ unit per day $L = 2$ weeks

⁷Joseph Buchan and Ernest Koenigsberg 'Scientific Inventory Management' Prentice Hall Inc. New Jersey 1963 page 25.

'Batek' is the 'Basket Nest' is therefore present and future attention. As to accounting control, $M = 10 + 1 (14 + 10)$ identify the $= 34$ units. more systematic coding system is necessary. This will result in more accurate stock-cards and thus more accurate stock which the supervisors can see.

Every ten days the supervisor checks this stock card and if the units on hand are 20 then she will reorder

$$\begin{aligned} Q &= 34 - 20 \\ &= 14 \text{ units} \end{aligned}$$

She need not pay the same attention to all the items; emphasis should be on those items with greater sales potential and profit contribution potential and those that require strict inventory control i.e. Maratex, Silverware and Batek items. The replenishment level is thus directed at keeping inventory at the minimum level consistent with maintaining protection against stock-outs and excess inventory.

The proper management of inventory as to level and composition is an important retailing task. There are possibilities of significant cost reductions in maintaining a balanced inventory. Too much inventory in relation to sales potential ties up the capital of the store whilst too little inventory sacrifices sales and net profit potential. There are various tools of operating and accounting control. Management should play a more positive and effective role than at present and this it can do by setting standards for the supervisors to shoot at. A more scientific method is preferable to the 'rule of the thumb' practice of the supervisors with regards to order quantity and times to order. More analysis should be made to determine the applicability of the 'replenishment level system' for the stores. The supervisors should divide her attention according to the importance of the items of inventory in generating sales potential and those that are slow moving. From the elementary analysis it has been found that there is considerable over-stocking of 'Maratex' and

'Batek' in the 'Malay Handicraft Centre' and this situation deserves present and future attention. As to accounting control, measures must be instituted to reclassify and identify the items. A new, more systematic coding system is necessary. This will result in more accurate stock-cards and thus more dependable bases upon which the supervisors can act. Internal auditing services on a continuous basis and external auditing on a periodic basis. All stores would cover such professional services had the costs involved been within their means. Puyamara would have belonged to this underprivileged group but for its association with NARA. The Internal audit Department provides the continuous appraisal of the store's accounting systems while judgement on the fairness of the financial statements is the responsibility of 'HARON'.¹ In this chapter more interest will be devoted to the internal auditing services.

An audit might briefly be said to consist of an examination of the books, documents and other records of an organisation in order to satisfy their accuracy and that of the accounts prepared from them. In the course of this examination due regard is also given to the prevention and if necessary detection of errors and fraud. Internal auditing, a branch of auditing is the continuous audit undertaken by the Audit Division and serves both managerial and accounting matters. On accounting matters, the main objective is to assure management that the internal checks and the accounting system are effective in design and operations and whether they are economical. It is the appraisal activity that reviews the financial, accounting and other operations as a basis for preventive and constructive service to management.² It is a type of control which functions by measuring and evaluating the effectiveness of other types of control.

¹HARON stands for Hanafiah, Raslan, Ong and Mohamad. — The external auditors.

²As defined by the 'Institute of Internal Auditor' from J. Brooks Heebart, and James D. Wilson "Controller-ship" Ronald Press Company, New York 1952. page 517.

Independence is basic to the effectiveness of the internal auditing function. Independence has two major aspects:-

CHAPTER VII

AUDITING

1. One characteristic that distinguishes 'Pusparamara' from stores of similar scale of operations is its retention of internal auditing services on a continuous basis and external auditing on a periodic basis. All stores would cover such professional services had the costs involved been within their means. Pusparamara would have belonged to this underprivileged group but for its association with MARA. The Internal audit Department provides the continuous appraisal of the store's accounting systems while judgement on the fairness of the financial statements is the responsibility of 'HAROM'.¹ In this chapter more interest will be devoted to the internal auditing services.

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Independence is basis to the effectiveness of the internal auditing function. This independence has two major aspects:-

1. The head of the internal auditing function must be made responsible to an officer of sufficient rank so that its recommendations will find adequate consideration and action.
2. The internal auditors should not have any line responsibilities related to the operations of any unit to be audited.

This prerequisite of independence satisfactorily exists with regards to the Auditing function in MARA. The fact that the Auditing function is a department³ by itself announces its importance and divorces it from the other operating Divisions of MARA. The Head of the Internal Audit department is responsible to the chairman and Directors of MARA as all internal audit reports are submitted to them.

The procedure of reporting has two consequences- one favourable and the other unfavourable. The distribution of internal reports to the Directors of the Divisions of MARA ensures authoritative attention. Furthermore, this keeps all the Directors of MARA well informed of the functioning of MARA's activities. Internal audit reports recommending changes in basic policy are discussed in this top-level meeting while those recommending procedural changes are secondary matters in the Agenda. All resolutions are then conveyed by the Directors concerned to the sub-divisional heads in the Divisional meetings. The adverse consequence of this is that persons most directly involved with the changes in procedures are neglected and only informed after the resolutions. ~~For~~^{In} other words, the results and recommendations of the internal auditors are not released to the management of Puspamara. They are initially reported to the Directors of MARA and the Director of the Division of

³Refer to MARA Organisational chart. page 13

Industry and commerce then expedite such recommendations after consulting them with the management at Divisional Meetings. The management receive no internal auditing reports at all.

Policy changes deserve consideration by the highest authorities, but it must be remembered that internal audit reports deal mostly with procedural changes and are services to operating management. All the Directors deserve to be informed of policy changes but certainly not with changes in operating procedures in the Accounting system of a sub-division. The services of internal auditing will thus be exploited best by allying it with the management of the stores, as they are empowered to institute changes in the Accounting system.

The internal auditors make irregular and unannounced visits to the stores, the frequency of which depends on the auditing program. The program schedules the areas of the accounting system to be audited at each case and on an average basis the period between each call is about three months. For example, during the short time in which the writer was attached to the Audit Division, he had the fortune of assisting the internal auditor to audit the following areas in 'Puspamara Sales Centre':-

1. Stock-checking of the items displayed.
2. Cash count of day's collections.
3. Vouching of payments and purchases.
4. Checking of sales Analysis book with Sales Dockets.

In the next auditing call other areas like Accounts Receivable and credit management and other aspects of the Accounting system may be subject to review. The findings are then summarised in interior reports. The internal auditing is a tool of business, and the operations of this control should be subject to evaluation and appraisal. The internal auditing is in arithmetic and accounting entry and efficiency in

~~procedure~~ The internal auditor, as mentioned earlier, is a representative of top management. He evaluates the efficiency of all operations and makes suitable suggestions for remedying any weaknesses his enquiries may have revealed. He is interested in seeing that a proper system of internal check has been instituted and followed, and that it keeps abreast with the expansion of other changes in the stores. The internal auditor does not operate as an umpire who decides what is right or wrong. His criticisms are always constructive. This is the attitude that all personnel concerned fail to understand. The store personnel tends to regard the activities of the auditor as a sort of a police or detective searching to find faults with them.

Another misconception that needs dispelling is that the internal auditor contradicts himself when he criticises the system that he had earlier suggested. It must be remembered that once his suggestions have been put into effect the resulting system is not his any longer, and he has free rein to criticise the instituted system in the light of new circumstances. At present the store personnel are bewildered as to why the same person should criticise his own recommendations.

Perhaps there is a need for a formal course of instruction among the various levels of personnel on management and the services of the internal auditor. Such a management education course should stress the functions of the internal auditor and how he can serve management better if he also act as a co-ordinator for management and the various levels of personnel and operations. Such a course may contribute much to enable proper appreciation of the activities of the internal auditor.

Internal control is ^{just} ~~first~~ one of the productive tools of business, and the operations of this control should subject to evaluation and appraisal. The internal auditing ^{function} ~~has the role of ensuring the accuracy~~ in arithmetic and accounting entry and efficiency in

procedures of this is an important role for otherwise the judgements based on these will be valueless or overly expensive to management. A proper system of internal control should reduce the likelihood of fraud by making collusion between two or more persons necessary though it does not entirely remove the possibility. The internal auditing function is to deter or detect such collusion. For the services of the internal auditing to be fully used the resulting reports must be revealed to management so that practical recommendations can be instituted without unnecessary delay. When the operating personnel of the stores treat the internal auditors as facilitating tools rather than fault finding 'policeman' then the utility of the internal auditing function would have been fully appreciated.

how they enter the decision-making process will be the main concerns in this chapter.

A variety of regular reports are prepared by the accounting staff. These include:

- a) Credit sales report - by Month and year.
- b) Cash sales report - by month and year
- c) Sales Analysis - by month and year
- d) Miscellaneous Reports - as the occasion arises.

Each of the accountings systems of the 'Punpamara' stores is designed such that information or data for these reports are easily obtainable. The mechanics of how this is achieved will not be enquired into. The supervisors of the respective stores receive copies of all reports concerning their stores while all originals are sent to the management.

The design of the 'Credit sales report' is illustrated below:-

CHAPTER VIII

MANAGERIAL USE OF ACCOUNTING REPORTS

The separation of the decision-making and operating functions is offset to a great degree by the accounting system which integrates management with the actual operations by the feed backing of historical data. Conventional accounting concentrates on the recording, processing and reporting of historical data for the annual financial statements. These static descriptive models are not entirely adequate for decision making purposes. A management orientated accounting system must also provide regular internal reports on various aspects of the business to management both on a routine basis and whenever circumstances warrant such information. The nature and content of such reports and how they enter the decision-making process will be the main concerns in this chapter.

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The design of the 'Credit sales report' is illustrated below:-

Illustration 11

PUSPAMARA SALES CENTRE

CREDIT SALES REPORT

1967

1967	BATEK	PERAK	TEBAKA	HANDICRAFT	PISAU	MENGKUNIM	LAIN	SUMBER	Jumlah
JANUARY	1078.75	-	-	-	-	-	-	-	-
FEBRUARY	331.00	-	-	-	-	-	-	-	-
MARCH	1080.95	-	-	-	-	-	-	-	-
APRIL	1546.20	-	-	-	-	-	-	-	-
MAY	942.90	-	-	-	-	-	-	-	-
JUNE	1274.65	-	-	-	-	-	-	-	-
JULY	2075.85	-	-	-	-	-	-	-	-
AUGUST	1238.75	-	-	-	-	-	-	-	-
SEPTEMBER	1361.01	-	-	-	-	-	-	-	-
OCTOBER	1813.50	-	-	-	-	-	-	-	-
NOVEMBER	1722.90	-	-	-	-	-	-	-	-
DECEMBER	2528.45	-	-	-	-	-	-	-	-
	17200.91	-	-	-	-	-	-	-	5755.88

The credit sales report provides the following information to the users:

1. Comparative popularity of the different product lines by creditors.
2. The periods in which credit sales are more frequent or the trend of credit sales.
3. The total of the monthly or yearly credit sales respectively indicate the rigidity or laxity of the credit extension policy.

This report therefore answers many questions that are of interest to management and the supervisors. Questions as to the adequacy and desirability of the credit policy, the periods in which to promote availability of

of credit as a selling tool and the particular category of product in which to pay more or less attention to, as the case may be, with regards to sales on credit.

One characteristic of this report is its generality. It portrays the whole credit sales situation at a cursory examination. And this is in accordance with the requirements of management by exception. Decision-makers have little time to spare for the insignificant. Management by exception, however, necessitates a more thorough report on the exceptional. It is the task of decision-makers to pin-point the problem areas and the accounting system to satisfy this need. However, such auxiliary and more important reports from the view-point of decision framing are available only upon requests and after some efforts. The decision-makers should not consider the 'Credit Sales Report' complete by itself. Decision should be made after requesting and analysing more complete reports on specific problem areas. For example, further breakdown of the total 'Batek' credit sales into individual purchases may reveal the overwhelming occurrences of small accounts and the ageing of the debtors accounts may reveal unsatisfactory credit collections.

The 'Cash Sales' Analysis reports, illustrated below is similar to the 'Credit sales' report, and the principal uses are as

- 1) a basis for periodic comparison
- 2) a basis for comparison with credit sales
- 3) a basis for the estimated monthly cash availability.

These information are also available from the 'Sales Analysis' report (illustrated below), and this duplication of efforts should be avoided. Just because the data is easily available and such a report has always been supplied routinely does not justify its continuance. Priority of need, cost and value must be the limiting factors in reporting.

Cash Sales	\$17153.85	11945.86	5207.99	2681.85
Credit Sales	741.00	534.00	207.00	
	\$17894.85	\$12479.86	\$52681.58	\$2733.14

Illustration 12 Table from the report includes:

PUSPAMARA SALES CENTRE

CASH SALES ANALYSIS

1967

1967	BATEK	PERAK	TEMBAKA	PETUKANGAN TANGAN	PISAU	MANIKAMAH	SONGKET	LAIN	Jumlah
JANUARY	2804.85	3039.85	-	556.80	-	304.65	1140.65	130.20	7977.80
DECEMBER	10677.25	5613.95	15.60	2795.85	-	153.30	3754.15	-	23610.10
	87583.70	63902.62	148.50	16937.31	851.55	2856.55	31836.30	3088.30	209204.83

The monthly 'Sales Analysis' report is the most significant report as it is a general summary of the reports mentioned earlier.

Illustration 13

MALAY HANDICRAFT CENTRE

SALES ANALYSIS

DECEMBER, 1967

	Batek	Songket	Perak	Pertukangan Tangan	Lain2	Jumlah
Cash Sales	\$ 4126.45	\$ 1001.75	\$10200.55	\$1777.35	\$47.55	\$17153.85
Credit Sales	-	529.00	145.90	65.00	1.10	741.00
	\$ 4126.45	1530.75	10346.45	1842.55	48.65	17874.85
Total Cost of sales						Gross profit
Cash Sales	\$17153.85	11945.86	5207.99	2681.85		
Credit Sales	741.00	534.00	207.00			
	\$17894.85	\$12479.86	\$2681.58			\$2733.14

Information available from the report include:

1. The comparative monthly sales by product lines.
2. The total cash and credit sales for the month.
3. The cost of sales.
4. The monthly gross profit.
5. The monthly expenses.
6. The monthly net profit or loss.

This report is therefore very comprehensive and should be extremely useful as a guide to problem areas that require further attention. Apart from these regular reports, there are also reports available on a demand basis. These include reports on the inventory situation, the amount of debts outstanding at any period of time and the breakdown of expenses into fixed and variable elements for any time period.

Prior to the examination of how these reports enter the decision-making process it is necessary to define what decision-making involves. The decision-making process is a complex one and a simplified breakdown of it recognises the following elements:

Recognition of the need for a decision.

The determination of alternative courses of action.

Assembly of relevant information.

Choice of an alternative.

Follow-up of the decision.

A decision involves a change from a less desirable position to one which is more desirable. This presupposes that the management has a preconceived idea of what is desirable. The absence of any form of budgeting considerably limits the exactness of this presumption and it relies, therefore, on the past financial statements and internal reports as guides

inadequacy of such efforts will again be reflected by or standards. The need for a decision is recognised by management when there is an unfavourable deviation from the past situation. The idea of homeostasis helps to describe the consequent reaction. Biologically homeostasis is the tendency of organisations to return to a given structure in the face of changing conditions. This idea when incorporated into the decision-making process then connotes some desired standard of all the elements in a business and any disturbance of this structure immediately points to the need for decisions which will restore the status quo. Accounting reports act as the stimulant in the decision-making process by reporting the actual events which enable management to compare with preconceived ideas of acceptability.

Relevant information to facilitate managerial evaluation of alternative courses of action is provided by the programmed and especially non-programmed reports. The routine monthly reports enable management to single out the exceptional while the non-programmed Report provide depth of analysis. The accounting function has also a role to play in the choice of an alternative course of action but these will involve the provision of data for incremental cost analysis and break-even point analysis. At the present time, the management of 'Pusparamara' is not sophisticated enough to indulge in these spheres and consequently the accounting system is not orientated to fulfil this. The effectiveness of the decisions to be made is reflected by subsequent reports.

Pusparamara management shows a keen ^{consciousness} anxiousness to the essentiality of programmed and non-programmed reports as aids to decision-making. Such reports reflect the past and present conditions and thus serve as basis for management to chart a more desirable future course. The success or

inadequacy of such efforts will again be reflected by accounting reports in time. A corollary of management's concern with accounting reports as tools of management is that the accounting system of 'Pusparamara' stores is adequately management-orientated in relation to its size of operations. There ^{are} ~~is~~, however, ~~are~~ short-comings which frustrate any claim of perfection of the orientation of the accounting system. This is the lack of scientific analysis into the immediate future or budgeting.

It should be realised by now that up till now very little or nothing at all has been said of operating plans. The obvious reason is that there is no formal budgeting. Whatever plans mentioned earlier are goals informally and arbitrarily conceived. The emphasis of management is on improvement - higher sales and sound operating costs. But the level or limit of attainable improvement is in a grey area. Higher sales therefore generate optimism and satisfaction. The lack of a specific target however renders such satisfaction meaningless. Pusparamara management shows keen interest in the past and present - it is time to indulge in planning for the future. By this is meant a more formal and objective approach involving analysis of past, present and future conditions as bases for establishing specific targets to strive for. This is preferable to blind, forward shooting.

The accounting system must facilitate. Purchasing is an important activity for it is the stimulant for a chain of other activities. In the first place, purchasing involves the use of funds and internal control and checks must ensure that such incurrences of liabilities are legitimate and to the best interests of the stores, while it is the task of the Accounting elements to record such transactions. By placing the responsibility for buying squarely on the shoulders of the supervisors of the stores in Group I, management has delegated an important power. A more stringent form of control than the present

CHAPTER IX

CONCLUSION

The central issues throughout this study have been the adequacy or otherwise of the internal control system and the degree of the orientation of the Accounting Systems of Puspamara. The task now is to give an opinion as to the functionality of the major areas of the Accounting system (which have been examined separately) as an integrated unit. Throughout the discussion and study it must be borne in mind that the actual procedure must be related to the scale of operations - that is one set of procedures may appear simple but such simplicity will be totally consistent with the scale of operations involved.

The cost of maintaining records is immense and one of the ways of cutting down cost is the institution of economical and efficient procedures that allow the accurate recording of transactions. Management's efforts would be futile and remedial actions misleading should they be based upon in-accurate data. How far the internal control procedures in Puspamara meet this standard is in question.

As mentioned earlier, the pillars of retailing are buying and selling at a profit. These two pillars form the framework within which all elements in the accounting system must facilitate. Purchasing is an important activity for it is the stimulant for a chain of other activities. In the first place, purchasing involves the use of funds and internal control and checks must ensure that such incurments of liabilities are legitimate and to the best interests of the stores, while it is the task of the Accounting elements to record such transactions. By placing the responsibility for buying squarely on the shoulders of the supervisors of the stores in Group I, management has delegated an important power. A more stringent form of control than the present

submission of purchase orders is required. Allowing the supervisors to incur and then liquidate liabilities is not in accordance with the principle of separation of responsibilities. Although this is offset to a certain degree by the Accounts clerk/Book-keeper maintaining custody of the cheque-books, invoices and related records it would be better if there should be a central disbursing system whereby all debts of the sales centres are settled by management. This will have two effects - it will bring to the immediate attention all purchasing activities to management; and minimise the risks of fraudulent practices.

Purchasing is a strategy for it involves contemplation of customer demand and scheduling to meet customer tastes. At present management is far removed from this activity, it being done solely by the supervisors. Fortunately, the accounting system considerably aids the supervisors. The Perpetual Inventory stock card system is the most significant. The stock cards maintained on unit and dollar basis provide the supervisors with information such as quantity on hand, frequency of sales and purchases and age of the stock. Since the stock-cards plays such a central role they deserve considerable attention, the most pressing at present being 1) The serial numbering of the stock-cards and 2) to keep up-to-date the casting of the cards.

The out-of-stock book is of secondary importance as it acts only as a revelation that certain goods have not been available. Nevertheless it serves the purpose of bringing the attention of the supervisor to the need for immediate purchasing.

Inventory Control is also directly related to Purchasing for control is required before the goods are actually ordered. The stock-cards again facilitate such measures. But the present over-stocking of 'MARATEX' and 'BATEK' in the 'Malay Handicraft Centre' does not give any indication that the stock-cards have been utilised fully.

Overstocking has adverse effects that culminate in higher overhead costs. Financing, storage and carrying costs are directly related to size of merchandise inventory. Therefore it will be to the profit advantage of the stores to have well-balanced stocks.

The other pillar of retailing is selling. Selling is the motive for only through sales is profit accrued. Correspondingly important is the assurance that all cash receipts are fully accounted for. The procedures for cash receipts in the 'Malay Handicraft Centre' is satisfactory and the same can also be said of the 'Pusparamara Sales Centre' if one of the salesgirls is designated as cashier with sole authority to use the Cash Register. The cash receipts system of the 'out-station' stores is far from satisfactory. Because of the shortage of staff, the supervisors there are simultaneously the custodian of the cash and the keeper of the records affecting the cash. Such a combination of responsibilities makes no collusion necessary to perpetuate fraud.

The cash balance of the 'Malay Handicrafts Centre' is maintained on a 'Current Account' with a bank while the cash balances of the other stores are pooled and effectively utilised in the 'Mara Sales Centre Revolving Fund'. Such a distinction is best explained by the fact that the 'Malay Handicraft Centre' is treated as an independent unit having its own set of Financing statements. But the profit centre approach is deemed only to allow the proper determination of profits and it need not be extended to the usage of cash balances. All stores are under one management and MARA; consequently all cash balances should be considered as under Pusparamara and not under any individual store.

Credit is an important sales promotion tool and its exploitation requires skilful management. The problem is to balance the profit resulting from such sales with the

prosperity of losses on delinquent accounts. To allow credit only to officials and certain approved persons is sidestepping the problem. A revision of the present credit extension policy seems desirable - arrived at both liberating it for private individuals as well as tightening control over present privileged groups.

Accounts Receivable remaining as such are only claims against others. Collections bring in cash. All records relating to the status of debtors are well kept but the collection rate is not so impressive. Part of the reason for this poor collection in the past has been the prevalence of Ministers and top-government officials as debtors.¹ The problem is not therefore fear of delinquent accounts but late collections.

In short the internal control systems of 'Pusparamara' stores varies from one store to another but generally those of the stores in group I are more satisfactory than those in group II. There are rooms for the institution of more efficient procedures but these should not worry management unduly as these will be revealed by the internal auditing service when circumstances recommend it. The accounting system is management orientated in as far as it supplies internal reports useful to management.

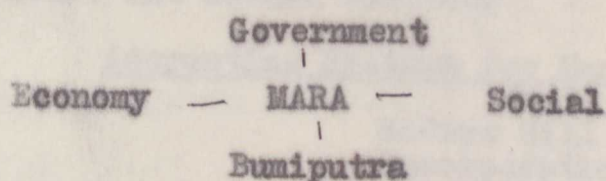
There can be no doubt of the value of the internal reports in calling attention to deficiencies in the present state of affairs, and in motivating management to devote attention to the major issues. Management quite understandably often devote entire attention to past data as they are most readily accessible. This tendency to concentrate on the known rather than the unknown is not in itself bad. But planning for the future deserves similar attention. This lack of formal budgeting is a reflection on the sophistication of the management. The decision making process of management supports this contention. In Pusparamara, the previous financing

¹See Chapter 4 - Credit Sales and Control of Debtors. Table 2.

statements represent the normal and any deviations from them stimulate decisions to rectify the situation. Management should free itself of this Homeostatic tendency and advance to tackle the immediate future so that all actions and decisions can be concerted to hit at this established target.

Throughout the study, we have mentioned several areas which distinguish Puspamara from its contemporaries. In this final chapter, only the major ones will be arranged. The most marked distinction is the continuous internal auditing services enjoyed by Puspamara stores. The costs involved in maintaining a separate department of internal auditors would be beyond the means of most stores operating on the same scale. In such stores, some members of its staff are usually designated as internal auditors for a period.

The organisational structure of Puspamara also differs from other retailing units. Being a project of a quasi-government organisation, the ultimate in control and responsibility rests upon the Ministry of rural Development.² Puspamara has to tread the over-all policies of MARA and the government and is thus open to the pressures similar to those confronting MARA which are best summarised below.



Other Retailing units are, on the other hand, more absorbed with profit-making on a service basis to society and they are equally unperturbed as to which section of the society they serve.

In this study we have appraised the accounting systems of Puspamara stores, as well as examined in some detail the internal control procedures. Furthermore, major

²See MARA Organisation chart on page

differences between the operations and policies of Puspamara and other retailing units have also been highlighted. To a great extent therefore we have satisfied the objectives of

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2. American Institute of Certified Public Accountants

- 1) Appraising the accounting systems of Puspamara.

3. Chapin 2) Appraising the internal control system of Puspamara.

- 3) Appraising managements use of accounting reports

4. Delbert 4) Comparing the activities of 'Puspamara' with standard retail practices.

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6. Francis Moore and Howard Stettler

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7. Homer A. Black and John E. Champion

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Rand McNally and Company,
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THE SUPERVISORS ARE ENCOURAGED TO

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KELANTAN

16. William Springel "Retail Personnel Management

1. Hajjah Che Hishah bin McCraw Hill 1951. Penampang, Kota Bharu

2. Hajjah Che Hishah bt. Yus Kampong Penampang, Kota Bharu

3. Haji Idris bin Omar Kampong Penampang, Kota Bharu

4. Haji Mohammed Shariff bin Omar Kampong Penampang, Kota Bharu

BARANGS SAMPOK

1. Mansur Long Data 14 Jalan Ponghalan Chops

2. Sha'ari Long Jalan Pasir Putih

HANDICRAFTS

1. Ghani Awang Chabang Tiga, Malawi, Negeri

SILVERWARE

1. Mohd. Salleh & Sons Jalan Sultanah Zainab, Kota Bharu

2. Kelantan Malay Arts & Crafts Jalan Sultan Ibrahim

3. Maly Brothers Jalan Sultanah Zainab

4. Baniputre Handicrafts Jalan Sultanah Zainab

5. Mohd. Abdullah Jalan Gajah Mati

6. Abdul Rahman Chik Jalan Lenggur

7. Wan Yusof Wan Ismail Kampong Lendong, Pasir Mas

TRIUNGANI (SONGKUN)

1. Yusoff Taib Kampong Paleh Kota Bharu

2. Hj. Mohd. Abdul Rahman 234, Jalan Losong

3. Hj. Ngah bt. Taib Lorong Megat Husin

4. Pusat Data Mara Jalan Mera Ahar

APPENDIX I

LIST OF SUPPLIERS FAVOURED BY 'PUSPAMARA' WHERE
THE SUPERVISORS ARE ENCOURAGED TO BUY FROM

KELANTAN

KAIN SONGKET

- | | |
|-----------------------------------|-------------------------------|
| 1. Hajjah Che Minah binte Omar | Kampung Penambang, Kota Bahru |
| 2. Hajjah Che Bidah bt. Yem | Kampung Penambang, Kota Bahru |
| 3. Haji Idris bin Omar | Kampung Penambang, Kota Bahru |
| 4. Haji Mohammed Shariff bin Omar | Kampung Penambang, Kota Bahru |

BARANG2 TANDOK

- | | |
|-----------------|-------------------------------|
| 1. Mansur Long | Batu 1½ Jalan Pengkalan Chepa |
| 2. Sha'ari Long | Jalan Pasir Puteh |

HANDICRAFTS

- | | |
|----------------|------------------------------|
| 1. Ghani Awang | Chabeng Tiga, Melawi, Bachok |
|----------------|------------------------------|

SILVERWARE

- | | |
|---------------------------------|-----------------------------------|
| 1. Mohd. Salleh & Sons | Jalan Sultanah Zainab, Kota Bahru |
| 2. Kelantan Malay Arts & Crafts | Jalan Sultan Ibrahim |
| 3. Mahy Brothers | Jalan Sultanah Zainab |
| 4. Bumiputre Handicrafts | Jalan Sultanah Zainab |
| 5. Mohd. Abdullah | Jalan Gajah Mati |
| 6. Abdul Rahman Chik | Jalan Lenggur |
| 7. Wan Yunus Wan Ismail | Kampung Iandong, Pasir Mas |

TRENGGANU (SONGKET)

- | | |
|---------------------------|--------------------------|
| 1. Yusoff Taib | Kampung Paloh Kota Bahru |
| 2. Hj. Mohd. Abdul Rahman | 234, Jalan Losong |
| 3. Hj. Ngah bt. Taib | Lorong Megat Husin |
| 4. Pusat Duta Mara | Jalan Mepa Ahar |

APPENDIX II

MALAY HANDICRAFT CENTRE

Malacca Cane : Hj. Adam Yusoff,
9, Malay Street, Malacca.

Pandan/Mengkuang : Mohd. Hassan,
Batu 6½ Lereh Tanjong Kling.

Klang

Handicrafts : Perusahaan Kebangsaan : 3,4 Jalan Goh
Hock Huat.

Singapura

Reptile Skin: 1) Ismail Mahadi, 268, Beach Road,
Singapore 7.
2) Perusahaan Gambar Batang Padi,
Abdul Aziz Ghani, 80, Java Road,
Singapore 7.
3) Perusahaan Anak Patong, Malaysia
Annie Chong, 40, John Little Building
Singapore.

In addition to these, there are about 84
suppliers of Batek both in Trengganu and Kelantan.

100,691	Stock in trade (at cost)	77,882.01	
2,414	Sundry debtors & Prepayments (schedule B)	2,955.90	
102	Sundry deposits (schedule C)	122.50	
58,918	Cash at hand and in bank	40,080.96	120,789.58
<u>\$279,026</u>			<u>\$237,041.85</u>

APPENDIX II

MALAY HANDICRAFT CENTRE

BALANCE SHEET

AS AT 31.12.66

<u>1965</u>				
\$207,351	Capital Administration Fund	\$207,350.84		
<u>71,823</u>	Unappropriated profits	<u>29,522.78</u>		
\$219,174				\$236,873.62
<u>Current Liabilities</u>				
\$ 52,171	Sundry creditors	1,704.23		
<u>7,681</u>	RIDA Administration Fund	<u>2,901.00</u>		
59,852				4,605.23
279,026				<u>237,041.85</u>
<u>Fixed Assets</u>		<u>Accumulated</u>		
		<u>Depreciation</u>		
96,700	Land 96,700	-	96,700.00	
19,400	Building 20,000	1,000	19,000.00	
594	Furniture			
	& Fixtures 691.71	82.71	609.00	
207	Office			
	Equipment 518	75	443.00	
<u>\$116,901</u>	<u>\$117,909.71</u>	<u>157.71</u>	<u>\$116,752.00</u>	
<u>Current Assets</u>				
100,691	Stock in trade (at cost)			
	(schedule A)			
	Provision for obsolescence	<u>751.52</u>	77,130.49	
	Sundry debtors & Prepayments			
2,414	(schedule B)		2,955.90	
	Sundry deposits			
102	(schedule C)		122.50	
<u>58,918</u>	Cash at hand and in bank	<u>40,080.96</u>		<u>120,289.58</u>
<u>\$279,026</u>				<u>\$237,041.85</u>

MALAY HANDICRAFT CENTRE

SCHEDULE APROFIT AND LOSS ACCOUNTStock in trade (at cost)

Silverware	\$ 41,971.92
Handicrafts	6,710.44
Maratex	21,205.70
Batek	7,993.95
Less cost of goods sold	\$ 77,882.01

SCHEDULE BSundry debtors and repayments

Date	Bill No.	Name	
8.11.65	1666	Deputy P.M. Dept.	\$ 1,185.90
28. 3.66	0035	Ministry of Information	355.00
2.676	Staff Bonuses	2,199.00	
-	Silver Polish	36.10	\$ 2,955.90
370	Packing Materials	340.30	

SCHEDULE CSundry deposits

Telephone	\$ 17.50
Electricity	80.00
Water	25.00
Postage & stamps	\$122.50

SCHEDULE DAccrued charges

General Expenses	71.00
Transport & Travelling	24.14
Electricity & Water	38.80
Packing Materials	11.00
Engraving	5.64
Postage & stamps	27.75
Telephone	59.90
Assessment	1,536.00
	\$1,704.23

PROFIT AND LOSS ACCOUNT

1965

\$141,870	Sales		\$ 163,519.20
	<u>Less cost of goods sold</u>		
72,862	Stock 1.1.66	\$100,690.58	
130,810	Purchases	98,048.77	
203,672	Stock 31.1.66	\$198,739.35	
100,682		77,882.01	120,857.34
38,888	Gross profit		\$ 42,661.86
	<u>Selling and Distribution Expenses</u>		
15,579	Staff Salaries	17,491.42	
2,676	Staff Bonuses	2,199.00	
-	Silver Polish	36.10	
370	Packing Materials	340.30	
1,382	Packing Boxes	1,231.45	
\$ 20,007			\$21,298.27
	<u>Administration</u>		
305	Telephone	465.20	
689	Postage & stamps	716.20	
130	Postages	196.95	
676	Transport & Travelling	777.55	
38	Medical Expenses	304.85	
332	Insurance	341.68	
332	Electricity & Water	431.25	
1,020	Building Maintenance	-	
360	General	671.87	
455	Depreciation	486.50	
\$ 4,337			\$ 4,387.05
	<u>Financial Expense</u>		
33	Bank	41.65	
	Discounts allowed		
	Provision for		
	Balance of stock		
14,311	Operating profit		15,919.89
356	Interest on fixed		
	deposits		1,779.61
14,667	Net Profit		17,699.50

Silverware Brooches: Example of product differentiation

Brooch Kukri	Brooch Star
Brooch Knin Plain large	Brooch Crocodile
Brooch Tiny	Brooch Fishing boat
Brooch Suasa	Brooch Fish, Ivory
Brooch Ivory Suasa	Brooch Wayang Dunlde
Brooch Filligree	Brooch Siti Dewi
Brooch Plain Det	Brooch Stone
Brooch Kukri blade	Brooch Kijang star
Brooch Keleware	Brooch Filigree tree
Brooch Keleware suasa	Brooch Daisy, flat
Brooch Chalong	Brooch Grape leaf
Brooch Kris square	Brooch Fringe
Brooch Chichak	Brooch Hexagon
Brooch Layang	Brooch Oval leaf
Brooch Swallow	Brooch Leaf, round
Brooch Bulan	Brooch Dahlia
Brooch Raya small	Brooch Papaya leaf
Brooch Horn Centre	Brooch Fern leaf
Brooch Ladu	Brooch Lotus
Brooch Five leaf	Brooch Bachik
Brooch Delves	Brooch Tomato leaf
Brooch Bunga Raya	Brooch Cookatro, small
Brooch Horn medium	Brooch Sireh
Brooch Fern Leaf	Brooch Whispering leaf
Brooch Feather small	Brooch Lantern leaf
Brooch Orchid large	Brooch Peacock
Brooch Kampong	Brooch Pelandok
Brooch Ivory fish small	Brooch Elephant
Brooch Mermaid	Brooch Rose
Brooch Maman horn, small	Brooch Butterfly
Brooch Tiger	Brooch Anemone
Brooch Blowpipe	Brooch Sayang Sundang

Brooch Mousedeer

Brooch Herring bone

Brooch Kelemba Rimau

Brooch Butir Keteret

Brooch Kerambang

Brooch Larah Tampang

Brooch Talipot

Brooch Bunga Manggis

APPENDIX IV

SALES CENTRE

AT 31ST DECEMBER 1966

Fixed Assets

Furniture, fixtures and equipment \$ 18,280.42

Less Depreciation 1,417.51 \$ 16,862.89

Current Assets

Stock at cost (Note 2) \$107,876.58

Debtors & Advances

(Note 3) 29,959.43

Deposits & Repayments 78.27

Cash at bank, in hand

in transit and in

short deposit

60,804.95

Current Investments

(Note 5) 41,488.12

240,267.92

\$ 357,150.81

Current Liabilities

Sundry creditors & Accrued

Expenses (Note 6)

4,338.37

Deposits Received

920.00

MARA rural & Industrial

Development Fund, current

account

73,795.02

79,053.39

Capital - Mara Rural & Industrial

Development Fund

\$160,000.00

Profit and Loss Appropriation

account

18,097.42

178,097.42

\$ 357,150.81

(NOTE 1)

APPENDIX IV

31ST DECEMBER 1966

PUSPAMARA SALES CENTRE

BALANCE SHEET AS AT 31ST DECEMBER 1966

Fixed AssetsFurniture, Fittings and Equipment \$ 18,280.42
at cost (Note 1)Less provision for depreciation 1,417.53 \$ 16,862.89Current Assets

Stock at cost (Note 2) \$107,876.58

Debtors & Advances

(Note 3) 29,959.43

Deposits & Repayments 78.87

Cash at bank, in hand

in transit and in

short deposit

60,804.95

Current Investments

(Note 5) 41,488.12

240,287.92

\$ 257,150.81Current Liabilities

Sundry creditors & Accrued

Expenses (Note 6)

Deposits Received

MARA rural & Industrial

Development Fund, current

account

73,795.02

79,053.39

Capital - Mara Rural & Industrial

Development Fund

\$160,000.00

Profit and Loss Appropriation

account

18,097.42178,097.42\$ 257,150.81

(NOTE 1)

FIXED ASSETS AS AT 31ST DECEMBER 1966

<u>Furniture & Fixtures</u>	<u>At Cost</u>	<u>Provision for Depreciation</u>	<u>Book Value</u>
Kuala Lumpur	\$ 3,590.00	\$ 179.50	\$ 3,410.50
Penang	2,177.75	108.88	2,068.87
Jesselton	940.00	47.00	893.00
<u>Fittings & Decorations</u>			
Kuala Lumpur	8,050.55	402.53	7,648.02
<u>Showroom Flooring</u>			
Kuala Lumpur	3,274.12	654.82	2,619.30
<u>Showroom Equipment</u>			
Penang	248.00	24.80	223.20
	<u>\$18,280.42</u>	<u>\$ 1,417.53</u>	<u>\$16,862.89</u>

(NOTE 2)

STOCK AS AT 31ST DECEMBER 1966

	<u>Kuala Lumpur</u>			<u>Penang</u>	<u>Jesselton</u>
	<u>Storeroom</u>	<u>Showroom</u>	<u>Total</u>	<u>110%</u>	<u>110%</u>
Handicrafts	\$ 1,566.30	\$ 1,714.80	\$ 3,281.10	\$ 666.25	-
Brassware	-	96.05	96.05	162.25	-
Kris & Parang	2,489.50	2,675.05	5,164.55	1,447.50	-
Egg Baskets	3,354.95	-	3,354.95	-	-
	<u>\$ 7,410.75</u>	<u>\$ 4,485.90</u>	<u>\$11,896.65</u>	<u>\$ 2,276.00</u>	
Pandan/Mengkuang	-	123.35	123.35	1,634.55	-
Batek	12,052.50	3,475.23	15,527.73	3,817.45	5,974.50
Songket	9,404.08	3,783.67	13,187.75	1,789.10	55.10
Silverware	24,686.45	19,420.22	44,106.67	6,967.45	2,823.70
	<u>\$53,553.78</u>	<u>\$31,288.37</u>	<u>\$84,842.15</u>	<u>\$16,984.55</u>	<u>\$8,843.30</u>
At Cost (100%)	<u>53,553.78</u>	<u>31,288.37</u>	<u>84,842.15</u>	<u>14,985.95</u>	<u>8,084.45</u>
Grand total	<u>107,876.55</u>				

(NOTE 3)

Debtors & Advances

Showroom debtors	\$ 7,708.68	
Sundry debtors	21,518.91	
Travelling salesman	412.34	29,639.93
Interest accrued		319.50
		<u>\$29,959.43</u>

(NOTE 4)

CASH

At Bank:

Bank Negara	\$22,245.98
Malayan Banking Ltd., P.J.	799.62 \$23,045.68

In Hand:

Kuala Lumpur	3,623.45	
Penang	<u>50.00</u>	3,673.45

In Transit:

Penang	1,242.70	
Jesselton	<u>2,923.20</u>	<u>4,165.90</u>
		\$30,884.95

Short Deposits:

Short Deposits:		<u>30,000.00</u>
		\$60,884.95

(NOTE 5)

CURRENT INVESTMENTS

Fixed Deposits:

The Malayan Finance Corporation	
maturing on 24th March 1967	\$41,488.12

PUSPAMARA SALES CENTRE

PROFIT & LOSS STATEMENT 12.31.66

	Kuala Lumpur	Penang	Jesselton	Total
Sales	\$ 171,117.38	\$ 10,190.25	\$ 2,923.20	\$184,230.83
<u>Less cost of goods sold</u>				
Stock as 1.1.66	99,994.36	-	-	99,994.36
Purchases	115,525.63	23,936.23	10,619.82	150,081.68
Carriage Inwards	102.70	187.75	237.80	528.25
Tailoring Charges	2,232.41	-	-	2,232.41
Engraving Expenses	1,690.	-	-	1,690.
	\$ 217,872.00	\$ 24,123.98	\$10,857.62	\$252,853.60
Less stock as 31.12.66	84,842.05	14,985.95	8,048.45	107,876.05
Cost of goods sold	\$ 133,029.85	\$ 9,138.03	\$ 2,809.17	\$144,977.05
Gross Profit	38,087.53	1,052.22	114.03	39,253.78
<u>Less Selling & Distribution Expenses</u>				
Staff Salaries	2,304.86	3,055.64	-	5,360.50
Staff bonus	1,592.03	-	-	1,592.03
Showroom Expenses	1,233.00	75.25	-	1,308.25
Packing Materials	426.04	23.60	-	449.64
Reconditioning	981.60	21.95	-	1,003.55
Carriage outwards	225.09	-	-	225.09
	\$ 6,762.62	\$ 3,176.44	-	\$ 9,939.06
<u>Less Administrative Expenses</u>				
Rental	1,500.00	1,950.00	-	3,450.00
Postages	44.28	2.73	-	47.01
Printing & Stationery	2,695.40	58.20	-	2,753.60
Medical Expenses	97.00	33.05	-	130.05
Insurance	333.00	-	-	333.00
Store Expenses	508.00	-	-	508.10
Electricity	-	110.00	-	110.00
Travelling & Transport	-	63.90	-	63.90
Depreciation	1,236.85	133.68	47.00	1,417.53
	\$ 6,414.63	\$ 2,351.56	\$ 647.00	\$ 8,813.19
<u>Financial Expenses</u>				
Bank	42.64	-	-	42.64
Discounts allowed	6,718.68	-	-	6,718.68
	\$ 19,938.57	\$ 5,528.00	\$ 647.00	\$ 25,513.37
Operating profit/loss	18,148.96	\$ (4,475.98)	\$ 67.03	\$ 13,740.21
Add Interest on Fixed on Fixed deposit.	2,377.81	-	-	2,377.81
Miscellaneous revenue	1,979.40			1,979.40
	\$ 4,357.21			\$ 4,357.21
Net profit/loss	\$ 22,506.17	\$ (4,475.78)	\$ 67.03	\$ 18,097.42