

Case study: Accounts Payable

Objective of Accounts Payable

To assure accounting integrity by making correct payment to vendors as per agreements or purchase orders; to provide control over debit balances and to make available, real time status of bill-wise outstandings of vendors.

Company Profile

An engineering company, 100% subsidiary of a foreign company, turnover of INR 1,500 million, 150 vendors and contractors, operations in 3 states in India.

Challenge

The company executes turnkey work for automotive companies. The purchase orders placed by its client are very complex and detailed. The company places purchase orders to various vendors for material and job work, in order to execute its clients' work. Its orders to vendors contain both material and technical services, in terms of installation and commissioning. The applicability of Excise duty, VAT and Service Tax make the work more complicated. The company was doing parallel accounting of accounts payable on Excel and on accounting software as well, due to gaps in communications and expectations. This regularly resulted in: excess payments to vendors, un-deducted retention money as per terms of purchase order, TDS deducted from the wrong category, and many other critical flaws. There was a regular remark in the Statutory Audit report for not sending confirmation to vendors and reconciling accounts with them. Vendors were always in conflict with F&A department.

Solution

The Country Manager and Finance Head of the company were truly fed up with all of the above problems. The Company Auditor advised them to outsource this function to an expert who could manage it on a consistently professional basis. BC was shortlisted to present its experience and understanding of the accounts payable function. The Country Manager was reluctant to send vendor detail outside the company. When we detailed the benefits of our unique Onsite Model, he was relieved. BC was awarded the work on a trial basis for 6 months, the time estimated by us to put the system on track with our unique Onsite solution.

The starting point of our execution strategy was a detailed due diligence process to reveal the control gaps. From this, we were able to:

- Categorize vendors on the basis of ABC analysis and the 80:20 principle
- Prepare a standard checklist of Purchase Orders with a calculation sheet of taxes and retention money
- Develop a standardized filing of documents using a unique numbering system
- Begin bill-to-bill accounting in the accounting software to acquire the real time status of vendors' outstanding, with reference to their bills
- Follow up all debit balances in the vendors account on a priority basis.

Also, when we came on board, all Sales & Service invoices were being raised from a single premise registration under Service Tax. However, the company was taking input credit of service tax on the expenses which were even incurred at their offices in other states – a practice that is not allowed according to Service Tax provisions. We advised the company to register under the Input Service Distributor category for all the other offices so that input credit of service tax could be availed lawfully.

Current Status

At the end of 6 month:

- The parallel accounting on Excel was redundant
- Vendor's outstanding can be known at the click of a mouse, and that too, with invoice-wise outstanding
- A continuous system of 'A' class vendors ensures reconciliation at least once in a year
- All payments are made after referring to the checklist of a particular Purchase Order and deduction of all applicable taxes
- Full utilization of tax credit is availed
- There is no adverse remark in the Auditor's report on account of Accounts Payable
- Vendors are satisfied

Looking at the savings and efficiencies that we brought in, not only did the client renew our agreement - they gave us more processes of F&A function to handle.