

## Internal Controls for SMEs

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Small and Medium Enterprises (SMEs) are the most vulnerable to fraud because they may not have maintain effective internal controls.

An effective system of internal controls should not only be designed to minimize the risk of fraud, but should also provide concise management information and sufficient management reports for monitoring results and decision-making.

Internal controls of an enterprises are methods or procedures adopted to:

- ◆ safeguard and protect its assets;
- ◆ ensure accurate, reliable and timely financial information is provided;
- ◆ ensure all financial and operational requirements are complied; and
- ◆ guide activities carried out by the enterprise in line with its objectives.

The types of controls needed vary with different activities within your business. Some areas may be

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more at risk of loss or fraud which require more stringent controls. Here are some basic elements:

1. Competent and trustworthy personnel - must also be coupled with clear job descriptions and responsibilities.
2. Physical access - is the most important type of protective measure for safeguarding assets, processes and data. Besides, general access should be restricted only to those employees who require to access as part of their job. Additional measures may introduce on monitoring the time and frequency of access.
3. Segregation of duties - could reduce the chances and opportunities of irregularities and collusion. One should not have responsibility for more than one of the three transaction components: authorization, custody and record keeping.
4. Accounting analyses and reconciliation - should be carried out on a regular and on-going basis. Perform accounting analyses and reconciliations often make the concealment of irregularities more difficult or impossible. It monitors whether the controls are operating properly, and ensures that assets are controlled and transactions are correctly recorded.

No system is perfect. Potential breakdown of controls can happen with judgment errors, unexpected transactions and management overrides. Develop a simple and direct process for staff to report breaches of controls and suspicious behavior is an important part of overall controls.

Good internal controls enhance good communication and positive behavior, and efficient use of available resources. Business owners must consider their acceptable level of risk, and compare the cost of implementing the relevant controls. Educate your staff on their responsibility and accountability for the purpose, function and effectiveness of internal controls is equally important.

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## Capital or Revenue Nature

BY ANNIE K.Y. CHEUNG ARA & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

In general, a business expense is allowable for deduction but a capital expenditure might only attract depreciation allowance.

Deciding whether an expense is of a capital or revenue nature is important. One used to consider the salient features of an expense, and assess the nature of the expenditure by commonsense. The following tests, even though not necessarily conclusive, are often treated as general guidance.



- (a) Enduring Benefit Test. It considers whether an expenditure has been incurred to bring into existence an asset for the enduring benefit of a trade. An expenditure falling within such category is likely to be of a capital nature.
- (b) Once and For All Expenditure Test. A capital expenditure is typically something spent once and for all, while a revenue expenditure is typically something that recurs annually.
- (c) Fixed or Circulating Capital Test. This examines whether an expense is incurred in connection with fixed or circulating capital. Fixed capital consists of assets which, having been acquired, generate income for a business without further action. On the other hand, circulating capital relates to things sold, traded or circulated over and over again during the business process in order to generate profit. Expenses relating to fixed capital are usually treated as capital in nature. Expenses relating to circulating capital are usually treated as revenue in nature.
- (d) Profit-yielding Structure Test. The expenditure which is to set up, replace or enlarge a business structure for the purpose of generating profit is likely to be capital in nature. Regular outlays which is to maintain a process and bring in regular returns to an organisation is revenue nature.

There can be grey areas where the correct characterisation depends on "degree and comparison".

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## Life / Balance



### *Burgundy of the U.S. : Oregon Wine Industry*

Willamette Valley has the largest concentration of wineries and vineyards in Oregon. Its winemaking history is rather short. In 1960s, several winemakers started planting Pinot noir grapes and also small amounts of related varieties in the Valley. These pioneers deeply believed that the cool weather in the region with French varieties could one day make Oregon an important wine-growing region. Later on, some followers who had the same vision settled there too. They shared their skills, experience and knowledge among the community.

In 1970s, these winemakers started to organize to promote their vintages. In 1979, one of their wines won top Pinot Noir honors against France's best labels which made Oregon's winemaking known to the world. Today, Oregon has become one of the premiere wine-growing regions in US even rivaling the renowned Napa Valley in California.

Oregon's location is along the same latitude as France's Bordeaux region. The climate and balance of rain and sunshine are also similar. With the support of Oregon State University and clone expert from Dijon, France, the industry has proven success in its competitiveness. Willamette Valley is now called the Burgundy of the U.S. Pinot Noir and Chardonnay are grown widely. There is surely a tremendous future for Oregon wine of all kinds and styles.

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