

Accounts Payable

Suggested procedures for reviewing and testing Accounts Payable.



Accounts Payable

A well performed collateral examination will provide the following

- ✓ **Analytical review** of key areas that includes:
 - ✓ **Year to year comparisons and trend analysis** of key performance metrics.
 - ✓ **Explanations for fluctuations** noted in any of the above performance metrics
- ✓ **Substantive testing to verify:**
 - ✓ Authenticity, existence and valuation of balances reported
 - ✓ Existence of internal controls and proper procedures



Accounts Payable

The analytical review portion of the an Accounts Payable audit consists of the following procedures

- Statistics
- Spread Comparisons
- Concentrations



A/P Statistics

W/P: A/P Statistics										Date:									
W/P Summary		12 Month Comparison				6 Month Comparison				Notes:									
	Current	Prior	Change	Pct	Current	Prior	Change	Pct											
Purchases	\$11,697	\$12,725	(\$1,028)	-8.1%	\$5,466	\$6,174	(708)	-11.5%											
Disbursements	\$11,656	\$12,634	(\$978)	-7.7%	\$5,584	\$6,175	(591)	-9.6%											
T/O	24	19	5	25.3%	27	24	3	12.8%											
Avg A/P	\$ 784	\$ 686	98	14.3%	\$ 851	\$ 834	17	2.0%											
Comparison Prd	24																		
Row#	Month	BOM AP	Purchs	Misc. Cr	Gr, Disb	Misc. Dr	Misc. Dr	BOM BOD	BOM Accrual	12 Month Moving Average=====			6 mos						
										Avg BOM			Cash		T/O	T/O			
										T/O	A/P	Prchs	Disb						
1	Dec 95	699	1635		1688					12	699	1,635	1,688	12	12				
2	Jan 96	646	774		1067					18	673	1,205	1,378	15	15				
3	Feb	353	879		898					12	566	1,096	1,218	14	14				
4	Mar	334	1125		858					12	508	1,103	1,128	14	14				
5	Apr	601	1174		1276					14	527	1,117	1,157	14	14				
6	May	499	964		672					22	522	1,092	1,077	15	15				
7	Jun	791	955		843					28	560	1,072	1,043	16	17				

AP Statistics are prepared to **give the lender an indication of how well the AP is managed and if the performance is improving or deteriorating.**

Analysis includes:

- Purchase comparisons and trend analysis (prior period and sales level)
- Cash Disbursement comparisons and trend analysis
- Turn over comparisons and trend analysis

A/P Concentrations

W/P: A/P Concentration Summary

W/P Summary	Total	% of Total	P/D	% P/D	Top 5 Conc. Accts							Notes
					Customer	Terms	Total	% of Tot. A/P	Total P/D's	% of Bal P/D	% of Tot P/D	
Per Aging \$	830	100.0%	216	26.0%	Huntsman Cop	Net 60	126	15%	0	0%	0%	
Conc's per W/P	517	62.3%	138	26.7%	Pride Solvents and CI	Net 30	83	10%	44	53%	9%	
Top 5 Conc's	326	39.3%	72	22.1%	Rhone Poulenc	Net 30	44	5%	7	16%	1%	
Top 10 Conc's	470	56.6%	129	27.4%	Exxon Chemical Ame	Net 30	42	5%	21	50%	4%	
Top 15 Conc's	0	0.0%	0	0.0%	Autochem NA	Net 30	31	4%	0	0%	0%	
Top 20 Conc's	0	0.0%	0	0.0%								

				P/D's= c								
				A	B	C	D	E	F			
				% of Tot. A/P	Due In 1-30	Due in over 30	Past Due				Total P/D's	P/D %
Vendor	City & State	Terms	Total	% of Tot. A/P	Due In 1-30	Due in over 30	Past Due				Total P/D's	P/D %
Huntsman Cop		Net 60	126	15%	65	61					0	0%
Pride Solvents and Chemicals		Net 30	83	10%	39		44				44	53%
Rhone Poulenc		Net 30	44	5%	37		7				7	16%
Exxon Chemical Americas		Net 30	42	5%	21		21				21	50%
Autochem NA		Net 30	31	4%	31						0	0%
Greif Brothers Corp.		Net 30	31	4%	15		16				16	52%
Central Transport		Net 45	30	4%	15	15					0	0%
Monson Companies		Net 30	30	4%	30						0	0%
OSI Specialties		Net 30	27	3%			27				27	100%
Independent Chemical		Net 30	26	3%	12		14				14	54%

AP concentrations are analyzed to determine who are the major suppliers, terms offered, and products purchased. Results can **quality control issues, limited supplier resources, vendor pressure, and disputed balances**

Analysis includes:

- Identification of major vendors
- Identification of “concentration risk”
- Identification of changes in A/P levels among major vendors

Accounts Payable

The substantive testing portion of the an AP audit consists of the following procedures

- AP Test
- Sub ledger to general Ledger and general ledger to balance sheet reconciliations.



A/P Aging Test

W/P Name: A/P Test							Auditor:							
W/P Summary							Notes:							
A/P per Aging:		830	Date: Nov											
	Number		Amount	Pct										
Inv's Tested:	12	193	23.3%											
Balances Tested:	0	-	0.0%											
Variance Analysis														
	Number	Amount	Pct	Avg Dys										
Balance	0	-	0%	n/a										
Inv. Amt	0	-	0%	n/a										
Inv. Date	0	-	0%	-										
Inv. Due Date	1	3	1%	(35)										
Per Aging							Per Review				Variance			
Vendor	Terms	A/P Bal	Inv Amt	Inv. Number	Inv. Date	Inv. Due Date	A/P Bal	Inv. Amt	Inv. Date	Due Date	Bal Amt	Inv. Amt	Inv Date	Due Date
Autochem NA		31,482	90081209	11/03/97	12/03/97		31,482	11/03/97	12/03/97	0	0	0	0	
Central Transport		2,670	606799	10/27/97	12/16/97		2,670	10/27/97	11/11/97	0	0	0	-35	
Clariant Corp		25,005	71173689	11/24/97	12/24/97		25,005	11/24/97	12/24/97	0	0	0	0	
Exxon Chemical Americas		21,318	KON850	10/23/97	11/22/97		21,318	10/23/97	11/22/97	0	0	0	0	
Greif Brothers Corp.		8,015	37-2519	11/14/97	12/14/97		8,015	11/14/97	12/14/97	0	0	0	0	
Huntsman Cop		20,912	72982	11/13/97	01/12/98		20,912	11/13/97	01/12/98	0	0	0	0	
Independent Chemical		1,177	430426	11/14/97	12/14/97		1,177	11/14/97	12/14/97	0	0	0	0	
Monson Companies		28,445	114970	11/03/97	12/03/97		28,445	11/03/97	12/03/97	0	0	0	0	

The AP test is completed to determine if prescribed controls are being followed and to ensure that the AP is comprised of invoices that represent bona fide purchases. **Results can indicate poor internal controls, vendor pressure, inaccurately aged AP,**

Procedure includes:

- Verification of invoice amounts
- Verification of invoice date/due date
- Verification of vendor balances

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ECG Enterprises, Inc.

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Please feel free to contact ECG Enterprises to arrange for a collateral examination.

ECG is a new and young company, built on Greg Isenberg's extensive experience in the commercial finance industry,.

ECG specializes in **protecting lenders by designing and implementing audit programs** that:

- Identify collateral risk lenders may not be aware of
- Identify favorable and unfavorable trends in a borrower's financial and/or collateral performance
- Provide relationship managers with strategic information not readily available elsewhere.