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STOCK VERIFICATION & AUDIT PROCESS OF WHOLESALE & RETAIL BUSINESS ENTERPRISES OF UDAIPUR DISTRICT

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ABSTRACT

The present study aims to study the stock verification & audit process adopted by the wholesalers & retailers of Udaipur District. To serve the objective descriptive research design is used and primary data is collected from 300 respondents with the help of questionnaire. Data is analyzed with the help of frequency distribution & chi square test and it has been concluded that there is a significant difference in the stock verification & audit process adopted by the wholesalers & retailers of Udaipur district.

KEYWORDS

accounting practices, wholesalers, retailers.

INTRODUCTION

Inventory control protects a company from fluctuations in demand of its products. It enables a company to provide better services to its customers. It keeps a smooth flow of raw-materials and aids in continuing production operations. It checks and maintains the right stock and reduces the risk of loss. Managing inventory in a cost-efficient way helps optimize profits of the organization. This begins with negotiating the lowest costs with the suppliers. Buying in volume or committing to suppliers in long-term relationships can help with this. Managing inventory is vital as well. If firm order too much inventory, it have to pay more money for employees to organize it and manage it. In addition to this, it will have more expenses for storage areas to hold it. Having too little inventory can lead to stock-outs, which is bad for customer service.

Likewise audit process helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. An effective audit helps organizations achieve goals and objectives by measuring overall performance and productivity, as detected in transactions and business records. Further, an audit protects an organization from financial misstatements, presenting a reliable health picture of the organization to the markets. Fraud protection is a benefit of audits achieved through internal controls that prevent and detect accounting irregularities. Strengthening the financial integrity of an organization through an audit reduces risk and the cost of capital. An audit provides investors and shareholders confidence by providing trusted information concerning financial statements and how well the organization is run. An audit inspects internal control systems, ensuring they are sufficiently strong and working properly. In addition, an audit benefits accountants and tax collectors by addressing accounting problems and offering up-to-date information on techniques, rules, and regulations.

LITERATURE REVIEW

Vishnu & Mahadeo (2015) in their paper studied the Inventory Management Performance of Small Scale Industry. They found that industry should use ABC analysis in there day to day working and furthermore should try to enhance the operating efficiency.

Ntim et al (2014) in their paper stated that stock forms an integral part of control systems in most organizations. Depending on the quantities, specific types and nature of stock items, they can easily be stolen, burnt, become obsolete, evaporated, result in stock-out and over-stocked. This calls for a comprehensive control of stock in SMEs.

Hasan (2013) in his paper stated that Material Management played an important role in any manufacturing system. Computations to find out the quantity of raw materials to be ordered and the period in which to be ordered require processing of huge amount of data from various manufacturing functions.

Monisola (2013) examined inventory management problem and their impact on the performance of small and medium scale manufacturing organizations. Researcher analyzed the efficiency and profitability of various manufacturing organizations and use of EOQ model. He found that the non – use of perpetual inventory method, lack of structured inventory process valuation and processing in arriving at sound decisions in SMEs is generally very low. He suggested that the need for a computerized system in order to facilitate the perpetual inventory approach.

Soni (2012) focused on inventory management of engineering goods industry in Punjab. She analyzed turnover ratios, working capital management and inventory control. She suggested that to solve the problem of shortage of inventory as taking loan from institution, retained earnings, placing order in time, planed recorder level and maintained safety stock.

A study conducted by **Maseko & Manyani (2011)** confirmed that SMEs do keep subsidiary books of accounts, especially to capture on operating expenses as evidenced by a few number of SMEs keeping books to record expenses. The study revealed that SMEs in the retail shops business are keeping sales day books for controlling inventory and those in the manufacturing sector keep records for non-current assets as owners try to safeguard their assets. Record keeping in SMEs is therefore not being done for the purpose of capturing accounting information for performance measurement but for security and control.

Sathyamoorthi (2001) observed that it is important to have a system of control over all business activities, as a well-designed and properly implemented control system can ensure: protection of resources against waste and fraud; accuracy and reliability in accounting data; and success in the evaluation of the performance of the business.

OBJECTIVE

The purpose of this research paper is to study the stock verification & audit process used by the wholesalers & retailers of Udaipur district.

RESEARCH METHODOLOGY

(a) Research Design: - To have a better understanding about the issue descriptive research design was used. To get the primary data close ended questionnaire was administrated.

(b) Sample Design: - 50 wholesalers & 250 retailers were selected through stratified purposive sampling.

(c) Analysis: - The data collected was analyzed with the help of frequency distribution & chi square test.

FINDINGS OF THE RESEARCH

- The sample of the study consists of 300 business organizations out of which 16.67% were wholesalers (N=50) and rest 83.33% business owners (N=250) were retailers

A. Stock Verification Process of Wholesalers & Retailers

- According to 61% respondents (N=183) they verify their stock monthly followed by quarterly (N=46, Percentage=15.33) & fortnightly (N=38, Percentage=12.67). There were 6% respondents (N=18) who conduct stock verification half yearly and 5% respondents. Majority of wholesalers (N=30, Percentage=60) and retailers (N=153, Percentage=61.20) verify their stock on monthly basis. 24% wholesalers (N=12) and 10.40% retailers (N=26) do the stock verification fortnightly while quarterly stock verification is done by 17.60% retailers (N=44).
- Respondents were asked that which method they apply for valuation of stock of their business and results received are presented in table 4.3.3. The FIFO method is used by majority of respondents (N=104, Percentage=34.67) followed by LIFO (N=93, Percentage=31) and weighted average method (N=61, Percentage=20.33). Rest of the respondents (N=42, Percentage=14) use some other methods of stock valuation. It is clear from the results that majority of wholesalers (N=23, Percentage=46) and retailers (N=81, Percentage=32.40) are using FIFO method for stock valuation. Significant numbers of wholesalers (N=16, Percentage=32) and retailers (N=77, Percentage=30.80) are using LIFO method for stock valuation. The weighted average method is used by 20% wholesalers (N=10) and 20.40% retailers (N=51).
- 77.33% respondents (N=232) indicated that they use to record the loss of stock and 22.67% respondents (N=68) said that they do not record the lost stock. Majority of wholesalers (N=44, Percentage=88) and retailers (N=188, Percentage=75.20) keep the record of stock lost.

B. Audit Process of Wholesalers & Retailers

- Respondents were asked that do you conduct audit for your business and as a response majority of respondents (N=187, percentage=62.33) indicated that they conduct audit of their business. 37.67% respondents (N=113) reported the non-conduction of audit process of their business. All the wholesalers (N=50, Percentage=100) and majority of retailers (N=137, Percentage=54.80) are conducting audit of their accounts. 45.20% retailers (N=113) said that they do not conduct audit of their accounts.
- It is clear from the results that majority of wholesalers (N=26, Percentage=52) and retailers (N=101, Percentage=73.72) are doing audit yearly. Significant numbers of wholesalers (N=13, Percentage=26) and retailers (N=27, Percentage=19.71) are conducting audit half yearly. The quarterly auditing is done by 22% wholesalers (N=11) and 6.57% retailers (N=9).
- Majority of respondents (N=99, Percentage=52.94) indicated that external agency conduct the audit of their accounts, while 23.53% respondents (N=44) said that internal staff conducts the audit. 18.18% businessmen (N=34) responded that audit is conducted by internal and external agency both and 5.35% respondents (n=10) conduct audit by themselves. Majority of wholesalers (N=41, Percentage=82) and retailers (N=58, Percentage=42.34) are taking help of external agency for auditing process. Very few wholesalers (N=2, Percentage=4) and retailers (N=8, Percentage=5.84) are conducting audit at their own.

C. Hypothesis Testing

H₀₁: There is no significant difference in the stock verification process adopted by the wholesalers and Retailers

H₁₁: There is a significant difference in the stock verification process adopted by the wholesalers and Retailers

To measure significant difference in the stock verification process adopted by the wholesalers and Retailers chi-square test was applied as shown in table 1

TABLE 1: CHI-SQUARE RESULTS TO MEASURE SIGNIFICANT DIFFERENCE IN THE STOCK VERIFICATION PROCESS ADOPTED BY THE WHOLESALERS AND RETAILERS

Stock Verification Time Period	Type of Business Organization		Total	Chi Square		
	Wholesaler	Retailer		Degree of Freedom	Calculated Value	Tabulated Value
Fortnightly	12	26	38	4	11.64	9.488
Monthly	30	153	183			
Quarterly	2	44	46			
Half yearly	4	14	18			
Yearly	2	13	15			
Total	50	250	300			
Stock Valuation Method	Type of Business Organization		Total	Chi Square		
	Wholesaler	Retailer		Degree of Free- dom	Calculated Value	Tabulated Value
LIFO	16	77	93	3	8.417	7.815
FIFO	23	81	104			
Weighted average	10	51	61			
Other	1	41	42			
Total	50	250	300			
Recording of Lost Stock	Type of Business Organization		Total	Chi Square		
	Wholesaler	Retailer		Degree of Freedom	Calculated Value	Tabulated Value
Yes	44	188	232	1	3.894	3.841
No	6	62	68			
Total	50	250	300			

Level of Significance = 5%

At 5% level of significance in all the cases the calculated value of chi square is more than its tabulated value which leads to the rejection of hypothesis so it can be concluded that there is a significant difference in the stock verification process adopted by the wholesalers and Retailers.

H₀₂: There is no significant difference in the auditing process adopted by Wholesalers and Retailers

H₁₂: There is a significant difference in the auditing process adopted by Wholesalers and Retailers

To measure significant difference in the auditing process adopted by the wholesalers and Retailers chi-square test was applied as shown in table 2

TABLE 2: CHI-SQUARE RESULTS TO MEASURE SIGNIFICANT DIFFERENCE IN THE AUDITING PROCESS ADOPTED BY THE WHOLESALERS AND RETAILERS

Conduction of Audit	Type of Business Organization		Total	Chi Square		
	Wholesaler	Retailer		Degree of Freedom	Calculated Value	Tabulated Value
Yes	50	137	187	1	36.25	3.841
No	0	113	113			
Total	50	250	300			
Audit Time Period	Type of Business Organization		Total	Chi Square		
	Wholesaler	Retailer		Degree of Freedom	Calculated Value	Tabulated Value
Quarterly	11	9	20	3	11.378	7.815
Half yearly	13	27	40			
Yearly	26	101	127			
Total	50	137	187			
Auditor	Type of Business Organization		Total	Chi Square		
	Wholesaler	Retailer		Degree of Freedom	Calculated Value	Tabulated Value
By yourself	2	8	10	3	23.921	7.815
Internal staff	3	41	44			
External agency	41	58	99			
Internal and External agency both	4	30	34			
Total	50	137	187			

Level of Significance = 5%

At 5% level of significance in all the cases the calculated value of chi square is more than its tabulated value which leads to the rejection of hypothesis so it can be concluded that there is a significant difference in the auditing process adopted by the wholesalers and Retailers.

CONCLUSIONS

From this research following conclusions are drawn:

1. Wholesalers prefer to verify stock on monthly or fortnightly basis while retailers verify their stock either on monthly basis of quarterly basis.
2. Wholesalers and retailers are using FIFO method for valuation of stock and they use to keep record of lost stock
3. All the wholesalers conduct audit while nearly half of the retailers conduct audit. The general audit frequency is once in a year
4. Significant difference has been identified in the stock verification and auditing process of wholesalers & retailers

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