



The Importance of having an Inventory Control System for the Presentation of Financial Information for Small Businesses

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ABSTRACT

The purpose of this investigation is to publicize the importance for small companies to implement an inventory control system for the presentation of their financial statements. In many cases, one may come to think that accounting should be applied to large companies and that small-scale businesses do not need it, but the reality is different, based on the fact that accounting seeks to provide the same objective for all companies, to control the resources and generate profits that help them to remain in time, in favor of this and to achieve a contextual knowledge of the study, a brief historical review of accounting is carried out from its origin, reaching the implementation of IFRS

INTRODUCTION

In this research we will address the issue of the importance of implementing an inventory control system in small businesses, affirming the thought of Willian Laveriano (2010) in his article, "Having an adequate inventory record is not simply doing it because the large companies do it, because the accountant asks for it or because we need them to put together a balance sheet. The main objective is to have sufficient and useful information to: minimize production costs, increase liquidity, maintain an optimal inventory level and start using the technology with the consequent reduction in operating expenses.", achieving adequate control that leads the company to be efficient.

The main characteristic of this type of business is only dedicated to producing and selling and although this is the purpose of any production company, the lack of control and planning can lead to the total loss of your business or present economic problems in the future.

To analyze this problem, it was necessary to know the importance that the implementation of software that helps them have greater control of their business brings to companies.

The investigation of this problem was carried out with the interest of knowing what advantages companies have when they rely on the aid provided by accounting, on the other hand, it seeks to generate awareness that every business, however simple it may seem, must have control and This is what is sought with the implementation of accounting practices, that all the processes that are carried out in the companies serve them for the presentation of their financial statements and with the information that these show, they can make the best decisions for their growth.

METHODOLOGY

In the first part of the work, a small introduction to the history of accounting is made, from its origin to the present, giving way to the incorporation of international financial reporting standards (IFRS), with an emphasis on IFRS for SMEs in the presentation of the financial statements and the inventories section, continuing with the importance that it has generated for companies to implement a system that helps them control their inventory, moving on to the last part where a practical case of a small company that was achieved thanks to to the implementation of a software called dolphin great economic returns helping the presentation of the company's financial information to be satisfactory.

LITERATURE REVIEW

Affirming the thought of Willian Laveriano (2010) in his article, "Having an adequate inventory record is not simply doing it because the large companies do it, because the accountant asks for it or because we need them to put together a balance sheet. The main objective is to have sufficient and useful information to: minimize production costs, increase liquidity, maintain an optimal inventory level and start using the technology with the consequent reduction in operating expenses."

RESULT AND DISCUSSION

Advance or Accounting Origin

Since the origin of man, he has sought to keep track of his economy and when his memory was not enough it was necessary to record each movement on paper, one of the first trade activities was known as "barter" where the different civilizations exchanged their products, this is where the first records are based, using it as a tool to know how much was stored, what could be exchanged and what was needed, all this originated in Mesopotamia as evidence of this is the investigation of Orville R. Keister (1979, p. 193-194):

"Archaeologists have found traces of ancient trade records; In the form of clay tablets, these do not bear much resemblance to modern accounting records, but they are authentic business records and are proof that business accounting records may have lived out their infancy in ancient civilizations.

In the Renaissance, the double entry was born where it is said that every movement has an entry and an exit, that is, an accounting entry in it must and another accounting entry in the credit. According to Hatfield (1979, p. 4): "the monk is considered Paciolo as the father of Modern Accounting; his Summa, published in 1494, was the first printed work on algebraic subjects, it also contained the first text on Double Entry Bookkeeping", with the advent of double entry, the classical period in which the first schools of accounting thought, According to Professor Montesinos "the accounting school is the first accounting school in history, and is recognized as the science of accounts, whose purpose is to develop the appropriate rules that govern the annotations in them" (Tua , 1988).

As a reaction to contismo, the personalist school or current was born, where Hipolito Vannier classified the accounts into: merchant accounts (capital, profits and losses); commercial value accounts (merchandise, bills receivable, bills payable, furniture, installation expenses, goodwill) and corresponding accounts (Debtors and creditors).

Later on, the controlist school or current emerged "this school understands that the object of accounting study is the economic control of haciendal wealth, its leader was Fabio Besta (1880), he affirmed that "goods can only be measured by their value" (Lopes de Sá, 2002). Then the school or current of finance appears, where the definition of Finance was understood as a system of people and material and immaterial means that in a dynamic sense lead society to fulfill a purpose (family, companies, associations, State, everything is finance). , it is here where the first bases of what is known as business economics are given.

The patrimonial school or current is created, which is one of the ones that has the most repercussions today, its leader and creator was Vicencio Massi, who thought:

"Accounting has as its object the study of all patrimonial phenomena: their manifestations and their behavior, and tries to discipline them in relation to a certain patrimony of the company. These phenomena are neither legal, nor economic, nor economic-social, nor only economic of the company, nor only financial, nor only revenue, since they participate directly in one

and the other, although they have their own characteristics and physiognomy. (Tua, 1988. p. 19).

It was a current formed throughout the world and has established itself as a living current that is advancing more and more.

All these currents generated new approaches leading to the end of the classical period to give a beginning to the scientific period where "clear proof of the interest of accounting researchers to base accounting as an independent science, but with extensive relationships with other sciences, is constituted. " Requena (1981), in Mejía (2011) and it is here where accounting is "classified within the empirical sciences" (Suarez 2011).

The Incorporation of IFRS

Over the years everything has evolved and accounting has not been left behind, there are many changes and the term globalization begins to gain strength, the (Royal Academy of the Spanish Language, 2019), defines globalization as the "process by which economies and markets, with the development of communication technologies, acquire a global dimension, so that they depend more and more on external markets and less on the regulatory action of governments. This is how, in search of all people speaking the same accounting terms, the IFRS (International Financial Reporting Standards) were created, which were issued by the International Accounting Standards Council, known by its acronym in English IASB for the purpose of to unify regulations worldwide, based on these,

"The IFRS for SMEs is intended to apply to the general purpose financial statements of entities that do not have public accountability. Financial statements will present fairly the financial position, financial performance and cash flows of an entity. The fair presentation requires the faithful representation of the effects of the transactions, other events and conditions, in accordance with the definitions and recognition criteria of assets, liabilities, income and expenses." (Module 3, presentation of financial statements)

The main objective of the presentation of the financial statements with general purpose of a small or medium-sized company, is to provide information on how the entity is financially, its performance and cash flows in order to help economic decision making, where despite not being required by the standard to present their financial statements, their preparation contributes to greater control of their economy. With this regulation, it is sought that all the information is transparent and comparable, making the information presented in the financial statements reliable for all people and that everyone works under the same principles.

The financial statements reveal the economic and financial reality of the companies, but this information must be interpreted correctly, what is embodied on paper is useless if you do not understand what it means, to achieve the results presented in the financial statements. be positive, it is essential that everything in companies is organized, that everything is controlled and inventories are no exception.

“Inventories are assets. An asset is a resource controlled by the entity as a result of past events, from which the entity expects to obtain future economic benefits.

The inventories of a manufacturing entity are classified as follows:

- a) Finished products: assets held for sale in the normal course of operations;
- b) Work in process: assets in the process of production with a view to that sale;
- c) Consumables: assets in the form of supplies that will be consumed in the production process; and
- d) Raw material: assets in the form of materials that will be consumed in the production process.” (Module 13 inventories)

Inventory Control System

Inventory management and control is a process that has a great impact on all the operational areas of the companies and, in turn, is a fundamental aspect of the administration, since when everything is not controlled, it implies a high cost and requires a greater investment of effective, as Weston and Copelan (1996) put it. Companies cannot afford to have money tied up in the form of merchandise in their inventory, nor can they be unable to offer excellent customer service when out of stock.

According to Aguilar (2012), “Inventory management has become one of the great challenges faced by managers with respect to planning and control, especially in manufacturing companies. The two most common mistakes that are made are: ignoring the demand, that is, knowing which products sell more and which less; when they are sold, how are the variations between each month or if there are items that are sold only in certain seasons, and, secondly, the inaccuracy of stocks: mistakes between what the reports say and the actual number of products there are. “These failures often arise from not having real-time control of what is sold, what is sold out and the new items that arrive at the warehouse” (Magri, A. (2018)). These problems occur in all sectors of the economy, however, in companies that handle tangible products such as raw materials, spare parts and finished products, these processes are much more complex, making it necessary to implement an inventory system, Gutiérrez and Jaramillo, (2009) make it clear about “the importance of using software in combination with computer tools since they represent benefits for companies that lead to improvement in the flow and quality of information, the integration of all the areas of the company, support for strategic planning and decision-making of inventory systems, and therefore have greater control of these”.

The Importance of Having an Inventory Control System in Small Businesses

In the following practical case, it can be seen how important it is for companies to have an inventory control system implemented that helps them keep their accounting in an organized manner and thus the results presented in the financial statements show positive data, otherwise above, it may be thought that accounting should only be applied to large companies, but in reality this is not the case, every business must keep track of its financial information up to micro-enterprises (a term given to companies where the staff that work do not exceeds 10 workers), an example of this is the following case study:

9 years ago, a micro-enterprise called Castillo de Flour was created, located in the municipality of Bello (Antioquia). Its owner is Juan Pablo Ángel. With a lot of effort, he made his dream of having his own business come true. At the beginning, he made breads and cookies in the kitchen. from his house in an oven that his mother lent him, which were sold to people close to him.

With the passage of time and with the desire to undertake and be his own boss, in 2011 he created his flour castle pastry shop. On October 30, 2014, he received the Young Entrepreneur of the Year award, an award granted by the Medellín mayor's office in agreement with Sena and Interactuar, from that moment his company began to grow, sales increased and everything at first glance was fine. .

On one occasion, when examining what was sold in one day, what the profits for the month were, what supplies should be requested for the preparation of the products, in a few words, when making an exhaustive report on how his business was going economically, he He realizes that he needed something that would help him have greater control of his inventory, given that on many occasions he had some products out of stock, which could cause his customers not to return and buy in another place than if he offered them what they were looking for or for the On the contrary, it had many inputs that it did not need to use at the moment, which would bring economic losses. On the one hand, the inputs, because they are perishable foods, can be easily damaged or the money could be used buying raw materials that were needed more urgently. He sees the need to get a technological tool that manages to find the balance between supply and demand and also have reliability in the times of receipt of goods from the supplier as well as in delivery to customers.

He decides to implement a software called Dolphin, this:

"It is an integrator of solutions for the retail market in general, which can specialize in a particular business niche, be it department stores, supermarkets, pharmacies, fast food, hardware stores, among others, the management programs they offer, give versatility and maximum control to any company that requires an agile and efficient program for its points of sale, allowing it to know the situation regarding sales, inventories, purchases, customers and suppliers in real time". (dolphin software 4.2 user manual).

The software contains several modules, the first is the sales one, in which each bakery product is coded, when these are prepared, the quantity is entered into the system and when making a sale, it places the units sold, this lets you know how many you produce in a day and how much is sold, helping to have control of the products, which means that everything is very fresh for your customers. In the second module, you can find purchases, these being just as important as sales, where proper control allows Acquire only the necessary products in adequate quantities, avoiding unnecessary costs or taking up space in the warehouse that could be used in a better way, giving way to solving the problem that was previously exposed that sometimes the raw material that was requested was not what was I needed at the moment You can also configure the withholding parameters at source, VAT and ICA. This information is important

when entering purchases from suppliers because it allows you to establish the different withholding percentages with their respective base and to know what types of taxpayers are due. practice withholding in VAT and ICA, in the following module are inventories being one of the most important processes of companies, in this its control must be strict, guaranteeing in real time what happens, recording each entry and exit of the business, since the success or failure of the company will depend on the proper implementation of this process, in the fourth module is the portfolio control, here all types of invoices or receipts that arrive at the business must be entered, to be able to make detailed reports and queries, allowing you to follow up on the status of each account and to be able to plan your payment to suppliers, any type of report that is needed can be printed or perform a cash count at any time you want, it has a support of experts who provide advice when someone needs it, the system is security and data integrity for access to information, that is, only those who have the password, such as the administrator or owner of the business and have the option for workers to only run outputs for greater control. Any type of report that is needed can be printed or perform a cash count at any time, it has expert support that provides advice when someone needs it, the system is security and data integrity for access to the information, that is, only those who have the password, such as the administrator or owner of the business, can enter to make modifications and have the option that the workers can only execute the outputs for greater control. Any type of report that is needed can be printed or perform a cash count at any time, it has expert support that provides advice when someone needs it, the system is security and data integrity for access to the information, that is, only those who have the password, such as the administrator or owner of the business, can enter to make modifications and have the option that the workers can only execute the outputs for greater control. as the manager or business owner and have the option for workers to only run the outputs for added control. as the manager or business owner and have the option for workers to only run the outputs for added control.

The implementation of this inventory system brought many positive things to the business, proof of this was obtained by comparing the financial statements:

- In 2018, the profits for the year resulted in 8,317,216 pesos, in exchange for the year 2019 the profits were 10,973,532 pesos, having an increase of 2,656,316 pesos, which is equivalent to a 24.2% increase in their utilities.
- In assets it brought an increase, having in 2018 a total of 39,617,692 pesos and going to the year 2019 to have assets of 44,773,703 pesos, with an increase of 5,156,011 pesos for 11.51% in its total assets
- In liabilities it had a decrease, in 2018 its liabilities were 29,000,000 pesos and ended in 2019 with liabilities of 25,000,000 pesos, with a decrease of 4,000,000 pesos for a 14% decrease in its total liabilities.

In this case, for the Castillo de Harina bakery, the impacts that arrived were very positive, sales increased by 24.2% due to better product rotation, thanks to the fact that the system makes it possible to know which products are the most consumed, which that facilitates its preparation, allowing it to always be fresh for sale, this system serves as a guide to place orders with its suppliers only according to demand, helping not to spend money on something that is not

needed, it also generates confidence for the owner, controlling sales and expenses. It is for this reason that when his accountant made the financial statements, he was able to realize that his products left him profits, he was able to change his thinking, since at first he was not aware of where the profits were going.

CONCLUSION AND RECOMMENDATION

Accounting is so important to human beings that he has used it since the beginning of his existence, it is for this reason that he must move forward with it and although the systems that were used before have been helpful for many years, it must not stagnate. nor remain clinging to the past, on the contrary, you should take advantage of the multiple benefits that accounting, hand in hand with technology, generates for the human being, as shown in this case that thanks to the implementation of an inventory system, the performance of your company I improve, increasing sales and organizing to be able to control and plan their business.

Inventory systems can sometimes seem complex for people and much more so for those who are not used to technology, many prefer to continue using a notebook or their memory and think that with this everything will be organized, ignoring everything that this will benefit their business, it is not just writing down what is sold and spent, it is planning ahead of time to ask suppliers so as not to waste, it is knowing the rotation of my products, it is knowing what I have in my inventory, it is knowing when I must pay my obligations And at what point are they going to pay me what is owed to me to generate income and thus understand that it is being done well or, on the contrary, find out what shortcomings I have and how I can improve them so as not to have financial problems that could lead me to bankruptcy? of my business.

FURTHER STUDY

This research still has limitations, so further research needs to be carried out regarding The Importance of Having an Inventory Control System for the Presentation of Financial Information for Small Businesses. In order to perfect this research and increase insight for readers

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