

# The expenditure cycle



**ASSIGN  
BUSTER**

## CHAPTER 10 THE REVENUE CYCLE: SALES AND CASH COLLECTIONS

## SUGGESTED ANSWERS TO DISCUSSION QUESTIONS 10. 1This should

generate a great deal of discussion. The basic issue concerns the willingness of consumers to divulge the kind of information that would allow companies to personalize the sales interaction versus concerns that such information would be misused or sold to other parties. In addition, with the growing problem of identity theft, consumers are becoming increasingly concerned about the safety and security of their personal information.

Companies that wish to collect this data will most likely have to demonstrate the need for this information to the consumer and also the company's ability to keep this information secure. 10. 2Digitized products force little change on the four business activities of the revenue cycle. For all products, whether digitized or not, an order must be taken, the product shipped, an invoice delivered, and cash collected. The only thing that digitized products do is change the way these four activities are carried out.

Digitized products actually facilitate the four activities by incorporating electronic sales orders, shipping, billing, and cash collections. 10.

3Employees need to be trained to use the POS properly. Such training should include understanding how the POS works, stressing that . In that errors on the employees part will directly affect the inventory master file numbers. If an item does not " scan", then it must be rescanned or dealt with so that the integrity of the records is upheld.

Similarly, employees should be trained not to skip sales. If an item does not " scan", the employee should be trained to accurately enter in the " bar code"

of the item. Entering a generic or erroneous code not only creates an inventory error, but it also frustrates the customer who may take their business elsewhere. In addition, employees should be trained to report and/or fix errors in bar codes as they are encountered and in a timely manner. 10. The report already provides dollar amounts outstanding by number of days past due by customer and by invoice. However, the percentage of total accounts receivable categorized by days past due would help to alert management of categories that are increasing. This could also be reported by customer and by invoice. This way if a particular invoice was not being paid, the company could more quickly identify the invoice, contact the customer, and potentially resolve any problems or disputes about the particular invoice.

In addition, reporting by customer can help to identify chronic “ slow paying” customers so that corrective action could be taken such as offering discounts for quick payment, changes in term, and notifying the credit manager to restrict credit for this particular customer. Furthermore, the company may have a certain threshold for each category of past due accounts either in percentages or absolute dollars. A metric could be calculated and presented that highlights the categories exceeding that threshold. 10. This is a good question to get students to explore and compare the role of technology in dynamic price setting policies. You may want to preface the discussion by relating the following scenario: You have graduated from collage and started your own consulting firm. A client has an urgent need that requires you to travel to his location. Since this is a last minute trip, you pay full price for an

airline ticket. Since this client is on a fixed contract, you cannot charge the cost of the ticket back to the client.

While riding on the airplane you find yourself sitting next to a college student who is majoring in accounting. During the course of the conversation with this accounting student, you find that he purchased his airline ticket from a discount reseller and paid less than half of what you paid for the same flight. How do you feel about this arrangement? Do think this type of pricing arrangement could transfer to other products? Would the companies that sell these other products be put at a competitive disadvantage when customers find that they are paying different prices for the same goods or services? 0.

6The instructor can facilitate discussion of invoiceless pricing in a B2C environment by asking students how they would feel about not receiving a phone or cable bill. What are the problems the phone or cable company and phone or cable consumers encounter without a paper bill? What about billing problems and disputes. What about payment deadlines or consumers that want to pay in person or pay in cash? 10. 7Any form of electronic or digital cash has the same audit risks as physical cash: susceptibility to theft and loss of an audit trail.

In addition, digital "cash" also has risks associated with the durability of the store of value - to what extent can the cash be recovered if the storage media becomes defective? Another issue concerns the potential loss of privacy, because the digital currency can be "marked" in a manner that enables tracing its path through the economy. 10. 8 Why not indeed? Copies of the sales order can be used by inventory personnel as a picking ticket to

select inventory items ship to the customer. In similar fashion, the sales order converted into a picking ticket can also be used as a packing slip.

Just make sure a copy is sent with the package and not the original so that in case there is a problem the original form can be reviewed for any errors or discrepancy. If sales orders are created electronically, the information contained on the electronic sales order can be used to create paper (or electronic) picking tickets, packing slips, or invoices. SUGGESTED ANSWERS TO THE PROBLEMS 10. 1Types of controls used at various steps in the revenue cycle. Process/ Activity ThreatApplicable Controls (P = Preventive, D = Detective, C = Corrective) Sales order entry1.

Incomplete or inaccurate customer orders 2. Credit sales to customers with poor credit 3. Legitimacy of order 4. Lost sales due to stockouts, excessive carrying costs, and lost revenue due to markdownsVarious data entry edit controls P Proper credit approval, prior to delivery of goods or services P; accurate, current customer data P Authorized customer purchase order P; digital signatures D Inventory control systems P; periodic physical inventory counts D; improved sales forecasts P; better supply chain management P and C Shipping5. Shipping errors: •Wrong merchandise Wrong quantities •Wrong address 6. Theft of inventory Compare sales order with packing list and shipping documents D; bar coding P Physical access controls P; documentation of all inventory movements D; periodic physical inventory counts D Billing and accounts receivable7. Failure to bill 8. Billing errors 9. Errors in maintaining customer accountsSegregation of shipping and billing functions P; one-for-one matching of invoices (or EDI acknowledgments)

against shipping documents D and C Comparison of sales orders, shipping documents, and invoices P and C; various edit checks D and C

Data entry edit checks D and C; use of remittance advices P; monthly statements to customers D and C Process/ Activity ThreatApplicable Controls (P = Preventive, D = Detective, C = Corrective) Cash collections10. Theft of cash Segregation of cash handling and accounts receivable functions P; use of lockboxes or EFT P; bank account reconciliation by someone not involved in cash receipts processing D and C; segregation of bad debt/credit memo authorization from cash handling and accounts receivable functions P

General11. Loss of data 12. Poor performance

Backup procedures C; disaster recovery plans P; physical and logical access controls P Development and periodic review of appropriate performance metrics D and C 10. 2 Information Technology to enhance the restriction of physical access to inventory: 1. Electronic locks on all entrances and exits to the inventory area. 2. Smart card technology where employees must scan their ID card prior to entering/exiting the inventory area. 3. Install motion detectors. 4. Attach security tags to inventory items and install security tag scanners at each exit of the inventory area. . Attach RFID tags to inventory items to track the movement of inventory. 6. Install and monitor surveillance cameras in the inventory area. 7. Install an infrared alarm system. 8. Build a fence around the inventory area and equipthe fencewith cameras and sensors. 10. 3a. Shipping personnel should be required to document (on paper or by computer) receipt of goods from the finished goods storeroom. This procedure acknowledgesresponsibilityfor custody of the goods

transferred. b. Either a redundant data check or closed loop verification could be used.

If the transactions are being entered in batches, redundant data such as the first five characters of the customer's name could be included in each input record; after finding a match on customer account number, the system would also verify that the name characters match before posting the transaction. If the transactions are being entered online, the system could respond to operator entry of the account number by retrieving and displaying the customer's name for the operator to review. c. Up-to-date credit records should be maintained, and credit checks should be made prior to approval of sales orders. . A receiving report should be required to support the authorization of credits for sales returns. e. Separate the function of authorizing write-offs of uncollectible accounts from the function of handling of collections on account, in order to prevent any single individual from perpetrating this type of fraud. f. Shipping personnel should be required to record the actual quantity shipped on the order document and/or enter the quantity shipped into the sales order processing system, in order that bills can be prepared based upon the quantity shipped rather than the quantity ordered. . Supervision of mailroom operations, limitation of authority to endorse checks to the cashier only, and instructions to the bank to accept only those checks endorsed for deposit in the company's account. h. Cash receipts should be listed and totaled in the mailroom before the cashier receives the checks. A third person compares the amount deposited as shown by a validated deposit slip to the batch total prepared in the

mailroom. i. All sales tickets should be prenumbered and accounted for. This would quickly spot a missing ticket. j.

Segregate shipping and billing functions. k. Implement accurate inventory control and sales forecasting systems including periodic physical inventory counts and frequent review and revision of sales forecasts. l. A system of user IDs and passwords is the first line of defense followed by allowing “ read only” access to customer data for sales staff, implement access controls over individual terminals, and maintaining activity logs. m. Regular backups with copies being stored off-site. n. Backup generators as well as cold and/or warm site contracted backup facilities. o.

Encrypting sensitive data prior to transmission, creating virtual private networks, and transmitting data over secure socket layer (SSL) networks. p. A system of user IDs and passwords is the first line of defense followed by allowing “ read only” access to price lists for sales staff, implement access controls over individual terminals, and maintaining activity logs. q. A system of user IDs and passwords is the first line of defense followed by allowing “ read only” access to customer data for sales staff, implement access controls over individual terminals, and maintaining activity logs.

In addition, formal non-compete agreement could be used when hiring personnel. r. A nightly backup with copies being stored off-site. s. Periodically testing backup data for access and compatibility with current company hardware and software. 10. 4 Formulas: Sales (1% Growth Rate) E5 and Row 5:= D5\*101%, = E5\*101%, = F5\*101%, ... Cash Collections: D7:= D5\*40% E7:= E5\*40%+D5\*30% F7:= F5\*40%+E5\*30%+D5\*20% G7:= G5\*40%



+F5\*30%+E5\*20%+D5\*8% Copy and paste G7 formula to remaining cells

Beginning Balance: E2:= D9 (same formula for remaining cells in Row 2)

Ending Balance: D9:= D3+D7 (same formula for remaining cells in Row 9)

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