Sales and Cash Receipts System

SUA Chapter 3

Accountant's Objectives

1. Record all sales transactions
   - at correct values
   - to correct accounts
   - in the correct period
2. Write off uncollectible receivables
3. Make a reasonable estimate for doubtful accounts
4. Include all material disclosures affecting the accounts in the statements and related footnotes.

Common Source Documents and Functions

<table>
<thead>
<tr>
<th>Revenue Cycle</th>
<th>Source Document</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales order</td>
<td>Record customer order.</td>
<td></td>
</tr>
<tr>
<td>Delivery ticket</td>
<td>Record delivery to customer.</td>
<td></td>
</tr>
<tr>
<td>Remittance advice</td>
<td>Receive cash.</td>
<td></td>
</tr>
<tr>
<td>Deposit slip</td>
<td>Record amounts deposited.</td>
<td></td>
</tr>
<tr>
<td>Credit memo</td>
<td>Support adjustments to customer accounts.</td>
<td></td>
</tr>
</tbody>
</table>

Sales - Actions and Documents

Receive orders from customers (a document received or prepared by a sales person)

Ship goods (revenue recognized a shipping doc. prepared)

Customer purchase order
- Name & Address
- Goods or services
- Delivery date

Bill of lading
- description of goods
- quantity shipped
- must w/ common carrier
- no $ values included

Perpetual inventory record
Sales - Actions and Documents - (continued)

Bill Customers (quantity shipped x the price + freight + insurance), terms of payment

Record in sales j. and subsidiary ledger (some companies record cash sales in cash receipts j.)

Sales Invoice
- description of goods
- quantity of goods
- price & other charges
- total, and due date

Sales journal
- commonly daily summaries,
- retain a copy of sales invoices
- totals posted to the gen. led.

A/R subsidiary ledger
- individual sales
- cash receipts
- sales returns & allowances

Three ways an A/R is eliminated
- Collection of cash,
- Sales return and allowance,
- Write-off as uncollectible.

Sales - Actions and Documents - ended

Summarize sales & post to gen. ledger (usually monthly, from sales j. totals)

General ledger
- dr. A/R,
- dr. sales discounts,
- cr. sales

Cash Receipts - Actions & Documents

Receipt of cash (recognized as an asset at the receipt date, a remittance advice is received back or prepared)

Deposit cash (usually daily, to make it available for use & to reduce possibility of loss)

Remittance advice
- Accompanies the sale inv., returned w/ payment,
- customer name
- sales invoice no.
- amount due

Cash receipts prelist
- prepared by an indep. person
- when cash received

Bank deposit slip
- separate one for each deposit,
- required by banks,
- helpful in recording receipts & in reconciliation,
- separate line for each check,
- bank keeps the original and returns a validated copy.
**Cash Receipts - Actions & Documents**

- Record in C.R.J and A/R subsidiary ledger
- Summarize cash receipts & post to G.L.
- Cash receipts journal
  - Daily entries are supported by remittance advises
- A/R subsidiary ledger
  - individual sales
  - cash receipts
  - sales returns & allowances
- General Ledger
  - dr. A/R
  - dr. sales discounts
  - cr. sales

**Sales Returns & Allowances**

- Process sales return & allowance request
  (a request is received, approved by a salesperson or sales manager)
- Receive the goods returned
  (GAAP require the recognition of returns as of the original sale date)
- Return or allowance request
  - return or allowance
  - amount of the credit granted.
- Receiving report
  - prepared on receipt of goods
  - description of goods
  - quantity received
  - date received
  - customer ID

**Sales Returns & Allowances - continued**

- Credit Customers
  (inform the customer, have agreement on the amount of credit)
- Record in sales R&A j. and subsidiary ledger
- Credit memo
  - amount & terms of the return or allowance
  - original copy to customer
  - one or more copies retained
- Sales R&A journal
  - retain a copy of credit memo
  - totals posted to the gen. led.
- A/R subsidiary ledger
  - individual sales R&A
  - credits to customer accounts for sales R&A

**Sales Returns & Allowances - continued**

- Summarize sales R&A & post to gen. ledger
  (usually monthly, from sales R&A j. totals)
- General ledger
  - cr. A/R
  - dr. sales discounts,
**Estimate of Bad Debt Expense**

- Estimate Bad Debts
- Record in general journal
- Post to general ledger

Provision for bad debts memo
*amount of bad debts for the period
*the basis used

- General journal
- General ledger

**Record Transaction Data in Journals**

<table>
<thead>
<tr>
<th>Date</th>
<th>Invoice Number</th>
<th>Account Debited</th>
<th>Account Number</th>
<th>Post Ref.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 1</td>
<td>201</td>
<td>Lee Co.</td>
<td>120-122</td>
<td></td>
<td>800.00</td>
</tr>
<tr>
<td>Dec. 1</td>
<td>202</td>
<td>May Co.</td>
<td>120-033</td>
<td></td>
<td>700.00</td>
</tr>
<tr>
<td>Dec. 1</td>
<td>203</td>
<td>DLK Co.</td>
<td>120-111</td>
<td></td>
<td>900.00</td>
</tr>
</tbody>
</table>

**TOTAL:** 2,400.00

**Write-off of Uncollectible A/R**

- Identify uncollectible A/R (credit manager)
- Record in general journal and subs. ledger
- Post to general ledger

List of uncollectible A/R
*usually monthly

- General journal
- General ledger
- A/R Subs. ledger
  According to the list of uncol. A/R

**Post Transactions to Ledgers**

**Sales Journal**

<table>
<thead>
<tr>
<th>Date</th>
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<td>203</td>
<td>DLK Co.</td>
<td>120-111</td>
<td></td>
<td>900.00</td>
</tr>
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**TOTAL:** 2,400.00

**General Ledger**

Account: Accounts Receivable  Account Number: 120

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Post Ref</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 1</td>
<td>Sales SJ5</td>
<td>2,400</td>
<td>2,400</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Post Transactions to Ledgers

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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td>120</td>
<td>502</td>
<td>2,400.00</td>
</tr>
</tbody>
</table>

General Ledger

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A/R Aged Trial Balance

- Reconciles the control account to the subsidiary ledger,
- Shows a listing of A/R for management review and decision making for the proper collection policies,
- Provides information about the adequacy of the allowance for doubtful accounts and need to write-off.
- On each line:
  - customer name,
  - total balance due from the customer,
  - Aging information is shown.

Internal Controls

- Adequate documents and records
  - Pre-numbered & properly designed
- Authorization of transactions, by initialing documents;
  - credit approval before shipment,
  - price and terms,
  - shipment,
  - cash discount allowed,
  - credits to A/R
- Separation of the custody of assets from accounting

Internal Controls - continued

- Independent checks on performance
  - all pre-numbered shipping documents, and sales invoices must be accounted for,
  - compare prices on invoices to approved price list,
  - check the footing in journals and records,
  - reconcile the A/R control acc. to the related subs. ledger,
  - prepare a monthly bank reconciliation.
- Monthly statements to customers