

ACCOUNTING AND FINANCE

LEVEL – II

Based on March, 2021, Curriculum Version II

Administer Financial Accounts

Kumarra Wholesale Supply
PURCHASES JOURNAL

Date	Account Credited	Terms	Ref.	Merchandise Inventory Dr. Accounts Payable Cr.
2022 May 6	Juppiter company	2/10, n/30	✓	11,000
10	Ebbisa compa	3/10, n/30	✓	7,200
14	Fitsuma compan	1/10, n/30	✓	6,900
19	Juppiter company	2/10, n/30	✓	17,500
26	Futsum comp	1/10, n/30	✓	8,700
29	Ebbisa comp	3/10, n/30	✓	12,600
				<u>63,900</u>
				(120)(1201)

Postings to General Ledger

General Ledger	
Credits	
Merchandise Inventory	62,190
Sales	90,230
	<u>152,420</u>
Debits	
Accounts Receivable	bir90,230
Cost of Goods Sold	62,190
	<u>bir152,420</u>

Debit Postings to the Accounts Receivable Subsidiary Ledger

Subsidiary Ledger	
Abarra Ittiqa cop	bir26,000
Zimbalew comp	25,920
Lammi comp	7,800
Daniel comp	30,510
	<u>bir90,230</u>

Account Title: Account Receivable () Account No 112-2

Name Lammi		Tel phone		Account No. 112-2	
Region		Credit limit			
Zone		Terms			
Date	Description	PR	Dr	Cr	Balance
2022 31					
May 31					

MODULE TITLE: Administering Financial Accounts

Module code: LSA ACF2 M05 1122

Nominal duration: 60 Hours

Prepared by: Ministry of Labor and Skill

November, 2022

Adama, Ethiopia

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Acronyms

SMART	Specific, Measurable, Attainable, Realistic, and Timely
ATM	Automated teller machines
FDIC	Federal Deposit Insurance Corporation
TTLM	Teaching, Training and Learning Materials
A/R	Accounts Receivable
A/P	Accounts Payable

Introduction to the Module

Accounting is perhaps one of the oldest and structured management information system. It has evolved in response to the social and economic needs of society. Accounting as an information system is concerned with identification, measurement and communication of economic information of an organization to its users who may need the information for rational decision making. The accounting system is a means to provide relevant and reliable financial information to all the interested parties. Each and every person of the society is required to keep some **accounts**. In the stream of social and economic activities of today, each and every person or institution is accountable to someone or to other for his or its economic activities or the wealth acquired, income earned and the expenditure incurred. Different types of transactions occur in business. Without maintaining proper **accounts**, it is neither possible to ascertain profit or loss of the business nor to know the financial position of the business at any particular date.

So, according to this context the learning module covers the knowledge, skill and attitude relative to **the competence** required to allocate customer payments, reconcile accounts,

And maintain customer details.

This module covers the units:

- Allocate customer payments
- Reconcile accounts
- Maintain customer details

Learning Objective of the Module

- Assign customer payments
- Carry out reconcile accounts
- Appropriately maintain customer details

Module Instruction

For effective use this modules trainees are expected to follow the following module instruction:

1. Read the information written in each unit
2. Accomplish the Self-checks at the end of each unit
3. Perform Operation Sheets which were provided at the end of units

Unit One Allocate customer payments

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Allocating payments
- Banking Receipts
- Prompting service to customers
 - ✓ Processing and completing documentation
- Applying basic knowledge of legislation
- Using data entry and recording systems
- Interpreting and applying organization credit policy

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Assign payments
- Record bank Receipts
- Provide service to customers
 - ✓ Provide complete documentation
- Understand basic knowledge of legislation
- Record data entry in to systems
- Understand and apply organization credit policy

1.1. Allocating payments

1.1.1. Overview of accounting

Before going to allocate customer payment, understand the d/c Accounting ↔ accounts

Accounting is both the science and art of correctly recording in books of **accounts** all those business transactions that result in the transfer of money or money's worth. It may also be defined as the art of recording merchandise transactions in a regular and systematic manner; the art of keeping **accounts** in such a manner that a man may ascertain correct result of his business activities at the end of a definite period and also can know the true state of affairs of business and properties by an inspection of the books. The principal object of accounting is to keep permanent record of all monetary transactions effected by a person or enterprise during a definite period and ascertainment of results of those transactions at the end of the period. The main objects of accounting are enumerated below:

- A. **Proper Recording of Transactions:** The first and foremost object of accounting is to keep record of monetary transactions in a systematic manner.
- B. **Determination of Results:** Every person or institution is always interested to know the results of his/its monetary transactions at the end of a definite period. So, ascertainment of result of financial transactions is an important object of accounting.
- C. **Ascertainment of Financial Position:** Another object of accounting is the ascertainment of **debtors** and **creditors**, assets and liabilities and the overall financial position.
- D. **Supplying Financial Information:** Another important object of accounting is to make available all sorts of financial reports and statements to all parties interested in the affairs of the concerned institution as soon as possible after preparing those reports and statements.
- E. **Defalcation Prevented:** Another special object of accounting is the prevention of defalcation of money made through fraud by the officials of the institution as well as control of expenditure.

When we say **accounting** is science, science refers to systematic process. In scientific activities, it follows certain rules observation, analysis, taking actions and then evaluation of activities. Like scientific activities before taking any action, accounting observes the activities, analyses the

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various alternatives, chooses the best alternatives and takes feedback to evaluate the performance. And **we say accounting** is art, Accounting is the process of identifying the transactions and events, measuring the transactions and events in terms of money, recording them in a systematic manner in the books of accounts, classifying or grouping them and finally summarizing the transactions in a manner useful to the users of accounting information.

Accounting is the process of:-

1. **Identifying the Transactions and Events:** This is the first step of accounting process. It identifies the transaction of financial character that is required to be recorded in the books of accounts. Transaction is transfer of money or goods or services from one person or account to another person or account. Events happen as a result of internal policies or external needs. Events of non-financial character cannot be recorded even though such events may have an impact on the operational results of the firm.
2. **Measuring:** This denotes expressing the value of business transactions and events in terms of money.
3. **Recording:** It deals with recording of identifiable and measurable transactions and events in a systematic manner in the books of original entry that are in accordance with the principles of accountancy.
4. **Classifying:** It deals with periodic grouping of transactions of similar nature that appear in the books of original entry into appropriate heads by posting or transfer entries. For example, all purchases of goods made for cash or on credit on different dates are brought to purchase account.
5. **Summarizing:** It deals with summarizing or condensing transactions in a manner useful to the users. This function involves the preparation of financial statements such as income statement, balance sheet, statement of changes in financial position and cash flow statement.
6. **Analyzing:** It deals with the establishment of relationship between the various items or group of items taken from income statement or balance sheet or both. Its purpose is to identify the financial strengths and weaknesses of the enterprise. The above six process in the present-day scenario are generally performed using software packages.

7. **Interpreting:** It deals with explaining the significance of those data in a manner that the end-users of the financial statement can make a meaningful judgment about the profitability and financial position of the business. The accountants should interpret the statement in a manner useful to the users, so as to enable the user to make reasoned decision out of the alternative course of action. They should explain various factors on what has happened, why it happened, and what is likely to happen under specific conditions.
8. **Communicating:** It deals with communicating the analyzed and interpreted data in the form of financial reports/statements to the users of financial information, e.g., Profit and Loss account, Balance Sheet, Cash Flow and Funds Flow statement, Auditors Report etc.

Basis of Accountancy/Accounting

Cash Basis: Under this system only cash transactions are recorded. Under cash basis an income is recorded only when cash is actually received and expenses are recorded when cash is actually paid. The business records every cash that comes in business and every cash that goes from business.

Accrual Basis: An income is recorded when it is earned (whether cash received or not) and expenses are recorded when they become payable. Both cash as well as credit transactions are recorded. This is also called Merchandise Basis of Accounting.

An account

An account represents a document used to record all similar transactions. It consists of a title, a debit column, and a credit column. The left side of an account is the debit side, and the right side of the account is the credit side. The balance of an account is determined by subtracting the smaller sum (debit or credit) from the larger sum. Initially, all transactions are recorded in a journal in a process known as journalizing.

Chart of accounts

A company's Chart of **Accounts** is a list of all **Asset, Liability, Equity, Revenue,** and Expense accounts included in the company's **General Ledger**. The number of accounts

included in the chart of accounts varies depending on the size of the company. All accounts of a business should be listed in a chart of accounts. Usually the accounts are classified as

101-199	Asset Accounts
201-299	Liability Accounts
301-399	Equity Accounts
401-499	Revenue Accounts
501-599	Expense Accounts

Example of Asset account

101	Cash
102	Petty cash
103	Cash equivalents
104	Short-term investments
106	Accounts receivable
107	Allowance for doubtful accounts
109	Interest receivable
110	Rent receivable
111	Notes receivable
119	Merchandise inventory
124	Office supplies
128	Prepaid insurance

Accounts appear in the general ledger in a **sequential order of the chart of accounts**. The first digit of a number in the chart of accounts indicates the major division in which the account is placed. A second number of an account represents a specific category. When the general ledger is first prepared and account balances from the previous period are entered, this is known as opening the ledger.

In any business organization everything starts from coding each work activities. Generally company cannot move without customers. Customers are sources of business income/revenue.

Revenues include sales, fees earned, services, interest income and rental income. For businesses with more than one source of income, it is recommended to maintain **separate accounts**.

Customers' accounts

An account represents a **document** used to record all **similar** about customers' transactions.

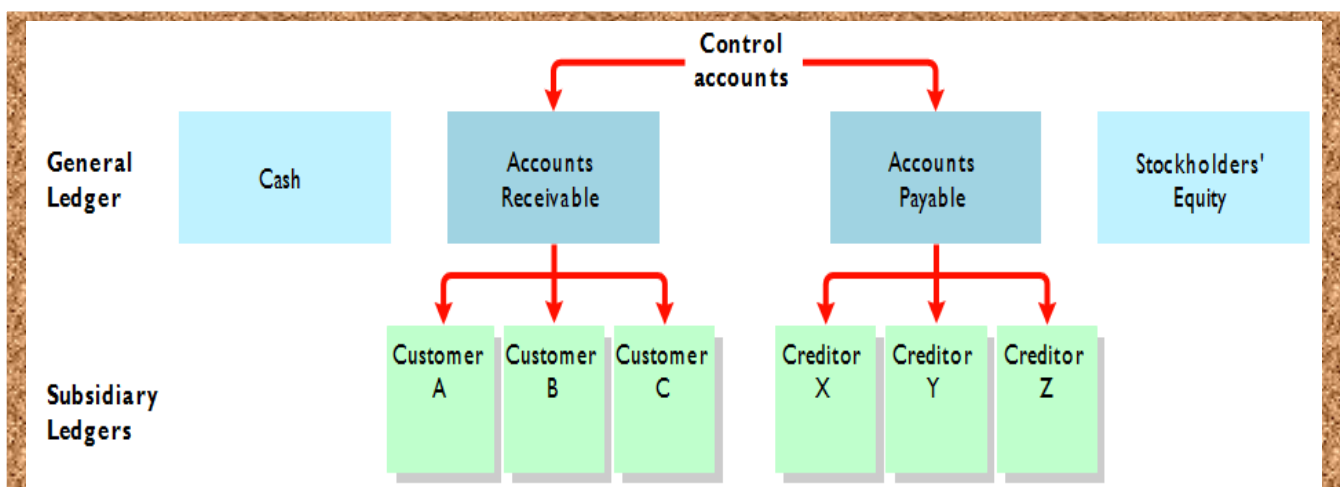
Example of customers' accounts

- Accounts receivable
- Interest receivable
- Rent receivable
- Notes receivable
- Other receivable

Allocating payments

Customers are typically considered the most important external stakeholders for companies.

Imagine a business that has several thousand charge (credit) customers and shows the transactions with these customers in only one general ledger account- **Accounts Receivable**. It would be practically impossible to determine the balance owed by an individual customer at any specific time. Similarly, the amount payable to one creditor would be difficult to locate quickly from a single Accounts Payable account in the general ledger. Instead, companies use **subsidiary ledgers** to keep track of individual balances. The ease of obtaining information and analyses and other reasons, such as facilitating the recording process and better organization of data is why subsidiary ledgers and special journals are useful in the accounting process.



A special journal

A **special journal** is used to record similar types of transactions. Examples would be all sales of merchandise on account or all cash receipts. What special journals a company uses depends largely on the types of transactions that occur frequently.

A. Sales Journal

Used for All sales of merchandise on account. In this journal a business record the credit transactions that take place with its customers.

B. The Cash Receipts Journal. Here the business records all payments it receives mostly perhaps from its customers, but occasionally from other sources as well. These two journals are covered in detail in this chapter.

C. The Purchases Journal. This journal will include the details of all purchases made by a company from its suppliers, who are basically the companies that it buys goods and services from.

D. The Cash Payments Journal. All cheques written by the company (or funds transferred electronically) are recorded here. Most payments might go to suppliers, but there are many other types of funds distributed as well, and these also be included in this journal.

Therefore, every reporting entity uses special journals to make the recording of business transactions efficient and “scalable,” meaning the ability to accommodate any size of business, from the small to the huge.

General Journal

Used for:- Transactions that cannot be entered in a special journal, including correcting, adjusting, and closing entries

Detail of special journal

A. Sales journal format

Under this system, each entry in the sales journal results in one entry **at selling price** a debit to a credit of equal amount to Merchandise Inventory (a control account) and a credit of equal amount to Sales. and another entry at cost. The entry **at cost** is a debit to Cost of Goods Sold and Accounts Receivable (a control account).

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Sales journal

page S1

Date		Account Debited(customer name)	Invoice No.	Ref	Accts. Receivable Dr Sales Cr	CGS Dr Merch.inve Cr
Year & months	Days					

B. Cash Receipts Journal format

All receipts of cash are recorded in the **cash receipts journal**. The most common types of cash receipts are cash sales of merchandise and collections of accounts receivable. Many other possibilities exist, such as receipt of money from bank loans and cash proceeds from disposal of equipment. Generally, a cash receipts journal includes the following columns: debit columns for cash and sales discounts; and credit columns for accounts receivable, sales, and “other” accounts. The Other Accounts category is used when the cash receipt does not involve a cash sale or a collection of accounts receivable. Under a perpetual inventory system, each sales entry is accompanied by another entry that debits Cost of Goods Sold and credits Merchandise Inventory for the cost of the merchandise sold. This entry may be recorded separately.

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Cash Receipt journal

page S1

Date		Account Credited	Ref	Cash Dr	Sales disc. Dr	A/R Cr	Sales Cr	Other Cr	CGS Dr Merch. inv e Cr
Year	Days								
mont									

C. Purchases Journal format

All purchases of merchandise on account are recorded in the **purchases journal**.

Each entry in this journal results in a debit to Merchandise Inventory and a credit to Accounts Payable. When a onecolumn purchases journal is used other types of purchases on account and cash purchases cannot be journalized in it. For example, credit purchases of equipment or supplies must be recorded in the general journal. Likewise, all cash purchases are entered in the cash payments journal.

Xxcop

Purchase Journal

page p1

Date		Account Credited	Term	Ref	March. Invent Dr Account/payable Cr
Year &	Days				
months					

D. cash payments journal Format

All disbursements of cash are entered in a **cash payments journal**. Entries are made from prenumbered checks. Because cash payments are made for various purposes, the cash payments journal has multiple columns. A four column journal is shown in blow:-

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Cash payment journal

page chl

Date		Check No	Account Credited	Ref	Other Dr	A/payabl e Dr	Merch.i nve Cr	Cash Cr
Year ,	Day							
mont	s							

The General Journal format

A journal with two amount columns on which all kinds of business entries may be recorded is called a General Journal.

The general journal is sometimes simply referred to as **the journal**.

A standard form of a general looks like: -

General Journal				Page <u>1</u>			
Date		Account Title	Post Ref.	Debit		Credit	

The source Document

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Journal Entry Parts

Any record that is made in a journal whatever special or general journal has four parts.

These are must:

1. **The Date Part** –shows date of the entry
2. **The Debit Part** –shows debit part of the entry.
3. **The Credit part**- shows the credit part of the entry
4. **The source Part**-shows a brief explanation or indicates the Source document.

Subsidiary ledgers

Companies use subsidiary ledgers to keep track of individual balances. A **subsidiary ledger** is a group of accounts with a common characteristic (for example, all accounts receivable). The subsidiary ledger frees the general ledger from the details of individual balances. A subsidiary ledger is an addition to, and an expansion of, the general ledger.

Two common subsidiary ledgers are:

- The **accounts receivable** (or **customers’**) **subsidiary ledger**, which collects transaction data of individual customers.
- The **accounts payable** (or **creditors’**) **subsidiary ledger**, which collects transaction data of individual creditors.

For example, so far in this module, the only title we have used for recording amounts owed to the seller has been **Accounts Receivable**. It could have replaced the Accounts Receivable title in the general ledger with the following list of customers that owe it money:

Account Receivable, Abarra Ittiqa Company

Account Receivable, Lammi Comp

Account Receivable, Injigu comp

Account Receivable, Guutaa Company etc.

This would not be manageable if more credit customers. To solve this problem, to sets up a separate accounts receivable subsidiary ledger. Such a special ledger, often simply called a subsidiary ledger , contains a single type of account, such as “on account” or “credit” customers. A page is opened for each customer and the pages are usually arranged alphabetically by customer name. When using an accounts receivable subsidiary ledger, Accounts Receivable in the general ledger is called the **controlling account** since it summarizes or controls the accounts receivable subsidiary ledger. At the end of the month, the total of the individual accounts in the accounts receivable ledger must equal the ending balance in **accounts receivable in the general ledger**.

1.1.1. Banking Receipts

A Deposit Receipt is a receipt issued by a receiving party, also known as the depositary by someone who is known as a depositor. This document is commonly used by banks when receiving a check of cash deposit from clients (customers) and such receipt is given to the depositor as proof of deposit. This deposit receipt contains information about the account details where the certain amount of funds shall be deposited to for record purposes, as well as the particular information about the deposit.

This Deposit Receipt is a simple deposit receipt that can be used by anyone who receives deposits from individuals or institutions. This is a simple document that indicates the information for the deposit, the particular information as well as the name and signature of the authorized representative receiving such deposit. This serves as the proof of deposit that the individual may use as reference or for record purposes. Whether you’re selling products, providing services, accepting donations, or collecting rent payments help you track payments with ease.



Use the Receipts window to enter new or query existing receipts. For each receipt, you can see whether the receipt is identified and what portion of the receipt has been applied, placed on-account, and left unapplied.

You can enter two types of receipts in Receivables:

- **Cash receipts:** Payment (such as cash or a check) that you receive from your customers for goods or services.
- **Miscellaneous transactions:** Revenue earned from investments, interest, refunds, and stock sales.

You can apply receipts to invoices, debit memos, deposits, guarantees, on-account credits, and chargebacks. You can partially or fully apply a receipt to a single debit item or to several debit items. You can enter receipts and apply them to transactions in either Open or future accounting periods. You can also create chargebacks or adjustments against these transactions.

If you do not specify a customer for a receipt, the receipt is unidentified. In this case, the receipt amount appears in the unidentified field in the Receipts window (application Summary alternative region). You cannot apply an unidentified receipt.

Receipt Status

A receipt can have one of the following statuses:

Approved: This receipt has been approved for automatic receipt creation. This status is only valid for **automatic receipts**.

Confirmed: The customer has approved the application of this receipt and their account balances have been updated within Receivables. This status is only valid for automatic receipts.

Remitted: This receipt has been remitted. This status is valid for both automatic and manually entered receipts.

Cleared: The payment of this receipt was transferred to your bank account and the bank statement has been reconciled within Receivables. This status is valid for both automatic and manually entered receipts.

Reversed: This receipt has been reversed. You can reverse a receipt when your customer stops payment on a receipt, if a receipt comes from an account with non-sufficient funds or if you want to re-enter and reapply it in Receivables. You can reverse cash receipts and miscellaneous transactions.

1.2. Prompting Service to customers

Before we begin to look at the details of what a sales journal is and how it is used, it is useful to mention some of the **realities** of how a business relates to its customers. Only if we have an understanding of this important relationship can the bookkeeping details make total sense. Here are some of the factors that a business must keep in mind when designing and using a sales journal and a cash receipts journal:

Allowing a customer to purchase “**on credit**” (sometimes: “**on account**”) can be a risky decision. The business hopes that each customer pay on time and in the correct amount, but sometimes they pay quite slowly, and on occasion do not pay at all. Slow or non-payment of agreed-to invoices is a costly matter, and steps should be taken to minimize these events. Steps often taken by a business include:

- A. Investigating each possible customer's credit rating. Only a customer that can demonstrate a history of paying their debts in a reliable way should be considered for credit sales. This is a matter where a lot of good judgment is often necessary. Sometimes you encounter a new customer which has no rating at all, or a credit check may reveal that a given customer usually pays a bit slowly, but always pays in the end. Because there is also a cost to not making a sale (the lost margin on a sale that might take place if a customer's order is accepted), it then becomes a matter of judgment as to whether credit terms will be extended in a given case.
- B. One very common way that a seller can try and speed up collections from its customers is to offer a cash discount. Various incentives can be offered to each customer to reward them for paying promptly. One very common set of terms is to offer a discount (**a sales discount**) of 2% if an invoice is paid within 10 days (the discount period), otherwise the whole amount is due in 30 days (**the credit period.**) There are many such terms that can be used, and each company may select a different one that best suits their business model.
- C. One very important business reality is that some person or persons must be placed in charge of collecting money owed by customers. It is important to take precautions before any credit sale takes place, but once the sale is recorded it becomes necessary to ensure that all monies owed are collected as promptly as possible. In this module we illustrate the preparation of a monthly list of amounts due from customers, and that list is one of the crucial reports that can be used to help ensure that amounts due are collected with as little delay as possible.
- D. To help out in the process of proper business management, a sales journal can be designed to capture many helpful details.

1.3. Processing and completing documentation

A processing is a specific ordering of work activities that transform incoming data or information (e.g. document, file, report information, etc) into outgoing data or information. Business process documentation is a complete description of a business process using words, images, and symbols to designate exactly how the process should function in an ideal environment. The documentation should include what data is required to complete the process, what the workflow is, and any decisions that need to be made. To be useful and effective, business processes need to be carefully designed, structured and documented. By capturing as much detail about the business process as possible, you can achieve the desired results.

Sales invoice format

YYY company
Sale Invoice
Date _____

Customer's ID _____ Customer's name _____ Address _____ Phone _____			Invoice r no		
			Date		
			Order No PO		
			Ship Via freight truck		
			Terms 2/10, n/60		
			FOB shipping point		
No	Description	code	Qty	Unit price	Total

Prepared by _____ approved by _____

Signature _____ Signature _____

Date _____ Date _____ \

The Credit Memorandum

Merchandising businesses often use the Sales Returns and Allowances account to handle transactions involving returns or adjustments of goods that have already been sold to customers on account. For example, if a customer returns the goods he has bought, that account will be credited for the amount charged for the goods returned; if a customer gets an allowance because the goods she purchased were damaged, that account will be credited for the amount of the allowance. In both of these examples, the company's net **sales revenue decreases**. That is why the account is called a contra-revenue account: Sales revenue decreases and its normal balance is a debit. Companies usually handle sales returns and allowances by means of a credit memorandum. Credit memoranda inform customers that the amount of the goods returned or the amount allowed for damaged goods has been subtracted from (credited to) the customer's ongoing account with the company. A credit memorandum reduces **accounts receivable**.

1.4. Applying basic knowledge of legislation

Customer service is an incredibly important aspect of any business and it is important to be able to work closely with different customers to provide a good service. In order to do this you will first need to understand exactly what customer service is and what providing this service entails. This title provides the general idea of customer service and how employees can work within rules and regulations to provide client care. These rules and regulations change between various industries and will differ from time to time and it is important that you can understand how your service influences a company's relations with clients.

1.4.1. Policies and procedures

Procedures and policies let employees and customers know what to expect from one another. They relate to various different people and let them know what they must do, how they must do it and the structure of their relationship with others. Timescales and quality may also be included in policies to ensure that the way in which people are dealt with is fair and prompt. Customer service procedures are:

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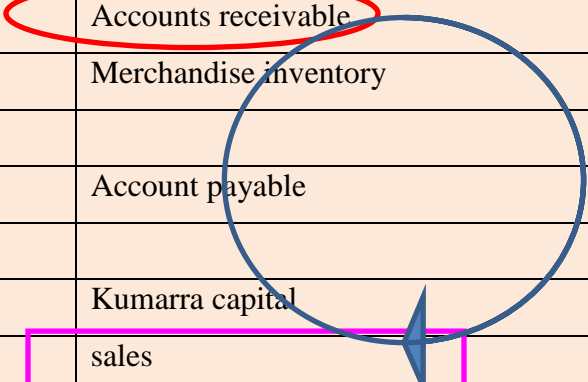
- Complaints procedures
- Dress codes
- Conduct and behaviour
- Administration, for example how to handle complaints
- Technological, such as how to handle machinery

Some of the most important procedures in place that are closely related to customer service are complaints procedures, feedback systems and service standards. These set out rules and regulations which employees must abide by in order to provide a good customer service in the eyes of the company.

1.5. Using data entry and recording systems

Chart of account

101	Cash
112	Accounts receivable
120	Merchandise inventory
200	Account payable
311	Kumarra capital
401	sales
114	Sales discounts
505	Cost of Goods sold



Instruction to allocate payment based on given transaction

Using the following information,

A. Record special journal

- Sales journal

- Cash receipt journal
- Cash payment journal
- Purchase journal

B. Post to general ledger and subsidiary ledgers

C. Reconcile the customer accounts

D. Note: each entity recorded in journal is Dr to merchandising inventory and Cr to accounts payable for purchase of on accounts /on credit

Given transaction

Kumarra wholesales supply provides the following transactions during the month of May 2022

May 1	Kumarra invest birr 5,000 in the business in Business.
3	Kumarra sold marchadise on credit to Abarra Ittiqa comp for birr 10600 terms 2/10,n/30 (cost birr 6360) invoice No 101
7	Cash sales of merchandise total birr1,900 (cost, birr1,240).
7	Kumarra sold marchadise on credit to Zinbalew comp for birr 11350 terms 2/10,n/30 (cost birr 7370) invoice No 102
6	Kumarra wholesales purchased merchandise on account from Juppiter comp for birr 11000 terms 2/10, n/30
10	Kumarra wholesales purchased merchandise on account from Ebbisa comp for birr 7200 terms 3/10, n/30
10	A check for birr 10,388 is received from Abarra Ittiqa cop in payment of invoice No. 101 for birr10,600 less a 2% discount.
12	Cash sales of merchandise total birr2,600 (cost, birr1,690).
14	Kumarra wholesales purchased merchandise on account from Fitsim comp for birr 6900 terms 1/10, n/30
14	Kumarra sold marchadise on credit to Lammi comp for birr 7800 terms 2/10,n/30 (cost birr 5070) invoice No 103
14	Kumarra sold marchadise on credit to Abarra Ittiqa comp for birr 15400 terms 2/10,n/30(cost 10780) invoice No 104
17	A check for birr11,123 is received from Zinbalew comp in payment of invoice No. 102 for birr11,350 less a 2% discount

- 19 Kumarra wholesales purchased merchandise on account from Juppiter comp for birr 17500 terms 2/10, n/30
- 19 Kumarra sold marchadise on credit to Daniel comp for birr 9300 terms 2/10,n/30(cost 6510) **invoice No 105**
- 21 Kumarra sold marchadise on credit to Abarra Ittiqa comp for birr 15400 terms 2/10,n/30(cost 10780) **invoice No 106**
- 22 Cash is received by signing a note for birr6,000.
- 23 A check for birr7,644 is received from Lammi conpany. in full for invoice No. 103 for birr7,800 less a 2% discount.
- 24 Kumarra sold marchadise on credit to Daniel comp for birr 21210 terms 2/10,n/30(cost birr 15900) **invoice No 107**
- 26 Kumarra wholesales purchased merchandise on account from Fitsim comp for birr 8700 terms 1/10, n/30
- 27 Kumarra sold marchadise on credit to Zinbalew comp for birr 14570 terms 2/10,n/30(cost birr 10200)
- 28 A check for birr 9,114 is received from Daniel Co. in full for invoice No. 104 for birr9,300 less a 2% discount.
- 29 Kumarra wholesales purchased merchandise on account from Ebbisa comp for birr 12600 terms 3/10, n/30
- 30 Kumarra withdraw cash birr 500 for personal use.

A. Sales journal

Based on above transaction the following journals are made. A sales journal with two amount columns, like that in practical 1, shows a transaction at both selling price and cost on a single line. The reference (Ref.) column is not used in journalizing. Note that, unlike the general journal, an explanation is not required for each entry in a special journal. Finally, note that each invoice is pre-numbered to ensure that all invoices are journalized.

Practical 2 sales journal

KUMARRAA WHOLESALE SUPPLY					
Sales Journal					
S1					
Date	Account Debited	Invoice No.	Ref.	Accts. Receivable Dr. Sales Cr.	Cost of Goods Sold Dr. Merchandise Inventory Cr.
2022					
May 3	Abarra Ittiqa cop	101		10,600	6,360
7	Zinbalew Co.	102		11,350	7,370
14	Lammi Comp.	103		7,800	5,070
19	Daniel Co.	104		9,300	6,510
21	Abarra Ittiqa comp	105		15,400	10,780
24	Daniel Co.	106		21,210	15,900
27	Zinbalew Co.	107		14,570	10,200
				<u>90,230</u>	<u>62,190</u>

Cash Receipts Journal

All receipts of cash are recorded in the **cash receipts journal**. The most common types of cash receipts are cash sales of merchandise and collections of accounts receivable. Many other possibilities exist, such as receipt of money from bank loans and cash proceeds from disposal of equipment. A one- or two column cash receipts journal would not have space enough for all possible cash receipt transactions. Therefore, a multiple-column cash receipts journal is used.

Generally, a cash receipts journal includes the following columns: **debit columns** for cash and sales discounts; and credit columns for accounts receivable, **sales**, and “**other**” accounts. The Other Accounts category is used when the cash receipt does not involve a cash sale or a collection of accounts receivable. Under a perpetual inventory system, each sales entry is accompanied by another entry that debits Cost of Goods Sold and credits Merchandise Inventory for the cost of the merchandise sold. This entry may be recorded separately.

Practical 3 cash Receipts journal

Kumarra Wholesale Supply CASH RECEIPTS JOURNAL								
CRI								
Date	Account Credited	Ref.	Cash Dr.	Sales Discounts Dr.	Accounts Receivable Cr.	Sales Cr.	Other Accounts Cr.	Cost of Goods Sold Dr. Mdse. Inv. Cr.
2022								
May 1	Kumarra capital	311	5,000				5,000	
7			1,900			1,900		1,240
10	Abrra Ittiqa	✓	10,388	212	10,600			
12			2,600			2,600		1,690
17	Zinbalew comp	✓	11,123	227	11,350			
22	Notes Payable	200	6,000				6,000	
23	Lammi Cam	✓	7,644	156	7,800			
28	Daniel co	✓	9,114	186	9,300			
			<u>53,769</u>	<u>781</u>	<u>39,050</u>	<u>4,500</u>	<u>11,000</u>	<u>2,930</u>
			(101)	(414)	(112)	(401)	(x)	(505)/(120)

Additional credit columns may be used if they significantly reduce postings to a specific account. For example, a loan company, such as Household International, receives thousands of cash collections from customers. A significant saving in posting would result from using separate credit columns for Loans Receivable and Interest Revenue, rather than using the Other Accounts credit column. In contrast, a retailer that has only one interest collection a month would not find it useful to have a separate column for Interest Revenue.

Practical 4. Cash payment journal

Kumarra Wholesale Supply CASH PAYMENTS JOURNAL							
							CPI
Date	Ck. No.	Account Debited	Ref.	Other Accounts Dr.	Accounts Payable Dr.	Merchandise Inventory Cr.	Cash Cr.
2022							
May 1	101	Prepaid Insurance	130	1,200			1,200
3	102	Mdse. Inventory	120	100			100
8	103	Mdse. Inventory	120	4,400			4,400
10	104	Juppiter comp	✓		11,000	220	10,780
19	105	Ebbisa Company	✓		7,200	216	6,984
23	106	Fitsum Comp	✓		6,900	69	6,831
28	107	Juppiter Company	✓		17,500	350	17,150
30	108	With drawal		500			500
				6,200	42,600	855	47,945
				(x)	(201)	(120)	(101)

B. Posting the sales journal

Postings from the sales journal are made daily to the individual accounts receivable in the subsidiary ledger. Posting to the general ledger is made **monthly**.

Practical 5 sales journal and posting

Kumarra Wholesale Supply SALES JOURNAL					
					SI
Date	Account Debited	Invoice No.	Ref.	Accts. Receivable Dr. Sales Cr.	Cost of Goods Sold Dr. Merchandise Inventory Cr.
2022					
May 3	Abarra Ittiqa	101	✓	10,600	6,360
7	Zinbalew Comp.	102	✓	11,350	7,370
14	Lammi comp	103	✓	7,800	5,070
19	Daniel Company.	104	✓	9,300	6,510
21	Abarra Ittiqa comp	105	✓	15,400	10,780
24	Daniel comp	106	✓	21,210	15,900
27	Zinbalew Compa.	107	✓	14,570	10,200
				90,230	62,190
				(112) / (401)	(505) / (120)

A check mark (✓) is inserted in the reference posting column to indicate that the daily posting to the customer's account has been made. A check mark (✓) is used in this illustration because the subsidiary ledger accounts are not numbered. At the end of the month, the column totals of the sales journal are posted to the general ledger. Here, the column totals are a debit of birr 90,230 to Accounts Receivable (account No. 112), a credit of birr90,230 to Sales (account No. 401), a debit of birr62,190 to Cost of Goods Sold (account No. 505), and a credit of birr62,190 to Merchandise Inventory (account No. 120). Insertion of the account numbers below the column total indicates that the postings have been made. In both the general ledger and subsidiary ledger accounts, the reference **S1** indicates that the posting came from page 1 of the sales journal.

Practical 5.1. Posting

Individual amounts are posted daily to the subsidiary ledger.

ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER				
Abarra Ittiqa Comp				
Date	Ref.	Debit	Credit	Balance
2022 May 3	SI	10,600		10,600
10	CRI		10,600	
21	SI	15,400		15,400
Zinbalew Comp.				
Date	Ref.	Debit	Credit	Balance
2022 May 7	SI	11,350		11,350
17	CRI		11,350	
27	SI	14,570		14,570
Lammi Comp.				
Date	Ref.	Debit	Credit	Balance
2022 May 14	SI	7,800		7,800
23	CRI		7,800	
Daniel Compa.				
Date	Ref.	Debit	Credit	Balance
2022 May 19	SI	9,300		9,300
24	SI	21,210		30,510
28	CRI		9,300	21,210

Practical 5.2. General ledger

Totals are posted at the end of the accounting period to the general ledger.

GENERAL LEDGER				
Cash				No. 101
Date	Ref.	Debit	Credit	Balance
2022 May 31	CRI	53,769		53,769
Accounts Receivable				No. 112
Date	Ref.	Debit	Credit	Balance
2022 May 31	SI	90,230		90,230
31	CRI		39,050	51,180
Merchandise Inventory				No. 120
Date	Ref.	Debit	Credit	Balance
2022 May 31	SI		62,190	62,190
31	CRI		2,930	65,120
Notes Payable				No. 200
Date	Ref.	Debit	Credit	Balance
2022 May 22	CRI		6,000	6,000

----Continue----- general ledger

Kumarraa No. 311				
Date	Ref.	Debit	Credit	Balance
2022 May 1	CRI		5,000	5,000
Sales No. 401				
Date	Ref.	Debit	Credit	Balance
2022 May 31	SI		90,230	90,230
31	CRI		4,500	94,730
Sales Discounts No. 414				
Date	Ref.	Debit	Credit	Balance
2022 May 31	CRI	781		781
Cost of Goods Sold No. 505				
Date	Ref.	Debit	Credit	Balance
2022 May 31	SI	62,190		62,190
31	CRI	2,930		65,120

C. Purchases Journal

All purchases of merchandise on account are recorded in the **purchases journal**. Each entry in this journal results in a debit to Merchandise Inventory and a credit to Accounts Payable. When a one column purchases journal is used other types of purchases on account and cash purchases cannot be journalized in it. For example, credit purchases of equipment or supplies must be

Practical 6.1. posting the purchases journal

The procedures for posting the purchases journal are similar to those for the sales journal. In this case, postings are made **daily** to the **accounts payable**

ACCOUNTS PAYABLE SUBSIDIARY LEDGER				
Ebbisa company.				
Date	Ref.	Debit	Credit	Balance
2022 May 10	PI		7,200	7,200
29	PI		12,600	19,800
Fitsum comp				
Date	Ref.	Debit	Credit	Balance
2022 May 14	PI		6,900	6,900
26	PI		8,700	15,600
Juppiter company				
Date	Ref.	Debit	Credit	Balance
2022 May 6	PI		11,000	11,000
19	PI		17,500	28,500
The subsidiary ledger is separate from the general ledger.				

----Continuous----General ledger

Totals are posted at the end of the accounting period to the general ledger.

GENERAL LEDGER

Merchandise Inventory

No. 120

Date	Ref.	Debit	Credit	Balance
2022				
May 31	SI		62,190	62,190
31	CRI		2,930	65,120
31	PI	63,900		1,220

Accounts Payable

No. 201

Date	Ref.	Debit	Credit	Balance
2022				
May 31	PI		63,900	63,900

Accounts Payable is a control account.

1.6. Interpreting and applying organization credit policy

The business entirely depends on the customers. The development of a credit policy begins with a clear understanding of the Company and its operations.

Considerations for Credit Policy

Goals and Objectives trying to accomplish. The credit operation, responsible for the order-to-cash cycle or a large part of it, should have goals and objectives set by management. Goals are accomplishments to be achieved, e.g., to provide a method by which every potential customer may be able to purchase our products, which is better than average for our industry. Objectives are **measurable, time-bound** achievements that help accomplish stated goals. The company reduce **bad debt write-offs** to less than .1% of sales. The credit policy serves as a guide in determining how to handle given kinds of credit and A/R issues; it does not offer definitive solutions. Credit policy presents a range of solutions within which the credit executive exercises judgment. In the process of decision making, we constantly interpret and apply credit policy to concrete situations with the help of specific guides or procedures, which, along with credit policy, compose the credit operations manual.

Policy and Practice

In practice, the range of possible decisions provided under a firm's credit policy narrows for particular personnel, situations, or time periods. Changes in practice within a policy provide flexibility in meeting changing conditions. A company's credit policy should be applicable to the great majority of credit situations over a long period of time.

Financial Considerations

- The amount of capital commitment a company provides for its receivable investment. This concerns protection of the invested capital and the **return** that it will generate.
- The type of **risks** acceptable to the company or the basis on which the company will exchange its products and services for the customer's credit.

Contents of Credit Policy

A credit policy should address at least the following matters:-

1. **Credit information requirements.** What documents are required and who's responsible for acquiring them.
2. **Risk evaluation.** Confirming the prospect's/customer's credit history and, as required, financial well-being.

3. **Establishment of a credit limit/credit line.** Trade creditors often provide open account privileges.
4. **Terms of sale.** Credit terms should be clearly stated and enforced.
5. **Deductions and prompt resolution.** Deductions may significantly impact profitability and should be promptly addressed and resolved.
6. **Collections.** When an account becomes delinquent, what activities are pursued to collect the debt?
7. **Credit authority.** What party has authority to make decisions about credit limits and collection activities?
8. **Communication with Sales.** Keeping Sales informed is a crucial responsibility of the credit operation

Credit Policies—Some Examples

This policy was written for a small company with a one person credit department and very specific needs. Note the minimum order level for credit checking and special terms of sale for onetime or bulk orders.

- **All customer accounts will have a set credit limit.** Purchases which exceed the established credit limit or which will result in the account balance exceeding the limit will have approval of the credit manager before shipment.
- **Terms of sale:** The standard terms of sale are Net 10 EOM. The company will issue a statement on the last day of each month, which summarizes the purchases during the previous month. The balance is due and payable on the 10th of the month. For example, purchases during the month of June are summarized on a statement as of June 30 and are due on July 10.
- Special terms of sale for office setups and other onetime bulk sales of more than \$3,000 may be granted terms of 1/3 10 EOM, 1/3 10 EOSM, and 1/3 10 EOTM, i.e., one-third due on the tenth of the first month, one-third due on the tenth of the second month, and one-third due on the tenth of the third month. Special terms will be pre-approved by the credit manager.
- Accounts sixty (60) days or more past due will be placed on credit hold.

- The credit manager has the responsibility for all credit and collection functions. The credit manager will keep the sales department informed of all actions involving customers.

Self-check 1

Part-I: Choose the correct answer

- Accounting is the process of _____?
A. Identifying B. recording C. interpreting D. all
- One the following are part of journal expt?
A. Dr B. Cr C. Source document D. date E, none
- One of the following is control account expt?:
A. A/R B. A/Payable, C. Cimsa accont D. none
- According to the business organization which one include under credit policies:-
A. Sales on account B. discount C. 1/3 10 EOM, 1/3 10 EOSM, D. all

Part II Matching

Instruction: select the correct answer for the given column.

A

B

- | | |
|----------------------------|----------------------------------|
| 1. sales journal receipt | A. Record all cash |
| 2. Purchase journal | B. Record all credit sales |
| 3. Cash collection journal | C. Record all purchase on credit |
| 4. Cash payment journal | D. Record all sales on credi |
| 5. A/receivable | E. Customer account |
| 6. General ledger A/R | F. Control accounts |

Test III: short Answer writing

Directions: Answer all the questions listed below.

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1. Explain customer accounts and its type.
2. **Explain bad debt write-offs.**

Operation sheet 1:1 Customer accounts

- **Operation title:** Allocate payment
- **Purpose:** To practice and demonstrate the knowledge and skill required in comparing debit and credit, control account and subsidiary ledger
- **Instruction:** Use the below transaction.

E. Record special journal

- Sales journal
- Cash receipt journal
- Cash payment journal
- Purchase journal

F. Post to general ledger and subsidiary ledgers

G. Reconcile the customer accounts

Note: each entity recorded in journal is Dr to merchandising inventory and Cr to accounts payable for purchase of on accounts /on credit

All payments are entered in to the journal from pre numbered checks.

Transactions Jirra company

Jirra company has the following information

May 1, 2022 check no 101 for birr 1,500 issues for the annual premium on a fire insurance policy

May 3, check no, 102 for birr 100 issued in payment of freight when terms where FOB shipping points

May 6 purchase merchandise from jidha company birr 21,000 terms 2/11o,n/30

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May 8 check no 103 for birr 6,400 issued for the purchase of merchandise

May 10 purchase of merchandise from Eela company's for birr 15000, terms 3/10, n/30

May 10 check no 104 .for birr _____ sent to Jidha Company in payment of may 6 invoices for birr 21000 less 2% discount

May 14 purchase merchandise from Furgasa company for birr 9400, terms 1/10, n/30

May 19, purchase merchandise from Jidha company for birr 18500 terms 2/10, n/30

May 19, check no, 105 for birr _____ mailed to Eela company in payments of may 10 invoice for birr 15000 less 3% discount

May 23 checks no, 106 for birr _____ sent to Furgasa company in payment of may 14 invoice for birr 9400 less 1% discount

May 26, purchase merchandise from furgasa company for birr 12400 terms 1/10, n/30

May 28, checks no. for birr _____ sent to jidha company in payments of May 19 invoice for birr 18500 less 2% discount

May 29, purchase merchandise from Eela company for birr 12,800 terms 3/10, n/30

May 30, check 108 for birr 1500 issued for personal use.

Unit Two. Reconcile accounts

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Giving accurate responses to customers
 - ✓ Billing adjustments
- Responding customer complaints
- Giving feedback to customers

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Provide accurate responses to customers with any bills
- Carry out bill adjustments accurately to correct customer accounts
- accept customer complaints
- Respond feedback to customers

2.1. Giving accurate responses to customers

To give accurate responses to customers you must proving the ledgers. To “prove” the ledgers, we must determine two things:

- The total of the general ledger debit balances must equal the total of the general ledger credit balances.
 - The sum of the subsidiary ledger balances must equal the balance in the control account.
- The proof of the postings from the sales journal to the general and subsidiary ledger is shown in blow **practical 2. 1** came from previous transaction. All debit must equal with all credit in journal, all summation of debit in general ledger must equal with all subsidiary ledgers etc. all are presented blow:-

Practical 2.1 Proving the ledgers after posting the sales and the cash receipts journals Debit and Credit

Postings to General Ledger		Debit Postings to the Accounts Receivable Subsidiary Ledger	
<u>General Ledger</u>		<u>Subsidiary Ledger</u>	
<u>Credits</u>			
Merchandise Inventory	62,190	Abarra Ittiqa cop	birr26,000
Sales	90,230	Zimbalew comp	25,920
	<u>152,420</u>	Lammi comp	7,800
		Daniel comp	<u>30,510</u>
			<u>birr90,230</u>
<u>Debits</u>			
Accounts Receivable	birr90,230		
Cost of Goods Sold	62,190		
	<u>birr152,420</u>		

When the journalizing of a multicolumn journal has been completed, the amount columns are **totaled**, and the totals are compared to prove the equality of debits and credits. The proof of the equality of Kumarraa's cash receipts journal is shown in following figure. Totaling the columns of a journal and proving the equality of the totals is called **footing** and **cross-footing** a journal. Proving the equality of the cash receipts journal, **look cash journal**

<u>Debits</u>		<u>Credits</u>	
Cash	53,769	Accounts Receivable	39,050
Sales Discounts	781	Sales	4,500
Cost of Goods Sold	2,930	Other Accounts	11,000
	<u>birr57,480</u>	Merchandise Inventory	2,930
			<u>birr57,480</u>

Practical 2.2. Proving the ledgers after posting the sales and the cash receipts journals

<u>Accounts Receivable Subsidiary Ledger</u>	
Abarra Ittiqa comp	15,400
Zinbalew Comp	14,570
Daniel Comp	<u>21,210</u>
	<u>Birr51,180</u>

<u>General Ledger</u>	
<u>Debits</u>	
Cash	birr53,769
Accounts Receivable	51,180
Sales Discounts	781
Cost of Goods Sold	<u>65,120</u>
	<u>birr170,850</u>
<u>Credits</u>	
Notes Payable	birr 6,000
Kumarra capital	5,000
Sales	94,730
Merchandise Inventory	<u>65,120</u>
	<u>birr170,850</u>

Practical 2.3 cash payment and proving the ledgers after postings from the sales, cash receipts, purchases, and cash payments journals

<u>Accounts Payable Subsidiary Ledger</u>		<u>General Ledger</u>	
Ebbisa company	12,600	<u>Debits</u>	
Fitsum Company	8,700	Cash	5,824
	<u>21,300</u>	Accounts Receivable	51,180
		Merchandise Inventory	2,425
		Prepaid Insurance	1,200
		Withdrawal	500
		Sales Discounts	781
		Cost of Goods Sold	<u>65,120</u>
			\$127,030
		<u>Credits</u>	
		Notes Payable	6,000
		Accounts Payable	21,300
		Kumarra capital	5,000
		Sales	<u>94,730</u>
			birr127,030

Practical 2.4 Proving the equality of the purchases journal

<u>Postings to General Ledger</u>		<u>Credit Postings to Accounts Payable Ledger</u>	
Merchandise Inventory (debit)	<u>63,900</u>	Ebbisaa Comp	19,800
		Fitsum Comp	15,600
		Juppiter compy	<u>28,500</u>
			Birr 63,900
Accounts Payable (credit)	<u>63,900</u>		

2.1.1. Billing adjustments

A **receivable** arises when a business (or person) sells goods or services to another party on account (on credit). The receivable is the seller's claim against the buyer for the amount of the transaction. Receivables also occur when a business loans money to another party. A receivable is the right to receive cash in the future from a current transaction. It is something the business owns; therefore, it is an asset. Each receivable transaction involves at least two parties:

The **creditor** sells goods or a service and obtains a receivable (an asset). The creditor will collect cash from the customer.

The **debtor** is the party to a receivable transaction who takes on an obligation/payable (a liability). The debtor will pay cash later. This title focuses on accounting for receivables by the seller (the creditor).

Types of receivable

The three main types of receivable are:

- Accounts receivable
- Bills receivable (Notes Receivable) or bills(Notes)
- Other receivables.

Accounts Receivable are the most common kind of receivable. Accounts Receivable are amounts due from customers from the sale of services or merchandise on credit. They are usually due in 30 – 60 days. They are classified on the Balance Sheet as current assets.

Notes Receivable. Notes Receivable can arise when the seller asks for a promissory note to replace an Accounts Receivable when the customer requests additional time to pay a past-due

account. A promissory note is a written promise to pay a specific amount of money, usually including **interest**, at a future date. If the note is due within a year it is classified as a current asset. If the note is due after one year, it is classified as a long-term asset.

Other Receivables. Examples of other receivables are income tax refunds, interest receivable, or receivables from employees. These are not covered in this module. Uncollectible Accounts Receivable In order to help minimize credit losses, a company needs to be very careful and prudent in extending credit. References and credit scores should be checked and credit worthiness needs to be established before credit is granted. Once a receivable becomes **past due**, companies need to put forth great efforts to collect it. The older a receivable gets, the less likely the chance of collection. A business will usually have some customers that will not pay their debts. **GAAP** requires that a company estimate the amount of uncollectable receivables at the end of the accounting period and record that amount as Bad Debt Expense. The Bad Debt Expense is recorded in the same year as the sale, complying with the matching principle.

Note:-According to example taken in this module no any need adjustment. All customers' accounts are reconciled and adjusted. All bill customers are arranged and updated.

Kummarra Wholesale Supply SALES JOURNAL					
Date	Account Debited	Invoice No.	Ref.	Accts. Receivable Dr. Sales Cr.	Cost of Goods Sold Dr. Merchandise Inventory Cr.
2022					
May 3	Abarra Ittiqa	101	✓	10,600	6,360
7	Zinbalew Comp.	102	✓	11,350	7,370
14	Lammi comp	103	✓	7,800	5,070
19	Daniel Company.	104	✓	9,300	6,510
21	Abarra Ittiqa comp	105	✓	15,400	10,780
24	Daniel comp	106	✓	21,210	15,900
27	Zinbalew Compa.	107	✓	14,570	10,200
				<u>90,230</u>	<u>62,190</u>
				(112) / (401)	(505) / (120)

Aging of Accounts Receivable

Aging of Accounts Receivable - Balance Sheet approach - estimates bad debts by analyzing individual accounts receivables according to the length of time they are past due.

Name of customer	Number of days past due			
	1-30	31-60	61-90	Over 90
Abarra Ittiqa Comp	0	0	0	0

Zinbalew Comp.	0	0	0	0
Lammi comp	0	0	0	0
Daniel Company	0	0	0	0
Total of past due	--	--	--	--
Total %Uncollectible	5%	20%	50%	80%
Total estimated percentage uncollectible	-	-	-	-

You can you other example, according to the following :-

Example of aging Accounts Receivable

Look name customers and amount on the customer accounts

	A	B	C	D	E	F	G
1	Customer	Total	Not Yet Due	Number of Days Past Due			
2				1-30	31-60	61-90	Over 90
3							
4	T. E. Adert	\$ 600		\$ 300		\$ 200	\$ 100
5	R. C. Bortz	300	\$ 300				
6	B. A. Carl	450		200	\$ 250		
7	O. L. Diker	700	500			200	
8	T. O. Ebbet	600			300		300
9	Others	36,950	26,200	5,200	2,450	1,600	1,500
10		<u>\$39,600</u>	<u>\$27,000</u>	<u>\$5,700</u>	<u>\$3,000</u>	<u>\$2,000</u>	<u>\$1,900</u>
11	Estimated Percentage Uncollectible		2%	4%	10%	20%	40%
12	Total Estimated Bad Debts	<u>\$ 2,228</u>	<u>\$ 540</u>	<u>\$ 228</u>	<u>\$ 300</u>	<u>\$ 400</u>	<u>\$ 760</u>
13							

Total estimated bad debts for Dart Company (\$2,228) represent the amount of existing customer claims the company expects will become uncollectible in the future. This amount represents the required balance in **Allowance for Doubtful Accounts at the balance sheet date**. The amount of the bad debt adjusting entry is the difference between the required balance and the existing balance in the allowance account. If the trial balance shows Allowance for Doubtful Accounts

with a credit balance of \$528, the company will make an adjusting entry for \$1,700 (\$2,228-\$528), as shown here.

Dec. 31 Bad Debts Expense----- 1,700
Allowance for Doubtful Accounts -----1,700
(To adjust allowance account to total
estimated uncollectible)

After the adjusting entry is posted, the accounts of the Dart Company will show:

Bad Debts Expense		Allowance for Doubtful Accounts	
Dec. 31 Adj. 1,700		Bal. 528	
		Dec. 31 Adj. 1,700	
		Bal. 2,228	

Occasionally the allowance account will have a debit balance prior to adjustment. This occurs when write-offs during the year have exceeded previous provisions for bad debts. In such a case the company adds the debit balance to the required balance when it makes the adjusting entry. Thus, if there had been a \$500 debit balance in the allowance account before adjustment, the adjusting entry would have been for **\$2,728** (\$2,228 \$500) to arrive at a credit balance of \$2,228. The percentage-of-receivables basis will normally result in the better approximation of cash realizable value.

More billing adjustments

Special Charges - Used to create various line items on a Customer's bill (e.g. Contract Cancel Fee, Misc. Charge) When a Special Charge is created, it is held in a temporary table until the next bill is created. It is used for existing Customers who are active and going to receive invoices for the next cycle. It does not affect the current AR. Special charges include everything but late fee.

AR Adjustments - These transactions do not show up on Customer bills or in the revenue reports. Typically used for writing off A/R balances or when refunding money to a Customer.

An allowance for doubtful accounts is considered a “contra asset,” because it reduces the amount of an asset, in this case the **accounts receivable**. The allowance, sometimes called a bad debt reserve, represents management’s estimate of the amount of accounts receivable that will not be paid by customers. If actual experience differs, then management adjusts its estimation methodology to bring the reserve more into alignment with actual results.

In accrual-basis accounting, recording the allowance for doubtful accounts at the same time as the sale improves the accuracy of financial reports. The projected bad debt expense is properly matched against the related sale, thereby providing a more accurate view of revenue and expenses for a specific period of time. In addition, this accounting process prevents the large swings in operating results when uncollectible accounts are written off directly as bad debt expenses. Units should consider using an allowance for doubtful accounts when they are regularly providing goods or services “on credit” and have experience with the collectability of those accounts. The following entry should be done in accordance with your revenue and reporting cycles (recording the expense in the same reporting period as the revenue is earned), but at a minimum, annually.

Bad Debt Expense -----	DR	
		CR
Allowance for Doubtful Accounts -----		

When it is determined that an account cannot be collected, the receivable balance should be written off. When the unit maintains an allowance for doubtful accounts, the write-off reduces the outstanding accounts receivable, and is charged against the allowance – **do not record bad debt expense again!**

Allowance for Doubtful Accounts -----	DR
Accounts Receivable -----	CR

The Allowance Method

As previously mentioned, there will always be customers that don’t pay. This could be due to a dispute over the amount owed, or due to cash flow problems experienced by the customer. The

amount estimated as uncollectible will be debited to a new operating expense called Bad Debts Expense. The Bad Debts Expense will be recorded in an adjusting entry that debits Bad Debts Expense and credits Allowance for Doubtful Accounts. The Allowance for Doubtful Accounts is a contra asset account with a normal credit balance. It will offset the Accounts Receivable balance. The presentation of Accounts Receivable and the Allowance for Doubtful Accounts on the balance sheet is often reported as follows. Accounts Receivable 100,000 Allowance for Doubtful Accounts (1,000) 99,000 The \$99,000 shown above is called the “**realizable value**” and estimates what the company can realistically expect to collect from their account receivables. GAAP mandates that we use the Allowance Method of estimating uncollectible accounts receivable. (The Direct Write Off method is used by some smaller companies, because it is needed for tax purposes; it is not acceptable under GAAP.) Most companies estimate their uncollectible accounts receivable using one of three approaches:

- A. The percent of sales method
- B. The percent of receivables method
- C. The aging of receivables method

The method chosen will determine the calculation. We will practice these methods of determining the adjustment for bad debts expense extensively in class. These methods are summarized below

The percent of sales method. Under this method, the amount of the adjustment is calculated by multiplying a historical percent of bad debts by the current year’s net credit sales. Although acceptable, this method is not as accurate as the either the percentage of receivables method or the aging of receivables method. Example: A company had net sales of \$1,000,000. It is estimated that one percent of net sales are uncollectible. The amount of the adjusting entry is \$10,000 ($1\% * \$1,000,000$).

The adjusting entry recorded at the end of the accounting period is:-

Bad Debts Expense -----10,000
 Allowance for Doubtful Accounts----- 10,000

The percent of receivables method. The percent of receivables method assumes a given percent of a company's receivables is uncollectible. The desired amount of the Allowance for Doubtful Accounts is calculated by multiplying Accounts Receivable by this percent. The Allowance for Doubtful Accounts is this adjusted so that it equals this desired amount. Example: The balance of Accounts Receivable is \$100,000, and it is estimated that 5% of accounts are uncollectible. The balance of the Allowance for Doubtful Accounts, before adjustment, is \$2,000 (credit). The desired balance of the Allowance for Doubtful Accounts would be \$5,000 ($\$100,000 \times 5\%$). Since the balance of the Allowance for Doubtful Accounts is now only \$2,000, a \$3,000 adjustment is required, as follows.

Bad Debts Expense----- 3,000
Allowance for Doubtful Accounts-----3,000

The aging of receivables method.

Most companies have an aging of customers' accounts receivable. In this aging report, each customer balance is classified by how long it is past due. Based on this aging, experience is used to estimate the percent of each aging total. Older past due receivables will be more likely uncollectible. Once the total uncollectible amount is estimated, an adjusting entry is made to increase the Allowance for Doubtful Accounts so that its balance equals the uncollectible estimate calculated by using the aging report.

Example: Based on its **aging report**, a company estimates its uncollectible accounts receivable to be \$6,000. The current balance in the Allowance for Doubtful Accounts is \$1,000 (credit). An adjusting entry of \$5,000 (\$6,000 desired less \$1,000 balance before adjustment) would be recorded as follows.

Bad Debts Expense -----5,000
Allowance for Doubtful Accounts -----5,000

Writing off a Bad Debt

Strict internal control procedures should be used when writing off an account that is no longer deemed collectible. We will discuss these in class. For example, the entry to write off the \$500 balance owed by **Motumma Company** is

Allowance for Doubtful Accounts -----500
 Accounts Receivable-Motumma Company -----500

Note that Bad Debts Expense is **not** used to record the write off. This is because Bad Debts Expense was debited in the adjusting entry to estimate bad debts. If Bad Debts Expense was debited in the entry to write off a bad debt, Bad Debts Expense would be counted twice.

Collection of a bad debt previously written off.

If a company collects an accounts receivable balance previously written off, two entries are required. The first entry reverses the write off. The second entry records the cash receipt on account. For example, assume **Lellisaa Company** pays its \$350 account previously written off, the following entries would be recorded.

Accounts Receivable-Lee Company----- 350
 Allowance for Doubtful Accounts----- 350
 Cash -----350
 Accounts Receivable-**Lellisaa** Company----- 350

Notes Receivable Notes Receivable can arise when the seller asks for a promissory note to replace an Accounts Receivable when the customer requests additional time to pay a past-due account. A promissory note is a written promise to pay a specific amount of money, usually including interest, at a future date. The journal entries required are:

- Converting an accounts receivable to a note receivable
- Recording an adjusting entry for interest receivable at the end of the accounting period
- Recording receipt of note payment and interest when due
- Recording a dishonored note

Managing Receivables

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Managing accounts receivable involves five steps:

1. Determine to whom to extend credit.
2. Establish a payment period.
3. Monitor collections.
4. Evaluate the liquidity of receivables.
5. Accelerate cash receipts from receivables when necessary.

Notes Receivable

A **promissory note** is a written promise to pay a specified amount of money on demand or at a definite time.

A promissory note (note receivable) is a written promise to pay specified amount money either on demand or at a definite future date. Promissory notes are used in many transactions, including

- paying for products and services
- in the lending and borrowing of money and
- To pay for account receivables

Note contains the following parts:

1. **Date** – the date of the note
2. **Time** – the length of time between the date the note is issued and the (period) date it is due for payment (note's life span)
3. **Payee** – the party to whom payment will be made
4. **Principal** (Face value) - the stated amount of the note
5. **Maker** – the party promising to make payment,
6. **Interest** – the charge imposed on the borrower of funds for the use of money
7. **Due date** – the day the note will be due

The note that is paid in full at its maturity date is called **honored note**.

A **Dishonored Note**: When a note's maker is unable or refuses to pay at maturity, the note is **dishonored**.

Computing Maturity Date and Interest

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The maturity date is the date repayment of the note is due. The interest charged to the issuer of the note is a cost of borrowing money for the borrower. We should learn to calculate both. For example, assume a \$1,000, 6%, 90-day note was issued on July 15. The maturity date would be October 13, as follows:

July (31 days in July minus 15, the date of the note) -----	16
August -----	31
September -----	30
October -----	<u>13</u>
Period of the note, in days -----	90

To compute interest, multiply the principal of the note by its interest rate and the time factor. For example, the interest due on the note receivable above is \$15, calculated as follows:

$$\text{\$1,000} * 6\% * 90/360 = \text{\$15}$$

To remind that in notes receivable there are two parties involved. The one to whose order the note is payable (the holder or the receiver of the note) is called the **payee** (the seller); and the one making the promise/ issuer of the note or the buyer is called the **maker**.

Due Date: is the date at which the note is retired or paid. It is also called the **maturity date**.

Issuance date: is the date at which the note is written or issued.

Maturity value: is the amount that is due at the maturity or due date.

$$\text{Maturity value} = \text{Principal} + \text{interest}$$

Types: There are two types of notes. Interest bearing (**Interest = Principal * Rate of interest * Time**) the time period can be expressed in terms of days, months or weeks; and non-interest bearing which has no interest on it but other indirect charges may be there.

To illustrate the above characteristics consider the following examples:

- Br.10,000, 10% interest, 120 days note dated March 16.
- Br.12,000, 10% interest, 4 months note dated June 5.

Required: calculate the interest, the maturity value and determine the due date of each note.

Solution: a) Interest = Principal * Rate * Time

$$= \text{Br.}10,000 * 10\% * 120 \text{ days} = \text{Br.}333.30$$

$$360 \text{ days}$$

Maturity value = Principal + Interest

$$= \text{Br.}10,000 + 333.33 = \text{Br.}10,333.33$$

Due date: Term of the note..... -----120 days

Days in March	31	
Less: Term date (issuance date) 16		15
		105 days
Days in April.....	30	
Days in May	31	
Days in June	30	
Total		91 days
The due date is July		<u>14</u>

• **I = P * R * T**

$$= 12,000 * \frac{12}{100} * \frac{4 \text{ months}}{12 \text{ months}} = \underline{\text{Br.} 480}$$

Maturity value = P + I

$$= \text{Br.}12,000 + \text{Br.} 480 = \text{Br.}12,480$$

Due date: June6 – July5 = 1 month
 July 6 – Augusts = 1 month
 August 6 – September 5 = 1 month
 September 6 – October 5 = 1 month
 4 months

Therefore, the due date is October 5.

Journal entry

Example: Assume that the account of XXX Enterprise, which has a balance of Br.9,200, is past due (delinquent). A 90 -day non-interest bearing note for that amount dated May 16,1990, is accepted in settlement of the account. The notes receivable is recorded at its face value and the entry to record the transaction is as follows.

May 16. Notes Receivable 9200
 Accounts Receivable 9200

When the amount is collected on the due date (August 14)

Cash 9200
 Notes Receivable 9200

2.2. Responding customer complaints

A complaint is an expression of **dissatisfaction** made to an organization, related to its product or service, or the complaints-handling process itself, where a response or resolution is explicitly or implicitly expected. Complaints can be made in relation to other processes where the organization interacts with the customer. Managing complaints is more than simply making individual customers happy by addressing their problems. Instead, complaints are indicators that suggest larger problems that an organization needs to address to enhance product development, mitigate risk, and find opportunities for growth and innovation by meeting specific customer requirements.

Complaints resolution is based on:

- Customer complaints are recognized as a tool to address shortcomings, if any.
- Customers are treated fairly and to the highest professional standards at all times.
- Complaints raised by customers are dealt efficiently and with utmost courtesy.
- Customers are fully informed of avenues to escalate their complaints/grievances within the organization and their rights to alternative remedy, if they are not fully satisfied with the response of the business to their complaints.
- The organization employees must work in good faith and without prejudice to the interests of the customer to minimize complaints.

Responding to complaints

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Responsiveness

Complaints are acknowledged in a timely manner, addressed promptly and according to order of urgency, and the complainant is kept informed throughout the process.

Objectivity and fairness

Complaints are dealt with in an equitable, objective and unbiased manner. This will help to ensure that the complaint handling process is fair and reasonable. Unreasonable complainant conduct is not allowed to become a burden.

Confidentiality

The personal information of the complainant and any people who are the subject of a complaint should be kept confidential and only used for the purposes of addressing the complaint and any follow up actions.

Remedy

Mechanisms should exist for enabling appropriate remedies to be provided when complaints are upheld and staff should be familiar with them. Staff should be able to give the complainant reasons for decisions relating to remedies. Staff should be empowered to provide these remedies at the appropriate level, for example some appropriate remedies may be provided by front-line staff.

Review

There should be an independent internal review or appeal process. Details of external rights of review or appeal for unresolved complaints should be made available to complainants.

Operation sheet 1:1 Customer accounts

- **Operation title:** Bill adjustment
- **Purpose:** To practice and demonstrate the knowledge and skill required in comparing debit and credit, control account and subsidiary ledger
- **Instruction:** Use the given question:-.

A. Determine interest rate

B. Maturity value

C. Due date

1. A note with a principal of Br 1, 400, a rate of 10% and a time of two years.(compute interest only)
2. The note that has a principal of Br 700, a rate of 9%, and a time of 30, in in the year of 360 days(compute interest)
3. Assume that ABC Company accepted a Br10, 000 90 – day, 12% note dated October 18 from XYZ Company on settlement of open account. Record the entry (assuming the cash is collected at the maturity date)
4. assume ABC Company a Br60,000, 60 days, 12% note dated July 1 on settlement of A/R had been dishonored at maturity.(record acceptance note and dishonored at maturity)

Unit three. Maintain customer details

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Keeping details on customer account files
- Checking and verifying Sources of customer details

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Maintain details on customer account files accurately and up to date
- Realize and verify sources of customer details

3.1. Keeping details on customer account files

Ledgers

Cumulative accounting information is stored in general and subsidiary ledgers. A **general ledger** contains summary-level data for every asset, liability, equity, revenue, and expense account. A **subsidiary ledger** contains detailed data for any general ledger account with many individual subaccounts. For example, the general ledger has an accounts receivable account that summarizes the total amount owed to the company by all customers. The subsidiary accounts receivable ledger has a separate record for each individual customer, with detailed information such as name, address, purchases, payments, account balance, and credit limit. Subsidiary ledgers are often used for accounts receivable, inventory, fixed assets, and accounts payable. The general ledger account corresponding to a subsidiary ledger is called a **control account**. The relationship between the general ledger control account and the total of individual subsidiary ledger account balances helps **maintain** the **accuracy** of data. Specifically, the sum of all subsidiary ledger account balances should equal the amount in the corresponding general ledger control account. Any discrepancy between them indicates that a recording **error** has occurred.

Note:- control account - A title given to a general ledger account that summarizes the total amounts recorded in a subsidiary ledger.

For example, the accounts receivable control account in the general ledger represents the total amount owed by all customers. The balances in the accounts receivable subsidiary ledger indicate the amount owed by each specific customer. **Look kumara wholesales supply general ledger**

Account Title:- **Account Receivable**

Account No **112**

Date		Description	PR	Dr	Cr	balance
2022	31			90230		90230
May	31				39050	51180

There are many types of general ledger, all must be documented and filled.

3.2. Check and verify Sources of customer details

Coding techniques

Data in ledgers is organized logically using coding techniques. **Coding** is the systematic assignment of numbers or letters to items to classify and organize them. With **sequence codes**, items are numbered consecutively to account for all items. Any missing items cause a gap in the numerical sequence. Examples include pre numbered checks, invoices, and purchase orders.

Sequence codes - Items are numbered consecutively so that gaps in the sequence code indicate missing items that should be investigated.

Examples include pre-numbered checks, invoices, and purchase orders.

Sequence codes		Kummarra Wholesale Supply SALES JOURNAL				SI
Date	Account Debited	Invoice No.	Ref.	Accts. Receivable Dr. Sales Cr.	Cost of Goods Sold Dr. Merchandise Inventory Cr.	
2022						
May 3	Abarra Ittiqa	101	✓	10,600	6,360	
7	Zinbalew Comp.	102	✓	11,350	7,370	
14	Lammi comp	103	✓	7,800	5,070	
19	Daniel Company.	104	✓	9,300	6,510	
21	Abarra Ittiqa comp	105	✓	15,400	10,780	
24	Daniel comp	106	✓	21,210	15,900	
27	Zinbalew Compa.	107	✓	14,570	10,200	
				<u>90,230</u>	<u>62,190</u>	
				(112) / (401)	(505) / (120)	

Chart of accounts

A great example of coding is the **chart of accounts**, which is a list of the numbers assigned to each general ledger account. These account numbers allow transaction data to be coded, classified, and entered into the proper accounts. They also facilitate the preparation of financial statements and reports, because data stored in individual accounts can easily be summed for presentation. However, data stored in summary accounts cannot be easily analyzed and reported in more detail. Consequently, it is important that the chart of accounts contain sufficient detail to meet an organization's information needs.

subsidiary ledger - A ledger used to record detailed data for a general ledger account with many individual subaccounts, such as accounts receivable, inventory, and accounts payable. The subsidiary accounts receivable ledger has a separate record for each individual customer, with detailed information such as name, address, purchases, payments, account balance, and credit limit.

Coding subsidiary ledgers

Account Title:- **Account Receivable**

account No 112-1

Name Abarra Ittiqa		Tell phone_____		Account No. 112-1	
Region _____		Credit limit_____			
Zone _____		Terms _____			
Date	Description	PR	Dr	Cr	Balance
2022	31				15400
May	31				

Account Title:- **Account Receivable ()**

Account No **112-2**

Name Lammii		Tell phone_____		Account No. 112-2	
Region _____		Credit limit_____			
Zone _____		Terms _____			
Date	Description	PR	Dr	Cr	Balance
2022	31				
May	31				

Account Title:- **Account Receivable**

Account No **112-3**

Name Abarra Ittiqa Daniel		Tell phone_____		Account No. 112-3	
Region _____		Credit limit_____			
Zone _____		Terms _____			
Date	Description	PR	Dr	Cr	Balance
2022	31				21210
May	31				

Account Title:- **Account Receivable** (Zimbalew)

Account No **112-4**

Name Abarra Ittiqa		Tell phone_____			Account No. 112-4
Region _____		Credit limit_____			
Zone _____		Terms _____			
Date	Description	PR	Dr	Cr	Balance
2022	31				14570
May	31				

Self-check 1

Part I Matching

Instruction: select the correct answer for the given column.

A

B

- | | | |
|------------------------|---------------------------|---------------|
| 1. | Coding | A. subsidiary |
| 2. Individual accounts | B. pre-numbered | |
| 3. Chart of account | C. Account classification | |

Reference Books

Principle of Accounting , Warren,23th edition,2010

Principles of Accounting James M. Reeve, 2nd Edn.

Financial Accounting tools for business decision making Kimmel, Weygandt & Kieso,1998

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