

ACCOUNTING AND FINANCE LEVEL - III

Based on March, 2022 curriculum V - I



**Module title: Administering, Monitoring and
Controlling General and Subsidiary Ledgers**

Module code: LSA ACF3 M04 1122

Nominal duration: 80hrs

Prepared by: Ministry of labor and skills

November 2022

Adama, Ethiopia

Page 1 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Acronym

A/R: account receivable

A/p: account payable

TVT: technical vocational training

Table of content

Content	page
Acknowledgment	6
Introduction to the Module	7
Unit 1- Reviewing accounts receivable process	9
Subsidiary Ledgers	12
Table 1 Differences between general ledger and sub-ledger?	12
1.1 accounts receivable system.....	Error! Bookmark not defined.
1.1.1 Classification of receivables.....	13
1.1.2 Recognizing accounts receivable	14
1.1.3 Valuing accounts receivable.....	14
Accounting System and Internal Control	15
1.1.4 Recording Service Provided on Credit.....	25
1.1.5 Recording Sales of Goods on Credit	25
1.2 Identifying and recording incorrect entries	29
1.3 Identifying & investigating discrepancies between monies owed and monies paid	31
1.4 Amending receipts entered into accounts receivable system	37
Unit 2. Identifying bad and doubtful debts	41
2.1 reviewing debtor's ledgers.....	42
2.2 verifying bad or doubtful debt	44
Unit 3: Reviewing compliance and planning recovery action	62

Written-off Accounts Receivable	73
3.1 Understanding accounting principles and practice	63
The Accounting Principles	63
3.2 organization credit policy	74
3.3 Reviewing previous activities and communication with clients	75
3.3.1 Client Communication	75
3.4 Developing plans to pursue debt recovery or to initiate legal action	75
Unit 4 Preparing reports and file documentation	77
4.1 preparing and distributing reports.....	78
1 – 30 days: Due in 30 days	78
4.2 Preparing reports of accounts receivable, debt recovery type, cause and recovery plan	80
B) Direct write off, method.....	81
4.3 Preparing Required Documentation	82
Self-check 4: work out question	83
Unit 5 Distributing creditors invoices for authorization	84
5.1 Identifying, investigating and rectifying invoice discrepancies	85
5.2 Encoding and recording invoices correctly	85
Unit 6: Remitting payments to creditors	87
Recover of written-off Accounts Receivable	88
Disposition of receivables	89
6.2 debiting correct account.....	91

6.3 preparing creditors payment	92
Unit 7: Prepare accounts paid report and reconcile balances outstanding.....	93
7.1 seeking statement of outstanding balance	95
Unit 8: Collecting and recording monies due	98
8.1 determining status of debit	99
Introduction.....	99
8.2 recording and maintaining transaction on account	99
8.2.1 Purchases On Account	100
Recording the Journal Entry for a Credit Purchase	100
Example of Purchase Credit Journal Entry.....	101
Entry	101
Payment.....	101
8.2.2 sales on account.....	102
8.3 □ Maintaining Records of customer contact.....	104

Acknowledgment

Ministry of Labor and Skills wish to extend thanks and appreciation to the many representatives of TVT instructors and respective industry experts who donated their time and expertise to the development of this Teaching, Training and Learning Materials (TTLM).

Page 6 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Introduction to the Module

A subsidiary ledger stores the details for a general ledger control account. Once information has been recorded in a subsidiary ledger, it is periodically summarized and posted to a control account in the general ledger, which in turn is used to construct the financial statements of a company.

This module covers the units:

- Reviewing accounts receivable process
- Identifying bad and doubtful debts
- Reviewing compliance with terms and conditions and plan recovery action
- Preparing reports and file documentation.
- Distributing creditors invoices for authorization
- Remitting payments to creditors
- Prepare e accounts paid report and reconcile balances outstanding

Learning Objective of the Module

- Review accounts receivable process
- Identify bad and doubtful debts
- Review compliance with terms and conditions and plan recovery action
- Prepare reports and file documentation.
- Distribute creditors invoices for authorization
- Remit payments to creditors
- Prepare e accounts paid report and reconcile balances outstanding

Page 7 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Module Instruction

1. For effective use these modules trainees are expected to follow the following module instruction:
2. Read the information written in each unit
3. Accomplish the Self-checks at the end of each unit
4. Perform Operation Sheets which were provided at the end of units
5. Red the identified reference book for examples and exercise

Unit One- Review accounts receivable process

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

- Entering receipts into accounts receivable system
- Identifying & accurately recording incorrect entries
- Identifying discrepancies between monies owed & monies paid
- Entering Amend receipts into accounts receivable

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:

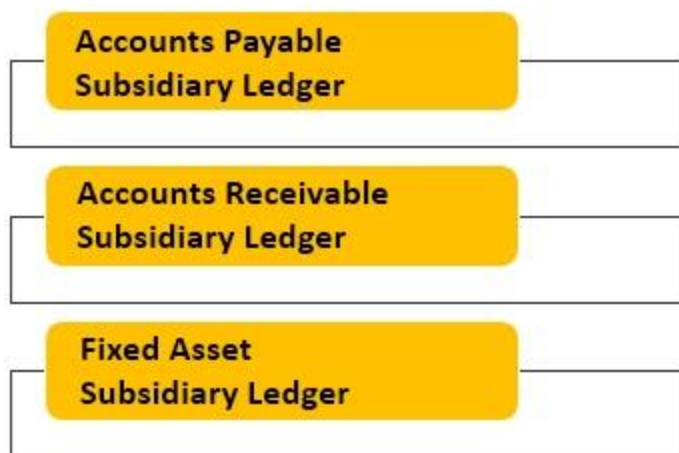
- Enter receipts into accounts receivable system
- accurately record incorrect entries
- Identify discrepancies between monies owed & monies paid
- Amend receipts entered into accounts receivable

1.1 Account receivable system

1.1.1 Introduction

A subsidiary Ledger is a list of individual accounts that bears a similar nature. It can also be regarded as an expansion of the conventional general ledger that is separately used to record all the transactions related to the accounts payable and accounts receivables in a detailed manner.

Types of subsidiary ledger



Accounts Payable Subsidiary Ledger – This type of ledger records all the transaction data concerning an organization’s suppliers, vendors, and creditors. It tracks every expense an organization owes to its creditors, vendors, and suppliers.

Accounts Receivable Subsidiary Ledger – Accounts receivable to record every transaction data concerning individual customers and buyers. This type of ledger reflects every transaction and amount received from each buyer to whosoever the company sells its goods and services on credit.

Fixed Asset Subsidiary Ledger – Fixed asset ledger is used to record every transaction concerning fixed assets. Assets like land, equipment, plant and machinery, property, buildings,

etc., fall under the domain of fixed assets, and the same must be accounted for in the fixed asset subsidiary ledger.

Example of Subsidiary Ledger Account

ABC Ltd sells tires and prepares an account receivable subsidiary ledger for the year ending December 2019. The opening balance for Mr. M Williams and T George on December 1 is \$ 150,000 and \$ 353,000. On December 5, the company sold goods to M Williams on credit for \$ 325,000.

The company received M Williams and T George payments on December 10 and December 18 for \$ 225,000 and \$ 353,000, respectively. Accordingly, prepare the Accounts Receivable Subsidiary Ledger for ABC Ltd for the year ended on December 31, 2019.

Solution

Below is the Accounts Receivable Subsidiary Ledger for ABC Ltd for the year ended on December 31, 2019 –

ABC Ltd Accounts Receivable Subsidiary Ledger for year ended December 31, 2019					
Account: M. Williams Inc.			No. 20503		
Date	Particulars	Ref.	Debit	Credit	Balance (Dr)
Dec-01	Opening Balance				\$ 150,000
Dec-05	Sales Journal	32	\$ 325,000		\$ 475,000
Dec-10	Cash Receipts	30		\$ 225,000	\$ 250,000

ABC Ltd Accounts Receivable Subsidiary Ledger for year ended December 31, 2019					
Account: T. George Inc.			No. 20792		
Date	Particulars	Ref.	Debit	Credit	Balance (Dr)
Dec-01	Opening Balance				\$ 353,000
Dec-18	Cash Receipts	30		\$ 353,000	0

Accounts receivable is short-term amounts due from buyers to a seller who have purchased goods or services from the seller on credit. Accounts receivable is listed as a current asset on the due

Subsidiary Ledgers

A **subsidiary ledger** is a group of similar accounts whose combined balances equal the balance in a specific general ledger account. The general ledger account that summarizes a subsidiary ledger's account balances is called a **control account** or **master account**

Companies create subsidiary ledgers whenever they need to monitor the individual components of a controlling general ledger account. In addition to the accounts receivable subsidiary ledger, companies often use an accounts payable subsidiary ledger (creditors' subsidiary ledger), which has separate accounts for each creditor, an inventory subsidiary ledger, which has separate accounts for each product, and a property, plant, and equipment subsidiary ledger, which has separate accounts for each long-lived asset.

Differences between general ledger and sub-ledger

With the help of this table, we will explain the key differences between sub-ledger and general ledger in accounting:

Table 1 Differences between general ledger and sub-ledger

General Ledger	Sub ledger
1. All the accounting transactions are recorded in this set of master accounts.	1. It is linked to the general ledger where the transactions of intermediary sets of accounts are recorded.
2. Example: Cash management, accounts receivable, and accounts payable.	2. Example: Vendor accounts, fixed assets, and customer accounts.

3. All the transactions that are recorded here have different characteristics.	3. All the transactions that are recorded here have common characteristics.
4. Only one ledger account can be present.	4. Multiple sub ledger accounts can be present.
5. Limited volume of data can be recorded.	5. Large volume of data can be recorded.
6. The total of the general ledger may not always match with the line items present in the sub ledger.	6. The total of sub ledger should always match with the line item amount present in the general ledger.
7. It controls sub ledger.	7. It is a subset of the general ledger.
8. The trial balance is prepared with the help of general ledger.	8. The trial balance is not prepared with the assistance of the sub ledger.

Receivables usually composed substantial components of a firms current assets, thus considered as important factor in evaluating the financial position of a firm. In common they are resulted from events such as sale of goods or services, loans made, subscriptions obtained from investors for capital stock or bonds, claims for income tax refunds, claims resulting from litigation, etc. .

1.1.2 Classification of receivables

1. Accounts receivable:

Are amounts owed by customers on account result from the sale of goods and services (often called **trade receivables**). account receivable are expected to be collected within 30 to 60 days.

2. Notes receivable:

Represent claims for which formal instruments of credit are issued as evidence of debt. Are credit instruments that normally require payment of interest and extend for time periods of 60-90 days or longer. May result from sale of goods and services (often called **trade receivables**).

3. Other receivables:

Non trade receivables including interest receivable, loans to company officers, advances to employees, and income taxes refundable. Generally classified and reported as separate items in the balance sheet.

Two accounting problems associated with accounts receivable are:

1. Recognizing accounts receivable
2. Valuing accounts receivable

1.1.2 Recognizing accounts receivable

Service organizations -- A receivable is recorded when service is provided on account.

- Debit accounts receivable and credit service revenue

Merchandisers – A receivable is recorded at the point of sale of merchandise on account.

- Debit accounts receivable and credit sales
- Receivable may be reduced by sales discount and/or sales return

1.1.3 Valuing accounts receivable

Determining the amount of accounts receivable to report is difficult because some receivables will become no collectable. This creates **bad debt expense** – a normal and necessary risk of doing business on credit.

Two methods are used in accounting for uncollected accounts:

1. Direct Write-off Method
2. Allowance Method

Direct Write-Off Method

Page 14 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

When a specific account is determined to be noncollectable, the loss is charged to **Bad Debt Expense**.

For example, assume that Warden Co. writes off M. E. Doran's \$200 balance as noncollectable on December 12. The entry is:

Dec. 12	Bad Debts Expense	200	
	Accounts Receivable--M. E. Doran	200	

Receivables may be classified in different manner, such as:

Trade Receivables: they are also called receivables from sales of goods and services. They result from ordinary revenue-producing activities and they include accounts receivables, installment receivables, or notes receivables.

Non-Trade Receivables:- These are receivables from miscellaneous sources. These are receivables resulting from services which are non-recurring or unusual transactions.

Accounting System and Internal Control

Effective internal control over sale of goods and related cash collections are integral parts of the system for handling trade accounts receivable. For effective handling of receivables the following mechanisms should be applied in a business organization:

Segregation of duties: This means separation of responsibilities in a business firm. An individual who is assigned for recording sales and collection of trade receivables should not be assigned in handling cash receipts or in preparing bank deposit slips.

Cycle billing:- It is a procedures that insures timely collection of receivables and it involves billing customer as different time schedules after getting customers classified on different basis such as geographic location or type of customer.

Accounting Activities for Trade Receivables

In trade receivables the following major activities are treated:

- Recognition of receivables
- Valuation of receivables
- Disposition of receivables

Recognition of receivables: In recording trade accounts receivables the following two questions should be answered.

1. At what point in the earning process should a trade accounts receivable be recorded? And
2. How should the net amount of a trade accounts receivable be measured so that related asset, revenue and expense accounts will be accounted accurately?

The answer for question No. 1 is: Trade accounts receivable is recorded when sales are made and title to the goods is transferred to the buyer, i.e., at the point of sale. It should be noted that when customer order is received, goods are produced or when goods are shipped on consignment receivables should not be recorded or recognized. However, receivables may be recorded for work completed on construction type contracts. This is congruent with revenue recognition for long-term project under percentage completion method.

In recording/ recognizing receivables the following factors should be taken into consideration.

- Trade discount

- Cash/sales discount
- Estimated collection costs for receivables
- Sales returns and allowance
- Allowance for freight-out (Transportation costs)
- Sales tax
- Container deposits (Cash Debit and Credit container deposit liabilities)

Valuation of receivables: It involves determining the net realizable value (present value) of claims from customers considering the amount due and the estimate of the probability that the receivable will be collected.

Accounts receivable is short-term amounts due from buyers to a seller who have purchased goods or services from the seller on credit. Accounts receivable is listed as a current asset on the seller's balance sheet. Accounts receivable are commonly paired with the allowance for doubtful accounts (a contra account), in which is stored a reserve for bad debts. The combined balances in the accounts receivable and allowance accounts represent the net carrying value of accounts receivable. The seller may use its accounts receivable as collateral for a loan, or sell them off to a factoring exchange for immediate cash.

Accounts receivable may be further subdivided into **trade receivables** and non-trade receivables, where trade receivables are from a company's normal business partners, and non-trade receivables are all other receivables, such as amounts due from employees. Accounts receivable are also known as receivables.

Accounts Receivable Process

Page 17 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Assignment of receivables: This involves using receivables and collateral for borrowing. The assignor is the borrower whereas the assignee is the lender.

Assignment of accounts receivables requires executing the following accounting activities into the assignor's records:

- i. Amount of assigned accounts receivable would be recorded as **“assigned accounts receivable”** being removed from **“accounts receivable”** account
- ii. Liability is recorded for the principal amount of promissory note signed and cash is recorded for the amount of net proceeds received after the initial interest charge is deducted. The interest fee deducted is to be recorded as interest expense.
- iii. Periodical cash collections from assigned accounts receivable are recorded. These are immediately accompanied with payment to the assignee for periodical interest charges on the unpaid balance and the principal amount of the notes payable.
- iv. Upon settlement of the note in full, when notes payable has zero balance, balance outstanding on “assignee accounts receivable” is converted into “accounts receivable”

To illustrate, assume that on January 2, year 1, **Admas Company** assigned receivables of \$50,000 to **Finco, Inc.**... and received \$45,000, less a fee of 2% on the amount advanced. Interest at 1% of the unpaid balance of the loan was to be paid monthly.

The journal entries required in the assignor's accounting records for the problem given above are summarized as follows.

January 1, Year1: Assigned account receivable ----- 50,000

Accounts receivable ----- 50,000

Cash (45,000-900) -----	44,100
Interest expense -----	900
Notes payable to Finco Inc	45,000

The above entry is for the assignment of accounts receivable by the company (50,000) remitted 90% ($45000 \times 100\%$) of receivables, less 2% fee ($\$45,000 \times 0.02 = \900)

50,000

Assume further that on January 31, year 1, the company received \$30150 from customers and paid the amount to Finco Inc including interest charges.

January 31, year1” Cash -----	30150
Assigned account receivable ----	30150

To record cash collection from assigned A/R

Notes payable to Finco, Inc	29700
Interest expense ($\$45,000 \times 0.01$)	450
Cash -----	30150

This entry is to record payment to the assignee interest expense and retirement of the loan.

Finally assuming that Adams Company collected 17,000 on February 28 from the assigned accounts receivables and paid the balance owed to Finco Inc 1% interest on 153000 unpaid loan all the related records, are shown below

Cash -----	17,000
Assigned accounts receivable ----	17,000

This is to record cash collection from assigned accounts receivable

2 nd month	
Computations: lance due on	N/P (45,000-30150) = 15300
Interested exp (1%X15300)	<u>153</u>
Amount collected from assigned receivables	17000
Interest expense	<u>153</u>

Notes payable –Finco Inc 15300

Interest expense 153

Cash 15453

This is to record payment to the assignee: Interest expense and full retirement of the loan.

On February 28, year1, the balance of ‘notes payable’ is null, thus, journal entry is required to covert or transfer balance in ‘assigned accounts receivable’ to account receivable as is show (T/account)-the remaining balance is \$28/50 Hence the last entry would be from the ledger

Accounts receivable ----- 2,850

Assigned accounts receivable 2850

Assigned A/R

Jan 1. 50,000	30150 Jan 31
	17000 Feb 28
2850	

Four Main Steps for a Typical AR Process:

- Establishing Credit Practices
- Invoicing Customers

- Tracking Payments Received and Payments Due
- Accounting for Accounts Receivables

Under the **accrual basis of accounting sale** on credit Increase sales or sales revenues, which are reported on the income statement. Increase the amount due from customers, which is reported as accounts receivable an asset reported on the balance sheet.

If a buyer does not pay the amount it owes, the seller report

1. A credit loss or bad debts expense on its income statement,
2. A reduction of accounts receivable on its balance sheet.

Business organizations sell their items or services on cash or on account. It is common for these organizations to sell their items or services on account to increase sales volume. In this case receivables are created. The term receivables include all money claims against people, organizations, or other debtors. Receivables are required by a business enterprise in a various kinds of transactions, the most common being the sale of merchandise or services on a credit sale.

Classification of Receivables

Receivables can be classified broadly as trade receivables and other receivables.

Trade Receivables: are resulted from revenue producing activities such as sale of goods or services. Under this classification examples included are accounts receivable & notes receivable.

A promissory note frequently referred to, as a **notes** receivable, is a written promise to pay a sum of money on demand or at a definite time. Notes are more secured than accounts receivables. It is also more liquid (easily changed into cash) than accounts receivable.

Other receivables: are resulted from transactions not directly related to sales. Here included are interest receivables, loans to employees or loans to companies.

Note: that all receivable that are to be collected within a year are presented in the **current asset** section of the balance sheet. Others such as long-term loans are to be listed under **investment** account below the current asset section of the balance sheet.

Controls over Receivables

The control procedures over the receivables include two broad mechanisms:

- A. Separation of the business operations adjustments, such as credit approval, credit collection, credit handling of receivables etc.
- B. Separation of duties for related functions.

Notes Receivable. (A note)

Definition: A note is a written promise to pay a sum of money on demand or at a definite time.

Characteristics: a note has different characteristics that have accounting implications, which are explained in the following ways:

Parties: 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.

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

Page 22 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

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:

A. Br120,000, 10% interest, 120 days note dated March 16.

B. Br.110, 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

$$= \text{Br.}120,000 * 10\% * \frac{120 \text{ days}}{360 \text{ days}} = \text{Br.}4,000$$

Maturity value = Principal + Interest

$$= \text{Br.}120,000 + 4000 = \text{Br.} = 124,000$$

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 14

Remark:

- January is a month of 31 days
- February is a month of 28 days
- March is a month of 31 days
- April is a month of 30 days
- May is a month of 31 days
- June is a month of 30 days
- July is a month of 31 days
- August is a month of 31 days
- September is a month of 30 days
- October is a month of 31 days
- November is a month of 30 days
- December is a month of 31 day

b) $I = P * R * T$

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

$$100 \quad 12 \text{ months}$$

Maturity value = $P + I$

$$= \text{Br.110, 000} + \text{Br.3,666.67} = \text{Br.113,666.67}$$

Due date: June6 – July5 = 1 month

July 6 – Augusts = 1 month

August 6 – September 5 = 1 month

Page 24 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

September 6 – October 5 = 1 month

4 months

Therefore, the due date is October 5.

1.1.4 Recording Service Provided on Credit

Under the accrual basis of accounting, revenues are considered earned at the time when the services are provided. This means that on June 3 Malloy will record the revenues it earned, even though Malloy will not receive the 216,000 until July. Below are the accounts affected on June 3, the day the service transaction was completed

June 3, account receivables Brr4, 000

Service revenue	Brr4, 000
-----------------	-----------

1.1.5 Recording Sales of Goods on Credit

When a company sells goods on credit, it reports the transaction on both its income statement and its balance sheet. On the income statement, increases are reported in sales revenues, cost of goods sold, and (possibly) expenses. On the balance sheet, an increase is reported in accounts receivable, a decrease is reported in inventory, and a change is reported in stockholders' equity for the amount of the net income earned on the sale.

The sale is made with the terms: -

- **FOB Shipping Point**, the ownership of the goods is transferred at the seller's dock.
- **FOB Destination**, the ownership of the goods is transferred at the buyer's dock

In principle, the seller should record the sales transaction when the ownership of the goods is transferred to the buyer. Practically speaking, however, accountants typically record the transaction at the time the sales invoice is prepared and the goods are shipped

FOB Shipping Point,

Assume that on June 3, Malloy Design Co. provides 216,000 of graphic design service to one fits client with credit terms of net 30 days. (Providing services with credit terms is also referred- to as providing services on account.

Account receivables	Br54, 000
Sale	Br54, 000
Cost of goods sold	Br43, 200
Inventory	Br43, 200

Quality Products Co. just sold and shipped 54,000 worth of goods using the terms Shipping Point. With its cost of goods at 80% of sales value, Quality makes the following entries in its general ledger FOB Shipping Point means the ownership of the goods is transferred to the buyer at the seller's dock. This means that the buyer is responsible for transporting the goods from Quality Product's-shipping dock. Therefore, all shipping costs (as well as any damage that might be incurred during transit) are the responsibility of the buyer

FOB Destination

FOB Destination means the ownership of the goods is transferred at the buyer's dock. This means the seller is responsible for transporting the goods to the customer's dock, and will factor in the cost of shipping when it sets its price for the goods

Let assume that Gem Merchandise Co. makes a sale to a customer that has a sales value of 1,050 and a cost of goods sold at 800.

Account receivables	Brr1050
Sale	Brr1050
Cost of goods sold	Brr800
Inventory	Brr800

This transaction affects the following accounts in Gem's general ledger: Because Gem chooses to ship its goods FOB Destination, the ownership of the goods transfers at the buyer's dock. If the shipping company allows Gem to pay in 7 days, Gem will make the following entry in its general ledger

Freight - out expense	Br50.00
Account payable	Br50.00

Credit Terms with Discounts

When a seller offers credit terms of net 30 days, the net amount for the sales transaction is due 30days after the sales invoice date.

To illustrate the meaning of net, assume that Gem Merchandise Co. sells \$1,000 of goods to customer. Upon receiving the goods, the customer finds that \$100 of the goods are not acceptable. The customer contacts Gem and is instructed to return the unacceptable goods. This means that Gem's net sale ends up being \$900; the customer's net purchase will also be \$900(\$1,000 minus the \$100 returned). It also means that Gem's net receivable from this customer will be \$900. Unfortunately, companies who sell on credit often find that they don't

receive payments from customers on time. In fact, one study found that if the credit term is net 30 days, the money, on average, arrived 45 days after the invoice date.

The discount is referred to as a sales discount, cash discount, or an early payment discount, and the shorter period of time is known as the **discount period**. For example, the-term **2/10, net 30** allows a customer to deduct 2% of the net amount owed if the customer pays within 10 days of the invoice date.

A customer does not pay within the discount period of 10days, the net purchase amount (without the discount) is due 30 days after the invoice date. Using the example from above, let's illustrate how the credit term of 2/10, net 30 works. Gem Merchandise Co. ships \$1,000 of goods and the customer returns \$100 of unacceptable goods to Gem within a few days. At that point, the net amount owed by the customer is \$900.

The customer pays Gem within 10 days of the invoice date, the customer is allowed to deduct \$18(2% of \$900) from the net purchase of \$900. In other words, the \$900 amount can be settled for\$882 if it is paid within the 10-day discount period. Let's assume that the sale above took place on the first day that Gem was open for business, June1. On June 6 Gem receives the returned goods and restocks them, and on June 11 it receives \$882 from the buyer. Gem's cost of goods is 80% of their original selling prices (before discounts). The above transactions are reflected in Gem's general ledger as follows

June 1	Account receivables	1000
	Sales	1000
June 1	Cost of goods sold (80% of 1000)	800

	Inventory	800
June 6	sales return and allowance	100
	Account receivables	100
June 6	inventory	80
	Cost of goods sold	80
June 6	cash	882
	Sales discount(2% of 900)	18
	Account receivables	900

If the customer waits 30 days to pay Gem, the June 11 entry shown above will not occur. In its place will be the following entry on July 1:

June, 1	cash	900
	Account receivable	900

1.2 Identifying and recording incorrect entries

Accountants must make correcting entries when they find errors. There are two ways to make correcting entries: reverse the incorrect entry and then use a second journal entry to record the transaction correctly, or make a single journal entry that, when combined with the original but incorrect entry, fixes the error. After making a credit purchase for supplies worth \$50 on April 5, suppose Mr. Green accidental credits accounts receivable instead of accounts payable.

Mr. Green discovers the error on May 2, after receiving a bill for the supplies. He may use two entries to fix the error: one that reverses the incorrect entry by debiting accounts receivable for

\$50 and crediting supplies for \$50, and another that records the transaction correctly by debiting supplies for \$50 and crediting accounts payable for \$50.

Or Mr. Green can fix the error with a single entry that debits accounts receivable for \$50 and credits accounts payable for \$50.

The processing that takes place once the Process Invoice button is hit includes:

- Creation of the stock movements for each line item on the order - or for the assembly's components - from the location entered at the time of the order, at the price as per the order.
- Creation of the Debtor Trans record that records the invoice against the customer's account.
- Creation of the general ledger journals to record the sale and debtor etc.
- Updating the order for amounts dispatched, and the invoice number.
- Creating/updating the sales analysis records of the items being sold.
- Updating the stock quantities for all lines of the invoice and the components of all assemblies included on the order.

Receipt - Date

The date that the receipt was received and banked. If a receipt is being entered retrospectively - or several days banking's are being done together, the default date (i.e. the current date) should be over written with the date the receipt was originally received. This date is used on the statement and the customer may not be able to tie up the receipt if an incorrect date is entered.

Receipts - Currency and Exchange Rate

Page 30 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Selection of the customer automatically tells the system which currency to expect the receipt in. The customer's account is maintained in the currency selected in the customer maintenance screen.

1.3 Identifying discrepancies between monies owed and monies paid

A. Receipts - Payment Method

The payment method is stored against the receipt and shows on the customer's statement. A banking report can also be run off based on the payment method to summarize the day's banking's, to automate the task of collating the different vouchers and summarizing for the bank.

B. Receipts - Amount

Note: Care should be taken when allocating negative receipts to ensure that only previous allocations are reversed, strange results could occur if allocations are made to invoices not previously allocated to positive receipts - although system integrity will be maintained.

C. Receipts - Discount

The amount of discount on a receipt can be entered at this point and allocated together with the receipt as one amount. This is useful, where a customer pays an amount net of discount - quite correctly according to his terms and conditions, and the amount naturally will not tie up to invoices on its own without the addition of the discount.

D. Receipts Processing

Many customer receipts can be entered at a time and mixed together with receipts for nominal items i.e. receipts from vending machine or sales of fixed assets reimbursement for private use

of company assets etc. Once all receipts have been entered the processing can take place. The system only stores the data entered in a server side cookie called a session until such time as the Process button is clicked.

Discrepancies between monies owed and monies paid may occur as a result of:

monies owed

Payments

Payments are essentially transportation tasks as funds are transferred from payer to payee following established payments flows that are characteristic of a given payment instrument. Generally the payee has provided some kind of service or goods to the payer, who will in return pay an agreed amount of money against a request for payment, usually an invoice document, as part of the invoicing process.

Types of payments

There are several types of payments available:

Cash (bills and change): Cash is one of the most common ways to pay for purchases. Both paper money and coins are included under the larger category of "cash." While cash has the advantage of being immediate, it is not the most secure form of payment since, if it is lost or destroyed, it is essentially gone. There is no recourse to recoup those losses.

Personal Cheque (US check): These are ordered through the buyer's account. They are essentially paper forms the buyer fills out and gives to the seller. The seller gives the cheque to their bank, the bank processes the transaction, and a few days later the money is deducted from the buyer's

account. With the increasing trend toward fast payment, cheques are seen as slow and somewhat outdated.

Debit Card: Paying with a debit card takes the money directly out of the buyer's account. It is almost like writing a personal cheque, but without the hassle of filling it out.

Credit Card: Credit cards look like debit cards. But paying with a credit card temporarily defers the buyer's bill. At the end of each month, the buyer receives a credit card statement with an itemized list of all purchases. Therefore, rather than paying the seller directly, the buyer pays off its bill to the credit card company. If the entire balance of the bill is not paid, the company is authorized to charge interest on the buyer's remaining balance. Credit cards can be used for both online purchases and at physical retailers.

monies owed means all Monies which are owing or payable to the Company by the Customer for any reason whatsoever

Related to monies owed

Trade Accounts Payable of any Person means trade accounts payable of such Person with a maturity of not greater than 90 days incurred in the ordinary course of such Person's business.

Trade Accounts Payable means accounts payable or other obligations of the Company or any Restricted Subsidiary to trade creditors created or assumed by the Company or such Restricted Subsidiary in the ordinary course of business in connection with the obtaining of goods or services.

Other Monies Owed means a monetary amount owed by either party to this Agreement that represents a reconciliation of monthly payments made by CMS during a Performance Year,

including payments made through Alternative Payment Mechanisms, and is neither Shared Savings nor Shared Losses.

Overpayment

An over payment is **when you receive more money for a month than the amount you should have been paid**. The amount of your over payment is the difference between the amount you received and the amount due.

An over payment is defined as **any payment that is larger than the invoice's outstanding amount**. This can occur if the wrong amount is paid, or if an invoice is accidentally settled twice.

Example

Over payment Examples

Sometimes clients pay more money than they owe. If a client overpays his or her account, you can manage the over-payment by applying the amount to an Over payment account.

To do this, set up a new account number (in the 200 range, liabilities), called Over payments in the Chart of Accounts Info Center.

Scenario 1

The client is invoiced for the correct amount, but pays too much. For example, if the invoice is for \$100.00 and the client pays 125.00. In this scenario, complete the following steps:

Enter a cash receipt with the correct amount (\$100.00) to accounts receivable, and the amount overpaid (\$25.00) to the Over-payments Account (this is a two-line entry). You do not need to enter a project number.

Enter a cash disbursement, specifying the Over payments Account number to refund the client \$25.00. You do not need to enter a project number. This step tracks the cash flow in the Cash Journal.

Scenario 2

The client is invoiced for too much and pays that higher amount. For example, the client is invoiced for \$200.00 when he owes \$150.00, and he pays \$200.00. In this scenario, complete the following steps:

Enter a negative invoice for the amount that was over billed (\$50.00), using the same original invoice number. This step reduces billings and revenue for the client.

Enter a cash receipt with the amount that should have been billed (\$150.00) to accounts receivable, and the amount that was overpaid (\$50.00) to the Overpayments Account. You do not need to enter a project or invoice number.

Enter a cash disbursement, specifying the Overpayments Account to refund the client \$50.00. This step tracks the cash flow in the Cash Journal.

Scenario 3

The client is invoiced for the correct amount but overpays. In this scenario, complete the following steps:

In Cash Receipts, post the portion to be refunded to a clearing account (typically this would be a 200 level liability account).

Process an Accounts Payable voucher coded to the same liability account in step 1 above. You may need to add the client as a new vendor.

Process an Accounts Payable payment to your vendor/client as you would normally when paying vendors.

Underpayments

An underpayment is where a customer doesn't send enough money to cover the total amount of the order or invoice(s) they are paying.

The remaining balance might be an amount that they will pay later, in which case it can be left outstanding on their account, or it might never be paid, in which case it is likely that you will want to write it off in order to balance the account

Deduction of brokers or agents' commissions.

- Incorrect account allocation.
- Key stroke errors.
- Over payments.
- Part payments.
- System errors.
- Termination of policies.
- Under - payments

Organization policy, procedures and guidelines to identify & investigate discrepancies between monies owed and monies paid may include:

- computer system documentation
- internal control guidelines
- legal obligations

- operations manuals
- overall organization goals and objectives
- suspension of credit facilities
- trading terms and credit limit

1.4 Amending receipts entered into accounts receivable system

1.4.1 About Manual Receipts Processing

One of the most important steps in the accounts receivable process is to quickly enter payments received from your customers in order to recognize your current cash position. The Accounts Receivable system provides the flexibility you need to enter and maintain various types of receipts.

Manual receipts processing consists of:

- Updating invoices for payment
- Working with invoice match receipts
- Working with other types of receipts
- Approving and posting receipts
- Working with alternate methods of application
- Revising receipts
- Printing receipt information

Objective

- To update invoices for payment

Page 37 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

- To enter receipts that match to invoices
- To enter receipts when you cannot match them to specific invoices
- To enter receipts directly to the general ledger
- To select invoices for receipt application
- To create charge back invoices for disputed amounts
- To create write-offs and adjustments
- To spread unappealing receipts to invoices
- To void and reverse non-sufficient funds (NSF) receipts

Deposits Listing

After processing has completed a link to print the deposit listing for the batch of receipts just entered is shown. The batch number is also reported. The listing shows the information required by banks in processing a batch of cheque. This deposit listing can be reprinted at any time from a link under the accounts receivable tab - reports and inquiries.

Here are the steps to follow in order to review the account receivable process successfully

Record buyer details

- Customer name (company or individual)
- Account manager – Full name
- Account manager - Phone number
- Is this the first time you are expecting a payment from this buyer?

Are you providing the buyer with goods or services?

1.4.2 Establish your credit practice

Send the buyer a credit application send the buyer a credit application for them to fill out.

The application should contain the following fields:

- Business name
- Their accounts department contact details
- The names of the directors of the business
- References from past suppliers they have ordered from
- Run a credit check on the purchasing company
- to see their credit record
- Approval: Post-credit check review
- Send the buyer your terms of sale

Invoicing

- Check customer payment terms
- Generate and send invoice

Tracking

- Record your activity digitally

Record all activity into your accounting system. Use the sub checklist below to record which columns you are using to track activity:

- Date the invoice was sent
- Customer name
- Customer contact information

- Invoice number
- Link to digital invoice
- Amount
- Paid or not paid
- Date paid

Self – check – I , **Written test**

1. Explain the main difference general and sub -Leger?
2. How to administer, monitoring and control general and sub Leger accounts?
3. Write the four main steps in accounts receivable process?
4. Write the two methods of accounting for receivables
5. What does it mean account receivable?

Unit Two. Identifying bad and doubtful debts

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

- Reviewing debtor's ledger
- Verifying bad or doubtful debt status
- Completing reporting procedures and documentation

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:

- Review debtor's ledger
- Verify bad or doubtful debt status
- Complete report procedures and documentation

2.1 Reviewing debtor's ledgers

First among different types of ledgers is “Sales or Debtors’ ledger”. It is a grouping of all accounts related to customers to whom goods have been sold on credit (Credit Sales). Sum of all the money owed to a business by their customers is shown here and is termed as **Accounts Receivable, Trade Debtors** or **Sundry Debtors**.

The Debtor’s Ledger is one of the subsidiary ledgers to the general ledger. It accumulates information as a result of monthly postings from the Sales Journal.

The purpose of the Sales Journal is to store and provide detailed knowledge about financial transactions involving sales to customers on credit i.e., no money was paid by the customer at the time the sale was made. The purpose of the Debtors Ledger is to provide information on which customers owe money to the business as a result of sales in credit, and of course, how much they owe. The customers who owe money to the business are called **debtors**.

The balance of the debtors' control account will be the total amount owed to the business by its debtors.

Debtors' subsidiary ledger

The debtors' subsidiary ledger is a sub-system in the overall accounting system.

It maintains an account for each debtor and records detailed information (not totals) about debtors from the sales journal and cash receipts journal.

The sum of all the debtors' balances in the debtors' subsidiary ledger (which is shown by preparing a schedule or list of debtors' balances) should be equal to the balance of the debtors' control account in the general ledger.

Credit Risk

When a seller provides goods or services on credit, the resultant account receivable is normally considered to be an unsecured claim against the buyer's assets. This makes the seller (the supplier) an unsecured creditor, meaning it does not have a lien on any of the buyer's assets not even on the goods that it just sold to the buyer

To avoid this kind of risk, some suppliers may decide not to sell anything on credit, but require instead that all of its goods be paid for with cash or a credit card. Such a company, however, may lose out on sales to competitors who offer to sell on credit

To minimize losses, sellers typically perform a thorough credit check on any new customer before selling to them on credit. They obtain credit reports and check furnished references.

Direct Write-off Method

Generally accepted accounting principles (GAAP) require that companies use the allowance method when preparing financial statements. The use of the allowance method is not permitted, In the direct write-off method, a company will not use an allowance account to reduce its Accounts Receivable. Accounts Receivable is only reduced if and when a company knows with certainty that a specific amount will not be collected from a specific customer

For example, let's assume that on October 21, Gem Merchandise Co. is convinced that a specific customer's account receivable originating on June 5 in the amount of \$1,238 is definitely uncollected. Using the direct write-off method, the following entry is made

Allowance Method for Reporting Credit Losses

Page 43 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

This method of anticipating the no collectable number of receivables and recording it in the Allowance for Doubtful Accounts is known as the allowance method. (If a company does not use an allowance account, it is following the direct write-off method, which is discussed above.)

Example debtor's ledger

The following transaction have been extracted from the book semono traders. The transaction include vat 14%, where applicable

Information and transaction for April 2016

2.2 verifying bad or doubtful debt

A bad debt refers to an account receivable that has been specifically identified as uncollected and, therefore, it is written off. Bad debt occurs when a borrower or debtor defaults - fails to repay his or her loan or debt.

Such accounts are removed from the accounts receivable. You then match it against the original invoice. By doing this, you remove both the credit memo as well as the invoice from the accounts receivable statement report.

Doubtful Accounts

A doubtful debt refers to an account receivable that is likely to become a no collectable in the future. It is difficult to point out which specific customer is likely to default. For this reason, banks usually create what we call a reserve account (also known as a bad debt reserve or allowance for doubtful accounts) for accounts receivable that is likely to become bad debts.

The allowance for doubtful debts accounts shows the loans current balance that the bank expects to default, so there is adjustment done to the balance sheet to reflect that particular balance.

Page 44 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Bad Debt Reserve

A bad debt reserve, also known as an Allowance for Doubtful Accounts, is an estimate of a company's accounts receivable that can no longer be collected due to defaults.

Creating a bad debt reserve reduces the accounts receivable on a company's balance sheet.

The Allowance for Doubtful Accounts is a Contra account. A contra account is an asset account that is used to offset a parent account - in this case, the accounts receivable.

My allowance is going to be a negative number because it offsets. Taking the Account Receivable and contra account together is going to give you my net realizable value, the total cash value.

The the amount that a company keeps as bad debt reserve is determined by the company's management and the nature of the industry.

A percentage of sales or historical average can also be used to estimate a bad debt expense in a company.

Calculate the Bad Debt

There are three main ways that we can calculate bad debt.

- Percentage of Sales Method - A percentage of what we sell for that year.
- Percentage of Receivables Method - A percentage of whatever our receivables balances,
- Aging Schedule or Aging of Receivables - We itemize those things based upon age of the specific payable.

VALUING ACCOUNTS RECEIVABLE

Page 45 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

- ☐ Current asset on the balance sheet.
- Valuation (net realizable value). (The amount of accounts receivable that the company actually expects to collect.)
- Bad Debt Expense: Losses that the seller records as a result from extending credit and not being able to collect the money.

Two methods used in accounting for no collectable accounts are:

1. Direct Write-Off Method

- ☐ Records bad debt expense only when an account is determined to be worthless.
- ☐ Used by SMALL companies and companies with a FEW receivables.
- ☐ No matching.
- ☐ Receivable is not stated at net realizable value.
- ☐ Not acceptable for financial reporting.

☐ If an accounts receivable that has been written off is later collected, then 2 journal entries have to be made. One to reinstate the accounts receivable and the other one to collect the cash.

2. Allowance Method

- ☐ Records bad debt expense by estimating no collectable accounts at the end of the accounting period.

Generally accepted accounting principles (GAAP) require companies with a large number of receivables to use the allowance method.

When an estimation of bad debts is made the account “ALLOWANCE FOR DOUBTFUL ACCOUNTS” gets credited (Has a normal CREDIT balance after the end of period adjusting

journal entry). It is a contra asset. Allowance for Doubtful accounts has a DEBIT balance when: the write-offs during the period EXCEED than the beginning balance. Allowance for Doubtful accounts has a CREDIT balance when: write-offs during the period are LESS than the beginning balance. The allowance method matches the estimated expenses or losses from no collectable accounts receivables against the sales. At the end of the accounting period, a bad debt expense is estimated and recorded in an adjusting entry.

Cash/ NRV OF A/R = A/ R balance - allowance for doubtful account

Write off account receivable journal entries						
	Direct- write off method			Allowance method		
	Account balance title	D r	Cr	Account balance title	Dr	Cr
1. Write off accounts receivables as collectable	Bad debt expense			Allowance for doubtful account		
	Account receivables			Account receivables		
2. A.Renaissance accounts receivables B,Subsequent collection of cash	(a) account title	D r	Cr	(a) account title	Dr	Cr
	Account receivables	x x		Account receivables	xx	
	bad debit expense		xx	Allowance for doubtful account		xx
	(b) account title	D r	Cr	(b) account title	Dr	Cr
	Cash	x x		Cash	xx	
	Account receivables		xx	Account receivables		xx

3. Estimation of allowance of doubtful accounts at year end	No journal entry			Account title		
				bad debit expense	xx	
				Allowance for doubtful account		xx

Example: On November 15, it was determined that Mr. Sanders account of \$3,000 would be non-collectable. On December 20, after Mr. Sanders account was written off he paid Company M \$3,000 in full. On December 31, Company M estimated that \$10,000 of their remaining credit sales will prove non collectable.

1. Prepare the journal entries for November 15, December 20, and December 31 under the *direct write-off method*.

	Date	Debit	Credit
Bad Debt Expense	Nov. 15	3,000	
Accounts Receivable- Mr. Sanders			3,000
Accounts Receivable- Mr. Sanders	Dec. 20	3,000	
Bad Debt Expense			1,000
Cash	Dec. 20	3,000	
Accounts Receivable- Mr. Sanders			3,000
NO JOURNAL ENTRY	Dec. 31		

2. Prepare the journal entries for November 15, December 20, and December 31 under the *allowance method*.

	Date	Debit	Credit
Allowance for Doubtful Accounts	Nov. 15	3,000	

Accounts Receivable- Mr. Sanders			3,000
Accounts Receivable- Mr. Sanders	Dec. 20	3,000	
Allowance for Doubtful Accounts			1,000
Cash	Dec. 20	3,000	
Accounts Receivable- Mr. Sanders			3,000
Bad Debt Expense	Dec. 31	10,000	
Allowance for Doubtful Accounts			10,000

presentation of accounts receivable on the balance sheet under the allowance method

ABC FURNITURE

BALANCE SHEET (PARTIAL)

Current asset

Cash		14,800
Account receivables	200,000	
Less: Allowance doubtful account	12,000	<u>188,000</u>
Inventory		310,000
Supplies		25,000
Total current asset		<u>537,800</u>

Cash (Net) Realizable Value = Accounts Receivable – Allowance for Doubtful Accounts For Hampson Furniture, of the 200,000 in Accounts Receivable, they only expect to collect 188,000. They do not expect to collect 12,000.

Example

June 07, XYZ co. Provided conducting services of Birr40,000 paid on account

June 15, xyz company. Collected birr15,000 cash from transaction paid on account

June 30, xyz company estimate that birr500 of account receivables to be un- collectable

We have to figure out how much we think we're not going to get and reduce our accounts receivables accordingly by recording a bad debt expense. Bad debts expense.....xxx

Allowance for doubtful debts....xxx

There are two methods for estimating allowance for bad debts:

1. Percentage of receivables, and
2. Percentage of sales.

Subsequently, when it is confirmed that a particular account receivable is no longer collectible, it is removed by debiting the allowance for doubtful debts account and crediting the receivable.

The following journal entry is used to record the write-off:

Allowance for doubtful debts	xxx	
		Accounts receivable
		xxx

Percentage of receivables

Percentage of receivables method is a **balance sheet approach** to bad debts estimation. It calculates bad debts as a percentage of ending accounts receivable. This is usually done using a procedure called aging of accounts receivable.

Unlike the percentage of sales method, the percentage of receivables method does not directly estimate bad debts expense. This method actually estimates the ending balance of allowance for bad debts account. The estimated bad debts expense is then calculated as shown below:

Page 50 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Ending Balance of Allowance for Bad Debts A/C

– CR Balance in Allowance for Bad Debts; or

+ DR Balance in Allowance for Bad Debts

The journal entry to record the bad debts expense as calculated above is:

Bad Debts Expensexxx

Allowance for Doubtful Debts.....xxx

When this method is used, the accountant asks the question, “how much of the year-end balance of Account Receivable will not be collected?” The difference between the amount determined to be un- collectable and the prior balance of the Allowance for Uncollected Accounts is the expense for the year. The aging of Account Receivable is the process of listing each customer’s account according to the due date of the account. Assume that the more the account receivable is past due, the less likely that it will be collected.

Example:

Computed balance for UN collectible accounts..... Br2, 459

Less: Credit balance in allowance for UN-collectible Accounts.....800

UN-collectible Accounts Expense for the period..... Br1, 659

The adjusting entry to record the uncollectible account receivable estimated using the aging of receivable method is:

Uncollectible Accounts Expense 1,659

Allowance for un - collectable Accounts 1,659

Example

Credit sales of Company A during the year ended December 31, 2010 was \$304,930. The company estimated that 3% of its credit sales will end up uncollected. The allowance for doubtful debts of the company had a credit balance of \$1,418 on December 31, 2010. Calculate the bad debts expense to be recognized at the end of the period and the new balance of the allowance for doubtful debts account. Also prepare the adjusting entry to recognized bad debts expense

Solution

$$\text{Bad Debts Expense} = 3\% \times \$304,900 = \$9,147$$

Adjusting Entry on December 31, 2010:

Bad Debts Expense.....9,147

 Allowance for Doubtful Debts.....9,147

$$\text{New Balance of Allowance Account} = \$1,418 + \$9,147 = \$10,565 \text{ Credit}$$

This method asks the question, “How much of this year’s net sales will not be collected?” The answer is the amount of un collectible expense for the year. It is usually based on the company’s historical background interns of default rate of accounts receivable collection. Allowance for un - collectable Accounts contains the accumulated amount from previous years.

For instance, the adjusting entry to record uncollectable accounts expense at 2% of Br 600,000 net sales will be:

uncollectable Accounts Expense	12,000
Allowance for uncollectable Accounts	12,000

Illustration 2:

corporate finance institute

schedule						
			#Day Past Due			
customer	Total	Not due Yet	30-Jan	31-60	61-90	over 90
Abebe sales man	600.00		300.00	200.00		100.00
Belayineh furniture	250.00	250.00				
Aster exporter	1,500.00	1500.00				
Chaltu	980.00				980.00	
Total	2730.00	1750.00	300.00	200.00	980.00	100.00
estimated % of saving		2%	4%	15%	25%	50%
Total estimated bad debt expense		35.00	12.00	30.00	245.00	50.00

Aging of Accounts Receivable

The general ledger account Accounts Receivable usually contains only summary amounts and is referred to as a control account. The details for the control account each credit sale for every customer is found in the subsidiary ledger for Accounts Receivable. The total amount of all the details in the subsidiary ledger must be equal to the total amount reported in the control account. The detailed information in the accounts receivable subsidiary ledger is used to prepare a report known as the report directs management's attention to accounts that are slow to pay. It is also useful in determining the balance amount needed in the account Allowance for Doubtful Accounts.

Credit sales of Company A during the year ended December 31, 2010 was \$304,930. The company estimated that 3% of its credit sales will end up uncollected. The allowance for doubtful debts of the company had a credit balance of \$1,418 on December 31, 2010. Calculate the bad debts expense to be recognized at the end of the period and the new balance of the allowance for doubtful debts account. Also prepare the adjusting entry to recognized bad debts expense

Solution

$$\text{Bad Debts Expense} = 3\% \times \$304,900 = \$9,147$$

Adjusting Entry on December 31, 2010:

Bad Debts Expense.....9,147

 Allowance for Doubtful Debts.....9,147

$$\text{New Balance of Allowance Account} = \$1,418 + \$9,147 = \$10,565 \text{ Credit}$$

This method asks the question, “How much of this year’s net sales will not be collected?” The answer is the amount of uncollectable expense for the year. It is usually based on the company’s historical background interns of default rate of accounts receivable collection. Allowance for uncollectable Accounts contains the accumulated amount from previous years.

For instance, the adjusting entry to record uncollectable accounts expense at 2% of Br 600,000 net sales will be:

uncollectable Accounts Expense	12,000
Allowance for uncollectable Accounts	12,000

2. Direct write-off method

A write-off refers to a term in accounting where a business reduces the value of its assets because it is uncollectable (a bad debt), resulting in a loss.

So, to account for it, businesses usually write it off to be able to balance their accounts.

Businesses make use of a write-off to account for the following:

- Unpaid check loans obligation
- Unpaid receivables
- Lost inventory

Self - check 2, part; multiple choice

1. A company estimates that \$20,000 of its \$500,000 of accounts receivable will be uncollectable. Its Allowance for Doubtful Accounts presently has a debit balance of \$3,000.

The adjusting entry will include a _____ to Allowance for Doubtful Accounts.

- A. Debit Of \$3,000
- B. Credit Of \$3,000
- C. Debit Of \$17,000
- D. Credit Of \$17,000
- E. Debit Of \$23,000
- F. Credit Of \$23,000

2. On June 1, \$800 of goods are sold with credit terms of 1/10, n/30. How much should the seller expect to receive if the buyer pays on June 8?

- A. \$720
- B. \$784

- C. \$792
- D. \$800
1. On June 1, \$800 of goods are sold with credit terms of 1/10, n/30. On June 3 the customer returned \$100 of the goods. How much should the seller expect to receive if the buyer pays on June 8?
 - A. \$692
 - B. \$693
 - C. \$700
 - D. \$792
 2. With credit terms of 2/10, n/30, the annual interest rate for paying in 10 days instead of 30 days is closest to
 - A. 2%
 - B. 24%
 - C. 30%
 - D. 36%
 5. The seller is responsible for the costs of shipping its goods to the buyer when the terms of the sale are FOB _____.
 - A. Destination
 - B. Shipping Point
 6. The buyer is responsible for the costs of shipping when goods are sold with the terms FOB _____.
 - A. Destination
 - B. Shipping Point

- A. Destination
 - B. Shipping Point
3. When the Allowance for Doubtful Accounts appears on a company's financial statements, its balance will be a _____ balance.
- A. Debit
 - B. Credit
4. On which financial statement would you expect to find Allowance for Doubtful Accounts?
- A. Balance Sheet
 - B. Income Statement
5. Which method of reporting losses on accounts receivable is required in the U.S. for income tax purposes?
- A. Allowance
 - B. Direct Write-off

Which method of reporting losses on accounts receivable is to be used for financial reporting?

- A. Allowance
 - B. Direct Write-off
6. The seller of goods that is offering credit terms of net 30 days will likely be one of its customer's _____ creditors until it receives payment.
- A. Secured
 - B. Unsecured

7. After several years of operations, a company's Bad Debts Expense for a given year is likely to be the same as its balance in Allowance for Doubtful Accounts.
- A. True
- B. False
8. A company estimates that \$20,000 of its \$500,000 of accounts receivable will be uncollectible. Its Allowance for Doubtful Accounts presently has a credit balance of \$8,000. The adjusting entry will include a _____ to the Allowance for Doubtful Accounts.
- A. Debit Of \$12,000
- B. Credit Of \$12,000
- C. Debit Of \$28,000
- D. Credit Of \$28,000
9. A company estimates that \$20,000 of its \$500,000 of accounts receivable will be uncollectable. Its Allowance for Doubtful Accounts presently has a credit balance of \$18,000. The adjusting entry will include a _____ to Bad Debts Expense.
- A. Debit Of \$2,000\
- B. Credit Of \$2,000
- C. Debit Of \$38,000
- D. Credit Of \$38,000
10. A company estimates that \$20,000 of its \$500,000 of accounts receivable will be uncollectable. Its Allowance for Doubtful Accounts presently has a debit balance of \$3,000. The adjusting entry will include a _____ to Allowance for Doubtful Accounts.

- A. Debit Of \$3,000
- B. Credit Of \$3,000
- C. Debit Of \$17,000
- D. Credit Of \$17,000
- E. Debit Of \$23,000
- F. Credit Of \$23,000

Unit Three: Reviewee compliance and planning recovery action

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

- Accounting principles and practices
- Identifying Clients in default of trading terms
- Money owing based on organization credit policy
- Reviewing Previous activities and communication with clients

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:

- Explain accounting principles and practices
- Identify Clients in default of trading terms
- Money owing that constitutes breaches of organization credit policy
- Review Previous activities and communication with clients

3.1 Accounting principles and practice

3.1.1 The Accounting Principles

They are several assumptions concerned with the recording of transactions in the books. The most important is that the financial statements known as the final accounts must be drafted in the same way. This is so that there is a common format that all accounting users of information can understand. The following will use the financial statements:

1. A banker - to decide on whether to provide the company with loan.
2. Investor - someone wishing to buy the business.
3. The owner to know his profit.
4. Tax department for tax purposes.

This means that the banker, the prospective buyer; of the business, the owner and the other people's account) the following accounting **principles** are followed to provide:

Relevance: Financial information is considered relevant if it affects the business decisions.

Reliability: Information should be free from significant errors, bias & independently verified.

Comparability: Could be compared with other periods and similar business.

Understand-ability: The financial report "Income statement (trading & profit & loss account) & balance sheet" must be capable of being understood by the users of the report.

Journal is subdivided into various parts known as subsidiary books or subdivisions of journal. Each one of the subsidiary books is a special journal and a book of original or prime entry. There are no journal entries when records are made in these books. Recording the transactions in a special journal and then in the ledger accounts is the practical system of accounting which is also

Page 63 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

referred to as English System. Though the usual type of journal entries are not passed in these sub-divided journals, the double entry principles of accounting are strictly followed.

BASIC DOCUMENT FOR SUBSIDIARY BOOKS

Inward Invoice:

This is the document sent by the suppliers of goods giving details of goods sent, price, value, discount etc. It is the basis for entries in purchases book.

Outward Invoice:

This is a document sent by the firm to the customers, showing the details of goods supplied, their price and value, discounts etc., it is the basis for writing sales book

Debit Note:

It is a simple statement sent by a person to another person showing the amount debited to the account of the latter along with a brief explanation. The debit notes are issued by a trader relating to purchase returns in order to put up his claim for abatement of his dues to the other party. Debit notes are serially numbered and are similar to invoices although they are usually printed in red ink.

Credit Note:

It is nothing but a statement sent by one person to another person showing the amount credited to the account of the latter along with a brief explanation. The credit notes are used for sales return in order to intimate related abatement and are similar to invoice although they are usually printed in red ink.

Cash Receipts and Vouchers:

Page 64 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

These are the vouchers and receipts for cash received and paid. Entries in cash book are made on the strength of the vouchers and receipts. They are also useful for auditing purpose.

Contra Entries

For any single transaction the same account cannot be debited and credited. But since cash and bank accounts are maintained in the cash book, the debit and credit may be found in the two different accounts in the Cash Book. They are transactions which affect both the sides of the Cash Book. For instance, when cash is deposited into the bank, bank account should be debited and cash account should be credited.

Hence, on the debit side of the Cash Book. „To Cash“ is written in the particulars column and the amount is entered in the bank column. Similarly, on the credit side of the Cash Book, „By Bank“ is written in the particulars column and the amount is entered in the cash column. When cash is withdrawn from the bank, on the debit side of the Cash Book, To Bank“ is written in the particulars column and the amount is written in the cash column.

There are different types of subsidiary books which are commonly used in any big business concern. They are:

- Purchases Book
- Sales Book
- Purchases Returns Books
- Sales Returns Books
- Bills Receivable Books
- Bills Payable Books

- Journal Proper
- Cash Book
- Purchases Book

This book is used to record all credit purchases made by the business concern from its suppliers.

This book is also known as „Purchases Books“, „Purchases Journal“ or „Invoice Book“. It contains five columns, viz., Date, Particulars, Ledger Folio, and Inward Invoice

Number and Amount. Whenever any credit purchase is made, the date on which the transaction has taken place is entered in the „Date Column“, the name of the party from whom the purchase has been made the particulars column, the inward invoice number with which the purchase has been made in the „inward Invoice

Number Column“ and the money value of the purchase in the „Amount Column“. The L.F. Column“ is to record the ledger folio number while posting is made

Posting:

The total of purchases book for a specified period is debited to the purchases account in the Ledger. The personal accounts are posted by crediting the individual accounts.

Sales books

This book is used to record all credit sales effected by the business to its customers. This-book is also called as „Sales Book“, „sales Journal“ or „Sold Book“. I contains five columns, viz., Date, Particulars, L.F., Outward Invoice Number and Amount. When any credit sales is effected, the date is entered in the „Date Column“, the name of the party to whom the sale is made in the

„Particulars Column“, the invoice number with which the sales have been effected in the „Outward Invoice

Purchases Returns Books

This book is used to record all transactions relating to the goods returned to suppliers.

Sales Returns Books

This book is used to record all transactions relating to goods returned by customers. This book is also known as „Sales Return Journal“ or „Returns Inwards

Bills Receivable Book:

This book is used to record all the bills received by the business from its customers. It contains details regarding the name of the accept or, date of the bill, place of payment, term of the bill, due date and the amount of the bill.

Bills Payable Book:

This book is used to record all the bills accepted by the business drawn by its creditors. It contains details regarding the name of the drawer, payee and date of acceptance, due date, place of payment, term and amount of the bill.

Journal Proper

This book is used to record all the residual transactions which cannot find place in any of the subsidiary books. While recording, the entries are made in the journal covering both the aspects of the transaction.

The following are some of the examples of transactions which are entered in this book.

1. Opening entries and closing entries.

Page 67 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

2. Adjusting entries.
3. Transfer entries from one account to another account
4. Rectification entries.
5. Bills of Exchange Entries
6. Credit Purchase/sale of an asset other than goods. Cash Book

Cash Book is a sub-division of Journal recording transactions pertaining to cash receipt and payments. Firstly, all cash transactions are recorded in the Cash Book where from they are posted subsequently to the respective ledger accounts. The-Cash Book is maintained in the form of a ledger with the required explanation called as narration and hence, it plays a dual role of a journal as well as ledger. All cash receipt are recorded on the debit side and all cash payments are recorded on the credit side. All cash transactions are recorded chronologically in the Cash Book. The Cash Book will always show a debit balance since payments cannot exceed the receipts at anytime

- Clients
- accountants
- agents
- brokers
- customers
- intermediaries
- policy holders
- solicitors/ legal representatives

Trade credit is a business-to-business (B2B) agreement in which a customer can purchase goods without paying cash up front, and paying the supplier at a later scheduled date. Usually, businesses that operate with trade credits will give buyers 30, 60, or 90 days to pay, with the transaction recorded through an invoice. Trade credit is an advantage for a buyer. In some cases, certain buyers may be able to negotiate longer trade credit repayment terms, which provide an even greater advantage.

Is a customer not paying your invoice? Or only wants to pay a part of the invoice? This step-by-step plan outlines what you can do to get paid after all.

1. Check whether the payment term is correct
2. Call your customer
3. Send a payment reminder
4. Send a letter of formal notice
5. Charge collection costs and statutory interest
6. Make a payment arrangement
7. Engage a debt collection agency, bailiff, or debt collection lawyer
8. Use Other Legal Remedies
9. Reclaim non-recoverable VAT
- 10.** File for clients' bankruptcy
11. Avoid Risks of Default

There are several ways to prevent financial loss from customers who do not pay, such as:

- Taking out credit insurance.
- Checking the financial situation of business clients.

Discounting Notes Receivable

If the holder of the note is in need of more funds/ cash for current operation, it may be endorsed or transferred to a bank or any financial agency. This process is called discounting notes receivable.

When a note is discounted at bank, the bank charges an interest on the maturity value of the note. This interest is called discount and it is computed using the following formula.

$$\text{Discount} = \text{Maturity value} * \text{Discounting rate} * \text{Discounting period/time}$$

The amount of money paid to the endorser/ holder of the note who transfers it to the bank because of high need of cash, is called **proceeds/ balance**. It is the excess of the maturity value over the discount, i.e., **Proceeds = Maturity value – Discount**.

To illustrate a discounting notes receivable, assume that a 90-day, 12% notes receivable for Br.1800, dated November 8, 2001, is discounted at the bank on December 31, 2001 at the discounting rate of 14%. Assume a 360-days year.

Required:

1. Determine the due date, discounting period, Interest, the discount, maturity value, and proceeds.
2. Prepare entries to record discounting of the note.

Solution:

$$\begin{aligned} 1) \text{ Interest} &= \text{Principal} * \text{Rate} * \text{Time} \\ &= \text{Br. } 1800 * 12\% * \frac{90 \text{ days}}{360} = \text{Br. } 54 \end{aligned}$$

$$\begin{aligned} \text{Maturity value} &= \text{Principal} + \text{interest} \\ &= \text{Br. } 1800 + \text{Br. } 54 = \text{Br. } 1854 \end{aligned}$$

$$\text{Due date} = \text{Terms} \dots\dots\dots 90 \text{ days}$$

Days in November (30-8)	22	
Days in December	31	
Days in January	31	84
Due date is	February	6

Discount period:

December (31-3)	28
January	31

February 6
65 days



November 8	December 3	February 6
(Issuance date)	(Discounting date)	(Due date)

Discount = Maturity value * Discounting rate * Discounting period
 = Br. 1854 * 14% * 65/360 = Br. 46.87 this is the amount to the bank as an interest.

Proceeds = Maturity value – Discount
 = Br. 1854 - Br. 46.87 = Br. 1807.13 this is the amount the holder of the note will receive from the bank in exchange of the note.

2) Entries on December 3, when the note is endorsed to the bank is (to record the proceeds)

Cash..... Br. 1807.13
 Notes Receivable..... 1800
 Interest income (Br.54 - Br. 46.87) ... 7.13

Note that if the proceeds are greater than the face value of the note, there will be **an interest income to the organization. Otherwise, there will be interest expense.** Or if the interest is **greater** than the discount the difference is interest income to the discounting notes but if the interest is less than the discount the difference is charged to interest expense account to the organization, which discounts the note at bank.

Dishonored notes

In business organizations, the maker of the note may fail to pay the debt on the due date. Here, in this case, the note is said dishonored, which is no longer negotiable or transferable. For this reason the holder usually transfers the claim, including any interest due, to the accounts receivable. To illustrate this fact, assume a Br. 12,000, 30-days, 12% notes receivable on December 31, 2001, had been dishonored at the due date (January 20, 2002

Required: 1) Calculate the maturity value.

2) Record entries occurred on the issuance date and maturity date?

Solutions:

1) Interest = Br.12,000 * 12% * 30/360 = Br.120

Maturity value = Br.12,000 + Br.120 = Br.12,120

2) Entries on the issuance date (December 21, 2001)

Notes Receivable..... Br. 12,000

Accounts Receivable..... Br. 12,000

Entries on the maturity Date (January 20, 2002)

Accounts Receivable..... Br. 12,120

Notes Receivable..... 12,000

Interest income 120

Dishonored Discounted notes

When a discounted note receivable is dishonored, the holder usually notifies the endorser of such fact and asks for payment. If the request for payment and notification of dishonor are timely, the endorser is legally obligated to pay the amount due on the note. The entire amount paid to the holder by the endorser, including interest, should be debited to the account receivable of the maker.

To illustrate this fact assume that a 60-day, 12% Br. 42,00 note dated November 8, 2001, discounted on December 3, 2001 at 14% discounting rate is dishonored at maturity by the maker. Assume, the bank charged Br.50 as penalty for the failure (**called protest fee**). Assume further a 360-days accounting year ending on December.

Required: Record all the necessary transactions & compute all the amounts required.

Due date:

Solutions: Term period 60 days
Days in November (30-8) 22
38
Days in December 31
January 7 is the due date 7

Discounting period:

Days in December (31-3)	28
January.....	7
	35 day

Interest = Br. 42,000 * 12% * 60/360 = Br. 840

Maturity value = Br. 42,000 + Br. 840 = Br. 42,840

Discount = Br. 42,840 * 14% * 35/360 = Br. 583.10

Proceeds = Br. 42,840 - Br. 583.10 = Br. 42,256.90

Entries: On November 8 (issuance date:

Notes Receivable.....	Br. 42,000
Accounts Receivable.....	Br. 42,000

On December 3, 2001 to record the proceeds.

Cash.....	Br. 42,256.90
Notes Receivable.....	Br. 42,000
Interest income	256.90

On January 7, 2002, to record the dishonored discounted note.

Accounts Receivable (42,840 + 50).....	42,890
Notes Receivable	42,890

Written-off Accounts Receivable

Under the direct-written-off method, similar to the case in the allowance method, when an amount is, either partially or in full, collected there are two entries recorded.

- i) when the amount is recovered in the same period in which it is written-off; where the doubtful account is not yet closed the entry would be:

Account receivable	-----	xxx
Doubtful account expense	-----	xxx
To record the reversal entry		

economy, are exogenous, or out of the company's control, other factors are under a company's control.

3.3 Reviewing previous activities and communication with clients

Communication is fundamental to relationships in business. Good communication helps businesses develop trust with clients and clearly articulate needs, expectations and challenges. Communicating more effectively can improve the client relationship and potentially add more leads to the business.

3.3.1 Client Communication

Client communication is any communication between a business and its clients. This can include written communication, like emails and invoices, verbal communication, like phone calls, and physical communication, like the body language you use while face to face with clients. Good client communication often involves actively listening to your customers to interpret their emotions and better cater to their needs.

Client communication is important because it establishes and maintains trust between the client and the business. When customers trust a brand, they may be more likely to remain loyal. Open client communication can also help limit misunderstandings, lead to greater customer satisfaction and make clients more likely to recommend a business to others.

Types of clients

3.4 Developing plans to pursue debt recovery or to initiate legal action

As a business, it's important that you get paid what you're owed by your customers and your clients. Late payments, and people trying to avoid paying for goods and services, can be costly to your business and have long-lasting and damaging repercussions.

Accounts Receivable Collections Best Practices

For most companies, it's the accounts receivable department's responsibility to manage debt collection. However, in some instances, customers may dispute an invoice and refuse to pay if they're dissatisfied with the products or services they received

Self-check 3

- 1., assume Br. 2000 of the accounts receivable of customer – x of ABC company has been determined to be uncollectable during 2002. The adjusting entry to write-off the allowance?
2. If an accounts receivable that has been written-off against the allowance account is later collected, the account should be re-instated by an entry that is exact reverse of the write-off's entry:
Assume that ABC Company's customer-x has paid the Br.2000. Record the entry

Unit Four: Prepare reports and file documentation

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

- Understanding organization policies and procedures and industry requirements
- Developing plans to pursue debt recovery
- Preparing reports of accounts receivable, debt recovery type, cause and recovery plan
- Filing documentation

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:

- Understand organization policies and procedures and industry requirements
- Develop plans to pursue debt recovery
- Prepare reports
- Fill Documentation

4.1 preparing and distributing reports

Prepare and distribute reports which document accounts receivable, debt recovery type, and cause and recovery plans

Accounts Receivable Aging report

The aging of accounts receivable is the process of listing your unpaid invoices and other receivables by their due dates. This is done to estimate which invoices are overdue for payments. The accounts receivable aging report, also known as the accounts receivable reconciliation, summarizes the total outstanding customer estimates broken up by the age of the invoice. It is one of the primary tools used by businesses to determine the effectiveness of credit and collection function. The report is broken up by intervals of 0-30 Days, 31-60 Days, 61-90 Days, and 90+ Days. This shows business owners how much amount is due and which accounts require immediate action.

Prepare Accounts Receivable Aging Reports

To prepare the report, list the customer's name, the outstanding balance and the time since it has become overdue. The accounts are classified in categories rather than a specific time listed since becoming overdue.

The typical categories for this report include: Current: Due immediately

1 – 30 days: Due in 30 days

31 – 60 days: Due within a month

61 – 90 days: Two months overdue

91+ days: More than two months overdue

The headers of the columns on the report are broken up into date ranges of 30 days and the rows represent the receivables of each customer. Here's a sample of accounts receivable aging report:

Use Accounts Receivable Aging Report

Page 78 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Organize the report and filter it to see the clients that owe you the most money. Focus on collecting the highest payments by sending emails or calling the clients.

If the receivables are 60 to 90 days past due date and the client is not responding to reminders, you might have to defer to the next steps such as employing a collection agency, filing a legal complaint or writing the amount off.

Establish a collection system. Sending regular payment reminders, offering discounts for early payments and emailing the customers their invoices on time can help you get paid faster.

Reports may be periodic or on demand manual or computer generated and may include

- Consumer statements
- Legislative requirements
- Statistical and financial or management reports
- user reports
- Recovery plan and measures to collect monies may include:
- advice to supervisors/managers/legal officers
- dunning/banking letters
- legal action
- letters of demand without prejudice
- letters of notice
- liaison with clients
- plaint
- return of goods
- summons
- third party intervention
- write-offs

4.2 Preparing reports of accounts receivable, debt recovery type, cause and recovery plan

Estimating uncollectable

The estimates of uncollectable at the end of the fiscal period is based on **past experiences** and **forecasts of future** business activities. It is based on either:

- A. The number of sales for the entire period (**called an income statement approach**)
- B. The amount and age of receivables account at the end of the fiscal period. (**Called balance sheet approach**).

a) Income statement approach:

Formula:

$$\begin{array}{lcl} \text{Estimated} & = & \text{Net credit sales} * \text{Percentage of estimated} \\ \text{Bad debt expense} & & \text{to be uncollectable.} \end{array}$$

- The amount of this estimate is added to whatever balance exists in the allowance for doubtful account.

Examples: Assume net credit sales on December 31, 2001 for ABC organization is Br.200,000, estimated uncollectable 1.5%

Required: Record the entry

$$\begin{array}{lcl} \text{Bad debt expenses (200,000 * 1.5\%)} & \text{.....} & 3000 \\ \text{Allowance for uncollectable.....} & & 3000 \end{array}$$

- a) **Balance sheet approach:** The process of analyzing the receivable accounts in terms of the length of time past due is sometimes called **aging of the receivable**. The due date of the account is the base point for determining age. In this method accounts are categorized individually based on the length of time they have been outstanding and apply the expected percentage of uncollectable.

Example: At the end of 2001 accounts receivable ledger of ABC Company has the balance of Br.200,000 which can be categorized as follows:

Page 80 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Age group	amount (a)	Estimated percentage of uncollected	Estimated amount of uncollected
	(b)	$C = a * b$	
Not yet due	Br. 80,000	0.5%	Br. 400
1-30 days past due	25,000	1%	250
31-60 days past due	20,000	2%	400
61-120 days past due	60,000	5%	3000
More than 120 days			
Past due	15,000	20%	3000
	Br.200, 000		Br.7050

The Br.7050 amount is the desired balance of allowance account after adjustment; and to be deducted from accounts receivable to determine the net realizable value. Assuming that the allowance for uncollectable account had no balance, the entry to record this new amount is:

Bad debt expense..... Br.7050

 Allowance for uncollectable..... Br.7050

Note that if the allowance account has a debit or credit balance before adjustment, it must be considered accordingly when the base of the estimation is the balance sheet approach.

B) Direct write off, method

example

Under this method of accounting for receivables no valuation of allowance for accounts receivable is used. The business recognizes no uncollectable account expense until specific receivables are determined to be worthless. Thus, receivables are not stated at net realizable value. This method lacks to follow the matching principle.

The entry to record the write-off the uncollectible account is:

Bad debt expense xxx

Accounts receivable xxx

To record the recovery of accounts previously written-off is:

Accounting receivable xxx

Bad debt expense..... xxx and

Cash..... xxx

Accounts receivable..... xxx

4.3 Preparing Required Documentation

Prepare a separate work paper for each balance sheet account to document the reconciliation.

The work paper must contain the following information:

- The balance sheet account number and account name.
- A statement of purpose for the account.
- A brief description of the debit/credit activity that normally processes through the account.
- The accounting period for which the analysis is being completed.
- Key as to the presentation in the account (e.g., is credit shown as a positive or negative number).
- Activity for the period - presentation will be determined based on the nature of the account and the volume of activity that is recorded monthly in that account's.
- Substantiation of the account's ending balance through review of underlying supporting documentation.
- The name and phone number of individual preparing the reconciliation
- The date the reconciliation was completed.
- A list of contact names and phone numbers/email addresses for questions relating to the account
- Keep account information updated for changes in processing and other information.
- Completing the Analysis

Perform the following activities after each month end close:

- A. Confirm the opening balance with previous work papers, or that balance was zero if this-is a new account.

Review the activity posted to the account to ensure that detail items are

Self-check 4: work out question

- 1) Assume Br. 2000 of the accounts receivable of customer – x of ABC Company has been determined to be uncollected during 2002.

Required: The adjusting entry to write-off the allowance would be:

- 2) Assume that ABC Company's customer-x has paid the Br.2000. Record the entry.

Required: prepare the necessary journal entries

- 3) ABC-company started its operation on January 1, 2001 and chooses to use the calendar year as its fiscal year. The accounts receivable, has a balance of Br. 200,000 at the end of the period in total.

At this period no specific accounts are believed to be wholly uncollected. But it seems likely that some will be collected only in part and that others are likely to become worthless. Assume based on a careful study, it is estimated that a total of Br. 8000 will eventually prove to be uncollected.

- A. What is the expected realizable accounts Receivable?
- B. Journalism the entry to record the estimated bad debt expense
- C. What do you think will be the effect of not recording such corrections?

Unit Five: Distribute creditors invoices for authorization

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

- Identifying and rectifying invoice discrepancies
- Requesting authorization for payment

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:

- Identify and rectify invoice discrepancies
- Request Authorization for payment

5.1 Identifying, investigating and rectifying invoice discrepancies

One type of invoice matching validation is invoice totals matching. To specify that the system should perform invoice totals matching, on the Accounts payable parameters page, on the Invoice validation tab, set the Match invoice totals option yes.

Mailing Statements to Customers

To improve the probability of collection (and avoid bad debts expense) many sellers prepare and mail monthly statements to all customers that have accounts receivable balances. If worded skillfully, the seller can use the statement to say "thank you for your continued business" while at the same time "reminding" the customer that receivables are being monitored and payment is expected. To further prompt customers to pay in a timely manner, the statement may indicate that past due accounts are assessed interest at an annual rate of 18% (1.5% per month). Because transactions are usually itemized on the statement, some customers use the statement as a means-to compare its records with those of the seller.

5.2 Encoding and recording invoices correctly

The first part of the Accounts Payable (AP) process is receiving an invoice. Once you get an invoice, there's a specific process that's crucial to maintaining accurate financial records.

Since this process is quite involved, a company might opt to automate this system rather than process invoices manually. Automation can improve the visibility, productivity, accuracy and cost-effectiveness of a business' invoicing process.

Pledging or Selling Accounts Receivable

A company's accounts receivable are considered to be a type of asset, and as such can be pledged as collateral for a loan. Asset-based lenders will often lend a company an amount equal to 80% of the value of its accounts receivable. Some companies sell their accounts receivable to a factor. A factor buys the accounts receivable a discount and then goes about the business of collecting and keeping the money owed through the receivables. Sometimes the factor will purchase the accounts receivables with recourse. This means the company that sold the receivables remains financially responsible if a customer does not remit the full amount to the factor. When the factor

purchases the receivables with outré course, the company selling the receivables is not responsible for unpaid amounts.

A Payment Request is an internal request for a bookkeeper or Accounts department to draw a payment. A payment request will automatically be created if the staff member does not have the ability to create payments. **Payment Authorization** is a process through which the amount to be paid on a payment method is verified.

Self - check 5: written test

1. What are the actions taken when you identify discrepancies on invoices?
2. Write the steps an accounts Payable department follows to process an invoice
3. Differentiate payment request & payment authorization

Unit six: Remittee payments to creditors

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

- Drawing and authorizing cheque requisition.
- Debiting correct account
- Preparing Creditors payments

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:

- Authorize cheque requisition.
- Debit correct account
- Prepare Creditors payments

I

6.1 Drawing and authorizing cheque requisition.

6.1.1 Introduction

The Creditor Remittances report is used to print or e-mail remittance advice notes after payments have been made using Processes > Payments. There are two options at the conclusion of the above payments process:

if you use the Pay & Remit option you will be automatically taken to view shown below - with all the accounts just paid showing in the grid.

The standard Creditor Remittances parameters are:

Account	ANY - or other selection criteria and parameter(s).
Remittance Date	The date to appear on the remittance advice note.
Paid Date	The payment date; e.g. when the payment will come out of your bank account.
Currency	ANY - or a specified currency (or BLANK which selects base currency only).
Payment Method	Any, Default, Cash, Cheque, BACS, Single BACS, Direct Debit - see: Processes > Payments
Rows per Page	Defines number of rows displayed per page in the "selection" view shown below.

Recover of written-off Accounts Receivable

Under the direct-written-off method, similar to the case in the allowance method, when an amount is, either partially or in full, collected there are two entries recorded.

1. when the amount is recovered in the same period in which it is written-off; where the doubtful account is not yet closed the entry would be:

Account receivable ----- xxx

Doubtful account expense ----- xxx

To record the reversal entry

Cash	-----	xxx	
	A/R	-----	xxx

To record the collection of cash

2. When the amount is recovered in subsequent periods after it is written-off it is common to credit “doubtful account recovered” account for the balance recovered. This account is reported separately in the income statement as other revenue. The journal entry follows are:

Account receivable	-----	xxx	
	Doubtful account recovered	-----	xxx

This is to record the recovered amount after it was written-off in one period and recovered in another period.

Cash	-----	xxx	
	Account receivable	-----	xxx

This is to record the collection.

Even if the direct write-off method appears simple and convenient, it has the following limitations

- A. It makes no matching of doubtful account expense with current period revenue.
- B. It overstates the carrying number of receivables.

Disposition of receivables

Disposition of receivables are financing transactions that are commonly used as a source of cash. It shortens the operating cycle and avoids short-run cash flow problems instead of waiting until customers pay their accounts. Conversion of accounts receivables into cash may be facilitated through three means:

- Selling receivable
- Pledging receivables as collateral for loans

- Assigning receivables

Enterprises engaged in the buying of receivables are known as **factors**, and the process of selling receivables is called **factoring**. Factors generally buy receivables outright, that is, without recourse. Alternatively, factors or other lending institutions may buy receivables with recourse, or may lend money to the owner of the receivables under a legal arrangement known as **assignment**. In such cases customers generally are instructed to make payments directly to the factors or other lenders. Factoring is an important source of ready cash in different types of business enterprises.

A pledge of accounts receivable as a collateral for a loan involves no special accounting problems. Accounting for the sale and the assignment of account receivable is described in the following sections.

Remittance advice

A document that describes payments that are being made. The person or company that's making the payment will sometimes include a remittance advice, which is like a receipt of the payment. A remittance advice is usually used by companies processing either a purchase or a filed claim.

Implementation of creditor reference

A vendor adds the Creditor Reference to its invoices. When a customer pays the invoice, the company writes the Creditor Reference instead of the invoice number in the message section, or places a Creditor Reference field in its payment ledger. When the vendor receives the payment, it can automatically match the remittance information to its Accounts Receivable system.

Customer Account Settings

The view of an account's settings within the Customers table or Administrators table, click on the ID number of the account. Each customer account has a variety of settings you can configure - depending on the customer type or how you wish to manage customers. Note that not all fields need to be used, depending on the account type. To view the full list of customer account settings.

6.2 Requesting and authorizing Cheque

Page 90 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Develop policies regarding who in your organization can authorize payments. Some organizations designate this function solely to the executive director to ensure that a single person is paying attention to monies going out of the organization. In other cases, a department head might authorize purchases for that department, as long as they are within the department's budget. In most organizations, once the board approves the budget, it does not need to authorize individual purchases within that budget. However, budgeted purchases would require additional approval. Also, in very small organizations, the board treasurer or board president may be asked to authorize all purchases. Even larger organizations have policies requiring the board to authorize significant expenditures, such as purchases for computers or other assets. It is important to agree and formally define what constitutes a significant expenditure and how these purchases will be handled.

All disbursements should be accompanied by adequate documentation, in the form of receipts or an invoice.

6.3 debiting correct account.

If a company buys goods or services on credit rather than paying with cash, the company needs to credit accounts payable so that the credit balance increases accordingly. If a company pays one of its suppliers the amount that is included in accounts payable, the company needs to debit accounts payable so the credit balance is decreased.

Proper double-entry bookkeeping requires that there must always be an offsetting debit and credit for all entries made into the general ledger. To record accounts payable, the accountant credits accounts payable when the bill or invoice is received. The debit offset for this entry generally goes to an expense account for the good or service that was purchased on credit. The debit could also be to an asset account if the item purchased was a capitalize asset. When the bill is paid, the accountant debits accounts payable to decrease the liability balance. The offsetting credit is made to the cash account, which also decreases the cash balance.

For example, imagine a business gets a \$500 invoice for office supplies. When the AP department receives the invoice, it records a \$500 credit in accounts payable and a \$500 debit to

office supply expense. The \$500 debit to office supply expense flows through to the income statement at this point, so the company has recorded the purchase transaction even though cash has not been paid out. This is in line with accrual accounting, where expenses are recognized when incurred rather than when cash changes hands. The company then pays the bill, and the accountant enters a \$500 credit to the cash account and a debit for \$500 to accounts payable.

Relevant legislative and compliance requirements include

Prevention and suppression of money laundering and the financing of terrorism proclamation.

- Cheque and Payment Orders manuals
- Commercial code of Ethiopia
- Financial Institutions Code
- Financial Transaction Reports manuals
- Income Tax Proclamation

6.4 preparing creditors payment

A creditor is a supplier or vendor who will normally invoice you for goods or services supplied to you. Creditor Payments are Payment to your Creditors (Suppliers). When you receive an invoice you should enter it as a Purchase Invoice, and post it. This updates the balances in the payable ledger and the general ledger (and possibly the stock). If you are going to pay the invoice immediately, you can treat it as a straight payment.

Self check 6: written test

1. List relevant legislative and compliance requirements
2. Who are creditors and what does creditors payment mean?
3. List relevant legislative and compliance requirements?

Unit Seven: Prepare accounts paid report and reconcile balances outstanding

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

- Collecting and entering data into spreadsheet
- Finding Statements of outstanding balances from suppliers

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:

- Collect and enter data into spread sheet
- Find statement of outstanding balance

7.1 Collecting and entering data into spreadsheet

7.1.1 Introduction

Reconciling an account often means proving or documenting that an account balance is correct. For example, we reconcile the balance in the general ledger account Cash in Checking to the balance shown on the bank statement. The objective is to report the correct amount in the general ledger account Cash in Checking. You will often need to adjust the general ledger account balance for items appearing on the bank statement that were not entered in the general ledger account. I recall being asked to reconcile the general ledger account Freight Payable. What I needed to do was provide documentation that the balance in Freight Payable was proper. I proceeded to look at the shipments of recent sales and then determined how much we would be obligated to pay for the freight on those sales. We then adjusted the balance in Freight Payable to my documented amount. This reconciliation was done to have the correct account balance and to provide the outside auditors with documentation which could easily be reviewed. I also reconciled the balance in Utilities Payable by computing the daily cost of each utility that the company used. The cost per day was then multiplied by the number of days since the last meter reading date shown on the utility bills already entered in our accounting system. We then adjusted the Utilities Payable account balance to be equal to the documented amount.

Reconciliation of Balance Sheet Accounts

Reconciliation is the process of comparing information that exists in two systems or locations, analyzing differences and making corrections so that the information is accurate, complete and consistent in both locations. Balance sheet accounts must be reconciled on a periodic and timely basis to verify that all items were correctly posted to the account. All funds within the balance sheet account must be included in the reconciliation unless previous arrangements have been made. Without performing reconciliations, inaccurate recording of transactions may occur that would result in incorrect reporting and could impact resources. The Office of the Controller will maintain a master list of balance sheet account assignments.

Page 94 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

Budget Reconciliation

This information is intended to provide guidelines for a regular budget reconciliation process. Please review all of the content provided in the sections below.

Definition: - Budget reconciliation is the process of reviewing transactions and supporting documentation, and resolving any discrepancies that are discovered.

The process encompasses two different activities or roles:

1. Detailed review of transactions and supporting documentation (department staff)
2. High level budget review and analysis by a person accountable for the budget (budget reviewer).

Purpose

Regular reconciliation should be done in your department to provide reasonable assurance that transactions are authorized, reasonable, allowable, and correct.

Special Notes on Sponsored Budgets

Principal Investigator (PI) is responsible for their grant budgets, unless the PI has delegated authority to another person who has direct knowledge of the needs of the project. See Reconciliation Best Practices for additional guidance.

When possible reconciliation should be completed monthly, within 45 days of month-end close, but less frequently than quarterly. For sponsored agreements a final reconciliation should be completed within 45 days of the budget end date. Keep in mind that special situations such as biennium close may take longer to finish than “regular” months.

7.2 seeking statement of outstanding balance

A supplier statement reconciliation or vendor statement reconciliation involves reconciling an individual supplier balance in the accounts payable ledger with a statement submitted by a supplier. Supplier statements are an important accounting source document regularly issued to the business by a supplier of goods or services. The statements contain details of all invoices, credit notes, discounts and payments made on a supplier account according to the supplier. By

reconciling the statement to the supplier's account in the accounts payable ledger any discrepancies or errors are revealed.

Invoice reconciliation is the process of matching transactions you've entered into your accounting software with the invoice or statement you receive from your vendor to make sure the numbers match and your business isn't paying for something it didn't receive, overpaying for a service or even underpaying.

Accounts Payable resources are limited, so the priority is always to process invoices through to payment on time. Suppliers share the same priority and consume significant AP resources, following up invoice submission with queries to check invoices have been received and when they are going to get paid. Paying any suppliers late increases the workload in AP as suppliers submit duplicate invoices, further queries and ultimately disruption to the business if they put the account on stop.

All of this leads to Accounts Payable being largely a reactive process, which makes it difficult to ever free up enough time to be more proactive and drive efficiencies as a result.

Reconciling supplier statements is a key control that enables Accounts Payable to check if all invoices/credits have been received and if there are any errors on the ledger to resolve in order to pay suppliers accurately and on time. Reconciliations are all too often done on a reactive basis, on request by suppliers or when AP recognizes a supplier account needs to be cleared. If Accounts Payable could routinely reconcile their top supplier accounts, proactively on a monthly basis, then all the errors would be resolved before they become an issue - More suppliers will be paid on time, queries and duplicates will reduce which improves relationships with suppliers and reduces workload in AP

The process of reconciling statements manually is very time consuming and it's the first thing to suffer in a busy AP department, so we cannot reconcile anywhere near the volume of statements we should be doing. There is no visibility, audit trail or reporting to manage the process, so we don't know how many or what types of errors there are, whether they have been followed up and what the next actions are.

Automating the process would enable a much higher volumes of statements to be reconciled, significantly improve controls, proactively identify and resolve issues, reduce supplier queries and gain valuable insights into AP processes to identify where controls could be improved to fix root cause. Reconciling higher volumes of statements will also ensure profits are maximized based on the following:

Accounts payable time pressures

The challenge arises because accounts payable teams already have a full schedule managing the day-to-day activities of processing invoices through to payment.

This is exacerbated by the fact that supplier statements are in paper or PDF-based formats, and can include thousands of transactions. To identify exceptions, the accounts payable team needs to manually check details on the accounting system of every transaction listed. It can take hours, and sometimes days, to reconcile one vendor.

Self - check 7: written test

1. What does it mean by invoice reconciliation?
2. What are the benefits of reconciling supplier statements?
3. What will happen if there is discrepancy between the total amount on the statement and the total amount due to vendors?

Unit 8: Collect and record monies due

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

- Determining Status of debt
- Recording and Maintaining Transactions on account
- Maintaining Records of customer contact

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:

- Determine Status of debt
- Record and maintain Transactions on account
- Maintain Records of customer contact

8.1 determining status of debit

8.1.1 Introduction

In an accounting system, the transactions are recorded in two various aspects, one is credit and another is debit. Debit is known as an entry in accounting's. It is basically an entry that records an amount that is recorded on the left-hand side of the accounts. Debit in an account shows an addition to the account of assets or expenses. In other words, debit denotes a reduction in a liability account. A debit is defined as an entry in the accounting system that denotes a reduction in liabilities and an increase in assets. Talking about fundamental accounting, the entries are classified into two different segments, debits and credits. Debits are always balanced by credit entries.

- In an accounting system, debit is denoted by the abbreviation, "dr"
- Debit is reflected on the left side of the account
- Talking about the journal, credit always comes below the credit.
- A debit increases the assets and decreases the liability

All the debits in a double entry system, such as bookkeeping, all the entries of debit are balanced by the credit. For instance, if a company loans a piece of equipment, the fixed asset would be debited while the liability account is credited.

8.2 recording and maintaining transaction on account

On account" is an accounting term that denotes **partial payment of an amount owed**. On account is also used to denote the purchase/sale of goods or services on credit. On account can also be referred to as "on credit. "If a business purchases goods on credit, the business will debit the purchase account, which will result in an increase in its inventory because the goods are purchased from a third party.

When a business makes a purchase on credit, the accounts payable account is credited in the purchases journal. This results in the business's liabilities increasing, which will show up in the business's balance sheet until the debt is paid.

- On account" is used in accounting to note partial payments or purchases made on credit.
- Purchases on account are purchases made on credit.

Page 99 of 105	Author/Copyright : Ministry of Labor and Skills	Administering, Monitoring and Controlling General and Subsidiary Ledgers Level- III	Version - I
			November, 2022

- On account also refers to payment on an account.

8.2.1 Purchases On Account

When a customer or business makes a purchase on credit, a general ledger account known as accounts payable is created or the current one is increased.

Recording the Journal Entry for a Credit Purchase

When a business purchases goods or services on credit, the business will then debit the purchases account, which will increase the business's assets.

The business will also credit the accounts payable account, which will increase the business's liabilities.

This transaction would lead to the following journal entry.

Date	Account Name	Debit	Credit
xx/xx/XXXX	Purchases	\$xx	
	Accounts Payable		\$xx
The business purchased bicycle tires on credit on xx/xx/XXXX for \$xx.			

When the business pays the vendor for the purchase, the accounts payable account will be debited, and the cash account will be credited.

The journal entry for this transaction is as follows.

Date	Account Name	Debit	Credit
xx/xx/XXXX	Accounts Payable	\$xx	
	Cash		\$xx

Paid \$xx for purchase made on credit on xx/xx/XXXX.

Example of Purchase Credit Journal Entry

Suppose there is a company that manufactures and sells electric bicycles.

This company purchases some tires on November 10th, 2021, from a vendor on credit for \$5,000.

The company supplying the tires expects to be paid within 30 days of the purchase.

The electric bicycle company will need to record this transaction.

Entry

When the electric bicycle company purchased bicycle tires from a vendor on November 10th, 2021, the company debited the purchases account for \$5,000 and credited the accounts payable account for \$5,000.

The electric bicycle company paid \$5,000 to the tire company on November 30th, 2021.

At this point, the electric bicycle company debited the accounts payable account for \$5,000 and credited the cash account for \$5,000.

The journal entries for the purchase and payment of the tires are as follows

Purchase

Date	Account Name	Debit	Credit
11/10/2021	Purchases	\$5,000	
	Accounts Payable		\$5,000
Purchase of bicycle tires on 11/10/2021 for \$5,000 on credit			

Payment

Date	Account Name	Debit	Credit
11/30/2021	Accounts Payable	\$5,000	
	Cash		\$5,000
Paid \$5,000 on 11/30/2021 for bicycle tires purchased on 11/10/2021			

8.2.2 sales on account

A sale on credit is revenue earned by a company when it sells goods and allows the buyer to pay at a later date. This is also referred to as a sale on account.

Normally, this means that the company selling the goods is transferring ownership of its goods to the buyer and in return has a current asset known as accounts receivable. One consequence is the seller becomes one of the buyer's unsecured creditors. This means that the seller has the risk of bad debts expense if the buyer does not pay the full amount owed to the seller.

Credit Sales in Financial Statements

Credit Sales: Sales, whether cash or credit, will come in profit & loss a/c under the income side with the sale value of goods.

Debtors: Debtors are current assets and will come under the assets side of the balance sheet under existing assets.

Bank: Bank balance is also a current asset. Therefore, it will show under the assets side of the balance sheet under existing assets. On the receipt of customer payment, the bank amount will increase, whereas debtors will decrease. Thus, the total balance of current assets will not remain the same.

Discount: Any discount given to the dealer comes under the expenditure side of the profit & loss account, decreasing the company's profitability.

Sales Credit Journal Entry

Date	Particulars	Dr (\$)	Cr (\$)
1/8/2019	Accounts Receivable A/c ...Dr	\$100,000	
	To Sales A/c		\$100,000
Being Goods worth \$100,000 sold on Credit by the Company A ltd. to its Customer on 1st August 2019			

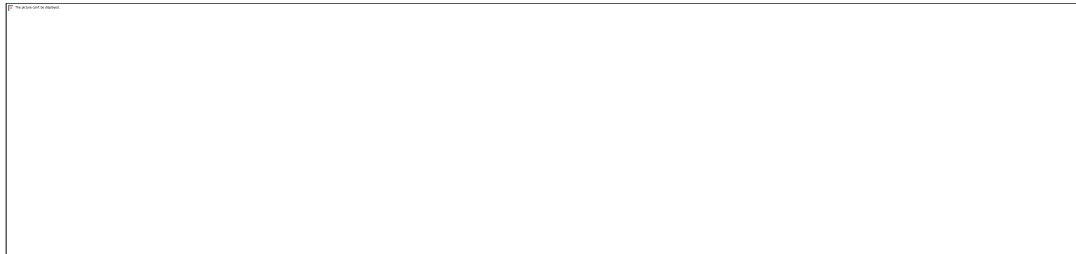
Date	Particulars	Dr (\$)	Cr (\$)
15/8/2019	Cash A/c ...Dr	\$100,000	
	To Accounts Receivable A/c		\$100,000
Being Cash of \$100,000 received on 15th August 2019 against the goods sold on credit by the Company A ltd to its customer on 1st August 2019.			



On August 1, 2019, when the company sells the goods on credit to the buyer, they will debit the account receivable account with the corresponding credit to the sales account. Therefore, the entry to record the sales on credit is as follows

Date	Particulars	Dr (\$)	Cr (\$)
1/8/2019	Accounts Receivable A/c ...Dr	\$100,000	
	To Sales A/c		\$100,000
Being Goods worth \$100,000 sold on Credit by the Company A ltd. to its Customer on 1st August 2019			

On August 15, 2019, when the customer paid the whole amount in cash to the company against the goods sold on credit on August 1, 2019, the cash accounts will be credited with the corresponding credit in the accounts receivable accounts. The entry to record the receipt against the sales on credit is as follows:



8.3 □ Maintaining Records of customer contact

Customer Contact is the process of handling a query of the customer before, during, and after the purchase of any product or service. It is the process of resolving customer's issues and providing them with an appropriate solution, crafted with excellent call center services.

Customer contact services are necessarily backed by call center services but may also have email and online ticketing systems. The other forms of customer complaints resolution aren't as quick as the call services so customers exclusively look for call support when buying a product or service. success of a business is a result of its relationship with the customers. These customer contact centers help organizations maintain a thriving relation with the clients and narrow down attrition. Customer care services are intended to provide the best user experience to the clients and retain them in the short-run as well as the long-run goals. But for the success of these services, it is vital to get a call/message from the customer. When a customer reaches out and asks for assistance regarding any issues that will be known as customer contact. As vital as it sounds, customer contact is the starting point of the services Customer Care offers. From this point, it is up to the customer care professionals to assist the customer and offer satisfactory services. Based on these services, the customer can be persuaded to repeat their order and enhance the overall brand image.

A good customer contact benefits your business with –

1. Better customer satisfaction – satisfied customers recommend your product and services to others. Word of mouth helps other potential customers build trust and is one of the cheapest and best methods of marketing.
2. Clients renew services – an unsatisfied customer will eschew elsewhere and happy customers will buy from you over and over again. Customer contact centers ensure that

consumer queries are heard and dealt with properly, ensuring happy clients and lower attrition.

Self - check 8 written test

1. What is account receivables does it mean?
2. Explain the difference between sales made on cash and on account?
3. List Credit Sales in Financial Statements?
4. What procedures to be follow Debits are always balanced by credit entries.?

Developers' profile

No	Name	Qualification (Level)	Field of Study	Organization/ Institution	Mobile number	E-mail
1	Lammi Dhuguma	MBA In finance	Accounting & finance	Ambo TVT	0913723393	Lammidhuguma@gmail.com
2	Ejigu Tarafe	MA	Accounting & finance	Barayu PT	0913440478	kenaketejigu@gmail.com
3	Asnake Abay	MSc	Accounting & finance	Adama RVUTc	0912224442	Asnakeabay142@gmail.com
4	Kasa Tarafe	BA	Accounting & finance	A.A KMCTVT	0912780259	kssterefe@gmail.com
5	Tilahun Walde	BA	Accounting & finance	Afar Adadle PT	0942817075	Telegram
6	Mokanan t Mulu	MSc	Accounting & finance		0975105823	Telegram
7						