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| * **MODULE TITL Monitoring and Controlling Accounts Receivable** * **MODULE CODE** [**BUF ACB3 09 0812**](#BUF_ACB3_15_0812) |
| * **NOMINAL DURATION: 60 Hours** |
| * **MODULE DESCRIPTION:**  |  |  |  |  | | --- | --- | --- | --- | | **Unit Descriptor BY tilahunbirlie12@gmail.com** | |  |  | | --- | --- | |  | . This unit describes the performance outcomes, skills and knowledge required to determine the nature nature and extent of account deficits and to reach a decision on payment methods and appropriate monitoring and controlling of accounts |   **LEARNING OUTCOMES:**  At the end of this module the trainee will be able to  **LO1:**Collect and record monies due  **LO2** Review compliance with terms and conditions  **LO3**: Resolve disputed amounts within predetermined parameters | |

**Introduction**

Controls over accounts receivable really begin with the initial creation of a customer invoice, since you must minimize several issues during the creation of accounts receivable before you can have a comprehensive set of controls over this key asset. Controls then span the proper maintenance of accounts receivable, and their elimination through either payments from customers or the generation of credit memos.

**Monitoring**: Supervising activities in progress to ensure they are on-course and on-schedule in meeting the objectives and performance targets

**Controlling**: Thebasic managementfunction of establishing benchmarks or standards, comparing actual performance against them, and taking corrective action, if required.

**LO1:Collect and record monies due**

1.1**Determining Status of debt**

Liabilities are a company’s debts, or the amount of money it owes other parties, such as lenders or suppliers. When you list liabilities on your small business’s balance sheet, you separate them into two subsections: current liabilities and long-term liabilities. Current liabilities are those that you expect to pay within one year. Long-term liabilities are those you expect to pay after a year. The amount of your small business’s total liabilities, or total debt, you must report on your balance sheet equals the sum of your current and long-term liabilities.

**Determine the company debt**

Step 1

Determine from your accounting records the amount of your current liabilities, such as accounts payable, wages payable, short-term notes and the portion of long-term debt due within one year. Also, include money you have already received from customers for which you have not yet performed services, called unearned revenue.

Step 2List each item and the amount in the current liabilities subsection of the liabilities section on your balance sheet.

Related Reading: Definition of Net Worth on a Balance Sheet

Step 3Calculate the sum of your current liabilities, and list the total at the bottom of the subsection. In this example, add $50,000, $20,000 and $5,000 to get $75,000 in total current liabilities. List $75,000 at the bottom of the subsection.

Step 4Determine from your records the amount of your small business’s long-term liabilities, such as long-term notes and bonds payable. Continuing with the example, assume your small business has $70,000 in long-term notes and $15,000 in bonds payable.

Step 5List each item in the long-term liabilities subsection of the liabilities section on the balance sheet.

Step 6Add together your long-term liabilities and list the total at the bottom of the subsection. In this example, add $70,000 and $15,000 to get $85,000 in total long-term liabilities. List $85,000 at the bottom of the subsection.

Step 7Add together your total current liabilities and total long-term liabilities to determine your total liabilities. Then list your result at the bottom of the liabilities section. In this example, add $75,000 and $85,000 to get $160,000 in total liabilities. List $160,000 at the bottom of the section.

**In other way determine the company debt by using debt ratio**

The debt ratio compares a company's total debt to its total assets, which is used to gain a general idea as to the amount of leverage being used by a company. A low percentage means that the company is less dependent on leverage, i.e., money borrowed from and/or owed to others. The lower the percentage, the less leverage a company is using and the stronger its equity position. In general, the higher the ratio, the more risk that company is considered to have taken on.

Formula: Debt ratio= Total liabilities/Total Asset

The company liabilities total = we can take it the above $160000

If the company total asset = 350000

Debt ratio= 160000/350000

DR= 45.7%

Components:

The company had total liabilities of $ 160000 (balance sheet) and total assets of $ 350000(balance sheet). By dividing, the equation provides the company with a relatively high percentage of leverage as measured by the debt ratio.

Commentary:

The easy-to-calculate debt ratio is helpful to investors looking for a quick take on a company's leverage. The debt ratio gives users a quick measure of the amount of debt that the company has on its balance sheets compared to its assets. The more debt compared to assets a company has, which is signaled by a high debt ratio, the more leveraged it is and the riskier it is considered to be. Generally, large, well-established companies can push the liability component of their balance sheet structure.

**1.2 Recording and maintaining transactions**

Recording and maintaining transactions on account accurately according to organization policy and guidelines.

Recording Transactions

Recording business transactions is a multi-step process. The first step in recording business transactions is to examine the transaction and decide what accounts will be affected. The second step in recording business transactions is to decide what account will be debited and what account will be credited. The third step in recording business transactions is to actually document the transaction in a journal.

A journal, which is also known as a book of original entry, is the first place that a transaction is written in accounting records. Even when you're using a computerized accounting program, items are still recorded in journals; you just don't manually enter them. The best way to learn how to record business transactions is to actually record some. So let's look at a few examples.

1. Alex owns a music shop. On August 1, he purchases drum heads from Drummers R Us to sell in his store. He pays $875 in cash for the drum heads.

In his first transaction, Alex bought drum heads, which is inventory for his store. He paid for the drum heads with cash. The two accounts that will be affected are cash and inventory.

For Alex's music shop, the inventory account, which is an asset, is debited the $875. This increases the balance in the inventory account by the same amount. Because Alex paid with cash, the cash account will be credited $875. A credit made to an asset account decreases the balance in the account, so the cash account will have an $875 reduction in its balance.

After you decide what accounts are affected by each transaction, you can record, or journalize, the transaction. To do this, you'll make an entry into the journal. You start by listing the date, followed by the name of the account that is debited and the debit amount on the first line. On the next line, and indented slightly, you will put the name of the account that is credited followed by the credit amount.

2. On August 6, Alex sold all the drum heads to the local high school band for a total of $1,500 cash.

In this case, what two accounts are affected? Well, because this is a cash sale, the same two accounts are affected that were affected when Alex purchased the drum heads. The difference is that they will be affected differently. The cash account will be debited $1,500 and will have a balance increase in the same amount. The inventory account will be credited and will have a balance decrease in the same amount

3. On August 10, Alex has to pay his monthly rent on the building that his music shop is in. He writes a check to Thomas Realty in the amount of $1,000.

In this transaction, the accounts that are affected are rent expense and cash. The rent expense account is debited $1,000. Since expense account balances are increased by debits, this increases the balance in the rent expense account by $1,000. The cash account is credited $1,000. Since cash is an asset account and is credited, the balance in the cash account decreases by $1,000. Or

Rent expenses \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_$1000

Cash \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_$1000

4. On August 12, Alex orders more supplies for his shop from Music Central. This time, he buys his supplies on account. The total amount of musical equipment that he buys from Music Central is $4,500.

How to record the above transaction?

A good records keeping system should be designed and used with the following factors in mind:

Simplicity

Understandability

Reliability

Accuracy

Consistency

Timeliness

Simplicity

The records keeping system should be simple to use. One of the major reasons for the dramatic acceptance of personal computers today is the fact that they are very easy to use. A records keeping system should be designed with consideration for the employee(s) who will be recording the information. To meet minimum Records Required

There are four basic records that a business must maintain:

1) Sales Records,

2) Cash Receipts,

3) Cash Disbursements, and

4) Accounts Receivable.

**Sales Records**

A record of all sales must be kept. If you use a cash register, a combined Sales and Cash Receipts record may be kept. Sales may result from a single primary activity or may result from different types of activity and be recorded in sub-categories. For example, a business might record three kinds of sales: wholesale, retail, and services.

It is important to record all sales as they occur. Remember that a sale may result in cash or arrangements may be made to receive payment at a later time. In either case, the sales records should reflect that the sale has occurred.

**Cash Receipts**

Cash is received by a business at the time of the sale or as payment on account for a credit sale. In any case, all cash should be recorded as it is received. A small business without a cash register can enter each transaction in a Sales and Cash Receipts Journal showing the date, name, invoice number, and the amount of the sale.

Deposit all cash receipts for the day in the bank. Do not pay out small amounts directly from cash receipts. Instead, establish a petty cash fund to pay small amounts not covered by invoices. By depositing all cash receipts daily, you have a basis on which to verify the daily balance in the cash receipts book.

**Cash Disbursements**

Just as all cash receipts should be deposited, nearly all disbursements should be made by check. The petty cash fund, as stated earlier, should be used to make payments only on small items.

When writing a check, use an invoice or bill to support the check. In the checkbook, record the purpose of the check, the date, name, check number, and the amount of the check.

**Accounts Receivable**

The fourth basic record to be maintained is for credit sales. If a business provides a product or service to a customer and agrees to accept payment at a later time, it has created an account receivable. An account receivable record normally contains information pertinent to billing and receiving payment from a customer.

Every effort should be made to ensure that accounts receivable are kept current. Bills should be prepared promptly and mailed to correct addresses. At the end of each month, accounts receivable should be "aged." Aging means listing all accounts unpaid for 30 days, 60 days, and over 6o days. Special action should be taken to collect older overdue accounts. Extraordinarily large accounts should be watched carefully.

For delinquent accounts, try to get the customer to promise payment on a specific date. Then, if payment is not made on that date, contact the customer to find out why payment was not made.

**To record a sale to an account customer**

Account Debit Credit

Accounts receivable XXX

Revenue XXX

To receive a cash payment from an account customer

Account Debit Credit

Cash XXX

Accounts receivable XXX

To receive a cash payment from an account customer taking cash discount

Account Debit Credit

Cash XXX

Discount allowed XXX

Accounts receivable XXX

A credit note is issued to a customer

Account Debit Credit

Revenue XXX

Accounts receivable XXX

To write off an accounts receivable as a bad debt

Account Debit Credit

Bad debt expense XXX

Accounts receivable XXX

To set up an allowance for doubtful debts

Account Debit Credit

Bad debt expense XXX

Allowance for doubtful debts XXX

To use the allowance for doubtful debts to write off an accounts receivable

Account Debit Credit

Allowance for doubtful debts XXX

Accounts receivable XXX

To record cash received after an account receivable has been written off

Account Debit Credit

Cash XXX

Accounts receivable XXX

Accounts receivable XXX

Allowance for doubtful debts XXX

Sell on “credit” – provide them the good/service now and they pay you later.

  When payment is due is based on the “terms” agreed upon

                        Example:  2/10, net30    means – 2% discount / if pay in 10 days,

                                                                               or, full payment is due in 30 days

                                          net60          – no discount offered, payment due in 60 days

   Companies offer a discount in order to collect cash quicker when they need cash

             It is very costly to offer a discount, but necessary if the company is not able to

            borrow money at a lower interest rate

 When a payment (cash) discount is taken it is called a sales discount

     Sales discounts are reported on the income statement as:

                Sales

                                     -   Sales Discount

                                     = Net Sales

 Ratio analysis can be used to tell how well you are managing your accounts receivable. The two most common ratios for accounts receivable are turnover and number of days in receivables. These ratios are calculated as follows:

Accounts Receivable Turnover = Credit Sales / Average Receivable Balance.

Example: Annual credit sales were $ 400,000, beginning balance for accounts receivable was $ 55,000 and the yearend balance was $ 45,000. The turnover rate is 8, calculated as follows: Average receivable balance is $ 50,000 ($ 55,000 + $ 45,000) / 2. The turnover ratio is $ 400,000 / $ 50,000. This indicates that receivables were converted over into cash 8 times during the year.

Number of Days in Receivables = 365 Days in the Year / Turnover Ratio. Using the same information from the previous example gives us 46 days on average to collect our accounts receivable for the year.

When you sell services to a customer, you normally create an invoice in your accounting software, which automatically creates an entry to credit the sales account and debit the accounts receivable account. When the customer later pays the invoice, you would debit the cash account and credit the accounts receivable account. For example, ABC International billings a customer for $10,000 in services, and records the following entry:

  Debit Credit

Accounts receivable 10,000

     Sales   10,000

This journal entry increases the accounts receivable asset for ABC, which appears as a short-term asset in its balance sheet. In addition, it increases sales, which appear in ABC's income statement.

Recording Sales of Goods on Credit

If you were to sell goods to a customer on credit, then not only would you have to record the sale and related account receivable (as was the case for the sale of services), but you would also record the reduction in inventory that was sold to the customer, which then appears in the cost of goods sold expense. This later transaction reduces the inventory asset in the balance sheet and increases the expenses in the income statement. For example, if ABC International were to conclude a sale transaction for $25,000 in which it sold $12,000 of merchandise to the customer, its journal entry would be:

  Debit Credit

Accounts receivable 25,000

     Sales   25,000

Cost of goods sold 12,000

     Inventory 12,000

There is an issue with the timing of the preceding sale transaction. If the sale is made under FOB shipping point terms, the seller is supposed to record both the sale transaction and related charge to cost of goods sold at the time when the shipment leaves its shipping dock. From that point onward, the delivery is technically the responsibility of either a third-party shipper or the buyer.

If the sale is made under FOB destination terms, then the seller is supposed to record these transactions when the shipment arrives at the customer; this is because the delivery is still the responsibility of the seller until it reaches the customer's location.

From a practical perspective, many companies record their sale transactions as though the delivery terms were FOB shipping point, because it is easy to verify. Recording the transaction upon arrival at the customer requires substantially more work to verify.

Accounting for Bad Debt

If you sell on credit, customers will occasionally be unable to pay, in which case you should charge the account receivable to expense as a bad debt. The best way to do so is to estimate the amount of bad debt that you think will eventually arise, and accrue an expense for it at the end of each reporting period. The debit is to the bad debt expense account, which causes an expense to appear in the income statement. The credit is to the allowance for bad debts account, which is a reserve account that appears in the balance sheet. Later, when a specific invoice is clearly identifiable as a bad debt, you eliminate the account receivable with a credit, and reduce the reserve with a debit.

For example, ABC International invoices $1 million of invoices to various customers in January, and estimates that $40,000 of this amount will not be paid. Accordingly, it records the following entry to create a bad debt reserve:

  Debit Credit

Bad debt expense 40,000

     Allowance for doubtful accounts 40,000

In March, ABC clearly identifies $18,000 of invoices that will not be paid. It uses the following entry to eliminate the invoices and draw down the reserve balance:

  Debit Credit

Allowance for doubtful accounts 18,000

     Accounts receivable 18,000

If the customer were to later pay the invoice, ABC would simply reverse the entry, so that the allowance account is increased back to its former level.

For example, ABC International offers a $100 discount to a customer if it pays a $2,000 invoice within 10 days of the invoice date. The customer does so. ABC uses the following entry to record the transaction:

  Debit Credit

Cash 1,900

Sales discounts 100

     Accounts receivable 2,000

**Records Keeping Process**

A small business involved in ordering and selling merchandise should have a records keeping process that reflects the flow of that merchandise through the business.

**Ordering and Receiving**

The process begins when a business orders merchandise. An order can be written or oral. Oral orders should be documented with a written record. Copies of all orders should be retained.

When merchandise is received, it should be checked for quantity and condition, checked against the packing slip, and checked against the original order. Any discrepancies should be noted and the supplier notified as soon as possible.

The merchandise is then recorded on a Receipt Log listing quantity, description, and source. The Receipt Log serves as the basis for additions to the Inventory List, which is a complete record of all goods available for sale.

When an invoice (bill) is received from a supplier requesting payment, the invoice is checked for accuracy and verified against the Receipt Log and the original purchase order. A check should then be written to the supplier for the appropriate amount.

**Completing the Cycle**

The reduced inventory resulting from sales signals the need to order more merchandise. Purchase orders are written and sent to suppliers and the cycle of merchandise flowing through the business continues.

Much of the process of recording and tracking inventory today is done by computers and or computerized cash registers. However, these systems are only as accurate as the information which is entered into them and checks and balances for human error still exist. By utilizing a computerized system it is possible to know on a daily basis what the inventory and sales for each item are and to plan for re-orders of merchandise in a more effective manner. They also provide an efficient method for determining

Generally; Controls over accounts receivable really begin with the initial creation of a customer invoice, since you must minimize several issues during the creation of accounts receivable before you can have a comprehensive set of controls over this key asset. Controls then span the proper maintenance of accounts receivable, and their elimination through either payments from customers or the generation of credit memos. The key controls to consider are:

* Require credit approval prior to shipment. You will have problems collecting accounts receivable if an order is shipped to a customer with a bad credit rating. Therefore, require the signed approval of the credit department on all sales orders over a certain dollar amount.
* Verify contract terms. If there are unusual payment terms, verify them before creating an invoice. Otherwise, accounts receivable will contain invoices that customers refuse to pay.
* Proofread invoices. If an invoice for a large-dollar amount contains an error, the customer may hold up payment until you send a revised invoice. Consider requiring the proofreading of larger invoices to mitigate this problem.
* Authorize credit memos. People who have access to incoming customer payments could intercept incoming cash and then create a credit memo to cover their tracks. One step in the prevention of this problem is to require the formal approval of a manager for credit memos, which are then verified at a later date by the internal audit staff. Do not take this control to extremes and require approval for extremely small credit memos - allow the accounting staff to create small ones without approval, just to clean up small remaining account balances.
* Restrict access to the billing software. As just noted, someone could intercept incoming payments from customers and hide the theft with a credit memo. You should password-protect access to the billing software to prevent the illicit generation of credit memos.
* Segregate duties. As just noted, no one should be able to handle incoming customer payments and create credit memos, or else they will be able to take the money and cover their tracks with credit memos. Therefore, assign these tasks to different people.
* Review accounts receivable journal entries. Accounts receivable transactions almost always go through a sales journal in the accounting software that generates its own accounting entries. Therefore, there should almost never be a manual journal entry in the accounts receivable account. You should investigate these entries carefully.
* Audit invoice packets. After invoices are completed, there should be a packet on file that contains the sales order, credit authorization, bill of lading, and an invoice copy. The internal audit staff should review a selection of these packets to verify that the billing clerk properly reviewed all of the supporting paperwork and correctly generated an invoice.
* Match billings to shipping log. It is possible that items will be shipped without a corresponding invoice, or vice versa. To detect these situations, have the internal audit staff compare billings to the shipping log, and investigate any differences.
* Audit the application of cash receipts. The accounting staff may incorrectly apply cash receipts to open invoices, perhaps not even applying them to the accounts of the correct customers. Have the internal audit staff periodically trace a selection of cash receipts to customer invoices to verify proper cash applicat
* **1.3: Maintaining customer contact** records**accurately**Have you ever considered the importance of keeping your customer’s information accurate?  When your company’s customer data is not consistent or up-to-date, it can cause problems within your organization.  It can definitely hamper sales and especially the performance of your marketing campaigns.  Employees sometimes find that a contact’s phone number, email address, or place of business has changed.  If they don’t update the information right away, all is does is leave a mess of inaccurate, incomplete, or redundant customer information.  We have some tips to help you maintain the best data possible so you can optimize your customer service, sales, and marketing; thus, receiving the results your company wants!
* **LO2: Review compliance with terms and conditions**

**What is Compliance?**

In general, compliance means conforming to a rule, such as a specification, policy, standard or law. Regulatory compliance describes the goal that organizations aspire to achieve in their efforts to ensure that they are aware of and take steps to comply with relevant laws and regulations.

"Agreement" means these Terms and condition of Service and any and all attachment(s) addition(s), sales order(s), or exhibit(s) attached there to and any and all other applicable terms and conditions and policies referenced in any of the preceding. This Agreement override, supplants, and supersedes any and all prior agreements and renewals between company and Customer regarding company Services.

**2.1: Breaches of contract or breach of agreement**

A contract is a legally enforceable agreement between two parties. Each party to a contract makes a promise to either perform a certain duty or pay a certain amount. If one party fails to act as promised, and the other party has fulfilled the duties under the contract, the other party is entitled to legal relief.

A breach of contract is a failure to fulfill the duties under the contract terms. A contract can be breached in the following ways:

One party does not perform as he or she promised

One party does something that makes it impossible for the other party to perform the duties under the contract

One party makes it clear that he or she does not intend to perform the contract duties

**2.2: Identifying customers**

Identifying customers terms of breach and conditions correctly and contactedpromptly and courteously to bring account within terms.

The right information will let you build up a useful profile of your customers, its very important identify customers to make a breach or violation of an agreement. The information typically includes the following:

Who they are - the age and gender of individual consumers, or industry and business size for corporate customers

What they think and believe, what interests them and their opinion of you and your product their purchasing behavior - which products they buy, where they buy them, when, and how they pay

Profiling your customers in this way helps you group them into different segments, each of which can be approached separately. For example, you might produce customized products or services for different segments. You can also focus the way you market to different groups of customers. See our guide on how to segment your customers.

You can use specific IT software to help you collect and analyze your data. For example, linking customer records to your accounting system makes it easier to see how profitable different customers are.

**LO3: Resolve disputed amounts within predetermined parameters**

**Notice of dispute**; Prior to invoking legal action against the other party due to a disagreement, claim, dispute, or controversy relating to the terms of or performance under this Agreement or arising under this Agreement in any way ("Dispute"), the party with the Dispute must send the other party written notice identifying the Dispute, which notice must contain sufficient detail so as to permit the other party to make good faith efforts to attempt to resolve the dispute.

**3.1: Researching background**

Researching **background** of claim thoroughly based on client's outline of dispute

Review the client’s question. Clients come to attorneys with questions. Typically, they want to know if they can legally do something, or they are worried about their potential legal liability for something that they have already done. Get a handle on your client’s question so that you can adequately answer it.

If you do not understand the question, call or email the client to discuss. If you do not know precisely what your client is asking, then you might write a memo on a peripheral issue and waste precious time.

Review the file or court record, if placed. The file should contain basic information which will help you get an idea of the issues that you will be analyzing. Be sure to read the entire file very carefully and check in detail about the client asset.

**3.2: Checking material records**

Checking records thoroughly for verification of all case material.

Upon receiving purchased goods or even services from a supplier, it is important that the shipment is checked to make sure that the correct quantity and quality was received. A receiving report should immediately be completed which indicates.

the date the material was received or service was performed

whether the delivery was on time

the quantity of material received and whether any discrepancies exist when compared with the packing slip

whether the quality of the material meets specifications

the names of the personnel who performed these checks

This receiving report can be of great help to the bookkeeper in maintaining accurate records, and when paying the bills.

**Quantity Check**

When a shipment arrives, it is a good idea for receiving personnel to check it against the packing slip to make sure that the quantities are correct.

The thoroughness of the quantity check depends upon how many packages are involved, and how important the contents of the package are. If there are many packages, and there are many items in each package to count, complete counts would be a very time consuming process. In such cases, it may be better to use sampling to establish the quantity received.

Total weight or physical dimensions can be used for fairy accurate estimates of quantities in a shipment. When the material is packed in boxes, suppliers can be asked to write the quantity on the cut-side of each box so that in a shipment of several or many boxes, a few can be picked for a detailed check. If they turn out to be accurate, then there is considerable assurance that the shipment is complete.

A bulk count may be necessary when unit price is high. The receiving report should show how the count was made, i.e., by full count, by weighing and calculating the quantity, or by spot checks of packages.

**3.3:Identifying and resolving claim**

Identifying and resolving type of claim correctly in accordance with organization policy and procedures

.Here are 7 steps for resolving customer complaints which have proven to work well. Do not let time lapse and make things worse with your avoidance. Approach the customer as soon as you learn they are unhappy, and;

1.Listen Intently: Listen to the customer, and do not interrupt them. They need to tell their story and feel that they have been heard.

2. Thank Them: Thank the customer for bringing the problem to your attention. You can’t resolve something you aren’t completely aware of, or may be making faulty assumptions about.

3. Apologize: Sincerely convey to the customer your apology for the way the situation has made them feel. This is not the time for preachy reasons, justifications or excuses; you must apologize.

4. Seek the Best Solution: Determine what the customer is seeking as a solution. Ask them; often they’ll surprise you for asking for less than you initially thought you’d have to give—especially when they perceive your apology and intention is genuinely sincere.

5. Reach Agreement: Seek to agree on the solution that will resolve the situation to their satisfaction. Your best intentions can miss the mark completely if you still fail to deliver what the customer wants.

6. Take Quick Action: Act on the solution with a sense of urgency. Customers will often respond more positively to your focus on helping them immediately versus than on the solution itself.

7. Follow-up: Follow-up to ensure the customer is completely satisfied, especially when you have had to enlist the help of others for the solution delivery. Everything up to this point will be for naught if the customer feels that “out of sight is out of mind.”

Problems happen. It’s how you honestly acknowledge and handle them which counts with people. Customers will remember you, and happily give you another chance to delight them when you choose to correct problems with the very best you can offer, proving you value them and theirbusiness.

***Assignment and pledging of account s Receivable***

Assignment and Pledging entail the use of receivables as collateral for a loan.

***Assignment of Accounts receivable***

* + An assignment of accounts receivable requires the assigner to assign the rights to specific receivables. Normally, the assignor and the finance company enter into a long term agreement where by the assignor receives cash from the finance company as sales are made. When the accounts are assigned with recourse, the assignee has the right to seek payment from the specific receivables.
  + The assignor usually retain title to the receivables, continues to receive payments from customers ( non notification basis), bears collection costs and the risk of bad debts , and agrees to use any cash collected from customers to pay the loan .

The loan proceeds (cash received from the assignee) are typically less than the face value of the receivables assigned in order to compensate for sales adjustments like sales discounts and sales returns and allowances and to give the assignee a margin of protection.

* + The assignee charges a service fee and interest on the unpaid balance each month.
  + A separate category with in accounts receivable ( current asset) named accounts receivable assigned is used to disclose their status as collateral

Activities

***Individual Assignment out of x%***

**1**, **Assume** that on November 30,2005 ABC company assigns $ 80,000 of its accounts receivable to finance company on a non notification basis. ABC Company agreed to remit customer collections as payment on the loan. Loan proceeds permitted by financing company are 85% of the receivables less a $ 1,500 fee finance charge. In addition, the finance company charges 12% interest on the unpaid loan balance, payable at the end of each month.

**Required**:- Determine the amount of loan proceeds and make the necessary journal entries during the assignment ?

Loan proceeds (cash received from assigning of accounts receivable) is

**2**, **To illustrate** factoring without recourse, consider the following case. ABC Company factors without recourse $ 200,000 of accounts receivable on August 15, 2004 with a finance company on a notification basis. The factor charged a 12% financing fee and retains an amount equal to 10% of the accounts receivables for sales adjustments.

Required:- Make the necessary entry to record the transfer transaction

Here, ABC Company does not record bad debt expense on these receivables because, in non recourse transfers, the finance company bears the cost of uncollectible accounts.

Cash received from finance company will be:

**3**, **To illustrate** the income statement approach of estimating doubtful accounts expense, assume that credit sales for the current year is $ 250,000 and the company from its past experience estimates 2% of charge sales will be become uncollectible. The entry to record bad debt expense at the end of the current period is:

4, **Define** the control of account receivable and when the starting of control of account receivable?

5, **Write** the deference between account receivable, notes receivable and account payable, notes payable?