

SEQUENCE OF SALES RECORDS WORKFLOW

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Abstract: The paper is aiming at presenting, in moral terms, a logical and chronological range of the transactions developed within the sales area of a company. On this basis, the paper underlines the mechanisms specific to a potential subsystem of internal accounting control which may be integrated within the organization so that the management and the ownership could achieve the guaranty for providing the application of good practices in business development. It describes potential ways of auditing which may be used for detecting possible irregularities.

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1. INTRODUCTION

If, on international level, there are major concerns for making available useful information for expert accountants, in order to support them in providing high quality services, generally, meant for the public, employers and customers, why such an approach would not be useful in our country?

Considering this point of view, certainly, there are many things that may be unfolded, therefore, we submit to the study a simple, but constructive issue – minimal specification of internal accounting control applied on revenues deriving from sales, by means of different proprieties, documents and connections. Due to the fact that the subject is influenced by the national and organizational culture, its development is the main concern, and our comments and opinions are governed by the national and regional distinctive characteristics.

Our concerns indicate a serious preoccupation for the aspects of the profession which determine a major impact on the public and imply faith in accountants' and auditors' knowledge and reasoning in public practice.

2. GENERAL PARAMETERS SPECIFIC TO THE SUBSYSTEM

For a precise positioning, a good knowledge of all kinds of operations, accounts and information included by any of the parts of the accounting and financial statement system, becomes essential. Thus, through this paragraph, we intend to represent the main part of sales-collection subsystem, within an entity, which is assigned to accounting records. Taking into account these aspects, we consider that it is essential for the reader to understand worksheets, accountancy records and typical correlations which are integrated within this micro-universe approached. For a first general approach, we should mention that the nature and designation of accounts may vary, of

course, according to the economic branch and to other specific organizational aspects, but, in order to create a reference background, we will orient our analysis towards a loan wholesale trading company for a better insight.

The figure below illustrates the way in which the accountancy information circulates through different accounts integrated in the sales-collection cycle. This approach reveals the fact that, mainly, there five **business transaction categories** included in the sales-collection subsystem, namely:

- sales requiring immediate and loan payment;
- collection;
- allotted discounts and reimbursed sales;
- alteration of customers' value and assessment of potential losses determined by uncertain receipts;
- withdrawal of irretrievable debts from accountancy records.

The figure also suggests that any business transaction and figure is eventually retrieved in one of the following accounts: concerned – in “debts-customers”, ideal – in “bank account”, devaluated – in “adjustments of uncertain debts” and avoidable – in “losses from debts”. Probably, it is obvious that the positions indicating revenues from sales and reimbursed sales are rather considered cumulatively by the experts, but for bringing out synoptically certain aspects, we recommend the disjunction. From several points of view, we may identify arguments meant to sustain the dissociation etc.

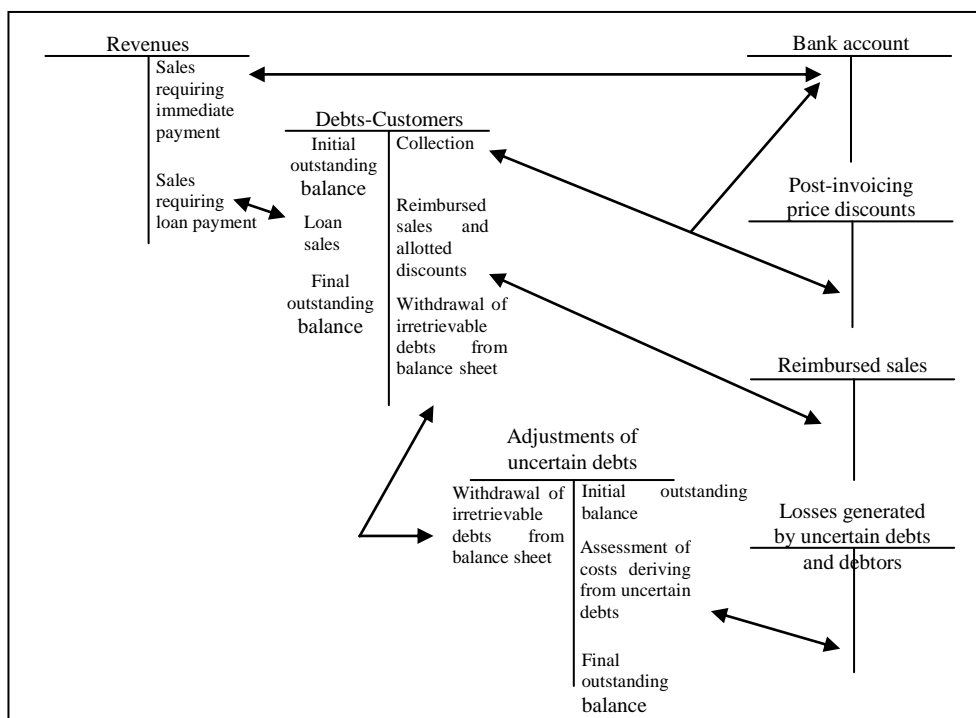


Figure 1. Review of accounts of sales-collection subsystem

The subsystem sales-collection consists of decisions and processes necessary for the transfer of property law over goods, works and services towards customers, after they become available for sale. It begins with a request set forth by a buyer and ends with the transformation of the sold asset into a current trading debt and, finally, into financial resources. If there is a durable relation between the two business partners, or

for a high degree of rigor, the sale-purchase agreement is used to establish the parameters of the cooperation.

3. ACTIVITIES, CORRELATIONS AND DEBATES

Generally, within an entity highly structured, we may count nine activities, as they are illustrated in the third column of Table 1. These activities are developed during the registration of the five categories of business transactions belonging to the selling and collecting process. All accountancy worksheets and records required are presented in the forth column of the table.

i. Reception and processing of customers' orders. The point of initiating a transaction is given by the customer's request for goods. Considering the legal outlook, this situation represents a bid of purchasing certain goods under specified circumstances. The reception of such a signal from the part of a customer, generally, leads to the acceptance (refusal) of the request and to the arrangement of everything is needed to solve the issue, as long as it presents interest. The information may be received on the telephone, through the post, in printed form previously sent to potential customers and to customers already existing in the portfolio, by the company trading representatives or through electronic positioning of an impulse determined by the customer via the Internet, or through other connections between the supplier and the buyer.

Table 1. Business transactions, accounts, activities, worksheets and records associated to sales and collection

Business transaction categories	Accounts	Activities	Accountancy worksheets and records
1. Sales	Revenues from sales Debts- Customers	I. Reception and processing of customers' orders II. Granting trade loan III. Goods delivery IV. Customers' invoicing and sales recording	Sale-purchase contract Customer's order Forwarding agent's notice Delivery bill Advice of delivery, covering letter Invoice of sale, sales log Synthetic statement of sales Systematic file of debts Customer trial balance Monthly review statements
2. Collection	Treasury Debts- customers	V. Collection processing and recording	Payment notification, receipt bill Preliminary list of receipts Receipts log
3. Reimbursed sales and allotted allowances	Discounts Reimbursed sales Debts- customers	VI. Approval and reasoning upon allotted discounts VII. Processing and recording reimbursed goods	Invoice, accounting credit note Log of reimbursed sales and allotted discounts Reception, correspondence note, stock motion worksheets etc.
4. Debt monitoring and remediation of uncertain debts	Expenses generated by uncertain debts Adjustments of uncertain debts	VIII. Assessment of losses from uncertain debts, and maybe, their resuming or revision	Reports Notifications, decisions and other business letters Verifications lists and records of proceedings Inventory book

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Business transaction categories	Accounts	Activities	Accountancy worksheets and records
5. Withdrawal of irretrievable debts from the balance sheet	Debts- customers Adjustments of uncertain debts Losses from debts	IX. Adjustment cancellation and withdrawal from quarantine of irretrievable debts	Injunction Certification form of irretrievable debts General log

ii. Granting trade loan. Preceding goods delivery, it is important that an authorized person approves crediting the customer, when dealing with sales registering future payment terms. It often happens that inappropriate practices in approving loans may generate an excess of uncertain debts or may lead to the occurrence of debts which, eventually, may become irretrievable. One single mention of granting the loan on the order form may, often, serve as an approval of goods delivery. There are different units involved in solving these aspects by means of the sale order, the delivery note or the forwarding agent's notice signed for this purpose by the corresponding management. Inside certain companies, the computers automatically confirm credit sales, their confirmation being restricted by crediting limits previously established.

The delivery note is an internal worksheet which communicates the description, quantity and other details specific to goods and services ordered by the customer. This worksheet is frequently used for indicating credit approval and authorizing goods delivery.

iii. Goods forwarding is extremely important as it represents the first moment when the entity assets are conceded. Most of the companies recognize the moment of sale when forwarding goods. According to the national legislation, invoicing is undertaken within a reasonable interval of time, post-forwarding. When forwarding goods, a consignment and/or forwarding note, which may be automatically issued by the computer, considering the information provided in the received note. The delivery note made out in several copies is essential for an appropriate invoicing of deliveries to the customers. The entities applying the method of the constant inventory also update stock records taking into account the information concerning the delivered goods. The original is handed over to the customer, and one or several copies are kept inside the company. Sometimes, the asset motion worksheet between locations is represented by the covering letter or the bill of lading, which stands for a written agreement between the transporter and the seller and registers the delivery, as well as the reception of goods. For deliveries abroad, the reference worksheet remains the international covering letter confirmed by the real consignee when receiving the goods. By registering a code, the computer operators inform the system about forwarding goods which are described according to the delivery note and by activating a certain symbol of identification, the growth of the amount to be cashed from the customer involved is tied up.

The delivery note is often transmitted in electronic format and automatically generates the corresponding sale invoice, as well as its registration in the sales log. In addition, stock items, generally, are notched with bar codes, which may be scanned when leaving the storehouses. Therefore, information are introduced, checked out and/or transmitted to all related files, including the constant record of stocks.

iv. Invoicing the goods for customers and revenue registration. Due to the fact that the invoice represents the instrument by which the customer is informed about the sum owing for the delivered goods, it is recommended that it should be correctly elaborated and in due time. The most important aspects of invoicing consist in making sure that all the completed deliveries have been invoiced, that no delivery has been invoiced twice and that each delivery has been invoiced to the adequate nominal value. Invoicing the right amount depends on the calculation of the customer's debt considering the quantities of delivered goods, applying certified prices according to the field policy. The right price includes legal specifications concerning transport expenditure and payment, as well as insurances against all risks etc.

In most of the cases, invoicing the customer implies the elaboration of the worksheet in several copies, simultaneously with updating the file including sale transactions, the systemic file storing trading debts and the synthetic account card in order to check out sales and debts-customers. The information obtained is used to generate the sales log and, together with collection and different credit transactions, allows the elaboration of trade debt trial balance.

Sale invoice includes goods description and quantities, their price, transport costs, insurance against risks which may manifest during the transfer, payment conditions and other relevant data. Sometimes these elements are not explicitly revealed in the invoice, particularly, when dealing with a contract and/or an order, but the effect of the elements mentioned above is omnipresent, influencing the prices and the total amount. The sale invoice represents the instrument indicating the value of the sale transaction and the deadline for the payment. The original is handed over to the customer and one or two copies are kept by the emitter. Usually, the sale invoice is automatically made out by the computer after introducing in the system all necessary data determining the customer's identification, the quantity and the specification of delivered goods, as well as the sale terms etc. considering these details, the computer calculates the total amount and transmits the information needed for correlating and/or updating the files.

The sales log includes all business transactions undertaken for this purpose. As a rule, it indicates gross sales in terms of different categories, such as the production lines, the due sums charged in the customer's account and different due and credit sums. The sales log may also include transactions related to reimbursed goods and allotted discounts. Dealing with a computerized environment, the log is automatically updated while developing forwarding sale transactions. Sometimes, by including additional information, or by simply changing the presentation form, we may achieve the log concerning the value added tax collected by the entity during the reference period.

The synthetic case of sales is provided according to a worksheet generated by the computer, which resumes all the sale transactions developed during a certain period of time. As a rule, this situation includes information classified on key-components, such as the seller, the product and the territory, representing data bases for initiating financial, management and marketing analyses, in a word, economic analyses.

The systemic file of debts is used for registering sale transactions in analytical accounts, as well as turnovers and customer's outstanding balance. All these records are updated considering the data contained by files, which indicate sales, reimbursed sales, allotted discounts and collection performed. The total of individual outstanding balances on (analytical) accounts registered by the systemic file is equivalent to the

total outstanding balance given by the synthetic customer's account. As an additional control measure, we may implement this correlation in an automatic mechanism meant to assess the account turnovers. A printed version of the debt systemic file reveals, for each business partner, the initial outstanding balance, sale transactions – as a total amount, as well as on components, reimbursed sales and allotted discounts, the collection and the final outstanding balance. Sometimes, according to the organizational culture, it is designated as an “analytical register of customers” or a “systemic register of trade debts”.

The customer trial balance may be represented as a list of sums due by each customer at a given moment of time. This list is elaborated directly from the systemic file. Mostly, this balance indicates a chronological range and reveals: the age of each debt at the date of elaborating the synthesis statement; how long since its maturity; whether its deadline for payment has been exceeded etc. As a synthesis worksheet, it may also include other elements, such as: initial outstanding balances, turnovers, in term or in quarantine, the way how this kind of issue may be optimized, updated costs of granted loans etc.

The monthly review statement represents a worksheet sent to each customer, indicating the initial outstanding balance for his debt, the total amount and date for each sale transaction, cashed transactions, credit accountancy notes elaborated and the final outstanding balance to be cashed. Pointedly, it determines a part afferent to the customer's case issued by the systemic file and may be inserted in the invoice structure.

As we may observe, the four activities mentioned above are essential for transferring goods property to the business partner, for their appropriate invoicing and for reflecting adequate information in different accountancy records. The result of these activities defines the sale transactions. The following five activities concern: collection and registration of financial means, reimbursed sales processing, designation of allotted discounts, adjustment of uncertain debts and withdrawal of irretrievable debts from the accountancy balance sheet.

v. the processing and registration of money collection include the reception, deposit and registration of financial resources. The most important aspect of collection management is that all payment instruments and cash payments received should enter the bank⁴⁴ in due time and in total amount and should be properly recorded in the file indicating collection transactions. This aspect is used for drafting a collection log and for updating all files dealing with customers included within the integrated system, as well as the synthetic records. Payment notices play an important role in this case.

The payment notice is a worksheet which may accompany the sale invoice rendered to the customer and, as a general rule it may be returned to the seller together with the cash payment or the payment by check. It is used to designate the customer's identity, the number of the sale invoice and the invoice amount when receiving the equivalent value for the delivered goods. If the debtor (buyer) does not attach the payment notice when paying the invoice or when performing cash payment, then the person opening the mail, respectively, another independent person should draft such a payment notice when receiving settlement means or before cash collection. The payment notice and the cash collection receipt or order are drafted according to the own informational system and used for improving the control over the management of assets-cash flows: cash, checks, credit note, bills of exchange etc.

⁴⁴ As long as there is no way of acquiring another efficient destination, following a shorter trajectory.

If needed, the preliminary list of payments is drafted in the moment of receiving cash payments or checks, by an individual who, normally, is free from responsibilities deriving from the accountancy recording of sales, debts or financial means, therefore, this person has no access for altering and/or processing the records. This list is used for checking out whether the financial means received by mail or in cash have been recorded and deposited in due time and at their real value.

Money collection log is used for registering the reception of financial means in the account of settled invoices, of sale transactions requiring immediate payment and of all the other payments.

Regardless of its designation, the worksheet represents a basis for the internal verification exhaustively indicating money collection level. It provides a precise situation of received payments, credit sums recorded in the debt accounts at the level of the gross value of the initial sale transaction, of different price discounts allotted in the account or in cash, and of other debits and credits. The daily records in the collection log are justified by payment notices (stand-off situation). The log may be drafted for any period of time, starting from the collection transactions included in the computer files.

vi. Approval and reasoning upon allotted discounts revealed by the accountancy records. When a customer complains about the delivered goods or when there appear other problems and/or opportunities, the seller may grant different compensations. It is essential that all economic decreases applied to debts meant to come out in favor of the debtors, either trade or financial compensations, to be rightfully and promptly recorded in the debtors' systemic file, as well as in all the accounts influencing the result.

vii. Processing and registration of reimbursed goods. If, on many accounts, much more profound, unpredictable and undesired, the customer is highly dissatisfied with the delivered goods, and the compensatory policy applied by the supplier is not suitable, then the sold goods will be reimbursed. For this case the undertaken records and correspondence determine a complex and demanding procedure, but we do not intend to develop this situation. If this kind of situation cannot be avoided, eventually, the essential aspect is that the seller regains the property of goods. Regularly, the company elaborates an entry-taking delivery note for the reimbursed goods, simultaneously with the transfer of goods to the warehouses. In other companies this procedure for reimbursed goods and allotted discounts consists in the elaboration of credit accountancy notes meant to determine a better accountancy control over these transactions. We consider that it represents an internal worksheet generating a serious cultural impact. It indicates a discount of the sum due by the customer, determined by means of reimbursing goods or granting price allowances approved by the hierarchically authorized staff. When dealing with trade allowances, it is important to observe if this unilateral document is also sufficient for discounting and/or transferring values or materials between business partners. Considering the fact that we are confronting with processes which affect the resources and the sources belonging to the entities involved, generating expenses and/or revenues⁴⁵, results, this worksheet assumes the general format of a discount invoice which justifies a diminution of the customers' account, and not its enhancement. According to the national legal provisions, the issuance of an invoice rather by the initial supplier than by the buyer becomes compulsory.

⁴⁵ Generally belonging to the area of application of the value added tax.

The log recording reimbursed sales and allotted discounts represents a worksheet used for following all the transactions concerned with the reimbursement of sold goods and the allotment of compensations favorable to the customers. It fulfills the same functions as the sales log. Numerous companies register these transactions in the sales log rather than in a separate log.

viii. Value adjustments applied to uncertain debts. The level of debts resulting from sales with weak chances for payments needs to be reduced to a sufficient quantum, in order to compensate the sales of the current financial exercise, whose value is improbable to be collected in the near future, according to the company's assessments. The value of depreciation constitutes a loss and not a remuneration of customers' efforts, resulting from the regulation processed at the end of the financial exercise consisting in value adjustments of uncertain debts. The difference, calculated for the debtors introduced in the quarantine, is given by the comparison between the nominal value, which is more important, and the value potentially to be collected, which is more reduced.

ix. Withdrawal of irretrievable debts from the balance sheet. Regardless of the rigor proved by the credit, action and defraying departments, it is not surprising the fact that customers avoid paying the invoices. When the management reaches the conclusion that a certain sum cannot be recovered, it should be withdrawn from the balance sheet. This situation usually occurs when a customer goes bankrupt or when that respective debt is rendered, conceded to a debt recovery company. The precise accountancy recording of sums declared as irretrievable implies an adjustment transaction substantially investigated, analyzed and approved.

To this respect, the certification form of irretrievable debts may be implemented. This form is used within the entity for withdrawing debts considered as being irretrievable from the balance sheets. This form provides the processing in a special account designated as "Debtors removed from the assets and still monitored" the amount values with extremely reduced chances to be recovered. It happens that certain sums, parts of these amount values, after reaching this stage, to be recovered, but, they are completely removed from the accountancy when all possibilities of collecting them become irrevocably null after a certain interval of time.

4. INSTEAD OF CONCLUSIONS

As a conclusion, we may explain why we have referred to sales-collection and not simply to sales. Our explanation is very simple, besides the fact that the collection stage is far from revealing a completely developed form; we assume that the image proposed for the reader is almost complete. The sales defraying process itself may generate other revenues and costs, additional benefits or losses etc. We consider that the environment we have presented was able to induce a comprehensive overview, as well as the desired focus.

The concerned reader or the young auditor may easily observe in our representation: task separation, power centers inside an organization and their functioning, barriers placed to block the risk of failing and other security elements of the control accounting subsystem of sales. All these measures represent, in our opinion, points of interest for anyone willing to efficiently diagnose such a management.

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