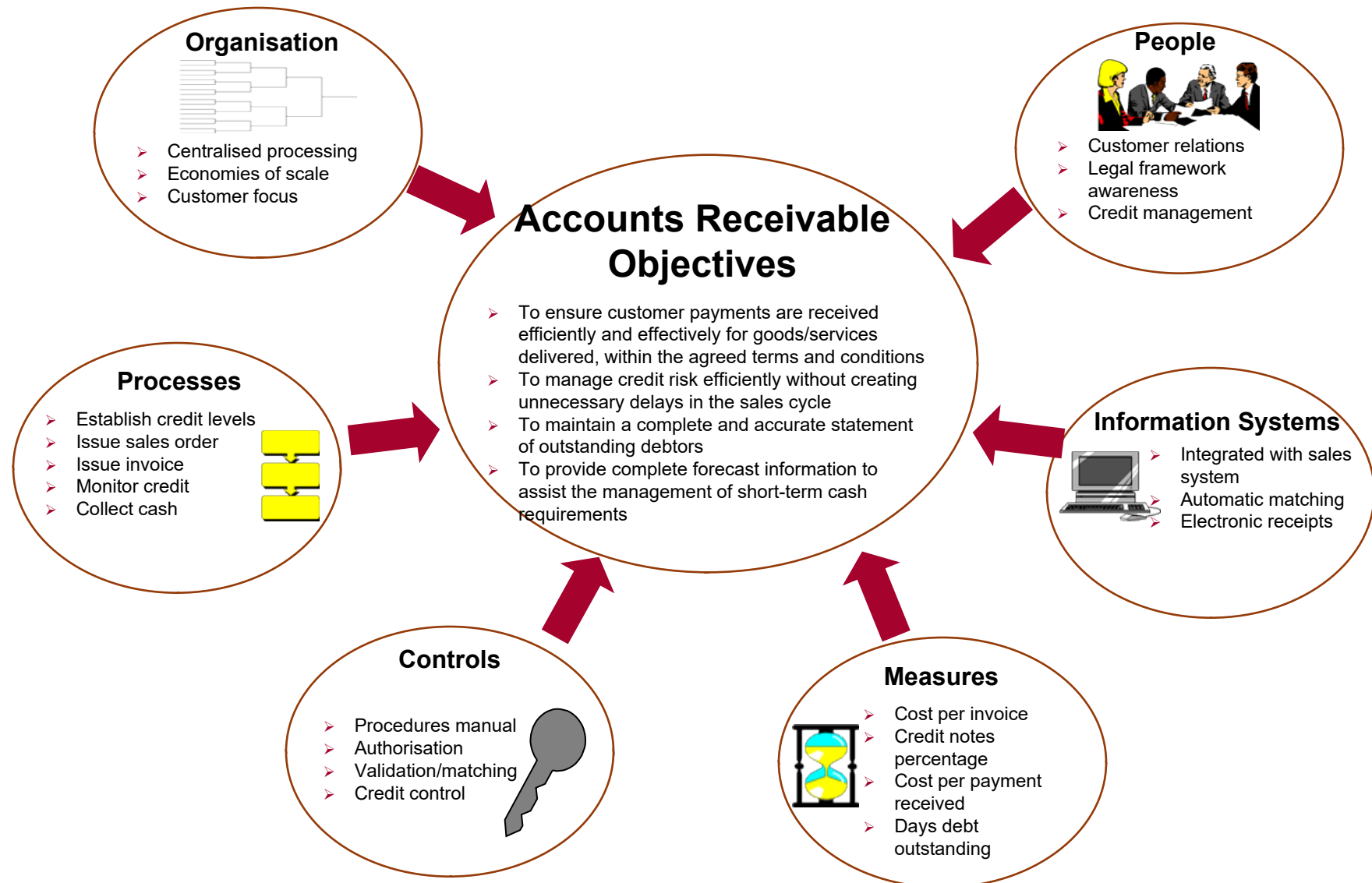


Best Practice Financial Processes: Accounts Receivable

Account Receivable - Best Practice Objectives



Accounts Receivable - Best Practice Features



Process Features

- | | | | |
|---|---|---|--|
| ➤ Formal credit checks applied to all new customers within 24 hours using credit bureau | ➤ Sales orders prepared using pricing database with pricing profiles for products and customers | ➤ Consolidated periodic invoicing for high frequency shipments | ➤ Credit insurance arrangements evaluated periodically |
| ➤ Monitor credit status/terms on regular basis | ➤ No order processed without valid customer PO reference | ➤ Bank remittance notices issued with sales invoices to facilitate reconciliation | ➤ Customer account managers responsible for sales and cash collection |
| ➤ Customer account managers provided with up to date credit status | ➤ Delivery note acts as invoice for low-frequency shippings | ➤ Self billing invoices by high volume customers | ➤ Constant monitoring of debtor days, daily collection, ageing of debt |
| ➤ Treasury policy set on late and prompt payments | | ➤ Consider outsourcing regular invoice/payment eg utilities | ➤ Customer contact records maintained |
| ➤ Authority levels clearly defined | | ➤ Regular review of invoice queries and credit notes | ➤ Outsource cash collection where appropriate |
| ➤ Credit policies defined and agreed | | ➤ Reconciliation of AR balances to GL control accounts on a regular basis | ➤ Determine and report on credit targets |
| ➤ Terms and conditions agreed with customers | | | ➤ Monitor overdue debts and take action within agreed policy |

Accounts Receivable - Best Practice Features



System Features

- | | | | |
|--|--|--|--|
| ➤ Consolidated credit position for group of customers | ➤ SOP linked to debtors ledger to ensure customer credit limits not exceeded | ➤ Common SOP and AR customer database | ➤ Payments received electronically where possible |
| ➤ System provides on-line customer payment history and terms | ➤ Sales documents sent via EDI for all major customers | ➤ Invoices automatically generated from SOP and shipment data | ➤ Automatic matching of payments to invoices |
| ➤ Use of workflow software to monitor process and help resolve queries | ➤ Integrated order & billing systems available on line & hard copy | ➤ Self billing invoices automatically matched to customer orders | ➤ On-line diary facility to monitor calls |
| ➤ Standard credit control reports | | ➤ Multi currency invoices | ➤ Automatic flagging and reporting of high risk accounts |
| | | ➤ Automatic commitment and accruals | ➤ Automatic dunning letters issued within agreed trading terms |
| | | ➤ Automatic reconciliation facilities between integrated SOP AR and GL systems | ➤ Integrated systems to facilitate customer query handling |
| | | | ➤ Forecast cash receipts available for treasury purposes |

Accounts Receivable - Trends

From

- Separate AR module
- Payment by cheque
- Complex/variable trading terms
- Manual matching
- Performed by Finance department

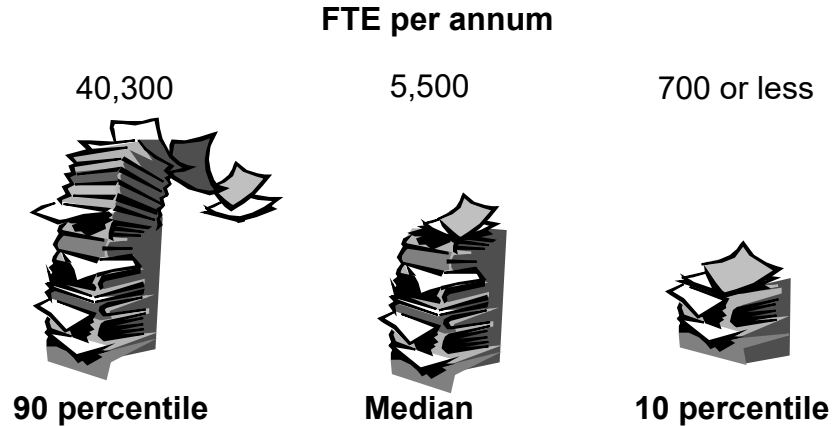


To

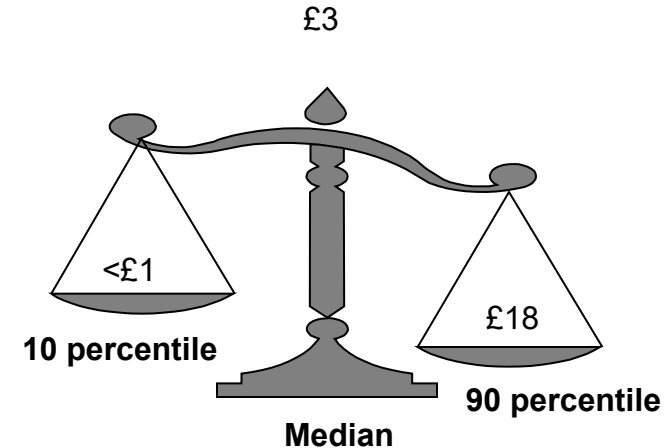
- Integrated systems
- Electronic payment
- Common trading terms for all customers
- Automatic matching
- Shared or outsourced services

Accounts Receivable - Measures/Cost Drivers

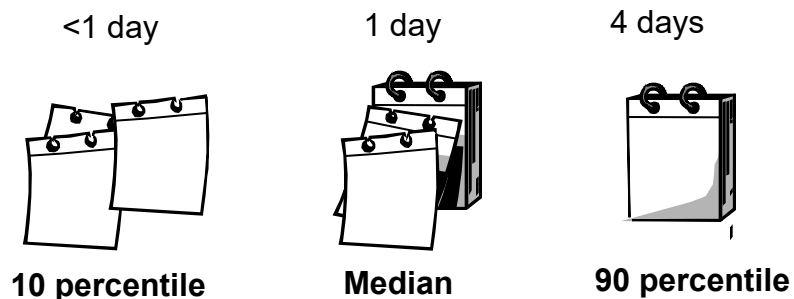
Number of customer payment received per accounts receivable FTE per annum



Accounts receivable cost per sales invoice processed



Days to process invoice/credit note (ie, time between receipt of invoice/credit note and entry into the accounting system)

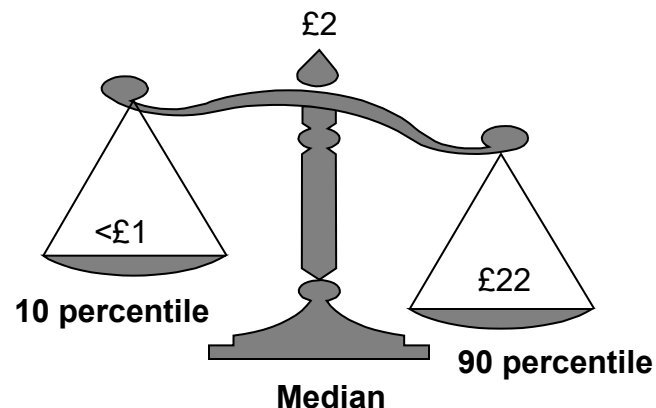
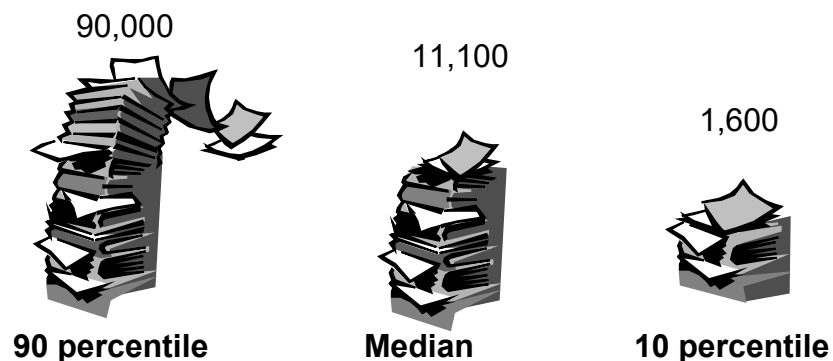


Cost drivers

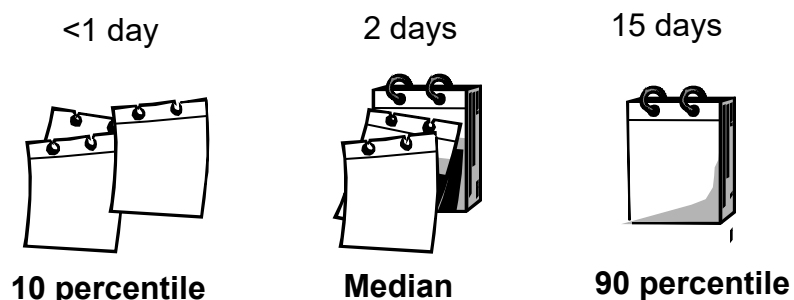
- Number of AR receipts
- Level of multiple receipts
- Use of direct debiting/standing orders
- Use of electric funds transfer
- Level of credit risk associated with customer base
- Variety in payment terms
- Degree of foreign currency receipts
- Level of credit notes

Billing - Measures/Cost Drivers

Number of sales invoices generated per billing FTE per annum | Billing cost per sales invoice and credit note processed



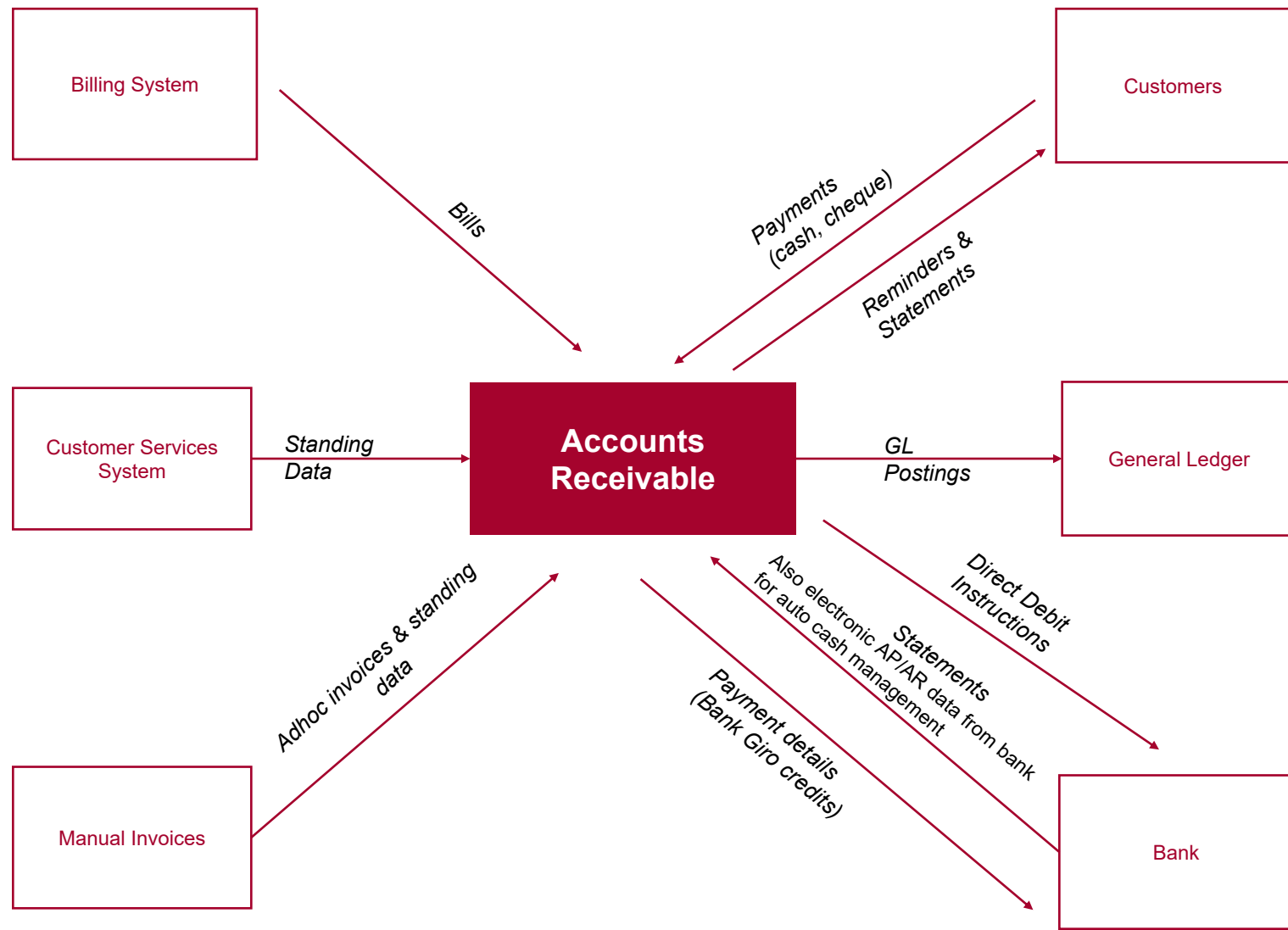
Days from despatch of goods to preparation of sales invoice



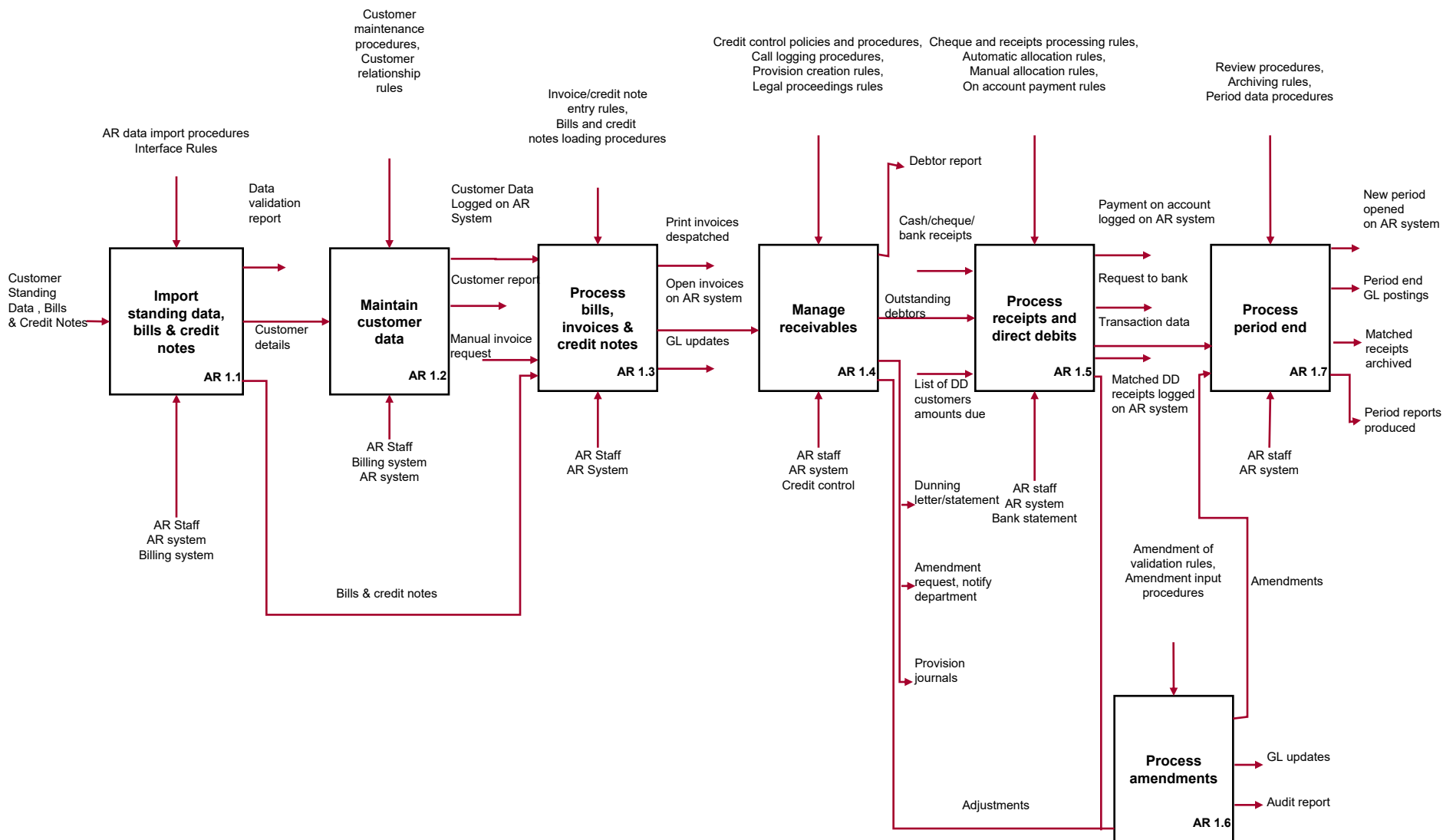
Cost drivers

- Number of invoices
- Number of customers
- Use of EDI
- Complexity of service/goods supplied
- Variety in terms and conditions
- Complexity of discounts
- Degree of foreign currency invoicing
- Number of complaints
- Accuracy/level of credit notes

Accounts Receivable - Level 0 Context Diagram



Accounts Receivable - Level 1 Overview



Accounts Receivable Notes Maintain customer data

Best Practice Features

- Send bill to one address only. Where a customer is provided with goods or services at a number of locations, the consolidation in the billing process not only reduces the number of bills to be verified or created but also decreases the potential need to reconcile a number of receivables on individual accounts.
- Centralise the customer set-up process in order to ensure consistency.

Internal control requirements

- In order to minimise the risk of duplication of the data and the unauthorised set-up of customers, the process should be centrally controlled and operated.
- Before any customer is deleted from the system, evidence should be produced that the customer has been inactive for the appropriate period of time and no outstanding balances are present. Approval for deletion is obtained by management authority signature.
- The changes to customers report is regularly checked and monitored.
- System notification of duplicate business and birth registration numbers.

Accounts Receivable Notes Maintain customer data

Cost Drivers

- Number of customers
- Number of new customers
- Number of customer changes
- Number of required customer standing data fields
- Possibility of sharing standing database
- Overlap between databases
- Search criteria and standardisation to avoid duplication/redundancy

Key Performance Indicators

- Number of changes and additions carried out in a year per FTE
- Number of customers in op. database without transactions for 1 year
- Percentage of changes and additions of total customer base

Accounts Receivable Notes Manage Receivables

Best Practice Features

- Aged debit balances should be reviewed by management on a regular basis and explanations sought as to why debts have failed to be recovered.
- Overdue debit balances occur as a result a number of factors of sub-optimal performances within the sales department or within the credit control process or AR - info not recorded from bank quickly enough and therefore not processed quickly enough or timing of invoice issue. The root causes need to be addressed and rectified by altering the creditability status of the customer.
- Automatic flagging and reporting of high risk accounts.
- Materiality and time limits.

Internal control requirements

- It is essential that debit balances are reviewed regularly and matched with payments promptly in order to avoid the risk of fraud and minimise the chances of bad debt.
- Computer diary of actions taken.
- Stops placed on overdue customers.
- Aged debtor report sent to legal department and functional managers.

Accounts Receivable Notes Manage receivables (Cont...)

Cost Drivers

- Number of overdue open items.
- Number of steps in the dunning procedure.
- Quality and timing of the matching process of receipts.
- Availability of dunning enforcement measures.
- Tolerance criteria.
- Payment terms and conditions policy.

Key Performance indicators

- Days outstanding as a percentage of average payment term.
- Value of overdue invoices as a percentage of outstanding balances.
- Bad Debt Provision as a per
- centage of outstanding balances.
- Process cost/customer payment received.
- Number of dunning letters as % of total invoices.
- Write off value as % of (sundry) sales revenue.

Accounts Receivable Notes Process receipts and direct debits

Best practice features

- Use of an electronic interface between bank, cashiers and AR treasury
- Automatic matching of receipts by value and invoice number

Internal control requirements

- Interface control total with bank and cashiers, daily
- Regular supervisory review of open and unmatched items
- Documentation of all overdue open items and unmatched receipts

Accounts Receivable Notes Process receipts and direct debits

Cost Drivers

- No. of Receipts for more than one transaction
- Percentage of downpayments
- Quality of payment information
- Number of unmatched payments
- Number of foreign currency receipts and exchange rate differences
- Tolerance payment differences
- Number of criteria for automatic matching

Key Performance Indicators

- Monthly and cumulative tolerance difference amounts
- Percentage of receipts cleared automatically in month
- Number of manually matched receipts per FTE
- Number of unmatched receipts older than 1 month

Accounts Receivable Notes Process amendments

Best Practice Features

- Single contact point for all queries. Although the query processing can be distributed there are obvious inefficiencies in directing enquiries to a number of contact points.
- Have access to sufficient data to be able to handle the majority of queries on-line. In this context, the use of image processing allows invoices to be called up on screen quickly and, if necessary, automatically copied to the enquirer through the medium of autofax.

Internal control requirements

- In order to operate an effective helpdesk, staff will require to have access to most parts of the accounts receivable system. This should be on a 'read only' basis in order to minimise the potential for fraud taking place.
- Targets set for time to answer queries.

Accounts Receivable Notes Process amendments

Cost Drivers

- Number and variety of queries received.
- Availability and flexibility of standard screens.
- Complexity of database for tailor-made queries.
- Response times of enquiry systems.
- User-friendliness of enquiry systems.

Key Performance Indicators

- Average time taken to process queries.
- Percentage of queries answered within targeted time.

Accounts Receivable Notes Process period end

Best Practice Features

- Automatic process requiring minimum or no manual intervention. This is a standard feature of modern Accounts Receivable packages and the only possible problem area could be with the nature of the interface with the general ledger package.

Internal control requirements

- The basic requirement is to ensure that the data transmitted to the general ledger is complete and on time.
- There is a requirement to ensure that the information recorded in the general ledger agrees with the output from accounts receivable.
- A reconciliation should be carried out between debtor balances on GL compared with AR.
- Check VAT exception report to pick up any late VAT postings.

Cost Drivers

- Volume of monthly period end reports.
- Quality of day to day controls.

Key Performance Indicators

- Percentage of period end closures within target.
- Average number of days to produce monthly information.

Best Practice Financial Processes: Fixed Assets

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