

Processing

The student has accurately processed complex financial information for the entity's accounts receivable subsystem.

Elements of the accounts receivable subsystem

One system that Aladdin's Toys implements to control credit customers is credit checking their customers. Credit checking is important because it means that the customers can only buy on credit according to the state of their credit history. Using credit checks for the business is beneficial because it will ensure that their accounts are safe because they are positive that debt will be paid according to their credit checks. Joy will also have trust in their customers.

1

The main purpose of having an accounts receivable subsidiary ledger is to keep a record of each individual customer's account. Each customer will have their own account within the ledger which records all the credit transactions between the customers and the business. This ledger will allow the business to know at any time by the account balance how much a customer currently owes the business. For example, looking at the ledgers, Joy can see that P Jasmine owes Aladdin's Toys \$3,500. Having an accounts receivable subsidiary ledger is very useful for Aladdin's Toys. This helps Joy to keep a record of all transactions made by her credit customers and provide her with the advantage of checking how much each customer owes.

1

Every month Joy sends out a statement to all credit customers as a reminder of what they owe. Sending out friendly reminders when an account is one month overdue often assists the process of minimising late payment and letting customers know that Joy is keeping an eye on her accounts. Statements are sent out on the 20th of every month. We can see from the ledgers that S Jafar and M Abu paid off part of their accounts on the 23rd March.

2

In the general ledger, an accounts receivable control account is kept to summarise all the individual transactions that appear in the subsidiary ledger. The accounts receivable control account records totals of credit sales, cash received from debtors, sales returns, and more. Then all the transaction totals in the accounts receivable control are available as the total of the individual account balances in the accounts receivable subsidiary ledger will equal the balance in the control account at any time. This allows Aladdin's Toys to identify whether there are errors in the accounts when the balances don't equal.

1

The purpose of having an aged debtors report is to allow Joy to identify the age of each debtor's debt and what action to take based on this. It allows Aladdin's Toys to identify the totals that are owed by how long they have been owed. As mentioned, monthly statements are sent as a reminder, if a debt has been overdue for two months, this is followed up with an email and a phone call.

1

If a debt has been owing for three months or more Joy engages a lawyer if the amount is over \$1000 to try to recover the debt, and if not then the debt is written off, like in the case of M Carpet. Bad debts reduce the cash coming into the business and therefore the amount that can outflow in expenses.

Overall, Aladdin's Toys use various ways to help keep control of their accounts receivable and to keep their accounts safe. From keeping records, credit checking and sending reminders, Joy uses these ways to minimise the risk of losing big amounts of money.