

Processing

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

Elements of the entity's accounts receivable subsystem

Bella Boutique is a business in Wellington that is managed by Tony. Bella Boutique earns half of its income by selling clothes and accessories on credit.

Bella Boutique offers credit, but not to all customers, as the potential credit customer has to fill out a credit application form. The credit application form states the person's name, date of birth which is the most important as it helps to verify the correct customer, employment and place of residence amongst other things. Bella Boutique manager Tony has the job of approving the credit applications, to help Tony decide if the potential customer has sufficient funds to pay their debt off to Bella Boutique. He can check the potential customer's previous and/or current credit accounts at other businesses. This is used to check their reliability of payments and the customer will either not be allowed credit or a credit limit will be set based on the information. This means that Bella Boutique can ensure they are allowing credit to customers who are likely to pay or putting processes in place to ensure cash flow is not too badly affected. They also sign to say they accept any additional charges from Bay Corp if they are behind in their payments and Tony needs Bay Corp to chase them up.

1

When customers apply for credit accounts some say they can pay a certain amount per week. This number can be used to decide the customer's limit. The customer may want to set themselves a limit or they may not have had any previous credit accounts and are young, which means that Tony will set a credit limit for them of \$100 until he believes that the customer is reliable with payments. To decide a customer's credit limit, if the customer says that they can pay a certain amount per week that number is multiplied by four to get the amount they can pay per month. For example, M Claire has a credit limit of \$2000. Credit limits are important as they stop the customer buying more than they can pay off. Credit limits at Bella Boutique are strictly enforced as most people set them themselves and don't want to spend more money than they can afford to pay off. This ensures that customers will be able to pay Bella Boutique the amounts owing.

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An example of this from the Accounts Receivable Subsidiary Ledgers is when B. Louise wanted to buy an item for \$300 but could not as this would take her over her \$1000 limit and they had not paid any of their account in the past three months, which means B. Louise cannot buy anymore on credit, so if she still wants to buy the items she will have to pay cash.

2

Bella Boutique's manager, Tony, keeps a close eye on the Aged Debtors Report that is produced at the end of each month and the length of time since each credit customer's last

payment. An Aged Debtors Report is where each customer's debt is sectioned into the amounts they bought each month so that you can see how much they owe and how far overdue they are. It is important to prepare an Aged Debtors Report as it shows how much they spend each month and how long it has been since they had bought from the shop. If a customer has not made any payments towards their account in three months such as B Louise who owes \$750 for 3 months then they get sent a reminder or are called by Tony or another member of staff. At the end of each month each customer gets sent their statement and if they are three months or more overdue on payments then they will either receive a reminder with their statement or they will receive a phone call telling them how far behind they are and asked why they haven't been able to pay off their account. The purpose of this is to notify the customer of how much they owe Bella Boutique and how up to date they are on their payments and to try to get the money owed back.

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Bella Boutique handles all payments manually. This creates more work for Tony as he had to process all cash payments and direct credits manually and he can have up to 50 payments per day. Every day Tony checks his internet banking account to see what payments have come in overnight and records them all manually, as these are direct credit payments to Bella Boutique.

When a cash payment is made to Bella Boutique Tony records it manually and gives the customer a receipt to show that they have paid that amount of their account and keeps a copy for the store.

If a customer has not made any payments in 4-5 months then Tony gives their account to Bay Corp to follow up and the extra that Bay Corp charges is added to the customer's account. The customer's name then gets put on a national list for people with bad credit ratings. If Bay Corp is unable to recover the money then the Tony writes the debt off as bad. But Bella Boutique still gets the GST back on the cost of the stock they have sold.

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An example of this is P. Ants as they have not paid any of their account in four months, so Tony decides to write P. Ants off as a bad debt as he knew that there was no chance of getting the money.

Bella Boutique uses the Accounts Receivable Subsidiary Ledgers to show what sales, payments, sales returns and other expenses or corrections that have been made to the accounts of each individual credit customer. This shows accurate records of the credit customers' accounts so that Tony knows how much is owed by each customer. It also shows Tony how much is being paid to Bella Boutique and if the payments are becoming less each month even if the sales are going up.