

## Processing

*The student has processed detailed financial information for the entity's accounts receivable subsystem.*

### Elements of the accounts receivable subsystem

#### Credit checking

Floral Supplies has recently started to credit check potential debtors. This allows Selena to make an informed decision about giving credit to applicants. Floral Supplies pays to subscribe to Baycorp so from now on should be make good use of the credit database. A credit check will bring up a red flag about customers history with other credit providers. Selena would then decide whether or not to allow them credit.

For debtors who do end up being slow to pay, even after having a good credit record, Selena will stop giving extra credit until their accounts are brought up-to-date. This 'stop credit' policy encourages debtors to pay quickly as they will not wish to jeopardise their supply of flowers.

#### Monthly Statements

Floral Supplies send monthly statements. By sending out monthly statements Selena is informing customers of their opening and closing balances, and their transactions for the month. Sometimes an entity makes accounting errors which go undetected until customers notice them, **as happened when Flowers R Us noticed the \$48 error on their statement.**

1

#### Aged Debtors Report

Floral Supplies prepares monthly Aged Debtors Reports. **The purpose of the ADR is to allow close monitoring so that problems can be anticipated and interventions used before debts turn bad. The opening balances for May show that five of the eight debtors had balances overdue by at least two months, representing 52% of the Accounts Receivable balance. By the end of the month three of the five debtors with balances have debts that are three months overdue.** The format of the Aged Debtors Report provides a simple visual indication that any amounts to the right of the 'current' column are overdue. This makes it easy for Selena to implement a range of collection strategies.

1

In conclusion, Floral Supplies has some very useful and clever procedures in place to help them manage their accounts receivable, and to protect their assets. Their use of credit checks and stopping credit etc makes Floral Supplies a very attractive company.