



National Certificate of Educational Achievement
TAUMATA MĀTAURANGA Ā-MOTU KUA TAEA

Exemplar for Internal Achievement Standard

Accounting Level 2

This exemplar supports assessment against:

Achievement Standard 91179

Demonstrate understanding of an accounts receivable subsystem for
an entity

An annotated exemplar is an extract of student evidence, with a commentary, to explain key aspects of the standard. It assists teachers to make assessment judgements at the grade boundaries.

New Zealand Qualifications Authority

To support internal assessment

	Grade Boundary: Low Excellence
1.	<p>For Excellence, the student needs to demonstrate comprehensive understanding of an accounts receivable subsystem for an entity.</p> <p>This involves:</p> <ul style="list-style-type: none">• processing complex financial information for the entity's accounts receivable subsystem• justifying elements of the entity's accounts receivable subsystem. <p>The student has processed complex financial information for Bella Boutique.</p> <p>The student has explained and justified elements of the accounts receivable subsystem (1). Justifications are linked to retrieving cash from credit customers.</p> <p>Transactions have been integrated into the report (2).</p> <p>For a more secure Excellence, the student could have provided further justifications, such as the consequences of not keeping accurate records of payments and ledgers (3).</p>

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.

1

1

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.

2

1

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.

1

2

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.

	Grade Boundary: High Merit
2.	<p>For Merit, the student needs to demonstrate in-depth understanding of an accounts receivable subsystem for an entity.</p> <p>This involves:</p> <ul style="list-style-type: none"> • processing detailed financial information for the entity’s accounts receivable subsystem • explaining elements of the entity’s accounts receivable subsystem. <p>Complex financial information has been accurately processed for the entity Aladdin’s Toys, and this processing has been completed to Excellence level.</p> <p>The student has explained the accounts receivable subsystem, providing reasons for why certain systems are in place (1).</p> <p>Transactions have been integrated into explanations (2).</p> <p>While the processing of financial information is at Excellence, this standard sits within the systems cell on the Accounting Matrix, therefore discussion of the accounts receivable subsystem elements carries greater weighting in determining the grade.</p> <p>To reach Excellence, further justification is required. For example, the student could explain the consequence of a procedure, such as what Aladdin’s Toys could do if the accounts receivable subsidiary ledgers and the accounts receivable control account do not equal, or the consequences of not keeping accurate records.</p>

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.

	Grade Boundary: Low Merit
3.	<p>For Merit, the student needs to demonstrate in-depth understanding of an accounts receivable subsystem for an entity.</p> <p>This involves:</p> <ul style="list-style-type: none">• processing detailed financial information for the entity's accounts receivable subsystem• explaining elements of the entity's accounts receivable subsystem. <p>The student has accurately processed detailed financial information for Floral Supplies.</p> <p>Some elements of the accounts receivable subsystem have been explained, such as stopping credit to slow paying debtors.</p> <p>There are some links to the processing (1).</p> <p>For a more secure Merit, the student could include reasons in their explanations for why procedures are necessary and how they help the entity to manage accounts receivable. The student could also use further transactions within these explanations.</p>

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.

	Grade Boundary: High Achieved
4.	<p>For Achieved, the student needs to demonstrate understanding of an accounts receivable subsystem for an entity.</p> <p>This involves:</p> <ul style="list-style-type: none"> • processing financial information for the entity's accounts receivable subsystem • describing elements of the entity's accounts receivable subsystem. <p>The student has processed financial information for Stoneworld.</p> <p>Elements of the accounts receivable subsystem have been described (1). There is some description of how the elements help Stoneworld recover debts.</p> <p>One description has been enhanced by reference to processing (2).</p> <p>To reach Merit, the student could provide a full explanation of each procedure, for example, the student could explain why credit checks would ensure credit customers pay on time. The student could also use further transactions within descriptions.</p>

Processing

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

Elements of the accounts receivable subsystem

Aged Debtors Report

Preparing an Aged Debtors Report at the end of each month allows Kim Stone to view her debtors' payments and sales made in the previous month, also any overdue accounts. Stoneworld can benefit from an ADR by identifying slow paying customers. Kim will know who to contact directly for any overdue payments.

1

The ADR I have prepared for April highlights the debtors that are at risk of becoming bad debts. For example, L Rooney owes Stoneworld a total of \$2000 and has not made a payment for 3+ months. He is a risk for the business, as well as A Fonua who owes a total of \$1800 and hasn't paid for 2 months. This can affect Stoneworld's cash flow and reduce the production of the business.

2

Credit Checks

Kim has a credit check process in place for Stoneworld. Credit checking is an important part of a successful business as it highlights debtors with a bad credit history and identifies those who could be poor debtors in the future. Credit checking all customers will assure Kim that her debtors are capable of paying their account in full and on time. This highly reduces the risk of bad debt.

1

Monthly statements

Sending out monthly payments is important for both the business and the debtor. It reminds the debtors of any overdue payments. Monthly statements display all information of purchases, dates, total amount and highly any overdue payments which require immediate attention.

1

Accounts receivable subsidiary ledgers

Individual subsidiary ledgers are kept by Stoneworld so each transaction and payment can be recorded, as well as the date of the sale. Using these ledgers is good practice for the business as it keeps them organised and means that information about accounts receivable is readily available, when needed. An example of this is seen in the first part of the internal – the processing of the subsidiary ledgers.

	Grade Boundary: Low Achieved
5.	<p>For Achieved, the student needs to demonstrate understanding of an accounts receivable subsystem for an entity.</p> <p>This involves:</p> <ul style="list-style-type: none">• processing financial information for the entity's accounts receivable subsystem• describing elements of the entity's accounts receivable subsystem. <p>Detailed financial information has been processed for Wellington Wholesalers.</p> <p>The student has described elements of the accounts receivable subsystem, with some indication of why Wellington Wholesalers use them (1).</p> <p>The student has referred to an aspect of processing to strengthen a description (2).</p> <p>For a more secure Achieved, the student could describe why the credit checking element is used, and ensure that descriptions of elements are placed in the context of Wellington Wholesalers.</p>

Processing

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

Elements of the accounts receivable subsystem

Credit Checking

Credit checking potential customers means making sure debtors will be able to pay their accounts, by asking them to complete a credit application form and checking their past payment history.

Accounts receivable subsidiary ledgers

Wellington Wholesalers prepare accounts receivable subsidiary ledgers which provide individual accounts for each of the customers who make purchases on credit. It records all of the customers' account balances. The sum of all customer accounts balances in the accounts receivable subsidiary ledger should equal to the balance of the general ledger in the accounts receivable control account. As we can see, Wellington Wholesalers has a subsidiary ledger balance that is equal this means there are no errors and no credit was given out incorrectly to customers.

1

Aged debtors report

With this report we can see how long customers' debts have been outstanding for and the totals for each month. Now James will know the amounts he is owed and how long the amount has owed. He can then determine the credit limits for these overdue customers and follow up on them otherwise in the future these customers could turn out to be like B Spears that had \$8150 debt in December and James had to charge her an overdue fee at the end of March.

1

2

Statement of debtors

The purpose of the statement to debtors is to make sure that customers are aware of what they owe the business. It can also act as an invoice so customers can see if they are charged the right amount of money making sure there are no errors.

	Grade Boundary: High Not Achieved
6.	<p>For Achieved, the student needs to demonstrate understanding of an accounts receivable subsystem for an entity.</p> <p>This involves:</p> <ul style="list-style-type: none"> • processing financial information for the entity’s accounts receivable subsystem • describing elements of the entity’s accounts receivable subsystem. <p>Financial information has been processed for the entity Switched-On.</p> <p>The student has provided generic statements about elements of an accounts receivable subsystem (1).</p> <p>One element has been described in the context of Switched-On (2).</p> <p>To reach Achieved, the student could expand descriptions to reflect on actual practice within Switched-On, for example, what has credit checking actually allowed Lani to do within the business? The student could also describe why processes occur and how they link to the objectives of the subsystem.</p>

Processing

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

Elements of the entity's accounts receivable subsystem

Switched-On is an electrical supplies company owned by Pele and Lani.

Accounts receivable subsidiary ledger

The purpose of this is to enable the owners see the day-to-day situation with debtors. The subsidiary ledger is an accounting ledger that shows the transactions and payment history separately for each credit customer. This means you can see who owes money and how long it has been owed for.

Credit checking

Credit checking allows you to see the credit history of potential debtors. If you found out from the credit agency that someone who had applied for credit had had overdue accounts or bad debts in the past from other credit suppliers, you could make a decision that they could be too risky to take on as credit customers.

Reconciliation of subsidiary ledger and control account

When a customer calls to complain about an error, such as being charged for something they didn't buy, a reconciliation of the balances of the individual subsidiary accounts with the control account will not detect an error if the sale has been posted to the wrong customer account.

Statements

The purpose of a statement to debtors is to show the debtor what transactions have occurred. It shows the customer what sales have been made and what payments made. Also any other information like how long the customer has owed the debt.

Invoices

Switched-On issue numbered invoices and only Pele and Lani issue invoices.

Aged Debtors Report

The purpose of an aged debtors report for Switched-On is to divide the accounts receivable into groups, depending on how long debts have been owed for. The aged debtors report can provide a good idea of whether the debt is likely to be repaid at all. The older the debt, the less likely it is to be collected. Jones has a debt that has been owed for 3+ months. Jones might not even be able to be contacted. He might have changed phone numbers or address. He has got away without paying for three months so might never intend to pay. And because Switched-On has already done the electrical work for him, they can't go back and undo it.

1

2