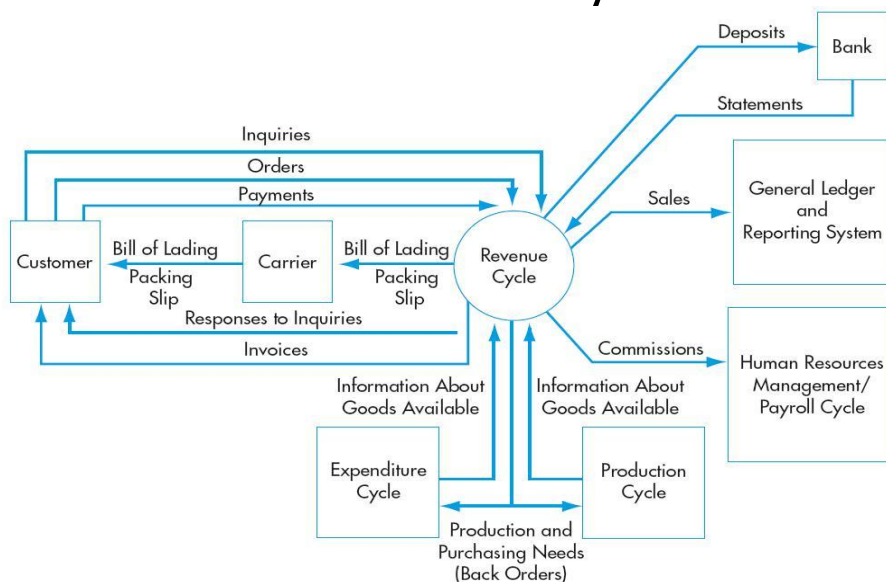# The Revenue Cycle: Sales to Cash Collections

Learning Objectives

- Describe the basic business activities and related information processing operations performed in the revenue cycle.
- Discuss the key decisions that need to be made in the revenue cycle, and identify the information needed to make those decisions.
- Identify major threats in the revenue cycle, and evaluate the adequacy of various control procedures for dealing with those threats.
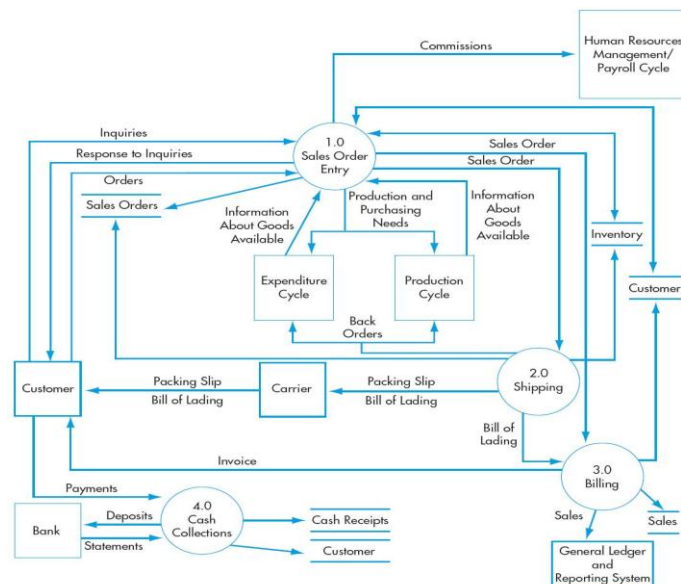
The Revenue Cycle

The Revenue Cycle

- Provides goods and services to customers
- Collects cash in payment for those sales
- Primary Objective:
  - Provide the right product
  - In the right place
  - At the right time for the right price

Revenue Cycle Activities

1. Sales order entry
2. Shipping
3. Billing
4. Cash collections
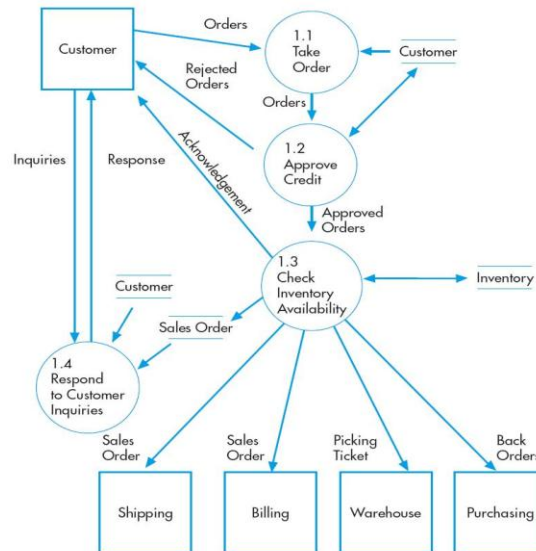
General Revenue Cycle Threats

- Inaccurate or invalid master data
- Unauthorized disclosure of sensitive information
- Loss or destruction of master data
- Poor performance

General Revenue Cycle Controls

- Data processing integrity controls
- Restriction of access to master data
- Review of all changes to master data
- Access controls
- Encryption
- Backup and disaster recovery procedures
- Managerial reports

Sales Order Entry

1. Take order
2. Check and approve credit
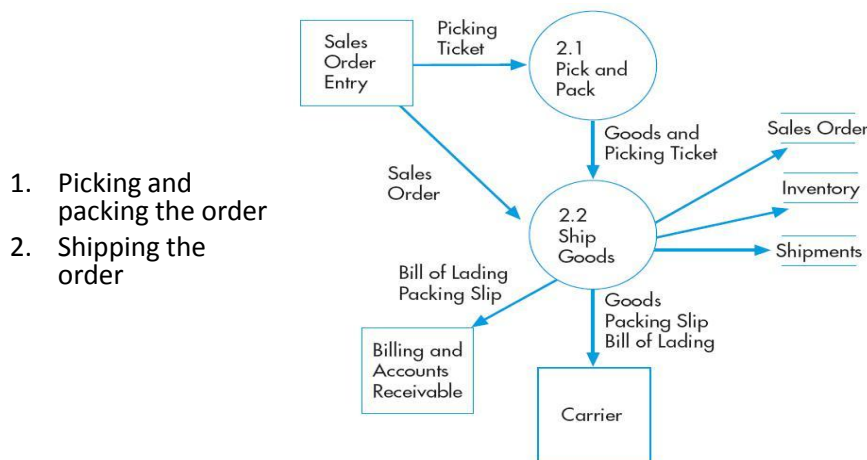3. Check inventory availability

Sales Order Threats

- Incomplete/inaccurate orders
- Invalid orders
- Uncollectible accounts
- Stockouts or excess inventory
- Loss of customers

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Sales Order Entry Controls

- Data entry edit controls
- Restriction of access to master data
- Digital signatures or written signatures
- Credit limits
- Specific authorization to approve sales to new customers or sales that exceed a customer's credit limit
- Aging of accounts receivable

- Perpetual inventory control system
- Use of bar-codes or RFID
- Training
- Periodic physical counts of inventory
- Sales forecasts and activity reports
- CRM systems, self-help Web sites, and proper evaluation of customer service ratings

Shipping

1. Picking and packing the order
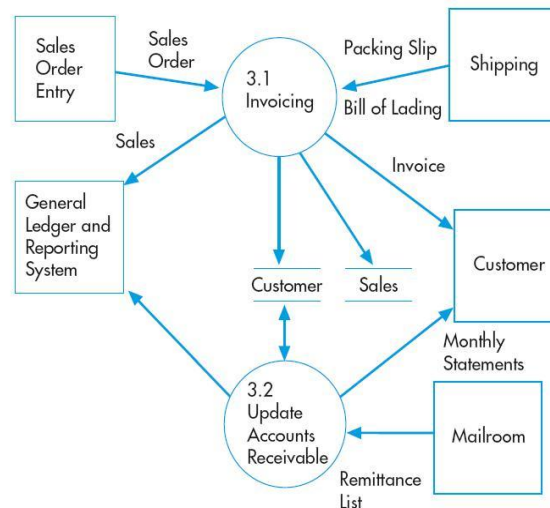2. Shipping the order

Shipping Threats

- Picking the wrong items or the wrong quantity
- Theft of inventory
- Shipping errors (delay or failure to ship, wrong quantities, wrong items, wrong addresses, duplication)

Shipping Controls

- Bar-code and RFID technology
- Reconciliation of picking lists to sales order details
- Restriction of physical access to inventory
- Documentation of all inventory transfers
- Periodic physical counts of inventory and reconciliation to recorded quantities

- Data entry edit controls (if shipping data entered on terminals)
- Configuration of ERP system to prevent duplicate shipments

Billing

1. Invoicing
2. Updating accounts receivable

Billing Threats

- Failure to bill
- Billing errors
- Posting errors in accounts receivable
- Inaccurate or invalid credit memos

Billing Controls

- Separation of billing and shipping functions
- Periodic reconciliation of invoices with sales orders, picking tickets, and shipping documents
- Configuration of system to automatically enter pricing data
- Restriction of access to pricing master data
- Data entry edit controls
- Reconciliation of shipping documents (picking tickets, bills of lading, and packing list) to sales orders

- Data entry controls
- Reconciliation of batch totals
- Mailing of monthly statements to customers
- Reconciliation of subsidiary accounts to general ledger
- Segregation of duties of credit memo authorization from both sales order entry and customer account maintenance
- Configuration of system to block credit memos unless there is either corresponding documentation of return of damaged goods or specific authorization by management

Cash Collections Threats

1. Theft of cash
2. Cash flow problems

Cash Collection Controls

- Separation of cash handling function from accounts receivable and credit functions
- Regular reconciliation of bank account with recorded amounts by someone independent of cash collections procedures
- Use of EFT and lockboxes to minimize handling of customer payments by employees
- Prompt, restrictive endorsement of all customer checks
- Having two people open all mail likely to contain customer payments
- Use of cash registers
- Daily deposit of all cash receipts
- Lockbox arrangements, EFT, or credit cards
- Discounts for prompt payment by customers
- Cash flow budgets