

ACCOUNTING GUIDELINES 2011-001	EFFECTIVITY: Immediately	Page 1 of 11
SUBJECT: GUIDELINES IN FORFEITURE OF ACCOUNTS RECEIVABLE		

STATEMENT OF OBJECTIVE

- To standardize company policies & procedures in handling branch forfeited receivables.
- To properly take-up forfeited receivables and inventories in our financial reports.

SCOPE / COVERAGE

This policy supersedes the procedures mentioned in Internal Audit Guidelines 2008-0004 "Policy on Accounts Receivables", specifically under the subtopic: *Forwarding of Forfeited Receivables to Head Office (See Annex B – Guidelines on Accounts Receivable)*.

FORFEITURE PERIOD

When is a receivable subject for forfeiture?

This depends on the type of receivable:

- a) For regular branch A/R – 90 days from date of transaction
- b) For lay-away accounts – after six (6) months from date of transaction
- c) For corporate accounts – as expressed in the memorandum of agreement (MOA) between EO and client.

Forfeiture of receivable must be supported by a debit memorandum.

WHAT IS A DEBIT MEMORANDUM (DM) ? It is an internal document that formally informs the Branch that Head Office approves the reversal of previously-recorded sales & receivable in EOIS due to mitigating circumstance like forfeiture of a Job Order. *(See Annex B - Sample Debit Memo)*.

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GENERAL GUIDELINES

1. Branch Manager must observe periodic collection efforts according to company policy.
2. Branch Manager and Stock Clerk are responsible in ensuring that all forfeited items are intact for monthly reporting (via email) to Area Manager, cc: Audit and Accounting. *(See Annex C – Summary of Forfeiture Template)*
3. Area Manager must check all forfeited items. Once validated, AM must send request for Debit Memo (DM) preparation to Accounting, for purpose of clearing out AR in EOIS.
4. Accounting is responsible in the issuance of DM to Branch within three (3) days from receipt of request.
5. Branch Manager must execute proper tagging of forfeited job order (JO) in EOIS.
6. Branch Manager must send request to Warehouse for new barcodes. All saleable forfeited items that are in good condition (eg. uncut lens, frame, sunglass) must be displayed back to selling area. Branch Manager ensures that all items brought back to stocks have new barcodes.
7. All non-saleable forfeited items (eg. cut lens) must be kept at the Branch, subject for post-audit.
8. Saleable and non-saleable forfeited items that are damaged must be sent to Head Office c/o Audit for verification before disposal.
9. Damaged forfeited item due to negligence shall be charged to employee at cost plus 16%, if declared, otherwise charged at Standard Retail Price (SRP) or Net Selling Price (NSP).
10. Branch Manager must report within twenty-four (24) hours missing forfeited item/s, if there's any, to their Area Manager, cc: Audit and Accounting. Branch Manager must conduct initial investigation. Final audit report shall be issued by Audit signed by Office of the President. Lost forfeited item shall be charged to accountable staff at SRP or NSP.
11. Once tagged as forfeited, Branch is not allowed to retrieve it back.

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DETAILED PROCEDURES:

1. Branch Manager submits forfeited report thru email to Area Manager, cc : Audit and Accounting.
2. Upon branch visit, Area Manager verifies the forfeited report. If valid, Area Manager requests for issuance of Debit Memo (DM) to Accounting.
3. Accounting issues DM to Branch within three (3) days from receipt of request.
4. Upon receipt of the DM, Branch Manager updates the JO in EOIS by supplying his/her PIN code.
5. Branch Cashier prepares Job Order to record non-saleable damaged forfeited items by using prefix "D + Original JO#" for each damaged item. *(Please follow encoding instruction for damages.)*
6. Branch Manager transmits to Audit accounted non-saleable forfeited items for checking and disposal.
7. Branch Manager generates forfeited report and sends request for new sets of barcode to Warehouse.
8. Warehouse verifies the barcode request and compares it against EOIS forfeited report. If there is no discrepancy, Warehouse issues new barcode to Branch within three (3) days, if NCR and within five (5) days, if non-NCR.
9. Branch Manager / Stock Clerk attach the new barcode to the item and display it back to selling area.
10. In case of lost forfeited item, upon receipt of final investigation report by Audit, Branch Manager/ Branch Cashier prepares Job Order to record the lost item as sale. An account receivable (A/R) will float to be paid (either in cash or thru salary deduction) by the employee concerned.
11. Accounting informs Branch Manager once the AR in #10 above has been paid in full by the employee concerned.

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12. Branch Cashier updates the Job Order to record full payment and clear out the A/R in EOIS.

OTHER PROVISIONS

- *Accounting Assistant* is responsible in checking and validation of the following:
 - a) Insufficient Deposit to cover cost of the cut lenses / special processed item ordered.
 - b) Incomplete Accessories and Demo Lenses
 - c) Damaged Merchandise.
- *Field Auditor* will provide recommendation for deduction document to *Accounting Assistant* with regards to accountability noted for **letter b** above.
- *Accounting Assistant* will summarize all accountabilities regarding forfeited items received for the period to be submitted to the *Accounting Manager*.
- Deductions shall take effect upon approval of the Accounting Manager.

Management reserves the rights to amend, modify, suspend or cancel the foregoing at anytime if deemed necessary.

This guideline shall supersede all existing policies, guidelines and procedures of the same subject.

PRO-FORMA ENTRIES FOR FINANCIAL STATEMENT
A. If Lens Are Uncut

- Reverse sales entry in EOIS (as if refund)
- Lens back to inventory
- Deposit made by Customer for reclass to *Other Income-Forfeiture*

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Pro-forma Entry:

Sales	Php xxx (Sales, Net of VAT + Discount)
Output Tax	xxx
Merchandise Inventory	xxx
Cost of Sales	Php xxx
Accounts Receivable-Trade	xxx
Sales Discount	xxx
Other Income-Forfeiture *	xxx

*Note : * Equivalent to the deposit made.*

B. If Lens Are Cut
B.1 If sufficient deposit

- reverse sales entry in EOIS (as if refund)
- recognize the difference between cost of item and deposit made by Customer as *Other Income-Forfeiture*

Pro-forma Entry:

Sales	Php xxx (Sales, Net of VAT + Discount)
Output Tax	xxx
Cost of Sales	Php xxx
Accounts Receivable-Trade	xxx
Sales Discount	xxx
Other Income-Forfeiture *	xxx

*Note : * The difference between deposit over cost of sale.*

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B.2 If insufficient deposit

- reverse sales entry in EOIS (as if refund)
- charged to employee the difference between cost plus 16% over deposit.

Pro-forma Entry:

Sales	Php xxx (Sales, Net of VAT + Discount)
Output Tax	xxx
Accounts Receivable-Employee *	xxx
Cost of Sales	Php xxx
Accounts Receivable-Trade	xxx
Sales Discount	xxx
Other Income-16% Handling Fee **	xxx

Note : * Equivalent to cost of item plus 16% handling fee.

** Equivalent to 16% of cost.

C. Frame / Sunglass

C.1.a If with sufficient deposit and saleable item (not damaged)

- reverse sales entry in EOIS (as if refund)
- deposit made by Customer for reclass as *Other Income-Forfeiture*

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Pro-forma Entry:

Sales	Php xxx (Sales, Net of VAT + Discount)
Output Tax	xxx
Merchandise Inventory	xxx
Cost of Sales	Php xxx
Accounts Receivable-Trade	xxx
Sales Discount	xxx
Other Income-Forfeiture *	xxx

*Note : * Equivalent to the deposit made.*

C.1.b.1 If with sufficient deposit and damaged item (e.g. natural damage such as peel-off)

- reverse sales entry in EOIS (as if refund)
- deposit made by Customer for reclass to *Other Income-Forfeiture*

Pro-forma Entry:

Sales	Php xxx (Sales, Net of VAT + Discount)
Output Tax	xxx
Cost of Sales	Php xxx
Accounts Receivable-Trade	xxx
Sales Discount	xxx
Other Income-Forfeiture *	xxx

*Note : * The difference between deposit over cost of sales.*

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C.1.b.2 If with sufficient deposit and damaged item due to negligence

- reverse sales entry in EOIS (as if refund)
- deposit made by Customer for reclass to *Other Income-Forfeiture & 16% Handling fee*

Pro-forma Entry:

Sales	Php xxx (Sales, Net of VAT + Discount)
Output Tax	xxx
Accounts Receivable-Employee (1)	xxx
Cost of Sales	Php xxx
Accounts Receivable-Trade	xxx
Sales Discount	xxx
Other Income-Forfeiture (2)	xxx
Other Income-16% Handling Fee (3)	xxx

Where:

- (1) *The cost of damaged item and 16% handling fee*
- (2) *Any deposit made by Patient*
- (3) *The 16% handling fee charged to Staff on top of the cost of the item*

C.2.a If with insufficient deposit and saleable item (not damaged)

- reverse sales entry in EOIS (as if refund)
- recognize the deposit made by the Customer as *Other Income-Forfeiture*

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Pro-forma Entry:

Sales	Php xxx (Sales, Net of VAT + Discount)
Output Tax	xxx
Cost of Sales	Php xxx
Accounts Receivable-Trade	xxx
Sales Discount	xxx
Other Income-Forfeiture *	xxx

*Note : * Equivalent to the deposit made.*

C.2.b.1 If with insufficient deposit and damaged item caused by nature (e.g. peel-off)

- reverse sales entry in EOIS (as if refund)
- recognize the difference between cost over deposit as *Other Expense*

Pro-forma Entry:

Sales	Php xxx (Sales, Net of VAT + Discount)
Output Tax	xxx
Other Expense *	xxx
Cost of Sales	Php xxx
Accounts Receivable-Trade	xxx
Sales Discount	xxx

*Note : * The difference between cost over deposit.*

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C.2.b.2 If with insufficient deposit and damaged item due to negligence

- reverse sales entry in EOIS (as if refund)
- amount to be charged to employee is the cost of item plus 16% handling fee
- recognize *Other Income -16% Handling fee*

Pro-forma Entry:

Sales	Php xxx (Sales, Net of VAT + Discount)
Output Tax	xxx
Accounts Receivable-Employee (1)	xxx
Cost of Sales	Php xxx
Accounts Receivable-Trade	xxx
Sales Discount	xxx
Other Income-16% Handling Fee (2)	xxx

Where:

- (1) *The cost of damaged item and 16% handling fee*
- (2) *The 16% handling fee charged to Staff on top of the cost of the item*

(See Annex D - Sample Cases / Illustrations.)

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